

THE POWER OF CLOTHING

Making The World A Better Place



02 WHERE UNIQLO PRODUCTS
COME FROM

The Power of Clothing, Vol. 02 Making the World a Better Place

UNIQLO produces approximately 500 million articles of clothing every year, with about 80% made in China. In this issue of *The Power of Clothing*, we explore the process, environment and people behind the production of UNIQLO products. Through clothing, UNIQLO can move in a positive direction by working in tandem with factory workers and customers to make the world a better place little by little. This is what we believe is the essence of the power of clothing.

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Where UNIQLO Products Come From

The production process, people and environment
behind UNIQLO products

The sewing process is critical to quality and involves many sub-processes, including the sewing of sleeves and hems as well as the sewing on of buttons and thread finishing.



How UNIQLO Products are Manufactured

Rigorous inspections conducted at every stage—from material selection to retail sale—enable UNIQLO to deliver safe and reliable products to our customers.

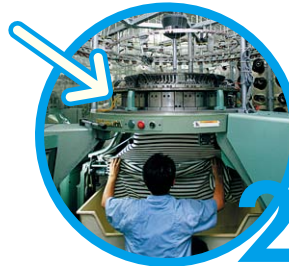


1 Material selection and dyeing

Third parties conduct sample inspections for every material we use in order to ensure safety.

Weaving

Although the weaving process is automated, quality and texture are controlled by craftspeople.



3 Fabric

Every sheet of fabric is meticulously checked before and after dyeing as well as after cutting for flaws, stains and uneven color.

Cutting

Fabric is cut carefully to avoid any distortions. Workers wear protective metal gloves to ensure safety when cutting fabric on the machines.



Shipping and distribution

Products are packed in containers. After arriving at the warehouse, they undergo sample inspections before being sent to stores.



8 Sampling and auditing by third-party inspection bodies

Representatives from commissioned, third-party inspection bodies randomly select 2.5% of all products for inspection.

Pre-shipment inspections

All products are inspected using precision needle detectors capable of identifying even the smallest metal fragments. If metal fragments are found in products, those items are stored in lockable cases to prevent them from being mixed in with other garments.



6 Finishing

All products undergo multiple inspections before and after ironing. Ironing and packaging are done by hand, one article at a time.



5 Sewing

Sewing has a significant impact on product quality, and speed and accuracy are key. A predetermined number of sewing needles are used in the factories and broken needles are completely pieced together to ensure that not even a single fragment is lost or unaccounted for.



Takumi

UNIQLO's textile craftspeople, known as *takumi*, directly offer technical guidance to workers at production sites.

How *takumi* safeguard quality and safety

To guarantee product quality and safety, UNIQLO sends *takumi*, or artisans with extensive experience in the Japanese textile industry, to factories where they observe people's work and provide guidance at every stage, from the selection of materials to finishing. This is how the *takumi* fulfill their roles as the guardians of product quality and safety.



Sewing *takumi*

If a *takumi* discovers a problem while inspecting a production site, he or she will help to identify the cause and point out what improvements can be made on the spot.



One *takumi*, for example, came up with the idea of using specially processed needles that can be traced back to their factories of origin, in the rare event that a needle is discovered in a product.



Dyeing *takumi*

The *takumi* examine the color of product samples, as well as dyeing results and texture. Accurate decisions are based on experience and intuition honed over many years.

The People Who Make UNIQLO Products

Who actually makes UNIQLO products? What are their lives like? Here we explore the everyday lives of workers at a partner factory in Dongguan, Guangdong Province, China.



Dormitory Life

About 80% of the factory workers in urban centers such as Guangzhou actually come from rural areas. Most of them live in dormitories and return home to see their families during Chinese New Year. An average dormitory room is about 25 square meters and usually has six beds. For six people to live together comfortably, organization is essential. Residents devise creative means of keeping their collective space tidy and avoid clutter, such as around the washbasins.

