

2016 Garment Campaign



Unveiling the Labour Rights Violations

**The Second Investigative Report on UNIQLO's Suppliers
in China**

February 2016

In Coordination with



Unveiling The Labour Rights Violations - The Second Investigative Report on UNIQLO's Suppliers in China

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Unveiling The Labour Rights Violations – SACOM’s Second Investigative Report on UNIQLO’s Suppliers in China

Executive Summary

The UNIQLO campaign aims at unveiling the poor labour conditions in China under the global fast fashion supply chain. It aspires to raise public awareness on labour issues behind UNIQLO’s trendy clothes and urges the company to correct its labour rights violations, which SACOM has uncovered in the latest investigation of UNIQLO’s supplier factories.

Owned by the Japanese company Fast Retailing Co., Ltd. (hereinafter FR), UNIQLO is an emerging star on the global fast fashion stage. Tadashi Yanai and his family, the key figures of FR, were also ranked the richest people in Japan and 41st richest people in the world in 2015. In recent years, the number of UNIQLO’s retail stores has increased drastically in Asia, especially mainland China, where the brand has generated a significantly large profit. However, apart from its good quality standards and affordable price, it has come to our concern whether FR has taken its corporate social responsibility to improve the workers’ well-being in all of its production partners.

In January 2015, Students & Scholars Against Corporate Misbehaviour (SACOM), Labour Action China (LAC), and a Tokyo-based international organization, Human Rights Now (HRN), jointly launched the first investigation into labour conditions at two of UNIQLO’s key suppliers in China: Pacific Textile Ltd (Pan Yu) (hereinafter Pacific) and Dongguan Tomwell Garment Co. Ltd, which is the subsidiary company of Dongguan Luen Thai Garment Co., Ltd (hereinafter Tomwell). After the launch of SACOM’s first investigative report, FR acknowledged the validity of some of the findings, and in response released on July 31st a CSR action report listing the corrections it has done. Following this, SACOM completed a follow-up investigation to examine whether the corrective measures FR claimed had in fact been done, and to check the current working condition in both factories. In addition, in early 2015, continuing to address its concern on the labour conditions in other UNIQLO suppliers, SACOM completed an investigation on another two key suppliers of UNIQLO: Jintan Chenfeng Clothing Co., Ltd and Dongguan Crystal Knitting & Garment Co., Ltd.

According to the follow-up investigation, after our first investigative report, FR has monitored Pacific and Tomell to conduct corrective measures including reducing the overtime working hours in two factories, paying statutory overtime premium in one factory, improving ventilation, reducing temperature of the workplace as well as increasing drain channeling to avoid the sewage flowing all over the floor and preventing the potential injuries.

We acknowledge the above corrective measures FR has conducted. However, based on the investigation, we have still found the following labour rights violations in

these four factories:

1. Unsafe workplace and insufficiently trained workers

According to an examination on industrial waste conducted by the government, a UNIQLO supplier factory discharged hazardous industrial waste water into the sewage which contains a few toxic chemicals. However, the workers were not clearly informed on what kinds of chemicals they were exposed to in the workplace and what are their effects of health. It was also found that pre-service training was insufficient, and results from medical checkups were not supplied to the workers, as a result, workers' health remains endangered.

2. Extremely long working hours

The basic wages of the workers are exceedingly low, and as a result, workers have no choice but to do extremely long overtime work to struggle for a decent wage. In peak season, the workers were required to work for a month without holidays. Furthermore, overtime working hours exceed 150 hours a month, in manifest violation of Chinese Labour Law.

3. Miscalculation of wage and lacking in statutory overtime premiums

Workers are only paid by a fixed piece rate, which means they do not have statutory overtime premiums.

4. Failure to pay the statutory Social Insurance Premiums

Employers have failed to pay the statutory Social Security Premiums, which includes pension, as well as medical, unemployment, and maternity insurance, which can ensure that workers are all able to enjoy at least a minimally decent standard of living.

5. Inauthentic Representation of Workers

Workers do not have the right to elect their own representative to express their opinions and ideas to the management through regular meetings between union committee and factory management.

6. Bullying and Punitive Management Methods

Factories have created a stressful and unfriendly working environment by illegally deducting workers' wages as punishment for minor mistakes, and by scolding workers whose productivity are lower than the previous records via a broadcasting system.

7. Cheating in social audits

Factories provided false information in social audits through fake documents, and by using protective equipment only when an auditor is present. A factory even gathered workers before an audit and announced that they would reward workers with RMB500 if they gave a model answer set by the management.

Based on the above findings, we are disappointed that the labour standards in the supplier factories of Fast Retailing fail to meet international labour standards and violate local labour laws. We are here to strongly appeal the suppliers and Fast Retailing to take the following corrective measures:

We demand that suppliers:

1. Stop illegal overtime hours and make all effort to raise the basic wages and piece rate in the two factories to secure a decent income.
2. Ensure that workers' health is not compromised by exposure to hazardous chemicals and materials, and disclose all relevant information of chemicals and materials used in two factories to the public and workers.
3. Provide comprehensive pre-service training regarding work safety, and sufficient protective equipment to protect workers' health.
4. Participate in the social security system by paying the statutory social insurance premiums for workers.
5. Ensure the union representatives are genuinely elected by workers in a fair election.

We demand Fast Retailing:

1. Disclose the full list of suppliers and chemicals which are used in the production process.
2. Facilitate the suppliers to carry out the improvement measures regarding working conditions and welfare of workers by providing adequate resources.
3. Ensure that its supplier factories provide workers with education on labour rights, comprehensive training, protection, and medical check-ups on occupational health and safety.
4. Supervise its supplier factories to pay workers the overtime pay, and social security premiums.
5. Enable workers to select their representative in a democratic election.

Section 1: Research Background

1. Overview of Garment Industry in China

Historical Background

Due to its economic reform and Open Door Policy in the late 1970s, China attracted foreign investment. The favorable business climate and low labour costs made textile and garment production a significant industry and key anchor of the nation's economy. However, it is worth noting that the transnational enterprises, which are responsible for designing and marketing for their brands, get most of the profits. Chinese manufacturers, who run the labour-intensive factories, are usually located in the low value-added segment of the global production chain.

Largest Garment and Textile Exporter in the World

In 1995, China became the largest garment and textile exporter in the world, and its share in global garment export market has remained number one since then (Larry D. Qiu, 2005). According to the latest statistics from the World Trade Organization Secretariat, in 2013, China comprised 38.6 percent of global clothing exports (International trade statistics, 2014). According to China National Garment Association, there are more than 100,000 garment manufacturers in China, which employ over 10 million workers. China's garment industry is mainly located in the Pearl River Delta, Yangtze River Delta, Bohai Sea region, and southeast coastal areas, but it is also the case that some factories have relocated from coastal to inland China in recent years in pursuit of cheaper labour costs.

Labour Conditions

Even though the statutory minimum wages in China have surpassed those in some Southeast Asian developing countries in recent years, they are still far from living wages. As minimum wages and piece rates remain low, overtime pay continues to be an important part of workers' total monthly salary, so workers have no choice but to work overtime to make their ends meet. In addition, garment workers' health and safety are still threatened, as they are exposed to dust and toxic chemicals in the workplace. Therefore, even though China has undergone over 30 years of industrialization, there are still important issues that need improvement.

2. Background of UNIQLO

Brief Introduction

Owned by the Fast Retailing Co., Ltd. (hereinafter FR), UNIQLO is an emerging star in the global fast fashion stage. It is famous for its products' high quality and affordability, and has successfully emerged in both the western and eastern markets. Its retail stores are located in cosmopolitan cities throughout the world, including Paris, Berlin, Shanghai, London, New York, and Seoul, among others.

UNIQLO is Japan's largest apparel retail chain with a 6.5 percent share of the ¥10.7

trillion Japanese apparel market¹. Also, in recent years, the number of UNIQLO's retail stores has also increased drastically in Asia, especially in mainland China, where the brand generates huge profit. Tadashi Yanai and his family, the key figure of FR, were also ranked as the richest people in Japan² and 41st richest people in the world³.

