



2010

FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

COMPANY: American Eagle Outfitters

COUNTRY: China

FACTORY CODE: 98001511771

MONITOR: Openview Service Limited

AUDIT DATE: November 16, 2010

PRODUCTS: Woven Shirts, Knit Shirts

PROCESSES: Cutting, Embroidering,
Sewing, Ironing, Packing

NUMBER OF WORKERS: 525



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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: Factory only provided work-related injury, medical, pension, and unemployment insurances for 132 out of all 525 employees, no maternity insurance provided for any workers.

Sources: review of social insurance receipt of October 2010; worker and management interviews

Legal reference: Article 73 of China Labor Law

Plan Of Action: American Eagle Outfitters (AEO) will ensure the following actions are taken by the supplier:

Immediate action:

1. Provide 100% coverage on work-related injury insurance;
2. Inform new hires during orientation that a) it is the employee's obligation to participate in social insurance and b) of the advantages/benefits they gain with participation.

Long-term remedial plan:

Set up a practical target in order to achieve 100% social insurance coverage.

Deadline Date: 12/31/2014

Supplier CAP: 3/24/11: Already provided 100% insurance coverage on work-related injury. Will inform new hires that it is the employee's obligation to participate in social insurance and of the advantages/benefits they gain with participation during orientation starting April 1, 2011. Factory will increase total social insurance coverage by 5% every 6 months.

Action Taken: 12/04/11: Factory is required to revisit the overall social insurance coverage on an annual basis and make adjustment to the rate of additional coverage if necessary.

02/03/12: Follow-up visit on 12/23/11 revealed that 33.8% of the workforce participated in work-related injury, medical, pension and unemployment insurances. This is a rise of almost 9% from October 2010, which is in alignment with the established goal.

Plan Complete: No

Plan Complete Date:

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 from October 2009 to September 2010 factory provided were inconsistent and inaccurate:

1. 30% of interviewed workers reported that they were paid through the bank, while management stated all workers were paid in cash.
2. 10% of interviewed workers reported they were paid an additional RMB 1 per hour for all overtime, except the piece rate payment; payroll records the factory provided indicated that overtime was paid a 150% and 200% of normal wage as per legal requirement.
3. 20% of interviewed workers reported their monthly wages would be deducted RMB 25-30 for water and electricity charges each month, while management stated accommodation facilities were free of charge; payroll records indicated there were no any deductions except social insurance.



4. Related working hours listed in payroll records were inaccurate and incomplete. (Refer to HOW.6 for details.)

Sources: payroll record review; worker and management interviews

Plan Of Action: AEO reinforces that transparency is one of the most important elements in the relationship between AEO and supplier; the supplier should understand this and be cooperative at all times.

AEO will ensure the following actions are taken by the factory: Immediate and long-term remedial actions: Provide accurate records for review going forward; all legal requirements should be met.

Deadline Date: 12/31/2012

Supplier CAP: 03/24/11: Factory agreed to provide accurate and complete time and payroll records for review going forward. Moreover, management confirmed that employees were given a choice for mode of payment; as of now, 90% and 10% of workforce opted for wages to be paid through direct deposit and in cash, respectively.

Action Taken: Confirmed that there are wage deductions for electricity/water; records were last reviewed in May. Re-audit is scheduled in December 2011 to reassure commitment to transparency. AEO will ensure that a continuous agenda is there to check the facility's commitment to transparency.

02/03/12: Follow-up visit on 12/23/11 revealed that transparency remains an issue. A meeting is scheduled in March 2012 to work with different parties in order to achieve full transparency at all times. The Deadline date has been changed to December 31, 2012.

Plan Complete: No

Plan Complete Date:

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.

Notes: There was no trade union in the factory. However, there was a Worker Committee founded on October 5, 2009 in the factory.

Plan Of Action: We acknowledge that labor relations in China do not meet core ILO standards due to the maturity level of their industrial relations. We acknowledge a long-term, joint advocacy effort is needed to enable better labor relations in China. Since country law only recognizes one union in China, the factory is required to:

Immediate action:

1. Introduce worker representatives to new hires during orientation.
2. Develop policy/procedures with respect to work representatives including, but not limited to: a) aims, b) functionality, and c) selection process and terms

Long-term remedial plan: Monitor closely to the latest trends in China with respect to labor union law every 6 months. Report to AEO and make necessary changes to the current structure should there be any new/revised law regarding trade union law.



