COMPANY: American Eagle Outfitters, Inc.
COUNTRY: China
FACTORY CODE: 980015465J
MONITOR: Social Compliance Service Asia (SCSA)
AUDIT DATE: November 15, 2011
PRODUCTS: Garments
PROCESSES: Cutting, Sewing, Finishing
NUMBER OF WORKERS: 1113

For an explanation on how to read this report, please visit the FLA website here.
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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: The factory purchased work-related injury and medical insurances for 1142 out of 1142 employees, and unemployment and pension insurances for 571 out of 1142 employees. Per factory management information and employee name list review, 535 employees who had worked more than 2 years in the factory are also covered with maternity insurance.

Sources: worker interviews, document review, management interview, factory provided social insurance receipt of October 2011

Legal References: Article 73 of the Labor Law of the People's Republic of China (extracted); Article 9, Article 20, Article 29, Article 39, and Article 49 of PRC Social Insurance Law

Possible Root Cause: Workers lack awareness of and confidence in the social insurance system.

Plan Of Action: American Eagle Outfitters (AEO) will ensure the following actions take place:

1. Factory management is to review the current policy regarding legal benefits to ensure all legal benefits are provided to workers per local law (including giving an overview of the factory's stance towards social insurance to potential candidates during the recruitment process).

2. Employees are oriented on the social security insurances by a) providing trainings, b) letting workers understand that participation in social insurance is not only their legal obligation, and c) letting workers know the benefits of social insurance in the long term.

3. A sustainable plan on how to ultimately achieve 100% participation is agreed upon; management is ensured to commit to this plan and implement it in accordance with the timeline.
A meeting was held with factory management in February 2012, where the factory committed to a) 100% coverage of work-related injury and medical insurances at all times and b) a 10% increase of the total coverage of pension and unemployment insurances on an annual basis that takes the turnover and possible workforce reduction into account. Note that in [City name], the local government deems that medical insurance covers maternity insurance as well; therefore, no separate action required. AEO internal team follow-up visit, January 22, 2013:

1. According to social insurance receipts from December 2012, 1132 out of 1132 employees are provided with medical and injury insurances. Unemployment and pension insurances are provided to 575 out of 1132 employees (50.7%).

According to factory management and the letter issued by the local government, childbearing insurances are not yet available in the area where the factory is located. As there are conflicts between the national law and the local practices due to hukou challenges (system of household registration required by law), and employees are unwilling to participate in social insurances, the factory plans to train all employees on the prompt awareness of social insurances by August 2013.

The factory also plans to raise the coverage rate of pension and unemployment insurances to 60% by December 2013 and 70% by December 2014. AEO and the factory will have continuous communications on the incremental plan and will gradually raise the coverage of social insurances.
**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:** Workers' regular working hours were from 8:00 to 17:30 or 8:15 to 17:45, with 1.5 hours lunch break from 12:00 to 13:00 or 12:15 to 13:45. Only 1 hour of weekday overtime from 18:30 to 19:30 or 18:45 to 19:45 and 4 hours of Saturday overtime were arranged for workers regularly. 8 hours of Saturday overtime was arranged for workers occasionally. No Sunday overtime was arranged for workers. Hence, their weekly working hours were kept between 45-53 hours, and the maximum working days per week was 6 days.

Due to various inconsistencies noted between the time and payroll records and other production records (i.e., time records were inconsistent with maintenance records, piece rate records, etc.) and information gathered during interviews, auditors were not able to accurately verify workers' actual working hours, payment, and benefits status in this audit. For example, production-related records showed that workers worked on various Sundays and Saturdays, such as on July 10, 2011 (Sunday) and September 10, 2011 (Saturday); however, the corresponding time and payment records showed that workers were off on these dates.

In addition, there were workers that reported that a) they were required to work on Sunday on an occasional basis for the past few months, and b) their night overtime hours were actually more than 1 hours and sometimes up to 22:00. However, time records showed that workers were only required to work 1 hour of overtime at night. Workers also reported that they were actually only off from October 1 - 3, 2011 and started work on October 4, 2011.

However, the time records showed that workers were off from October 1 - 5 and started working on October 6, 2011. Hence, workers' actual working hours, payment, and benefits status could not be accurately verified during the audit.

