

# **KKR Reaps Profits from Sweatshop Labor**

*Illegal Conditions at Four Dollar General Supplier Factories*

## **A China Labor Watch Investigation**

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## I. Introduction

In November of 2009, Dollar General went on the market, with major profits going to its majority owner, investment giant Kohlberg Kravis Roberts (KKR). Dollar General is one of the few companies to fare well in the current economic situation. Its low-priced goods are attractive to communities across America who face shrinking household budgets and growing unemployment rates. The real price of these goods is paid by the Chinese workers who make them, often in illegal and inhumane conditions. And the real profits go to KKR, which takes advantage of this unsustainable relationship between resource-strapped Americans and exploited Chinese workers to bank millions of dollars on its investment.

KKR is willing to invest in sustainability when it will raise profit margins. It collaborates with the Environmental Defense Fund to improve the environmental performance of 8 companies in its investment portfolio, including Dollar General, and boasts that this program saved the corporations \$16.1 million in 2008. Yet KKR turns a blind eye to the human impact of the massive production outsourced by Dollar General and other companies in its portfolio. Dollar General does not even have a corporate responsibility department, let alone an effective system for handling the massive human rights abuses in its supply chain. Apparently, KKR does not see this as an important feature in its corporate investments. For KKR, human rights are a priority only when it serves the bottom line.

When Dollar General went on the market in November, after a two-year hiatus following its purchase in 2007 for \$6.9 billion by an investment group that included KKR among others, it raised a total of \$716.1 million<sup>1</sup>. While this intangible figure may have a very real meaning to KKR and other investment firm executives, China Labor Watch believes the details of workers' lives who make Dollar General's merchandise will make more sense to American consumers. The current report details conditions in four Dollar General supplier factories. Workers at these factories work 2-4 hours of overtime daily, some never get weekends off, and many have illegal contracts, no insurance or even gloves or safety masks to wear at work. They make \$147-\$190/month, hardly enough to purchase even the low-cost goods they themselves produce.

CLW urges KKR to invest in sustainable production, rather than sweatshop conditions. In order to prevent worker exploitation, Dollar General must establish a corporate responsibility program and ensure that supplier factories meet minimum legal standards. Current profit margins may be high, but so is the human cost.

## II. Report Background

China Labor Watch (CLW) has written several reports on factories manufacturing for Dollar General over the years. In December 2005, for example, CLW teamed up with the

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<sup>1</sup> "Investors clamor for Dollar General," *The Clarion-Ledger*, <http://www.clarionledger.com/article/20091114/BIZ/911140329/1005/rss03>, November 14, 2009.

National Labor Committee to expose abuses at the Huangwu No. 2 Toy Factory in Dongguan, Guangdong Province, a Dollar General supplier where workers earned as little as half the legal minimum wage if they failed to meet production quotas. A year ago, in December 2008, we revealed the anguish of workers at another supplier in Dongguan, Source Pro Industries, who, faced with the double burden of the global economic crisis and a heartless employer, were forced to forfeit their right to social insurance. This winter brings four more reports, one of them a return to Source Pro and the other three covering entirely new firms, all of which demonstrate the discount retailer's irresponsibility.

At the Rong Xin Appliance Company in Huizhou, workers are not given a copy of their contracts, must work excessive hours in the injection-molding department, and risk frequent injuries from outdated equipment. Meanwhile, over at the Shijie Sujiao Can Dian (Bao'an) Company in Shenzhen, employees suffer wage arrears, wretched smells that they must endure without face masks, discriminatory hiring, dark dormitories where 12 workers sleep in each room, and disguised layoffs. Shenzhen Sun Cheong Plastic Product is not much better: poor safety equipment and excessive fees. Source Pro, the subject of our previous report, has still not improved. Its workers continue to be forced to sign away their right to social insurance, work for less than the legally mandated rate for overtime, and deal with frequent fines for small infractions. We detail these and other conditions in the factory profiles below.

Another feature of this report builds on CLW's previous investigations. This is the fact that all of the factories listed here were audited by Bureau Veritas (BV) in 2008 and 2009. Our recent report "Corrupt Audits Damage Worker Rights" details the ways in which BV auditors have personally profited off the auditing process by directly and indirectly accepting bribes from factories. It is no surprise that KKR, Dollar General and BV have been found to come together in Rong Xin Appliance Company, Shjie Sujiao Can Dian Company, Shenzhen Sun Cheong Plastic Product and Source Pro. Poor conditions create predictable bedfellows.

Why does Dollar General so stubbornly resist pressure to improve its conditions? As mentioned, it enjoys strong backing from KKR. It is, additionally, audited by a flawed auditing process. Moreover, its success is built on the un-branded-ness (and therefore ultra low cost) of its products. Who thinks for more than a millisecond where a generic toy or tube of toothpaste comes from if it costs less than a dollar? The company may see nothing to gain from considering a sustainable framework for its production, one that could benefit all its stakeholders, including factory workers and local communities.

However, CLW believes that at a time when the global financial crisis is squeezing working families in the United States and around the globe, driving them to hunt for bargains in places like Dollar General this holiday season, people will feel a special solidarity with workers in China who are also struggling to make ends meet.