Deadline Date: 01/31/2012

Supplier CAP: 03/24/11:

1. Introduce worker representatives to new hires during orientation.
2. Develop policy/procedures with respect to work representatives including, but not limited to: a) aims, b) functionality, and c) selection process and terms.

Action Taken: 05/16/11: Factory's management has included the introduction of worker representatives during orientation.

02/03/12: Follow-up visit on 12/23/11 confirmed introduction of worker representatives during orientation.

Plan Complete: Yes

Plan Complete Date:

Harassment or Abuse: Discipline/Review of Disciplinary Action

H&A.3 The disciplinary system shall include possibilities for workers to have disciplinary action imposed on them reviewed by someone at a higher managerial position than the manager who imposed the disciplinary action. In addition, such a system shall include the ability of a worker to appeal and/or question any disciplinary action against him or her and/or have a third party of his or her choice present when the disciplinary action is being imposed. (P)

Noncompliance

Explanation: Disciplinary system did not include the ability of a worker to appeal and/or question any disciplinary action against them and/or have a third party of their choice present when the disciplinary action was being imposed.

Sources: disciplinary procedure review; worker and management interviews



Plan Of Action: AEO will ensure the following actions are taken by the supplier: Immediate action:

1. Add procedure for employees to appeal and raise questions regarding disciplinary actions against them in the established disciplinary procedures.
2. Provide training to all employees regarding the new procedures during the regular monthly section meeting.
3. Include revised policy in orientation for new hires going forward. Long-term remedial plan: Establish a system to conduct internal audits to verify implementation of this procedure on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 09/30/2012

Supplier CAP: 03/24/11: Appeal policy/procedures will be available by March 31, 2011 and a) will be posted on the notice board in both the work place and dormitory, b) will be included in the section monthly meeting in April 2011, and c) will be included in the orientation for next batch of new hires.

Action Taken: 05/16/11: Appeal policy/procedures have been established and will be posted on the notice board in both work place and dormitory.

02/03/12: Follow-up visit on 12/23/11 revealed that factory management was not able to provide a written grievance procedure for review during the course of the visit. A meeting is scheduled in March 2012 to work with different parties in order to resolve the issue. The Deadline date has been changed to September 30, 2012.

Plan Complete: No

Plan Complete Date:



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: No disciplinary record has been kept on file since the factory was established. Sources: record review; worker and management interviews

Plan Of Action: AEO will ensure the following actions are taken by the supplier: Immediate action: Disciplinary policy/procedures should indicate that a track of written records for each case are kept.

Long-term remedial plan: Establish a system to conduct internal audits to verify implementation of this procedure on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 01/31/2012

Supplier CAP: 03/24/11: Appeal policy/procedures will be available by March 31, 2011.

Action Taken: 05/16/11: Appeal policy/procedures have been established and all records will be kept going forward.

02/03/12: Follow-up visit on 12/23/11 revealed factory management now has a system in place to keep track of written disciplinary records; it was provided for review on site.

Plan Complete: Yes

Plan Complete Date:

Child Labor: Employment of Young Workers

CL.6 Employers shall comply with all relevant laws that apply to young workers (i.e., those between the minimum working age and the age of 18) including regulations relating to hiring, working conditions, types of work, hours of work, proof of age documentation, and overtime. (P)

Noncompliance

Explanation: There was 1 juvenile worker in the factory. However, the factory did not register the use of this juvenile worker with the local labor bureau or arrange for a medical examination according to legal regulation.

Sources: record review; worker and management interviews

Legal references: Articles 6 and 9 of the Provision on Special Protection for Juvenile Workers

Plan Of Action: AEO will ensure the following actions are taken by the supplier:

Immediate action:

1. Provide health checks and register the use of juvenile workers with the local labor bureau.
2. Include the requirements for the use of juvenile employees in the recruitment policy/procedures, including health checks and registration process.

Long-term remedial action: Establish a system to conduct internal audits to verify implementation of this procedure on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 09/30/2012

Supplier CAP: 03/24/11: The juvenile employee was provided with a health check and registered with the local labor bureau. The factory is now working on the revised policy and procedures.

Action Taken: 05/16/11: Policy/procedures with respect to juvenile employees have been established. 02/03/12:

Follow-up visit on 12/23/11 revealed that there are still cracks in the execution of established recruitment policy/procedures. A meeting is scheduled in March 2012 to work with different parties in order to resolve this issue. The Deadline date has been changed to September 30, 2012.

Plan Complete: No

Plan Complete Date:

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: There were special requirements in terms of gender and age (e.g., The requirements for a cleaner were female and below 50 years old on the recruitment advertisement posted at the factory gate.)

