

Follow-up Investigative Report on HEG Technology

November 18, 2015



中国劳工观察
CHINA LABOR WATCH



China Labor Watch (CLW) is a non-profit organization that increases transparency of supply chains and factory labor conditions, advocates for workers' rights, and supports the Chinese labor movement.

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Executive Summary

CLW has investigated working conditions at Huizhou HEG Technology over the past few years. This current report marks the fourth year of monitoring. HEG is a state-controlled company supplying to mobile handset brand companies, including Samsung, Oppo, Huawei, and TCL.

For two weeks in June 2015, a local organization with which CLW collaborates dispatched an investigator to work undercover at HEG. During the course of the investigation, the investigator was suddenly approached on the production line by HR personnel. The investigator was taken to a small office in the factory where she was interrogated by company personnel. During this process, the company revealed that it had been watching her and knew she had been sent by China Labor Watch. The HEG personnel had knowledge of the investigators' past social insurance records. During the interrogation, they threatened several times to call the police. After deleting photos from her phone and detaining her for a few hours, the company let the investigator leave.

Only two days after the investigator had been discovered at HEG, labor inspectors and police carried out a joint investigation of another office supported by CLW which was located in Shenzhen, China. Police detained some documents ostensibly based on the suspicion of the "crime of illegal employment".

These are only two of a series of linked events which have occurred over the previous year. The causal relationship between these events (detailed in Appendix, p.12) remains unclear.

Investigative Findings

While the discovery of CLW's cooperating investigator by HEG management in June influenced the progress of the investigation, a number of findings were still gained. (For this reason, all photos used in this report are from 2012 and 2014, shot during previous CLW investigations of HEG.) While a comparison of working conditions at HEG from 2012 to 2015 demonstrates some limited improvements, serious labor rights violations persist.

1. Underage Workers and Student Workers

One of the biggest changes observed was the stricter controls against hiring children and students at HEG. In 2012 and 2014, CLW's reports exposed the use of child labor and many student workers at HEG; in 2012, more than half of all HEG workers were students. But in 2015, CLW's investigation did not find any child workers, and HEG's main plant refused to hire people under 20 years old or student workers. At the same time, HEG's branch plant, where the investigator was placed, actually hires underage workers (16-17 years of age) without providing special protections for these young people as required by law. The working hours and conditions of underage workers were the same as adults. Thus, the exploitation of underage workers at HEG still continues.

2. Hiring Discrimination

In 2012, HEG discriminated in multiple ways during hiring processes, preferring to hire women, only hiring people under 30, and refusing to hire men with tattoos, long hair, or with disabilities. While age-based and idiosyncrasy-based discrimination was not discovered, gender-based discrimination remained a problem, as HEG would only hire one man for every three women hired.

3. Pre-job Safety Training

Investigations in 2012 and 2014 revealed that HEG provided very minimal pre-job training to

new workers, lasting only half a day, far beneath the legal minimum of 24 hours for pre-job safety training. In 2015, however, CLW's investigation found that new workers participated in four days of pre-job training and practice, some of which included safety information. Workers also must take and pass a safety test. While there has been improvement in HEG's training policies, the training itself is generalized and incomplete. Workers do not actually receive much training on safety knowledge related to their specific job roles that details risks or toxic chemicals that exist in their production processes.

4. Mandatory Excessive Overtime

Working hours are a persistent problem at HEG. Workers typically work an 11- or 12-hour shift—of which two to three hours is overtime—six days per week. One veteran worker said that during busy seasons in 2014, overtime even reached seven hours a day. Chinese law restricts monthly overtime to no more than 36 hours. Three years after the first investigation, excessive overtime continues to be a problem at HEG.

5. Wages

In both 2012 and 2015, HEG workers' base wages typically are at or just above the minimum wage, making workers reliant on great amounts of overtime to make ends meet.

6. Insurance

From 2012-2014, formal workers at HEG always had insurance, even though the insurance may have been paid at a level below legal minimums and workers regularly complained that they never received their social insurance cards. However, according to HEG workers in November 2015, HEG had already begun making insurance a voluntary benefit, leading to many workers choosing not to buy it. This ultimately benefits the company by reducing labor costs. Chinese law, however, mandates the purchase of insurance.