### **III. Overview of Typical Violations**

All four factories in the report break a large number of Chinese labor laws in order to produce cheap goods at the lowest costs. These factories reduce worker wages by directly underpaying wages, fining workers, and denying benefits, basic safety provisions, proper contracts and good living conditions. The following breakdown of violations represents conditions at four randomly selected Dollar General suppliers, and conditions across the thousands of factories in DG's Chinese supply chain can be expected to have similar violations.

As noted above, all of these factories have been subjected to BV audits. Do the factories pay bribes to auditors to pass audits successfully? Or does DG merely conduct its third party audits for public relations, tucking away evidence of serious labor rights abuses and continuing to outsource its production to factories with known sweatshop conditions? Given the lack of response to CLW's last report on DG factories, DG has demonstrated that even when it is informed of supplier violations, it has no response. Known or unknown, the following violations exceed any acceptable standards, including China's labor laws.

#### ***Illegal Hiring and Labor Contract Procedures***

Of the four factories, two practice discriminatory hiring procedures which are not uncommon. Shijie requires workers to be 20-30 years old and has demonstrated preference for workers from Guangdong and Guangxi provinces. At Source Pro, workers with tattoos or unusual haircuts are not hired.

While discrimination targets just some workers, all four factories target all workers with rights abuses in its contract procedures. At three of the four factories are not even given a copy of the contract they sign, and at the other factory, Sun Cheong, workers do not even sign a contract until after the 2 month probationary periods. Nearly all of the factories take advantage of several months of the probationary period to abuse worker rights-denying benefits at Sun Cheong, and overtime opportunities as well as the ability to receive wages when they quit at Shijie.

#### ***Low Wages, Long Working Hours***

Wages are strikingly low at these four factories. Wages range from 1,000-1,300, with the only exception being the Injection Molding department of Rongxin (workers there make 2,000/month but also work over 110 hours overtime/month and sometimes overnight). At Shijie, overtime wages and regular wages are paid separately, and the overtime wages are sometimes late, usually one week but up to three months. At Source Pro, the overtime wage rate is not paid at all, meaning overtime hours are paid at 67% the legal limit.

The factories rush workers during work in addition to at times crushing overtime. At Source Pro, so many workers quit during the busy season that a single worker will have

to do the work of 2-3 people. Overtime is 11.5-12.5 hours/day, for a total of 120 hours/month, and in the busy season workers have no days off. At Rongxin, some workers are only given 30 minutes for lunch. All four factories require workers to work at least 2 hours overtime/day.

### ***Excessive Fines and Benefits Withheld***

Three of the factories reduce worker wages by means of excessive fines. At Source Pro and Sun Cheong, workers who are late by one minute will lose 10 RMB. Workers absent for half a day will have 1.5 day's salary deducted, and absence for 1 day will result in deduction of 3 day's wages. At Rongxin if workers are one minute late they will be fined half an hour's wage. Workers are fined 20 RMB for smoking in the factory.

Another way to reduce costs is elimination of social insurance. New workers at Source Pro and Rongxin are forced to sign a document forfeiting all rights to social insurance, except workers in the Hardware and Woodworking Departments at Source Pro who are required to purchase work injury insurance because of the high rate of worker injury. Insurance is voluntary at the other two factories.

Shijie has an even more insidious means of underpaying workers: disguised layoffs. Because laying off workers requires paying severance of one month's wages for each year workers have been at a factory, a disguised lay-off is a way of coercing workers to quit rather than laying them off in order to avoid paying severance. At Shijie, managers will change workers' positions, refuse to schedule overtime, and decrease workers' salaries to force workers to quit.

### ***Unsafe Conditions***

Another area where the factory is able to cut down on costs is investment in personal protective equipment (PPE), training and other safety mechanisms. All four factories have major safety issues. Our investigations noted that Sun Cheong and Source Pro offered no safety training. At Sun Cheong, PPE is only changed monthly, and workers often do not use it for this reason; the workshop is also excessively hot. At Shiejie, the workshop smells rancid and workers have no mask, At Source Pro and Rongxin, worker injuries are common. Two workers were injured in the first week of December alone at Rongxin. One worker had the bones in his fingers crushed, and was still in the hospital at the time this report was written.

### ***Poor Living Conditions***

In addition to poor working conditions and remuneration, the conditions in which workers at these Dollar General factories live are also substandard. The dormitories at three of the four factories are particularly bad. At Shijie, 12 people are cramped into tiny dorm rooms, which are dark due to poor lighting, and humid as well. At Sun Cheong, bathrooms lights do not turn on, drains are clogged, and fans have been broken for two years with no response from the factory. At Source Pro, there is no hot water in the

dormitory. Canteen food is uniformly poor, except at Shijie where the canteen has closed entirely.

## **IV. Investigation Results**

### **1. Rong Xin Appliance Co., Ltd.**

The investigation identified the following issues:

1. Illegal Contract Procedures- Workers are not given a copy of the labor contract
2. Excessive working hours in the injection molding department.
3. Social Insurance- Workers forced to sign away rights to social insurance
4. Some workers are only given half an hour for lunch
5. Inappropriate fines
6. Poor canteen food
7. Safety Issues- Machinery is old and worker injury is frequent
8. No new contract for workers who migrated from the old factory.