Source: factory walkthrough

Legal references: Article 12 of China Labor Law; Article 20 of Provisions on Employment Services and Employment Management

Plan Of Action: AEO will ensure the following actions are taken by the supplier:

Immediate action:

1. Remove gender and age preferences from recruitment process
2. Provide training to the department head with respect to the company's anti-discrimination policy.



Long-term remedial plan: Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.

Deadline 06/30/2011

Date:

Supplier CAP: 03/24/11:

1. Removed gender and age preferences from recruitment notice.
2. Department head will be trained on company's anti-discrimination policy in the section monthly meeting in April 2011.

Action Taken: 05/16/11: Recruitment policy/procedures have been revised and put into practice.

02/03/12: Follow-up visit on 12/23/11 revealed that no such limits were set in recruitment notice and no records indicated any form of gender or age preference.

Plan Yes

Complete:

Plan Complete

Date:

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: No confidential noncompliance reporting mechanism, which allowed factory workers to contact AEO. Sources: on-site observation; worker and management interviews

Plan Of Action: 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 the 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.

Deadline Date: 01/31/2012

Action Taken: 03/24/11: AEO is in the stage of identifying potential suppliers for noncompliance reporting mechanism.

12/04/11: Re-audit is scheduled in December 2011; external grievance system for workers will be launched at the same time.

02/03/12: Noncompliance reporting mechanism was successfully launched at the factory on 12/23/11. AEO and its project partner project will closely monitor the progress of this project.

Plan Complete: Yes

Plan Complete Date:

Health and Safety: Written Health and Safety Policy

H&S.3 Employers are required to develop, maintain and regularly review a written health and safety policy. The policy must, at the very least, be aimed at complying with legal minimum safety and health standards, regulations and procedures. (P)

Noncompliance

Explanation: Factory did not set up a written health and safety policy, which must, at the very least, be aimed at complying with legal minimum safety and health standards, regulations and procedures. Sources: document review; worker and management interviews

Plan Of Action: AEO will ensure the following actions are taken by supplier: Immediate action:

1. Develop a written health and safety policy.
2. Provide training to all employees regarding factory's health and safety policy.

Long-term remedial plan: Include this policy in orientation training for new employees.

Deadline Date: 01/31/2012

Supplier CAP: 03/24/11: Written health and safety policy will be ready by May 2011.

Action Taken: 12/04/11: Re-audit is scheduled in December 2011 to check on status. 02/03/12: Follow-up visit on 12/23/11 revealed that written health and safety policy was set up and well communicated to employees.

Plan Complete: Yes

Plan Complete Date:

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:**
1. Factory could not provide Building Structure Safety Certificate for all buildings in the facility.
 2. The inspection certificates for 2 boilers expired in October 2010.

Sources:

- 1) Document review, management interviews;
- 2) Document review

Legal references: Article 61 of the China Construction Law; Article 28 of Safety Monitoring Regulation of Special Equipment (PRC State Council Order #373)

Plan Of Action: AEO will ensure the following actions are taken by the supplier

Immediate action:

1. Conduct inspection to 2 boilers.
2. Push for certification of the Building Structure Safety Certificate from the owner of the building.

Long-term remedial plan:

1. Set out a system to alert for the certificate's annual renewal.
2. Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 09/30/2012

Action Taken: 03/24/11: Certificates for the 2 boilers had been granted. Will keep pushing the owner of the building to provide the Building Structure Safety Certificates on a monthly basis and report updates.

02/03/12: Follow-up visit on 12/23/11 revealed that factory management was not able to provide written Building Structure Safety Certificates for all buildings for review and inspection certificates for the 2 boilers; the certificates expired November 28, 2011 during the course of the visit. A meeting is scheduled in March 2012 to work with different parties in order to resolve this issue. The Deadline date has been changed to September 30, 2012.

Plan No
Complete:

Plan
Complete
Date:

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. Materials and sundries were stored in the stairwell of the first floor of production building B.

2. 1 of 2 evacuation exits in fabric material warehouse was locked during work time.