7. Labor Union

From 2012 to 2015, CLW's investigation never uncovered a functioning labor union organization at HEG.

8. Resignation

From 2012 to 2015, the rights violation of "authorization" for resignation has continued. If a worker wants to resign, she must get the supervisor's "authorization", which effectively means that a person must "apply" to resign. But Chinese law requires only notification of resignation, not authorization for resignation. HEG should not be restricting a worker's freedom to withdraw one's labor.

9. Housing

Factory housing at HEG is still crowded, with 10 people to a room. In 2012, such housing was free, but in 2015, each worker has to pay 50 RMB (\$7.85) per month, in addition to utilities, to live in the dorm.

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June 2015

Main Findings

1. Gender-based hiring discrimination.
2. Applicants need to pay for their own mandatory physical exam to get a job.
3. Workers do not receive a copy of their labor contracts until more than a week after being hired.
4. Workers have to do excessive overtime hours, often putting in two or three hours of extra work a day. A veteran worker said that during one busy time in late 2014, workers did seven hours of overtime a day, working from six in the morning until midnight.
5. Overtime is often mandatory.
6. HEG's branch plant, where the investigator worked undercover, hires underage workers (under 18) without providing special protections. These young people work the same hours under the same conditions as adults.
7. Due to the company's organization of work, housing, and transportation, workers typically end up lining up for the bus at 7:45 in the morning and not returning from work until 21:30.
8. Before overtime, workers only earn slightly above the minimum wage. This makes them reliant on long hours to make a living.
9. While pre-job training lasts a number of days, the safety training is generalized and incomplete, and is not specific to the risks of each working position.
10. Originally the company said it paid workers' legally mandated insurance, but workers told CLW that they continue not to receive their insurance cards. But HEG has begun to make social insurance voluntary, according to workers, resulting in many workers without insurance.
11. Workers live 10 people to a room. Day-shift and night-shift workers are arranged to live together, which can create disturbances for people while they are resting.
12. No functioning labor union was observed at HEG.
13. Resigning effectively requires "application", despite law only requiring notification.



One HEG production facility in 2014

Company Profile

HEG Technology is an electronics manufacturer that makes cell phones, DVD players, speakers, and other products. Some of its main clients include Samsung, Oppo, Huawei, and TCL. HEG is located at 1 Haige Road, Chenjiang, Zhongkai High-Tech Area, Huizhou City, Guangdong Province. HEG has a branch plant in Huizhou's Hongchang Lida Industrial Park, where CLW's investigator worked undercover. This branch plant employs approximately 1,000 workers.

Hiring Procedures

Hiring channels

HEG has recruitment stations in the factory and at the bus station, where from Monday to Saturday, 8:00-13:30, recruitment activities are conducted. Applicants who can certify that they are at least 16 years of age are given a notice. The recruiters maintain a gender ratio of at least 3:1, women:men. More women is considered even better. But if too many men apply, recruiters will actively recruit more women until there is a three-to-one ratio, at which point the applicants are taken together into the HEG factory.

Hiring Requirements and Underage Workers

HEG does not hire students or anyone younger than 20 years of age. After applicants arrive at HEG, the company's HR will carry out another ID check. At the time, CLW's investigator was in the HR office with about 10 other applicants. Anyone discovered to be younger than 20 is rejected. One person in the office at the time was a young woman born in July 1995. But it was June, and the woman was still a month from turning 20. She was turned down on the spot and told that she could come back a month later.

But HEG's hiring age limits are not consistent across their company. At HEG's Hongchang Lida branch factory, as long as an applicant is 16 years of age, they can work at the plant. But student workers remain restricted. The investigator told a recruiter from this branch plant that she was planning to introduce a friend to work at the company. The investigator said her friend was younger than 20 years old but already 16. The recruiter said that it would be fine. The investigator further asked, with so many young people at the plant, how could they know if one of them was a student? The recruiter said he would take one look and just know.

