



2010

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** Hanesbrands; American Eagle  
Outfitters, Inc

**COUNTRY:** China

**FACTORY CODE:** 9802151266I

**MONITOR:** Social Compliance Service Asia

**AUDIT DATE:** December 27 – 28, 2010

**PRODUCTS:** Intimate Apparel

**PROCESSES:** Cutting, Sewing, Forming,  
Finishing, Inspecting, Packing

**NUMBER OF WORKERS:** 12300



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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:** Insufficient social insurance coverage. Based on social contribution records from November 2010, factory purchased work-related injury insurance for 13,715 employees; medical insurance for 13,656 employees; pension insurance for 2,800 employees; unemployment insurance for 2 employees and childbearing insurance for 54 employees. Factory has 12,300 employees currently (social contribution numbers for November are higher, as the number of workers was higher the previous month). During closing meeting, factory claimed about 7,700 workers gave up the right to purchase pension insurance, and submitted a few samples of mutual agreement for review.

Sources: document review; worker and management interviews

Law Reference: Article 72 of PRC Labor Law

### **Plan Of Action:**

Hanesbrands and AEO will ensure the following actions occur:

1. Immediate stop of illegal mutual agreements usage to waive social insurances.
2. Factory management regularly conducts current policy review regarding legal benefits, to ensure all legal benefits provided to all workers per local law (e.g., provide walkthrough in respect to factory's stance towards social insurance to potential candidate during recruitment process).
3. Employees are educated on social security insurance by providing trainings, allowing them to understand that participation in social insurance is their legal obligation and of the benefits they will get.
4. Long-term plan prepared on how to ultimately achieve 100% participation rate.
5. Management to ensure commitment to this long-term plan and its implementation, in accordance with timeline.
6. System established to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation; b) identify if improvements or updates required for existing policies and procedures; and c) act upon company action plan (CAP).

**Deadline  
Date:** 12/31/2013



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found factory has been increasing social insurance participation rate since January this year. There were a total of 3,836 employees for pension; 14,873 for medical; 14,899 for work-related injury; 24 for unemployment and 73 for childbearing as of March 2011 (around 13,000 employees in total). Factory management is now waiting for further instruction from local labor bureau, as policy on social insurance and housing fund will be available in May 2011. Subsequently, factory will hold an internal meeting to identify necessary steps for factory to take, such as a timeline for increasing coverage in the future, in order to meet requirements. Factory management established a policy on benefits, and also trained workforce to increase their awareness. Priority will always be given to work-related injury and medical components, while incrementally increasing others, namely pension, maternity and unemployment, in this order.

Follow-up audit: November 7-8, 2011: Based on review of social insurance receipts from September 2011, it was noted that factory purchased work-related injury insurance for all 12,709 employees, medical insurance for 12,700 employees, pension insurance for 4,275 employees, maternity insurance for 72 employees and unemployment insurance for 33 employees. To be followed up at a later stage.

**Plan Complete:** No

**Plan Complete Date:**

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## **Wages, Benefits and Overtime Compensation: Timely Payment of Wages**

WBOT.4 All wages, including overtime compensation shall be paid within legally defined time limits. When no time limits are defined by law, compensation shall be paid at least once a month. (S)

### **Noncompliance**

**Explanation:** Delay in payment of wages. Factory should pay wages the 7th of each month. During audit factory provided the agreement, with 10 employee representatives in the Workers' Committee, stating that wages are to be paid before the 22th of each month. However, factory paid workers the 25th. Some workers did not sign receipt of payment. Wages for November 2010 paid December 27, 2010. Some workers did not sign acknowledgment receipt of payment.

Sources: document review; labor contracts; payroll review; worker and management interviews

Law Reference: Article 11 of Shenzhen Employee Wage Payment Regulation (extracted)

### **Plan Of Action:**

Hanesbrands and AEO will ensure the following actions occur:

1. Personnel appointed to check and make sure workers receive wages on time.
2. It is ensured that all workers sign acknowledgement receipt regarding timely payment.
3. Policy reviewed regarding wage payment and make sure it is legally compliant (e.g., include communication process between employer and employees if wages expected to be paid later than initially agreed upon pay date).
4. Regular communication maintained between employer and workers to ensure pay date is discussed and agreed upon per date and method.
5. System established to conduct regular internal audit to: a) determine effectiveness of implementation of policies and procedures, b) identify if improvements or updates required for existing policies and procedures and c) act upon company action plan (CAP).

