

**Mattel, Inc.**

**Guan Yao, ChangAn, Mattel Die Cast, Hwa Tai Plants**

**Company Operated Plants in China**

**Audit Report**

Prepared by

**International Center for Corporate Accountability, Inc.**

March 29, 2004

**CONTENTS**

|   | <b><u>Page</u></b> |
|---|--------------------|
| <b><u>A. CONSOLIDATED SUMMARY</u></b>   | <b>4</b>           |
| 1. Introduction   | 4                  |
| 2. ICCA's Audit Protocols   | 5                  |
| 2.1 Pre-Audit Preparation   | 6                  |
| 2.2 The Field Audit   | 6                  |
| 2.3 Post Audit Activities   | 8                  |
| 2.4 Inconsistent Enforcement of PRC's Labor Laws by Local Authorities                           | 9                  |
| 3. Audit Findings   | 11                 |
| 3.1 Employee Profile  | 12                 |
| 3.2 Record Keeping  | 12                 |
| 3.3 Initial Hiring, Orientation, and Job-related Training                                       | 13                 |
| 3.4 GMP Awareness   | 13                 |
| 3.5 Regular and Overtime Working Hours, Consolidated Work Hours, and Extended Work Hours        | 14                 |
| 3.6 Payment of Minimum Wages  | 17                 |
| 3.7 Inappropriate Application of Wage Rates during Temporary Shut Downs and other Circumstances | 19                 |
| 3.8 Mandatory Deductions and Legally Mandated Benefits  | 20                 |
| 3.9 Human Resources Management and Personal Policies  | 21                 |
| 3.10 Living Conditions, Canteens, Medical Facilities  | 23                 |
| 3.11 Physical Working Conditions and Related Facilities   | 24                 |
| 3.12 Skills Training and Community Outreach   | 25                 |
| 4. Overall Observations   | 25                 |

| <b><u>CONTENTS (cont'd)</u></b>                  | <b><u>Page</u></b> |
|--|--------------------|
| <b><u>B. INDIVIDUAL PLANT AUDIT REPORTS</u></b>  |                    |
| Guan Yao Plant – Sino-American Toys (GY)         | 27                 |
| Chang An Plant (CA)                              | 43                 |
| Mattel Die Cast Plant (MDC)                      | 60                 |
| Hwa Tai Plant (HT) – Precision Moulds Ltd. (PML) | 74                 |

# **MATTEL, INC. – COMPANY OPERATED PLANTS IN CHINA**

## **(GUAN YAO, CHANGAN, MATTEL DIE CAST, HWA TAI )**

### **AUDIT REPORT**

#### **I. CONSOLIDATED SUMMARY**

##### **1. INTRODUCTION**

This report is based on ICCA's audit of four (4) plants, which are controlled and operated by Mattel Inc. These four plants are located in the Guangdong Province of the Peoples Republic of China (PRC). They constitute the entirety of Mattel-controlled operations in China. The four plants covered in this audit are: The Guan Yao Plant, also known as Sino-American Toys, Chang An Plant (CA), Mattel Diecast Plant (MDC), and, Hwa Tai Plant (HT), also known as Precision Moulds Ltd. (PML). Of the four plants, the GY and CA plants manufacture dolls; the MDC plant produces die-cast toys; and the HT plant (formerly known as PML) produces molds used in the production of toys in various Mattel production facilities around the world, including GY, CA, and MDC. This is the second round<sup>1</sup> of formal audits conducted by ICCA of Mattel's operations in China for their compliance with Mattel's code of conduct, called Global Manufacturing Principles (GMP). The entire production of the four plants is targeted exclusively for Mattel's worldwide distribution network. The current

---

<sup>1</sup> Previous audits were conducted by ICCA's predecessor organization, Mattel Independent Monitoring Council (MIMCO).

round of audits was conducted during the week of October 20-25, 2003. The first round of audits was carried out during 1999-2000.

## **2. ICCA'S AUDIT PROTOCOLS**

The implementation of Mattel's GMP is carried out according to detailed standards of performance covering various principles of GMP. Individual performance standards are tailored to meet the specific legal requirements of each country as well as Mattel's GMP. Where local regulations are either non-existent or lower than Mattel's standards, the higher Mattel standards are considered applicable. ICCA's audit protocols are designed to verify individual factory's compliance with GMP standards in a manner that is comprehensive, objectively measured, interpreted in a meaningful manner, and independent of any other consideration except the compliance standards specified in the GMP.

## **2.1 Pre-Audit Preparation**

Prior to the on-site audit, ICCA requests information from the plant management regarding its operational and human resource management practices. This standard document is called the Management Compliance Report (MCR). It calls for detailed information on all aspects of the plant's operations, the extent of management's compliance with various GMP provisions, details of any shortfalls, and management's plans for corrective action. ICCA considers MCR as the plant management's formal and factually accurate response on all aspects of the plant's operations. ICCA also reviews reports of all in-house audits conducted by Mattel's internal audit department.

## **2.2 The Field Audit**

The field audit is comprised of four parallel activities. The first is an audit of a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant's entire workforce. Auditors supervised by ICCA conduct this audit. These professionally trained accountants have extensive knowledge of China's labor laws, and local accounting practices with regard to wages and benefits, working hours, government-controlled deductions and related matters. Where complex issues of interpretation of China's labor laws and regulations are required, ICCA relies on advice from its legal counsel in China. The intent of this audit is to ensure that all workers receive wages for regular and overtime work as mandated by law; operate within legal and GMP standards as to regular and overtime hours; and receive benefits as mandated by law and GMP standards.

The second element of the audit involves confidential, one-on-one interviews with the same group of workers who were previously selected for the payroll and personnel file audit. This allows for comparison of the information contained in the plant's payroll records and personnel files and the information elicited from the workers through confidential, one-on-one interviews. The personal interview questionnaire was developed by ICCA and is designed to garner information, both quantitative and qualitative, on all aspects of the workers' working and living conditions at the plant. Professional interviewers, retained independently by ICCA and generally meeting the age and gender profile of the workers, conduct these interviews in the workers' native language and under the direct supervision of a senior ICCA advisor. Each worker is interviewed individually in a private, secured space to ensure complete confidentiality.

The third element of the audit is a thorough examination of the plant's practices and policies with regard to environment, health and safety issues. Independent professional environmental experts conduct this phase of the audit under the supervision of ICCA's own professional and highly experienced industrial engineer. The China-based professionals are equipped with extensive knowledge and experience of China's laws and regulations in manufacturing operations. Plant's records are further verified by a thorough "walk-through" of the factory floor and related facilities. Inspection includes an examination of the general maintenance of the manufacturing facilities, storage, treatment and disposal of hazardous waste materials, hygiene in toilets and bathrooms, kitchen

and eating facilities with particular emphasis upon safety and health. The walk-through also includes a thorough inspection of the dormitories and recreational facilities in terms of hygiene, adequacy of space, worker comfort, privacy and security, and other related matters as deemed appropriate in specific situations.

The final element of the ICCA audit is a series of individual and group meetings between ICCA's audit team members and various plant managers responsible for different aspects of a plant's operational facilities, employee supervision and other human resource management activities, dormitories and canteen facilities, and plant and dormitory security functions, to name a few. These sessions serve to confirm and clarify issues in the MCR and elaborate on the plant management's practices regarding issues that emerge during the field audit.

### **2.3 Post-Audit Activities**

All data and information generated by the audit, including confidential worker interview questionnaires, are brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary findings are first provided to Mattel to ensure the factual accuracy of various plant records used by ICCA in its audit reports. In case of a material error on the part of ICCA with regard to the use and interpretation of specific records, ICCA revises the draft report before making it public. In other cases, Mattel provides information with regard to corrective action and commitments in response to ICCA's preliminary findings. ICCA takes cognizance of these actions as to their adequacy and indicates the extent of follow-up to be undertaken by ICCA to

ensure full and timely compliance. The audit report records both the initial findings of the audit and the specifics of Mattel's responses through corrective actions. In the event of a disagreement between ICCA and Mattel as to the nature of findings or the adequacy and timeliness of corrective measures, ICCA makes public its findings and the company's responses without any editing by ICCA or Mattel.

#### **2.4 Inconsistent Enforcement of PRC's Labor Laws by Local Authorities**

ICCA has consistently faced a problem in evaluating the level of compliance of GMP standards on the part of Mattel controlled plants as well as vendor plants. This situation arises from the fact that there is a wide divergence between the provisions of China's national laws pertaining to labor and environment issues, and the rules and regulations promulgated by the regional and local authorities in China. The latter has the practical effect of significantly diluting the requirements of national laws – a practice that is rarely, if ever, noticed in other countries. In theory, national laws always supercede local laws, but the fact remains that in China regional and local dilutions of the national laws are openly practiced, and to date have not been challenged by the national Chinese government. It should also be apparent that for competitive reasons as well as cost considerations, factories in a given region prefer to comply with local laws and regulations.

ICCA makes this observation with serious trepidations for the following reasons:

1. ICCA's legal counsel has advised us that no regional or local authority has the right to waive any provisions of PRC's labor laws. Therefore, regardless of their widespread application, these practices must be considered in violation of China's labor laws.
2. Variations granted by local and regional authorities are internally inconsistent, i.e., they differ across localities and even among individual factories.
3. Local and regional authorities seem to have left the enforcement of their own regulations, largely at the discretion of factory owners and managers.

Therefore, ICCA has taken the following approach in assessing a plant's compliance with GMP standards:

1. In every case where a given practice by a plant does not comply with either China labor laws or GMP standards, ICCA has so stated in its report.
2. Where a plant's activities have been justified on the basis of local laws and regulations, ICCA has attempted to ensure that:
  - (a) These practices have indeed been approved by the appropriate local authority;
  - (b) The plant has on file, proper authorization permits indicating in detail, the scope of each permit and the period of its duration; and,
  - (c) The plant has scrupulously observed and complied with all the conditions specified in the permit.

### **3. AUDIT FINDINGS**

The summary findings contained here pertain to four plants and cover issues that are common to all operations, raise similar concerns, and call for group-wide remedial actions to assure compliance. In some cases, we have included information, even when it is applicable to a single factory, where it was felt that the saliency of the issue merited such inclusion. Detailed audit findings and Mattel's responses with regard to overall findings and also individual plants, are attached to this Executive Summary.<sup>2</sup>

ICCA's second round of audit shows a marked improvement in almost every aspect of the plants' operations in terms of compliance with GMP, applicable laws and regional and local practices, where these plants are located. Where deficiencies in meeting GMP standards have persisted, they relate, for the most part, to those practices where GMP standards diverge widely from local and regional practices. In most cases, local and regional authorities have approved these practices. Therefore, despite their questionable legality, these practices have acquired the aura of quasi-legal norms.

---

<sup>2</sup> ICCA's reports of plants audits are also available on ICCA's and Mattel's websites [www.ICCA-corporateaccountability.org](http://www.ICCA-corporateaccountability.org) and [www.mattel.com/about\\_us/Corp\\_Responsibility/default.asp](http://www.mattel.com/about_us/Corp_Responsibility/default.asp).

### 3.1 Employee Profiles

Table 1. Employee Profiles

| <b>Plant</b>    | <b># Employed</b> | <b>Average Age</b> | <b># Years Employed</b> | <b>Female/Male %</b> | <b>% at 1<sup>st</sup> Job</b> |
|-----------------|-------------------|--------------------|-------------------------|----------------------|--------------------------------|
| <b>Guan Yao</b> | 9,300             | 23                 | 2.8                     | 96 / 4               | 45                             |
| <b>Chang An</b> | 7,900             | 23                 | 2.1                     | 98 / 2               | 42                             |
| <b>MDC</b>      | 1,500             | 27                 | 2.2                     | 20 / 80              | 31                             |
| <b>Hwa Tai</b>  | 300               | 30                 | 4.5                     | 25 / 75              | 15                             |
| <b>TOTAL</b>    | 19,000            | 23.4               | 2.5                     | 90 / 10              | 42                             |

ICCA's analysis of employment data showed that all four plants had implemented a minimum age requirement policy, ensuring that all workers were 18 years old and older. This fact was also confirmed through one-on-one confidential interviews of a selected group of workers representing each plant's entire workforce, and a check of individual employees during physical walk through of each plant's facilities by the ICCA audit team.

### 3.2 Record Keeping

All four plants have excellent record keeping systems to ensure integrity of records and their overall accuracy. ICCA's audit has verified the successful implementation of several management systems that ensure worker rights, workplace safety, health, and environmental protection. A notable improvement over the first round of audits conducted four years ago, has been the ready availability of records and transparency of management practices.

### **3.3 Initial Hiring, Orientation, and Job-related Training**

All the four plants were found to have formal hiring procedures that included orientation, medical checkups, job-related training, a signed written contract, and quite frequently, a visit to the plant and dormitories. Some of the plants also included a speech by a senior manager followed by a Question and Answer period. Each plant separates initial orientation from more detailed job related and safety training programs. Recruitment and hiring practices in all plants ensure that workers do not bear any costs or burdens as a condition for employment. All workers are given signed contracts that specify the terms of their employment.

