

Audit Report

Mattel's Vendor Plants

Compliance with Mattel's Global Manufacturing Principles

Conducted by

International Center for Corporate Accountability



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Formal Audit – Vendor Plant 7

1. INTRODUCTION

Plant 7 is located in the Dongguan, Guangdong province of China. At present, approximately 20% of the plant's capacity is dedicated to the production of Mattel toys.

This report is based on a field audit of the plant conducted by ICCA on July 13-14, 2005. This is the second formal audit of Plant 7. The first audit was conducted on January 6, 2003. Vendor plant audits are an integral part of Mattel's Global Manufacturing Principles (GMP), which are adhered to by all of Mattel's suppliers.¹

The purpose of the audit was to evaluate all aspects of Plant 7's operations and to ascertain their compliance with Mattel's GMP. These audits are carried out according to detailed standards covering various principles of GMP. They 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.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify plants' 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.

The audit process starts with the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. This document serves as the initial database and a starting point for the ICCA audit team to ascertain the extent of the plant's compliance with the GMP from the perspective of the plant's management.

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. 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

¹ ICCA audit reports for Mattel owned and operated plants as well as those of vendor plants are available at both ICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.Mattel.com.

personnel files and the information elicited from the workers. 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. Plant's records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. The final element of the ICCA audit is a series of 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 operations, and plant and dormitory security functions, to name a few.

All data and information generated by the field audit are brought to the New York office of ICCA for detailed analysis and preparation of audit reports. The initial draft report is first provided to Mattel so that the company may respond to the audit's findings. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. 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.

3. PLANT AND RELATED FACILITIES

Plant 7 is a modern factory consisting of three buildings, which were built between the years 1998 and 2003. They cover a total area of approximately 200,000 sq. m. of floor space. Overall, it is an excellent facility. It is well laid out and maintained with good housekeeping.

The plant's normal year-round operations consist of two shifts in the injection-molding department, which employs approximately 1500 workers. All other departments operate on the basis of one shift. A normal shift consists of 10 hrs/day (6.67 hours regular and 3.33 hours overtime), with a 6-day work schedule.

The plant did not provide ICCA with data pertaining to work schedules during peak production periods. The plant also has dormitories and canteen facilities for its workers. Details of dormitory operations, canteen facilities and food services are provided in a later part of this report.

4. COMPOSITION OF THE WORKFORCE

Plant 7 currently employs approximately 10,000 workers. Of these, 9,000 are production employees and the remaining 1,000 are administrative and management personnel. A majority (56%) of production employees are female. The minimum required age for a worker is 16 years, and there are no workers under the age of 16. Approximately, 3% of the production workers are between the ages of 16 to 18. The average age of the plant's workforce is 24 years.

The general level of education among the production workers is middle school (80%). Another 15% have high school diplomas, while the remaining 5% have post-high school education.

Plant 7 has experienced annual turnover rate of around 17%. Among this group of workers, who were randomly selected for the one-on-one confidential interviews, approximately one-third stated that employment at Plant 7 was their first job. The low turnover rate at the plant is in line with the changes occurring in the Guangdong region. Historically, ICCA's audit had noted a high turnover rate among workers in Mattel's vendor plants in China. These have ranged between 50% and 200%. More recently, there has been a marked shift in this tendency, which reflects a maturing of the workforce in the area's manufacturing plants. The province has also been facing labor shortage leading factory owners to devote greater resources to worker retention.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

Initial Hiring Process

Plant 7 states that it hires all new workers from those who apply directly at the factory, through walk-ins or references from friends. This statement, however, is at variance with the information obtained from the interviewed group of workers, where a little over 10% of the workers stated that they got their jobs at Plant 7 through a recruiter. Furthermore, a number of workers also claimed that they had to pay a fee to the recruiter.

The Management Compliance Report of Plant 7 states that upon hiring, new employees are not required to pay for ID badges or uniforms. However, among the interviewed group of workers, approximately one in ten stated that they had to pay a deposit upon their hiring, ranging from RMB15 to RMB190, for factory uniforms and/or ID badges. This practice is inconsistent with Mattel's GMP Standards. Plant management responded to this finding with the following report: "After July 2001 workers were no longer required to buy uniforms unless

they bought an extra one. Additionally payment for badge is only when the badge is lost and amounts to RMB15, the replacement cost of the badge”.

Medical Checkup: Each employee is required to undergo a medical examination upon hiring. The examination includes general body check-up, blood test, x-rays and pregnancy test. Workers who have a certificate from a local authority indicating that they had recently passed a medical examination are exempt from the medical exam.

A disconcerting finding among the interviewed workers was that in the medical examination, if the pregnancy test comes positive, the person would not be hired. This practice is inconsistent with both the Chinese Labor Law and Mattel’s GMP Standards.

Employment Contract: Interviewed workers almost unanimously confirmed that they had signed an employment contract with Plant 7 and that they received a signed copy of their employment contract. A very large majority (80%) of the workers indicated that their employment contract was of 12 months duration.

Probation Period: Plant 7 requires that all newly hired workers undergo a probationary period, the length of which depends on the employment terms specified in the contract. For workers with the short-term contract (below 6 months) the length of probation is 15 days. For workers with contracts of over 6 months, the probation period is one month.

