AN INVESTIGATION OF SUPPLIERS OF DOLLAR GENERAL

Investigation of Illegal Conditions at Four Dollar General Supplier Sweatshop in China

– Where KKR Profits

By China Labor Watch
August 10, 2010

I. Background

With more than 8,800 stores across 35 states, Dollar General Corporation (DGC) is one of the biggest retailers in the U.S. The products on DGC’s shelves include paper products, cleaning liquids, health and beauty aids, food, snacks, household utensils, toys, clothing and seasonal items. The stores are mainly located in communities with less than 25,000 residents, although there are also some branches in urban areas. Customers of DGC are primarily low-income people, welfare recipients, and retirees. The company’s stated missions include: serving customers, improving consumers’ quality of life, increasing benefits for investors, respecting employees and providing them with personal development opportunities. Its slogan is, “Save time. Save money. Every day!”

Kohlberg Kravis & Roberts (KKR) is one of the biggest private equity firms in the world that sponsor and manage investment funds. KKR is the major investor and the biggest shareholder of DGC.

A series of investigations by China Labor Watch (CLW) revealed that while DGC helps low-income Americans save on the daily use products, DGC is cooperating with suppliers that have some of the worst working conditions (See Pic1). Although DGC has a code of corporate social responsibility, none of the company’s suppliers recently investigated by CLW follow the code.

Before DGC’s case went public in 2009, CLW and KKR had held multiple meetings. In those meetings, CLW found that KKR was more concerned about preventing the release of negative reports about DGC’s suppliers rather than solving the serious problems highlighted in CLW reports.

Apparently, KKR simply does not care about the labor conditions in DGC’s supplier factories. Consumers, in turn, have no idea that they are encouraging abuses of human rights while using DGC’s cheap products. It is time for KKR to make a decision: to continue supporting the immoral procurement policies or to chart a bolder path aimed at building real value from the bottom up.

DGC claims on its official website that their roughly 12,000 commodities are produced by only America’s most trustworthy manufacturers. However, the truth is
that there are about 1,000 factories that supply DGC in China alone. DGC hired Bureau Veritas Group to conduct social responsibility audits of 700 of its suppliers. However, a China Labor Watch report pointed out that Bureau Veritas audits suffer from severe corruption, as well as technical drawbacks (the report is available on CLW’s website).

Using U.S. Customs records\(^1\) and other documents, China Labor Watch has randomly selected four of DGC’s suppliers and conducted investigations between February and June 2010, focusing on their recruitment policies, labor contracts, wages, hours, benefits, work safety, general living standards and grievance mechanisms. CLW investigators infiltrated the factories as hired workers themselves and also interviewed workers from outside of the factory.

The manufacturing plants under investigation include Keen League Manufacturing Limited (KLML)\(^2\), Mastercraft International Limited (MIL)\(^3\), Yiu Yi Plastic & Mould (Shenzhen) Co, Ltd.(Yiu Yi)\(^4\), and Hong Da Electronics Factory (Hong Da)\(^5\).

II. Basic Information of the Four Factories

KLML was founded in 2004. It is located in the Sha Xin Qiao Third Industrial District in Bao'an District of Shenzhen. The factory occupies 14,000 sq. yard and employs more than 700 people. KLML is invested by Hong Kong businessmen. Its products include ultrasonic washing machines and home appliance, such as milk froth makers, egg-beaters, electric can openers, juicers, blenders, grills, and electric pencil sharpeners. Its products are sold to European and the U.S. markets.