The Hongchang Lida branch plant of HEG employs underage workers (under 18) without special protections. Three such young workers were positioned near CLW's investigator in the workshop. Their working conditions and working hours were the same as adult workers despite national laws that require special



Underage workers at HEG in 2012

protections for underage workers—e.g., laws stipulate they must not work in positions that require sustaining certain body positions over long periods of time, positions that require more than 50 movements a minute, or dangerous positions that include the use of toxic chemicals or flammable materials. One of the underage workers in the investigator’s team could not acclimate to the working environment, leading to an argument with the team leader. The team leader told him that if he couldn’t handle it he could quit. The underage workers ended up doing just that. The investigators team made Oppo products at the time. Samsung products are also produced in the Hongchang Lida branch plant, but CLW has not confirmed if any underage workers were producing Samsung products.

Hiring Procedure

After verifying the applicants’ IDs, a number of forms are given to applicants, including a quiz that requires applicants to simply write at least the first five letters of the English alphabet and answer some basic arithmetic questions as well. After filling out forms, applicants take photos and give the company a copy of their IDs. Applicants finally receive a notice to return at 10 in the morning the next day with their belongings. The entire hiring process, from the moment applicants entered the HR office, only took about 20 minutes.



Blood is drawn in physical exam at HEG in 2012

Physical Exams

The second day, the 30 applicants who were hired together with the investigator arrived at HEG in the morning. First, they went to the second floor and received their work IDs and a physical exam sheet. Next, applicants quickly do a physical exam, taking less than five minutes per person. Applicants pay the 30 RMB (\$4.71) for their own physical exam. The company said employees who work at least for a month at the plant will be given this money back. There is no physical examination upon workers’ resignation from HEG.

Pre-job Training

There are a combined four days of training. Training in the morning of the first day includes an explanation of factory rules. Labor contracts are signed in the afternoon. The second day of training began with a segment titled “Work for whom?” In the

afternoon, a member of the security department trained workers in safe production. The morning of the third day had a training on product quality. The afternoon featured easy tests on product quality and production safety. Workers’ scores on the tests were received on the fourth day. Those who failed had to review and take the test again during the afternoon. Next, new workers participated in a practical testing phase before finally being assigned to a position. During these four days, the safety training that workers participated in did involve discussion about chemicals, but it was generalized and incomplete, and not specific to various positions.

Uniforms

When workers are assigned their positions, they also receive uniforms based on those positions. The investigator was assigned to the D5 Team, for which she received a blue uniform, two non-magnetic undershirts, a pair of pants, a pair of slippers, and a hat.

Labor Contracts

Three-year labor contracts are signed on the afternoon of the first day of training. Two copies of each contract are signed, but workers only receive a copy about ten days after being hired. When the investigator was discovered (see description below), her labor contract was taken back by HEG.

Working Hours

During the course of the investigation, CLW came to learn that HEG's Hongchang Lida branch plant made cell phone products for Samsung, Oppo, Huawei, and TCL. The investigator herself was on an Oppo line. They would work 12-hour shifts:

08:30-10:30 morning work
10:30-10:40 rest
10:40-12:00 morning work
12:00-13:00 lunch
13:00-15:30 afternoon work
15:30-15:40 rest
15:40-17:30 afternoon shift
17:30-18:00 dinner
18:00-20:30 overtime shift
(sometimes lasting only until 20:00)

While HEG management would likely say that all overtime is voluntary, this is not actually the case. At one point, the investigator asked the supervisor if she could opt out of overtime work, and the supervisor said she must do it.

Waiting for the bus every day

The unit where the investigator was assigned is located in HEG's branch plant in the Hongchang Lida Industrial Park, some distance from the dormitories. While the one-way trip only takes about 10 minutes, workers have to wait a long time—30 or even 40 minutes—to get a bus, competing with many other workers for a seat. As a result, workers spend about two hours each day waiting for or taking the bus, adding more time in work-related activities despite workers' already



Workers outside HEG factory gate in 2012

considerably long shifts every day.

The investigator had to catch the bus around 8 each morning. She and her coworkers who worked at the same time would get up at 7, quickly take a shower, eat something, and then go to wait at the bus stop. Each day during commuting times, the buses are completely packed.