Corporate Social Responsibility in Question

FR's 2014 Corporate Social Responsibility report states that its production partners are required to sign a written pledge to uphold the FR Codes of Conducts, and be monitored under that specific framework⁴. Some of the workplace monitoring findings will be put in the CSR report.

It is worth noting that UNIQLO claimed that in order to ensure its highest standards of quality, UNIQLO has only 70 partner manufacturers in comparison to other major global brands, which have hundreds or even thousands of suppliers. It even sent its staff directly to the factories of the production partners.

FR, as a fashion corporation which is expanding its empire drastically in Asia and all over the world, deserves a lot more attention regarding the well-being of its workers. As FR has close partnership with its relatively few production partners, it should have more capacity and resources to closely monitor not only product quality standards, but also the labour standards of its partner manufacturers. Most important of all, it should be more transparent to the public about the full list and the monitoring findings of its factories. Furthermore, it should assume its corporate social responsibility to improve the working conditions and workers' well-being in all of its production partners.

1.3 A Glimpse of our UNIQLO Project in Early 2015

In January 2015, Students & Scholars Against Corporate Misbehaviour (SACOM), Labour Action China (LAC), and a Tokyo-based international organization, Human Rights Now (HRN), jointly launched the first investigation into the labour conditions at two of UNIQLO's key suppliers in China: Pacific Textile Ltd (Panyu) and Dongguan Tomwell Garment Co., Ltd⁵. The first investigative report revealed that workers in the two factories were working extremely long hours in a dangerous environment,

¹ Company introduction of UNIQLO, <http://www.fastretailing.com/eng/group/strategy/japan.html> (last updated on 04/11/2015).

² 2015 Forbes Japanese list of Japan's 50 Richest People, <http://www.forbes.com/japan-billionaires/>.

³ 2015 Forbes list of 50 Richest People in the world, <http://www.forbes.com/sites/chasewithorn/2015/03/02/forbes-billionaires-full-list-of-the-500-richest-people-in-the-world-2015/>.

⁴ In UNIQLO's 2014 CSR Report, it states that the framework includes "Pre-contract monitoring", "regular monitoring" and "factory grading system."

⁵ The report can be downloaded at: <http://sacom.hk/statement-clean-clothes-from-uniqlo-now-uniqlo-should-improve-the-working-conditions-of-the-suppliers-in-china-immediately/>.

didn't get statutory overtime pay, and were not entitled to elect their own labour representatives. The report has given the public, as well as FR and other fashion brands, an important warning that labour exploitation exists in modern and large-scale factories in China which are supplying for well-known brands.

After reading our first investigative report, FR, which owns the brand UNIQLO, acknowledged some of the findings in the two factories, and published an action plan to improve the situation while engaging in dialogue with HRN, SACOM and LAC⁶. However, despite requests made by both organizations, FR has stopped engaging in constructive dialogue after two communications with SACOM and HRN in March 2015. In response to our request for dialogue, FR informed us in late June that they were going to publish the progress of their improvement measures by July 2015 in the form of CSR Action report.”.

Following the release of FR's CSR action report on July 31st⁷, SACOM conducted a follow-up investigation, collected information from workers and released a joint statement with HRN and LAC to verify the corrective measures FR had done and urge FR to continue the constructive dialogue with us. Besides acknowledge some of the corrective measures, we also pointed out that some measures were not efficiently implemented on the ground. In addition, in the beginning of October 2015, SACOM conducted another fact-finding investigation to review the current working conditions in both factories.

Furthermore, after the release of our first investigative report, we have continued to address our concerns about the labour conditions in other UNIQLO suppliers. We did research in early 2015 at two other key suppliers: Jintan Chenfeng Clothing Co., Ltd and Dongguan Crystal Knitting & Garment Co., Ltd.

There are two parts in this investigative report. The first part is the follow-up on the supplier factories from our first UNIQLO investigative report; the second part is the investigative report on the other two key suppliers of UNIQLO conducted in early 2015.

⁶ The official statement can be found at:
<http://www.fastretailing.com/eng/csr/news/1501150900.html>.

⁷ The official statement can be found at:
<http://www.fastretailing.com/eng/csr/news/1507311700.html>.

Section 2: Follow-up Investigation on the Suppliers of First Report

2.1 Methodology

In the fall of 2015, our researchers conducted qualitative interviews with 40 Pacific and Tomwell workers near the factories. We also conducted online interviews with workers our undercover investigator was familiar with during his/her last undercover investigation to collect the most updated information about conditions on the shop floors. These interviewees came from different departments of the factories, including dyeing, quality control, knitting departments in Pacific, cutting and sewing departments in Tomwell.

2.2 Key Findings

According to the follow-up investigation, FR has monitored its suppliers to conduct corrective measures including reducing the overtime working hours, paying statutory overtime in one factory, and improving the working environment after our first investigative report. We acknowledge the above corrective measures FR has conducted. However, there are some measures that were not adequately implemented on the ground, and we still find labour rights violations in these two factories, as described in the following sections.

A. Unsafe Working Environment Endangers Workers' Health

a. Corrections in the Two Factories

Regarding the unsafe and high-risk working environment discovered in the first investigative report, Pacific has completed construction and renovation on windows to improve ventilation, and reduce temperature. They have also increased drain channeling to avoid the sewage flowing all over the floor and preventing the potential injuries.

In addition, workers in Pacific who work under the exposure of dust now receive a free medical check-up regularly. Likewise, Tomwell installed air conditioning to reduce the temperature and changed dust protective masks provided for workers, despite according to workers in the cutting section of Tomwell, they only get dust protective masks when the social auditor comes.

b. Hazardous Industrial Waste at Pacific

Notwithstanding the improvements mentioned above, according to examinations of industrial waste conducted by Guangzhou Environmental Protection Bureau in January and April 2015, Pacific discharged hazardous industrial waste water which contains a few toxic chemicals into the sewage.

According to the industrial waste examination conducted in January, the concentration of Aniline compounds in Pacific's waste water was up to 0.67 milligram per liter, which is the highest in the province. Besides, according to the examination conducted in April, the total nitrogen in Pacific's waste water severely exceeded the national legal standard, and the factory was fined RMB 209,218 for

violating “Discharge standards of water pollutants for dyeing and finishing of textile industry” (GB 4287-2012)⁸. The total nitrogen can enhance algal growth and may ultimately manifest itself as cyanobacterial (blue-green algal) blooms. It can produce hepatotoxins, neurotoxins and endotoxins and affect human health through contact or consumption⁹.

c. Workplace Chemicals and Insufficiently Trained Workers

The examination reports released by the Chinese government is evidence that Pacific has been using harmful chemicals, such as Aniline, in the production process, which can seriously harm not only the environment but also workers’ health. According to a document released by Public Health England (PHE), an executive agency of the Department of Health in the United Kingdom, Aniline is not only dangerous to the environment but can also severely harm humans. A potential carcinogen and mutagen, it can cause systemic effects including methaemoglobinaemia and dyspnoea via inhalation, ingestion and dermal contact. Besides, being reported by a worker, who has worked in the dyeing department for around 3 years, toxic chemicals such as Sodium sulfide¹⁰ (Na₂S) and Acetic Acid¹¹ (CH₃COOH), which are corrosive, cause irritation to the eyes and nose, lead to headache, and result in burns by skin contact, are used in the production process¹²

According to Article 35 of the Law of the Peoples’ Republic of China on Prevention and Control of Occupational Diseases, the employer shall provide the workers with pre-service and regular in-service occupation health training to popularize knowledge about the occupational disease hazard factors that are likely to exist at the workplace. In addition, the factory also has to inform workers of the consequences of the hazards and the necessary measures to be taken for the prevention of occupational diseases.

However, according to our interviews with workers in Pacific, they were exposed to the harmful chemicals but did not get sufficient training beforehand, and as lacking in awareness of occupational diseases, they failed to use protective measures

⁸ The document of Administrative Penalty released Guangzhou Environmental Protection Bureau for violating “Discharge standards of water pollutants for dyeing and finishing of textile industry” is available at: www.gzepb.gov.cn/zwgk/gs/xzcf/201510/t20151010_82672.htm.

