



2010

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** American Eagle Outfitters

**COUNTRY:** China

**FACTORY CODE:** 9800151170I

**MONITOR:** Openview Source Limited

**AUDIT DATE:** September 28 – 29, 2010

**PRODUCTS:** Garments

**PROCESSES:** Cutting, Embroidery, Sewing,  
Riveting, Ironing, Inspection, Packing

**NUMBER OF WORKERS:** 1250



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### **Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses**

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

#### **Noncompliance**

**Explanation:** According to the social insurance payment receipt provided by factory management, it was noted that the factory provided pension and medical insurances for only 393 out of 1250 employees; unemployment insurance for 395 employees; work-related injury insurance for 709 and maternity insurance for 7 employees.

It violates Article 73 of China Labor Law.

**Plan Of Action:** The root cause for this issue is that employees are not willing to participate in social insurance system due to i) they are migrant employees with lack of trust in system, ii) they never participated since they first started working and therefore prefer to keep that way, and iii) the relationship between the employees and previous employer did not end well. The new management did not want to push employees to participate in social insurance, because that could affect the willingness of current employees to stay on, and it is hard to recruit new employees in the region.

Immediate action: Ensure 100% coverage on work-related injury at all times to align with AEO's policy.

Long-term remedial action: Achieve 100% coverage gradually per agreed plan and also in line with new legislation.

**Deadline Date:** 12/29/2012



**Action Taken:** American Eagle Outfitters (AEO) visited/assessed the factory on the following days with results summarized below:

February 9, 2011: Factory purchased 100% coverage on work-related injury insurance made up of both state-insured as well as private, as of December 2010, and will remain under 100% coverage going forward. Factory will be making it compulsory for new hires to participate in social insurance from February 2011 onwards to see how this will affect the overall number of new hires and plan for the next step.

August 2, 2011: As of June 2011, the factory provided pension, medical and unemployment insurances for 412 out of 1200 employees, which is only a marginal increase since September 2010. On the other hand, they provided work-related injury insurance for 1144 workers, just about the intended target of full coverage. Maternity insurance is still very low with 7 employees.

AEO re-emphasized legal benefits for workers, now with the new legislation, and asked factory to attach importance to the matter. The deadline was unilaterally extended to check on gradual increase until December 2012. Facility will be assessed on all such issues once again before the end of 2011 to review and clarify the consistent maintenance/increase of social insurances. If the issue remains unchanged, then it will be evaluated along with other noncompliances to see how AEO can encourage improvement, e.g., management training on legislation, worker training on benefits awareness, collaborative meeting with merchandising team, etc.

**Plan Complete:** No

**Plan Complete Date:**

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### **Wages, Benefits and Overtime Compensation: False Payroll Records**

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

#### **Noncompliance**

**Explanation:** Payroll records factory provided were inaccurate as per the following:

1. Another set of payroll for 50 workers found in production office, revealing that the minimum wage and overtime premiums were not guaranteed, and different from the payroll provided by factory management;
2. 10% of workers interviewed reported that they were paid by piece, but payroll records provided by management indicated that all workers were paid by hourly rate;
3. Related time records were inaccurate or incomplete (please see HOW.6 for more details).

**Plan Of  
Action:**

Root cause for factory's side was that "payroll records" identified on work floor were for the purpose of projection, as to how many employees required to work extra time and how much will these extra hours cost factory in order to have the number of pieces done within a certain period of time. Moreover, there may be a lack of control on the opening of work floor during rest days since only sensitive areas such as packing and finished good warehouse will be locked. Some employees might come back to work on Sunday to gain additional wages, due to the fact that employees' wage is based on a combination of number of hours worked and individual performance (i.e., productivity).

Based on the root cause analysis, factory is required to:

1. Train security guards that all work floors required to be locked if no overtime is approved;
2. Establish a policy such that overtime requests on a Sunday will be subjected to senior management approval. Internal audit is required to check on the implementation of the policy/practice on a regular basis.

**Deadline  
Date:** 12/29/2011



**Action Taken:** [February 9, 2011](#): Training was completed as of October 5, 2010; factory will be conducting internal audits and refresh their awareness about the lockup of production floors periodically.

[August 2, 2011](#): Payroll and time records were not available for review during this visit because, per factory management, the responsible staff was on a business trip on the assessment day. So, the status related to Hours of Work and Wages and Benefits could not be verified.