**Sources:** worker interviews, document review, management interview, factory management information, factory provided time records from October 2010 to November 13, 2011
Plan Of Action: Transparency is of most important between the company and suppliers. AEO will communicate its importance to the supplier to ensure that the supplier understands the requirement, via specific meetings as well as vendor summits. AEO will additionally ensure following actions take place:

1. Any hidden or multiple payroll and time records usage is ceased; all root causes of these issues are identified.
2. All working hours are recorded and tracked completely; all time records are ensured to be disclosed for review.

Deadline Date: 12/31/2012

Supplier CAP: The inconsistencies between the time, payroll record, and production record are mainly from a few workers who work on piece-rate, regardless of supervisor's advice of over excessive overtime work from management. Management has reinforced this by putting security personnel at the workshop to prevent such workers from re-entering the workshop after production hours. The management will set up to speculate the progress in the next 3 to 6 months.

Supplier CAP Date: 02/29/2012

Action Taken: A meeting was held to better understand the factory's position and they confirmed that they are committed to 100% transparency on wages and hours. An unannounced visit will be held in the near future to verify the level of transparency.

AEO internal team follow-up visit, January 22, 2013: The production records that the auditors collected on site and the employees' statements are consistent with the time records that the factory has provided. Signs of falsified records are not detected at this time.

Plan Complete: Yes

Plan Complete Date: 01/22/2013
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; 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 freedom of association, 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. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of October 2001 does stipulate 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. It also grants the trade union an enhanced role in dispute resolution. In December 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. Monitor note: Per factory management information, there was no trade union established in the factory, but a Worker Committee was established. Worker representatives were elected by employees in each section.

Based on factory management information and worker representative interviews, the Worker Committee meeting was conducted every month; the latest meeting was conducted October 14, 2011. The committee was mainly used in handling workers’ suggestions on the living environment or benefits. There was no active function for the committee to participate in collective bargaining on the wages or on working hours on behalf of the workers.
Plan Of Action: AEO will ensure following actions take place:

1. The policy on freedom of association is reviewed to ensure the factory respects this right.

2. It is made sure that the workers' representatives in the Worker Committee are elected by workers with no influence or interference by management.

3. Regular meeting with Worker Committee are held to discuss employee concerns and other issues.

4. Means/channels are developed to promote communication between management and employees.

Deadline Date: 12/31/2012

Supplier CAP: A worker committee has been established. A few committee members voice that a re-election is due, as there are many new workers coming from different sections after the Chinese New Year holiday. Management will furnish supportive advice and expect that the worker committee re-election will have enough numbers of representatives by the end of March 2012.

Supplier CAP Date: 02/29/2012

Action Taken: A meeting was held to understand the function of the worker's representatives. It is understood that the last election was held in October 2011; however, some of the previously selected representatives had resigned. Thus, the factory's management is planning another election by the end of March 2012, after all openings are filled and employees get to know one another.

AEO internal team follow-up visit, January 22, 2013:

1. The factory held another election on March 30, 2012, to fill positions of employee representatives, as some of the previous employee representatives had resigned.

2. Regular meetings are held between management and employee representatives to discuss employees' concerns; the latest meeting was held on December 13, 2012. Meeting minutes are documented as well.
3. The factory has several communication channels between employees and management, such as suggestion boxes and employee representatives. Factory management also holds a monthly meeting with the employees; the employees can raise concerns in these meetings.

Plan Complete: Yes

Plan Complete Date: 01/22/2013

Health and Safety: General Compliance Health and Safety

H&S.1 Employers shall comply with all local laws, regulations and procedures concerning health and safety. (S)

Noncompliance

Explanation: The first floor of 1 block of the 5-story dormitory building was used as a carton warehouse. Sources: factory tour, management interview

Legal Reference: Article 19 of Fire Prevention Law of the People's Republic of China Possible

Plan Of Action: AEO will ensure following actions take place:

1. All cartons are immediately moved away from the dormitory building.

2. Safety training is provided to warehouse supervisors regarding this particular fire safety.

Deadline Date: 07/31/2012
**Supplier CAP:**
Cartons have been removed from the first floor of 1 block of 5-storey dormitory building immediately.

