

January 13, 2017

Report on the Investigation of the Factory in
Myanmar Subcontracted by MIKIHOUSE TRADE
Co., Ltd.

A Third-Party Investigative Body Report on SEINUS CLIQ FASHION Company Ltd.

Energetic Green Co., Ltd.

The Global Alliance for Business and Human Rights, General Incorporated Association

Nishiwaki Law Office

Nine Hill Partners Co., Ltd.

Background to the investigation

It was pointed out to MIKIHOUSE TRADE Co., Ltd. (hereinafter referred to as “MIKIHOUSE TRADE”) by Human Rights Now, an international human rights NGO, that sweatshop labor is taking place at its subcontracted factory in Myanmar. On December 16, 2017, Energetic Green Co., Ltd. was commissioned to investigate the supply chain in question by MIKIHOUSE TRADE as a third-party investigative body through a third-party corporation. Energetic Green Co., Ltd. conducted an investigation as a third-party body, having organized the investigation team. This report is issued as a report on the investigation regarding sweatshop labor in the supply chain of MIKIHOUSE TRADE.

The composition of the third-party investigation body

The third-party investigative body is composed of the following corporation, association and office, with Energetic Green Co., Ltd. playing a key role. The team conducted a field survey, confirmed laws and regulations, and created this report.

1. The Global Alliance for Business and Human Rights, a general incorporated association
2. Nishiwaki Law Office
3. Nine Hill Partners Co., Ltd.

Overview of the investigation

This investigation was conducted from December 19, 2016 to January 12 2017. Takihyo Co., Ltd. (hereinafter referred to as “Takihyo”), which received orders for products by MIKIHOUSE TRADE, and other related companies were interviewed. A field survey of the factory in question was also conducted (to examine various forms and reports, to tour the factory premises, and to interview human resources and labor administration personnel, quality control personnel, and more than 20 workers).



Field survey being conducted

Regarding the supply chain (business relationship and supply of products)

In relation to business with the factory in question, MIKIHOUSE TRADE

outsources the merchandizing and production of the “PICNIC MARKET”-branded products to Takihyo. Takihyo in turn asks SEINUS Co., Ltd. (Korea) to produce, and the factory in question, SEINUS CLIQ FASHION Company Ltd. (Myanmar), produces the product (see Figures blow).

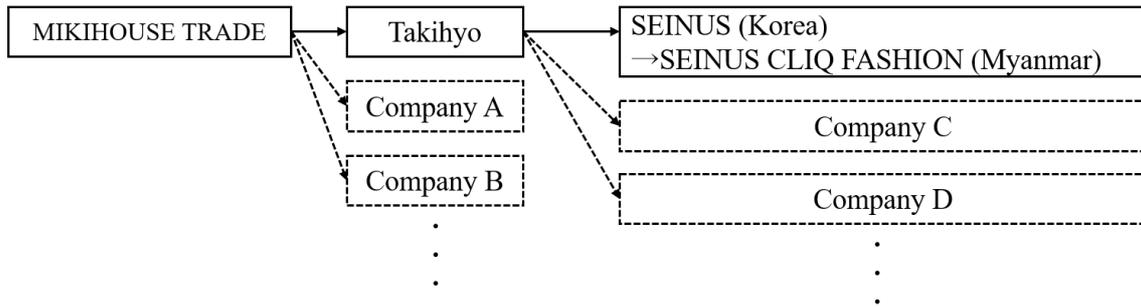


Figure 1. Business relationship between MIKIHOUSE TRADE and the factory in question

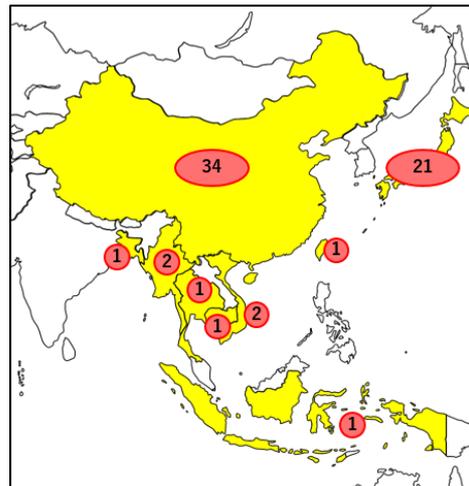


Figure 2. The number of factories MIKIHOUSE TRADE does business with by country (as of 2016)

MIKIHOUSE TRADE sells in Japan the “PICNIC MARKET”-branded products produced by SEINUS CLIQ FASHION Company Ltd. 16,000 pieces of three item numbers were ordered from MIKIHOUSE TRADE to the factory in question. It was confirmed by an interview that Takihyo’s share of the total production at the factory was roughly 4%.

Regarding SEINUS CLIQ FASHION Company Ltd.