**Deadline Date:** 10/28/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found:

1. Per payroll record review, workers' February 2011 wages paid March 25, 2011. 8 workers had not signed payroll to acknowledge receipt of payment, because these workers were off the day factory distributed payroll slip. But, per bank reception record check, factory paid these wages to workers.

2. Per worker interviews, noted factory let workers check and sign payroll slip around the 17th of every month; wages could be transferred to workers' accounts before the 25th of every month.

3. Factory has planned to use ERP (Enterprise Resource Planning) system including wage calculation model, which can help to enhance wage calculation efficiency and reduce wage calculation period. The detailed date of system is in operation.

4. Factory management reported this issue to board of directors; factory is waiting final decision.

5. Factory assigned HR staff to check and ensure all payment receipts will be signed.

Follow-up audit date: November 7-8, 2011: Factory did not pay workers on time. As per labor contract law, factory should pay workers the 7th of each month, but after agreement reached between factory and employee representatives, workers would be paid before 22nd of each month. However, based on bank transfer record review factory provided, workers paid on October 25, 2011, and some workers did not sign payrolls to acknowledge receipt of payment. To be followed up at a later stage.

**Plan Complete:** No

**Plan Complete Date:**

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**Wages, Benefits and Overtime Compensation: Premium/Overtime Compensation**

WBOT.10 The factory shall comply with all applicable laws, regulations and procedures governing the payment of premium rates for work on holidays, rest days, and overtime. (S)

**Uncorroborated Evidence of Noncompliance**

**Explanation:** Factory did not properly pay overtime premium for some night OT hours and rest day OT hours. Some workers did not sign acknowledgment receipt of payment. During closing meeting, factory representative, [Representative name], explained that time and payment records provided by factory showed workers were properly paid with OT wages and requested auditors to put down their explanation before acknowledging on-site summary.

Sources: worker and management interviews; payroll records

Law Reference: Article 44 of PRC Labor Law

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. Person appointed to follow up on this issue and make sure workers paid legally and timely.
2. It is ensured that all workers sign acknowledgment receipt of payment on time.
3. Current policy and procedures reviewed to see if there are weaknesses on OT premium payment arrangement.
4. System established to conduct regular internal audits that: a) determine effectiveness of policy and procedure implementation; b) identify if improvements or updates required to existing policies and procedures; and c) act upon CAP.

**Deadline Date:** 08/31/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found:

1. Factory adopts 2 systems, piece rate and hourly rate, to calculate wages. Employee will receive minimum hourly rate for regular and OT hours if employee's piece rate earning does not cover minimum hourly rate. Employees with piece rate earnings more than minimum hourly wage will receive full amount of earnings (sum will break into regular hour earnings, OT compensation and performance allowance). This is the reason employees believe they are piece rate employees and not entitled to OT premium. The reason some employees do not sign payroll to acknowledge receipt of payment is that they are off on pay day.

2. Training on wage system included in orientation for new hires starting April 2011. Ongoing awareness provided by detailed information posted; implementation will be audited by Hanesbrands and AEO continuously.

Follow-up audit: November 7-8, 2011: As per worker and management interviews, factory did not pay OT premium properly for some OT on week nights and rest days, as those OT hours not recorded. Factory management explained that those OT hours were not arranged by factory and workers did not swipe time cards. To be followed up at a later stage.

**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:** Inconsistencies noted in time and payment records provided and other records and information obtained during audit. Some night OT and Sunday OT not properly recorded on time and payment records provided. Production records showed workers worked December 5, 12, 19; and November 7, 14, 21, 2010, but attendance and payroll records of respective workers suggested there was no OT these dates. Time and payment records could not accurately reflect workers' actual hours and payment status at facility.

Sources: document review; worker and management interviews

Law References: Articles 12 and 44 of PRC Labor Law

#### **Plan Of Action:**

1. Transparency is most important between company and suppliers. Sourcing brands will communicate with supplier to ensure supplier understands the requirements vendor should meet.