⁹ The potential environmental and health effects can be found in the website of department of environment of Australia government: www.npi.gov.au/resource/total-nitrogen.

¹⁰ The potential health effects of Sodium sulfide can be found in the website of Public Health England (PHE) at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/318331/hpa_Sodium_hydr_oxide__General_Information_v1.pdf.

¹¹ The potential health effects of Acetic Acid can be found in the website of Public Health England (PHE) at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/315396/acetac_acid_general_information.pdf

properly. A worker in the dyeing department, told our researcher that the shop floor has been filled with an irritating smell, and his skin felt itchy and irritated after work, and he didn't know what kinds of chemicals he was exposed to in the workplace as well as what health effect of chemicals. A worker, who has worked in the dyeing department for 3 months, also said that the shop floor had a bad smell because of the chemicals used in the dyeing process, and that he could even smell it from far away. Furthermore, another worker, who has worked in the dyeing department for 2 years, told the researcher that he is not clear about the health effect of the chemicals; although protective clothing was provided in certain procedures, he had to repeat the same procedure many times a day and found it inconvenient to work, as a result, he seldom wears it. Besides, according to workers in the knitting and dyeing department, though the construction on fans has been completed, they still seldom wear masks because of the high temperature, poor ventilation and uncomfortable feelings. Workers from knitting, dyeing and printing department also reported to our researcher that they have heard of workers being injured by the heavy machine when working. These examples shows that because of lacking in awareness of potential occupational hazard, workers failed to use protective equipment properly and their health remains threatened.

Also, according to the interviews with Tomwell workers, the factory failed to provide sufficient pre-service training to inform the workers what occupational disease hazard factors they are likely to be exposed to, and how to prevent themselves from getting injured by the machines. In addition, the factory failed to take the initiative to provide the workers with protective masks, and to ensure that they wear the masks in the workplace, the workers only receive masks upon asking and to ensure that they wear the masks in the workplace.

d. Failure to Inform Workers of Medical Check-up Results

To ensure workers can have enough information to track their own health conditions and take measures to cope with the potential occupational diseases in a timely fashion, article 36 of the Law of the Peoples' Republic of China on Prevention and Control of Occupational Diseases states that the employing unit has to provide workers who are likely to be exposed to occupational disease factors with the pre-job, on-the-job, and post-job medical check-ups, and inform the workers of the results in written notice. If abided, workers can have enough information to track their own health conditions and take measures to cope with the potential occupational diseases in a timely fashion.

However, according to the document of Administrative Penalty (GZ37092015016485) released by Guangzhou Administration of Work Safety¹³ also indicated that according to the investigation on the shop floor and testimonies

¹³ The document of Administrative Penalty (GZ37092015016485) released by Guangzhou Administration of Work Safety is available at:
<http://www.gz.gov.cn/GZ37/3/201511/f0f707283c624011aa93957aa5d88d69.shtml>

collected from workers and manager on March 31st 2015, Pacific failed to provide pre-service medical check to the workers who are going to work in the departments with existing risks to occupational diseases in accordance to the Law. The factory was fined for RMB 10,000 and asked to correct the illegal act. Furthermore, according to workers, neither Pacific nor Tomwell gave them the results of their medical check-ups in written notice and they were not clear about their current health status.

To sum up, regarding workers' health and the working environment, if the workers are not given the knowledge about what occupational disease factors they are exposed to and taught how to use the protective equipment properly at work, they will not have awareness of risks and are likely to be unable to protect themselves from work-related injuries. Therefore, we urge both factories to disclose the chemicals used to the public and to workers. They should also provide comprehensive pre-service and in-service training to workers, provide them with regular medical check-ups, and inform them of the results in written notice. In order to make a substantial change and provide a safer working environment, the factories should consult workers' opinions and needs in the workplace regularly to review their occupational safety and health policy.

B. Missing Statutory Housing Provident Fund

According to Article 16 of Regulations on Management of Housing Provident Fund, the employing unit and the workers are required to pay the housing fund premium, which is the workers' average wage of the previous year multiplied by a certain percentage. Article 19 also states that the employing unit has to transfer the housing provident fund premiums paid by the employing unit and workers to the housing fund account within five days after the payday. According to Article 37, if the employing unit fails to pay the housing fund on time and as required by law, the managing center of housing provident fund shall order it to repay within a specified time limit; otherwise, a fine between RMB 10,000 and RMB 50,000 shall be imposed. However, according to the workers in Pacific, those who would like to pay their share of housing provident fund premiums have to go through an application procedure; in other words, some workers are denied their access to the housing provident fund as the factory reject their applications. According to workers in Tomwell, the factory has not paid the housing provident fund premiums for them either.

C. Illegal Overtime Work and Overtime Pay

Regarding overtime working hours and wages, after the launch of the first investigative report, the overtime working hours in both factories decreased, the factories also provided one rest day every week, and paid workers whose wages are calculated on the basis of hours of overtime worked in accordance with the law. In Pacific, the overtime pay on weekends was merely 1.5 times of the basic wage; after the first investigative report, workers got the statutory overtime pay which is 2 times

the basic wage.

However, the basic wages in the two factories remain the same as the municipal minimum wage¹⁴, which is less than the half of the living wage published by Asian Floor wage in 2015¹⁵. As a result, overtime pay continues to be an important part of workers' total monthly salary, and workers have to work overtime to make ends meet.

According to our interviews with the workers in Pacific and Tomwell in August and October, in order to make ends meet, each month they have to work overtime for approximately 100 and 80 hours respectively, which still exceeds the legal limit of overtime working hours.¹⁶

Moreover, according to Article 44 of China's Labour Law, the employing unit shall pay the workers overtime wages not less than 150 to 300 percent of the normal piece rate¹⁷. However, according to workers in Tomwell, whose wages are calculated by piece rate, their piece rate remains the same even when they work overtime, which violates China's Labour Law.

D. Inauthentic Representation of Workers

According to workers in the two factories, they remain not genuinely represented. Instead of allowing workers to elect labour representatives directly, Tomwell management selected the worker on its own, and then asked all workers to vote for him in the election while no other candidates were allowed to run. A worker in Pacific claimed that although a committee meeting between the management and worker representatives was held, the workers did not have the right to be involved in the voting process of electing labour representatives. In other words, workers in

¹⁴ The municipal minimum wage in Guangzhou and Dongguan are RMB 1895 and RMB1510 respectively.

¹⁵ According to the calculation of Asia Floor Wage, the latest living wage published in the August of 2015 is RMB 3847, the document is available at <http://asia.floorwage.org/resources/wage-reports/asia-floor-wage-figures/view>; the calculation method is available at <http://asia.floorwage.org/resources/wage-reports/how-is-asia-floor-wage-calculated/view>.

¹⁶ Workers from different departments in Pacific reported that they worked for 10.5 hours per day after deducting one-and-a-half-hour meal break, and took turns to have a day off after working for 6 or 7 days. Thus the total overtime working hours add up to around 90 to 100 hours every month. Likewise, workers in Tomwell reported they work for two-hour overtime on Mondays, Wednesdays and Fridays; work for three-hour overtime on Tuesdays and Thursdays; work for eight hours on Saturdays. Thus the overtime hours in Tomwell would be approximately 80 hours in total

¹⁷ According to Article 44 of China's Labour Law, the employer shall pay workers more wage remunerations than those for normal work according to the following standards in any one of the following cases: (1) Wage payments to workers shall be no less than 150 percent of their normal wages if they are asked to work for longer hours. (2) Wage payments to workers shall be no less than 200 percent of their normal wages if no rest can be arranged afterwards for the workers asked to work on days of rest. (3) Wage payments to workers shall be no less than 300 percent of their normal wages if the workers are asked to work on legal holidays.

the two factories do not have the freedom to elect their own representatives, and those who attend regular meetings with the management neither convey their voices, nor fight for their rights.