Lunch

Factory workers take one hour for lunch between noon and 1:30 p.m. Even with lunch times staggered, the cafeteria springs to life as several hundred workers gather for lunch, which means the kitchen staff need to work quickly and efficiently. A full lunch costs about 2.5 to 3.5 yuan, or about 38 to 53 US cents. These workers, who bring extreme concentration to their work, shift gears as they enjoy their lunches and conversation in the cafeteria.



Breaks

Some of our partner factories provide recreation areas—such as computer rooms with Internet access, gymnasiums, libraries, table-tennis and pool tables—for their workers. At some factories, these facilities can be used all day for around 2 yuan, or about 30 US cents.



Li Wang, 26

"I joined the company when I was 16 and I have been working here for 10 years. My kids live with my parents while I stay in the dormitory, so it's important for me to talk to them on the phone every week."



Ti Shuang Fan, 21

After work and on weekends, I usually spend time online in the computer room next to the dormitory or read books and magazines from the library.



Xiangli Wang, 20

I love clothing. On my days off, I occasionally go shopping with my roommates or go out for something to eat.



Bing Tang, 26

The benefits package and salary here are better than at my last job. I have a girlfriend in my hometown and we keep in touch by phone.

China Today: The Current State of Affairs

China is a nearby neighbor in Asia, yet we tend to know surprisingly little about the country. Therefore, we have put together an article here that addresses some topical issues in the country as well as what it is like to live in China today.

Note: Figures represent averages in urban areas such as Beijing and Shanghai.

Q1 What is the average monthly salary for an urban Chinese worker?

About US\$ **295.30**

In 2006, the All-China Federation of Trade Unions announced that it would raise the minimum wage to between 40% and 60% of the average wage within three to five years. Since then, the minimum wage has risen in several regions, with double-figure growth rates in some places such as Shanghai and Guangdong where it has jumped by 14% and 10%¹, respectively.

General information

Official name
People's Republic of China

Approximate area
9.60 million square kilometers

Estimated population
1.3 billion

Capital
Beijing

(As of January 2009)

Luxury sales

No. 1
in the world

Given the slumping global economy, the market for luxury goods, including brand-name products, is shrinking in most developed nations. China, however, is bucking this trend as sales continue to grow. In 2009, sales of luxury goods reached about 450 billion yen in China, the highest in the world.² Today, brand consciousness in China might be even higher than in Japan.

Q2 Do the Chinese prefer to buy brand-name goods?



Q3 How much do people spend each month on clothing?

US\$ **13.80**

Fashion trends in major Chinese cities such as Beijing and Shanghai are not much different from those in the world's other cosmopolitan fashion centers. Information about overseas fashions is spread through television and the Internet, and upscale brands and lingerie shops have recently started opening in China's regional centers.¹



Reference

1. *People's Republic of China Yearbook* (Japanese edition)
2. *China News* (Japanese edition)
3. *Chugoku Joho Handbook* (China Information Handbook)

Q4 Are car sales booming in China?
—From riding bicycles to driving automobiles



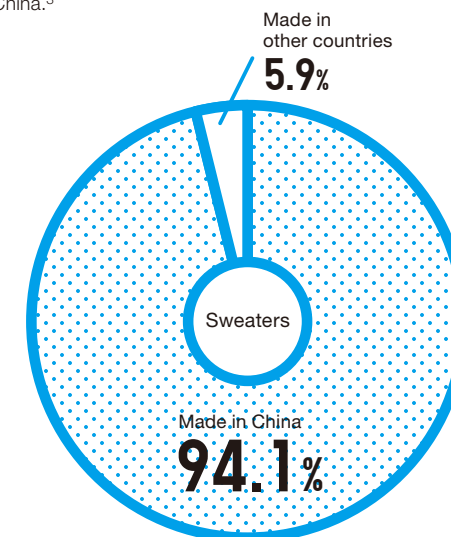
About **1,700** new cars hit the road each day in Beijing

The number of privately owned cars on the roads is rising at a record-breaking pace and worsening traffic in the Chinese capital. It is no longer unusual for Chinese people to purchase their own cars, and a growing number of individuals are even buying second vehicles.²

Q5 What percentage of clothing imported to Japan comes from China?