#### *I. Factory Profile*

Huizhou Rongxin Appliance Co. is a Taiwan-invested enterprise. In March 2004 the factory purchased 500,000 square meters in the Huizhou Special Economic Zone and the factory went operational March 2009. Currently the factory employs 1,000 people. Its predecessor, Qing Hai Electronics, had 15 years of history producing goods for export. The factory produces 10 million units of electronics for export around the world each year. Its main products are Alexis brand fans, juice machines and other small household electrical appliance, and sports equipment.

Address: Huizhou Special Economic Zone, Rong Xin Road  
Telephone: 0752-3078886

#### *II. Recruitment and Hiring*

The factory is currently hiring both male and female workers. Age requirements are 16-35 years old, and actual ID cards are required. Newly hired workers must pay for a 50 RMB medical examination. Some workers are able to use connections to give the factory a card that states they have passed the exam without paying the fee. Newly hired workers are also required to sign an affidavit forfeiting their right to social insurance. Workers who do not sign are not hired.

#### *III. Labor Contracts*

Newly hired workers must sign a labor contract. The contract length is one year with a one month probationary period. Workers sign two copies of the labor contract, and are not allowed to keep a copy. The contract contents are already printed, and workers merely add their name and fingerprint. Base salary for all workers is 670 RMB/month.

#### *IV. Wages and Working Hours*

The factory operates on a 5 day/week, 8 hour/day system, beyond which all working time is overtime. Overtime for the Injection Molding department is rather long. Hours are from 8-11:20 am, with 30 minutes for lunch, then 11:45 am-5:30 pm, with 30 minutes for dinner. Overtime is at least 3 hours/day from 6-9 pm, and when orders are high workers will work until 11 pm and even overnight. Because of the short eating time for workers in the Injection Molding Dept., workers must eat very quickly before rushing to punch in to work. Overtime exceeds 110 hours/month.

Workers in the Assembly Department work from 8-11 am, with 1.5 hours for lunch, then 1-5:30 pm. Overtime for Assembly Dept. workers is less frequent, and when orders are high workers will work overtime 3 hours/day. Currently workers do not work overtime on weekends and rarely work overtime on weeknights.

Wages are paid on an hourly system. Wages consist of base wages of 670 RMB/month + overtime wages + labor protection bonus of 130 RMB. Overtime is paid at 1.5 times normal wages for regular overtime and 2 times for weekend overtime. Assembly Dept. workers make are 1,000 RMB/month and workers in the Injection Molding department make 2,000 RMB/month or more, since they have more overtime opportunity.

Workers can choose to have wages distributed by bank transfer or cash. There are ATM machines within the factory.

#### *V. Fines and Benefits*

The factory provides a bonus of 130 RMB/month to workers for labor protection. There are a number of fines at the factory. For example, if workers are one minute late they will be fined half an hour's wage. Workers are fined 20 RMB for smoking in the factory. No workers have purchased social insurance and newly hired workers must sign and fingerprint a form forfeiting this right.

#### *VI. Labor Protection*

The factory does not provide workers with necessary safety equipment like gloves and masks. All machinery and equipment in the factory is used and seriously aged. According to workers in the Injection Molding Dept., two workers had already had work related injuries in the first week of December. One worker had the bones in his fingers crushed, and was still in the hospital. At the time, the worker was operating a large mold that did not slide automatically but required workers to use their hands to push in the products. Because the machine moved too quickly for the worker to remove his hand, it was crushed by the machine. Since the factory does not allow workers to purchase insurance, it needs to compensate the injured worker. The same worker stated that once,

that the mold fell off near his head. Luckily it did not land on his head, but if it had, there would have been dire consequences.

### *VII. Dormitory and Canteen Conditions*

The factory provides free room and board to workers. Dormitory rooms can hold up to 16 workers and generally hold only 7 or 8. Rooms have independent bathrooms. Hot water is provided for free. Dormitory conditions are relatively good.

Canteen meals are also free. Workers can choose four dishes, and choices include one meat and four vegetables. Workers serve their own rice as well as soup. Because meals are all you can eat, the focus is on eating until workers are full rather than eating well. Workers wait to the weekend when they will go outside the factory to eat well at a restaurant.

### *VIII. Leaving the Factory*

Quitting is not difficult. Workers must submit an application to leave one month in advance to quit. If workers quit within one week of working they will not receive wages. Workers who quit within the first month will have two days wages deducted.

### *IX. Issues with Factory Migration*

Previously, Rongxin Factory was known as Shenzhen Qinghai Electronic Factory. In 2009 all of Qinghai factory was moved to Huizhou. When workers moved to the new factory, their service history was reset to zero, and workers were compensated with one month's salary for each year they worked. Workers contracts, however, still state Qinghai factory, and workers merely changed their work cards. Because the factory does not purchase social insurance for workers, it also did not resolve any insurance issues. The current Qinghai factory is empty, with only a few security staff and a dozen workers remaining. Its branch factories have also closed, and four new companies have hung company signs. Workers who did not want to relocate to the new factory simply quit after receiving their compensation.

### *X. Other*

The area around the plant is desolate. Other than overgrown weeds, there are no shops or restaurants. If workers want to buy things or go online, they must travel 2 km.