### **3.4 GMP Awareness**

Employees are generally made aware of the GMP principles during the orientation period. A local language version is distributed to all employees. The GMP document is also posted on various bulletin boards at the factory site and in the dormitories.

Worker interview data, however, suggested that GMP awareness was somewhat spotty in the two larger plants, i.e., Chang An and Guang Yao, while it was quite high among the two smaller plants, i.e., Mattel Die Cast and Hwa Tai plants.

### **3.5 Regular and Overtime Working Hours, Consolidated Work Hours, and Extended Work Hours**

PRC national law states that total normal work-hours must be less than 2008 per year (251 work days, 8 hours per day), and that overtime hours must not exceed 432 hours per year. The national law specifically restricts the number of overtime hours worked to 3 per day or 36 hours per month. The law also requires that at least one rest day must be provided each week. Mattel's GMP states that total work hours must not exceed 60 hours per week, which exceed that of the national Chinese labor law limits for yearly and weekly work hours as well as overtime hours.

All four Mattel plants also operate on the basis of consolidated work hours and extended work hours, which are not specifically recognized in the GMP. These plants, however, have received authorization for the indicated practices from the local labor bureaus, which allow these plants to exceed the above-mentioned limits.

The practice of Consolidated Work Hours (also known as Comprehensive Work Hours) allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period.

There are a number of important characteristics of China labor law with regard to Consolidated Work Hours<sup>3</sup> that should be recognized here. Chinese law contemplates consolidated work to be applied in a contiguous time frame and the total number of overtime hours must not exceed the maximum allowed for the entire year. Therefore, when a plant uses a large part of its overtime allocation during the Consolidated Work Hours period, it has fewer overtime hours remaining for the remaining part of the year.

Local authorities, however, do not always follow these mandates and give wide leeway to plants to design their own consolidated work hours to meet their production needs. In practice, consolidated work hours became what individual plants choose to make them, which are then routinely approved by the local authorities. In ICCA's opinion the prevailing practices of consolidated working hours do not conform to any type of overall industry framework or regional considerations.

All four Mattel plants audited by ICCA had received permission from the local authorities to operate on the basis of Consolidated Work Hours. ICCA has also confirmed that plants' practices conform to the conditions specified in the authorization permits.

Extended Work Hours Permit is another form of variation from the PRC national law, which is issued by the local bureaus in violation of the national labor

---

<sup>3</sup> The industries subject to Consolidated Work Hours envisaged under the Chinese labor laws are primarily seasonal in character, e.g., farming, airline pilots, etc. The legality of its application to toys, apparel, and other industries subject to peak production period, is of questionable validity. Nevertheless, local authorities in China routinely give such permission to accommodate the needs of the factories in their area.

law. The intention of this permit is to exceed the maximum annual overtime hours provided under the Chinese labor law.<sup>4</sup> This permission allows plants to schedule up to a total of 2980 hours in 298 workdays (365 - 52 Sundays - 10 national holidays - 5 annual leave days) by scheduling 60-hour workweeks throughout the year. Implicitly, the total overtime hours may be 976 per year under this schedule. In effect, this authorization extends the national PRC labor law limit of 432 maximum overtime hours by 125%. All four plants have secured this permission from their local labor bureaus.

The Peak-Season Extended Hours Permission is another variant granted by the local labor bureau. Its objective is to augment the Extended Hours Permission and to further lengthen the 60-hour workweek.

Using these permits, all four plants have operated in excess of Mattel's GMP requirement of 60.0 hours per week during different times of year. The actual hours worked in excess of 60.0 hours per week for the four plants range between 64.0 hours and 72.0 hours per week and also cover different time periods throughout the calendar year.

Mattel's GMP requires that all local authorization permits must clearly state the specific time period covered, the total number of hours to be worked in the specified time period, and also maximum number of hours to be worked by individual workers in a particular day, to name a few. However, an examination of these permits obtained by the four plants, showed that these permits lacked some of these specifics, which had the practical effect of absolving the plants

---

<sup>4</sup> Unlike the Consolidated Hours Permissions, Extended Hours Permissions are less frequently issued, and do not have the same precedence in ICCA's experience in China.

from any meaningful constraints in scheduling overtime, length of work-day, and other operating conditions pertaining to work hours, which are in excess of the limits stipulated in Mattel's GMP and also the provisions of China's national labor laws.

ICCA's experience with these permits, both in the present instance, and also in its earlier report covering Mattel's China vendor plants, is cause for concern. ICCA considers the issues relating to working hours, and the system of local authorization permits, with potential for abuse of workers' rights and adverse impact on workers' health and safety.

ICCA has strongly urged Mattel to take a clear stand on this issue by creating uniform standards pertaining to consolidated work hours, extended work hours, maximum total hours as well as regular and overtime hours to be worked by a single worker, and by all workers, in a given week, season and calendar year. Furthermore, to ensure that the new standard is uniformly implemented, Mattel should make it transparent by incorporating in its GMP standards and thus making it public.

ICCA also recognizes that these practices are endemic to the entire region, and practiced – to a greater or lesser degree – by every plant. However, this issue cannot be settled at this time and remains to be resolved at a later date.

### **3.6 Payment of Minimum Wages**

Mattel's GMP requires that all employees must receive at least the legally mandated minimum wage applicable in the area where a plant is located. In

China, the district governments establish minimum wage rates for the areas under their jurisdiction. These rates reflect the cost of living in particular areas. The minimum wage that applies to the area covering all the four Mattel plants is RMB450<sup>5</sup> per month. However, one town in the district, i.e., town of Guan Yao, reduced the minimum wage to RMB430 per month to all plants located within the city boundaries effective March 30, 2003, which is the date when the minimum wage for the area was raised to RMB450 by the district government. This waiver applies to the three of the four Mattel plants, i.e., Guan Yao, Mattel Die Cast and Hwa Tai. The Guan Yao plant with 9300 workers, and the largest of Mattel's four plants, has opted to take advantage of this dispensation and has instituted a plant wide policy of RMB430 as the minimum wage per month. The second, Mattel Die Cast plant with 1500 workers, applies the lower minimum wage only to newly hired workers during their probation period, and all workers receive RMB450 as minimum wage upon completion of their probationary period. The Hwa Tai plant with 300 workers has kept its minimum wage to RMB450 per month.

A reduction of RMB20 amounts to a 4.4% reduction in the minimum wage. However, its adverse effect on the workers is more perverse since all overtime rates are determined as a percentage of the applicable minimum wage rate and thus reduce their overall take home pay to a far greater extent.

ICCA's legal counsel has advised us that the town of Guan Yao has no legal authority to reduce the minimum wage to RMB430 per month. ICCA feels that this action on the part of Mattel's plants violates both the spirit and the letter

---

<sup>5</sup> 1 USD = 8.28 RMB

of GMP. The fact that such local authorization is of questionable legality makes this action particularly untenable. We would, therefore, urge Mattel to revisit this issue, if not on legal grounds, then on the basis of compassion and fair treatment of workers.

### **3.7 Inappropriate Application of Wage Rates during Temporary Shut Downs and other Circumstances**

The PRC labor law provides that workers may not be paid any wages if the plant is temporarily forced to shut down for external factors beyond the plants control, e.g., power outages. However, workers must be paid at least the minimum wages during shutdowns for internal factors, e.g., non-arrival of raw materials, machine breakdowns, etc.

ICCA's audit revealed that three of the four plant digress from this regulation under conditions that are inconsistent with the China labor law and GMP standards.<sup>6</sup>

- Guan Yao and Chang An plants pay less than minimum wage rates, for a limited duration, when the production line experiences down time.
- Chang An does not pay overtime wages to line leaders for work done in excess of 10 hours per day. If their workday exceeds 8 hours, they are only entitled to 2 hours of overtime even if they work more than 10 hours.
- Mattel Die Cast plant does not pay overtime under two circumstances where (a) overtime hours is less than 30 minutes per day, and (b) when overtime

---

<sup>6</sup> It should be noted that ICCA's audit of Mattel's major vendors in China found that similar types of violations were even more pervasive and widespread. In those instances, Mattel has agreed to require these vendors to amend these practices and to pay the affected workers their lost wages with effect from January 1, 2003.

exceeds 3.67 hours per day. Workers are given compensatory time off on another day to make up the difference, but they are denied their overtime wages for their actual overtime work hours. This practice compromises the integrity of accurate monitoring of weekly overtime hours, and compliance with the plant's stated workweek policies.

ICCA has not received any explanation for these practices from the plants' management. Therefore, ICCA would urge Mattel to rescind these practices forthwith because they are inconsistent with Mattel's GMP and in non-compliance with China's labor laws. They are also unfair to the workers. Since these practices had a material and calculable impact on workers' income to which they were entitled to, Mattel should consider paying back wages to all workers, thus adversely impacted, with effect from January 1, 2003.

### **3.8 Mandatory Deductions and Legally Mandated Benefits**

- Annual Leave: Both China labor law and GMP require that all workers receive 5 days of paid leave after one year of service. ICCA had noticed that it was frequently violated by many of the Mattel's China vendor plants. However, ICCA confirms that all four Mattel plants are in full compliance with this requirement with one significant exception. Chang An plant awards annual leave benefits only in December of each year. Thus, workers resigning before December are denied this benefit even though they have otherwise completed one year of service.

- Maternity Leave: Both China labor law and GMP require that all eligible workers be given 90 days of paid maternity leave. By and large, the plants have recognized this policy. However, in some cases, its implementation is inconsistent with the law and GMP standards:
  - i. Chang An plant awards 90 days of maternity leave, but only pays for 45 days.
  - ii. Mattel Die Cast Plant pays workers maternity leave benefits only upon their return. Therefore, workers resigning after childbirth are denied this benefit to which they are legally entitled.
- Excessive Deductions: China's labor law limits the total amount of deductions to no more than 50% of a worker's basic minimum wage per month. GMP also states that food and dormitory expenses must not exceed 50% of a worker's minimum wage per month. Both Guan Yao and Chang An charge their workers more than 50% of their monthly minimum wage in deductions. As such, they are in non-compliance with the China labor law and GMP.

ICCA can find no justification of this arbitrary and inconsistent application of these policies. ICCA strongly urges that these policies should be rescinded forthwith.

### **3.9 Human Resource Management and Personnel Policies**

All the four plants have demonstrated a high level of consistency in the application of sound personnel practices in the overall treatment of workers; access to management in handling worker complaints; workplace discipline;

hiring and promotion policies; and, protection from harassment. There is an emphasis on openness, fair and equitable treatment, and a modicum of due process. ICCA's one-on-one confidential interviews also indicated that workers were generally satisfied with their initial hiring process and felt comfortable in expressing their views both about the positive as well as the negative aspects of their experiences. This is far cry for the situation generally prevailing in Chinese manufacturing plants. Mattel and its plant managers are to be commended for these practices.

- Workplace Discipline: All four plants have written procedures detailing factory's policies with regard to acceptable conduct in the workplace and other factory facilities used by employees, e.g., dormitories and canteens, and recreational areas. Workers are informed of these rules during orientation. They are also posted on various notice boards located on factory grounds. Most of the rules are related to the workplace conduct. Others deal with dormitory rules, security, and fighting with other workers to name a few. All these rules share three common traits: (a) they list conditions of unacceptable conduct; (b) they provide a process of warning ranging from verbal warning, written warning, and a hearing followed by disciplinary action including termination. Unlike many China vendor plants, Mattel owned and controlled plants do not impose any cash fines on their workers as punishment for disciplinary infractions.

All workers interviewed by ICCA confirmed their knowledge of the rules and disciplinary procedures. They also unanimously stated that these rules were administered fairly and consistently.

- Protection From Harassment: ICCA's field audits asked a series of questions pertaining to workers own experiences, and those of their friends and co-workers. Interviewed workers unanimously indicated that they were treated fairly by all levels of management with regard to hiring and promotions.

### **3.10 Living Conditions, Canteens, and Medical Facilities**

- Dormitories and Living Quarters: All four plants have made significant improvements in their physical facilities as well as worker amenities, which meet, and in many areas, considerably exceed GMP standards. Workers interviewed by ICCA expressed overall satisfaction with dormitories and living conditions.
- Food and Canteen Facilities: All audited plants provide 3-4 meals per day. The facilities are generally clean, well maintained and properly managed. All food handlers are trained and administered medical examinations yearly. ICCA inspections showed that all Mattel plants had done a commendable job in managing and maintaining their canteens.
- Medical Facilities: Three of the four plants have on-site clinics. Due to its small size, Hwa Tai plant does not provide on-site medical services. However, it pays the rent for a municipal clinic located next door to the plant, which enables the plant to provide its workers with immediate access to medical care. All medical facilities are well staffed, clean, and managed by

professionals. They are adequately stocked and accessible to all employees for work related conditions as well as personal ailments. The costs associated with personal services are minimal, and employees pay only the cost of medication. In the Chang An plant, a private self-insurance arrangement for a monthly fee of RMB2.00 (US \$0.25) provides unlimited care to all workers at no additional cost.