**Supplier CAP Date:** 02/29/2012

**Action Taken:**
Cartons have been moved. Training will be provided to relevant supervisor by June 2012.

AEO internal team follow-up visit, January 22, 2013: Cartons have been removed from the dormitory building. However, supervisors have not been provided trainings on fire safety in the dormitory (e.g., that production materials or cartons shall not be stored in the dormitory). The factory plans to complete this training by April 2013.

**Plan Complete:** No

**Plan Complete Date:**

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### Health and Safety: Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

**Noncompliance**

**Explanation:** The factory could not provide the fire permit for review for 1 block of the single-story finished goods warehouse.

**Sources:** factory tour, document review, management interview

**Legal Reference:** Article 13 of Fire Prevention Law of the People's Republic of China
<table>
<thead>
<tr>
<th>Plan Of Action:</th>
<th>AEO will ensure the supplier is equipped with sufficient legal documents as required by local laws.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deadline Date:</td>
<td>09/30/2012</td>
</tr>
<tr>
<td>Supplier CAP:</td>
<td>The fire permit is supposed to cover the entire plant, including 1 block of the single-story finished goods warehouse where the constructional draft has since been built; however, the concerned governmental department insisted not to revise it as it is on the approved premises.</td>
</tr>
<tr>
<td>Supplier CAP Date:</td>
<td>02/29/2012</td>
</tr>
<tr>
<td>Action Taken:</td>
<td>A meeting was held with the factory; management agreed that they will submit the application form when they applied for the fire permit, with proper details on the form, showing the entire coverage of the areas up for inspection at all times. AEO internal team follow-up visit, January 22, 2103: A letter from the local government, dated March 20, 2012, has explained that the single-floor finished goods warehouse has been included in the scope of the fire permit.</td>
</tr>
<tr>
<td>Plan Complete:</td>
<td>Yes</td>
</tr>
<tr>
<td>Plan Complete Date:</td>
<td>01/22/2013</td>
</tr>
</tbody>
</table>
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

Explaination: 1. At least 3 pieces of fire equipment were blocked by goods in the workshop and warehouse, e.g., in the finished goods warehouse.

2. 2 emergency exits in the finished goods warehouse were blocked by goods.

3. A few aisles on the second floor of the production building were blocked by goods.

Sources: factory tour, worker interviews, management interviews

Legal Reference: Article 28 of Fire Prevention Law of the People's Republic of China

Plan Of Action: AEO will ensure following actions take place:

1. All products and materials are immediately moved away to ensure that all fire equipment is free of obstruction, and that aisles and emergency exits are unblocked and are free to access.

2. Safety training is provided to all workers to enhance their safety awareness.

3. The fire safety management instructions are enhanced and training is provided to workshop supervisor and line management on fire safety management.

4. A responsible person is appointed in each workshop to conduct regular inspections on safety issues; a person from management level is appointed to conduct random inspections on safety issues.

Deadline Date: 09/30/2012
1. The goods had been immediately removed, keeping free access to the fire equipment at the said workshop.

2. The goods had been immediately removed from the 2nd exit, keeping clear passage to this 2nd exit at the finished goods warehouse.

3. The goods had been removed immediately in the aisles in the second floor of the production building. The management keeps educating workers on the awareness of health and safety issues. The management will also roll out a new training program jointly with Safety In-charge, Security In-charge and Workshop In-charge on a setup routine inspection system to cover all H&S issues inside our premises.

**Supplier CAP: 02/29/2012**

**Action Taken:**

A meeting was held at the factory and management agreed to re-engineer the existing health and safety policy and procedures to retain immediate actions. The new system is expected to be completed by August 2012.

**AEO internal team follow-up visit, January 22, 2013:**

1. Fire equipment is accessible and unblocked in the workshop and warehouse. The factory has a Health and Safety Committee, which is responsible for ensuring that the factory meets health and safety requirements.

2. The emergency exits in the carton warehouse on the first floor are closed and 1 emergency exit in the canteen is locked. The aisle in the carton warehouse on the first floor is partially blocked.

3. New employees are provided with safety training to enhance safety awareness; the latest training was completed on December 29, 2012. However, safety trainings have not been provided to existing employees.