2. Hanesbrands and AEO will ensure the following actions occur:

a) Usage of any hidden/multiple payroll and time records stopped; root causes identified.

b) OT policy for factory to be reviewed, and should not exceed legal limits.

c) All working hours completely and objectively tracked.

d) Factory's management improves working hours and compensation; all OT to be properly recorded and disclosed for review.

e) OT wages recalculated to ensure all OT has been paid to workers.

3. Management should appoint personnel to review whether workers' hours of work are properly recorded and compensated for and fully reflected in payroll records.

(Therefore, establish system to conduct regular internal audit that: a) determines effectiveness of policy and procedure implementation; b) identifies if improvements or updates required for existing policies and procedures; and c) act upon CAP).

4. Factory should further set grievance channels to report any noncompliance regarding working hours and compensation.

**Deadline** 08/31/2011  
**Date:**

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that records provided by factory showed around 30% of workforce conducted Sunday work in November and December 2010. However, it is also noted that employees are not required to swipe time cards during established lunch hours and after 21:00/21:30 on weeknights. Factory representative confirmed they have communicated to production team that this practice is prohibited; they will take case to top management and have message clearly communicated to production team that employees are required to swipe time cards whenever they work. Given information collected on site, identified root cause and commitment from factory representative, it is believed that factory is taking steps towards transparency. Hanesbrands and AEO will maintain a continuous agenda to check internal systems/trainings built to maintain transparency.

Follow-up audit: November 7-8, 2011: Based on worker and management interviews, noted some OT on weeknights and rest days not properly recorded. Evidence stated as below:

1. Workers stated sometimes they went to work OT without swiping time cards and that this OT was not arranged by factory.
2. Workers not able to swipe time cards after 21:15 as system would not record any working hours after 21:15. Therefore, they usually swiped time cards at 21:00 and then went on working. To be followed up at a later stage.

**Plan Complete:** No

**Plan Complete Date:**

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## Forced Labor: Freedom in Employment

F.2 All workers shall have the right to enter into and to terminate their employment freely. (P)

### Noncompliance

**Explanation:** Factory did not allow workers to resign or apply for leave during peak production period. As per factory management information, they had appointed 1 [Factory name] colleague to handle resignation of workers; their main duty is to convince and persuade workers not to resign unless under urgent conditions.

Sources: document review; off-site staff interviews; worker, security personnel and management interviews

Law Reference: Article 17 of Labor Law of PRC

### Plan Of Action:

Hanesbrands and AEO will ensure the following actions occur:

1. Policy and procedures on resignation and leave application reviewed, ensured that they comply with local law.
2. All leave applications and resignation records retained orderly to ensure workers' applications properly approved.
3. Resignation and leave policy and procedures explained to all workers for their freedom of movement.
4. Ensured that persuasion process is not in conflict with resignation process.
5. Personnel assigned to monitor resignation and leave application process.

(Establish system to conduct regular internal audits that: a) determine effectiveness of policy and procedure implementation; b) identify if improvements or updates required for existing policies and procedures and; c) act upon CAP.)

6. Grievance channels set to report any noncompliance.

**Deadline  
Date:** 08/31/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found:

1. Factory policy and procedure regarding workers' resignations showed workers should resign 30 days after day their supervisor signed resignation application. Factory committed to amend relevant policy and procedure.
2. Per worker interviews, noted that some supervisors talk with workers who want to resign and try to convince them not to; however, all resignation and leave applications could be approved if persuasion process did not work.
3. Factory management committed to amend resignation policy and procedures to ensure compliance with law and avoiding worker misunderstanding.
4. Factory management committed to adopt actions to arrange production properly and assigned more staff to handle leaves and resignation applications.
5. Training on leave application and resignation process included in orientation for new hires starting April 2011. Ongoing awareness provided by detailed information posted; implementation will be audited by Hanesbrands and AEO continuously.

Follow-up audit: November 7-8, 2011: As per worker interviews, difficult for workers to resign during peak season. To be followed up at a later stage.

**Plan Complete:** No

**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.

Monitor's Note: Factory workers not members of local branch of ACFTU. Factory has set up Workers' Committee representing workers.