### **3.11 Physical Working Conditions and Related facilities**

ICCA's EHS experts observed that all plants were well maintained, clean, and in generally good condition. General housekeeping practices are diligent and effective. Most of the issues addressed in the individual plant reports pertain to managerial attention deficiencies rather than infrastructure inadequacies. Common concerns include compliance permits regarding discharged water and chemicals, adequacy of air emission systems, and chemicals handling. Among equipment-related issues, the most noteworthy is the water scrubbing systems at the Chang An and Guan Yao plants. Both plants are in the process of addressing these problems through equipment replacement and process redesign.

Another area of positive development, in all audited plants, is the proper use of personal protective equipment (PPE). All plants have assessed the need for PPE use, established appropriate standards, and provide proper equipment to all workers. ICCA's inspections showed that all workers were properly trained in the use of their PPE, and had developed the habit of using it regularly.

### **3.12 Skills Training and Community Outreach**

The ICCA audit shows that all plants provide courses, training programs, or seminars on topics that are not related to workers jobs. These programs include basic skills, accounting and business education, computer skills, homemaker skills, personal hygiene, SARS education, etc.

In addition all plants are involved in their communities through several outreach programs. Sponsored community activities include environmental awareness days, battery recycling, children's' programs, tree planting, picnics, and participation in cultural festivals.

## **4. OVERALL OBSERVATIONS**

ICCA's audit findings of the four plants indicate that Mattel's plants have generally met, and in many case, exceeded GMP and requirements of China law in a large number of areas impacting worker health and safety, and individual rights of the workers concerned. This has particularly manifested itself in issues pertaining to human resource management, personnel policies, an open system of worker-management communication, complete and transparent record keeping, safe and healthy work environment in the manufacturing facilities, and a safe and pleasant living environment, quality of food and canteen facilities.

The plants do face serious issues in the areas of excessive overtime hours and some infractions with regard to payment of minimum wages. However, these problems should be seen in the context of conditions that are

endemic to the entire region where China's national laws are openly and regularly flouted by both the local authorities and area factories.

Nevertheless, we believe that Mattel has taken significant steps to go beyond the prevailing conditions in the direction of increased consistency and transparency of its wages and working hours policies. Where ICCA's findings have stated clear violations of labor laws and GMP, these violations are easily isolated with calculable impact on the workers. The findings of this report indicate that further action is called for and that Mattel must again take the leadership position by addressing these issues in a constructive manner.

ICCA is pleased to note that Mattel has given a highly positive initial response. The company is carefully studying ICCA's findings and recommendations and has promised to provide detailed response no later than April 30, 2004.

ICCA would undertake a thorough analysis of Mattel's responses and the adequacy of the company's proposed remedial action. Should it prove necessary, ICCA may also revisit one or more of these plants in the foreseeable future. Nevertheless, ICCA expects all these issues to be satisfactorily resolved by July 31, 2004.

**MATTEL, INC. – COMPANY OPERATED PLANTS IN CHINA**  
**(GUAN YAO, CHANGAN, MATTEL DIE CAST, HWA TAI)**

**AUDIT REPORT**

**II. INDIVIDUAL PLANT AUDIT REPORTS**

**GUAN YAO PLANT (GY)**  
(Sino-American Toys)

**1. INTRODUCTION**

This report is based on the field audit of Guan Yao (Sino- American Toys). The plant is located in Guan Yao Town, NanHai district, Guang Dong Province, China. The GY plant operates under a processing fee agreement between Mattel and the local government. However, for the purpose of this audit, the plant is considered a Mattel controlled facility, which is totally dedicated to the manufacturing of Mattel products. This is the second formal audit of the facility and was conducted on October 22-23, 2003. The first audit of the GY plant was conducted during 1999-2000.

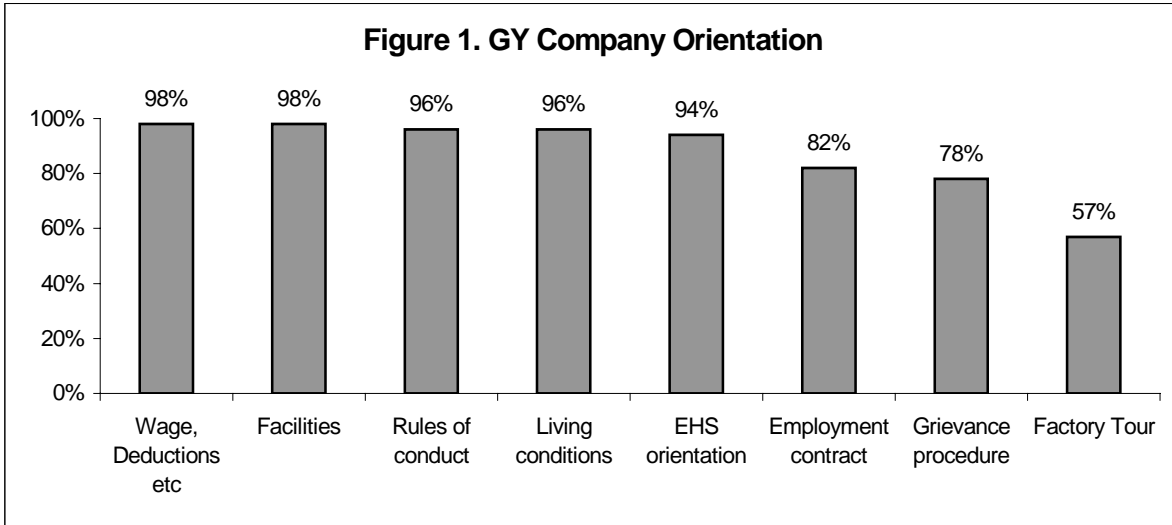
GY currently employs 9,300 workers. Of these, 90% are direct labor and remaining 10% are administrative and managerial personnel. Average age of workers is 23 years. The education level of workers is around 9 years of formal

schooling. The average length of employment is 2.6 years. For almost 45% of the interviewed employees, this was their first job. Throughout the year, the number of direct-labor employees average 7600, increasing to over 9000 during peak production periods.

## **2. AUDIT FINDINGS**

### **2.1 Recruitment and Hiring**

Over 60% of the workers got their jobs through referral from friends, while walk-ins accounted for 40% of the new hires. All newly recruited employees undergo an orientation program, which covers the employment contract, rules of conduct, wages, benefits and overtime policies, grievance procedures, GMP, and a tour of the factory. The program takes approximately 8 hours. In addition, workers receive training in environmental health and safety (EHS) issues. EHS training includes safety rules, emergency evacuation training and drills, first aid, means of reporting accidents, information on work place hazards, and reporting of an emergency (Figure 1). New hires also undergo a medical examination, which includes general check-up, vision test, ear test and blood pressure.



### Workers' Employment Contracts

Upon employment, each worker receives a signed contract from the plant as required by the labor laws of China and GMP standards. The contract covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. ICCA's audit confirmed that all workers' had received a contract, copies of which were found in their personnel files. Among the audited personnel files, 73% of the workers had a full-year contract. The remaining 27% of the workers had employment contracts for 3 to 9 months.

### Probation Period

All newly hired workers undergo a probation period. During the probationary period, an employer is allowed to terminate workers without the mandatory compensation that is applicable when a contract is voided unilaterally. This means that, for workers with one-year contracts, the factory can terminate a worker during the first 30 days, without any recourse on the part of the worker, while the legally allowed time for such termination for shorter-term contracts is 15

days. ICCA audit findings indicated that 40% of the workers had contracts with 3-6 month terms, while their probation period was 30 days.

Of the interviewed workers, 57% mentioned that their pay during the probation period was different than that of regular workers. Several workers indicated that they were paid RMB16 on a daily basis while on probation. This rate corresponds to RMB2 per hour (less than the minimum wage), assuming they did not work any overtime. However, 59% of the workers indicated working overtime while on probation, with 57% claimed that their wages were different than regular wages and that they were not paid overtime rates.

ICCA's audit concludes that GY management is not in compliance with the China Labor law and GMP standards with regard to length of probation period and payment of wages during the probation period.

## **2.2 GMP Awareness**

Guan Yao provides GMP information to all its workers. It is available in the local language and disseminated during the orientation program and also through a variety of other communication channels including postings on notice boards located around the factory and dormitories. ICCA's interviews with a sample of employees revealed that 67% of the workers were aware of the GMP, but had perfunctory understanding of its provisions and their relevance to the workers.

## **2.3 Working Hours, Wages, and Benefits**

Workers at the GY plant are paid based on a piece-rate system. However, if worker's piece rate earnings fall below the minimum wage rate, they are

guaranteed to earn at least the minimum wage for their actual work hours. First 8 hours in a workday [or 40 hours in a workweek] are paid at regular wage rates. Any additional hours during the regular workweek are paid at a 50% premium rate. Work on Sundays or any other designated rest day work is paid at twice the regular wage rate. Line supervisors record daily work hours manually, and workers sign their attendance records to confirm their accuracy.

Guan Yao workers' take-home pay, based on the piece-rate system, exceeds the legally guaranteed minimum monthly wage. Workers are also entitled to special skills, night shift, and attendance bonuses, which average around RMB173 per month. The average take-home pay for GY workers is around RMB866<sup>7</sup> per month, for combined regular and overtime work hours.

### Minimum Wages

The minimum wage rate in the GY's district was raised from RMB430 per month to RMB450 per month as of March 1, 2003. However, the city of Guan Yao has created an exception for all plants located within the Guan Yao city's boundaries. The Guan Yao plant has used this waiver and hence pays RMB430 per month as the basic minimum wage per month.

ICCA's legal counsel in China has advised that this waiver contravenes China's national labor laws and the authority of District Labor Bureau, which is charged by the Chinese national government to establish minimum wage rates for the district. The lower minimum wage rates also adversely impact the overtime rates paid to workers at the Guan Yao plant. ICCA concludes that this

---

<sup>7</sup> 1USD = 8.28RMB

practice is untenable within the context of GMP and should be corrected. Furthermore, we would also urge Guan Yao management to calculate actual loss of income to workers (both regular and overtime) from March 1, 2003 and make restitution.

### Work Hours

Chinese labor law defines regular workweek as 40 hours, with daily overtime limited to 3 hours per day and 36 hours per month. In addition, yearly regular-pay hours are defined as 2008, with total yearly overtime hours not to exceed 432. As such, total yearly work hours are limited to a maximum of 2440 per year by law.

The workweek at the GY plant is defined as six days, Monday through Saturday. The typical workweek at GY is 60 hours or 10 hours per day, which is the maximum allowable workday provided in the GMP. The Guan Yao's policy with regard to work hours is to limit the percentage of days a worker works above 60 hours per week (up to a maximum of 64.5 hours), to 25% of the total number of workdays in a year. GY has secured local permissions for such actions in the form of (1) Consolidated Work Hours Permission; (2) Extended Hours Permission; and (3) Peak Season Extended Hours Permission from the local labor bureau in support of its policies<sup>8</sup>.

Guan Yao has made use of local authorization permits to extend its daily, weekly and yearly hours beyond the limits promulgated under the Chinese Labor laws and GMP standards. For example, the extended hours permit allows Guan

---

<sup>8</sup> Please see the accompanying *Consolidated Summary* for a detailed discussion of these local permits.

Yao to schedule a 60 hours workweek throughout the year. Implicitly, the total overtime hours may thus increase to 976 per year under this schedule and thereby more than double the overtime hours beyond the PRC labor law limit of 432 maximum overtime hours.

The Peak-Season Extended Hours Permission (granted by Guan Yao Town labor bureau) is an augmentation of the Extended Hours Permission to lengthen the 60-hour workweek to 64.5 hours for peak production periods, whose timing and duration are unspecified. This permit effectively allows the GY plant to schedule 223 hours per year per worker above and beyond the previously mentioned Extended Hours Permission and thereby bring the total yearly hours for each worker to 3203, compared to the national labor law limit of 2440. Alternately, this system corresponds to 1199 overtime hours per year, compared to the national labor law limit of 432 hours.

Analysis of GY's payroll data confirms that these policies are being implemented. Audit findings reveal that 27% of the audited workers had worked more than 260 hours during the month of September 2003 while no worker was observed to have worked more than 26 workdays. Therefore, these workers had worked more than 10 hours per day, or above the GMP daily limit. In fact, 14% of the audited sample had worked more than 64.5 hours per week, which exceeded all limits provided to Guan Yao plant under various local authorization permits.

ICCA has expressed its concerns about these practices and their adverse impact on the workers in the Consolidated Summary Report, preceding the individual plant audit reports. ICCA has also urged Mattel to clarify the company's

position on these issues by creating clear-cut policies that are both rational and equitable to workers.

### Payment of Wages During Temporary Shutdowns

At Guan Yao, hourly workers are not paid for down time caused by material shortages, scheduling problems or machine breakdowns. Employees who are paid at piece rate receive between RMB4-5 per day for down time without advance notice, and RMB3 per day for down time with advance notice. These compensation rates are equivalent to approximately 1-2 hours pay at the minimum wage rate. In this regard, GY is in non-compliance with the Chinese labor law and the GMP, which allows non-payment of wages only for down time caused by factors beyond the plant's control, e.g. power blackouts.

### Overtime Wages

All direct labor workers at GY receive normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. However, in the case of a small group of non-production workers, who perform such functions as maintenance and engineering, the overtime rates start after 48 hours of work per week. Since there are hourly workers, they are entitled to overtime pay after their first 40 hours of work per week.