If a worker gets off her shift at 20:30, then she might not catch the bus until 21:15, arriving back at the HEG dormitory at 21:30. After a shower, it is already 10:00, and workers must begin to prepare for bed.

The investigator would arrive with others at the workshop each morning at about 8:15. The shift begins at 8:30, before which all workers had to swipe their cards.

Production Quotas

After swiping their cards, workers join the morning meeting, led by the shift and team leaders. The meeting, which lasts for two or three minutes, involves the work for the day.

There were about 30 people on most production lines. On one line that the investigator observed, they had a cell phone production quota of 3,000-3,800 units per day. But the line the investigator was on had only about 11 or 12 workers, all of whom were new. Because they were not yet used to the production process, the shift leader had their line work slowly in the first few days, focusing on process and quality. After a few days, the shift leader began instituting a production quota, which eventually rose to 1,200 units per day.

The investigator was assigned to a position in which she applied a layer of film to each cell phone. She and three other people on the line did this same job. While film application may seem simple, it took a considerable amount of technique. The speed of this job can affect the entire performance of the line. Experienced workers can do about 100 per hour. But as new workers, the investigator and her coworkers could not even complete 50. As the quotas rise and the speed of work picks up, the work will make one's eyes tired and one's back sore.

A veteran worker surnamed Zhai told CLW that the busy season is typically between July and December. She said in November 2014, they were so busy that they did seven hours of overtime a day, from 6 in the morning to 12 midnight. She said she made 10,000 RMB (\$1,572) that month.

Wages and Benefits

Wages

Wages for month 1 are distributed on the 21st day of month 2. Wages are distributed with a pay stub. Typically workers will earn 2000 RMB (\$314) or more each month, though this varies based upon position. For example, film application, the CLW investigator's position, earned an extra 300 RMB (\$47) as a position subsidy each month. Shift leaders can earn more than 4,000 RMB (\$629) per month.

Workers' base wage is 1,400 RMB (\$220), slightly above the local minimum wage of 1,350 RMB (\$212). In addition, workers generally receive a position subsidy of 200 RMB (\$31).

Benefits

Veteran workers told CLW that since last year, HEG has purchased social insurance for workers, but a number of veteran workers told CLW that they continue not to receive their

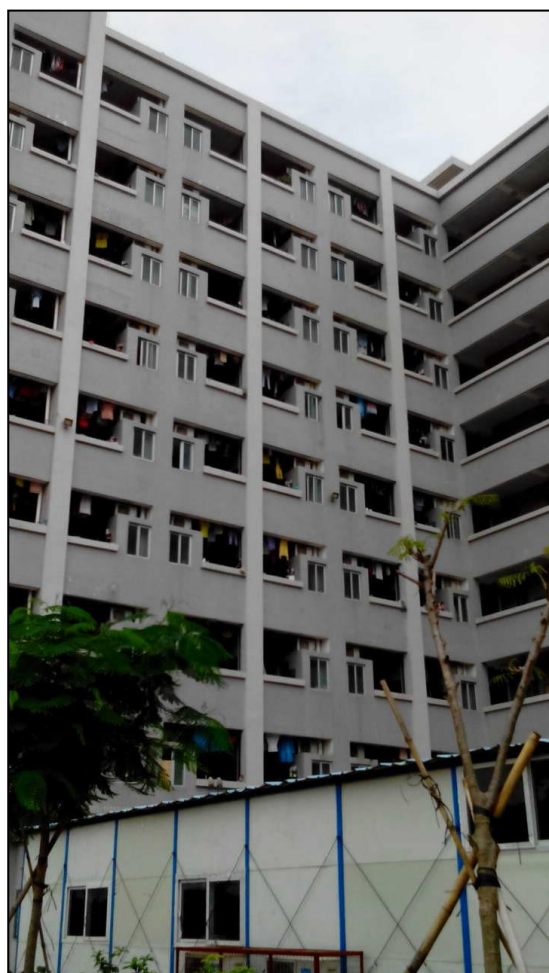
social insurance cards. Moreover, in follow-ups with workers in November, CLW was told that HEG has begun to institute the voluntary purchase of insurance, resulting in many employees choosing not to buy it.