Experience among the interviewed workers differed with regard to probation and also payment of wages during probationary period. Almost one in four workers interviewed by ICCA indicated that their probation period had exceeded one month. A second discrepancy was noted with regard to payment for overtime work. Among the interviewed workers, 13% also stated that they did not receive correct wages for overtime work performed during their probationary period.

Training and Orientation

Interviewed workers were almost unanimous (98%) in stating that they received job training at the time of their hiring. The training period averaged 2.0 hours. The primary focus of the training was on the proper operation of machinery and equipment. Workers were also informed as to how their performance would be measured. In addition to job training, a general orientation was given to all new employees. This orientation covered safety rules, use of Personal Protective Equipment (PPE), fire fighting equipment, emergency evacuation, first aid, reporting of accidents, and, training in workplace hazards.

GMP Awareness

According to Plant 7's MCR, workers are provided with copies of Mattel's GMP translated into local language. However, when asked about their familiarity with the GMP, only 6% of the interviewed workers responded positively. A little over one-fourth of the workers, however, stated that during the orientation they were informed about general personnel policies of the company.

ICCA's Observations

One-on-one confidential interviews with the workers have identified discrepancies between the plant management's assertions and employee statements. They point out to issues of extended probationary period, inappropriate payment of wages during the probationary period, and imposition of monetary charges imposed on workers for ID badges and uniforms, which are not permitted under the GMP.

Of more serious concern is the allegation that Plant 7 refuses to hire workers who are pregnant at the time of their initial hiring. It should be noted that ICCA's audits of some of Mattel's largest vendor plants in 2003 and 2004 had also revealed that applicants were refused employment when pre-employment medical checkup showed the person to be pregnant. It would seem that Mattel's internal audit department has not been able to eliminate this practice among its vendor plants.

5.2. Regular and Overtime Working 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, totaling 2440 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.

Under Mattel's GMP previous guidelines of 2001, the maximum hours that a worker may work was based on a 60-hour workweek which consisted of 40 regular and 20 overtime hours. These standards allowed 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 maximum allowed total overtime hours were 976 per year under these standards.

In 2004, Mattel revised the GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across

all plants that manufacture its products; Mattel has incorporated a series of provisions regarding work hours policies.²

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week on peak production weeks;
- The number of peak production weeks will not exceed 17 per year;
- Workers will not be scheduled to work more than 13 consecutive days, without a rest day in between.

Under the current GMP standards, the maximum hours that a worker may work is 3184 hours per year³, consisting of 2008 regular and 1176 overtime hours.

Working Hours

ICCA's audit confirmed that Plant 7 has on record an approved certificate of 'Comprehensive Working Hour System' permission from the local government. This permission allows the plant to schedule up to 60 hours a week during normal periods and up to 72-hour workweeks during peak production periods.

ICCA audit of the payroll data of the randomly selected group of workers indicated that Plant 7 had exceeded the 72 hours a week limit during one week in January 2005. This is indeed disappointing. The entire idea behind Mattel's revised GMP standards – with a substantial increase in permissible overtime hours – was to ensure that these overtime hours would not be exceeded. It would seem that Plant 7 has managed to violate even the revised and highly generous GMP standard with regard to maximum allowable overtime hours.

The 2004 revised GMP standard for work during peak production period had stipulated that all workers must have at least one day of rest per week and that no worker may work more than 13 consecutive days without a rest day. The intent of the revised GMP standard toward rest days was to accommodate exceptional circumstances where a plant may have to work an occasional rest day. The technical implementation of this rule is to assure that workers do not work more than 13 consecutive days. Although Plant 7 is in compliance with the

² It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even larger work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

³ 17 peak period weeks corresponds to 102 days of 12-hour workdays, or 1224 work hours for the year. The remaining 196 days (298 – 102) of 10-hour workdays total 1960 hours per year. Thus, the yearly total work hours sum to 3184 (1224 + 1960).

strict letter of the 13-day standard, it has a policy of awarding workers one rest day every two weeks in peak periods. During the site visit, ICCA auditors have observed, and Plant 7's management has confirmed that it is standard practice for workers to work 13 consecutive days, rest one day, and work another 13 consecutive day stretch. This practice results in two rest days in a 28-day, or four-week period, averaging out to one rest day every two weeks.

All overtime work at Plant 7 is voluntary. This was confirmed by an overwhelming majority of the interviewed workers. Any employee can refuse to work overtime by signing the "No Overtime Application". Among the interviewed workers there was general consensus (95%) that they were satisfied with the overtime work. Almost one-half of the interviewed workers expressed a desire for more overtime work.

5.3. Wages, Bonuses and Deductions

Minimum Wages

The minimum wage rate in the Plant 7's local district is RMB574 per month. Workers payroll records show that all workers are paid at least the minimum wage as stipulated by law.

Overtime Wages

Plant 7 pays all direct production workers normal wages for the first 40 hours, and overtime pay of 1.5 times the normal wage rate for the remaining hours. Workers are paid double the normal wage rate for work performed on a rest day. During national holidays, wages are paid at triple the basic wage rate. The ICCA audit confirmed that, with the exception of some workers during their probation periods, all overtime wages are paid properly.