AEO subsequently met the merchandising team to reiterate critical point reached with this supplier regarding non-transparency and mutually agreed to conduct a roundtable in 2011 with similar suppliers in an attempt to emphasize its importance. Upper management of AEO is also conducting a summit with agents/vendors where the emphasis is on transparency. Meanwhile, sourcing and CR teams separately communicated with the agent/vendor their challenged tolerance on subject matter, as well as the need to change mindset during their next visit before the end of 2011.

**Plan Complete:** No

**Plan Complete Date:**

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## Wages, Benefits and Overtime Compensation: Worker Wage Awareness

WBOT.22 Employers shall make every reasonable effort to ensure workers understand the wages, including the calculation of wages, incentives systems, benefits and bonuses they are entitled to in a factory and under applicable laws. To this end, employers shall communicate orally and in writing to all workers all relevant information in the local language or language(s) spoken by the workers, if different from the local language. (P)

### Noncompliance

**Explanation:** Although factory management had established a policy for paid leaves, management could not provide related records for sick leave, marriage leave and funeral leave. Most workers interviewed were not aware of the policy.

It violates Article 8 of China Employment Contract Law.

**Plan Of Action:** A leave policy is to be established in the facility and to be communicated to employees through different approaches, including i) company handbook, ii) notices posted on board, and iii) orientation for new hires. Factory is required to provide sufficient information to employees regarding company's leave policy through said means and training should also be conducted so that employees are aware of the policy. An internal audit is required to check on the employees' awareness of company's leave policy on a regular basis.

**Deadline Date:** 12/29/2011

**Action Taken:** February 9, 2011: Refreshment training has been conducted in order to enhance employees' understanding of the paid leave policy in November 2010.

August 2, 2011: Although factory management established policies regarding marriage, maternity, sick, funeral and paid annual leaves, most workers interviewed were not clear about those policies. Relevant leave and payment records were not available for review because, per factory management, the responsible staff was on a business trip on the audit day. The trainings organized could not achieve the intended purpose; neither could the full transparency be obtained.

Therefore, AEO will i) enhance the message of transparency based on WBOT.19 and HOW.6 findings, and ii) recommend commercially available trainings on HR policies and implementations (AEO has a system of tracking probation suppliers such as this in an attempt to require them to attend trainings, e.g., organized by FLA and/or its approved service providers; hence, management will attend the next upcoming HR Management training).

Plan **No**  
Complete:

Plan  
Complete  
Date:

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### **Freedom of Association: Right to Freely Associate**

FOA.2 Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. The right to freedom of association begins at the time that a worker seeks employment, and continues through the course of employment, including eventual termination of employment, and is applicable as well to unemployed and retired workers. (S)

#### **Noncompliance**

**Explanation:** **FLA Comment:** The Chinese constitution guarantees Freedom of Association (FOA); however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union - the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of FOA, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. However, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of Oct. 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. Trade unions also have an enhanced role in dispute resolution. In Dec. 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements. Auditor's note: There is no trade union (no membership to the official trade union - the All China Federation of Trade Unions - ACFTU) at factory. There aren't any means for worker representation, such as a workers' committee.





**Plan Of Action:** Factory does not oppose the idea of having any form of workers' representative/union to be established in the factory. Management should let employees know that factory is not opposed to setting up a workers' committee by:

1. Posting a notice on board in all buildings.
2. Clearly explaining it during orientation for new employees.

Internal audit is required to check on the employees' awareness of the factory's stance on the establishment of workers' representative/union on a regular basis.

**Deadline Date:** 03/29/2012

**Action Taken:** February 9, 2011: Factory's stance on workers' representative/union has been included in the orientation starting November 2010. The same information was posted on the notice board since then.

August 2, 2011: Factory established workers' committee in May 2011 and 14 worker representatives from different workshops were elected by workers themselves.

AEO plans to strengthen FOA awareness and implementation by a) ensuring ongoing trainings for workers in 2012 based on FLA recommendations, b) checking minutes of committee meetings to see if the system is working effectively or not, and c) encouraging written policy/procedure to maintain effectiveness and continual improvement.

**Plan Complete:** No

**Plan Complete Date:**

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## Harassment or Abuse: Discipline/Worker Awareness and Participation of Workers

H&A.6 Workers must be informed when a disciplinary procedure has been initiated against them. Workers have the right to participate and be heard in any disciplinary procedure against them. Employers shall maintain written records of all disciplinary actions taken. Workers must sign all written records of disciplinary action against them. Such records must be maintained in the worker's personnel file. (P)

### Noncompliance

**Explanation:** Based on review of disciplinary records and interviews with management and workers, it was noted that workers did not sign written records of disciplinary actions against them.