HEG's campus has some recreational facilities, including basketball courts and badminton courts, but there is no equipment for the courts and workers need to get their own. The basketball court is commonly used by male workers, but few people were observed using the badminton courts.

There is WIFI access in the plant, but no library or TV room.

Living Conditions

HEG provides subsidized meals for workers. For three meals per day, the factory assumes two-thirds of a worker's meal costs, while the worker pays the remaining third. For instance, if a worker pays 15 RMB (\$2.36) for one day's meals, the factory will pay 10 RMB (\$0.79) of that amount, and the worker will pay the remaining 5 RMB.



HEG housing in 2014

is the cafeteria. The second floor has a laundry room and dorm management offices. The third floor has men's dorm rooms, the fourth and fifth floors women's rooms, the seventh floor both men's and women's rooms, and the ninth and tenth floors are management-level dorms. There is an elevator, but it can only be used to access floors seven to nine; floors two to six

Workers can swipe their factory IDs to purchase meals in the factory cafeteria. The cafeteria at the main HEG plant has air conditioning and fans, and provides workers with eating utensils. HEG's Hongchang Lida branch plant's cafeteria only has fans installed, so it is quite hot inside. At Hongchang Lida, workers must bring their own dishes and chopsticks for meals and wash them in the cafeteria afterwards.

Breakfast typically includes noodles, steamed buns, porridge, soy milk, sweet potatoes, and soup. Lunches and dinners include two vegetable dishes and one meat dish, with free soup and rice.

Housing is not free at HEG. Every worker needs to pay 50 RMB (\$7.86) per month for a place in a 10-bed dorm room. The dorm rooms have air conditioning and two bathrooms. The shower heads in the bathrooms provide both hot and cold water. Day and night shift workers are housed together, so air conditioning is being used practically all day long. At the end of the month, each worker is paying between 50-100 RMB (\$7-\$16) or more in utilities.

There are nine floors in the dormitory, housing both men and women. The first floor

can only be accessed via stairs.

Occupational Safety and Environmental Protection

There is some safety training during the pre-job training, which includes occupational safety and fire prevention information. There is also a safety drill. For instance, workers are taught to use a fire extinguisher. The emergency exit was not found to be locked. People were observed regularly checking machinery in the workshop.

The distribution and use of protective equipment was observed during the investigation. For example, in the film application position, workers need to constantly apply industrial alcohol to cell phone screens. For this, they are given finger covers, which can be swapped. However, despite industrial alcohol fumes, workers are not given masks. In the packaging positions, workers are given gloves.

HEG divides waste by type. Every day a garbage truck comes to the factory to take away the waste.

Rewards and Punishments

HEG has fired workers for stealing. It also gives workers demerits for smoking in non-smoking areas. No instances of fines on workers were observed.

Grievance Channels

In the dormitory, there are opinion boxes and a phone line for employees to express concerns. No labor union was observed during the investigation.

Resignation

During training, workers are told that during the probation period, if they want to resign, they must do so three days before leaving. After the probation period, they must do so a month ahead of leaving. The investigator was eventually discovered and forced to leave (see description of this incident below), so she did not have an opportunity to personally experience the normal resignation process. Employees had to receive and fill out a resignation form from the supervisor in order to formally resign, meaning that they effectively had to “apply” to resign.

Investigator Discovered by Factory Management

The following description is a reflection of the events from the perspective of the investigator herself.

On June 24, I went on shift in the morning as usual, in HEG’s Hongchang Lida branch plant’s D5 team, applying films to cell phone screens. After a normal lunch, I began the afternoon shift. At around 14:00 or 15:00, I heard a women in the workshop yell my name (alias), “Lu Shanshan. Who is Lu Shanshan?” I responded loudly, “That’s me!” The woman said, “HR has accidentally lost your hiring forms. You need to fill them out again.”

Hearing this, I was already suspicious. I asked her if only mine was lost or others as well. And where would I need to go to fill out the forms again. She said that others' forms had also been lost but she was finding me first. She said I'd need to go to the HR office at this branch plant first and that I should bring all of my things with me. Now I knew there was something wrong.