4. Trainings on fire safety management are not provided to workshop supervisors and line management. The factory plans to complete all these trainings by April 2013.

**Plan Complete:** No
Health and Safety: Chemical Management and Training

H&S.13 All chemicals and hazardous substances shall be properly labeled and stored in accordance with applicable laws. Labels shall be placed in the local language and the language(s) spoken by workers, if different from the local language. Workers shall receive training, appropriate to their job responsibilities, concerning the hazards, risks and the safe use of chemicals and other hazardous substances. (S)

Noncompliance

Explanation: The chemicals in the maintenance room on the second floor of the production building were not equipped with secondary containment and were not properly labeled.

Sources: factory tour, management interview

Legal Reference: Article 16 of Regulation for Safety of Dangerous Chemicals; Article 14 of the Regulation For Chemical Usage Safety in Work Place

Plan Of Action:

AEO will ensure following actions take place:

1. Secondary containment and proper labels are immediately provided for the chemicals used in the maintenance room.

2. Training is provided for all employees who are in contact with chemicals (e.g., spot cleaner, chemical handling person in charge), with training records well documented, to enhance the safety awareness.

3. Chemical safety management instructions are enhanced and training is provided to workshop supervisor and line management on chemical safety management.

4. A responsible person is appointed in each workshop to conduct regular inspections on safety issues with a person from management level to conduct random inspections on safety issues.

Deadline Date: 09/30/2012
The second container for lubricant chemical has been labeled immediately in the maintenance room on the second floor of the production building. The workers in the maintenance room were trained according to material safety data sheets (MSDS). The management keeps educating workers on their awareness of health & safety issues. The management will also roll out a new training program jointly with Safety In-charge, Security In-charge and Workshop In-charge for set up of a routine inspection system to cover all H&S issues inside our premises.

02/29/2012

A meeting was held at the factory, and management agreed to re-engineer the existing health and safety policy and procedures to retain immediate actions. The new system is expected to be completed by August 2012.

AEO internal team follow-up visit, January 22, 2013:

1. During factory walkthrough, chemical containers were found properly labeled. The factory also has a Health and Safety Committee, which is responsible for ensuring that the factory meets health and safety requirements.

2. However, secondary containment is still missing for cleaning agents.

3. Trainings on chemical management are not provided for all employees who are in contact with chemicals.

4. Trainings on chemical safety management are not provided for workshop supervisors and line management. The factory plans to complete all these trainings by April 2013.

No
Health and Safety: Material Safety Data Sheets/Worker Access and Awareness

H&S.14 Material Safety Data Sheets (MSDS) for all chemicals used in the factory must be available at the usage and storage sites of the chemicals, in the local language and the language(s) spoken by workers, if different from the local language. Workers shall have free access to MSDS. (P)

Noncompliance

Explanation: The chemicals in the maintenance room on the second floor of the production building were without MSDS.

Sources: factory tour, management interview

Legal Reference: Article 27 of the Regulation For Chemical Usage Safety in Work Place.

Plan Of Action: AEO will ensure following actions take place:

1. MSDS are immediately provided for the chemicals used in the maintenance room.

2. Training is provided to all employees who are in contact with the chemicals (e.g., chemical handling person in charge), with training records well documented, to enhance the safety awareness.

Deadline Date: 09/30/2012

Supplier CAP: Posted MSDS for the chemicals used in the maintenance room on the second floor of the production building. The workers in the maintenance room were trained according to MSDS. The management keeps educating workers the awareness of health and safety issues. The management will also roll out a new training program jointly with Safety In-charge, Security In-charge and Workshop In-charge for set up of a routine inspection system to cover all H&S issues inside our premises.

Supplier CAP Date: 02/29/2012

Action Taken: A meeting was held at the factory, and management agreed to re-engineer the existing health and safety policy and procedures to retain immediate actions. The new system is expected to be completed by August 2012.
AEO internal team follow-up visit, January 22, 2013:

1. MSDS is available for chemicals used at the factory.

2. However, trainings on chemical safety management have not been provided for employees who are in contact with chemicals. The factory plans to hold this training by April 2013.