### Plan Of Action:

Hanesbrands and AEO will ensure the following actions occur:

1. Policy on FOA reviewed to ensure factory respects right of all personnel to form and join trade unions of their choice and to bargain collectively.
2. It is ensured that workers' representatives in Workers' Committee elected by workers. Voting process records shall be maintained.
3. Ensured that management shall not seek to influence or interfere with Workers' Committee discussions, voting processes or related activities.
4. Factory management holds regular meetings with Workers' Committee to discuss employees' concerns and other issues.

5. Other means/channels developed to promote communication between management and employees.

6. Considering that new regulation of collective bargaining on labor relations in [City name] could be promulgated in 2011, responsible person to be assigned to regularly review policy to ensure compliance with local law.

**Deadline  
Date:** 12/31/2011

**Action  
Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. Factory has Workers' Committee and representatives of Workers' Committee generated by employee voting, but voting not held on regular basis.
2. Factory did not sign collective contracts with representatives of Workers' Committee.
3. Factory assigned HR manager to be responsible for keeping all activities' records, i.e., meeting memos of communication between workers' representatives and factory management.
4. Factory management committed to sign collective contracts with representatives of Workers' Committee.

Follow-up audit: November 7-8, 2011: No trade union in factory. To be followed up at a later stage.

**Plan  
Complete:** No

**Plan  
Complete  
Date:**

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## Harassment or Abuse: Discipline/Monetary Fines and Penalties

H&A.8 Employers shall not use monetary fines and penalties as a means to maintain labor discipline, including for poor performance or for violating company rules, regulations, and policies. (S)

### Noncompliance

**Explanation:** Factory uses monetary fines and penalties. Workers would be fined RMB 5 for not clearing up their workstations or would be fined RMB 100 a day for leave of absence without prior approval.

Sources: document review, worker interviews

Law Reference: Article 15 of Provisional Regulations for the Payment of Wages

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. All kinds of discipline and monetary fines practices stopped.
2. Current discipline policy, rules, and procedures reviewed and amended to ensure no issues regarding discipline or monetary fines.
3. Amended policies, rules and procedures communicated to all employees.
4. Anti-harassment and abuse practice training provided to all supervisors and management.
5. Leave application management rule improved to make sure no extra fines or deductions for leave of absence without prior approval.
6. Grievance procedure and channels enhanced for all employees.
7. System established to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation; b) identify if improvements or updates required for existing policies and procedures; and c) act upon CAP.

**Deadline Date:** 08/31/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found:

1. Factory stopped using monetary fines as disciplinary practice. Per payroll record review and worker interviews, non-fine practices reported from February 2011.
2. Factory amended employee handbook and disciplinary system. From March 2011, factory uses verbal warning, written warnings, demerits, etc., as disciplinary practices.
3. Training on new disciplinary system included in orientation for new hires starting April 2011. Factory planned to provide disciplinary system training to all supervisors. Ongoing awareness provided by detailed information posted; implementation will be audited by Hanesbrands and AEO continuously.

Follow-up audit: November 7-8, 2011: According to on-site observation and worker interviews, monetary fines applied in facility, i.e., RMB 20 would be deducted if worker played cell phone at work. To be followed up at a later stage.

**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:**
1. Hygiene permit of canteen expired November 7, 2010.
  2. Factory could not provide fire permit of factory building for review.
  3. Factory could not provide air quality inspection report or waste discharge permit for review.
  4. Permits of 4 elevators expired December 25, 2010.

Sources: document review, management interview

Law References: 1. Article 29 of Law of PRC on Food Safety 2. Article 13 of Fire Prevention Law of PRC 3. Article 12 of Law of PRC on Prevention and Control of Atmospheric Pollution 4. Article 28 of Safety Monitoring Regulation of Special Equipment (PRC State Council Order #373)

### Plan Of Action:

Hanesbrands and AEO will ensure the following actions occur:

1. All permits and certificates reviewed to identify if they have expired and sent to local authorities for annual review.
2. Qualified inspection company arranged to conduct an air quality inspection.
3. Responsible person assigned to regularly review all permits and certificates to ensure all kept up to date. (Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation; b) identify if improvements or updates required for existing policies and procedures; and c) act upon CAP.)