China is the world's largest exporter and its products account for a major portion of goods available in the Japanese market, where over 90% of the total quantity of imported clothing is made in China.³

*Converted based on quantity



Q6 What's the current status of the one-child policy?

Second children are allowed under certain conditions

China's one-child policy is well known. In Shanghai, however, couples are allowed to have a second child under certain conditions. This change reflects concerns about the country's aging population and a looming labor shortage by 2050.²

Q7 How many PhDs are there in China?

There are more than **50,000** PhDs

In 2007, the total number of Chinese PhDs exceeded 50,000 people, with China surpassing the United States as the country producing the most PhDs worldwide. While doctoral courses were once considered primarily as a means of developing outstanding scholars, today they are increasingly regarded as an educational route to a better job.²

Fun Facts on China

Fashion magazines not found in bookstores

Bookstores in Shanghai do not sell fashion magazines. Instead they are sold at street newsstands or in convenience stores.

A changing food culture

Traditionally, China has placed importance on food and culinary culture. Today, however, an increasing number of people—especially those who are single and living in major cities—are cooking less and less. Many people choose to eat out at low-priced restaurants and fast food eateries, or purchase precooked meals.



The Challenge of Working in a Rapidly Growing China

The Chinese economy has expanded rapidly over the past three decades, nearly doubling in size every seven years while logging an average annual growth rate of approximately 10%. Individuals therefore face the challenge of having to keep up with this growth as they seek to seize opportunities and attain wealth. In China, things are moving so fast that standing still is tantamount to sliding backward.

With the exception of public servants and employees at certain state-owned companies, there are few if any guarantees for long-term employment in China. Pensions, unemployment insurance and rural health insurance systems cannot be relied upon to provide adequate support for life after retirement. Individuals must constantly improve their skills in order to keep their jobs. But China boasts a wealth of fresh oppor-

tunities for people with proven abilities. Companies will not necessarily look after employees, so individuals must make their own future in China based on their own competence and abilities.

In a society with a relatively weak public safety net, people have to work hard in order to seek their own fortune and protect themselves and their families. It is up to the individual to earn money and improve their skills. This is the logic of complete personal responsibility. As a result, the Chinese people expect companies to provide opportunities for growth, not protection.

The wages of people in China are often one-tenth or less of their counterparts in developed countries. But it would be a mistake to interpret this as a sign of

—Through the eyes of a business journalist

misfortune. Our parents and grandparents in Japan earned less than many of us do today without feeling as though they were missing out on what is important in life. Despite the challenges and difficulties they faced, most people lived one day at a time in pursuit of their own vision of happiness.

Similarly, the Chinese people today are working extremely hard to accumulate wealth. We should be both fair and firm in our demands while providing what we can in terms of technology, knowledge and compensation. They expect this level of proper treatment, and I believe it is the responsibility of enterprises from developed countries to seek to grow together with the Chinese people while meeting their needs and expectations.

Nobuhiko Tanaka
Business Journalist

After graduating from the Waseda University School of Political Science and Economics and studying Chinese at The Institute of Chinese-Japanese Studies, Nobuhiko Tanaka worked as a reporter for the *Mainichi Shimbun*, a major newspaper in Japan. He later worked as a translator and interpreter before transitioning to a freelance writing career in 1988. He currently divides his time between Japan and Shanghai.



Monitoring the Working Conditions of Factories

External auditors monitor partner factories to ensure that appropriate working environments are maintained. Here we report on how we examine internal operations and living conditions for workers at our partner factories.

9:00 ▶▶ Opening meeting



Two external auditors arrive at the factory. They go over the day's schedule, the Code of Conduct (CoC)* and other matters with the factory director and the staff of the factory's human resources department.

9:30 ▶▶ Monitoring begins



One auditor begins examining documents while the other takes charge of inspections of the production site.

10:00 ▶▶ Warehouse



Auditor: "There appear to be too many boxes stacked up here."

The auditor in charge of the production site goes to the warehouse. Important matters for consideration include material and product controls. Other key items for inspection include safety conditions for workers, such as whether boxes are properly stacked so that they are not in danger of falling.