3. Factory did not conduct an emergency evacuation drill in the past 1 year, since November 11, 2009.

Sources:

1) Factory walkthrough;

2) Visual inspection;

3) Document review; worker and management interviews

Legal references: Article 7.4.1 of Code for Design of Building Fire Protection and Prevention (GB50016-2006); Articles 28 and 16 of China Fire Prevention Law

Plan Of Action:	<p>AEO will ensure the following actions are taken by the supplier: Immediate action:</p> <ol style="list-style-type: none">1. Remove all materials and sundries stored in stairwell.2. Ensure all exits are unlocked.3. Conduct fire drill in both the workplace and dormitory. <p>Long-term remedial plan:</p> <ol style="list-style-type: none">1. Provide health and safety training to employees once health and safety policy is established.2. Set out a yearly plan to conduct fire drill.3. Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.
Deadline Date:	09/30/2012
Action Taken:	<p>03/24/11:</p> <ol style="list-style-type: none">1. Materials and sundries stored in stairwell of first floor were removed.2. Evacuation exit in fabric material warehouse was unlocked.3. Fire drills have been conducted. Health and safety policy is in the stage of development and will be ready by May 2011. <p>12/04/11: Re-audit is scheduled in December 2011 and will provide updates. 02/03/12:</p> <p>Follow-up visit on 12/23/11 revealed:</p> <ol style="list-style-type: none">1. Evacuation exits were kept unlocked during work hours.2. Emergency evacuation drills were conducted in 2011, in both production workshops and dormitory; with the most recent one was conducted December 14, 2011.

However, there were some sundries/-finished goods stored on the first floor of production building and at the dormitory meeting staircase. A meeting is scheduled in March 2012 to work with different parties in order to discuss areas to enhance. The Deadline date has been changed to September 30, 2012.

Plan Complete: No

Plan Complete Date:

Health and Safety: Medical Facilities

H&S.21 Medical facilities shall be established and maintained in factories as required by applicable laws. Medical staff shall be fully licensed and recognized under applicable local rules and regulations. An appropriate number of medical staff shall be on duty during all working hours, including any type of overtime, as required under local law. An appropriate stock of medical supplies shall be maintained at all times. Medicines of which the expiration date has passed must be replaced immediately and disposed of in a safe manner. (P)

Noncompliance

Explanation: Factory did not arrange occupational health examination for 13 workers in embroidery workshop who are subject to high noise levels.

Sources: on-site observation; record review; worker and management and worker interviews

Legal references: Article 32 of China Law on Prevention and Control of Occupational Diseases; Article 54 of China Labor Law

Plan Of Action: AEO will ensure the following actions are taken by the supplier: Immediate action: Provide occupational health examinations for employees in the embroidery workshop. Long-term remedial plan:

1. Set out a yearly plan to conduct occupational health examinations for all eligible employees.
2. Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.



Deadline Date: 05/31/2011

Supplier CAP: 03/24/11: All employees in the embroidery workshop have been provided occupational health examinations.

Action Taken: 05/16/11: All employees in embroidery section have been provided with occupational health examinations January 27, 2011. Factory's health and safety officer will be responsible for ensuring that occupational health examinations are done on an annual basis and in a timely manner.

02/03/12: Follow-up visit on 12/23/11 revealed all employees exposed to loud noises were given occupational health examinations.

Plan Complete: Yes

Plan Complete Date: 05/31/2011

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: About 80% of workers' overtime exceeded 36 hours per month, except in February 2010; the max was 79 hours in July 2010.

Source: review of time records from October 2009 to October 2010

Legal reference: Article 41 of the China Labor Law

Plan Of Action: AEO will ensure the following actions are taken by the supplier:

Immediate action:

1. Establish and set up overtime policy.
2. Provide training to all department heads regarding the new overtime policy.
3. Include the new policy in new employee orientation going forward.

Long-term remedial plan:

1. Set up target to gradually reduce overtime work.
2. Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.

**Deadline
Date:** 12/31/2012

**Supplier
CAP:** 03/24/11: Overtime policy will be available by May 2011.

**Action
Taken:** 05/16/11: Factory requested an extension to set up a practical target for overtime.

12/04/11: Re-audit is scheduled in December 2011 in order to get a clear picture of the facility's overtime status.

02/03/12: Follow-up visit on 12/23/11 revealed that 75% of workers' overtime exceeded 36 hours per month from November 2010 to October 2011, except for February; maximum number of monthly hours was 81 hours in October. A slight drop from 80%, but a rise in number of hours (from 79) compared to this period a year ago. A meeting is scheduled in March 2012 to work with different parties to discuss the next step. The Deadline date has been changed to December 31, 2012.

**Plan
Complete:** No

**Plan
Complete
Date:**

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: The time records from October 2009 to October 2010 the factory provided were incomplete/inaccurate; the exact work times could not be verified due to the reasons below:

1. There were production records for the sewing department on June 16, 2010. It was Chinese Dragon Boat Festival; however. The time records the factory provided showed that no worker worked on that day.