Founded in 1988, MIL was registered as Yu Tai Copper Factory (Yu Tai Tong Qi Wu Jin Chang)(See Pic 2). It is situated in the Ping Hu Bai Ni Keng Community in Longgang District of Shenzhen. With more than 100 employees, it occupies more than 11,900 sq. yard. This Hong Kong-invested enterprise designs and produces indoor lightings, table lamps, floor lamps, wall lamps and ceiling lamps. Its products are also

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1 Parts of records are attached with this report in Table 2.  
2 According to records of US Customs, at least freights in the total of 94,527 lbs. have been imported by DGC from KLML.  
3 According to records of US Customs, at least freights in the total of 83,457 lbs. have been imported by DGC from MIL.  
4 Yiu Yi is located as a supplier of DGC through employee interviews. The factory states in the official websit at www.shunngai.com.cn that “We achieved ISO 9001:2000 quality system authorization and passed the factory audit from Disney, Wal-mart, Kmart, Woolworths, Jo-Anns, Coca Cola, Lowe's, America Greetings Lnc. and Dollar General.”  
5 According to records of US Customs, at least freights in total of 22,114 lbs. have been imported by DGC from Hong Da.
sold to European and the U.S. markets.

Yiu Yi is located at No. 22, Xi Tou Road in the Second Industrial District of Song Gang Jie Dao Xi Tou Village, Bao’an district of Shenzhen. Its main products include: plastic moulds, Christmas crafts, plastic toys, poly products, timepieces, and electronics toys. Again, European and the U.S. companies are its major buyers.

Founded in 1994, Hong Kong-invested Hong Da is located in Xia Zhen Hong Ye Industrial District and produces telephones and radio cassette players for overseas buyers. The factory occupies 23,900 sq. yard and has about 500 employees.

III. Findings of the Investigations

Based on PR.C 1995 Labor Law and 2008 Labor Contract Law, the investigations conducted by CLW are focused on hiring and recruitment policies, labor contracts, work hours, wages, benefits, work safety and grievance mechanism.

CLW investigations found that the basic legal rights of the employees are not met in these factories. The workers have to work long grueling hours and get shockingly low pay, while with little safety protection. In at least one factory under investigation, workers are paid for lying to inspectors.

Overtime working is especially egregious at DGC suppliers. Employees at the plants work averagely 300 hours per month during peak seasons and 250 hours per month during low seasons. The yearly accumulative overtime hours far exceed the maximum of 432 hours of overtime per year allowed by law. Moreover, workers are oftentimes paid below the legal minimum overtime wage — and sometimes are not paid at all.

CLW investigators found the following labor violations in the four factories.

In KLML, the violations include:

- The factory keeps workers’ resident ID card for seven days when workers start working.
- Workers are underpaid for overtime work.
- No annual leave, maternity leave or marriage leave. Workers are not paid for sick leave.
- Raw materials are piled up disorganizedly, which may cause potential safety issues. (See Pic)

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6 Article 41 of PRC Labor Law states, “due to special reasons, the extended hours shall not exceed three hours a day under the condition that the health of laborers is guaranteed. However, the total extension in a month shall not exceed thirty six hours."

7 Article 9 of PRC Law on Employment Contracts states, “When hiring a employee, an employer may not retain the employee’s resident ID card or other papers, nor may it require him to provide security or collect property from him under some other guise.”

8 Article 44 of PRC Labor Law states that the employing unit shall pay laborers remunerations higher than those for normal working.
3).

- No evaluations of occupational hazards. Protective equipment is not adequately provided. Workers are not provided with health examinations when starting or terminating their employment.\(^9\)
- Overtime work totals 300 hours during peak seasons. Sometimes, workers only get one day off in a month.\(^10\)
- Draconian punishments (See Pic 4)
- No trade union or other institutions that represent workers’ rights.\(^11\)

Workers’ own evaluations of the site: low wages and poor benefits. The slightest carelessness can result in a wage deduction.

In MIL, the violations include:

- The factory keeps workers’ resident ID card for one day when workers start working.
- Workers who get piece rate wages are not paid for their overtime work. Workers are not paid during legal holidays.
- No annual leave, maternity leave or marriage leave.
- Equipment is not serviced regularly. There are potential risks for work injuries.
- No evaluations of occupational hazards. Workers are not provided with health examinations when starting or terminating their employment.

Workers’ own evaluations of the site: food is unsatisfied and dormitories are in poor conditions. The factory is poorly managed.