### Deductions

All workers must pay a food fee of RMB183 per month regardless of whether or not they eat in the factory cafeteria. This is an extreme condition and is rarely found in ICCA's audit of Mattel controlled and operated plants, and even

among Mattel's major vendor plants. The mandatory nature of the payment runs counter to the letter and the spirit of GMP, which clearly states that employee payments for the use of company-provided facilities must be voluntary, and that workers should have the right to opt out of any such arrangement. This practice imposes heavy financial burden on workers who do not wish to eat in the cafeteria for whatever reason. The plant charges RMB37 for dorm usage and RMB3 for electricity and water usage from each worker staying at the dorm. Total deductions for food and dormitory rent amount to RMB223 per month. Mattel's GMP requires that these combined costs cannot exceed 50% of a worker's monthly wage. Guan Yao has failed to comply with the GMP with regard to maximum allowable charge for food and dormitory.

### Benefits

GY pays all legally mandated social insurance and related benefits. ICCA has confirmed that the plant has implemented the policy of paying maternity benefits of 90 days paid leave to all workers. The plant also provides one week of paid annual leave to all workers upon completion of one year of service. The number of paid annual leave days increase in proportion to the workers tenure with the plant. It should be noted that Guan Yao's annual leave policies exceed the requirement of the China Labor law and Mattel's GMP.

### Personnel Records

Guan Yao maintains good records in its workers' files. These contain medical check-up and probation records. In addition, company records include

illness and injury reports; disciplinary action reports, annual leave and maternity leave reports.

ICCA's audit findings reveal that various practices that pertain to work hours and pay related issues at Guan Yao's practices are inconsistent with GMP standards. ICCA would like to receive a report from Mattel, outlining its plans towards implementation of changes that would bring the plant in conformity with GMP. ICCA may also undertake a follow up visit to verify the effectiveness of Mattel's implementation program.

#### **2.4 Workplace Discipline of Employees**

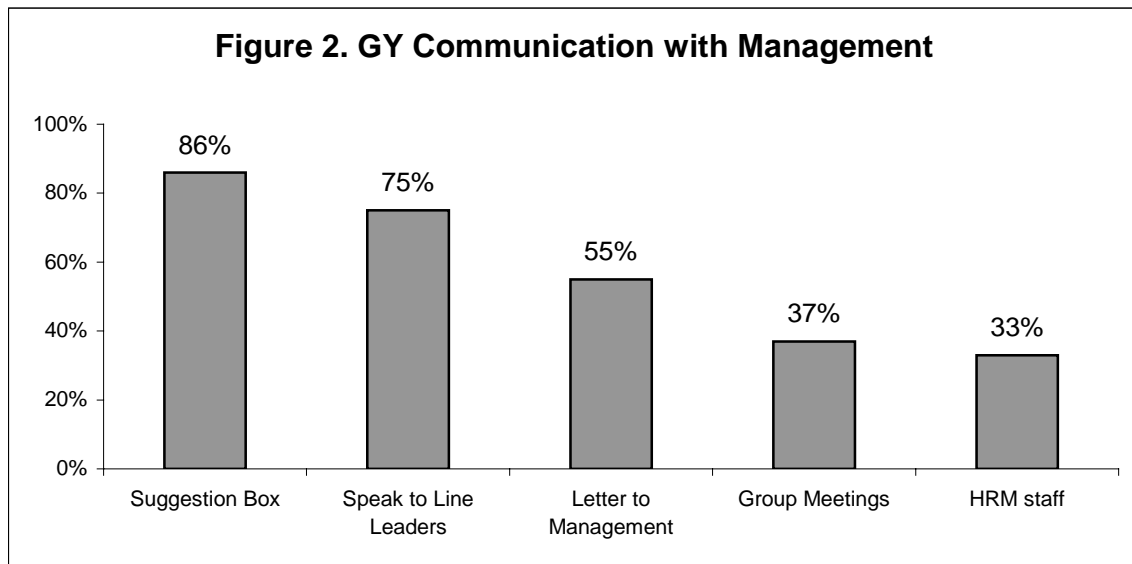
GY has written policies with regard to employee discipline. Most disciplinary actions are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department. Worker interviews indicate that only 4% of workers were subjected to disciplinary action during their tenure at the factory. The plant does not impose any cash fines as a disciplinary measure.

#### **2.5 Freedom of Association, Discrimination and Access to Management**

There is no union representation at the GY plant. Workers have a representative body to voice worker concerns regarding their employment at the plant. Participation is open to all and is voluntary; and all workers are eligible to vote in the selection of leaders of their organization. The plant also has local chapters of the Chinese Communist Youth league and the Chinese Communist Party. Interviewed workers indicated no dissatisfaction regarding their freedom of

association at the plant. During one-on-one confidential interviews, workers were almost unanimous in indicating that there was no discrimination based on religion, ethnicity, or region of origin, by the plant management.

Guan Yao management uses several venues for employee communications. These include periodic communication sessions between workers and various levels of management. Interviewed workers found their line leaders and factory notice boards to be the most effective means of receiving information (Figure 2). The plant also organizes community service activities during holidays and festival events throughout the year.



## 2.6 Protection from Harassment

All interviewed employees stated that neither they, nor anyone they knew, had been intimidated, abused or harassed by supervisors or fellow workers. Mattel has specific policies and guidelines regarding harassment in the

workplace, which are fully implemented and have proven to be quite effective at the GY plant.

## **2.7 Dormitories and Living Quarters**

GY operates 4 dormitory buildings with a capacity of about 7000 workers. Approximately 80% of GY workers stay at the factory-managed dorms. 10% of workers indicate that they were required by GY management to stay at these dorms. ICCA auditors observed that conditions at the GY dorms have improved considerably since the first formal audit of the plant in 1999. The dormitories now provide hot and cold-water, private locker space and other amenities. Room occupancy rates, which were a point of concern in the previous audit, have been reduced to an average of 16 from 24-34. GY management has taken additional positive steps in improving the quality of life for workers living in the dormitories. These include a new library, karaoke room, basketball court, movie theatre, library, increased public telephones, and a training room with 40 computers.

## **2.8 Food and Canteen Facilities**

The cafeteria has a capacity to serve 1600 workers at one time. The plant provides three meals per day. Canteen employees are given yearly physical examinations. Garbage pick up is done on a daily basis. Lunch break averages 60 minutes. Workers reported that the average waiting time in the cafeteria line was no more than 5 minutes, which gave them ample time for eating and rest. The canteen supervisor manages the cafeteria menu, and employee surveys are

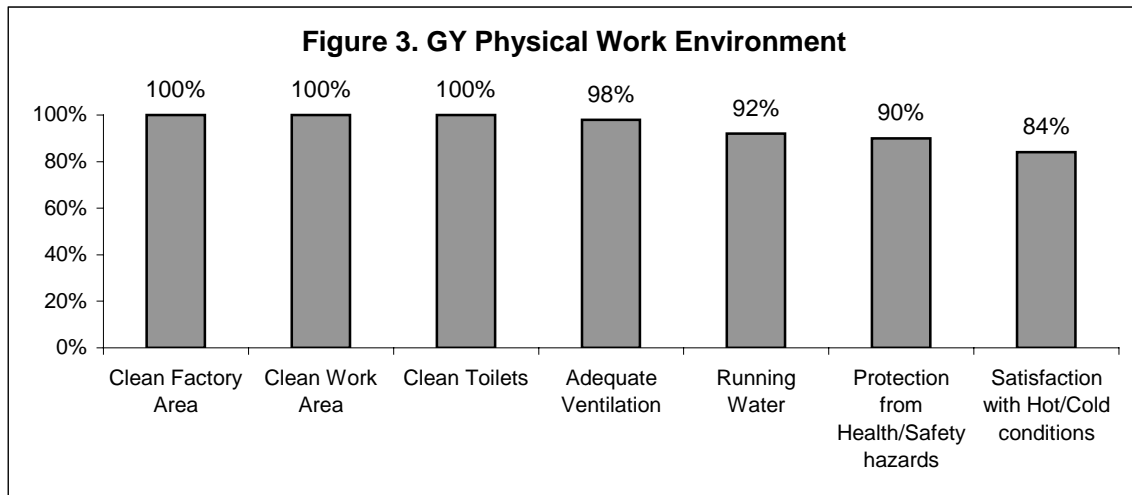
used to generate weekly menus based on worker preferences. The canteen is well kept, clean, and spacious.

## 2.9 Medical Facilities

The medical clinic at Guan Yao is well staffed and stocked with basic medical care supplies. Three MDs are on staff, working in shifts around the clock. There are two beds available for treatment of employees. Personal medical care is free. Patients pay the cost of medication dispensed. During August 2003, an average of 15 workers per day used the clinic's services.

## 2.10 Work Environment of Manufacturing Operations and Related Facilities

The Guan Yao plant is a large, well laid out plant. Overall it is in good condition and well maintained. The plant consists of four blocks, A, B, C, D and four dormitories. Dormitories 1 & 2 were built before 1997 and 3 & 4 were built in 1999, and 2003. Interviews with workers indicated that they were by and large satisfied with their work environment and amenities (Figure 3).



In general, overall ventilation appears to be satisfactory, housekeeping is quite effective and work areas are oil free and well maintained. However, based on monitoring results in 2003, many locations at the site exceed applicable boundary noise limits. Lavatories and personal hygiene facilities in the plant are well maintained, clean and satisfactory. Water scrubber system is inadequate due to its inherent design and lack of upkeep. The problem is being taken care of by systematically replacing these systems with dry filtration systems.

The following is a list of specific issues observed in the plant, by ICCA's EHS experts:

### Chemicals

There were no MSDS available in locations that use chemicals such as in the workshops. MSDS in Chinese for some of the chemicals were not available in the Dangerous Goods Warehouse. A strong solvent smell was detected in the Dangerous Chemical and Hazardous Waste Warehouses. Although the buildings were ventilated, the systems did not seem to be operating efficiently. Air sampling in these locations should be undertaken to assure that exposure levels do not exceed standards.

### Solid Waste

The plant maintains an "Environmental Protection and Waste Reduction Guideline", in which the goals and methodology are clearly spelled out. However, according to the plant management, no targets and/or actions have been implemented as yet.

### Lead Management

The plant management has conducted a lead-based paint survey. However, no training on lead-based paint exposure hazards, handling and management have been conducted.

### Packaging

The plant management has developed a well-documented procedure to ensure that suppliers of packaging materials identify any noxious and/or other potentially hazardous substances contained within them. However, this procedure has not as yet been fully implemented.

### Hearing Conservation

A well-documented audiometric testing program has been developed. However, the test results were not communicated to the affected workers. The employees identified as suffering from noise induced hearing loss were still working in high noise level areas.

### Confined Space Entry

Although training for authorized entrants has been conducted, no rescue training has been provided. A confined space rescue program should be developed including use of proper PPE, rescue methods, drills, and awareness of the hazards involved.

## Industrial Hygiene

The plant has an occupational health inspection program for workers. However, no tracking has been conducted for workers who are potentially affected.

## Calibration

There is no record or indication of meter and gauge calibrations, which are essential for proper monitoring of operating conditions.

### **2.11 Use of Personal Protective Equipment (PPE)**

The plant provides Personal Protective Equipment to the workers based on the evaluations of the safety department and Mattel standards. ICCA's observations show that PPE use in the plant is properly managed and monitored.

### **2.12 Skills Enhancement Programs and Community Outreach**

Job training is available to workers in the areas of business accounting, sewing, roto casting, clerical skills, and various other trades. In addition, Guan Yao offers computer-training courses to its employees. Other program offerings include medical lectures on respiratory diseases; labor rights education seminars, safety, and security training. GY has provided several informational sessions during the recent SARS threat.

GY reaches out to the community through battery recycling programs, tree planting, Mattel Children Day, Environmental awareness, blood donation, Santa Claus parties, and an adopted primary school in nearby mountains.

## **CHANG AN PLANT (CA)**

### **1. INTRODUCTION**

This report is based on the field audit of Chang An plant. The plant is located in Dongguan City, Guang Dong Province, China. The CA plant operates under a processing fee agreement between Mattel and the local government. However, for the purposes of this audit, the plant is considered a Mattel controlled facility, which is dedicated to the manufacturing of Mattel products. This is the second formal audit of the facility and was conducted on October 24, 2003. The first audit of the CA plant was conducted in 2000.