## **2. Shijie Sujiao Can Dian (Bao'an) Co., Ltd.**

The report identified the following issues:

1. Discriminatory Hiring- Workers rejected based on hometown
2. Poor Living Conditions- Dormitories are dark and 12 workers share one room
3. Safety Issues- Workshop smells and workers have no safety masks
4. Wage arrears- Overtime wages not paid for up to three months
5. Disguised layoffs- Workers coerced to quit to avoid paying severance
6. Difficulties quitting in the probationary period

### *I. Factory Profile*

Shijie is a subsidiary of the Shijie Group, and was founded in Pingshan Street, Longgang District, Shenzhen City in 1989. The company was listed in Hong Kong in April 1993. Currently, the factory employs almost 3,000 workers. Primary products included printed products, shower curtains, plastic cookware, mats and towels. Products are exported to America, Canada, Europe, Japan and Australia, and reach a total of over 40 countries. Annual export value exceeds 1 billion HKD.

Address: 411 Dong Zong Road and Pingshan Road, Longgang District, Shenzhen City, Guangdong Province  
Tel: 86-755-8826480

### *II. Recruitment and Hiring*

There are two major methods for hiring new workers. Current workers may introduce new workers, and the factory also recruits at the main gate. Introductions are the main method of most current hires. Although the factory gate has a recruitment sign, the factory will not hire workers in this way. Age requirements are 20-30 years old. Geographical requirements are for workers from Guangdong and Guangxi. Supervisors from departments that need workers will hire the workers they need from 9-9:30 am Monday-Friday. During recruitment, factory staff first inquires where applicants are from, then examines their ID. Only those who meet the factory requirements are hired, and others are told they are inappropriate if they are told anything at all.

Newly hired workers must pay for a 45 RMB medical examination. There is no deposit for newly hired workers.

### *III. Labor Contracts*

Workers sign a labor contract 3 months after they are hired. Workers sign two copies of the contract but are not allowed to keep a copy.

#### *IV. Wages and Working Hours*

The factory operates on a 5 day/week, 8 hour/day system. Workers who complete these hours receive a base wage of 900 RMB/month. Normal overtime wages are 1.5 times normal wages, and weekend overtime is 2 times normal wages, but there is rarely weekend overtime. One worker who had been at the factory over a year stated “this year the factory has not scheduled any weekend overtime.” Normally, workers work 2 hours of overtime/day. So most workers’ salaries are only about 1200 RMB/month. Wages are paid in cash, twice per month. Base wages of 900 RMB are paid on the 15<sup>th</sup> and overtime wages and bonuses are paid at another, unfixed time. Usually these are paid at the end of the month. Sometimes they are paid one week late, and at most they have been paid 3 months late.

During the three month probationary period wages are paid at an hourly rate. After three months, workers are paid piece rate. Wages for hourly and piece rate work is the same, and in both cases wages are calculated as base wage + overtime. A wage calculation chart is included with wages.

#### *V. Dormitory and Canteen Conditions*

This year, the factory closed its canteen. Workers either eat outside the factory or return to their rented apartments to cook. The factory no longer provides meals to workers, nor does it provide a meal subsidy. At noon every day, there are two push-carts that sell food at the factory gate for 5 RMB and 8 RMB. The 5 RMB meal consists of one meat and one vegetable dish, and the 8 RMB meal includes two meat and two vegetables, with a free soup. Workers must therefore spend at least 300 RMB/month on food.

The factory dormitory is very old. Each room has 12 beds. Rooms have an independent bathroom. The balcony area is very small, and clothes hung to dry all stick together. There is very poor lighting in the dormitory, and also excessive moisture. Workers must pay 150 RMB/month as dormitory fee, plus 200 RMB/month for utilities. In total, then, room and board costs nearly 500 RMB/month.

#### *VI. Safety Protection*

In the workshop where tablecloths are manufactured, there is a strong smell, but workers are not given masks to wear during working hours. Many workers do not have masks.

The factory buildings are constructed with iron, and become very hot in the summer. Although there are fans, they are rarely used. There is discarded fabric and paper blocking pathways all around the workshop. The back door is blocked all year round, and in that area are laid out all kinds of chemicals including thinner. The factory provides no special examinations for special type workers.

### *VII. Leaving the Factory*

Newly hired workers must complete three months of work before they are allowed to quit, otherwise they will be considered as leaving without approval and cannot receive any wages. Workers in the probationary period have no overtime unless there are many orders to catch up on.

### *VIII. Disguised Layoffs*

The factory does not want to pay severance associated with a layoff therefore it has instituted disguised layoffs. The factory will change workers' positions, refuse to schedule overtime, and decrease workers' salaries to force workers to quit themselves. This way the factory is not required to pay severance.

### *IX. Insurance*

There is no social insurance for workers in the probationary period. After workers have signed a contract, they may purchase social insurance for 90 RMB/month.

## **3. Shenzhen Sun Cheong Plastic Products Co., Ltd.**

The investigation identified the following issues:

1. **Illegal Probationary Period-** There are no benefits for workers during the probationary period. Workers will receive no wages if they quit in their first 7 days.
2. Excessive fines
3. **Poor dormitory conditions-** bathrooms lights do not turn on, drains are clogged, and fans have been broken for two years with no response from the factory.
4. **Safety issues-** The factory organizes no training for newly hired workers. Workers do not wear protective equipment because it is only changed monthly. The workshop is excessively hot.