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\(^9\) Article 54 of PRC Labor Law states, “The employing unit must provide laborers with occupational safety and health conditions conforming to the provisions of the State and necessary articles of labor protection, and provide regular health examination for laborers engaged in work with occupational hazards.”

\(^10\) Article 38 of PRC Labor Law states, “the employing unit shall guarantee that its staff and workers have at least one day off in a week.”

\(^11\) Article 7 of PRC Labor Law states, “Laborers shall have the right to participate in and organize trade unions in accordance with the law. Trade unions shall represent and safeguard the legitimate rights and interests of laborers, and independently conduct their activities in accordance with the law.”
At Yiu Yi, violations include:

- The factory does not sign labor contracts with most employees.
- Workers getting piece rate wages are not paid for overtime work. Workers are not paid during legal holidays.
- No regular pay date.
- Workers have to pay out-of-pocket for their factory uniforms.
- No annual leave, maternity leave or marriage leave.
- Workers are subject to 130 hours of wage deduction if leaving without advanced notice.
- There are potential safety risks caused by poor management of chemicals (See Pic 5).
- No evaluations of occupational hazards. Workers are not provided by health examinations when starting or terminating their employment.
- Overtime work total 300 hours during peak seasons. Sometimes workers only get one day off in a month.
- There are few bonuses. However, the factory would prepare workers for inspections, and workers answering questions “correctly” would be rewarded with a once time bonus of $14.29.

Workers’ own evaluations of the site: You’d better not to take a job in this factory.

In Hong Da, violations include:

- Job applicants must apply for positions in group. Individual male workers would not be admitted.
- Workers sign labor contracts but are not given copies.
- No annual leave, maternity leave or marriage leave.
- The base pay would be deducted by half if workers leave job without advance notice.\(^{12}\)
- Overtime work is underpaid. Working on Saturdays is not considered overtime work.
- Equipment is old, in poor conditions, and not serviced regularly. There are potential risks for work injuries.
- No evaluations of occupational hazards. Workers are not provided with health examinations when starting or terminating their employment.
- Overtime work total 300 hours during peak seasons. Sometimes workers only get one day off in a month.
- Workers are subject to a monthly deduction of $34.29 for dining fee, even if workers did not have meals in the factory cafeteria.

Workers’ own evaluations of the site: low wages, poor benefits. It is hard to know how the salary is settled. The machines are too old and out of order from time to time.

Please refer to the Table 1 attached for detail results of our investigations.

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\(^{12}\) According to PRC Labor Law and PRC Law on Employment Contract, if an employee leaves without informing 30 days in advance, the employee should compensate the employer for reasonable damages cause by his leaving. A provision of fixed liquidated damages is illegal.
IV. Conclusion

Based on CLW’s investigation, workers’ rights are not fully respected in all the four factories in the aspects of recruitments, labor contracts, work hours, wages, benefits (social security insurance, holidays, dining, and dormitories, etc.), rewards and punishments mechanisms, workplace protections, and appeal mechanisms. The following table 1 is a summary of these findings. In general, the working conditions in these four factories are unsatisfied. We are shocked by the fact that although working for the largest small-box discount retailer in the U.S. and the largest asset management corporation in the world, the workers are paid at such a low rate and working at least 10 hours per day in places with such low levels of health and safety protections.

Most people may not link this kind of labor rights abuses immediately to KKR. However, most profits DGC has earned from this dismal life of Chinese workers would finally go to KKR. KKR’s decreased demand for profits would play an important role in improving situations of workers of DGC’s suppliers.

The simple fact is that DGC and KKR can afford to pay higher wages. In fiscal 2009, the total sales of DGC were about $11.8 billion and the gross profit was about 3.7 billion13. The majority of the profit went to KKR finally. KKR takes advantage of the unsustainable relationships between resource-strapped Americans and exploited Chinese workers to bank millions of dollars on its investment.

We hope that DGC, KKR and DGC’s suppliers will cooperate to protect workers’ rights and to fulfill their social responsibility. While supplying the Americans with products in good quality and with low prices, Chinese workers should be able to work and live under protections and with dignity.