**Deadline Date:** 10/30/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found:

1. Factory renewed hygiene permit of canteen; its validity period is from November 9, 2010 to November 9, 2012.
2. Factory provided fire permit of factory building for review.
3. Factory renewed permits of 4 elevators; validity period is from November 25, 2010 to November 25, 2011.
4. Factory provided EIA (Environmental Impact Assessment report) and its acceptance issued by local authority for review.
5. Factory did not provide air quality inspection report and Urban Drainage License for review. According to EIA report provided by factory, there is no industry wastewater, only sewage discharged from this factory. Factory has committed to obtain Urban Drainage License.
6. Factory assigned an H&S Manager to regularly review all kinds of permits and certificates to ensure all permits and certificates are kept with updated versions.

Follow-up audit: November 7-8, 2011: Documents review and management interviews found:

1. Factory did not obtain Fire Safety Inspection Certificate for dormitory buildings, but factory provided photocopy of Fire Safety Inspection Certificate for production and office buildings for review in this audit.
2. Factory did not conduct air quality and noise tests in related area during most recent year. Latest tests conducted in April 2010.
3. Factory did not obtain Pollutants Discharge Permit. To be followed up at a later stage.  
1) The factory had already obtained valid Hygiene Permit for its canteen in June 2011. 2) The factory had already obtained valid Inspection Certificate for all elevators.

**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:** Some aisles in workshops blocked by semi-finished products, such as at binding section. Possible root cause is insufficient training of workers, and the lack of properly conducted regular inspection.

Sources: factory tour, worker interviews

Law Reference: Article 21 of Fire Prevention Law of PRC

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. All products and materials immediately moved away to ensure all aisles unblocked and free to access.
2. Safety training provided to all workers to enhance the safety awareness.
3. Fire safety management rules enhanced and training provided to workshop supervisors and line management on fire safety management.
4. Regular evacuation drill conducted at least 2 times per year to enhance worker safety awareness.
5. Responsible person arranged in each workshop to conduct regular inspection on safety issues.(Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP).
6. Arrange person from management level to conduct random and regular inspection on safety issues.

**Deadline Date:** 08/31/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. All aisles in workplace free from any blockage and obstruction.
2. Factory did not establish management rules regarding keeping all aisles free from any blockages, but factory committed to amend management rules and requirements relevant to fire safety.
3. Training on fire safety awareness and evacuation conducted in every section from March 21-25, 2011.
4. Training on fire safety awareness and evacuation involved in orientation training for newly hired workers from April 1, 2011. Training records and test records provided for review.
5. Factory assigned H&S Manager to conduct regular safety inspection.

Follow-up audit: November 7-8, 2011: Factory tour found that all aisles were free of obstruction.

**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. Some first aid kits not equipped with sufficient first aid supplies, such as one in shaping section on 4th floor of production building.
  2. Some fire fighting equipment blocked in workshops and warehouse, such as in binding section and finished goods warehouse. Possible root causes are the insufficient training for workers, and the lack of properly conducted regular inspection.

Sources: factory tour, worker interviews

Law References: 1. Article 31 of Factory Safety and Sanitary Regulations of PRC. 2. Article 28 of Fire Prevention Law of PRC

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. All first aid kits in all workshops immediately checked and supplemented. Obstructions removed from firefighting equipment to ensure all firefighting equipment is easy to access.
2. Safety training provided to all workers to enhance the safety awareness.
3. Fire safety management rules enhanced and training provided to workshop supervisors and line management on fire safety management.
4. Responsible person arranged in each workshop to conduct regular inspection on safety issues and first aid kits. (Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP.)
5. Arrange person from management level to conduct random and regular inspection on safety issues and first aid kits.

**Deadline Date:** 06/30/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. Factory provided adequate and sufficient first aid supplies in workplace.
2. All fire extinguishers and fire hydrants free from any blockage and obstruction.
3. Training on fire safety awareness and evacuation conducted in every section from March 21-25, 2011.
4. Training on fire safety awareness and evacuation involved in orientation training for newly hired workers from April 1, 2011. Training records and test records provided for review.
5. Factory assigned a H&S Manager to conduct regular safety inspection.

Follow-up audit: November 7-8, 2011: Factory tour found that there were no supplies in some first aid kits in dormitory. To be followed up at a later stage. On-site observation confirmed all fire fighting equipment was free of obstruction.

**Plan Complete:** No

**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:** 1. Some workers operating overlock sewing machines did not use equipped protective eye shield.

2. 1 cutting worker did not wear metal glove while operating electric cutters. Possible root cause is the lack of awareness and insufficient training for the workers.

Sources: factory tour, worker interviews

Law Reference: Article 74 of PRC Factory Safety and Sanitary Regulations

### Plan Of Action:

Hanesbrands and AEO will ensure the following actions occur:

1. Eye shield devices immediately checked and equipped on all overlock sewing machines.

2. Safety and PPE training provided to all operators exposed to risky working environments to enhance their safety awareness.

3. Safety and PPE policies, along with standard operational procedures, reviewed to ensure compliance with local laws and customer's code of conduct to provide workers with a safe working environment.

4. Implementations of safety and PPE management rules enhanced to require all workers to follow standard operational procedures.

5. Responsible person assigned for regular inspection to ensure all workers follow standard operational procedures to minimize safety risks. (Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP).

**Deadline  
Date:** 08/31/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. All overlock sewing machines installed with protective eye shield. Workers operating overlock sewing machines and high speed sewing machines use protective eye shields.
2. Factory provided metal anti-cutting glove to cutting workers. Cutting workers properly used metal glove during operation.
3. Factory not finished safety standard of operation for overlock sewing machines.
4. Training on PPE use conducted October 8, 2010, but not repeated.
5. Training on machine safety and PPE involved in orientation training for newly hired workers from April 1, 2011.
6. Factory assigned H&S Manager to conduct regular safety inspection.

Follow-up audit: November 7-8, 2011: On-site observation noticed that plastic protective facility for 3 cutting machines damaged, so that they could serve as effective safeguards. To be followed up at a later stage. Factory tour found that: 1. All workers operating overlock sewing machines used protective eye-shield properly. 2. All cutting workers wore metal gloves while operating electric cutters.

**Plan Complete:** No

**Plan Complete Date:**

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## 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:** Observed that MSDS of some chemicals at shaping section not posted. Chemicals not equipped with secondary containment and not properly labeled. Possible root causes are insufficient training for workers and the lack of a proper monitoring system in place.

Sources: factory tour, document review

Law References: 1. Article 27 of PRC Regulation For Chemical Usage Safety in Work Place  
2. Article 14 of PRC Regulation For Chemical Usage Safety in Work Place  
3. Article 16 of PRC Regulation for Safety of Dangerous Chemicals

**Plan Of  
Action:**

Hanesbrands and AEO will ensure the following actions occur:

1. Proper MSDS of chemicals immediately obtained and posted in workplace where chemicals used and stored. Proper second containment and proper labels provided for all hazardous chemicals.
2. Chemical management policy and procedures reviewed to ensure all chemicals required to be handled, stored and transported in a safe manner.
3. Training provided on chemical safety to all workers exposed in chemical working environment.
4. Internal monitoring system established and personnel assigned to conduct regular inspection on chemical safety issues. (Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP.)

**Deadline  
Date:** 06/30/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. 1 detergent container not clearly labeled in 1st floor cutting section.
2. Factory obtained proper MSDS and posted them in workplace where chemicals used.
3. Secondary containment equipped to prevent chemical leaking.
4. Training on chemical safety conducted October 6, 2010, but not repeated.
5. Training on PPE, including chemicals, involved in orientation training for newly hired workers from April 1, 2011.
6. Factory assigned H&S Manager to conduct regular chemical safety inspection.

Follow-up audit: November 7-8, 2011: Factory tour found that MSDS not posted at shaping section where chemicals used, and no secondary container available for chemicals stored there. To be followed up at a later stage. O-site observation noticed that chemicals used at shaping section properly labeled.

**Plan Complete:** No

**Plan Complete Date:**

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## 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:** Some workers worked excessive hours, more than 60 hours a week, up to 74 hours/weekly. For example, [Worker number] worked 70.5 hours from October 18-24, 2010. [Worker number] worked 74 hours from June 7-13, 2010.

Sources: document review; worker and management interviews

Law References: Articles 36 and 41 of PRC Labor Law

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. Factory OT policy reviewed, which should not exceed local law limits.
2. Internal system established to monitor working hours and help control peaks and valleys in working hours.
3. For continuous monitoring of progress of improvement, factory is to send monthly OT tracking charts to China field team for review.

**Deadline Date:** 12/31/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that employees worked more than 60 hours per week in February and March 2011. Factory representative confirmed that from April onwards, work hours will be limited to maximum of 10 hours per day, 6 days a week (or 5 days a week as alternative for long weekend) in order to minimize weekly work hours to 60. Factory is required to submit monthly report starting the end of April to cross check status, including if number of employees' weekly work hours is over 60, root causes and future planning.

Follow-up audit: November 7-8, 2011: Through provided time record review, along with worker and management interviews, noted that around 5% of workers did not have 1 day off per 7 during peak season (January, March and October 2011). For example, 1 worker worked consecutively from January 2-29, 2011. To be followed up at a later stage.

**Plan Complete:** No

**Plan  
Complete  
Date:**

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### **Hours of Work: Rest Day**

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

#### **Noncompliance**

**Explanation:** Based on records provided, some workers at trimming and packing sections worked up to 27 days and 38 days consecutively, respectively in October (4 - 31, 2010) and June/July (June 17 - July 24, 2010). [Worker number] of packing section worked 38 consecutive days from June 17 - July 24, 2010.

Sources: document review; worker and management interviews

Law Reference: Article 38 of Labor Law of PRC

**Plan Of  
Action:**

Hanesbrands and AEO will ensure the following actions occur:

1. Work hours policy reviewed so does not exceed local law limits and customers' codes of conduct.
2. Production management system improved and overtime work controlled to make sure to provide workers at least 1 day rest within 7-day period.
3. Any method adopted which can help to enhance production efficiencies, to reduce work hours as much as possible.
4. Person assigned to consciously monitor work hours and communicate with factory management to ensure this corrective action. (Establish system to conduct regular internal audit to: a) determine effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP.)

**Deadline  
Date:** 12/31/2011



**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that employees worked, at a maximum, 7 days consecutively in February and March 2011. Factory representative confirmed that from April onwards, number of work days will be limited to maximum of 6 days a week (or 5 days a week as alternative for long weekend) in order to minimize weekly work days to 6. Factory required to submit monthly report starting end of April to cross check status, including number of employees working more than 6 days a week, root causes and future planning.

Follow-up audit: November 7-8, 2011: Based on worker and management interviews, noted that some OT hours on week nights and on rest days not properly recorded. Evidence stated as below:

1. Workers stated that sometimes they went to work OT without swiping time cards and those OT not arranged by factory;
2. Workers not able to swipe time cards after 21:15, as system would not record any work hours after 21:15; so they usually swiped time cards at 21:00 and then went on working. To be followed up at a later stage.

**Plan Complete:** No

**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:** Inconsistencies noted between time and payment records provided and other records and information obtained during audit. Some night OT hours and Sunday OT hours not properly recorded on time records provided. For example, while production records revealed workers worked December 5, 12, 19; and November 7, 14, 21, 2010, attendance records of respective workers suggested there was no OT work on these dates. Noted that time records did not accurately reflect workers' actual work hours at facility.

Sources: document review, worker and management interviews

Law References: Articles 36, 38 and 41 of PRC Labor Law.

**Plan Of  
Action:**

Hanesbrands and AEO will ensure the following actions occur:

1. OT policy reviewed and updated for normal OT hours, which should not exceed legal limits.
2. Ensured all OT, including on rest days, is 100% voluntary and OT payment is in accordance with legal requirements.
3. Employees educated to record all working hours.
4. Made sure that all OT records properly kept and disclosed for review.
5. OT conditions and regularly reviewed and production planning set with maximum of 6 days per week.
6. Personnel assigned to review OT work hours and report any excessive OT noncompliance.
7. Grievance channels set to report any noncompliance about OT.

**Deadline  
Date:** 12/31/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that records provided by factory showed that around 30% of workforce conducted rest day work in November and December 2010. However, also noted employees were not required to swipe time cards during established lunch hours and after 21:00/21:30 on week nights. Factory representative confirmed they have communicated to production team the prohibition of this practice. Case will be taken to top management for message to be clearly communicated to production team that employees required to swipe time cards whenever they work. Given information collected on site, root cause identified and commitment from factory representative, it is believed that factory is taking steps towards transparency. FLA brands will conduct regular assessments to specifically observe and check internal systems and trainings built to prevent non-transparency.

Follow-up audit: November 7-8, 2011: As per worker and management interview, workers required to ask for leave if they did not want to work OT at night on weekdays. To be followed up at a later stage.

**Plan Complete:** No

**Plan Complete Date:**

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**Hours of Work: Overtime/Reduced Mandated Overtime**

HOW.8 The employer shall demonstrate a commitment to reduce overtime and to enact a voluntary overtime system, including for overtime mandated to meet extraordinary business circumstances. (P)

**Noncompliance**

**Explanation:** Workers required to apply leave and get approval for not attending night overtime.

Sources: document review, worker interviews

Law Reference: Article 41 of PRC Labor Law

**Plan Of Action:** Hanesbrands and AEO will ensure the following actions occur:

1. Current overtime policy reviewed to make sure all overtime is on a voluntary basis.
2. All relevant documents and procedures on OT requirements amended to ensure OT work is freely chosen by workers.
3. All overtime records ensured to be properly kept and disclosed for review.
4. Person assigned to regularly monitor implementation of OT policy and procedures. (Establish system to conduct regular internal audit to: a) determine the effectiveness of policy and procedure implementation, b) identify if improvements or updates required for existing policies and procedures, and c) act upon CAP).

**Deadline Date:** 12/31/2011

**Action Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that an agreement has been signed between Workers' Committee and factory that overtime is voluntary. However, noted that factory set work hours at 10 per day; if employee not able to attend OT (starting from 9th hour of day), there is a form to fill in to alert line clerk for internal reporting purposes. Factory management is advised to abolish use of form and confirmed that alternative internal procedures will replace current practice as soon as possible.

Follow-up audit: November 7-8, 2011: Through review of provided time records, along with worker and management interviews, noted that weekly work hours of 5% workers exceeded 60 hours during peak season (January, March and October 2011). For example, 1 worker worked 71 hours, January 10-16, 2011. To be followed up at a later stage.

**Plan Complete:** No

**Plan  
Complete  
Date:**

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### **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 establish proper written policy on paid sick leave at facility. Management provided receipt of RMB 2150 as paid sick leave wage document for January 2010 during closing meeting. However, evidence was not sufficient, as it was only for 1 month and did not provide any details such as any breakdowns, calculation method, and other related documents.

Sources: document review, worker interviews

Law Reference: Article 59 of Opinions on Matters of Carrying Out Labor Law of the PRC of LMI [1995] No. 309

**Plan Of  
Action:**

Hanesbrands and AEO will ensure supplier with the following actions:

1. Immediate action should be made to establish proper written policy regarding paid sick leave. In addition, factory should write up corresponding procedures in greater detail, such as procedure regarding approving worker's application who has proper medical certificate from registered/designated hospital to demonstrate the reasons.
2. Updated sick leave policy and procedure should be communicated to all employees via training. Training must be organized to educate workers on all procedures and on completion of all required documentation.
3. Recalculate paid leave wage and make sure all paid leave wages comply with local law.
4. Make sure all paid leave wage receipts, payment details and other related documents are kept well for review.
5. Assign person to regularly monitor policy implementation to make sure paid leave paid accordingly.

**Deadline  
Date:** 12/31/2011

**Action  
Taken:** Hanesbrands and AEO internal auditors conducted joint follow-up visit April 12, 2011 and found that:

1. Factory had amended employee handbook and written policy on sick leave, but no detailed explanation on implementation, such as how to pay sick leave days.
2. No sick leave application records provided for auditor review.
3. Factory management committed to keeping all paid leave applications, wage receipts, payment details and other related documents well for review. Management could not take necessary action on sick leaves and proper recording of them; therefore, action is pending, though agreed, and will be checked in October visit. Meanwhile, in addition to revised policy on sick leave, factory should write up corresponding procedures in greater detail, and in particular, whether worker required to obtain proper medical certificate from registered/designated doctor stating reasons why he or she is recommended to have a day off. Training must be organized to educate workers on all procedures, and on completion of all required documentation.

Follow-up audit: November 7-8, 2011: Although factory established policy on paid sick leave, most interviewed workers knew nothing about it. To be followed up at a later stage.

**Plan  
Complete:** No

**Plan  
Complete  
Date:**

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