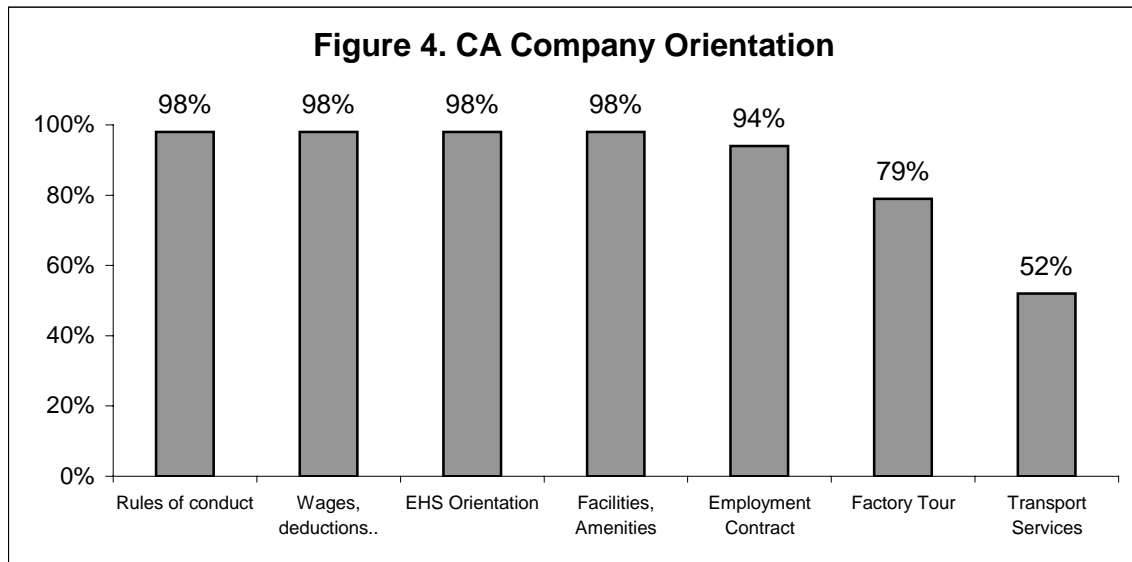
CA currently employs approximately 7900 workers. Of these, 90% are direct labor and the remaining 10% are administrative and managerial personnel. Average age of workers is 23 years. The education level of the workers is around 9 years of formal schooling. The average length of employment in CA is 2.1 years. For almost 42% of the interviewed employees, this was their first job. Throughout the year, the number of direct-labor employees average 6100, increasing up to 8200 on peak production periods.

### **2. Audit Findings**

#### **2.1 Recruitment and Hiring**

Over 50% of the workers got their jobs through a referral from friends. Walk-ins accounted for 30% of new hires. About 10% of the workers used a recruiting agency and paid their own fees. The company provides orientation to

all newly recruited employees. The orientation program takes about three hours. It is comprised of employment contract, rules of conduct, wages, benefits, deductions and overtime policies; grievance procedures, GMP, and tour of factory. In addition, workers receive training in environmental health and safety (EHS) issues (Figure 4). New hires also undergo a medical examination, which consists of a general check-up.



### Workers' Employment Contracts

Upon employment, each worker receives a signed contract from the plant as required by the labor laws of China and GMP standards. The contract covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. ICCA's audit confirmed that all workers had received a contract, copies of which were kept in their personnel files.

Probation Period:

Most workers undergo a probation period. During the probationary period, an employer is allowed to terminate workers without the mandatory compensation that is applicable when a contract is voided unilaterally. This means that, for workers with one-year contracts, the factory can terminate a worker during the first 30 days, without any recourse on the part of the worker, while the legally allowed time for such termination for shorter-term contracts is 15 days. According to the interviewed workers, the length of the probation ranged from 1 to 3 months. Of the interviewed workers, 45% mentioned that their pay during their probation period was different than that of regular workers. Some workers also stated that their probation periods were 3 months, while their contracts were for two years. PRC labor law requires that probation period may not exceed 1 month per contract year.

Several workers indicated that they were paid as little as RMB16 on a daily basis while on probation. This rate corresponds to RMB2 per hour, which is less than the minimum wage, assuming they did not work any overtime. However, 48% of workers indicated working overtime while on probation, with 60% claiming that their wages were different than regular wages and that they were not paid overtime rates.

ICCA's audit concludes that Chang An management is not in compliance with the China Labor law and GMP standards with regard to the length of probation period and payment of wages during the probation period.

## **2.2 GMP Awareness**

Chang An provides GMP information to all its workers. It is available in the local language and disseminated during the orientation program, and also through a variety of other communication channels including postings on notice boards located around the factory and dormitories. ICCA's interviews with a sample of employees revealed that 75% of the workers interviewed were aware of the GMP but had perfunctory understanding of its provisions and their relevance to the workers.

## **2.3 Working Hours, Wages, and Benefits**

Workers at the CA plant are paid based on a piece-rate system. However, if workers' piece-rate earnings fall below the minimum wage rate, they are guaranteed to earn at least the minimum wage rate for their actual work hours. First 7 hours on Monday-Fridays and 5 hours on Saturdays [or 40 hours in a workweek] are paid at regular wage rates, and any additional hours during the regular workweek are paid at a 50% premium rate. Work on Sundays or any other designated rest day work is paid at twice the regular wage rate. Chang An workers' take-home pay, based on the piece-rate system, exceeds the legally guaranteed minimum monthly wage. Workers are not entitled to special skills, night shift, or attendance bonuses. The average take-home pay for CA workers is around RMB800<sup>9</sup> per month, for combined regular and overtime work hours.

---

<sup>9</sup> 1USD = 8.28RMB

### Minimum Wages

The minimum wage rate for the district, where the CA plant is located, is RMB450 per month. This is the wage rate applied) to pay the hourly workers who are not paid on a piece-rate system, and ii) as the minimum base rate to ensure that workers - who do not earn this amount through the piece rate pay system - are paid at least minimum wages. With regard to payment of minimum wages, the ICCA audit concludes that CA's practices comply with the PRC national labor law as well as Mattel's GMP.

### Work Hours

Chinese labor law defines the regular workweek as 40 hours, with daily overtime limited to 3 hours per day and 36 hours per month. In addition, yearly regular-pay hours are defined as 2008, with total yearly overtime hours not to exceed 432. As such, total yearly work hours are limited to a maximum of 2440 per year by law.

The workweek at the plant is defined as six days, Monday through Saturday. The typical workweek at the plant is 60 hours, or 10 hours per day, which is the maximum allowable workday provided in the GMP. CA plant's policy with regard to work hours is to limit the percentage of days a worker works above 60 hours per week (up to a maximum of 64 hours), during July through September. CA has secured local permissions in the form of (1) Consolidated work Hours Permission; (2) Extended Hours Permission; and (3) Peak Season

Extended Hours Permission from the local labor bureau in support of its policies<sup>10</sup>.

Chang An has made use of local authorization permits to extend its daily, weekly and yearly hours beyond the limits promulgated under the Chinese Labor laws and GMP standards. The Extended Hours Permission allows CA to schedule a 60 hours workweek throughout the year. Implicitly, the total overtime hours may thus increase to 976 per year under this provision and thereby more than double the overtime hours beyond the PRC labor law limit of 432 maximum overtime hours.

The Peak-Season Extended Hours Permission (granted by Chang An Town labor bureau) is an augmentation to the Extended Hours Permission to lengthen the 60-hour workweek to 64 hours for the 3-month peak production period, i.e., July through September. This permit effectively allows the CA plant to schedule 52 hours per year per worker above and beyond the previously mentioned Extended Hours Permission, bringing the total yearly hours for each worker to 3032, compared to the national labor law limit of 2440. Alternately, this system corresponds to 1028 overtime hours per year, compared to the national labor law limit of 432 hours.

Analysis of CA's payroll data confirms that these policies are indeed in practice. Audit findings reveal that 40% of the audited workers had worked more than 260 hours during the month of September 2003 while no worker was

---

<sup>10</sup> Please see the accompanying *Consolidated Summary* for a detailed discussion of these local permits.

observed to have worked more than 26 workdays. Therefore, these workers had worked more than 10 hours per day, or above the GMP daily limit.

ICCA has expressed its concerns about these practices and their adverse impact on the workers in the Consolidated Summary Report, preceding the individual plant audit reports. ICCA has also urged Mattel to clarify the company's position on these issues by creating clear-cut policies that are both rational and equitable to workers. Furthermore, these policies should be incorporated in the GMP and made transparent.

#### Payment of Wages During Temporary Shutdowns

At Chang An, hourly workers are not paid for downtime caused by material shortages, scheduling problems or breakdowns. Employees who were paid at piece rate receive RMB10 per day for downtime for the first three days of downtime. These compensation rates are equivalent to approximately 50% of the daily minimum wage rate. In this regard, CA is in non-compliance with the Chinese labor law and the GMP, which allows non-payment of wages only for downtime caused by factors beyond the plant's control, e.g. power blackouts.

#### Recording of Work Hours

Line supervisors record daily work hours manually, and workers sign their attendance records to confirm their accuracy. However, line leaders' time sheets do not reflect their full work hours correctly. For a 10.67-hour shift, their time records indicate only 10 hours. In addition to incorrect time keeping practices, this policy deprives the line leaders from their earned pay as discussed

immediately below. CA's policy of requiring employees to work off the clock does not conform to the PRC labor law or Mattel's GMP.

### Overtime Wages

CA management does not pay line leaders overtime wages when they work more than 10 hours per day. When production schedules call for 64-hour workweeks, or 10.67-hour workdays, line leaders are not paid for the last 0.67 hours, or 40 minutes of work done. CA's pay practices for non-production workers does not conform to the Chinese labor law and Mattel's GMP.

### Deductions

All workers, except line leaders, must pay a mandatory monthly charge for food of RMB235 regardless of whether or not they eat in the factory cafeteria and live in the dorms. The plant charges RMB52 for dorm usage and RMB183 for food.

These practices run counter to the letter and the spirit of GMP in two ways:

- (1) GMP clearly states that all dorm and food services provided by the plant must be optional, and that all workers must have the choice to make alternate arrangements for these services if they so wish.
- (2) Total amount of deductions for dorm and food services must be less than 50% of the minimum monthly wage. Currently, the minimum wage at the CA plant is 450 RMB, and the deductions amount to a greater than 50% of the workers monthly minimum wage.

ICCA's audit findings reveal that Chang An's practices of mandatory deductions for food are inconsistent with many of the GMP standards that are considered critical. ICCA would like to receive a report from Mattel, outlining its plans towards implementation of changes that would bring the plant in conformity with GMP. ICCA may also undertake a follow up visit to verify the effectiveness of Mattel's implementation program.

### Benefits

CA pays all legally mandated social insurance and related benefits as required by law. Their records are verified and considered appropriate by the local labor bureau.

### Maternity Leave

PRC labor law and Mattel's GMP state that all workers are entitled to 90 days paid maternity leave. CA's current policy is to grant the 90 days leave with only 45 days pay. As such, the plant's maternity leave policy is not complying with the law and the GMP.

### Annual Leave

PRC labor law entitles all workers to a 5 day paid annual leave upon completion of one-year service with an employer. CA's policy regarding paid annual leave is to grant annual leave benefits in December of each year, regardless of when a worker becomes eligible. This practice amounts to denying annual leave benefits to those workers who resign before December, even though they may have been with the factory for a full year. CA's annual leave

policies are inconsistent with the law as well as Mattel's GMP and result in the denial of annual leave to many workers employed by CA.

### Personnel Records

The plant maintains good records in its workers' files. Each worker at the CA plant has a signed contract on file. Workers' files also include disciplinary action and probation records. In addition, company records include illness and injury reports; medical examinations, annual leave and maternity leave reports.

### **2.4 Workplace Discipline of Employees**

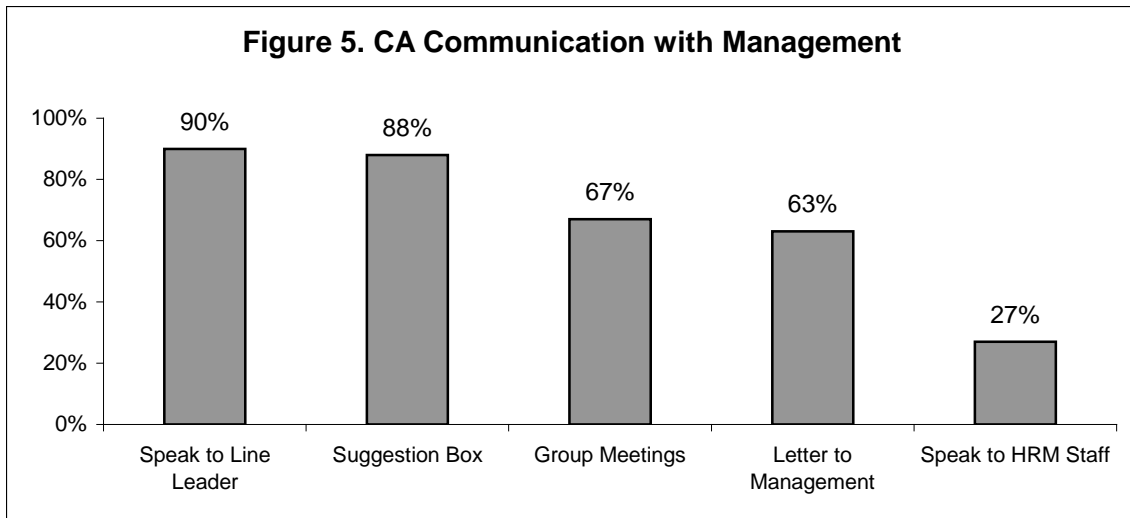
CA has written policies with regard to employee discipline. Most disciplinary actions are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department or contact the workers' representative. Among the interviewed workers, 2% were disciplined during their tenure at the factory. The plant does not impose any cash fines as a disciplinary measure.