Table 1 Summary of the Investigation Findings about the Four Factories

<table>
<thead>
<tr>
<th>Factory</th>
<th>健利来 KLML</th>
<th>雅士达 MIL</th>
<th>耀毅 Yiu Yi</th>
<th>鸿达 Hong Da</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>⚫ Restriction on age: 18-40. No discriminations based on sex, education, geography or religion etc.</td>
<td>⚫ No discriminations based on age, sex, education, geography and religion etc.</td>
<td>⚫ Restriction on age: Above 16. No discriminations based on sex, education, geography and religion etc.</td>
<td>⚫ Restriction on age: 16-40. Only admitting male workers apply for jobs in group. No discriminations based on education, geography, religion etc.</td>
</tr>
<tr>
<td></td>
<td>⚫ The factory will keep workers’ Resident IDs for seven days in order to “create personnel files and buy insurances”.</td>
<td>⚫ The factory will keep workers’ Resident IDs for one day, in order to “produce work ID cards”.</td>
<td>⚫ No health examination is provided when workers start working.</td>
<td>⚫ No health examination is provided when workers start working.</td>
</tr>
<tr>
<td></td>
<td>⚫ No health examination is provided when workers start working. The factory applies health certificate for all the workers. Workers have to pay $6.43 for the certificate. If workers apply by themselves in nearby hospitals, the fee is only $5.43.</td>
<td>⚫ No health examination is provided when workers start working.</td>
<td>⚫ Some preliminary training is offered upon recruitment.</td>
<td>⚫ No training upon recruitment. But workers have to sign on the application form stating that they know all the contents of the workers’ handbook.</td>
</tr>
<tr>
<td></td>
<td>⚫ No training upon recruitment. In substitute, the factory will make the workers read the regulations.</td>
<td>⚫ Some preliminary training is offered upon recruitment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor contracts</td>
<td>⚫ Labor contracts are signed one week after the entry. Workers keep a copy.</td>
<td>⚫ Labor contracts are signed. Workers keep a copy.</td>
<td>⚫ Only some workers sign contracts and they do not keep a copy of the contract.</td>
<td>⚫ Labor contracts are signed at the entry. Workers do not get a copy.</td>
</tr>
</tbody>
</table>

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Base hourly salary is $0.74 ($129/month), in line with the minimum wage requirement. With overtime wages added, workers get paid $150 to $314 per month on average. Salary varies among different positions. Pay date is the 22nd of every month.

In some departments, for overtime hours, workers are paid at 1.5 times. In some departments with a longer overtime work hours, overtime work on weekdays and Saturdays are paid by normal wages and are paid by 1.25 times of normal wages on Sundays.

Workers paid by hour get paid $1.1/hour for their overtime work, in line with the minimum requirement. Workers paid by piece do not get paid for their overtime work.

Overtime work is paid by 1.5 times of normal wages in weekdays, and 2 times in weekend. Workers are initially paid by hour at the entry. After one-month working, they are paid by piece. However, workers paid by piece are not paid for their overtime work.

Basic hourly salary is $0.80($140/month), more than the minimum wage required by law. With overtime wages added, workers get paid $243 per month on average.

Workers are paid $0.93/hour during overtime work, which is below the $0.95 minimum wage requirement for overtime work. Work on Saturdays is not considered as overtime work.

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15 China is implementing a minimum wage system regulated by law. The specific standard of minimum wage is determined by local government. The minimum wage of Shenzhen City, where KLML, MIL and Yiu Yi locate, was RMB 900 to 1,000 (USD 131.77 to 146.41) between the period of 2008 – July 1st, 2010, varies by different areas. The minimum wage after July 1st 2010 is RMB 1,100 (USD 161.05.) The minimum wage of Dongguan City, where Hong Da locates, was RMB 770(USD 112.74) between the period of 2008 – May 1st, 2010 and RMB 920(USD 134.70) after May 1st, 2010.