I went to my locker to change out of my uniform and get my things. I hid away my cell phone. Suddenly a big, tall man appeared to escort me to the HR department. But there were too many people there, so he took me to another office. Inside the room, there was only one table and some stools. There was already a man in the room when I arrived. The man who brought me sat down and watched.

Below are some of the questions that I remember clearly from the subsequent exchange. 'A' is the original man who questioned me, 'A1' is another person who arrived later, and 'B' is me.)

A: Do you know what our company makes?

B: Yes, cell phones.

A: Which cell phones?

B: Samsung, Oppo.

A: What did you come here to do?

B: Work.

A: Work. Who introduced you to this place? Where did you come from? What are you really here for? What are you here to examine?

B: What's going on? My friend introduced me to this place. I came from my hometown. And I came here to work! What are you getting at? Maybe you made a mistake.

A: Your friend introduced you to this place. What's the friend's name?

B: It's not like you know my friend. We found the information online. Why are you asking this?

A: Which friend? What's the friend's name? You looked online. Which website? Look it up.

B: I already said you don't know my friend. Online, a person can use Baidu to find anything. This is a big factory; many people know about it.

At this point the man sitting next to the questioner said: How about this? Let's report this to police and let them come over and chat with you.

B: What do you want the police for? What are you doing? Why can't I just work here!

A: I looked up your background. I know all about you. Where you come from, the people you came with. What have you found?

B: I haven't found anything. I haven't been working here very long. I came by myself from Shenzhen. My husband is in Shenzhen.

A: You came from Shenzhen and your husband is in Shenzhen, and you come over here. Which gate do you enter here, the front or back?

B: From the one with the bridge. The rear gate. I saw that you all were hiring and I came over. I don't need to work in the same place as my husband.

Another man (A1) with glasses came in. He was more confrontational.

A1: Do you know [names of three CLW staff]? Do you have a relationship with Zhuoyue Zhisheng? How is it that Zhuoyue Zhisheng provides insurance for you?

The tall man sitting nearby yelled again that the police should be called.

B: I don't know Zhuoyue Zhisheng. They didn't buy insurance for me. I had other insurance before, but I discontinued it. I used to sell cell phones in Shenzhen.

A: What cell phones did you sell? For how much money?

B: I sold Chinese brand phones for a few hundred RMB each, like 399 RMB (\$63). I did this for five years.

A: What Chinese brands did you sell? 399 RMB five years ago? Who are you kidding?

B: I sold Chinese brands. I also sold televisions. They were cheap, 399-1000 RMB (\$63-\$157) each. The type of TVs promoted in ads on television. But the company later went under and I went looking for work. So I came here to work.

A1 subsequently told her all about Green Grass, the organization supported by CLW in China. This person seemed to know more about Green Grass and its staff than I did. I did not react to this information. Eventually, A1 said I must let him look at my cell phone. He wanted to delete everything linked to HEG from my phone. I did not agree to this and told him that my cell phone is private property, so I do not need to let him see it. He asked me where my cell is. I told him it is in the dorm, not here (even though it was on my person).