### **2.5 Freedom of Association, Discrimination and Access to Management**

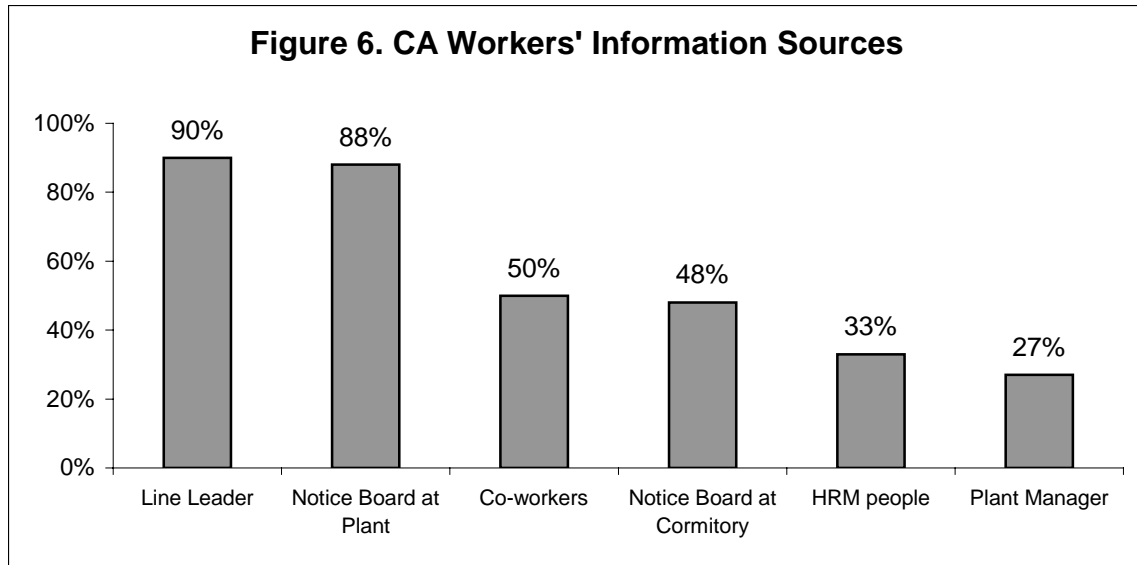
There is no union representation at the CA plant. Workers have a representative body to voice their concerns regarding their employment at the plant. Participation is open to all and voluntary, and all workers are eligible to vote in the selection of leaders of their organization. CA also has local chapters of the Chinese Communist Youth League, and the Chinese Communist Party. Interviewed workers indicated no dissatisfaction regarding their freedom of

association at the plant. During one-on-one confidential interviews, workers were almost unanimous in indicating that there was no discrimination based on religion, ethnicity, or region of origin, by the plant management.

Chang An management uses several venues for employee communications. These include bi-weekly communication sessions between workers and various levels of management. There are also socialization opportunities through community service activities during holidays and festival events throughout the year. Interviewed workers expressed divergent views with regard to access to different levels of management (Figure 5).



Likewise, workers receive their information on job and work environment related issues through various sources (Figure 6).



## 2.6 Protection from Harassment

All interviewed employees stated that neither they nor anyone they knew were intimidated, abused or harassed by supervisors or fellow workers. Mattel has specific policies and guidelines regarding harassment in the workplace, which are fully implemented and have proven to be quite effective at the CA plant.

## 2.7 Dormitories and Living Quarters

CA operates four dormitory buildings with a capacity to hold about 8100 workers. Approximately 95% of CA workers stay at the factory-managed dorms. Among the interviewed workers, a small minority (2%) indicated that they were required by CA management to stay at these dorms. As noted previously, this mandatory requirement is inconsistent with GMP standards, which requires that

workers must be given a choice of not living in the company provided dormitories.

All dorm facilities have sufficient access to laundry facilities, bathrooms, showers, and hot and cold running water. The average room occupancy rate is 10 workers per room. All workers agree that dorm facilities are safe, clean, and pleasant. CA management has taken additional steps in improving the quality of life for workers in the dorms. These include a new library, karaoke room, basketball court, movie theatre, a library with 20,000 books, increased public telephones, a convenience store and a computer room training room with 34 PCs.

## **2.8 Food and Canteen Facilities**

Two cafeterias have a capacity to serve 2200 workers at one time. Four meals are provided daily, and up to 8000 workers are served each meal. Employees who work in the canteen are trained in food handling and are given physical examinations every year. Garbage is picked up twice daily. Lunch break is 60 minutes, with workers reporting cafeteria waiting time of 3 minutes in the line, with ample time for eating and rest. The canteen is well kept, clean, and spacious.

## **2.9 Medical Facilities**

The medical clinic at Chang An is well staffed with six MDs, working in shifts around the clock. Facilities and medical supply stock are adequate, and well maintained. All medical care, including personal ailments is provided free of

any additional charges over and above the RMB2 per month deduction from workers' pay. This nominal fee allows workers to use CA's medical facilities for all personal ailments without any charge (including free supply of medicines).

## **2.10 Work Environment of Manufacturing Operations and Related Facilities**

The Chang An plant is a large, well laid out plant. Overall it is in good condition. It consists of seven separate buildings that were constructed between 1986 and 2003. The plant has undertaken a number of steps to eliminate health and safety hazards in several processes. Among them are new ventilation systems, sprinklers, alarm systems, dry filter units for water treatment, a wastewater treatment system, and exhausts for operations using solvents. New production systems to improve worker health and safety also include discontinuation of hand spray paint operations in some processes and use of water base paint instead of solvent based paint.

ICCA's EHS experts, however, have noted the following issues that require further attention by the CA management.

### Compliance Issues

Based on monitoring results, many locations at the site exceed the applicable boundary noise limits. There was no "Pollutant Discharge Permit" available for review during the site visit. As per plant management, the site is applying for an integrated pollutant discharge permit.

### EHS Management Systems

The plant did not have an operating permit for the on-site clinic. CA management indicated that the plant was in the process of applying for a clinic operation permit.

### Water Supply

The plant does not have a "Groundwater Abstraction Permit" for its 3 on-site groundwater wells. Two of these wells are used as backup water sources for sanitary and gardening purposes and industrial needs.

### Wastewater

An open storm drain is located in the oil storage room of the plastic injection-molding workshop. Oil was observed in the drain. Oil drums were not equipped with secondary containment and were next to the storm water drainage system. Storm water drains should be covered to prevent inadvertent oil spillage. Wastewater is not presently being treated before discharge. A fee is currently being paid to the city to permit the discharge. The city is planning to build a water treatment plant that will eliminate this problem.

### Chemical Handling

There were no MSDS available in locations that are using chemicals such as temporary chemical storage areas. MSDS for Dangerous Goods (DG) Warehouse were stored in a lock box where only one person could access it. MSDS were not available in the DG warehouse. Although the plant has

provided chemical training handling for its employees, most of the interviewed employees who are responsible for chemical handling, did not know where they could obtain MSDS information. There was no secondary containment for oil drums in the molding maintenance workshop and oil storage room of the plastic injection-molding workshop. A large area of oil stains was observed in the oil storage room.

### Solid Waste

The plant does maintain an "Environmental Protection and Waste Reduction Guideline," which addresses goals and methodology. However, according to the plant management, no targets and/or actions have been implemented as yet.

### Packaging

The plant management has developed a well-documented procedure to ensure suppliers of packaging materials, and to identify any noxious and/or potentially hazardous substances contained within them. However, this procedure has not yet been fully implemented.

### Fire Safety

An emergency door in the generator room was blocked by unused equipment. In one of the assembly areas a few safety aisles were partially blocked.

### **2.11 Use of Personal Protective Equipment (PPE)**

The plant provides Personal Protective Equipment to the workers based on the evaluations of the safety department and Mattel standards. ICCA's observations showed that PPE use in the plant was properly managed and monitored.

### **2.12 Skills Enhancement Programs and Community Outreach**

Job training is available to workers in the areas of business accounting, sewing, roto casting, and various other trades. In addition, CA offers computer-training courses to its employees.

CA reaches out to the community through tree planting programs, weekly picnics, daily exercise sessions, birthday parties, and cultural festivals. The plant also facilitates donation of clothes to the poor, organizes blood donor programs, and supports the Children's Welfare House.

## **INDIVIDUAL PLANT AUDIT REPORTS**

### **Mattel Die Cast Plant (MDC)**

#### **1. Introduction**

This report is based on the field audit of the Mattel Die Cast plant (MDC). The plant is located in Guan Yao Town, NanHai district, Guang Dong Province, China. The MDC plant operates under a processing fee agreement between Mattel and the local government. However, for the purpose of this audit, the plant is considered a Mattel controlled facility, which is totally dedicated to manufacture Mattel products. This is the second formal audit of the facility and was conducted on October 22-23, 2003. The first audit of the MDC plant was conducted during 1999-2000.

MDC currently employs approximately 1500 workers and the workforce is stable throughout the year. 90% of employees are direct labor and the remaining 10% are administrative and managerial personnel. Average age of workers is 27 years. The education level of the workers is around 10 years of formal schooling. The average length of employment in MDC is 2.2 years. For 31% of the interviewed employees, this was their first job.

## **2. Audit Findings**

### **2.1 Recruitment and Hiring**

About 85% of the workers got their jobs through referral from friends, and walk-ins accounted for the remainder 15%. All newly recruited employees undergo an orientation program, which covers the employment contract, rules of conduct, wages, benefits and overtime policies, grievance procedures, GMP, and a tour of the factory. In addition, workers receive training in environmental health and safety (EHS) issues. EHS training includes safety rules, emergency evacuation training and drills, first aid, means of reporting accidents, information on work place hazards, and reporting of an emergency. New hires also undergo a general medical check-up.

#### Workers Employment Contracts

Upon employment, each worker receives a signed contract from MDC. Contract durations are one year for all employees. The contract describes the duration of the contract, hours to be worked, wages, and benefits involved in the workers employment. All audited workers personnel files contained a signed contract, outlining the terms of their employment.

#### Probation Period

Most workers undergo a one-month probation period. During the probation period, workers are paid RMB430<sup>11</sup> per month as their basic minimum wage. The minimum wage rate in MDC's district was raised from RMB430 per month to

---

<sup>11</sup> 1 USD = 8.28 RMB

RMB450 per month as of March 1, 2003. MDC plant has received a local waiver<sup>12</sup> on May 8, 2003, which allows it to keep the applicable minimum wage at its previous rate of RMB430 per month. MDC makes use of this waiver only during the probation period. Once their probation period expires, workers are paid the new basic minimum wage of RMB450.

The ICCA audit finds MDC management non-compliant with the GMP as well as the PRC labor law with regard to its probationary period practices in terms of minimum-wage payments.

## **2.2 GMP Awareness**

MDC provides GMP information to all its workers. It is available in the local language and disseminated during the orientation program and also through a variety of other communication channels to all employees. ICCA's interviews with a sample of employees revealed that all workers interviewed had a good understanding of the GMP.

## **2.3 Working Hours, Wages, and Benefits**

Workers at the MDC plant are paid based on a piece-rate system. However, if workers' piece-rate earnings fall below the minimum wage rate, they are guaranteed to earn at least the minimum wage rate for their actual work hours. The first 40 hours in a workweek are paid at regular wage rates. Any additional hours during the regular workweek are paid at a 50% premium rate.

---

<sup>12</sup> Please see the accompanying *Consolidated Summary* for a detailed discussion of this local waiver.

Work on Sundays or any other designated rest day is paid at twice the regular wage rate.

The average take-home pay for MDC workers is around RMB930, including overtime and bonuses. Workers are entitled to special skills, night shift, and attendance bonuses, which average around RMB50 per month.

### Minimum Wages

MDC plant pays RMB450 per month as the basic minimum wage rate. All workers, with the exception of those on probation, are paid the minimum wage rate. This was confirmed through ICCA's audit of the workers' payroll data.

### Work Hours

Chinese labor law defines the regular workweek as 40 hours, with daily overtime limited to three hours per day and 36 hours per month. In addition, yearly regular-pay hours are defined as 2008, with total yearly overtime not to exceed 432 hours. As such, the law limits total yearly work hours to a maximum of 2440 per year.

The workweek at the MDC plant is defined as six days, Monday through Saturday. The typical workweek at MDC is 60 hours, or 10 hours per day. Workers get a 40-minute lunch break as well as a 20-minute rest break each shift. MDC's policy with regard to work hours is to schedule up to 64 hours per week during the peak season.

MDC has secured local permissions in the form of (1) Consolidated Work Hours Permission, (2) Extended Hours Permission, and (3) Peak Season

Extended Hours Permission from the local labor bureau in support of its policies.<sup>13</sup> Consolidated Work Hours Permission allows a plant to consolidate its total overtime hours for the entire year into a shorter time span to meet its seasonal manufacturing needs. The Extended Hours Permission is another local authorization to exceed the maximum annual overtime hours provided under the Chinese labor law. This permission allows MDC to schedule a total of 2980 hours by scheduling 60-hour workweeks throughout the year. Implicitly, the total overtime hours are 976 per year under this schedule and thereby more than double the overtime hours beyond the PRC labor law limit of 432 maximum overtime hours. The Peak-Season Extended Hours Permission is an augmentation to the Extended Hours Permission to lengthen the 60-hour workweek to 64 hours for the peak production periods between September and November. This permit effectively allows the MDC plant to schedule 52 hours per year per worker above and beyond the previously mentioned Extended Hours Permission, bringing the total yearly hours for each worker to 3032, compared to the national labor law limit of 2440. Alternately, this system corresponds to 1028 overtime hours per year, compared to the national labor law limit of 432.