Benefits and Deductions

Plant 7 pays all legally mandated social insurance and related benefits. ICCA auditors have confirmed that all benefits were paid according to the applicable laws, and that company practices have been approved by the local Social Insurance Bureau.

The plant also provides 5-14 days annual leave depending on tenure. These benefits are paid in cash with January payroll, and any worker who wishes to go on leave may do so at the time of their choosing. As they have been already paid for their leave benefit, any actual days taken off for vacation are treated as unpaid leave. Among the interviewed workers, there was some confusion with regard to the company's policies concerning annual leave and

holidays, and 22% of the interviewed workers stated that they were unfamiliar with those policies.

Plant 7 has a stated policy of offering 90 days of paid maternity leave benefits. These benefits are made available to workers upon their return to work, and are paid in cash. The policy also allows for an employee-designated representative to collect maternity leave pay. Factory records show that 4 workers were given maternity leave pay during the period 9/04 thru 11/04. These workers were compensated in cash upon their return, and all four resigned within 2 days upon receiving their benefits.

Once again, there was some confusion among the interviewed workers with regard to the company's maternity leave policies where nearly 1 in 5 workers stated that they did not understand company's policies in this context. It should also be re-iterated here that the interviewed workers stated that the company refuses to hire any worker who is pregnant at the time of initial hiring.

Employees who choose to live in the dormitories are required to pay RMB 55 per month. Similarly, workers are charged RMB195 per month toward the cost of meals.

ICCA's Overall Observations and Recommendations

Plant 7's system of paying for annual leave and other aspects of its payroll are unnecessarily complicated, which the workers find difficult to understand.

Plant 7's policies with regard to exclusion of workers from being hired because of pregnancy are in violation of both the Chinese law and GMP standards. Moreover, the Chinese national law and Mattel's GMP require that all workers should be eligible for maternity pay while on leave. Plant 7 would need to alter its maternity leave policies to ensure that pregnant workers continue to receive their pay on a monthly basis as soon as they become legally eligible.

In summary, ICCA is not satisfied with Plant 7's policies and practices in the areas mentioned above. There are far too many discrepancies between the company's statements and those of the workers in their confidential interviews with ICCA auditors.

We ask that Mattel's internal audit department undertake a thorough investigation of these issues, and where necessary, ask the plant to take corrective action. Furthermore, given ICCA's prior experience with Plant 7 on two prior occasions, i.e., informal consultation and formal audit, ICCA reserves the right to do a surprise follow-up audit before December 31, 2005.

Personnel Records

Plant 7's personnel records are quite comprehensive and well-maintained. They are organized along functional lines, e.g., orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and, maternity leave, to name a few.

Conversely, it is surprising that Plant 7 does not have a computerized system for recording employees working hours. Workers' time sheets are prepared manually by the line leaders. This is a cause for concern since ICCA has noted that, among the interviewed workers, there was considerable confusion and misunderstanding as to how their wages were determined and how they were paid for annual leave. When asked about their understanding of the pay-stubs, almost one-half of the interviewed workers stated that they did not completely understand all items on their pay-stubs concerning working hours, overtime wages and deductions. Of these, one-half, i.e., one in four workers stated that they had little or no understanding of their pay stubs.

These interview findings, considered along with previously mentioned discrepancies between payroll records and worker statements regarding probation pay and duration are a cause of concern for ICCA.

ICCA's Recommendations

Plant 7 needs to simplify its system of payment to workers and make it more transparent. An important part of this effort would be to computerize the company's system of time keep for workers' regular and overtime hours. Plant 7's human resources department should make extra effort to ensure that employees understand how their wages and benefits are calculated.

5.4. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Workplace Discipline

Plant 7 has established and documented a complaint procedure and disciplinary action policy at the plant. Workers are informed about the policies and procedures related to disciplinary actions through postings on the notice board, workers handbooks, and employee training.

Plant 7 does not impose any fines for disciplinary infractions by the employees. Disciplinary action consists primarily of verbal and written warnings. Common disciplinary issues mentioned were: not wearing ID card, not using PPE, and littering in the working area.

Workers were almost unanimous (95%) in confirming their familiarity with these policies. There was also general agreement as to procedures available to the workers for appealing unfair treatment. Similarly, workers by large majorities stated that they did not fear any retribution if they were to file a complaint for any grievance or mistreatment. Moreover, ICCA's audit of the workers' personnel files showed that there were no disciplinary actions against any worker at the Plant 7 during the prior six months.

Discrimination and Protection from Harassment

Plant 7 has instituted an anti-discrimination policy at the plant, which is fully implemented and monitored. Interviewed workers were unanimous in their opinion that workers at Plant 7 are not discriminated against in terms of promotion or wage increase based on religion, race, ethnicity, or region of origin. They were also fully aware of their right to file an anonymous complaint against any discrimination by putting a note in the suggestion box.

A large majority of the interviewed workers (70%) acknowledged that employees at Plant 7 are treated fairly and with respect by their line leaders, supervisors, upper management and co-workers. Interviewed workers were unanimous in their statement that they were not subjected to verbal or physical abuse.