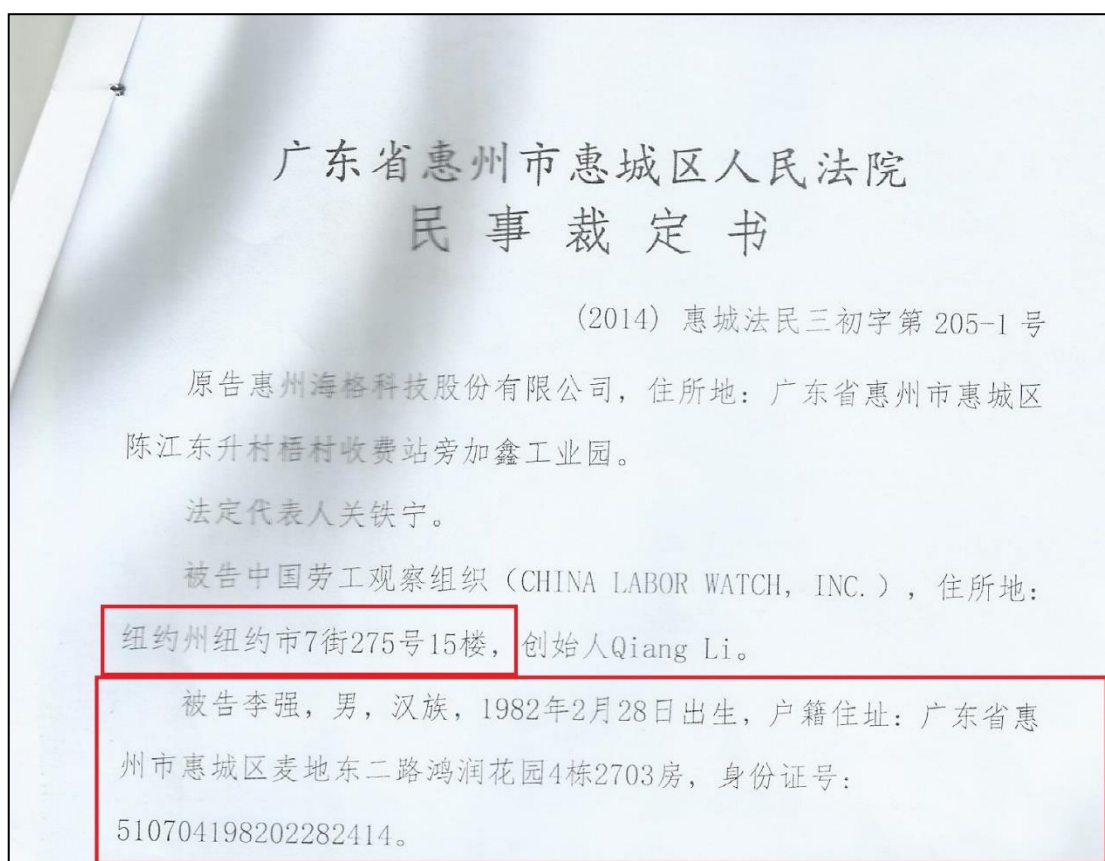
For about an hour, things proceeded like this. I asked him if I could go make a call. He said no. I said I need some private space. He said okay and had the other two men watch me. I sat silently for a while, thinking about the circumstances. I truly do not know how they came to know all of this information. I knew that I could not do anything else right now. There was no way to contact anyone and I could not leave. During the questioning by A1, he had gone out of the room multiple times to answer his phone. I was not sure who he spoke to. In any case, he knew my background, the background of the organization, and its staff. I really had nothing else to hide. He said they had went through my belongings in the dorm and had been looking for me. I figured that one way or another, I was exposed and was going to need to delete information from my phone.

I figure that I was there until 5 pm before I agreed to delete information on my phone that involved HEG. A1 subsequently demanded that I write an explanation and statement. I refused to do so. He wanted me to write the statement under their direction, copying what they said, and signing it with my fingerprint.

Subsequently, I was escorted by the two other men to HEG's main plant. I discovered that one of the people was called Director Li. I think the other was a security guard. They escorted me all the way to my dorm room, where they inspected my luggage again. They took back my HEG labor contract. Finally they escorted me to the factory gate.

Appendix: Investigative Background

In October 2014, HEG sued CLW and its Executive Director Li Qiang for defamation tied to CLW's expose on child labor being employed at HEG. The lawsuit was filed in a Huizhou court and is still ongoing. CLW does not think that exposing child labor at HEG is a crime; moreover, CLW and its executive director are located in the United States, so the case should not be under Huizhou's jurisdiction. But the Huizhou court decided against CLW's dispute over jurisdiction based on erroneous information. For example, to establish that Li Qiang was under the jurisdiction of Huizhou, the court used the address and ID of another person named Li Qiang in Huizhou whose personal information was completely different from that of CLW's Executive Director.