Analysis of MDC's payroll data confirms that these policies are being implemented. Audit findings reveal that 70% of the audited workers had worked more than 260 hours during the month of September 2003 while no worker was observed to have worked more than 26 workdays. Therefore, these workers had

---

<sup>13</sup> Please see the accompanying *Consolidated Summary* for a detailed discussion of local permissions.

worked more than 10 hours per day, or above the GMP daily limit. In addition, a smaller sample of the workers' yearly payroll records showed that a majority of the workers had already worked in excess of the 432 overtime hour limit imposed by the PRC labor law.

ICCA has expressed its concerns about these practices and their adverse impact on the workers in the Consolidated Summary Report, preceding the individual plant audit reports. ICCA has also urged Mattel to clarify the company's position on these issues by creating clear-cut policies that are both rational and equitable to workers.

### Overtime Wages

MDC management has a stated policy of not paying overtime wages under two circumstances: (1) where the overtime hours worked is less than 30 minutes, and (2) where the daily overtime exceeds 3.67 hours (or daily work hours exceed 10.67). Workers exceeding 3.67 overtime hours in a particular day are given compensatory time off on an alternate day, on the basis of regular work hour rates. This practice results in depriving the workers of overtime wage rate of 1.5 times regular pay, as well as misrepresenting actual hours worked. It also has the effect of bypassing the plant's commitment to comply with the extended hours permission secured from the labor bureau. In ICCA's opinion these practices are inconsistent with the GMP code and the PRC labor law, as well as the local permission guidelines.

### Deductions

Workers are charged RMB6.5 for their labor contracts. Monthly deductions include optional dormitory fees of RMB45 and RMB61 for social insurance.

### Familiarity with the Pay Stubs

All interviewed workers reported that they fully understand all earnings and deductions in their monthly pay stubs.

### Benefits

All MDC workers receive a food subsidy of RMB80 per month in the company canteen. The plant provides pension, unemployment and work injury insurance to all its workers. MDC's worker benefits are above and beyond all plants ICCA has observed in China.

### Maternity Leave

MDC pays maternity leave benefits of 90 days paid leave to pregnant workers. This benefit is made available upon the workers' return to work at the plant. In case a worker does not return to work, this benefit is forfeited. MDC's maternity leave practice is at variance with the PRC labor law, which entitles all workers to 90 days paid leave after childbirth, without the obligation to return to work. A majority of the interviewed workers confirmed that the plant had maternity benefits of 90 days paid leave and that it was available to all workers.

### Annual Leave

The plant provides one week paid annual leave to all workers who complete one year of service with the company.

### Personnel Records

MDC maintains good records in its workers' files. These contain medical check-up and probation records. In addition, company records include illness and injury reports, disciplinary action reports, annual leave, and maternity leave reports.

## **2.4 Workplace Discipline of Employees**

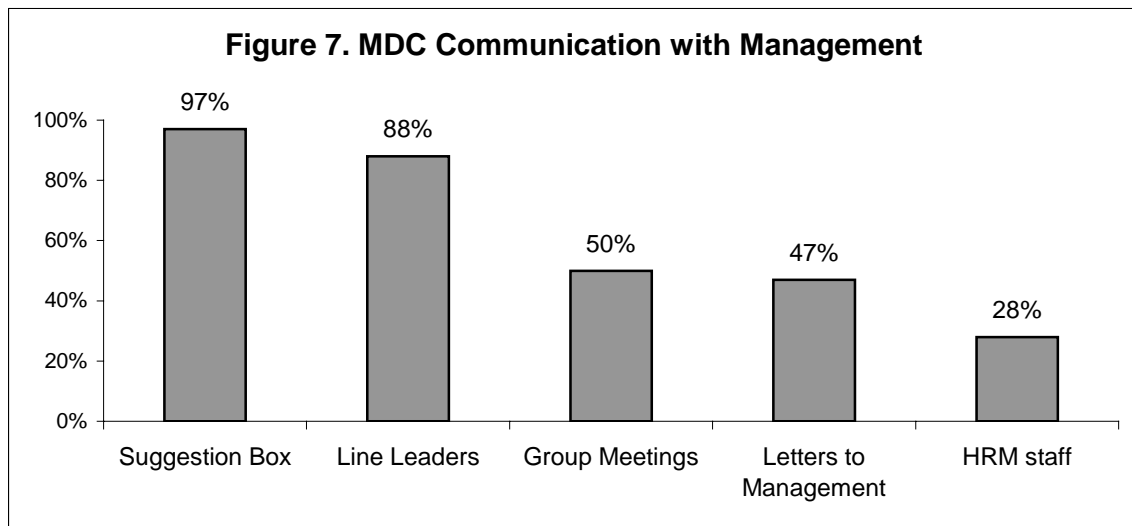
MDC has written policies with regard to employee discipline. Workers are informed about these policies and procedures during the orientation period, through the notice board, and the employee handbook. Most disciplinary actions are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department. Worker interviews indicate that 6% of workers were subjected to disciplinary action. The plant does not impose any cash fines as a disciplinary measure.

## **2.5 Freedom of Association, Discrimination and Access to Management**

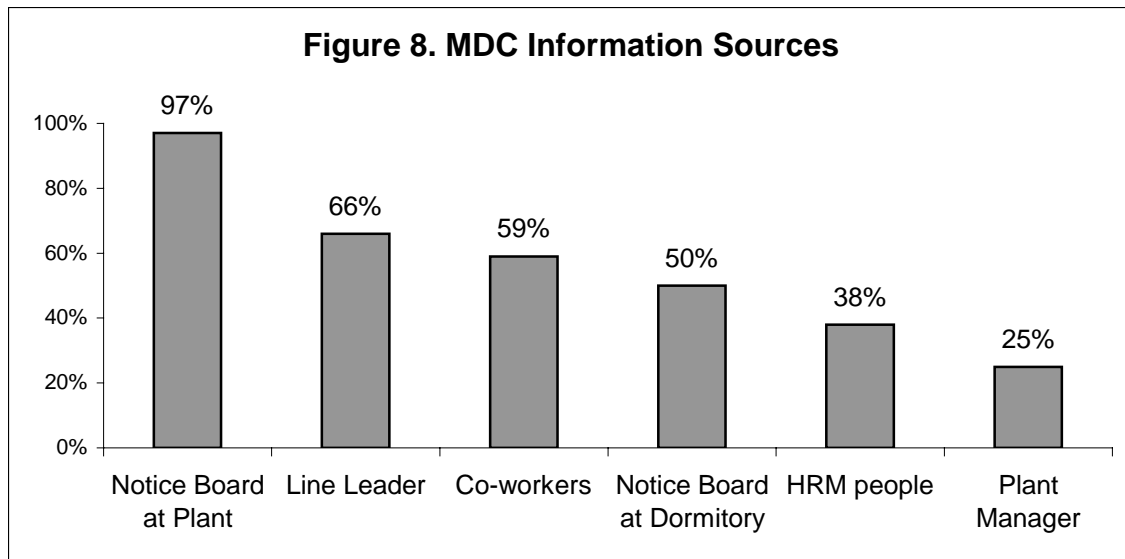
There is no union representation at the MDC plant. MDC workers have a representative body to voice worker concerns regarding their employment at the plant. MDC's Chinese business partner leads the association. Participation is open to all workers and is voluntary. Interviewed workers indicated no

dissatisfaction regarding their freedom of association at the plant. Workers anonymously state that there is no indication of discrimination based on religion, ethnicity, or region of origin by plant management. Most interviewed workers understood the promotion criteria in the plant.

The plant has several venues for employee communications. These include weekly tea-talks and monthly communication sessions with senior management, line leaders, and HRM staff. Interviewed workers found their line leaders to be the most effective venues for communication (Figure 7).



Similarly, workers receive their information on job and work environment related issues through various sources. While line leaders and factory notice boards are indicated as the primary sources of such information, human resources and senior administration play a secondary role in disseminating pertinent information to workers (Figure 8).



## 2.6 Protection from Harassment

Interviewed employees were unanimous in their statements that neither they nor anyone they knew had been intimidated, abused or harassed by supervisors or fellow workers. Mattel has specific policies and guidelines regarding harassment in the workplace, which are fully implemented and proven to be quite effective at the MDC plant.

## 2.7 Dormitories and Living Quarters

MDC operates two dormitory buildings with capacity to hold about 1650 workers. Workers pay a monthly rent of RMB45. Approximately 40% of the

MDC workers live in the factory-managed dorms. Among the interviewed workers, 23% indicated that they were required by the MDC management to stay at these dorms. All dorm facilities have sufficient access to laundry facilities, bathrooms, showers, and hot and cold running water. The average room occupancy rate is 6 workers per room. Interviewed workers, by large majority (85%) expressed their satisfaction with the dorms and considered them to be safe, clean, and pleasant.

## **2.8 Food and Canteen Facilities**

The canteen serves four meals a day to an average of 600 workers. Employees are free to make their own arrangements if they choose to eat elsewhere. MDC provides a food subsidy of RMB80 per month. Any expenses beyond this amount are the responsibility of workers. Employees who work in the canteen are trained in food handling and are given physical examinations every year. Garbage is picked up three times daily and the canteen is cleaned 6 times a day. Lunch break is 40 minutes. Workers reported that the average waiting time in the cafeteria line was no more than 5 minutes, which gave them ample time for eating and rest.

## **2.9 Medical Facilities**

The medical clinic at MDC is staffed with two MDs, and one nurse. Facilities and medical supply stock are adequate and well maintained. All medical care, including personal ailments, is provided free charge. Workers only pay for the cost of medication administered for personal services.

## **2.10 Work Environment of Manufacturing Operations and Related Facilities**

MDC is an excellent, well-designed, modern facility that is well kept and maintained. The set up of dry filtration in paint spray area is excellent. The injection molding area is oil free and well maintained. Ventilation and lighting appear to be satisfactory. Some specific areas that need management attention are listed below:

### Compliance Issues

The site held a temporary wastewater permit that expired on January 14, 2003. There were no permits for air emissions, wastewater discharge, solid-waste generation, and boundary noise emission as required by legislation. Management is in the process of applying for an integrated pollutant discharge permit.

### Chemical Handling

There was no secondary containment in the tampo print paint mixing room, waste storage area, waste oil storage area, and in the zinc reclaiming workshop. Temporary chemical storage in the water based paint storage room was not equipped with secondary containment, warning labels, and spill control materials. Some of the containers and mixing cans were not labeled with hazardous warning signs. The LPG cylinders in the chemical storage area were properly labeled with the gas name and hazard warnings. The chemical tanks in the wastewater treatment plant were not labeled with warning signs.

### Hazardous Waste

There is a designated hazardous waste storage area. However, no emergency equipment and secondary containment was in place.

### Air Emissions

The water scrubber on the roof of the zinc reclaiming shop was leaking badly.

## **2.11 Use of Personal Protective Equipment (PPE)**

The plant provides Personal Protective Equipment to the workers based on hazard assessment. ICCA's observations show that PPE use in the plant is properly managed and monitored. Overall PPE usage is very good with some minor exceptions: Some employees in tampo printing, heat sealing, and in hand spray-painting, were found to be not wearing the required PPE during ICCA's walk-in of the plant.

## **2.12 Skills Enhancement Programs and Community Outreach**

MDC offers operator certification programs to workers for various processes and equipment used in the plant. Workers who complete one of these programs are awarded with RMB50 monthly allowances. In addition to job related skills training, the plant provides seminars and courses on various health and community related issues. These include women's health, SARS education, fitness, and therapy. General education programs consist of handcrafts, English language, drawing, and computer skills. MDC also reaches out to the community

through battery recycling programs, English language days, and environmental awareness days.

## **INDIVIDUAL PLANT AUDIT REPORTS**

### **Hwa Tai Plant (HT) (Precision Moulds Ltd. - PML)**

#### **1. Introduction**

This report is based on the field audit of Hwa Tai plant (HT). Previous audit reports referred to the HT plant as Precision Moulds Ltd. (PML). The facility is located in Guan Yao Town, NanHai district, Guang Dong Province, China. The HT plant operates under a processing fee agreement between Mattel and the local government. However, for the purpose of this audit, the plant is considered a Mattel controlled facility, which is totally dedicated to the manufacturing of Mattel products. This is the second formal audit of the facility and was conducted on October 21, 2003. The first audit of the HT plant was conducted in 1999.

HT currently employs approximately 300 workers. Of these, 90% are direct labor and the remaining 10% are administrative and managerial personnel. 75% of the workforce is male, and the average age of workers is 30 years. Education level of the workers is around 9 years of formal schooling. The average length of employment in HT is 4.5 years. For almost 15% of the interviewed employees, this was their first job. Throughout the year, the number of direct-labor employees stays relatively constant.