Management – Employee Communications

ICCA analysis of workers responses to the questions related to the employee-management communication channels revealed that most of the workers rely on written methods of communications – acquiring information on work-related issues from handbook or notices on the board (80%), and communicating their concerns and complaints to the management through suggestion boxes (89%). Immediate supervisors were mentioned by a large majority of workers as the primary source of channeling their views to senior management. When asked about the frequency of meetings with floor supervisors and line leaders, about one-quarter of the interviewed workers reported having regular meetings on a weekly or monthly basis. Communications with Human Resources Department officers (18%) and factory management (6%) were among the least mentioned by the workers. Only one of the interviewed workers could recall attending a meeting with the top management during 12 months prior to the ICCA audit.

5.5. Employee Services

Food Services

Plant 7 operates canteen facilities, which serve 3 meals a day for approximately 8,000 employees. The cost for meals is a flat rate – RMB195 per month – and is deducted from employees' monthly pay.

Interviewed workers, however, were generally satisfied with the variety of food choices in the canteen and the amount of food served per meal. However, a number of workers complained about the poor quality of food provided in the factory canteen.

Dormitories

Plant 7 operates large dormitory facilities of 160,000 m². with a maximum capacity of 10,000 people. Each room in the dormitory is about 30 m². and occupied by no more than 12 people. There is one shower per 4 occupants and a toilet for each 10 occupants of the dormitory. Laundry facilities are available on each floor. Factory provides other amenities such as running water, hot water in shower, exhaust fans for air circulation, lockers, private beds, lighting, etc. Dormitory has security guards and dormitory supervisors who look after employee safety.

About 72% of the interviewed workers stated that they lived in the dormitory and confirmed that the workers are not required to live in the dormitories. It is strictly voluntary.

Workers were almost unanimous in stating that they found dormitory facilities to be comfortable and reasonable for workers. One person suggested that more fans should be added to rooms.

Medical Facilities and Health Care

Plant 7 has a 12-bed licensed clinic, which is in full compliance with medical aid requirements. It fully staffed with eight qualified medical doctors and nurses. In addition, there are 40 employees trained to render first aid.

5.6. Environment, Health and Safety

GMP Standards for Environment, Health and Safety

Mattel's GMP has two sets of EHS Standards. Tier I standards are more stringent and are required of all Mattel owned and operated plants. Tier II standards are designed for applications to Mattel's vendors. Both standards cover similar issues. However, in the case of Tier II standards, vendor plants are given more flexibility in compliance especially as they pertain to scheduling and maintenance of equipment, record keeping, and securing proper approval permits. Mattel has stated that their internal audit department has been working closely with the company's vendors to improve their maintenance and record keeping practices, and takes the approach of requiring and encouraging continuous improvement via an EHS training program for their largest vendors.

Safety Issues

The facility claims to be in 'full compliance' or 'compliance in progress' on the following workplace safety issues: orientation on Mattel GMP, fire prevention, electrical systems, evacuation procedures, accident prevention including but not limited to EHS goals, an incident reduction program, hot work permit system, lockout/tagout permit system, machine guarding, machine servicing, and explosion proofing.

PPE Usage

A hazard assessment, including documentation, is in progress and not yet completed. ICCA notes that the PPE program may not comply with the national or ANSI standards.

Plant 7 claims to be in full compliance with the posting of PPE requirements in areas where PPE usage is required on the part of employees in the proper use of PPE equipment. The proper procedures, training and use of respirators are in the 'compliance in progress' stage.

Hazard Management

The facility claims to be in 'full compliance' or 'compliance in progress' with ventilation requirements including LEV measurements and an air quality program based on minimum allowable air quality and quantity. The plant is also reported to be in full compliance with an industrial hygiene program which includes but is not limited to: the evaluating of air contaminants, chemical exposures, extreme temperature exposures and a procedure to conduct an industrial hygiene procedure within one month of any new equipment or process purchase or installation.

Asbestos

Plant 7 has had an asbestos inspector conduct and document an asbestos survey. At the present time there is 'compliance in progress' programs for the training of applicable personnel who come in contact with asbestos and a written operations plan for the demolition, renovation, and maintenance of asbestos containing material is being prepared.

Chemicals and Compressed Air

The plant claims to be in 'full compliance' with the MCR requirements for labeling of containers, the proper storing of containers, access to MSDS, communication training, and tracking quantities and locations of hazardous materials. Compressed air cylinder storage requirements are in 'full compliance'. Annual integrity tests are run on underground and aboveground storage tanks and pipelines. The PCB survey requirement has been met by obtaining a certificate from the local power supplier stating that the plant's transformer does not contain PCB.

Noise and Temperature

The company claims to be in the 'compliance in progress' stage with the monitoring of all non-air conditioned or unheated space with attention paid in particularly to heat and cold stress of workers. A hearing conservation program including training of employees is in place and claims to be in 'full compliance' with the MCR.