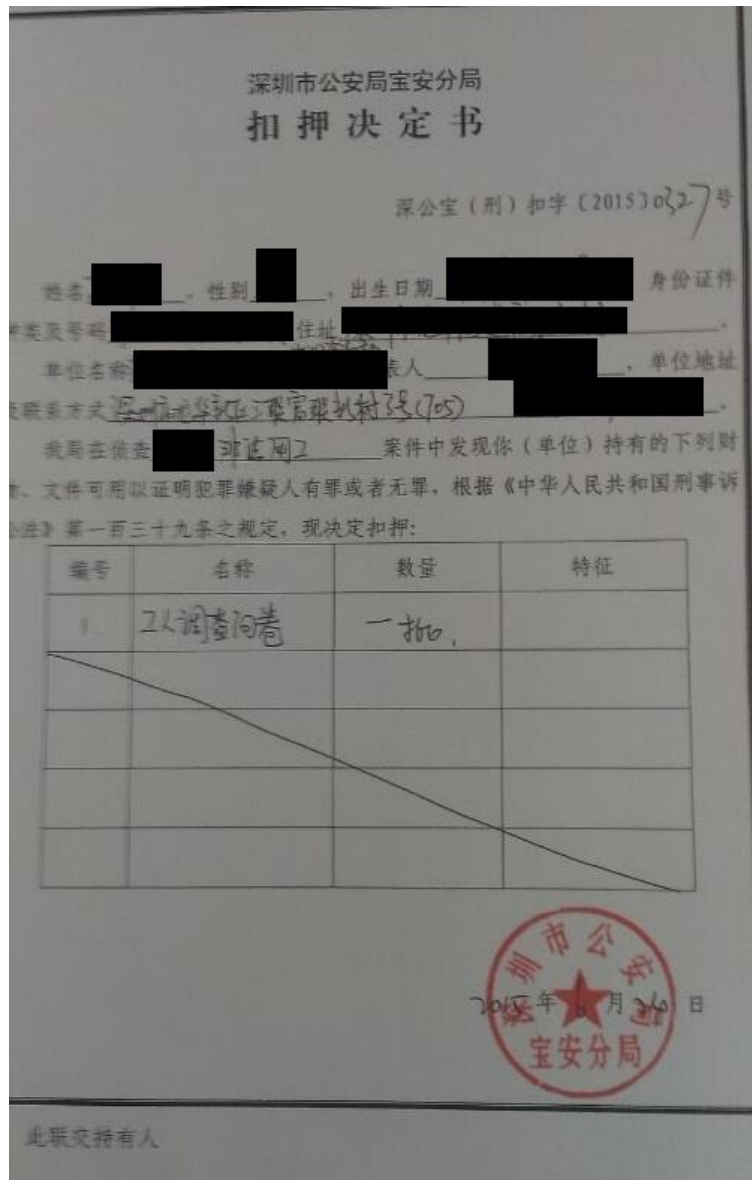
Decision of Huizhou court regarding challenge to jurisdiction. The text framed in red displays information that has no relation to the defendants CLW and Li Qiang.

In 2014 CLW's partner organization in China sent an investigator to HEG to conduct an investigation. The subsequent report turned in by the investigator contained some factual errors, which led CLW to believe that publishing the details of the report would raise legal risk. Subsequently, a regular internal financial audit revealed a suspicious hotel receipt submitted by this investigator for the HEG investigation. Two local staff members subsequently traveled to the hotel in question, confirming that the receipt was in fact falsified. When asked to explain the investigative and financial issues, many of the investigator's justifications were unclear, and he ultimately admitted to falsifying the receipt. On the grounds of investigative and financial dishonesty, the organization fired this investigator.

After the termination, the investigator filed a complaint with the local labor department.

Despite the investigator previously admitting to providing a falsified receipt, the arbitration and appellate arbitration proceedings resulted in a decision requiring CLW’s partner organization to pay the investigator compensation and an annual bonus—even though the investigator and been employed for only eight months and was fired for dishonesty. The organization complied with the decision, giving the investigator all of the money.

In June 2015, an investigator sent into HEG undercover by CLW’s partner organization was discovered, and only two days later another partner office was investigated by labor inspectors and police officers, who confiscated documents based on suspicion of “illegal employment”, as described in the beginning of this section.



“Confiscation decision” issued by Shenzhen police