**Plan Of Action:** Factory should have employee verification on all executed disciplinary actions.  
Therefore, immediate action: Make sure all employees sign given disciplinary actions.

Follow-up work:

1. Set up written policy and procedures for all parties to follow;
2. Provide training to HR and administrative department on new policy/procedures.

Internal audit is also required to check implementation of procedures on a regular basis.

**Deadline Date:** 04/30/2011

**Action Taken:** February 9, 2011: Employees signed all disciplinary actions against them since November 2010.

August 2, 2011: Based on disciplinary records review, management and worker interviews, it was noted that relevant workers were required to sign the written records of disciplinary actions against them.

AEO made sure that management issued and fully implemented disciplinary procedures to maintain a fair system on disciplinary actions and also that the workers are aware of the system, especially when an action, such as a warning, is imposed upon them.

**Plan Complete:** Yes

**Plan Complete Date:** 08/02/2011

### **Non-Discrimination: Recruitment and Employment Practices (Job Advertisements, Job Descriptions, Evaluation Policies)**

D.3 Recruitment and employment policies and practices, including job advertisements, job descriptions, and performance/job evaluation policies and practices shall be free from any type of discriminatory bias. (S)

#### **Noncompliance**

**Explanation:** Based on review of recruitment advertisement posted at factory gate, it was noted that factory would only hire female candidates for positions of inspection, packing, etc., and only female candidates from the ages of 35 to 40 would be hired for the embroidered products quality check.

It violates Article 12 of China Labor Law and Article 20 of Provisions on Employment Services and Employment Management.

**Plan Of Action:** The root cause identified by factory was that this was an isolated case due to action taken by an individual section head that did not follow company's recruitment policy and posted the recruitment notice without consulting HR department in advance.

Factory should communicate the company's policy to all section heads, such that:

1. All recruitment requests have to be submitted to HR department;
2. Candidates will be judged based on their working experience instead of gender/age as per company's anti-discrimination policy.

Internal audit is required to check implementation of the procedures on a regular basis.

**Deadline Date:** 04/30/2011

**Action Taken:** February 9, 2011: A circular has been issued to all related departments as of October 2010 about the procedures on hiring.

August 2, 2011: Based on personnel records and relevant policy reviews, as well as worker and management interviews, it was confirmed that factory had no restriction on candidates' age and gender when recruiting.

**Plan Complete:** Yes

Plan Complete Date: 08/02/2011

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**Code Awareness:**

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

**Noncompliance**

**Explanation:** On-site observation, worker and management interviews revealed that there was no confidential noncompliance reporting mechanism that allows workers to contact AEO.

**Plan Of Action:** In the process of setting up a hotline/email address for employees to report to AEO directly.

**Deadline Date:** 12/29/2011

**Action Taken:** February 9, 2011: In touch with different service providers for hotline services available and quotation.

August 2, 2011: 2 service providers were agreed on in China to launch AEO's external grievance system for workers; this will be initially implemented in 10-15 major suppliers and extended based on effectiveness of the results achieved.

Meanwhile, AEO internal and external assessors will continue to pass their personal contact information to workers interacted with in cases where it is deemed necessary and/or intended by the worker. Specifically for this IEMed facility, the service provider already started to disseminate contact information to workers, though management could not be agreed to post it more prominently. However, even the informal system worked and 1 worker's grievance was promptly received, which AEO is working on to address. Following next assessment seeking transparency, management will be re-emphasizing the importance of formal channels.

Plan Complete: No

**Plan  
Complete  
Date:**

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### **Health and Safety: Evacuation Requirements and Procedure**

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

#### **Noncompliance**

- Explanation:**
1. Based on visual inspection, it was found that the evacuation aisles in raw material warehouse were blocked by materials, and 1 of 2 evacuation exit doors was locked during working time.
  2. Based on visual inspection, it was found that most emergency lights in the factory were deactivated.

The 1st finding violates Article 28 of China Fire Prevention Law; the 2nd violates Article 11.3.1 of Code of Fire Safety on Building Design (GB50016-2006).

**Plan Of  
Action:** Immediate action: Ensure that all aisles are free of obstruction, exit doors are unlocked, and all emergency lights are in working condition.