Environmental Safety, Discharge and Waste Disposal

Plant 7 claims to be in 'full compliance' or in 'compliance in progress' regarding the identification and quantification of all hazardous wastes, installation of grease traps, training of operators of the waste water treatment plant and waste disposal unit, handling of hazardous wastes, waste removal by a licensed waste collector, hazardous waste assessment, solid waste assessment, and medical waste disposal.

Air emissions are monitored but there is no calculation of annual emissions of hazardous materials. The facility has identified all roof and wall penetrations associated with air emissions but have not obtained a permit as yet.

It is to be noted that the plant has its own non-production waste water treatment plant and the treated water is reused. The treatment plant appears to be effective, well designed and operated.

ICCA's Observations

Notwithstanding a long list of items listed as compliance in progress, independent inspection conducted by ICCA experts confirmed that Plant 7 has a satisfactory level overall performance with regard to environmental health and safety requirements. This was supported by a 'walk-through' of the facilities and a review of plant records with regard to EHS requirements as stipulated in the GMP and detailed in the MCR. Most of all permits required have been obtained. An application for a Pollutants Discharge Permit has been submitted and is expected to be issued in August, 2005. The 'walk-through' inspection showed the plant to be in very good operating condition. All work areas were clean and free of oil spills and litter.

Although air monitoring has been conducted for the canteen and boiler areas no air emission monitoring has been conducted for the point sources of the water scrubbers on rooftop of Block D and the paint mixing room. According to EIA requirements, the sludge should be collected by a licensed contractor. However, sludge from sanitary WWTP is collected and disposed by a local non-licensed contractor. The flammable gas detector installed in the flammable chemical storage room is not calibrated.

ICCA concluded that Plant 7 has satisfied the GMP standards especially when one considers its size, number of employees, and the range of processes employed. Attention should be paid to the items where compliance in progress is noted. Completion dates should be estimated and a follow up survey conducted to insure compliance.

5.7. Good Corporate Citizenship, Extra Curricular Activities, and Community Outreach Programs⁴

Plant 7 provides various recreational activities for the employees. The majority of the interviewed workers reported that they spent their rest time in the library or watching television. There are also a number of sports activities available, i.e., badminton, table tennis and basketball. Plant 7 offers an educational program on computer literacy to the employees of the plant.

⁴ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of MBK's activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Follow-up Audit - Vendor Plant 7

1. INTRODUCTION

Plant 7 was formally audited on July 13-14, 2005 and a report was issued on August 22, 2005. In its report, ICCA made two types of findings:

1. ICCA asked for further clarification and amplification of the information generated by the field audit including one-on-one confidential interviews with a randomly selected group of workers representing the entire workforce at Plant 7.
2. Based on its audit findings, ICCA made certain recommendations for the Plant 7's management so as to improve the factory's compliance with Mattel's GMP.

Subsequently, at ICCA's own initiative, a follow-up audit was conducted on December 19, 2005. The intent of the follow-up audit was:

- (a) to observe the changes made by the plant management in response to ICCA's audit report; and,
- (b) to confirm that these changes have been embedded in the factory's policies and procedures that their continuous implementation would become an integral part of Plant 7's operations.

2. FOLLOW-UP AUDIT FINDINGS

Working Hours

A major issue revealed by the ICCA audit was the fact that Plant 7 routinely scheduled working hours, which far exceeded China's national labor law as well as Mattel's latest revision of the GMP standards pertaining to working hours.

The number of permissible maximum working hours has become a major issue with a majority of Mattel's vendors in China with regard to complying with the company's GMP.⁵ In recognition of this situation, early in 2004, Mattel

⁵ 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, totaling 2440 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.

revised its standard for maximum regular and overtime hours.⁶ The object was to unify worldwide practices across all plants that manufacture Mattel's products.

The revised GMP standard states:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production weeks,
- Workers will not be scheduled to work more than 72 hours per week on peak production weeks;
- The number of peak production weeks will not exceed 17 per year;
- Workers will not be scheduled to work more that 13 consecutive days without a rest day in between.

Under the revised GMP standard, the maximum hours that a worker may work is 3184 hours per year⁷, consisting of 2008 regular and 1176 overtime hours. The 2004 revised GMP standard also stipulates that during peak production period all workers must have at least one day of rest per week and that no worker may work more than 13 consecutive days without a rest day. The intent of the revised GMP standard toward rest days was to accommodate exceptional circumstances where a plant may have to work an occasional rest day.

At the time of the original audit in July 2005, Plant 7's management had indicated that it had been exceeding the maximum permissible limit of working hours as provided in the revised GMP standard. It would seem that rather than treating it as an exception, Plant 7 has made a routine of scheduling work that were in excess of GMP's revised and expanded standard. Furthermore, Plant 7 was regularly scheduling work on Sundays and thereby creating a work schedule of one rest day for every 13 days (instead of every 7th day). The follow-up audit confirmed that Plant 7 has continued with all these practices. It also became apparent during ICCA's discussions that Plant 7's management had no plans to change its practices with regard to scheduling work hours that are in excess of the maximum permissible limit or other practices, e.g. work on Sundays.