## **2. Audit Findings**

### **2.1 Recruitment and Hiring**

Almost all workers got their jobs through referral from friends or walk-ins. The company provides orientation to all newly recruited employees. The orientation program takes three hours and covers workers' employment contracts, rules of conduct, wages, benefits and overtime policies, grievance procedures, GMP, and a tour of factory. In addition, all workers receive training in environmental health and safety (EHS) issues. New hires also undergo a general medical examination, which includes blood test, X-rays, and hearing and vision tests.

#### Worker Contracts

Upon employment, each worker receives a signed, 3-year contract from Hwa Tai. The contract describes the hours to be worked, wages, and benefits involved in the workers' employment. All audited workers' personnel files contained a signed contract, outlining the terms of their employment.

#### Probation Period

Most workers undergo a probation period, which conforms to China labor law and GMP. ICCA's audit of the payroll data, and confidential one-on-one worker interviews confirmed that all workers were paid at least the minimum wage rate during probation period. They were paid 1.5 times the normal wage rate for overtime work while on probation.

## **2.2 GMP Awareness**

Hwa Tai management provides GMP information to all its workers. It is available in the local language. Information about GMP is disseminated during the orientation program and also through variety of other sources to its employees. ICCA's interviews with a sample of employees revealed that all workers were aware of the GMP and its general purpose as it pertained to workers.

## **2.3 Working Hours, Wages, and Benefits**

Workers at the HT plant are paid based on an hourly basis. The regular workweek is defined as Monday through Friday, 8 hours per day. First 8 hours in a workday [or 40 hours in a workweek] is paid at regular wage rates. Any additional hours during the regular workweek are paid at a 50% premium rate. Work on Sundays or any other designated rest day work is paid at twice the regular wage rate. Work hours are recorded on monthly time cards. All interviewed workers unanimously confirmed that they punched their own cards.

The average take-home pay for HT workers is around RMB2700<sup>14</sup>. Due to the high-skilled nature of the work performed at HT, most workers' wages far exceed the minimum wage rate. Workers are also entitled to special skills, night shift, and attendance bonuses, which average around RMB265 per month.

---

<sup>14</sup> 1 USD = 8.28 RMB.

### Minimum Wages

The minimum wage rate applicable in the HT's district is RMB450 per month. ICAA audit has confirmed that all workers are being paid their basic monthly salaries and overtime wages properly.

### Work Hours

Chinese labor law defines the regular workweek as 40 hours, with daily overtime limited to 3 per day and 36 per month. In addition, yearly regular-pay hours are defined as 2008, with total yearly overtime hours not to exceed RMB432. Total yearly work hours are limited to a maximum of 2440 by law.

The workweek at the HT plant is defined as six days, Monday through Saturday. The typical workweek is 60 hours, or 10 hours per day. HT plant's policy with regard to work hours is to limit the percentage of days a worker works above 60 hours per week (up to a maximum of 72 hours), to 25% of the total number of workdays in a year. Plant management claims that weekly work hours are monitored to ensure that the average number of work hours per week is no more than 60 throughout the year. HT has secured local permissions<sup>15</sup> in the form of (1) Consolidated Work Hours Permission; (2) Extended Hours Permission; and (3) Peak Season Extended Hours Permission from the local labor bureau in support of its policies.

Consolidated Work Hours Permission allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs. The Extended

---

<sup>15</sup> Please see the accompanying *Consolidated Summary* for a detailed discussion of these local permits.

Hours Permission is another local authorization to exceed the maximum annual overtime hours provided under the Chinese labor law. This permission allows HT to schedule up to a total of 2980 hours per year by scheduling 60-hour workweeks throughout the year. Implicitly, the total overtime hours may thus increase to 976 per year under this schedule and thereby more than double the overtime hours beyond the PRC labor law limit of 432 maximum overtime hours. Similarly, the peak season extended hours permission<sup>16</sup> may result in excess of 3100 work hours during a typical year compared to the national yearly limit of 2440 hours.

ICCA's analysis of HT's payroll data confirms that the plant is implementing these policies. All workers in ICCA's sample were found to have more than 10 hours per day or 60 hours per week (up to 64 hours per week). However, company records also showed that for the year as a whole, HT workers averaged less than 60 hours per week.

ICCA has expressed its concerns about these practices in the Consolidated Summary Report, preceding the individual plant audit reports. ICCA has also urged Mattel to clarify the company's position on these issues by creating clear-cut policies that are both rational and equitable to workers.

### Deductions

Workers are charged RMB60 for dormitory rent and RMB39 or RMB90 for food, depending on the number of meals taken. These expenses are optional as workers have a choice to make alternate arrangements. Employees' share of

---

<sup>16</sup> As noted in the accompanying *Consolidated Summary*, the duration and the 'peak season' for which this permission applies are not specified.

social insurance premiums is the only other deduction from the workers pay. All interviewed workers confirmed that they understood all their pay, deductions and other elements of their pay stubs.

### Benefits

HT pays all legally mandated social insurance and related benefits to 100% of workers. Their records are verified and considered appropriate by the local labor bureau. HT's policy is to pay 90 days maternity benefits while workers are on their leave. Workers are also entitled to between 5-14 days of paid annual leave, depending on the length of service.

### Personnel Records

HT maintains good records in workers' files. These contain medical check-up and probation records. In addition, company records include illness, injury, and disciplinary action, annual leave, and maternity leave reports.

## **2.4 Workplace Discipline of Employees**

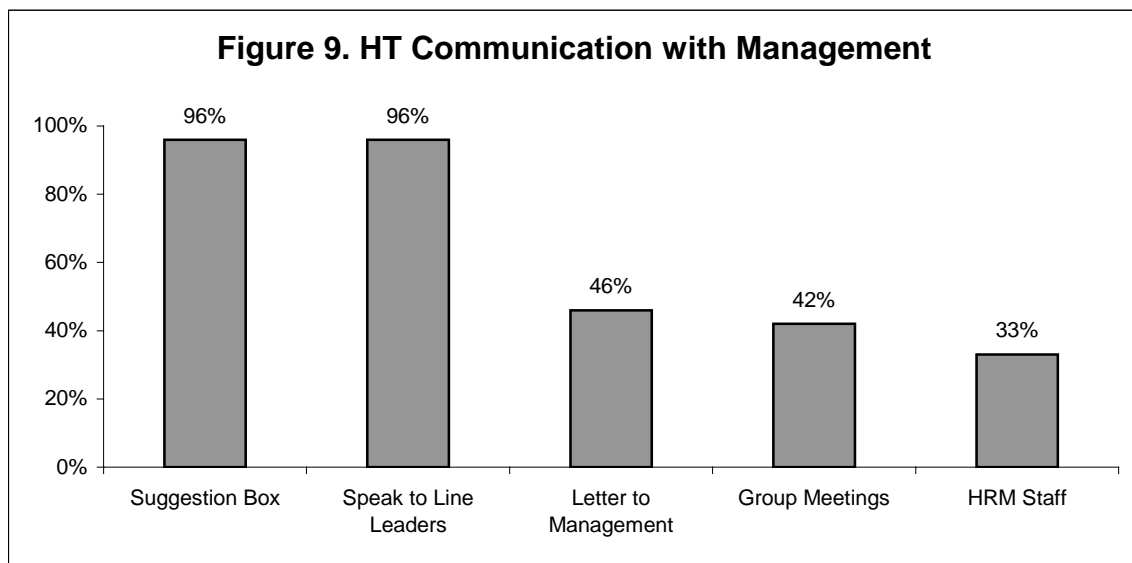
HT has written policies with regard to employee discipline. Workers are informed about these policies and procedures during the orientation period. Most disciplinary actions are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department and the workers' representative body. Personnel files indicate that 15% of the workers were subjected to disciplinary action during 2002. The plant does not impose any cash fines as a disciplinary measure.

## 2.5 Freedom of Association, Discrimination and Access to Management

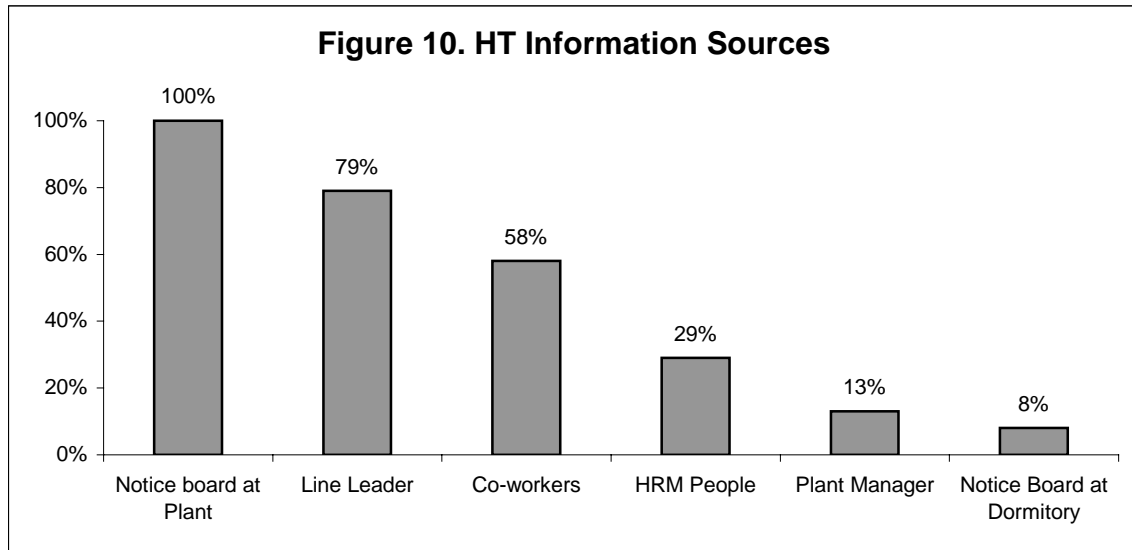
There is no union representation at the HT plant. However, HT workers have a representative body to voice worker concerns regarding their employment at the plant. Participation is open to all and is voluntary. Interviewed workers indicated no dissatisfaction regarding their freedom of association at the plant.

Workers also anonymously stated that discrimination based on religion, ethnicity, or region of origin by the plant management. Almost 70% of the interviewed workers indicated knowledge of promotion criteria and felt that it was based on merit.

Hwa Tai management uses several venues for employee communications. These include periodic communication sessions between management, and community service activities during holidays and festival events throughout the year. Interviewed workers expressed divergent views with regard to access to different levels of management (Figure 9).



Similarly, workers receive their information on job and work environment related issues through various sources (Figure 10).



## 2.6 Protection from Harassment

All interviewed employees stated that neither they, nor anyone they knew had been intimidated, abused or harassed by supervisors or fellow workers. Mattel has specific policies and guidelines regarding harassment in the workplace, which are fully implemented and have proven to be quite effective at the HT plant.

## 2.7 Dormitories and Living Quarters

HT operates 3 dormitory buildings with capacity to hold about 258 workers. Only a small number of HT workers stay at the factory-managed dorms. The dorms are equipped with private beds, desks, and ceiling fans. Worker amenities include laundry facilities, running hot and cold water, toilets

and showers, as well as cleaning services. All these facilities meet or exceed GMP standards. Dormitories include a gym, TV and video rooms, and entertainment equipment.

## **2.8 Food and Canteen Facilities**

The cafeteria has enough capacity to serve the entire worker population at the same time. The canteen serves 3 meals each day. Cafeteria workers are given medical checkups yearly and are trained in food handling. Garbage is picked up three times a day. Lunch break is 60 minutes. Workers reported that the average waiting time in the cafeteria line was no more than 5 minutes, which gave them ample time for eating and rest. The canteen was well kept, clean, and spacious.

## **2.9 Medical Facilities**

Due to the small size of the workforce, there is no dedicated clinic on site. However, HT pays the rent for a public clinic, which is located next door to the plant. The clinic is operated by the local hospital and is staffed adequately for the workers' immediate needs.

## **2.10 Work Environment of Manufacturing Operations and Related Facilities**

The HT plant, while not new, is in good condition and well maintained. However, it could use some improved housekeeping measures. The following is a list of specific issues observed in the plant, by ICCA's EHS experts:

### Chemical Handling

Some of the chemical containers did not contain warning labels.

### Air Emissions

Heavy diesel oil used for the plant generators requires analysis for sulfur content. NanHai City regulations require the oil to contain less than 1% sulfur by weight. Strong paint odors were detected in the second floor hand spray paint room and paint storage area, although the room was not in operation at the time of the survey.

### Electrical Safety

Some of the wiring in the second floor workshop of the main building is frayed and in need of replacement.

### Safety Lanes

The plant floor needs to be re-striped in many designated areas.

## **2.11 Use of Personal Protective Equipment (PPE)**

A hazard assessment has been conducted to identify required PPE usage. Overall, PPE usage is very good with few exceptions: Some of the employees conducting hand spray painting were not wearing protective gloves. The use of safety shoes where required and safety goggles should be more strictly enforced.

## **2.12 Skills Enhancement Programs and Community Outreach**

Job training is available to workers for skills enhancement and cross training purposes. More than 50% of the employees participate in English, first aid, fire and safety training, and environmental training programs.

HT reaches out to the community through a sponsoring program for community activities. The plant sponsors 20 applicants RMB500 each year for various activities.