Section 3: Investigative Report on UNIQLO's Key Suppliers Chenfeng and Crystal

3.1 Methodology

Undercover investigations were conducted to collect first-hand information and unveil the working conditions in Jinan Chengfeng and Dongguan Crysta. The undercover investigators worked as general workers in the production line through ordinary recruitment procedure, collected information of salary payment, contract, and working hour records, etc.

We believe that undercover investigation method can not only collect first-hand data, but also offers a more genuine way to reveal what is happening in the workplace compared to social audits which often give factories advance notice allowing them to prepare or even cheat in the audits.

3.2 Introduction of Two Investigated Supplier Factories

From early March to Mid-May in 2015, SACOM conducted research at two important suppliers of UNIQLO, which were highlighted in its Corporate Social Responsibility reports in 2013 and 2014, respectively.

A. Chenfeng Group

Chenfeng Group was highlighted in UNIQLO's 2013 Corporate Social Responsibility report as a model for UNIQLO's suppliers. It was founded in 1967 and has earned a reputation as one of the top 100 garment export enterprises, and exemption-free garment export enterprises, in China. Having eight factories in total and more than 8,000 workers producing 40 million articles of clothes per year, Chenfeng is one of the core partners of FR¹⁸, which has been UNIQLO's partner for 15 years.

It's worth noting that in UNIQLO's 2013 Corporate Social Responsibility report, it even claimed that the supervisor of UNIQLO's production department had been sent to Chenfeng's factories to keep a close eye on the work site every day. Thus Chenfeng group was identified as our target of investigation, as given the close partnership between UNIQLO and Chenfeng, UNIQLO does have enough capacity to take some corrective measures on the misbehaviours in Chenfeng's factories.

Among factories of Chenfeng Group, we identified Jintan Chenfeng Clothing Co., Ltd. for our undercover investigation because almost all the textiles produced in this factory are for UNIQLO. Locating in Jintan, Jiangsu province, Jintan Chenfeng has approximately 3000 employees, aged between 16 and 50 years old, who are mostly from Jiangsu, Anhui, and Henan. Around 60 percent of them are female.

¹⁸ As stated in Fast Retailing Corporate Social Responsibility Report 2013.



Picture 1: The front gate of Chenfeng group.

B. The Crystal Group

The Crystal Group, a leading garment manufacturer established in 1970 in Hong Kong, which employs over 48,000 people across 20 countries, is one of the three largest garment manufacturers in Asia.

Its primary sewing factory center Dongguan Crystal Knitting & Garment Co., Ltd was identified as our target of investigation because this factory had been highlighted in a Corporate Social Responsibility report as a model to show how UNIQLO operates in close collaboration with its suppliers. Dennis S. W. Wong, the executive director of Crystal Group, even said “UNIQLO managers visit our factories every day and many of them know more about the factory floor than even I do. They put in an unbelievable amount of effort and monitor all aspects of quality on every level.”¹⁹ According to his words, UNIQLO shows its capacity to closely monitor the quality to an extremely high level. As such, it should definitely have the capacity to ensure the workers to have labour rights in accordance with local labour laws, and with international standards as well.

Located in Dongguan, Guangdong province, Crystal Cima Campus employs 7,000–8,000 workers, and mainly manufactures UNIQLO short sleeve print T-shirts. It also earns the reputation of one of the “top 500 enterprises in Guangdong” and “Best Employer in Guangdong province.”

¹⁹ As stated in Fast Retailing Corporate Social Responsibility Report 2014.



Picture 2: Printed T-shirts made in Crystal.

3.3 Key Findings

A. Long Working Hours and Unpaid Overtime

a. Extreme Overtime Hours

The first investigative report on UNIQLO unveiled the extreme overtime hours in the two factories, Tomwell and Pacific Textiles, with more than 100 hours per month reported by workers from both factories. In Chenfeng and Crystal, the overtime hours are more than 80 and 150 respectively, which is in violation of China's Labour Law.

In Crystal, during the peak season, which is from April to September, workers are asked by the management to do overtime work for 4–5 hours daily, including weekends. The workers can apply for not working for overtime. However, the overtime working hours put great impact on how much the workers can earn, most workers accept the overtime work given by the management. And the workers' applications for a leave to take a rest were always not approved during peak seasons when the factory is expediting the order.

"I don't want to work overtime, my feet went swollen after standing for work for so long, I often tell the line leader that I don't want to work overtime, he has bad impression of me now.", said a young female worker who has worked in quality

control department for one month.

Our undercover investigator, who worked in the packaging department in Crystal Cima Campus, discovered that workers continued to work for a month without having any rest days from Mid-March to Mid-April 2015. The overtime hours in peak season can reach more than **150** hours per month, which blatantly violates China's Labour Law, whose Article 41 states that the legal limit of overtime hours is 36 hours per month. During the peak season, workers soak their feet in hot water to release pain and fatigue, after long working hours in a standing position. Workers talked about how stressed and exhausted they feel:

"The starting point of the salary is a bit low. During the peak seasons, I have swollen feet because of the overtime ... the pressure is really high in peak season," said a female worker, age 38, from a clothes checking position in Crystal.

"Sometimes I need to continue to work for 1–2 months, till 11pm or even midnight! I start to work at 7:30am!" said a male worker from the printing department, who has been working for 2 years in Crystal.

In Chenfeng, workers are required to do 2 hours of overtime every day, 6 days per week. The total overtime working hours per month are thus around 80 hours. Although the situation seems less severe than Crystal, it still greatly exceeds the legal limit of overtime hours.

b. No Statutory Overtime Premiums

Our investigator found that Chenfeng workers are paid only by piece rate²⁰, and according to Article 20 of Regulations on Wage Payment in Jiangsu Province, if the workers, whose wages are calculated by piece rate, are required to work beyond statutory working hours, the employing unit shall pay the workers overtime or extra shift wages not less than 150 to 300 percent of the normal piece rate wage during statutory working hours. But at Chenfeng, each product is paid at a fixed rate, and workers do not receive overtime pay even if they work overtime hours.

c. Overdue Wages in Chenfeng

In Chenfeng, the payment period is incorrect and violates the provincial law. Our investigator found that the monthly salary is paid in two periods and part of the salary is kept by the company illegally. For example, on April 25th, workers first received a part of their monthly salary for the period from March 1st to 25th, and then received the rest on May 15th, which means a part of the monthly salary in March is kept by the factory for more than a month. This violates Article 13 of Regulations on Wage Payment in Jiangsu Province, which stipulates that the pay period for wages shall not exceed one month at the longest.

²⁰ Piece rate means that the total salary is based on each unit of products at a fixed rate.

B. Breaking the Social Insurance Law

Social security, which includes pension, as well as medical, unemployment, and maternity insurance, can ensure that workers are all able to enjoy at least a minimally decent standard of living. According to Article 4 of the Social Insurance Law, employers and individuals within the territory of the People's Republic of China shall participate in social insurance and pay social insurance premiums in accordance with the law. Employers and workers are required to contribute to the social insurance. However, both factories are breaking the National Social Insurance Law by not paying social insurance for its workers or underpaying the Social Insurance Premiums by fraudulent declarations, which directly affects the interests of workers.