Overtime hours

The issue of excessive overtime hours remains a vexing concern and potentially a major problem. The recent revision of GMP, which significantly extended the limits on maximum allowable overtime hours, was intended to take

⁶ It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even larger work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

⁷ 17 peak period weeks corresponds to 102 days of 12-hour workdays, or 1224 work hours for the year. The remaining 196 days (298 – 102) of 10-hour workdays total 1960 hours per year. Thus, the yearly total work hours sum to 3184 (1224 + 1960).

into account the concerns of the vendors and find a more realistic and enforceable standard. However, this does not appear to be the case. Rather than complying with the expanded overtime limits, the new standard has instead become the minimum starting point. With few exceptions, most vendors audited by ICCA are found to be in non-compliance with GMP standards pertaining to overtime hours.

The current situation is untenable and Mattel needs to find a better answer to this problem. At the same time, we would strongly caution against further relaxation of overtime hours, which in our view is potentially harmful to the workers, and indefensible as part of GMP standards.

Use of Recruitment Agencies

During its formal audit, Plant 7 indicated the company hires all new workers from those who apply directly at the factory, through walk-ins or references from friends. This statement, however, was contradicted by a number of employees during one-on-one confidential interviews who indicated that they were hired through a recruitment agency and that in some cases they had to pay a fee to the recruiter.

In responses to ICCA's inquiry, the plant representative stated that only about 2% of the workers were hired in this way. Furthermore, workers did not pay a fee to the plant and only paid a "nominal" fee to the recruiter. ICCA found this statement to be vague and unclear. When questioned during the follow-up meeting, Plant 7's representative first stated that these recruiters were independent operators and any arrangements re: recruitment fee was between the recruiter and the worker. When further pressed, Plant 7's representative reluctantly conceded that the factory had indeed employed recruiting agencies in the past to hire workers, where workers had to pay the fee required by the agency. It was also revealed that the "nominal" fee ranged between RMB50 – RMB100, which is clearly more substantial than what could be described as "nominal" when compared with the minimum wage of RMB574.

Plant 7's management was also reluctant to provide more specific data as to the number of workers recruited this way and the total amount of money paid by them in a particular year.

The issue was finally settled by the plant management's agreement that henceforth the factory would not employ outside recruitment agencies. It was also agreed that Mattel's internal audit department would examine the company's payroll records, workers' personnel files, and where necessary, talk to some of the workers to verify that Plant 7's management has followed through on its commitment.

Cost of ID Badges, Uniforms and Utensils

Plant 7's Management Compliance Report (MCR) states that upon hiring, new employees are not required to pay for ID badges or uniforms. However, among the interviewed group of workers, approximately one in ten stated that they had to pay a deposit upon their hiring, ranging from RMB15 to RMB190, for factory uniforms and/or ID badges. This practice is inconsistent with Mattel's GMP standards.

During discussions, which were part of ICCA's follow-up audit, Plant 7's management indicated that these policies had been changed a number of times over the last four years, which may account for differences in workers' experiences since many of the interviewed workers had been hired on different dates. The management further stated that current practices at the factory provide workers with two uniforms each for winter and summer. The revised practice has been documented and verified by Mattel's internal audit team. ICCA is satisfied with the current situation.

Medical Examination and Pregnancy Tests

During ICCA's formal audit, a number of interviewed workers indicated that they were required to take a medical examination at the time of hiring. It was also indicated that female workers were also given a pregnancy test and where those test were positive, the workers were not hired.

Plant 7's management denies such testing and subsequent non-hiring of workers. A representative of Mattel's internal department, who attended the follow-up audit meeting, also indicated that his numerous audits of the company they did not find any evidence as to pregnancy tests.

3. ICCA's COMMENTS

Maternity Leave

At the time of ICCA's formal audit, there was confusion among the interviewed workers with regard to the company's maternity leave policies where nearly 1 in 5 workers stated that they did not understand company's policies in this context. It should also be re-iterated here that the interviewed workers stated that the company refuses to hire any worker who is pregnant at the time of initial hiring.

Upon ICCA's request, plant management has reviewed their maternity leave records for the past two years and provided documentation regarding workers being hired while they were pregnant. Mattel's most recent internal audit

report states that worker interviews confirm plant management's claim that workers are not given pregnancy tests prior to hiring.

Plant 7 has a stated policy of offering 90 days of paid maternity leave benefits. These benefits are made available to workers upon their return to work, and are paid in cash. The policy also allows for an employee-designated representative to collect maternity leave pay. Factory records show that 4 workers were given maternity leave pay during the period 9/04 thru 11/04. These workers were compensated in cash upon their return, and all four resigned within 2 days upon receiving their benefits.

In the discussions pursuant to the follow-up audit, Plant 7's management representative indicated that the factory's current policy was to pay the eligible workers for the first two months of the 3-month maternity leave. The worker is required to return to work or forfeit the third month salary. The logic of this condition, we were told, was the factory's rules requiring workers to give 30-day notice of resignation in order to be paid for their last month work and hence workers on maternity leave were being treated in a similar manner.

From ICCA's perspective, this line of reasoning is indefensible and has the practical effect of making workers on maternity leave lose their last month leave benefit.