Plan: No

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: At least 1 bar-tack machine was not equipped with a pulley guard and at least 2 stitching machines were not equipped with eye shields. In addition, at least 8 workers were not using eye shields while operating the bar-tack machines. Sources: factory tour, maintenance record review, management interview

Legal Reference: Article 6.1.6 of Code of Design of Manufacturing Equipment Safety and Hygiene
Plan Of Action: AEO will ensure following actions take place:

1. Eye shield devices are immediately checked and equipped on all over-lock sewing machines, as are pulley guards on all bar-tack machine; employees are encouraged to use eye shields while operating these machines.

2. Training is provided for all operators who are exposed to health and safety risks due to their work environment, and specific personal protective equipment (PPE) training is enhanced for their safety awareness.

3. Safety policy, PPE procedures, and standard operating procedures are reviewed to ensure compliance with local law and customers’ code of conduct, ensuring workers a safe work environment.

4. The implementation of safety and PPE management is enhanced so all workers are required to follow the standard operating procedures.

5. A responsible person is assigned to regularly inspect and ensure all workers follow the standard operating procedures to minimize the safety risks.

Deadline Date: 09/30/2012

Supplier CAP: That 1 old bar-tack machine with no lower pulley was not in use and was about to be disposed of from the workshop. Stitching machines have been equipped with eye shields and eye shields were installed on bar-tack machines. The workers recognized the potential risk when the glass shields were getting blurry with cotton dust from the operation.

The management insists all workers should fix the shields and clear them frequently, as they get blurry. The management keeps educating workers on awareness of health and safety issues. The management will also roll out a new training program jointly with Safety In-charge, Security In-charge and Workshop In-charge for the set up of a routine inspection system to cover all H&S issues inside our premises.

Supplier CAP Date: 02/29/2012
Action Taken: A meeting was held at the factory, and management agreed to re-engineer the existing health and safety policy and procedures to retain immediate actions. The new system is expected to be completed by August 2012.

AEO internal team follow-up visit, January 22, 2013:

1. The bar-tack machines are equipped with pulley guards and the stitching machines are equipped with eye shields. However, 1 bar-tack machine is not equipped with an eye shield.

2. The training on health and safety risks in their working environment and specific PPE trainings have not been provided for machine operators.

3. The factory has a Health and Safety Committee, which is responsible for ensuring that the factory meets the requirements regarding health and safety. The factory plans to complete this training by April 2013.

Plan Complete: No
**Hours of Work: General Compliance Hours of Work**

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

**Noncompliance**

**Explanation:** Workers' regular working hours are from 8:00 to 17:30 or 8:15 to 17:45 with 1.5 hours lunch break from 12:00 to 13:00 or 12:15 to 13:45. Only 1 hour of weekday overtime from 18:30 to 19:30 or 18:45 to 19:45 and 4 hours of Saturday overtime were arranged for workers regularly, 8 hours of Saturday overtime was arranged for workers occasionally.

No Sunday overtime was arranged for workers. Hence, their weekly working hours were kept between 45-53 hours and the maximum weekly working days was 6 days. Due to various inconsistencies noted between the time and payroll records and other production records (i.e., time records were inconsistent with maintenance records, piece rate records, etc.) and information gathered during the interview, auditors were not able to accurately verify workers' actual working hours, payment and benefits status in this audit.

For example, production-related records showed that workers were working on various Sundays and Saturdays, such as on July 10, 2011 (Sunday) and September 10, 2011 (Saturday); however, the corresponding time and payment records showed that workers were off on these dates. In addition, there were workers that reported that a) they were required to work on Sunday on an occasional basis for the past few months and b) their night overtime was actually more than 1 hour and sometimes went until 22:00; however, time records showed that workers were only required to work 1 hour of overtime at night. Workers also reported that they were actually only off from October 1 - 3, 2011 and started work on October 4, 2011. However, the time records showed that workers were off from October 1 - 5 and only started working on October 6, 2011. Hence, workers' actual working hours, payment and benefits status could not be accurately verified during the audit.
Nevertheless, based on the time records provided and information obtained, workers' monthly working hours exceeded 36 hours a month, such as in the months of March and July 2011.