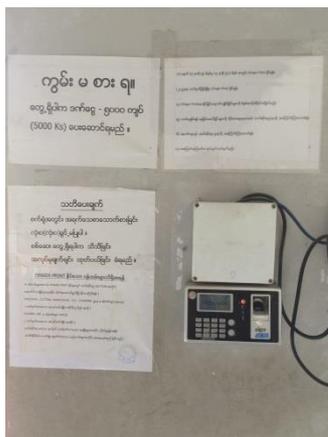
SEINUS CLIQ FASHION Company Ltd. is a factory in which Walton HK Group Ltd., a company founded in Hangzhou in China in 2012, has a 35% stake. Apart from Hangzhou, CLIQ FASHION has factories in Cambodia and Myanmar and the factory in question is the one in Myanmar. Further, the factory has a track record of being subject to CSR audit and labor audit by companies other than MIKIHOUSE TRADE.



The exterior of the factory

- Name of the factory: SEINUS CLIQ FASHION Co., Ltd.
- Address: No.21, Yangon Industrial Zone, Mingalardon Garden City, Mingalardon Tsp., Yangon, Myanmar.
- Labor force: About 650 (of which 40 are men. 70% of the total workers are migrant workers from rural areas. There are no dormitories and they rent housing in Yangon.)
- Business: Manufacturing of down, woven, and quilted jackets
- Working hours: From 7:30 to 16:15 (Lunch break from 11:30 to 12:15)

Attendance management



Fingerprint authentication device

When investigators checked attendance of the workers from outside the premises, unannounced to the factory, it was confirmed that the workers were coming to work at around 7:25 and were leaving work around 18:10 on December 20, 2016. Upon a visit to the factory on December 22 and 23, the attendance ledger for the 20th was reviewed. The records matched the actual work situation.

The attendance at the factory in question is managed by fingerprint authentication. Because there are only four fingerprint authentication devices, the factory instructs each business unit, except for the sewing personnel, that the end of a working day be recorded before the actual work ends.

The pay is calculated based on the attendance book maintained by the production line managers based on the actual working hours, not the hours recorded by the fingerprint

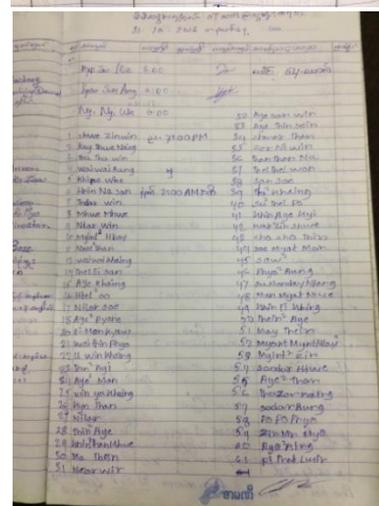
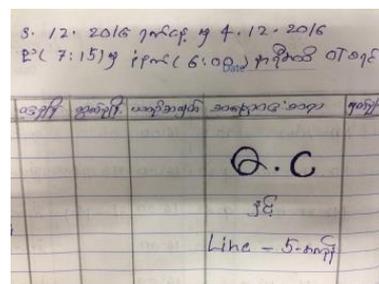
authentication devices. It is difficult for all 650 workers to use the fingerprint authentication devices at the same time, as there are only four of them in the factory. It is necessary to take measures, such as increasing the number of fingerprint authentication devices, to manage attendance accurately.

It was confirmed that an application was submitted in advance to the Department of Labour for overtime over two hours per day. Upon reviewing the application forms submitted to the Department of Labour, it was found that only production line managers, who were chosen by management to be representatives of workers, signed at the time of application. It was not that all the workers signed the forms. It is to be noted that the way the application forms are signed needs to be changed since a labor union was organized at the factory in November of 2016.

Working hours

According to the Factories Act in Myanmar, working hours are, in principle, 44 hours or fewer per week¹. Upon review of the attendance ledger, it was confirmed that there were 19 hours of overtime per week, or 63 hours of actual work per week, in July 2016. 72 hours or more of work could not be confirmed by the attendance ledger.

Although there were no records found in the attendance ledger or payment slips, it was confirmed through interviews that, in fact, there was late-night overtime and work on Sundays. It was also found, through the access control ledger that the guard maintains, that there was a history of late-night overtime from 19:00 to 2:00 a.m. A roster of workers subject to overtime was also found. It is presumed that in these cases, working hours were not recorded by the fingerprint authentication devices. Presumably, attendance was managed by ledgers that were maintained separately and extra allowance for overtime was paid based on those separate ledgers. However, it was not



A roster kept by the guard

¹ Section 59, the Factories Act, 1951

confirmed as to whether appropriate payment was made, as the payment was made separately from the ordinary pay which was recorded on the payment slips and all the forms could not be reviewed.