Payment of Correct Wages

Plant 7 does not have a computerized system for recording employees working hours. Workers' time sheets are prepared manually by the line leaders. This is a cause for concern since ICCA has noted that, among the interviewed workers, there was considerable confusion as to how their wages were determined and how they were paid for their annual leave. When asked about their comprehension of the pay-stubs, almost one-half of the interviewed workers stated that they could not completely explain all items in their pay-stubs concerning working hours, overtime wages and deductions. Of these, one-half, i.e., one in four workers stated that they had little or no understanding of their pay stubs.

During the follow-up audit, Plant 7's management indicated that they had to calculate workers' wages and total amounts paid in a different manner to meet the requirements of Mattel and Wal-Mart, which made it somewhat confusing to the workers. As of September 2005, the factory has adopted a new system of calculating wage rates and total pay. This system is supposed to be more transparent and hence should be eliminate the workers' confusion.

At the conclusion of the follow-up audit, Mattel's internal audit department has indicated that it would carry out an audit of the factory's new payroll system to verify its accuracy and compliance with GMP. Since then, they have

conducted such an audit on 2/22-23 and report that “All calculations are unified to hourly rates and we confirmed pay is correct. However some workers, especially new hires, are not too clear on the formula; factory has plans to further enhance the orientation”. ICCA is satisfied with this approach. We also ask that ICCA should be provided with a copy of this audit report.

Environment, Health and Safety Standards

ICCA has expressed its general satisfaction with Plant 7’s practices with regard to plant maintenance and up-keep, and in providing the workers with a safe and healthy work place.

There were two exceptions to the situation: (1) in some cases, it was found that the workers did not have proper PPE; and, (2) the factory did not have certain permits with regard to air emissions. Both these conditions have since been corrected and verified by Mattel’s internal audit department.

Other Findings

ICCA confirms that Plant 7’s management has substantially responded to other findings in the formal audit report. Therefore, with the exception of the issues pointed out in the current follow-up report, no further action is required on the part of Plant 7.

Formal Audit - Vendor Plant 13

1. INTRODUCTION

Plant 13 is located in the Guangdong province of China. At present, approximately 50% of the plant's capacity is dedicated to the production of Mattel toys.

This report is based on the field audit of the plant conducted by ICCA on July 15-16, 2005. This is the first formal audit of the Plant 13. It was preceded by an informal, consultative visit by ICCA in December 2000. Such visits of vendor plants are a normal part of ICCA-Mattel audit regime. They are intended to familiarize ICCA with vendor operations. At the same time, they provide the vendor with an understanding of how ICCA would carry out its audits; and current deficiencies in the vendor's operations with regard to compliance with GMP standards. Finally, they provide Mattel's internal audit department with a road map for working with the vendor in bringing its operations to meet GMP standards within a well-defined time frame. Vendor plant audits are an integral part of Mattel's Global Manufacturing Principles (GMP), which are adhered to the all of Mattel's suppliers.

The purpose of the audit was to evaluate all aspects of Plant 13's operations and to ascertain their compliance with Mattel's GMP. These audits are carried out according to detailed standards covering various GMP principles. They 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, higher Mattel standards are considered applicable.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify the plant'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.

The audit process starts with the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. This document serves as the initial database and a starting point for the ICCA audit team to ascertain the extent of the plant's compliance with the GMP from the perspective of the plant's management.

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. 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. 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. Plant's records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. The final element of the ICCA audit is a series of 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 operations, and plant and dormitory security functions, to name a few.

All data and information generated by the field audit are brought to the New York office of ICCA for detailed analysis and preparation of audit reports. The initial draft report is first provided to Mattel so that the company may respond to the audit's findings. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. 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.

3. PLANT AND RELATED FACILITIES

Plant 13 is a modern facility consisting of two manufacturing buildings and one warehouse with a total area of 32,000 sq. m. Building #1 was built in 1998; building #2 was built in 2000, and the warehouse was constructed in 1999. The manufacturing plants are modern and well organized. They are also carefully maintained through excellent housekeeping. A similarly detailed attention has been devoted to the organization and maintenance of the warehouse facilities.

It should be noted that a significant portion of Plant 13's production capacity is dedicated to the production of electronic-based toys, which require sophisticated machinery and tooling. These require "clean room" manufacturing environment. All electronic manufacturing, consisting mainly of circuit boards and assembly, is performed in very clean, well-maintained air-conditioned space.

Plant 13 operates a canteen facility, which serves 4 meals a day and accommodates approximately 3,600 people per day. It also runs a dormitory complex of three buildings with a total size of 24,200 sq. m.

4. COMPOSITION OF THE WORKFORCE

Plant 13 currently employs approximately 4,000 production employees and another 700 management and administrative personnel. Nearly 87% of the direct labor workforce is female. The average age of the workers is 23. The entire workforce is over 18 years old.

The general education level among a vast majority of the production workers (80%) is middle school. Another 15% have high school diplomas, and the remaining 5% have post-high school education. Among the sample of workers interviewed by ICCA team, the average length of employment was 21 months. One fifth of the workers interviewed stated that employment at Plant 13 was their first job. On the surface, Plant 13 indicates a high turnover rate with approximately 105% of workers resigning or terminated on a yearly basis. However, this figure appears to be somewhat inflated because Plant 13 counts all workers - whose contracts are renewed – as “new hires”.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

Initial Hiring Process

Plant 13's MCR states that the facility does not use recruitment or government agencies for hiring employees and all of the workers get their jobs by applying directly to the factory. Among the workers interviewed by ICCA, almost two-thirds (63%) indicated that they got their jobs in this manner. However, another 23% stated that they got their jobs through a recruiter. Nevertheless, no worker reported having to pay a recruiting fee to any party.