2. 2 workers interviewed off-site reported that normally they worked overtime 3 OT hours each night from Monday to Saturday and 3 OT hours in the daytime on most Sundays. In the peak season, they also worked overtime at night on some Sundays, and until 23:30pm on some workdays. However, time records factory provided indicated that workers only worked overtime 3 hours per day Monday, Wednesday and Friday, and that no workers worked overtime at night on Saturdays or on any Sundays.

3. Workers in ironing and packing workshop worked overtime between 12:30 and 13:30 November 16, 2010. Workers in that workshop reported they did not swipe time cards for overtime at noon; factory also could not provide any related time records.

Source: time records from October 2009 to October 2010; 1) visual inspection; 2) 2 workers interviewed off site; 3) visual inspection

Plan Of Action: AEO reinforces that transparency is one of the most important elements in the relationship between AEO and supplier; the supplier should understand this and be cooperative at all times. AEO will ensure the following actions are taken by the factory: Immediate and long-term remedial actions: Provide accurate records for review going forward; all legal requirements should be met.

Deadline Date: 12/31/2012

Supplier CAP: 03/24/11: Factory agreed to provide accurate and complete time and payroll records for review going forward.

Action Taken: Records were last reviewed in May. Re-audit is scheduled in December 2011 to reassure commitment to transparency. AEO will ensure that a continuous agenda is there to check facility's commitment to transparency.

02/03/12: Follow-up visit on 12/23/11 revealed that transparency remains an issue. A meeting is scheduled in March 2012 to work with different parties in order to achieve full transparency at all times. The Deadline date has been changed to December 31, 2012.

Plan Complete: No

Plan Complete Date:

Hours of Work: Annual Leave

HOW.14 Employers shall provide workers with paid annual leave as required under local laws, regulations and procedures. (S)

Noncompliance

Explanation: Factory just provided 4 days of annual leave for workers who were entitled to 5-day annual leave according to local law. Factory compensated the 1-day of untaken annual leave with 100% of daily wage, instead of 300% as per legal requirement.

Sources: leave record, time record, and payment record review; worker and management interviews

Legal references: Articles 3 and 5 of Regulations on Paid Annual Leave for Employees.

Plan Of Action: AEO will ensure the following action are taken by the supplier: Immediate action: Compensate employees with remaining 200%. Long-term remedial plan:

1. Establish annual leave policy.
2. Establish a system to track the status of annual leave usage for each employee.
3. Provide training to all employees.



4. Include the new policy in new employee orientation going forward.

5. Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 09/30/2012

Supplier CAP: 03/24/11: All eligible employees have been compensated 200% of wages. Annual leave policy will be ready by April 2011.

Action Taken: 05/16/11: Annual leave records provided.

12/04/11: Re-audit is scheduled in December 2011 to check on status.

02/03/12: Follow-up visit on 12/23/11 revealed that resigned workers neither took unused annual leave, nor were compensated at 300% of regular pay rate as legally required. A meeting is scheduled in March 2012 to work with different parties to discuss enhancement. The Deadline date has been changed to September 30, 2012.

Plan Complete: No

Plan Complete Date:

Hours of Work: Sick Leave

HOW.19 Employers shall provide workers with sick leave as required under local laws, regulations and procedures. (S)

Noncompliance

Explanation: Factory did not set up a clear policy for paid sick leave. There were no records revealing that workers had taken sick leave in the past 1 year. 80% of interviewed workers reported that factory did not provide paid sick leave for them.

Sources: review of leave records provided; worker and management interviews
Legal reference: Article 3 of Medical Treatment Period Provision of Corporation Employee Illness or Non Work-related Injury



Plan Of Action: AEO will ensure the following actions are taken by the supplier: Immediate action:

1. Establish sick leave policy.
2. Provide training to all department heads regarding the new policy.
3. Include the new policy in new employee orientation going forward.

Long-term remedial plan: Establish a system to conduct internal audits to verify implementation of this policy on a regular basis; identify areas for improvement; and make necessary changes.

Deadline Date: 01/31/2012

Supplier CAP: 03/24/11: Sick leave policy will be available by May 2011

Action Taken: 05/16/11: Sick leave policy is established and training to employees will be conducted by December 2011.

12/04/11: Re-audit is scheduled in December 2011 to check on status.

02/03/12: Follow-up visit on 12/23/11 revealed that factory had set up a clear policy for paid sick leave. It was confirmed that workers enjoyed paid sick leave from documentation.

Plan Complete: Yes

Plan Complete Date: