

AAI Vendor Quality Expectations

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American Accessories International LLC

Quality Policies

Quality is an important part of American Accessories International LLC's principles. These principles guide our actions to deliver products and services that are consistent, safe, and compliant. They are essential for the achievement of our goal to be recognized and trusted by clients as a provider of products and services that create the greatest satisfaction for our clients and their end consumers.

At American Accessories International LLC, our commitment is to never compromise on the safety, compliance and quality of our products and services. This requires individual to be engaged, to understand your responsibility, and to be empowered to take action in order to protect our customers as well as the end consumer.

This Quality policy is a guide for you to understand the quality expectations of American Accessories International LLC. All vendors of American Accessories International, LLC must acknowledge and recognize these policies.

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1. Vendor Qualification

A. Quality management system audit

A.1 The Quality Management System audit is Product Oriented and focuses on the quality system, production capacity and factory capability to produce items.

A.2 The following are general guidelines for AAI's Quality management system audit:

- Factories must monitor quality systems for incoming goods section, in-process production and finished goods section;
- Production capacity must be assured in order to match the delivery of American Accessories International LLC's order and not be subcontracted without notice to AAI;
- Factory will be evaluated in accordance to ISO9001 standard;
- Our Auditors will explain all general inspection procedures (i.e. AQL, transportation drop test, tape test, if any) and clients' requirements during the factory audit.
- For the details of the audit, please refer to the appendix 1.

A.3 All comments and recommendations will be provided to factory representatives after the Quality Management System Audit is completed.

A.4 Audited factories must produce product by:

- Entirely internal processes (no outsourcing)
- By providing the major manufacturing process with disclosed outsourcing

A.5 For factory evaluation of an electrical or electronic product, if the product supplied to AAI is an AC product or is operated by an AC adapter, a Hi-pot test will be conducted.

B. Social Compliance Audit

B.1 Objective

The purpose of Social Compliance Policy is to:

- Monitor: Continually and randomly monitor suppliers to ensure local labor regulations and AAI's Social Compliance Standards are being upheld in daily practice
- Educate: Help factories understand local labor regulations as well as international best practice
- Assure: Assure clients that all products produced through AAI are produced in socially responsible facilities

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AAI works with factories to understand the factory and its processes, and recognizes that each factory may satisfy social responsibility standards in differing manners. As such, AAI strives to understand the logic, intent, and execution of each factory's policies before evaluation.

AAI also utilizes its inspectors to exercise evaluation, not just reporting. AAI inspectors are the best in the field and their expertise and evaluation is critical to the social compliance audit.

B.2 The Requirements & Standards

AAI auditors will follow the labour laws, environmental and domestic regulations of the relevant country for audit standards. Additionally, AAI has defined internal social compliance standards to be maintained in the QA department

B.3 Factory profiles shall be completed for all new factories at time of first quote as a social compliance screening.

B.4 Standard Approval Supplier System

Standard Approval suppliers represent the most compliant partners in AAI's manufacturing network, and they accordingly receive a high percentage of AAI's orders

The audit process for Approved Suppliers will include:

- a. Initial Audit – The first audit is to check the conformities of the factory. If the factory does not have “critical” violation on laws, but non-conformities are found during the process, then, during the closing meeting, the auditor will summarize the findings and create a corrective action plan with the factory.
- b. 1st Follow-up Audit – The 1st Follow-up is to check whether the corrective action plan has been followed at the factory and the progress of the improvements is satisfactory.
- c. 2nd Follow-up Audit – The Second Follow-up is to finalize the changes that have been made by the factory and assure the system is operating in accordance to local laws. This audit is only conducted if necessary.
- d. Approval shall be for 2 years from date of first audit.

AAI also has a large network of suppliers who are project based. These suppliers are still a valuable part of AAI's manufacturing network and must comply with all social responsibility standards.

Recognizing the smaller proportion of business run with these factories, the audit process for Suppliers will include:

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- a. Initial Audit – The first audit is to check the conformities of the factory. If the factory does not have “critical” violation on laws, but non-conformities are found during the process, then, during the closing meeting, the auditor will summarize the findings and create a corrective action plan with the factory.
- b. CAP Follow-Ups – The follow-up to the CAP for AAI suppliers will occur when AAI returns to the factory for in-line inspections, pre-shipment inspections, or pre-production inspections. The goal of these follow-ups is to monitor completion of the corrective action plan.
- c. Provisional Approval will be provisional for 6 months.

B.5 The social compliance audit checklist is attached in Appendix 2.

B.6 Late submission of information

B.6.1 Late submission is allowed if documentation is not available during the audit; however, the submission must be submitted within 5 working days.

B.6.2 The procedure of late submissions is below:

- a. An explanation of late submission needs to be submitted in writing to the AAI QA personnel (Company’s email allowed and both Chinese and English are acceptable).
- b. Original documentation must be sent to AAI office for desk audit.
- c. If original copy of evidence cannot be sent, the scanned copy will be accepted for review. A follow up on site review will be needed to verify the original, and the factory will need to bear the travelling cost and accommodations of the auditor for this visit.

B.7 If a factory fails to comply with mandatory standards, or is in violation of any L1 standard, they will be placed on a supplier blacklist for 1 year.

B.8 Expiration of audits shall be recorded by the QA Department in the AAI Tennessee’s office.

C. Validity of Vendor Qualification status.

C.1 Suppliers that complete all audits and corrective actions to American Accessories International’s satisfaction will receive Approval status for 2 years.

C.2 Project based Suppliers that satisfactorily pass the initial audit and have no critical or major non-conformities will receive Provisional Approval for 6 months.

C.3. For all suppliers, whether they are Approved or Provisionally Approved, if critical nonconformities happen for Quality or Social Compliance after the approval process, their approval status may be automatically revoked.

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D. Privacy and Confidential Information

We understand and respect some of the information review during our audits will be confidential in nature. Therefore, we want you to understand how we will and will not use any information obtained during the audits of your facility. Any personal information, defined as identification data relating to an individual employee's identity, will be deemed highly confidential and not recorded in reports. However, all other information of a business nature may be included in reports and shared within AAI or with our clients on a need to know basis. AAI will exercise reasonable care when sharing this information commensurate with the nature of the information. Additional details will be outlined in the agreed-to Confidentiality Agreements between the Supplier and American Accessories International, LLC.

2. Overall Quality Expectations

A.1 Supplier Quality Standard

- a. Suppliers are required to understand the quality expectations in terms of functions and product safety from American Accessories International LLC.
- b. Suppliers are required to assure the product consistency between batches and orders.

B. 1. Specification & Sample Approval

- a. Specifications are outline on the PO and Suppliers are required to follow the specifications.
- b. Samples are required to be approved before mass production.
- c. Updates/changes on product specifications require notification to American Accessories International LLC. Formal approval is required before changes can be implemented.
- d. Approved samples need to be carefully stored in an appropriate condition that avoids heat, sunlight, or other conditions that may affect the sample.

3. Inspection Policies

A. Raw Materials (Optional)

- A.1 Raw materials inspection may be conducted if there are any specific requirements needed for the materials.

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A.2 A Sample pulling process may be conducted and testing on specific material may be required as deemed necessary by American Accessories International, LLC.

A.3 If Raw Material Inspection or Testing is required, production may not proceed without approval of raw material inspection.

A.4 If necessary a Raw Material inspection will be conducted in accordance to ANSI/ASQC Z1.4, S3 sampling plan.

B. In-Process Inspection (Optional)

B.1. The in-process inspection will be performed after at least 5% of the product is finished (packing is not necessary, but packing material including cartons box should be available in the factory).

B.2. The sampling size for complete product will be based on ANSI/ASQC Z1.4 - S4 special inspection level 4.

B.3. The in-process inspection is not limited to the production process for the finishing factory. If any major processes occur off-site, then the in-process audit may also be required for the off-site location.

B.4. In-process inspections are also product-oriented inspections. Both finished goods and production lines must be inspected for the following:

1. Availability of sufficient raw material.
2. Production status, to forecast factory's delivery schedule
3. Factory's daily QC record to identify what problems / defects may occur
4. In-line production process

B.5. Sufficient samples (S4) shall be pulled at different production stages to check for quality.

B.6. Any improvements made based on comments / suggestions given during factory evaluation shall be recorded.

B.7. If special material tests are required by AAI, Samples will be pulled during this stage.

B.8. Defective samples will be pulled if there are any special findings.