Regarding low wages and unpaid salaries and others

The minimum wage in Myanmar is 3,600 kyat per day. This amount multiplied by all the days of the month, including holidays, is the monthly salary. In principle, twice the rate of ordinary wages needs to be paid in case of overtime exceeding the specified hours². As an exception to this, the payment of less than the minimum wage is allowed during a period where technical training is needed prior to the probation period. Provided that the technical training period is three months or shorter, the amount not less than 50% of the minimum wage shall be paid. During the probation period, provided that it is three months or shorter, the amount not less than 75% of the minimum wage shall be paid³.

During the field survey, payment of salaries from January to November of 2016 was reviewed. As a result, it was confirmed that when there was absence from work, the pay for the Sunday of that week was also deducted. Since September 2016, this was changed to only deducting the days of absence from work, based on a request from workers. It was also confirmed that there were workers that were paid 1,800 kyat, which is 50% of regular worker's salary, for four months or more, exceeding the period of three months of technical training allowed under the law for such payment.

Based on forms and reports, it was confirmed that, in accordance with statutory requirements, twice the ordinary rate of wages was paid as overtime. It was confirmed through interviews that the overtime allowance for hours not recorded in the attendance book was paid in cash by hand, apart from the ordinary salary. Some workers said that they received the correctly adjusted amount of pay the following day by pointing out that the salary paid was the wrong amount. Presumably, this was caused by payroll being managed by and altered in two sets of books, one for payment for overtime work for which there is no official record and one for payment for hours worked on record. There were traces of alteration in attendance books and forms used on production floors. There were some forms that had attendance records on Sundays corrected with whiteout and by other means.

² Section 73, the Factories Act, 1951

³ Sub-section (I) of section 43, the Minimum Wages Rules

It was also confirmed that an amount less than 1,000 kyat out of the monthly salary was all pooled and received by the production line managers. The use of such money varied from one production line manager to another. In some cases, it was given back in the form of entertainment for the workers. On the other hand, some workers said that the use of such money was unclear and that it was never given back to them.

Employment contracts

During interviews, workers said that they signed the employment contract themselves and received a copy. However, it appears as though the documentation could have been prepared hurriedly for the purpose of audit. For instance, there was a case where even though the employment contract was signed in April 2016, the seal of the Department of Labour on the employment contract was dated November 2016.



Contracts

It was also confirmed that some of the employment contracts had necessary items left blank.

Occupational safety and health

Upon touring the factory, it felt that the factory management was being considerate, as the premises were well organized. The cooling system in the factory is the one generally used in factories in Myanmar. It is necessary to upgrade the system for a better working environment, keeping pace with the development of infrastructure upgrades in Myanmar going forward.



Inside the factory

When asked, the workers replied that they have done evacuation drills. However, some of the workers did not know what the on-premise evacuation routes were. It was also confirmed that there is a medical room on the premises and is equipped with medical supplies for first-aid.

Considerations for women

When checked with workers who are currently pregnant, they said that they

would take maternity leave as basic salary is paid over a period of three months in total, before and after childbirth. It could not be established whether they were asked if they are married or if they are pregnant at the time of employment. Some workers said that they were told to voluntarily resign when they become pregnant.

Harassment

It was found through interviews that the workers are reprimanded while at work. Upon confirmation of what they were reprimanded for, it was found that some cases had to do with mistakes made in production.

Lack of dispute resolution body

According to the interview with management, a Workplace Coordinating Committee was established in November 2016 and a labor union was organized. However, meeting minutes and the like could not be confirmed during this field survey. It is to be noted that as of July 2016, representatives of workers chosen by management did exist.

Conclusion of the investigation

Several factors are thought of as the background that resulted in working conditions and work environment as described above.

First, there is the issue of the quality of audit. The factory in question had the experience of going through a CSR audit and labor audit performed by others prior to this investigation. The workers would not have suffered like this if previous audits raised issues and genuine efforts were extended for improvement. Issues should be raised by those that perform the audit (namely, each brand, audit firm and others) with a sense of responsibility, in order to protect the workers.

It is also possible that there was a lapse of management arising from the sense of comfort that a factory that was subject to audits performed by other companies should be fine. Especially in the case of outsourced production, the company that outsources rarely visits or tours the factory. However, audits and other measures are necessary in order to grasp the working conditions and working environment. Improvements should be made to make the factory better, by better communication between the factory in question, Takihyo, and MIKIHOUSE TRADE, even if production is contracted out.

Further, it should be considered as to whether business between the factory in question and Takihyo is done at an appropriate price to the extent that living wages, not minimum wages, can be paid to workers. MIKIHOUSE TRADE as the ordering party needs to think of measures to take, upon confirmation with Takihyo, so that appropriate wages can be paid.

Actions to be taken going forward

MIKIHOUSE TRADE should clarify its policies as a corporation by formulating CSR procurement guidelines and a code of conduct. These need to be thoroughly communicated throughout the supply chain.

Actions need to be taken for improvement, while considering coordinating with outside bodies in some cases, together with Takihyo, regarding the issues that were made clear with this investigation and issues pointed out by Human Rights Now, the international NGO. Monitoring in the medium to long term is also necessary.