Follow-up work:

1. Conduct fire safety inspections on a regular basis;
2. Provide refreshment training to employees on company's workplace safety policy/practice.

Internal audit is required to check the implementation of routine fire safety inspections and employees' awareness of workplace safety policy/practice on a regular basis.

**Deadline  
Date:** 12/29/2011

**Action Taken:** [February 9, 2011](#): All problems were rectified and a notice issued to raw material warehouse to inform them in October 2010.

[August 2, 2011](#): During factory tour, it was noticed that:

1. There were 2 5-story dormitory buildings in factory area, 1 for male workers and the other for female workers. 1 out of 2 emergency exit doors in both buildings was locked, respectively. It resulted in each dormitory building having only 1 emergency exit door available. (However, evacuation aisles in production area were free of obstruction and all exit doors in production buildings were unlocked.);
2. 3 emergency lights were deactivated (1 in material warehouse, other 2 on 1st and 2nd floors of production building No. 2, respectively).

AEO will check the available evacuation routes/exits both in production area as well as dormitories; especially from an awareness and system perspective (roles/responsibilities, evacuation plans/procedures, trainings, etc.). In case system weaknesses continue, supplier will be required to attend an eligible HSE Management System training by middle management, with all workers retrained by them subsequently.

**Plan Complete:** No

**Plan Complete Date:**

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### **Health and Safety: Safety Equipment and First Aid Training**

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

#### **Noncompliance**

- Explanation:** 1. Visual inspection revealed there were no fire extinguishers in the 2 temporary material warehouses; fire hydrants in those 2 warehouses were blocked by materials.
2. Visual inspection revealed that 1 of the fire extinguishers in raw material warehouse was blocked by materials, and another on the 4th floor of production building 4 was blocked by a sewing machine.

Both violate Article 28 of China Fire Prevention Law.

**Plan Of  
Action:**

Immediate action: Ensure that all fire equipment is free of obstruction.

Follow-up action:

1. Conduct fire safety inspections on a regular basis;
2. Provide refreshment training to employees on company's workplace safety policy/practice.

Internal audit is required to check on implementation of routine fire safety inspections and employees' awareness of workplace safety policy/practice on a regular basis.

**Deadline  
Date:** 12/29/2011

**Action** February 9, 2011: All issues were rectified in October 2010.

**Taken:**

August 2, 2011: On-site observations revealed that:

1. There was no fire fighting equipment equipped in 1 of the temporary warehouses, which was located between production buildings No. 1 and 2; however, the other was equipped with adequate fire fighting equipment.
2. A fire extinguisher and a fire hydrant in the raw material warehouse were blocked by materials. The warehouse was located on the 1st floor of dormitory building; however, all fire extinguishers in the production workshop were free of obstruction;
3. A fire extinguisher on the 2nd floor of production building No. 2 was expired;
4. 3 fire extinguishers on the 1st and 2nd floors of production building No. 2 were type BC instead of type ABC. Besides, the type and function of those extinguishers were not clearly marked and workers interviewed did not know whether it was suitable for the fire caused by solid materials.

AEO will check the adequacy and functionality of fire fighting equipment, both in production area as well as dormitories; especially from an awareness and system perspective (roles/responsibilities, emergency plans/procedures, trainings, etc.). In case system weaknesses continue, supplier will be required to attend an eligible HSE Management System training by the middle management, with all workers retrained by them subsequently.

**Plan** No  
**Complete:**

**Plan**  
**Complete**  
**Date:**

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## Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

### Noncompliance

**Explanation:** Based on visual inspection, it was found that around 80% of workers in the embroidery section were not wearing earplugs.

It violates Article 20 of Law of the People's Republic of China on Prevention and Control of Occupational Diseases and Article 37 of Law of the People's Republic of China on Production Safety.

**Plan Of Action:** Immediate action: Ensure that all employees at embroidery section wear earplugs.

Follow-up action: Provide refreshment training to related employees.

Internal audit is required to check on the employees' usage of provided PPE on a regular basis.

**Deadline Date:** 12/29/2011

**Action Taken:** February 9, 2011: All issues were rectified and relevant PPE poster has been posted on the work floor in October 2010.

August 2, 2011: On-site observations revealed that none of the workers in the embroidery section were wearing earplugs.

AEO will check the need for and also use of PPE in production area; especially from an awareness and system perspective (roles/responsibilities, noise or air quality measurements, trainings, etc.). In case system weaknesses continue, supplier will be required to attend an eligible HSE Management System training by the middle management, with all workers retrained by them subsequently.