C. Pre-Shipment Inspection (Standard unless waived by AAI, 100% complete, 80% packed)

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- C.1. Pre-Shipment Inspection will be based on ANSI/ASQC Z1.4, General Inspection Level II, Critical defect: 0, Major defect: 1.0 Minor defect: 2.5.
- C.2. Any defects that could cause personal injury or will be in violation of local laws will be defined as critical defects.
- C.3. Any defects that cause perceptible negative effect on the performance of the product or major negative appearance that would cause the product to be returned or be un-saleable will be classified as Major defects.
- C.4. Any defects that are visually noticeable and may be of concern to a consumer will be classified as minor defects.
- C.5. Before setup a final random inspection, Supplier shall make sure
- an approval / reference sample is available;
 - note if material tests have been completed or not
- C.6. If the shipment quantity is less than 151 pieces, a full inspection is required.
- C.7. For garments, the quantity breakdown for each size should be put on the report.
- C.8. Hi-pot test is required to be done for full sample size if an AC product or a product that is operated by an AC adapter.
- C.9. Transportation drop test will be required for all Sundry items, please refer to "Table B" for the standard and test procedures.

D. Expenses of Inspection, Audit and Re-inspection Policies to suppliers

The purpose of this section is to prevent abuse of the AAI inspection system.

AAI will conduct Inline (as deemed necessary) and Final Inspections, Factory Evaluations and Social Compliance Audits with no cost to suppliers. In return, some rules must be followed by the suppliers or the factories:

D.1 Make appointments at least 4 working days in advance.

D.2 Follow up the appointment by phone call or email to ensure that the schedule is available.

D.3 Resend the application for all amendments made to any documents with AAI.

D.4 Any late cancellation in inspection bookings with notice of less than 2 working days before inspection taking place will incur a handling fee of USD\$500.

D.5 If inspection is failed or aborted, a re-inspection will be required and it will incur a charge of US\$500 per day + out of pocket expenses.

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D.6 If the factory has special requests to have the AAI inspector or auditor work after office hours, a US\$50 per hour + out of pocket expenses will be charged.

E. Subcontracting

E.1 If supplier current capacity is not able to fulfill of the demand of orders and requires subcontracting of orders to another factory, American Accessories needs to be notified. American Accessories will require the subcontractor proceed through the factory qualification process before it is approved to proceed.

E.2 No unauthorized subcontracting is allowed.

E.3 All costs associated with vendor qualification, inspections, or other activities required for AAI to maintain quality at the subcontractor will be charged to the supplier unless otherwise agreed to.

4. Product Testing (if required)

A. Sample Pulling Procedures

A.1 Inspector will pull at least 3 samples for new orders unless there are any special instructions from AAI.

A.2 For re-orders, inspectors are only required to pull one sample per shipment if the inspection is passed. After the third shipment of the same order in one year, sample requirements are subject to AAI discretion.

A.3 If the supplier further subcontract the order to another factory, and the subcontract was notified and approved by AAI, the same sample requirements will apply.

A.4 For a failed shipment, the inspector shall pull sufficient samples to represent the failure.

A.5 If more samples are required, the AAI – Shenzhen office shall inform factory in advance.

B. Consequence if items fail testing

B.1 If products fail on material testing. AAI will not be obligated to purchase goods, factory must remedy to AAI's satisfaction and pay for retests

B.2 Retests must be done by accredited labs that are approved by AAI.

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5. Lot Codes

A. For every shipment, there will be a lot code that needs to be printed on the master carton. The Lot code will be listed on the PO that is sent to the supplier.

B. American Accessories International LLC must confirm every Shipment Release.

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Appendix 1 (page ½)

Factory Evaluation Audit
Factory Preparation Summary

Section 1: General Factory Information

1.1 *Factory Overview*

- a) Main product type(s)
- b) Main clients and markets served by factory
- c) Production Capacity
- d) Third party Quality/Management system certifications

1.2 *Employees*

- How many of employees are in: Production, In-Line Quality Control, Final Inspection,
- a) Admin, and R&D

1.3 *List of Production Equipment*

1.4 *Production Process Flow*

1.5 *List of In-House Laboratory Capabilities*

1.6 *List of Sub-Contracted Production Processes*

Section 2: Facility Assessment

2.1 *Factory Facilities and Environment*

- a) Are storage, production, finishing, and packing areas clean, organized and well lit?
Are there any leaking roofs, broken windows, or other issues that may result in product
- b) contamination?
- c) Are facility maintenance logs kept?
- d) Are appropriate temperature controls in place in production and storage areas?