10:30 ▶▶ Inside the factory



The auditor walks among the production lines and questions the people in charge of the factory floor. Photographs are taken as records.

11:00 ▶▶ Interviews with factory workers



Auditor: "Do you get enough time to eat and rest?"
Factory worker: "Yes, I do. And I look forward to lunchtime every day."

Interviews are conducted in private rooms to uncover problems in the working environment. To protect the privacy of the workers, interview records are kept strictly confidential. Factory workers are also occasionally interviewed outside of the factories, and during these exchanges, small talk helps the workers feel more comfortable.

11:30 ▶▶ Emergency safety measures for workers



Factory: "First-aid kits have been appropriately placed in multiple locations throughout the facility. We also regularly check the accessibility and conditions of fire extinguishers."

Auditors check to make sure that emergency safety measures are being followed, such as whether first-aid kits and fire extinguishers have been placed in easily accessible places.

12:00 ▶▶ Cafeteria



The auditor's inspection moves to the cafeteria during the lunch break. Here, sanitary conditions in the kitchen are checked, as well as the conditions for storing food.

14:00 ▶▶ Dormitory



Auditor: "The cabinets for fire extinguishers should always be unlocked so that the extinguishers can be used immediately in case of emergency."

It is important to maintain safe and hygienic conditions in factories and dormitories.

10:00-16:00 ▶▶ Document inspections



While one auditor thoroughly checks production sites, the other examines human resources and payroll-related documents. Later, the two auditors exchange information to determine whether these documents are consistent with what the workers said during interviews.

16:30 ▶▶ Closing meeting



The monitoring process ends after auditors and factory officials go over the inspection categories and any relevant findings. Monitoring results are later delivered to the factory by UNIQLO.

*UNIQLO established the CoC for Production Partners, which includes rules prohibiting child labor and restricting overtime. Partner factories are required to sign a pledge to comply with the CoC.

Factory



Timmy C.H. Chan
General Manager
Dongguan Crystal Knitting &
Garment Co., Ltd.

**CSR is an Investment,
Not a Cost**

Our approach to CSR is identical with that of UNIQLO. In addition, our senior management also takes an approach similar to that of UNIQLO's managers, by emphasizing the importance of our CSR policies while demonstrating leadership and moving forward. When problems arise, we work with UNIQLO's production team to adjust our production plan for the benefit of both companies. We view CSR as a long-term investment in society and people, rather than an operational cost. Moreover, our CSR philosophy is directly linked to our corporate vision of living and growing together with our customers, which stems from our experience working with UNIQLO.

Partnerships That Transcend Country, Culture and Position

Fast Retailing's Corporate Social Responsibility (CSR) department works with partner factories and offices that control production volumes and delivery dates to implement initiatives. This focus on "initiatives" encourages us to think and grow together, enabling us to move beyond merely conducting "transactions" with one another.

CSR Department



Yukihiro Nitta
Director, CSR Department

**One Step at a Time
Leads to a Solution**

Our team regularly provides guidance with the aim of improving our partner factories. While efforts to improve may be bothersome for management, the point of monitoring is not to make accusations, but rather to find ways of creating a better factory. Even for problems that cannot be solved at once, we can always figure out ways to handle issues by taking the time and effort required for each step. Some of our partner factories have received orders from top global brands, as these factories have gained a reputation for excellence in product quality and CSR management. It is our great pleasure to help raise the performance levels of our partners. We would like to continue cooperating with each other and enjoying mutual growth.

Factory



Hiroshi Obayashi
Managing Director
THK JIFA Apparel Co., Ltd.

**CSR Activities
Enhance Factory
Competitiveness**

We would like to strengthen the competitiveness of our factory by actively collaborating with UNIQLO to implement a range of CSR-related initiatives. We started with what we could and made improvements in the working environment by resolving issues related to payment and working hours. As a result, the employee turnover rate remains low, and we feel that the reputation of our factory has been bolstered as a result. At our factory on the outskirts of Qingdao, in China's Shandong Province, many of our workers come from rural areas. The community benefits significantly when workers gain skills and secure long-term employment at the factory. The more skilled workers we have, the more competitive our factory will become. We hope our efforts to promote CSR activities will lead to the creation of such a beneficial cycle.