### *I. Factory Profile*

Shenzhen Sun Cheong Plastic Products Co., Ltd. employs around 700-800 workers and consists of two factory buildings. Workers stated that before, there was one building and only after another factory moved to Long Gang did the factory expand its area. The company produces plastic products and is a Hong Kong-owned foreign trade company with offices in Hong Kong, Guangzhou and Australia. Products for export include light

industrial, household and everyday products. Every year the factory participates in domestic and international meetings to expand trade opportunities.

Address: Zhu Guang Village, Xi Li Area, Nan Shan District, Shenzhen City, Guangdong Province

Telephone: 0755-26782786

## *2. Hiring and Recruitment*

There are two processes of hiring new workers: first, the factory posts a recruitment ad at the gate; second, recruitment at the labor market. New groups of workers all have a physical examination (costs paid by workers), provide 2 copies of their ID, 2 photos, and men must give a 20 RMB deposit which will be returned when they leave the factory. Uniforms are 12 RMB each, and they are not returned when workers leave. Headwear is provided one per worker, and they are left over from old workers who retired, that is, they are old. Both headwear and uniforms are in the HR Department. Uniforms are not returned and most workers buy one. Headwear can be purchased optionally. Two security staff stated that uniforms were provided to them at no cost.

## *3. Labor Contracts*

Probationary period- Workers do not sign a labor contract when they are first hired. The factory rules state that workers sign a contract after the probationary period, which lasts 2 months. There are no benefits for workers during the probationary period. Workers who wish to quit during the probationary period must complete 7 days in order for their request to be approved.

Labor Contracts- According to the factory rules, contracts are only signed after completion of the one month probationary period. The labor contract is for a 5 day/week, 8 hour/day system, with a base salary of 1000 RMB/month. Workers sign two copies of the contract, and both the factory and the workers retain one. The contract length is one year. Overtime wages are paid according to the legal rate of 1.5 times normal wages for regular overtime, 2 times for weekend overtime and 3 times for holiday overtime. In order to quit, workers must give one month's notice and file a written request.

## *IV. Labor Protection*

The factory organizes no training for newly hired workers. Workers go directly to their post.

The factory provides safety equipment, including gloves, earplugs and masks which can be changed once per month. Because they are only changed monthly, workers often do not use the safety equipment, and some never use it at all.

Workshop and sanitation: The temperature in the Spray Molding department is very high, and there are only a few fans to regulate heat. Even in the winter, workers can get by

merely wearing light clothing, and in the summer it is unacceptably hot. The workshop is messy and products are placed all over. There is very little free space in the workshop.

#### *V. Working Hours*

Working hours are from 9 am-1 pm and 2-6 pm, without overtime immediately following until 8 pm.

Male workers are most often in the Machinery or Injection Molding Departments, where there is usually very little overtime. The Spray Molding department has two shifts of 12 hours/day each, of which 4 hours are overtime. Counting 30 minutes for lunch, each day only 3.5 hours of overtime are given. This overtime is not voluntary. Overtime wages are not distributed with regular wages, but are distributed as cash on the same day the overtime is worked. Monthly wages only include base wage. Workers are able to earn 1100-1300 RMB/month. Workers who do not want to work weekend overtime must request time off from supervisors. Overtime wages are paid according to the law.

#### *VI. Insurance*

After signing the contract, workers are able to purchase social insurance for 84 RMB/month. This includes retirement, medical and work injury insurance, and it is unclear the cost of each kind. Insurance is only purchased for willing workers.

#### *VII. Dormitory and Canteen Conditions*

The factory provides dormitory housing but conditions are poor and male and females worker are all together on the 6<sup>th</sup> floor. Each room has 5 top and bottom bunk beds, and in general, 6 to 8 workers sleep in the room. The shower and toilet are together, one per room. They are very small and two people can barely fit inside. The light to the porch and bathroom are off, the drains are clogged, the fans have been broken for two years and no one has responded.

One worker stated that conditions in the dormitory were unchanged over 2 years, and after complaining to high-ups countless times, nothing had been done.

Workers must pay 50 RMB as dormitory fees not counting utilities. Workers in the dormitories can cook because there are electric outlets everywhere, and power is used all over which is not safe. No one inspects whether the electrical situation is dangerous.

The dormitory is messy, cords are everywhere as well as electric hotplates, fans and television sets. Workers state that rent and utilities together are around 110 RMB/month.

Because workers can cook for themselves, few workers eat in the cafeteria. The cafeteria is also far, in the downstairs of the office building. Office staff and workers eat together

and the food is the same. Utensils have been sterilized. Most workers live outside the dorm, and many have family, relatives or friends working nearby. Some especially young workers felt wages were too low, and if they stay in the dorm they eat there. Few workers eat in the canteen, one meal is 4 RMB, with two vegetables and one fried dish and a soup

#### *VIII. Reward and Punishment*

The factory does not offer any awards. Workers who are absent one day will have 3 days wages deducted. And workers 1-10 minutes late will have 10 RMB deducted. Workers who are absent for 3 days are considered to have quit.

#### *IX. Other*

Workers are unsure if there is a union. This shows that the union here is largely ineffectual.