2.2 *Equipment Maintenance and Calibration*

- a) Are all machines and equipment clean and in good operating condition?
- b) How does the factory handle equipment maintenance, repairs, and calibration?
- c) All equipment is up-to-date on calibrations?
Critical tooling (such as injection molds) are stored in an appropriate, clean, and
- d) organized space?

Section 3: Quality Management System

3.1 *Records Practices*

- Are quality documents maintained, updated, controlled, and appropriate for the product
- a) type?
 - b) Are quality records available for each production stage?

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Factory Evaluation Audit Factory Preparation Summary

3.2 *Quality Management*

- a) How does the quality department fit into the factory organization?
- b) How does factory handle customer complaints and approval for manufacturing changes?
Does the factory have product specifications and samples available for reference on the production line?
- c) production line?
- d) Are appropriate mix-up controls in place during production and storage?

Section 4: Incoming Material Handling

4.1 *Material Purchasing*

- a) How are suppliers approved, evaluated, and rejected?

4.2 *Incoming Material Controls*

- a) How are incoming material inspections conducted?
- b) How are incoming materials labeled and stored?
- c) How are incoming materials tracked, controlled, and used?

4.3 *Sub-Contractor Management (if any production processes are sub-contracted)*

- a) How are sub-contractors evaluated and monitored?

Section 5: Production Controls

5.1 *Testing*

- a) How are production testing procedures developed and used?
- b) How are failed products handled?
- c) Are first production units compared with client-approved samples and specifications?

5.2 *Training*

- a) How is training handled for production workers and QA staff?

5.3 *Inline Controls*

- a) How are inline inspections conducted?
- b) How are products handled as they go through inline inspections?

5.4 *Finished Product Controls*

- a) How are finished product inspections conducted?
- b) How are inspected products labeled and stored?

Section 6: Product Specific Controls

6.1 *Children's Products (if factory produces children's products)*

- a) How are sharp tools controlled?
- b) What kind of product testing is applied for children's products?
- c) How are broken needles and metal detection managed?

5.2 *AC Electrical Products(if factory produces AC Electronics)*

- a) How are HI-POT tests handled?

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APPENDIX 2

Supplier Social Compliance Standards

The following outline describes the standards and criteria that American Accessories International, LLC (AAI) suppliers and vendors should comply. The standards are divided into three categories:

- 1. Level 1 Standards (L1):** All suppliers and vendors must comply with these standards at the FIRST social compliance audit. These standards are mandatory and are the highest level of priority. AAI does not utilize suppliers who do not comply with these standards.
 - 2. Level 2 Standards (L2):** All factories in AAI's network of suppliers should comply with these standards; however, AAI's policy allows suppliers to correct non-compliances in this level. After the first social compliance audit, corrective action plans will be created to address any issues and follow-up audits scheduled for core factories.
 - 3. Level 3 Standards (L3):** These standards are practices that are encouraged, but not strictly required, by AAI. Many of these standards represent best practice within the industry; however, AAI recognizes that every factory is unique and may need to adopt different practices to achieve the same level of corporate responsibility.
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1. Labor Rights (Mandatory Compliance)

1.1. Child Labor (L1)

- 1.1.1. All workers should be 16 years of age or greater
- 1.1.2. Factory should be able to identify age of all workers (photocopies of government issued ID)
- 1.1.3. All age documentation should be verified to identify any falsification of records
- 1.1.4. Factory should employ adequate policies to verify age prior to employment

1.2. Forced Labor (L1)

- 1.2.1. No prison labor should be used by the factory
- 1.2.2. All workers should be fairly compensated for their labor

1.3. Involuntary Labor (L1)

- 1.3.1. All workers should be voluntarily employed

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- 1.3.2. The factory should not retain original employee documents
- 1.3.3. Workers should not be coerced to work through physical or mental means
- 1.3.4. Workers should be free to leave factory as they desire
- 1.3.5. Workers should be granted leave with appropriate documentation from medical or governmental authorities
- 1.3.6. Involuntary labor includes withholding of wages
 - 1.3.6.1. Factories should pay workers within a reasonable time period and comply with all local labor laws
 - 1.3.6.2. Employee wages should not be garnished as punishment
 - 1.3.6.3. Wages should be paid to employees through convenient means
- 1.3.7. Workers shall have the right to choose if they stay in factory dorms