**Plan Complete:** No

**Plan Complete Date:**

### **Health and Safety: Machinery Maintenance and Worker Training**

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

#### **Noncompliance**

**Explanation:** Based on visual inspection, it was found that 20% of sewing machines were not equipped with needle guards.

It violates Article 6.1.6 of Code of Design of Manufacturing Equipment Safety and Hygiene.

**Plan Of Action:** Immediate action: Provide security devices to all machinery.

Follow-up work: Related employees will be provided with refreshment training.

**Deadline Date:** 12/29/2011

**Action Taken:** August 2, 2011: Factory tour revealed that all sewing machines were equipped with needle guards, but needle guards for most sewing machines were not in the working position, they were pushed away by workers.

AEO will check the need for and also use of needle guards in production area; especially from an awareness and system perspective (roles/responsibilities, risk assessment, trainings, etc.). In case system weaknesses continue, supplier will be required to attend an eligible HSE Management System training by the middle management, with all workers retrained by them subsequently.

**Plan Complete:** No

**Plan Complete Date:**

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### Health and Safety: Sanitation in Dormitories

H&S.28 All dormitories shall be kept secure, clean and have safety provisions (such as fire extinguishers, first aid kits, unobstructed emergency exits, emergency lighting etc.). Emergency evacuation drills shall also be conducted at least annually. (S)

#### Uncorroborated Evidence of Noncompliance

**Explanation:** Based on observation, it was found that there was a 5-story building nearby, and records provided by the factory revealed that around 390 out of 1250 workers live in that building. 30% of workers interviewed reported that they live there for free. But, management stated that the workers rent the rooms by themselves and that factory management only provides RMB 40 as an allowance for those who live there. The factory management reported that they contacted the owner of the dormitory, but the auditors were not allowed to inspect the dormitory during this assessment.

**Plan Of Action:** Factory should clarify the relationship between the landlord and employer to all employees effectively.

Factory is required to:

1. Provide training to all employees that factory has no role in the relationship between the employees and the landlord.
2. Request landlord to provide the agreement signed by the employees for reference.

**Deadline Date:** 12/29/2011

**Action Taken:** February 9, 2011: Factory posted a notice on board clarifying that the dormitory is not provided by factory in December 2010.

August 2, 2011: Factory management still reports that the dormitory building belongs to another company and some of their workers rented the rooms by themselves; the factory provides RMB 40 as allowance for each worker who lives there. However, most interviewed workers reported that they were arranged to live there by the factory.

AEO needs to ensure the conflicting information is proven one way or the other, and it is the onus of management to arrive at it. The CR team will seek objective evidence that the dormitories actually are not managed by the factory; otherwise, it will be deemed that the responsibility lies with the supplier.

**Plan Complete:** No

**Plan  
Complete  
Date:**

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**Health and Safety: Other - Health and Safety**

Other

**Noncompliance**

**Explanation:** Factory did not arrange occupational health examination for the workers concerned. For example, workers at the embroidery section have not had occupational health examinations; and workers handling chemicals only had normal physical examinations, instead of related occupational health examinations.

It violates Article 32 of China Law on Prevention and Control of Occupational Diseases and Article 54 of China Labor Law.

**Plan Of  
Action:** Factory is required to provide a free occupational health examination for the following employees on a yearly basis:

1. Embroidery section;
2. Those who handle/work with chemicals.

**Deadline  
Date:** 12/29/2011

**Action  
Taken:** February 9, 2011: Factory is looking for an approved clinic to perform the check.  
August 2, 2011: Document review, management and worker interviews all confirmed that none of the workers at the embroidery section were provided with occupational health examinations. However, 3 workers handling chemicals were provided with occupational health examinations in December 2010.

AEO will check the need for and means to performing regular health inspections, especially from an awareness and system perspective (roles/responsibilities, availability, trainings, etc.). In case system weaknesses continue, supplier will be required to attend an eligible HSE Management System training by the middle management, with all workers re-trained by them subsequently.

Plan            No  
Complete:

Plan  
Complete  
Date:

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### Hours of Work: Time Recording System

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

#### Noncompliance

**Explanation:** [Provided time records were inaccurate or incomplete based on the following findings:](#)

1. Payroll records of 50 workers found in production office. Records indicated that overtime hours of 47 workers were more than 100 hours with a maximum of 137.5; 40 of them worked for 27.5 to 28.5 days in July 2010. But, the time records provided by management revealed that these workers had 40 hours overtime, and worked for 27 days in the same month.
2. 10% of workers interviewed reported that they worked some Sundays in the last 2 months. But time records provided by management revealed that there was no Sunday work in the last 2 months.