Local Office



Tomo Shimada
Head of UNIQLO's Shanghai
Representative Office

**Independent Action is
the Key to Successful
CSR Initiatives**

A willingness to implement independently minded initiatives is the most important element in any CSR activity undertaken by a production partner. Rather than solely seeking to meet the minimum requirements for audits or to satisfy UNIQLO as a major business partner, factories should recognize that CSR activities contribute to raising the level of factories and product quality. This is why such initiatives should be implemented. Of course, CSR activities do cost money, but companies that have embraced this challenge to successfully improve their management capabilities have enjoyed significant levels of growth as a result. Growth cannot be achieved unless immediate problems are dealt with properly. I am very encouraged by the increasing number of factory managers who participate in CSR activities and who are capable of acting independently.

From Fast Retailing

How UNIQLO Evaluates Factories to Improve Performance

Based on the Code of Conduct (CoC) for Production Partners, UNIQLO monitors the working environment of major sewing factories and gives them a grade from A to E in line with its own criteria. If particularly egregious offenses are discovered, such as the use of child labor, we give the factory in question an E grade and immediately review its contract. We offer guidance for improvement and consult with factories that receive C or D grades, and conduct follow-up monitoring to confirm progress. If progress is not made, we review our contract with the factory in question.

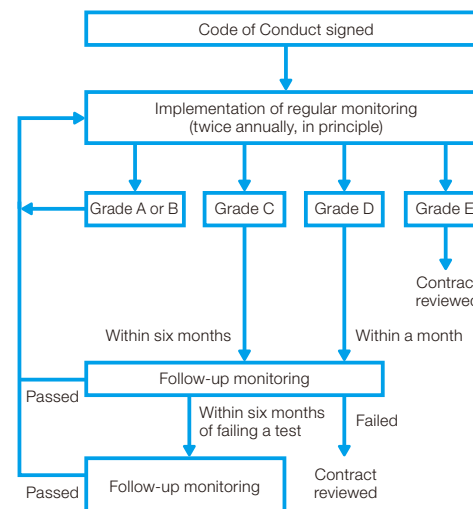
This monitoring framework was implemented in 2004 and is now in its fifth year. However, we revised our evaluation criteria in 2009 and our rules are now even stricter as a result. Prior to these changes, for example, an instance of child labor or forced labor would be taken seriously and would result in an immediate contract review. In some cases, factories would receive the lowest grade of D. But our new E grade has broadened the scope for immediate contract reviews and, in addition to child labor and forced labor, includes other very serious offenses. Moreover, we now include all cases in which the human rights or safety of factory workers and the surrounding environment could be critically affected under a D

grade. We have communicated information on these revisions to our criteria through several briefing sessions for management and the people in charge of our partner factories, in order to ensure that they thoroughly understood the new guidelines.

While child labor and forced labor are clearly unacceptable, UNIQLO—as the entity placing orders—recognizes that it is partly responsible for other issues that may arise related to excessive overtime or extended numbers of consecutive working days. For example, the company might delay an order for certain reasons or suddenly change its plans, which can impact production capacity. We must monitor our own operations to prevent such situations.

Problems related to the working environment in the factories are often attributable to social structures and practices. Therefore we cannot simply apply penalties when we discover examples of misconduct. We need to continually communicate with our partner factories so they understand the benefits of finding their own solutions to problems. Hopefully, this persistent pursuit of a secure and safe working environment will, in the end, benefit society. We believe this is the only way of getting at the root of problems.

Monitoring Scheme



Actual cases of D grades in fiscal 2009	
Forced labor	Only one admission pass for the wash-room was given to a production line with 15 to 20 workers. Such a system restricts workers from freely using the lavatory.
Extended working hours	From a random sampling survey, we discovered that some workers had been working as many as 37 days in a row.
Security of workers	One of the two emergency exits on the third floor of a dormitory was locked and escape routes were inadequate.
⚙️ We required all partner factories at which these incidents occurred to submit plans for improvement. Progress has been reviewed through follow-up monitoring.	