2. Compensation & Wages

2.1. Timecards & Attendance Records (L2)

- 2.1.1. Timecards and attendance records should comply with local labor regulations
- 2.1.2. Multiple sets of records is not permissible
- 2.1.3. Attendance records should not conflict with production, inventory, or payroll records

2.2. Payroll Records (L2)

- 2.2.1. Payroll records should comply with local labor regulations, including the use of designated forms
- 2.2.2. Payroll records should not conflict with production, inventory, or attendance records
- 2.2.3. Payroll records should be kept for at least 12 months

2.3. Personnel Records (L2)

- 2.3.1. A personnel record should be kept for every full time employee including all details required by local labor law
- 2.3.2. Personnel records should include photo ID
- 2.3.3. Personnel records should include a photocopy of government issued ID
- 2.3.4. Personnel records should be kept up-to-date

2.4. Labor Contracts (L2)

- 2.4.1. Labor contracts should abide by all local labor laws
- 2.4.2. Every employee should sign a labor contract
- 2.4.3. Labor contracts should specify working hours, salary, and job descriptions

2.5. Social Insurance Benefits (L2)

- 2.5.1. All workers should participate in government mandated social insurance OR factory should have government issued waiver for social insurance participation
- 2.5.2. Social insurance pay deductions should comply with local labor law
- 2.5.3. Temporary workers shall not be employed on a permanent basis
 - 2.5.3.1. Temporary workers are workers employed during seasonal peaks or for a particular task

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2.5.3.2. Temporary workers shall not be involved in hazardous or dangerous positions

2.5.3.3. Temporary workers shall not constitute a majority of workers at the factory

2.5.3.4. All **L1** requirements shall apply to any temporary workers

2.6. Minimum Wages (L2)

2.6.1. Normal working hour wages should comply with local minimum wage requirements

2.6.2. Overtime working hour wages should comply with local minimum rates

2.6.3. Wage calculations on payroll records should follow required formats by local authorities

2.6.4. Wage slips should be given to workers per pay period

2.6.5. Wages should match production and inventory records

2.6.6. Equal pay should be given to male and female employees for equal work

2.7. Working Hours (L2)

2.7.1. Workers should not work more than 40 hours per week at normal working hour wages

2.7.2. Workers should not work more than 36 hours overtime per month per P.R.C Labor Law requirements

2.7.3. Workers should be given adequate rest days every month per local and national labor law requirements

2.7.4. Workers should be compensated appropriately per local and national labor law requirements on national holidays and rest days

2.7.5. Workers should be allowed adequate meal and personal breaks

2.7.6. Worker overtime should be voluntary

2.8. Temporary Workers (L2)

2.8.1. Factories may employ temporary workers in times of peak production or excess need

2.8.2. Temporary workers shall not be employed in dangerous or hazardous tasks

2.8.3. Temporary workers not make up more than 1/3 of a facility's total workforce

2.8.4. Temporary workers shall not be employed as temporary workers for longer than 3 consecutive months

2.8.5. All L1 and other standards shall apply to temporary workers

3. **Facility Management**

3.1. Business Registration (L2)

3.1.1. The factory business registration should be valid and accurate

3.2. Factory Policy & Staff Handbook

3.2.1. The factory policies and staff handbook should meet local and national labor law (**L2**)

3.2.2. A copy of the staff handbook should be distributed to all employees (**L2**)

3.2.3. The staff handbook should describe labor rights to the employees, especially those not included in the labor contract (**L3**)

3.3. Government Waivers & Permits (L2)

3.3.1. If applicable, factory should have appropriate social insurance waiver

3.3.2. If applicable, factory should have overtime permit from local labor office

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4. Licenses & Certifications

4.1. Building Inspections & Certificates (L2)

- 4.1.1. Factory buildings should be inspected for structural integrity upon completion of construction and as required by local laws
- 4.1.2. Factory buildings should be inspected and certified for fire safety annually
- 4.1.3. Buildings should be in good condition and structure