**Plan Of Action:** The root cause as per factory's side was that the "payroll records" identified on work floor were for the purpose of projection as to how many employees required to work extra time and how much will these extra hours cost factory in order to have this number of pieces done within a certain period of time. Moreover, there may be a lack of control on the opening of work floor during rest days, since only sensitive areas such as packing and finished good warehouse will be locked. Some employees might come back to work on Sunday to gain additional wage, due to fact that employees' wage is based on a combination of number of hours worked and individual performance (i.e., productivity).

Based on the root cause analysis, the factory is required to:

1. Train security guards that all work floors required to be locked if no overtime is approved;
2. Establish a policy such that overtime requests on Sunday will be subjected to senior management approval.

Internal audit is required to check on the implementation of the policy/practice on a regular basis.

**Deadline Date:** 12/29/2011

**Action Taken:** February 9, 2011: Training was completed as of October 5, 2010; factory will be conducting internal audits and refresh their awareness about the lockup of production floors periodically.

August 2, 2011: Payroll and time records were not available for review during this visit because, per factory management, the responsible staff was on a business trip on the assessment day. So, the status related to Hours of Work and Wages and Benefits could not be verified.

AEO subsequently met the merchandising team to reiterate the critical point reached with this supplier regarding non-transparency and mutually agreed to conduct a roundtable in 2011 with similar suppliers in an attempt to emphasize its importance. Upper management of AEO is also conducting a summit with agents/vendors where the emphasis is on transparency. Meanwhile, sourcing and CR teams separately communicated with the agent/vendor their challenged tolerance on subject matter as well as the need to change mindset during their next visit before the end of 2011.

**Plan Complete:** No

**Plan  
Complete  
Date:**

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### **Hours of Work: Overtime/Calculation Over Period Longer Than One Week**

HOW.10. Employers are allowed to calculate normal hours of work as an average over a period of longer than one week where local laws, regulations and procedures provide for such a possibility but only when all formal and procedural requirements attached to such calculation (for instance, obtaining official permission from the relevant authorities or limits to the period during which such calculations can be made) are met. The basis for such calculation shall, however, remain at all times the lesser of 48 hours per week or legal limits on hours of work in the country of manufacture or, where such legal limits do not exist, the regular work week in such country. (S)

#### **Noncompliance**

**Explanation:** Factory applied comprehensive working time system. Based on review of the provided time records from August 2009 to September 2010, it was noted that the overtime hours of 80% of workers exceeded the limits of comprehensive working time system. The system requires that overtime hours should not exceed 432 hours from January to December 2010. However, the maximum hours were already up to 448 hours from January to September 29, 2010.

It violates Article 65 of the Instruction on the Implementation of the China Labor Law.

**Plan Of Action:** Factory has a system to calculate overtime conducted by employees within the effective time frame of the comprehensive working hours system and for employees' accumulated overtime exceeding the legal limit, the factory will either:

1. Provide the employee with substituted time off, or
2. Provide compensation of 200% of hourly rate. Notwithstanding the above, factory is required to set targets to gradually reduce the working hours.

**Deadline Date:** 03/29/2012



**Action Taken:** [February 9, 2011](#): Factory started to monitor employees' working hours and will review on a regular basis.

[August 2, 2011](#): Time records were not available for review during this visit because, per factory management, the responsible staff was on a business trip on the assessment day. So, the status related to overtime hours could not be verified.

AEO subsequently met the merchandising team to reiterate the critical point reached with this supplier regarding non-transparency and mutually agreed to conduct a roundtable in 2011 with similar suppliers in an attempt to emphasize its importance. Upper management of AEO is also conducting a summit with agents/vendors where the emphasis is on transparency. Meanwhile, sourcing and CR teams separately communicated with the agent/vendor their challenged tolerance on subject matter as well as the need to change mindset during their next visit before the end of 2011. In parallel with above, or even subsequently, AEO will work with its Quality and Sourcing teams to turn around the efficiency and thereby gradually decrease excessive OT within legally accepted limits. This will though require a more comprehensive plan only after full transparency is achieved.

**Plan Complete:** No

**Plan Complete Date:**

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