### **4. Source Pro Industries, Ltd.**

The report identified the following issues:

1. Discriminatory Hiring- Workers with tattoos or unusual haircuts are not hired.
2. Illegal Contracts- Workers forced to sign away right to social insurance. Workers are not given copies of the contract and some do not even sign.
3. Excessive working hours- In busy season 4 hours of overtime daily and 8 hours on weekends, 120 hours/month.
4. Illegal wages- Workers paid below legal minimum for overtime wages.
5. Poor living conditions- Canteen and dormitory conditions are poor
6. Safety issues- worker injury common
7. Excessive fines



#### **I. Factory Profile**

Source Pro (Dongguan Shouzi Bao Dianqi Zhizao Youxian Gongs) was established in October 2000. It is a Hong Kong invested company. Source Pro employs over 900 workers. The factory currently produces electronic fireplaces, bathroom storage, tents, and cartoon-related family products, and exports these goods to Europe, America and Canada. Source Pro is currently manufacturing Twin-Star electronic fireplaces for export to the US and Europe.

Address: #6 Yingfeng One Road, Ying-Hu Industrial Zone, Xiewan Town, Dongguan City, Guangdong Province China  
Tel: 0769-87130818  
Website: [Http://www.soupro.com](http://www.soupro.com)

## *II. Recruitment and Hiring*

During recruitment, workers must complete an application provided by the factory, and provide three copies of photos and ID cards. The factory does not inspect actual IDs, and does not arrange physical examinations for most applicants, although some positions do require a physical exam. There is no training prior to placement in a position. Workers also sign no contract, but are required to sign a form stating that they voluntarily forfeit their right to purchase social insurance, and will follow all factory rules. Before going to their positions, HR staff will read the factory rules to workers, after which workers will go directly to their new positions. Applicants who have tattoos or unusual haircuts will generally not be hired.



## *III. Labor Contracts*

After workers have completed a period of work, the factory will sign a labor contract with them. The specific amount of time is unfixed but does not exceed one month. Workers sign two copies of the contract, both of which are retained by the factory. Workers state that the contract is merely a formality, and it makes no difference if they sign. The contract stipulates a 770 RMB/month base salary and one month probationary period, with workers hours at 5 days/week for 8 hours/day. Some workers state that they have not signed a labor contract, and that treatment is the same.

The factory operates on a 26 day system, with 8 hours/day. Most positions in the factory are paid on a piece rate system, and some are paid by an hourly wage.

#### *IV. Working Hours*

There are two different shifts at the factory:

Shift One: Morning: 8 am-noon; Afternoon: 1:30-6 pm, Evening 7-10 pm

Shift Two: Morning: 8 am-12:30 pm; Afternoon 1:30-5:30 pm; Evening 7-10 pm\*

\*Woodworking Department works until 11 pm

In the slow season, workers have 1 day of rest/week. In the busy season, workers work 7 days/week, and only have less or no overtime scheduled for Saturday and Sunday evenings. Daily working hours, therefore, are around 11.5 to 12.5 hours, and according to the contract anything beyond 8 hours should count as overtime. In the piece rate system, however, the factory does not clearly differentiate between overtime and regular working hours. Because the work is so exhausting in the busy season, many workers quit and the factory has trouble hiring new workers to replace them. As a result, many positions are left vacant and one worker will have to do the work of 3 workers. One worker stated, "I am so busy that I do not even have time for a drink of water or to use the bathroom."

#### *V. Wages*

Workers make about 1,000-1,300 RMB/month (this figure includes overtime and deductions for room and board). Wages are distributed on the 25<sup>th</sup> of the following month, as cash or bank transfer. Wage slips are distributed with wages.

In 2008, the factory began paying wages on a piece rate system. This system does not differentiate clearly between overtime and regular wages. Workers state that wages in the piece rates system are basically the same as in the hourly wage system. If wages are calculated hourly, overtime wages are extremely low. It is apparent, then, that this new wage calculation system is merely a means of distracting workers from existing wage issues.

Workers are able to enjoy days off on official holidays and maternity leave and paid vacations.



## *VI. Dormitory and Canteen Conditions*

Workers are free to choose if they will live in the factory dormitory. The factory provides free housing, and the dormitory has air conditioning. Workers must pay 15 RMB/month when the air conditioning is used as an AC fee. If workers eat in the factory canteen, they are charged a canteen fee of 75 RMB/month. Workers who live and eat outside the factory are given stipends of 30 RMB and 100 RMB.

There is a four story workers dormitory onsite. From the first to the third floor of the dormitory are male dormitory and the fourth floor is a female dormitory. There are three exits in the dormitory open at all time, and the stairway to the fourth floor has a metal gate though it has never been locked. Each story has about thirty rooms and each room has ten bed spaces housing six to eight workers. Inside a dorm room, there are three ceiling fans, about ten closets with broken locks, A/C outlets, a balcony and a shower room without hot water. On each side of the hallway on each floor, there is a public restroom with shower rooms and in front of its entrance is a hot water distributor. Similar to the shower room in the dorm room, the public shower room has no hot water. Both the public restroom and shower room has the capacity of five persons. There is a hot water machine in the restroom. Nearly each dormitory lock is broken, and the closets in the dormitory (10 total) also have broken locks. Day and night alike the dormitory door is open. The factory rules state that men cannot enter the women's dormitory and vice versa, but this rule is often broken.

There is no one regulating the dormitory during workers' afternoon break. During this time, there is a song played throughout the dormitory which can be heard outside the factory, which disturbs workers' rest. The song only stops once workers return to work.