Legal Reference: Article 41 of the Labour Law of the People's Republic of China

Sources: worker interviews, document review, management interview, factory management information, provided time records from October 2010 to November 13, 2011

Plan Of Action: Transparency is most important between company and suppliers. AEO will communicate its importance to supplier to ensure that the supplier understands the requirement, via specific meetings as well as vendor summits. AEO will additionally ensure following actions take place:

1. The use of any hidden or multiple payroll and time records is ceased and all root causes of these issues are identified.

2. All working hours are completely recorded and tracked and all time records are ensure to be disclosed for review.

3. Review overtime policy and root causes of excessive overtime are reviewed.

Deadline Date: 12/31/2012

Supplier CAP: The inconsistencies between the time, payroll record and production record are mainly from a few workers who work on piece rate, regardless of the supervisor's advice on excessive overtime work from management. The management has reinforced this by putting security personnel in the workshop to prevent these workers from re-entering the workshop after production hours. The management will set up to speculate on the progress in the next 3 to 6 months.

Supplier CAP Date: 02/29/2012
Action Taken: A meeting was held to better understand the factory's position and they confirmed that they are committed to 100% transparency on wages and hours. An unannounced visit will be held in the near future to verify the level of transparency. Once the transparency issue is resolved, we will look at the overall trends of the working hours in the facility and work with the factory on it.

AEO internal team follow-up visit, January 22, 2013: The production records that the auditors collected on site and the employees' statements are consistent with the time records that the factory has provided. Signs of falsified records are not detected at this time.

Plan Complete: Yes

Plan Complete Date: 01/22/2013

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: Workers' regular working hours are from 8:00 to 17:30 or 8:15 to 17:45 with 1.5 hours lunch break from 12:00 to 13:00 or 12:15 to 13:45. Only 1 hour of weekday overtime from 18:30 to 19:30 or 18:45 to 19:45 and 4 hours Saturday overtime was arranged for workers regularly, 8 hours of Saturday overtime was arranged for workers occasionally. No Sunday overtime was arranged for workers. Hence, their weekly working hours were kept between 45-53 hours and the maximum working days was 6 days.
Due to various inconsistencies noted between the time and payroll records and other production records (i.e., time records were inconsistent with maintenance records, piece rate records, etc.) and information gathering during the interview, auditors were not able to accurately verify workers' actual working hours, payment and benefits status in this audit. For example, production-related records showed that workers were working on various Sundays and Saturdays, such as on July 10, 2011 (Sunday) and September 10, 2011 (Saturday); however, the corresponding time and payment records showed that workers were off on these dates.

In addition, there were workers that reported that a) they were required to work on Sunday on an occasional basis for the past few months and b) their night overtime was actually more than 1 hour and sometimes until 22:00; however, time records showed that workers were only required to work 1 hour of overtime at night. Workers also reported that they were actually only of from October 1 - 3, 2011 and started work on October 4, 2011.

However, the time records showed that workers were off from October 1 - 5 and only started working on October 6, 2011. Hence, workers' actual working hours, payment and benefits status could not be accurately verified during the audit.

Sources: worker interviews, document review, management interview, factory management information, provided time records from October 2010 to November 13, 2011

Plan Of Action: Transparency is most important between company and suppliers. AEO will communicate its importance to the supplier to ensure that the supplier understands the requirement, via specific meetings as well as vendor summits. AEO will additionally ensure following actions take place:

1. The use of any hidden or multiple payroll and time records is ceased and all root causes of these issues are identified.

2. All working hours are completely recorded and tracked and all time records are ensured to be disclosed for review.

Deadline Date: 12/31/2012
| Supplier CAP | The inconsistencies between the time, payroll record and production record are mainly from a few workers who work on piece rate, regardless of the supervisor's advice on excessive overtime work from management. The management has reinforced this by putting security personnel in the workshop to prevent such workers from re-entering the workshop after production hours. The management will set up to speculate the progress in the next 3 to 6 months. |
| Supplier CAP Date | 02/29/2012 |
| Action Taken | A meeting was held to better understand the factory's position and they confirmed that they are committed to 100% transparency on wages and hours. An unannounced visit will be held in the near future to verify the level of transparency. |
| AEO internal team follow-up visit, January 22, 2013 | The production records that the auditors collected on site and the employees' statements are consistent with the time records that the factory has provided. Signs of falsified records are not detected at this time. |
| Plan Complete | Yes |
| Plan Complete Date |  |