In China, especially in Guangdong province, strikes have increased in an uncontrollable pace in recent years. The China Labor Bulletin found that there were nearly 1,400 strikes in total in 2014, and the number of protests has risen in the first two months of 2015.²¹

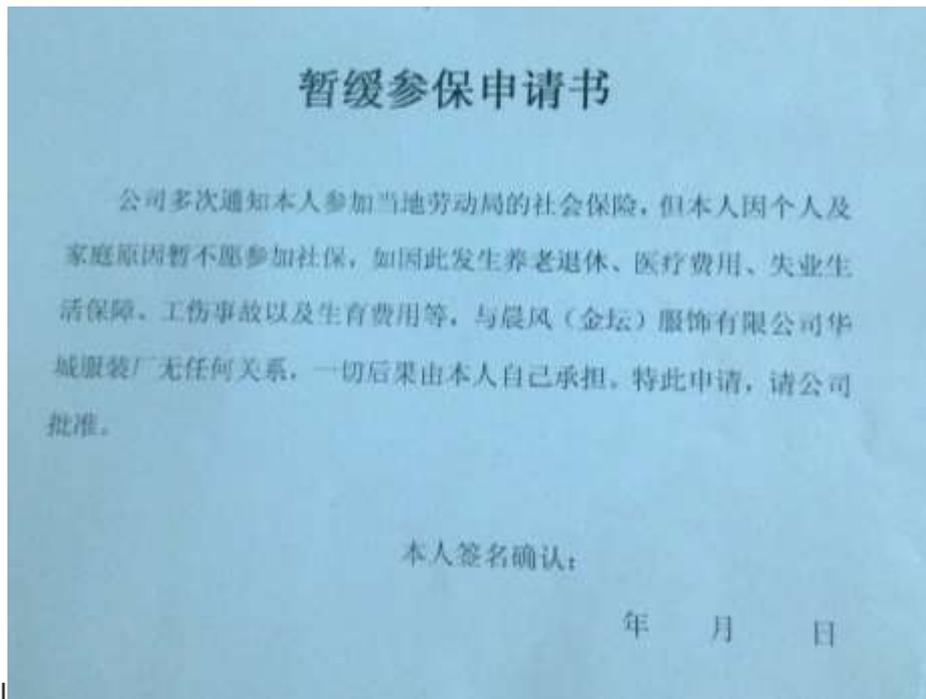
It is worth noting that unpaid or underpaid social insurance premiums have caught a lot of social attention in China recently, and also triggered many of these strikes. For example, 40,000 workers from Yue Yuen factory in Dongguan, sportswear suppliers of Adidas, Nike, Timberland, initiated a strike to urge for the unpaid social insurance in arrears of the previous years. In 2014, there was also a large-scale strike in Yue Yuen shoe factory in which workers asked for their missing social insurance premiums. Hence, we are highly concerned about social insurance violations in both Chenfeng and Crystal.

a. Postponing Social Insurance in Chenfeng

In Chenfeng our undercover investigator was asked whether s/he wanted to participate in the social insurance when signing the contract with the factory. If workers do not want to join the social insurance, the factory will provide them an application form to “postpone joining social insurance.” The agreement states that the factory will not bare any responsibility for pension, medical fees, unemployment insurance, work injuries, or maternity insurance as the workers voluntarily postpone their participation of social insurance.

However, Chenfeng should not take a proactive role to provide workers such agreement without sufficiently informing them about their rights to social insurance. It is illegal for Chenfeng to shift this legal obligation to workers, not pay social insurance premiums for all its workers and take advantage of poorly informed workers.

²¹ The news is from: <http://www.voanews.com/content/labor-strikes-surge-in-china/2712442.html>.



Picture 3: Application form to postpone joining social insurance, it is written: “The Company has informed me to join the social insurance for many times, I do not wish to join the social insurance at this moment due to personal and family reasons. Regarding my pension, medical expenses, unemployment insurance and maternity expenses, I will take full responsibilities and Chenfeng does not have any responsibility. I hereby seek the company’s approval.”

b. Underpaying the Social Insurance Premiums by Fraudulent Declarations

According to Article 12 of Social Insurance Law, employers shall pay the pension, namely a certain ratio of the employees’ gross wages as stipulated by the State, for their employees. However, Crystal violates the social insurance law by paying the social insurance premiums based on the local minimum wages instead of gross salary.

For example, instead of declaring the workers’ real monthly gross wages and paying the social insurance premiums based on it, which is around RMB 3000–4000 (USD \$483–644), the factory chose to pay the premiums based on RMB 1500 (USD \$243), which is the basic wages and also the minimum wages in Dongguan. As a result, the factory illegally saves around RMB 130 on each worker every month.

C. Bullying and Punitive Management Style

Our undercover investigators found that both factories adopt punitive management styles to push workers to produce garments faster.

a. Illegally Retaining Identity Card

According to Article 9 of the Labour Contract Law of the People’s Republic of China, where a worker is hired, the employer may not retain the identity card or other certificates thereof, nor may it require a guaranty or collect property from the worker under any other reason. However, the management of Chenfeng retained

the identity cards of its workers for more than 20 days.

b. Deducting Money from Workers' Salaries as a Punishment for Mistakes

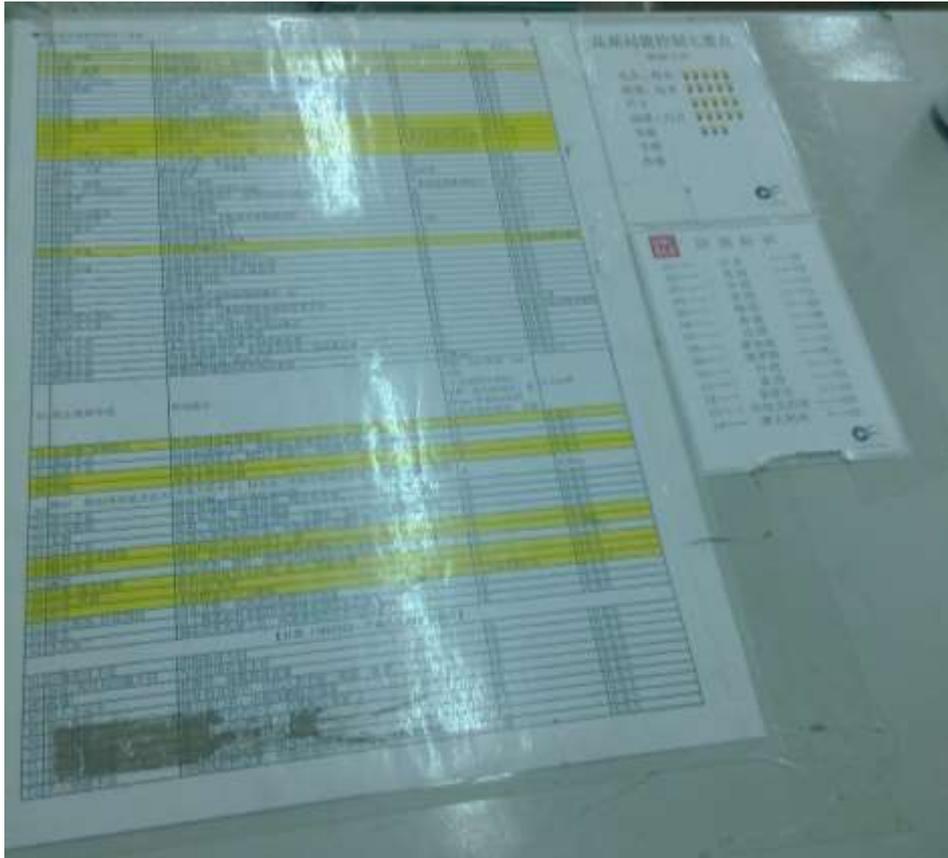
In Crystal, observed by our undercover investigator, the factory set a system to reward workers who find out other workers' mistakes, and punish workers who make mistakes. If worker A discovers and reports worker B's mistake to the factory management, RMB 5 will be deducted from worker B's salary and transferred to worker A's salary. First of all, deducting money from workers' salaries violates China's Labour Law. Moreover, under this system, new workers tend to be punished for their mistakes and lose money, which leads to great pressure at work. New workers are often picked on their mistakes or fined, for example, one worker in the quality check department was fined for RMB 110 in the first month of work. This system also creates mistrust among workers and may lead to a hostile working environment. For example, a 50-year-old female worker who has just begun to work, was persuaded to quit by the management because of low efficiency and having three quarrels with the workers who caught her mistakes.

c. Extremely Productivity Levels

Chenfeng mainly produces blouses for UNIQLO. There were up to 73 check items in the quality control table provided by UNIQLO. The factory sets the productivity target, announces it at 8am in the morning and 3pm in the afternoon. Furthermore, the managers named the workers whose productivity was lower than the previous records, and lambasted them via broadcasting system²². Further, if workers cannot reach the productivity target, their work would be taken by other workers, which greatly affected workers' wages as their wages are calculated by piece rate. It is quite stressful for workers to meet the productivity targets set by the management as well as to keep with numerous quality standards²³ set by the brand within a short time.