16 Article 44 of PRC Labor Law states, “The employing unit shall, according to the following standards, pay laborers remunerations higher than those for normal working hours under any of the following circumstances: (1) to pay no less than 150 percent of the normal wages if the extension of working hours is arranged; (2) to pay no less than 200 percent of the normal wages if the extended hours are arranged on days of rest and no deferred rest can be taken; and (3) to pay no less than 300 percent of the normal wages if the extended hours are arranged on statutory holidays.”
<table>
<thead>
<tr>
<th>Work hours</th>
<th>Vacations</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Workers work overtime for additional 50 hours per month in off-seasons and 150 hours in peak seasons. Sometimes workers have only one day off in a month.</td>
<td>● Workers do not get paid during sick leave.</td>
</tr>
<tr>
<td>● Workers working in two shifts have only 15 minutes for each meal. They have to work while having meals.</td>
<td>● No annual leave, maternity leave or marriage leave.</td>
</tr>
<tr>
<td>● In peak seasons, they have to work for more than 11 hours per day. And sometimes they only have one day off in a month.</td>
<td>● Workers would be compensated $2.86 per day during sick leave, which is lower than minimum requirement.</td>
</tr>
<tr>
<td>● Overtime work hours vary among departments. On average, workers work for additional 80 hours per month in off seasons and 150 hours in peak seasons.</td>
<td>● No annual leave, maternity leave or marriage leave.</td>
</tr>
<tr>
<td>● In peak seasons, workers work for 12-13 hours per day. They work overtime for additional 140 hours a month. Sometimes they cannot have any time off in the whole month.</td>
<td>● Workers are not paid during legal holidays.</td>
</tr>
</tbody>
</table>

17 Article 36 of PRC Labor Law states, “The State shall practice a working hour system under which laborers shall work for no more than eight hours a day and no more than 44 hours a week on the average.” Article 38 states, “The employing unit shall guarantee that its staff and workers have at least one day off in a week.” Article 41 states, “The employing unit may extend working hours due to the requirements of its production or business after consultation with the trade union and laborers, but the extended working hour for a day shall generally not exceed one hour; if such extension is called for due to special reasons, the extended hours shall not exceed three hours a day under the condition that the health of laborers is guaranteed. However, the total extension in a month shall not exceed thirty six hours.” Article 43 states, “The employing unit shall not extend working hours of laborers in violation of the provisions of this law.”

18 Article 40 of PRC Labor Law states that the employing unit shall arrange holidays for laborers in holidays stipulated by laws, rules and regulations. Article 45 states, “Laborers who have kept working for one year and more shall be entitled to annual vacation with pay.” Article 51 states, “The employing unit shall pay wages according to law to laborers who observe statutory holidays, take leaves during the periods of marriage or funeral, or participate in social activities in accordance with the law.”
### Rewards and punishments

- No rewards policy. A lot of punishment policies, including a dozen of policies of dismissal. For example, smoking on site will be imposed a fine of $14.76. Absence per day will be imposed a fine equal to wages of three days.

- If a worker come late or leave early for more than two times in a week, his wages will be deducted. To be specific, if his missing is less than 15 minutes, he will be considered as absence from work for half a day and his wage will be deducted by $7.14; if more than 15 minutes, he will be considered as absence from work for a whole work day and his wage will be deducted by $3.57.

- No rewards. The wage will be deducted by $0.71 per missing minute if a worker is late. If he is late for more than 15 minutes, he cannot receive any wage for the whole day.

- One’s disobey of superiors’ order may be fined by $1.43 to $4.29.

- No rewards, nor punishment.

### Social Security Insurance

- Employees can choose to buy social security insurance voluntarily after working for one year. However, most workers did not buy it because they worry that it is troublesome to transfer their insurance when changing their job.

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- Workers can choose to buy social security insurance voluntarily. However, most workers do not want to.

### Training

- Pre-employment on-job training is offered.

- Pre-employment on-job training is offered.

- Pre-employment on-job training is offered.