4.2. Environmental Policies & Certificates

- 4.2.1. The factory should have Environmental Certificate as require by Law (L2)
- 4.2.2. The Environmental Certificate should match the industrial activity of the factory (L2)
- 4.2.3. The factory should conduct an annual environmental impact evaluation (L3)
- 4.2.4. The factory should monitor the noise and air pollution produced (L3)

4.3. Equipment and Operational Certificates

- 4.3.1. Compressors, Boilers, and Gas tanks should have required certificates (L2)
- 4.3.2. In-house electricians should be properly certified (L2)
- 4.3.3. Welding operators should be properly certified (L2)
- 4.3.4. All forklifts should be properly registered (L2)
- 4.3.5. Forklift operators should have appropriate licenses (L3)

5. Operations Safety

5.1. Fire Prevention

- 5.1.1. Fire drills should be conducted for all employees on an annual basis (L2)
- 5.1.2. Emergency evacuation maps should be displayed in all buildings (L3)
- 5.1.3. Proper records of worker injuries should be kept according to local labor law (L2)
- 5.1.4. Work-related injuries should be handled according to local labor law, including any mandatory compensation (L2)
- 5.1.5. Fire extinguishers should be available in sufficient quantity in all buildings according to local labor law (L2)
- 5.1.6. Fire extinguishers should be correctly rated for the industrial activities of the factory (L2)
- 5.1.7. Emergency light should be sufficient in case of an emergency (L2)
- 5.1.8. Lights should be properly guarded against breakage (L3)

5.2. Chemical Handling

- 5.2.1. Secondary containers (double walls) should be available and used (L3)
- 5.2.2. MSDS documentation should be available in any are where chemicals are stored or used (L2)
- 5.2.3. Chemical waste should be stored in designated areas away from production spaces and dormitories (L2)
- 5.2.4. An appropriate chemical waste collector should be utilized. This should follow the intent of the local labor laws (L2)

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- 5.2.5. MSDS and/or chemical information should be displayed on all chemical containers, including small containers used during production (L3)

6. Employee Safety

6.1. Worker Safety & PPE

- 6.1.1. Appropriate Personal Protective Equipment should be available to all employees, including (as necessary): (L2)
- 6.1.1.1. Protective eyewear
 - 6.1.1.2. Gloves and arm guards
 - 6.1.1.3. Earplugs/hearing protection
 - 6.1.1.4. Protective shoes
 - 6.1.1.5. Face masks (either active or passive)
- 6.1.2. Heavy equipment and rotating parts should be shielded from employees (L2)
- 6.1.3. Employees should be protected from excessive heat during machine operation (L2)
- 6.1.4. Standard operating procedures should be developed and utilized for operation of heavy equipment (L2)
- 6.1.5. Eyewash stations and shower stations should be installed where appropriate to industrial activity (L2)
- 6.1.6. Yearly health checks should be given to employees in work designated by the labor law to be hazardous (L2)
- 6.1.7. First Aid kits should be available on production floors. Their contents should not exceed those permissible by labor law (L3)

6.2. Juvenile Worker Responsibility (L2)

- 6.2.1. All juvenile works should be registered with the local labor department
- 6.2.2. All juvenile workers should be given a health examination as part of employment. The health check should be given within a reasonable time of the start of employment.
- 6.2.3. Juvenile workers should not work the night shift
- 6.2.4. Juvenile workers should not work hazardous operations as defined by the local labor laws

6.3. Cafeteria and Dormitories

- 6.3.1. The cafeteria should have the appropriate hygiene certificates issued by the local government. The certificates should be up to date and valid. (L2)
- 6.3.2. Health certificates should be available for all workers employed in the cafeteria (L2)
- 6.3.3. The dormitories should have sufficient fire extinguishers (L2)
- 6.3.4. The dormitories should have sufficient emergency lights in case of an emergency (L2)
- 6.3.5. The general conditions of the dormitory should be livable and acceptable (L3)
- 6.3.6. The dormitories should not be located in a building utilized for production (L2)

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SUPPLIER ACKNOWLEDGEMENT

Supplier acknowledges that these Quality Expectations have been received, read, and understood. Supplier agrees to comply with these expectations during any business development activities or transactions conducted with American Accessories International, LLC.

Supplier Signature

Date

Supplier Company Name