²² For example, "XXX(workers' name), what happened to you?", "What happens to you, can you concentrate at work? Your productivity today is lower than yesterday!"

²³ Please refer to Picture 4, which is the quality control table provided by UNIQLO and has up to 73 check items.



Picture 4: The checklist by UNIQLO.



Picture 5: Workers stand all day long to iron shirts.



Picture 6: Sewing workers in Chenfeng.

D. Cheating on Social Audits and Covering Up Sweatshop Practices

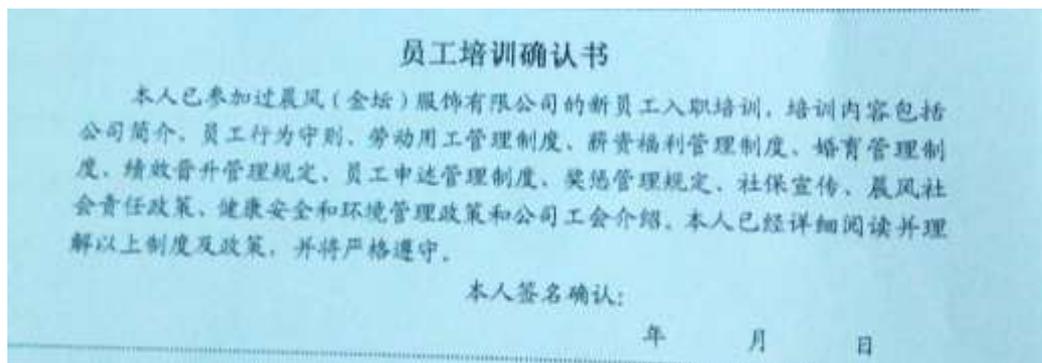
Social audits, a fundamental element and a practical measure in the system of corporate social responsibility, have been widely adopted by many multinational corporations since the mid-1990s. They aim to correct malpractices found in shop floors, and prevent exploitation and abuse of labour rights. Generally, social audits are conducted regularly by the in-house auditor or external social auditing company. However, our undercover investigations revealed that social audits in Chenfeng and the Crystal Group are false, incomplete, and not labour rights-oriented.

a. A Way to Earn Extra Money

In Crystal, social auditing, instead of being a way to monitor and improve labour standards in shop floors, was considered a way for the workers to earn extra money if they answer auditors' questions according to the script provided by the factory. Before a social audit, line leaders and managers will gather workers together and tell them that it is lucky if they are selected to answer auditors' questions, since RMB 500 will be rewarded to workers for answering questions according to the factory's instructions. For example, when workers are asked by the social auditor whether they have to work during weekends or not, if they say "No" as instructed, they will receive RMB 500. Hence, workers are not encouraged to speak frankly because of the hush money. And if the selected workers are too nervous or unwilling to answer the question "correctly", they are told to tell the auditors to ask the Personnel Department instead.

b. Fake Documents

According to Article 35 of the Law of the Peoples Republic of China on Prevention and Control of Occupational Diseases, the employer shall provide the workers with pre-service occupation health training to popularize knowledge about the occupational disease hazard factors that are likely to exist at the workplace, and the necessary measures to be taken for prevention of occupational diseases. However, workers in Chenfeng were asked to sign a confirmation letter of training (please refer to Picture 7) even though there was no sufficient training provided.



Picture 7: The confirmation letter of training states, "I have already attended the pre-service training provided by Chenfeng. The training content includes introduction of the company, code of conduct, labour management system, wages and welfare system, marriage and maternity management, promotion mechanism, dispute resolution mechanism, performance incentives and disciplinary measures, social insurance system, corporate social responsibility of Chenfeng, knowledge on work safety and health and introduction of trade union. I have read the confirmation letter and understand the above mentioned mechanisms and policies and will obey them attentively."

Besides, workers in Chenfeng did not get any pay slip but were asked to sign on the salary sheet (please refer to Picture 8) by the manager. In the salary sheet, the salary is calculated by time rate, while in reality all workers are paid by piece rate only. Thus, the salary sheet is deceitful and does not demonstrate the payment situation of the workers. Investigators were also told by workers that the salary sheet is made for satisfying customers' requests only.

Picture 8: Salary sheet of Chenfeng in November 2014.

c. Protective Equipment Only Provided When Auditors Come

It is the factory’s duty to provide the workers with adequate protective equipment to prevent the workers from getting injured. However, in Chenfeng, sewing workers are requested to install a protective presser foot in their sewing machines only before social auditor’s audit.²⁴

According to FR Corporate Social Responsibility Report 2015, the FR CSR sourcing team visits partner factories on a daily basis to monitor working conditions such as safety and working hours²⁵. However, we are surprised that even with weekly visits to partner factories, FR still fails to implement a reliable workplace monitoring system. Our undercover investigation has not only discovered that social audits in these two factories are invalid, but also exposed the unethical behaviors initiated by the factories, which made the audits mere formalities.

²⁴ For example, the line manager on the shop floor announced, “There will be customers coming later, patent will be distributed to everyone and you can put it away after the audit. Please keep it well as you need to use again in the future social auditing.”

²⁵ Fast Retailing 2015 CSR report 2015, p. 10, can be downloaded at http://www.fastretailing.com/eng/csr/report/pdf/csr2015_e.pdf#page=1&pagemode=thumbs&zoom=80.

Section 4: Conclusion and Demands

FR, which claims that it has robust partnership with its suppliers and sends its staff directly to the production partners regularly, should have the capacity to monitor not only quality standards but also labour standards in their supply chain.

However, based on the above findings, we are disappointed that the labour standards in the supplier factories of FR do not only fail to meet the international labour standards, but even violate local labour laws. First of all, many workers failed to get statutory overtime pay and social insurance premiums which they are entitled to. Secondly, the basic wages of the workers are so low that they have no choice but to do extremely long overtime hours to struggle for a decent income. Third, the workers remain untrained and exposed to various occupational hazards, without protective equipment. Fourth, workers don't have the right to elect their own representatives to express their concerns to the management by having regular meetings between the union committees and factory management.

Fast Retailing's suppliers are located not only in China but also in many developing countries. This investigative report and the following campaign would be the very first step to disclose the situation in the global garment supply chain and to raise awareness of global consumers about the working conditions behind all these new and trendy clothes. We hope consumers can keep a sharp eye on the working conditions of the supplier factories and request the brands to actively provide details about their suppliers and their outsourcing network.

We are here to strongly appeal to the suppliers and Fast Retailing to take the following corrective measures:

We demand that suppliers:

1. Stop illegal overtime hours and make all effort to raise the basic wages and piece rate in the two factories to secure a decent income.
2. Disclose all relevant information of chemicals and materials used in the two factories to the public and workers, and take necessary measures to protect workers' health.
3. Provide comprehensive pre-service training regarding work safety, and sufficient protective equipment to protect workers' health.
4. Participate in the social security system by paying the statutory social insurance premiums for workers.
5. Ensure that union representatives are genuinely elected by workers in a fair election.

We demand that Fast Retailing assume its social responsibility and to:

1. Disclose the full list of suppliers and chemicals which are used in the production process.

2. Facilitate the suppliers to carry out the improvement measures regarding working conditions and welfare of workers by providing adequate resources.
3. Ensure its supplier factories provide workers with education on labour rights, comprehensive training, protection and medical check-ups on occupational health and safety.
4. Supervise its supplier factories to pay workers the statutory wage, overtime pay, social insurance premiums, and housing fund.
5. Enable workers to select their representatives in a democratic election.

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Appendix 1

Executive summary of first investigative Report on the Working Conditions in UNIQLO's Suppliers

The UNIQLO campaign aims at empowering the workers by unveiling the poor labour conditions in China under the global fast fashion supply chain. It also has the strong hope of arousing the public awareness of the labour issues in the garment industry. UNIQLO is a Japanese fashion brand under Fast Retailing Co., Ltd. which has been expanding at an extremely quick pace and large scale. Its retail stores keep opening all over the world, especially in China. Apart from its good quality and consumer-friendly price, it also comes to our concern that whether its corporate social responsibility has been fulfilled or not. Pacific Textiles Ltd (hereafter Pacific) and Dongguan Luen Thai Garment Co. Ltd (hereafter Luenthai) are targeted which are the key suppliers of UNIQLO knit fabrics and apparel respectively. They are located in Nansha and Dongguan in Guangdong province.