- Pre-employment on-job training is offered to machine operators at entry.
<table>
<thead>
<tr>
<th>Security of workplace</th>
<th>Labor Protections</th>
<th>Health Examinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No training or handbooks are provided to illustrate the potential risks of the job position.</td>
<td>• Labor protective equipment is not fully provided, or regularly upgraded. Moreover, it is not thoroughly provided. For example, there is no ear plug provided in the plant with a lot of noise.</td>
<td>• Physical examination is provided when workers start working. But workers have to pay by themselves. • Paid physical examination is provided during employment. • No physical examination is provided when one terminates employment.</td>
</tr>
<tr>
<td>• Equipments are not serviced regularly.</td>
<td>• Labor protective equipment is provided.</td>
<td>• No physical examination is provided when workers start working. • No physical examination is provided during employment. • No physical examination is provided when one terminates employment.</td>
</tr>
<tr>
<td>• Workshops are crowded. There is only 4 ft. between two rows. Aisles are rough and occupied by materials.</td>
<td>• Labor protective equipment is provided.</td>
<td>• No physical examination is provided when workers start working. • No physical examination is provided during employment. • No physical examination is provided when one terminates employment.</td>
</tr>
<tr>
<td>• Fire passage is blocked. Fire extinguisher is not regular serviced. No fire drill is conducted.</td>
<td>• Machines are old and are not well functioned. Equipments are not serviced regularly.</td>
<td>• No physical examination is provided when workers start working. • No physical examination is provided during employment. • No physical examination is provided when one terminates employment.</td>
</tr>
<tr>
<td>• In order to increase production, workers are required to stand while working even though they can also sit to finish the work.</td>
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<tr>
<td>Dining</td>
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</tr>
<tr>
<td>* No dining room. No meal allowance.</td>
<td>* Two meals are served every day for $0.71. However, most workers eat at home or outside due to the poor-quality of the food and the small size of dining room with no enough seats.</td>
<td>* No dining room. No meal allowance.</td>
</tr>
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<tr>
<td><strong>Accommodations</strong></td>
<td></td>
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<tr>
<td></td>
<td>* No dormitories. No compensation for accommodation.</td>
<td>* Dormitories are provided. Female and male dormitories are separated. 7 to 8 people live in one dormitory.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* $4.29 per month fee is deducted for water and electric.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Dormitories are old and shabby without a doorman. Stealing often happens.</td>
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<td></td>
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<tr>
<td><strong>Resignation procedures</strong></td>
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<tr>
<td></td>
<td>* Workers are not paid if they leave in the first week of employment.</td>
<td>* Workers should notify the factory 30 days in advance for leaving.</td>
</tr>
<tr>
<td></td>
<td>* If a worker leaves without following required procedures, s/he will not be paid for the last month.</td>
<td>* The factory does not pay all the wages on the day when workers resign. Rather, no matter when a worker leaves, he can only receive his wage on 20th in the month.</td>
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<tr>
<td><strong>Communications &amp; Appeals</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>* No trade union or other forms of workers organizations. In 2008, workers organized a strike because the factory did not increase the base salary according to the law. The organizer of the strike was fired.</td>
<td>* No trade union or other forms of workers organizations.</td>
</tr>
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Chinese Labor Watch

Table 2: Part of DGC import records from US Customs published documents

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
<th>Date</th>
<th>Shipper</th>
<th>Weight (Lbs)</th>
<th>Country</th>
<th>Port of Departure</th>
<th>Port of Arrival</th>
<th>Final Destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trimline Callers ID</td>
<td>13</td>
<td>2001</td>
<td>20</td>
<td>22,114</td>
<td>Yantian</td>
<td>Savannah</td>
<td>Savannah</td>
<td>Savannah</td>
</tr>
<tr>
<td>Trimline Callers ID</td>
<td>66,486</td>
<td>2002</td>
<td>20</td>
<td>83,457</td>
<td>Yantian</td>
<td>Savannah</td>
<td>Savannah</td>
<td>Savannah</td>
</tr>
</tbody>
</table>