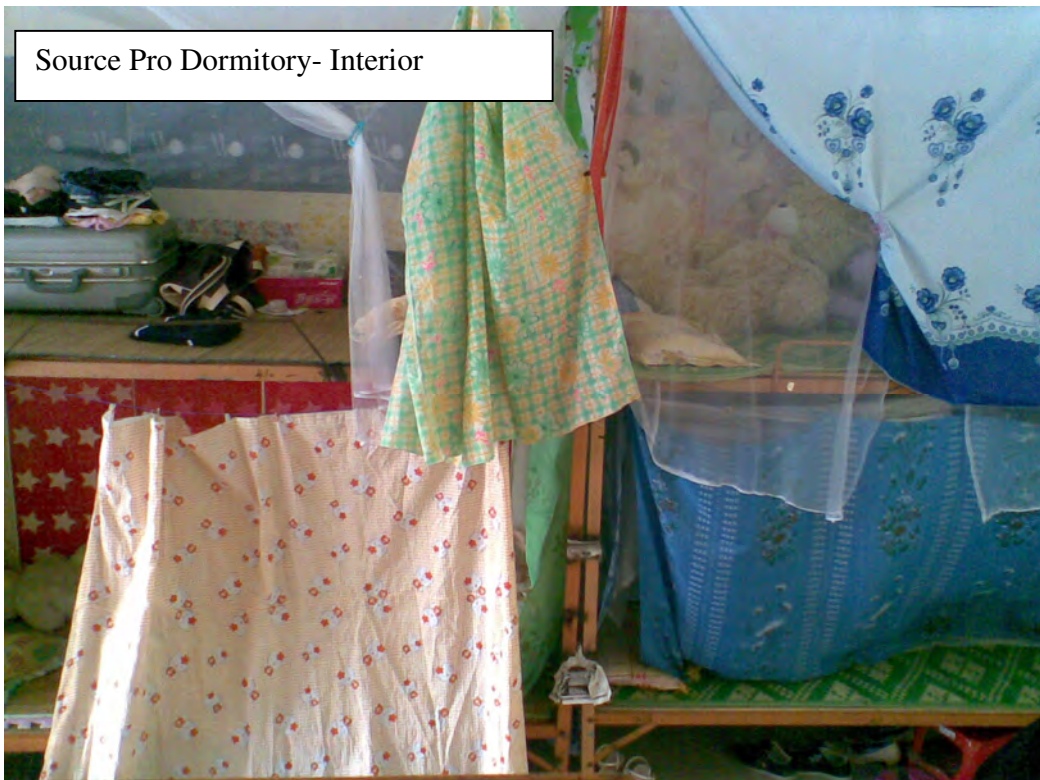
The factory organizes three meals a day for workers, two of which require punching meal cards. There are two rooms in the cafeteria, which can only hold 400 workers at a time. Cafeteria fees are 75 RMB/month and meals are ordered with meal tickets. There is no opportunity to choose food. Breakfast consists of soy milk, fried dough, congee, and steamed buns. Lunch and dinner include three dishes and a soup, including meat. Workers serve rice and soup themselves. Workers state that the food is often very poor.

Security staff are charged 105 RMB/month for canteen fees and receive an extra dish.

Source Pro Dormitory- Exterior



Source Pro Dormitory- Interior





### *VII. Safety Protection*

The factory does not provide any training to newly hired workers. Aside from workers in the Hardware and Woodworking Departments, where worker injury is more common, workers cannot purchase work injury or medical insurance. Although workers cannot purchase social insurance, the union will purchase collective insurance.

Workers in the Assembly Department are required to stand while working. Workers complain that this is too tiring, especially during the busy season. Many workers quit because of exhaustion and low salary, and other workers are forced to complete the work of 3 or 4 people. Many newly hired workers and temporary workers will quit after several days as well. During night time overtime work, workers often sit on the ground or on boards to rest.

Since there are no first aid boxes inside the workshop and no clinic on site, when a work injury occurs, Source Pro can not perform immediate treatment but only drive the injured worker to a nearby hospital. In May, a worker in the Hardware Department had four fingers crushed.



Source Pro Workshop- Line Workers





### *VIII. Penalty and Awards Systems*

Before workers begin their position, HR staff reads them the factory rules, which include many fines. For example, if workers are late by one minute, they lose 1 point, or 10 RMB. Workers absent for half a day will have a day and a half salary deducted, and absence for 1 day will result in deduction of 3 day's wages. Workers use cards to clock in and out of work. Because it is easy to request absence, workers generally are not fined.