Here are the key issues that should be tackled as soon as possible:

1. Excessive long working hours and miscalculation of overtime wages

Pacific and Luenthai offer the basic monthly pay as RMB 1550 and RMB 1310 for the workers, which are only paying the minimum wage level of Guangzhou and Dongguan respectively. Yet, the average monthly salary level of workers in Dongguan and Guangzhou are RMB 2,505 and RMB 5,808 respectively in 2013²⁶. Working overtime therefore constitutes an important part of their total amount of the monthly salary, so as to make ends meet. The numbers of overtime working hours are shocking: **134** hours in Pacific and **112** hours in Luenthai²⁷. Some workers from Pacific are asked to sign the “**voluntary application of overtime work**”. The application states that the overtime work is 119.5 hours. **Labour Law Article 41** stipulates that the work time to be prolonged **shall not exceed 36 hours a month**.

Worse still, **the overtime pay in weekend** is miscalculated in Pacific, which is only **1.5 times of the basic wage instead of 2 times**. In Luenthai, the overtime work record on Sunday and the overtime work exceeds 100 hours **are recorded manually on papers instead of the computer system**. It can be seen that factories can avoid being checked by the social auditors on workers' working hours in this way.

2. High risk and unsafe working environment

Even with such large scale, financial capability and long operation history, the

²⁶ The figure is found at http://news.ifeng.com/a/20140713/41135455_0.shtml and http://tjj.dg.gov.cn/website/web2/art_view.jsp?articleId=7726 (only in Chinese)

²⁷ The Chinese standard working hours per month is 174 hours (8 hours*21.75 days). The undercover investigation found that the average working hours in Pacific was 11 hours per day, excluding only 1 hour meal break for both lunch and dinner. And the workers have only 1 to 2 days off per month, resulting 308 hours (11*28) in total. In Luenthai, the average working hours is 11 hours per day and they work 26 days per months, summing the total of 286 hours (11*26).

working conditions in both factories are still unsatisfactory. Workers health and safety are not at the top priority. **Extreme high shop floor temperature, dirty sewage flowing all over the floor, unsafe facilities, poor ventilation with high cotton dust level in the air, irritating smell, high risk of electricity leakage** are posing serious risks on workers' health and safety. For example, occupational asthma, respiratory irritation, and dust explosion can be caused in high cotton dust shop floor. There is also an adverse effect of used chemicals on health and the risk of electrocution. Yet, no effective mechanism is implemented to tackle these problems. **Pictures** are put in section 2 for a clearer understanding of the problems.

3. Harsh management and punishment system

In Pacific, there are 58 types of regulations which are set for punishing workers, **41 of them include fines**. Fines are heavily used as a way to control product quality and to manage workers. In reality, different operation floors have their own punishments and rules which are not specifically stipulated in the regulations but are simply written on the whiteboard in the shop floor. For example, in the knitting department of Pacific, if defected fabrics are knitted or the knitting machine has dirt, the workers' production bonus²⁸ will be deducted, which is around RMB 50-100. Luenthai uses fines as well. However, according to the Labour Contract Law, it has not stated that the employers have any given right to punish employees by adopting different means such as using fines.

4. Unrepresented workers

General workers from these two investigated factories have no effective platform to voice out their concerns. In Pacific, the chairperson of the union is the director of administrative department which violates the Measures for the Election of the Trade Union Chairman of an Enterprise article 6, which stipulates that the executives in charge (including deputy executives) and partners of an enterprise and their close relatives, the persons in charge of the human resources department shall not be the candidates for the labor union chairman of the enterprise. For Luenthai, there is no trade union at the factory level but a workers committee group and employee relation department in the factory. However, it is an ineffective means to facilitate workers to express their concerns.

We demand the Suppliers:

To provide at least one rest day every week for workers and limit the maximum overtime work to 36 hours a month;

- To pay overtime according to the Chinese Labour Law;
- To reform management style to respect workers' dignity;
- To ensure workers can have appropriate breaks regularly;

²⁸ Most of the factory workers in China receive production bonus if he/she can reach certain production target set by the factory. In Pacific, the average production bonus per day in knitting department is RMB 30-60.

- To provide adequate training concerning the health, safety, and protection of the workers, and ensure the workers to take regular health check-ups;
- To take all the necessary measures to ensure workers' health to be protected from the harmful chemicals used in the production process and make it publicly available the outlined measures as well as the implementation

We demand Fast Retailing:

- To facilitate the suppliers on the improvement in the working conditions by providing adequate resources;
- To comply strictly to their corporate social responsibilities policies;
- To support the set-up of fully worker-represented trade union in their supplier by direct and democratic election;
- To maintain transparency to public by disclosing full supply list where their products were manufactured

The full report can be downloaded at: <http://sacom.hk/statement-clean-clothes-from-uniqlo-now-uniqlo-should-improve-the-working-conditions-of-the-suppliers-in-china-immediately/>

Appendix 2

Fast Retailing's statements after the investigative report launched in January

CSR Action

Last Updated: 2015.01.11

In Response to Working Condition Claims at UNIQLO Garment and Textile Suppliers in China

UNIQLO CO., LTD.
FAST RETAILING CO., LTD.

On January 11, Students & Scholars Against Misbehaviour (SACOM), a Hong Kong-based nongovernmental organization, published a report claiming issues with working conditions at factories of Donguang Luen Thai Garment Co., Ltd. and Pacific Textile Ltd., which supply products for UNIQLO, a member company of the Fast Retailing Group. It is Fast Retailing's understanding that the issues relate to factories of Dongguan Luen Thai Garment Co., Ltd., which manufacture garments for UNIQLO in the Guangdong Province, and Pacific (Pan Yu) Textiles Limited, which supplies textiles to garment factories.

The Fast Retailing Group is committed to building long-term trust with its production partners, while at the same time respecting human rights and ensuring appropriate working conditions for the employees of its production partners. We monitor working conditions at garment suppliers periodically based on our Code of Conduct for Production Partners, which we established in fiscal year 2004. We also draw on our Environmental Standards for Textiles Factories in monitoring environmental impact of factories that supply textiles to our production partners, to minimize any impact and ensure the health and safety of workers at those facilities. We disclose results through our CSR reports and via other methods.

Fast Retailing first learned of the SACOM report at the end of last year, and we moved quickly in view of the serious nature of its claims, by conducting an independent inspection of both facilities. We confirm that, regrettably, the inspection found several problems including long working hours. On the other hand, while the inspection did not reveal some of the problems stated in the SACOM report, Fast Retailing and SACOM have different views on some of the issues described in the report. In view of this situation, Fast Retailing is continuing with the inspection, and we are requesting SACOM to open a dialogue with us as soon as possible.

Regarding the problems that were found by the inspection, Fast Retailing has urged the two factories to resolve them immediately, and we will check up on progress within one month, as part of ongoing efforts to seek improvements. We will take strict action if progress has not been made, including a review of whether to engage them in any future business. In addition, we will validate our processes for

monitoring working conditions and will consider introducing the same process within the next few months at textile facilities that we do not currently monitor.

Last Updated: 2015.01.11

CSR Action

Fast Retailing Takes Action to Improve Working Conditions at its Production Partners in China

UNIQLO CO., LTD.
FAST RETAILING CO., LTD.

In addition to the initial Fast Retailing reply to the January 11 report released by SACOM (Students & Scholars Against Misbehaviour), a Hong Kong-based nongovernmental organization, regarding issues with working conditions at a factory of Dongguan Luen Thai Garment Co., Ltd. and a factory of Pacific (Pan Yu) Textiles Limited, Fast Retailing today reconfirms that its own independent inspection revealed several issues, including long working hours.

"Respecting human rights and ensuring appropriate working conditions for the workers of our production partners are top priorities for Fast Retailing, and in this we are completely aligned with SACOM," said Yukihiro Nitta, Fast Retailing Group Executive Officer responsible for CSR. "Fast Retailing has urged swift action against the factories on the issues identified in the SACOM report, and we will cooperate fully with them to ensure that improvements are made. Together with third parties, including auditors and NGOs, we will check progress within one month," he added.

Fast Retailing has instructed Dongguan Luen Thai Garment Co., Ltd. to take the following steps:

1.) Working Hours

- a Immediately ensure all working hours are recorded and reported correctly, and
 - . reduce working hours to comply with the Fast Retailing Code of Conduct for Production Partners

- b Immediately review production capacity and production plans, to be able to
 - . comply with working hour limits from February

2.) Working Environment

- a Request a government authority to immediately conduct a thorough check of
 - . air quality and, based on results, put in place a concrete plan to improve the working environment

- b Based on results, require workers to use necessary protective equipment, to
 - . improve workers' welfare

c Immediately ensure that the production floor is clean and tidy

.

3.) Management Style

Thoroughly investigate fines and punishments and if found, eliminate

4.) Unrepresented Workers

Establish a workers' union, hold elections and organize a first assembly in March

Fast Retailing has instructed Pacific (Pan Yu) Textiles Limited to take the following steps:

1.) Working Hours

Immediately increase holidays for workers and ensure workers will take one mandatory day off per week effective July, and make other improvements in working hours

2.) Working Environment

- a Review the working environment, including temperature and humidity, and
 - . improve as required
- b Require workers to wear protective clothing and use protective equipment

.

3.) Management Style

Ensure that no fines or punishments are imposed

The result of Fast Retailing's own independent inspection revealed a number of points regarding Pacific (Pan Yu) Textiles Limited which contradict elements of the SACOM report. Regarding these points, mentioned here below, Fast Retailing will continue with its own independent inspection and plans to engage in dialogue with SACOM to seek further clarification.

- 1 Regarding overtime payments, the current procedure is legal, and the factory
 - . received permission from the local labor department to apply the Comprehensive Working Hour Calculation System. Under this system, overtime payment during the weekend is calculated at 1.5 times, not 2.0 times. Therefore, the factory did not commit any violation.

- 2 Regarding unrepresented workers, the chairman of the union is someone who is
. in charge of administration and therefore is legally qualified to serve as chairman.
- 3 Regarding accidents occurring from falling down from stools, in June 2014
. safety training was conducted and a hand rail was added to the machinery. No further accidents have occurred since then.
- 4 The cause of death of the worker mentioned in the report was not
. electrocution.

In addition to the above action points, Fast Retailing will put in place the following measures to improve its own monitoring system for its production partners.

In addition, Fast Retailing will introduce working environment monitoring to textile factories who do not have contracts with Fast Retailing, including Pacific (Pan Yu) Textiles Limited.

1.) From January:

In collaboration with the Production Department,

- a Strengthen measures to monitor overtime hours, to ensure all overtime hours
. will be officially recorded through the Production Department's factory visits, while verifying that production schedules can be implemented to meet working hour requirements
- b Ensure all information including worker accidents, strikes, etc., will be tracked
. and communicated to the CSR Department immediately

2.) From February:

- a Begin to introduce a working environment monitoring system for textile
. factories who supply textiles to garment factories
- b Work with third parties including auditors and NGOs to improve its current
. working environment monitoring system, and continue to improve it regularly, by:
 - *Increasing the number of unannounced audits, as well as the number of off-site interviews with workers
 - *Supporting workers to execute their right of collective bargaining, to elect representatives democratically and to engage in discussion with management on a regular basis, as well as to participate in training programs for themselves and management

3.) From March:

Begin to introduce a Hotline, as well as a system to protect workers in cases of emergencies, in collaboration with NGOs and other organizations

"I once again confirm Fast Retailing's commitment toward ensuring the respect for human rights and continuously improving the working conditions for the workers of our production partners, while at the same time protecting their employment. We look forward to opening a dialogue with SACOM and their partner organizations, so that we may be able to share our action plans directly with them," said Nitta.

NOTES:

Dongguan Luen Thai Garment Co., Ltd. manufactures garments for UNIQLO, a member company of the Fast Retailing Group, in the Guangdong Province. Pacific (Panyu) Textiles Limited supplies textiles to garment factories.

Fast Retailing first learned of the SACOM report at the end of last year, and the company moved quickly in view of the serious nature of its claims by conducting its own independent inspection of both facilities.

Appendix 3

UNIQLO's CSR action six months after the release of investigative report

CSR Action

Last Updated: 2015.07.31

Fast Retailing Advances Working Conditions at its Production Partners

FAST RETAILING CO., LTD.

From January 2015, Fast Retailing has been enhancing its monitoring and advancing working conditions at the garment factories managed by its production partners, throughout its supply chain. Please refer to <http://www.fastretailing.com/eng/csr/news/1502181300.html> for the details.

The below is a report of progress as of July 31, 2015.

Actions taken to enhance workplace monitoring

1. Introduce workplace monitoring at textile suppliers

- Monitored workplaces managed by the suppliers that provide 30% of all textiles used in UNIQLO products. Currently monitoring for improvement efforts for the non-compliant areas identified.
- From September 2015, workplace and environmental monitoring is to take place for the suppliers that provide 70% of all textiles annually used in UNIQLO products.

2. Enhance auditing method

- Started to shift from announced audits to unannounced audits from January 2015. For UNIQLO and GU suppliers, all audits have shifted to unannounced.

3. Implement training for factory management and factory workers

- Provided training on workers' rights and health and safety to management at a selection of factories in China.

To further enhance monitoring, Fast Retailing is now affiliated with the Fair Labor Association (FLA), an international Non-Profit Organization (NPO), focused on ensuring workers' rights.

Actions taken at Luen Thai Garment Co. and Pacific Textiles Ltd.

Following a January 11, 2015 report released by SACOM (Students & Scholars Against Misbehaviour), a Hong Kong-based nongovernmental organization, Fast Retailing has been working closely with and has instructed Luen Thai Garment Co.,

Ltd. and Pacific (Pan Yu) Textiles Limited to take several steps to advance its working conditions. Here below is a list of the actions as of July 31, 2015.

Actions taken at Luen Thai Garment Co.

1. Working Hours

- Reviewed production capacity and schedules, and since February 2015 working hours remained within that allowed by FR regulation.

2. Working Environment

- Based on the result of air quality checks by a government approved third party organization, masks were changed from regular to dust protective. Two dust collectors were introduced in the cutting section. For employees in areas with dust levels higher than the safe standard, medical checkups for occupational diseases will take place by the end of August.
- Established a Personal Protective Equipment (PPE) management program under the supervision of the Administration of Work Safety.

3. Management Style

- Investigation conducted by Fast Retailing together with third party auditor through more than 100 factory employees on and off site in February 2015 found no fines.

4. Unrepresented Workers

- Selected worker representatives, and held a committee meeting. In March 2015, established a framework for management and workers to meet regularly.

Actions taken at Pacific (Pan Yu) Textiles Limited.

1. Working Hours

- By the end of June, increased the number of employees by about 700 and strengthened production capacity to manage working hours and consecutive working days for each employee.

2. Working Environment

- Introduced new rules to set the temperature level throughout the factory; if temperatures rise above the set level, the factory increases ventilation.

- Construction work on windows to improve ventilation inside dyeing and finishing sections was completed for all six areas. Additionally, six large fans for air ventilation were introduced on each floor.
- Renovated all windows for the chemical storage area to ventilation windows. Shifted the chemical storage, and ramped the floor and increased drain channels to prevent cleaning water from flowing into the storage area.
- Rolled out training to workers regarding safety and the use of PPEs. To strengthen internal capacity, management received training on fire and safety and chemical management from a third party.
- Government institution investigated dust, odor, noise, and temperature for all production areas (result in August, and based on it, additional action may be taken, if appropriate).

3. Management Style

- Terminated compensation mechanism that effectively functioned as a penalty by the end of May and introduced new compensation mechanisms in all sections from June 2015.