### *IX. Other*

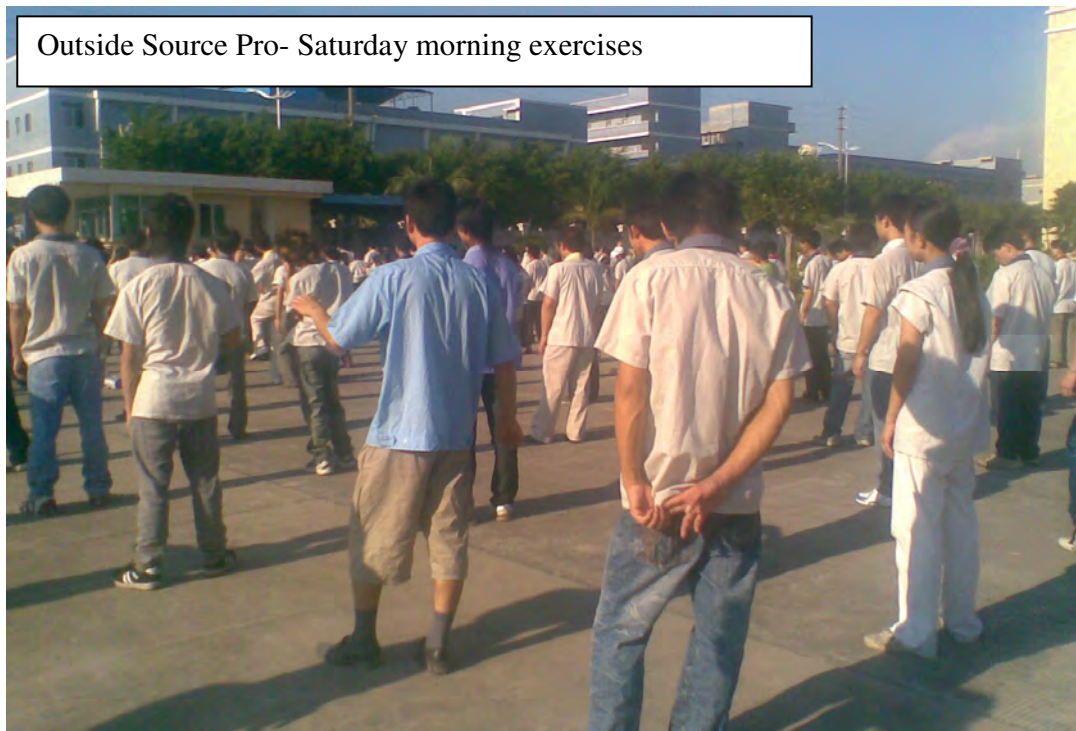
When factory leadership tours the factory to inspect workers, they will occasionally fire people. One male worker was fired because a factory manager felt he was not busy enough during one such inspection.

Workers who wish to quit must wait for factory authorization to take suitcases out of the factory.

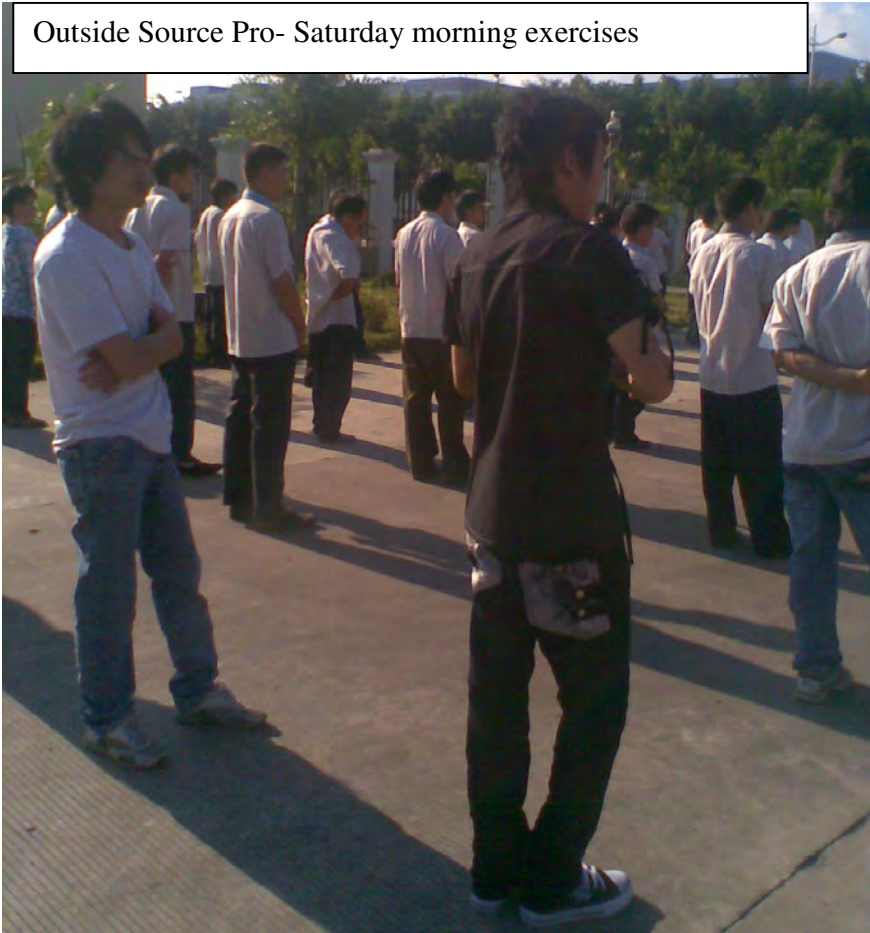
There is no supermarket or store within the factory, and very few markets within 500 meters of the factory.

There are two smaller factories owned by the factory. One called Ci Tong and the other is unclear. Ci Tong is located in the same industrial complex and mainly produces electronic fireplaces. Currently this factory employs 100 workers.

There is a morning exercise every Saturday morning in which factory managers lead workers in Tai-Chi exercises. Workers complain that managers often treat them poorly during these exercises.



Outside Source Pro- Saturday morning exercises



Outside Source Pro- Saturday morning exercises