All employees are required to undergo a medical examination in a nearby hospital at the time of their initial employment. Workers pay the fee for this service directly to the hospital. This examination covers general body check-up, blood test, x-rays and pregnancy test. Interviewed workers unanimously confirmed that they had been given a medical exam prior to their hiring. Plant 13 does not retain copies of health examinations except for the canteen workers.

Workers' Employment Contracts

Plant 13 initially hires all workers on a 6-month contract. Upon expiration, each contract is renewed for another 6-month period if mutually agreed upon by the worker and plant management. ICCA's audit confirmed that all workers had received signed 6-months contracts, copies of which were found in their personnel files.

Probation Period

All newly hired workers undergo a probation period. ICCA audit findings indicated that all of the interviewed workers had worked a probation period of 15 days, and all workers were paid their legally mandated wages during probation.

Training and Orientation

A large majority (88%) of the interviewed workers stated that they received job training at the time of their hiring. The training period averaged 7 hours. The primary focus of the training was on the proper operation of machinery and equipment. Workers were also informed as to how their performance would be measured.

In addition to job training, a general orientation was provided to the newly hired workers. This orientation covered safety rules, use of Personal Protective Equipment (PPE), fire fighting equipment, emergency evacuation training, first aid, reporting on accidents and emergency, and training on workplace hazards. Nearly 87% of the interviewed workers confirmed to have been given information about the environment, health and safety conditions at the factory. Workers identified safety rules (90%), use of PPE (88%), emergency evacuation training & drills (90%), and workplace hazards (87%) as the most important issues covered.

5.2. GMP Awareness

According to Plant 13's MCR, workers are provided with copies of Mattel's GMP translated in local language. However, when asked about their familiarity with the GMP, 96% of interviewed workers stated that they were not familiar with Mattel's Global Manufacturing Principles. When asked about any knowledge of management principles regarding fair and safe working conditions for workers, only one in three workers responded affirmatively while all the other workers indicated that they didn't have any knowledge of such principles.

5.3. Regular and Overtime Working Hours, Wages, Bonuses, and Deductions

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, totaling 2440 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 per week.

Under Mattel's GMP previous guidelines of 2001, the maximum hours that a worker may work were based on a 60-hour workweek which consisted of 40 regular and 20 overtime hours. These standards allowed 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 maximum allowed total overtime hours were 976 per year under these standards.

In 2004, Mattel revised its GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products; Mattel has incorporated a series of provisions regarding work hours policies.⁸

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week on peak production weeks;
- The number of peak production weeks will not exceed 17 per year;
- Workers will not be scheduled to work more than 13 consecutive days, without at least one rest day in between.

Under current GMP standards, the maximum hours that a worker may work is 3184 hours per year⁹, consisting of 2008 regular and 1176 overtime hours.

⁸ It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even larger work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

⁹ 17 peak period weeks corresponds to 102 days of 12-hour workdays, or 1224 work hours for the year. The remaining 196 days (298 – 102) of 10-hour workdays total 1960 hours per year. Thus, the yearly total work hours sum to 3184 (1224 + 1960).

Work Hours

As it is practiced by most employers in the area, Plant 13 has applied for a 'Comprehensive Working Hour System' form the local government. Instead of granting this permission, which would allow Plant 13 to extend its nationally mandated limits on the allowable yearly total number of hours, local government has granted Plant 13 a 'Flexible Working Hour System' permission. This permission allows flexibility in work schedules by accommodating longer workweeks during peak periods, while not changing the total yearly-allowed work hours.

The regular workweek at Plant 13 is a six-day schedule, consisting of 7-hour workdays on Monday through Fridays, and a 5-hour workday on Saturdays. Any work hours in excess of this schedule are considered overtime. During weekdays, employees work 7 hours as regular shift and 4 hours as overtime; Saturdays, however, they work 5 hours as regular shift and 6 hours of overtime. Sunday is a rest day.

Mattel's revised GMP standards also require the employment of management systems to monitor daily, weekly, and yearly work hours of workers to ensure compliance with the standards mentioned above. Plant 13's management system is designed to ensure that no worker is scheduled to work more than 72 hours in any one week. ICCA's payroll audit has confirmed that this system is effective and no worker was observed to exceed the 72-hour limit. However, Plant 13's recording system does not control the number of weeks during which the workweek exceeds 60 hours throughout the year. This lack of control results in many individual workers, and entire departments, to work in excess of 60 hours a week for more than the 17-week limit allowed under the GMP standards. Plant 13's MCR states that actual work schedule involved 35 weeks for which the working hours exceed 60 hours during the period June '04 – May '05. ICCA audit of workers' payroll files confirmed this practice.

From ICCA's perspective, the Plant 13's lack of record keeping in this instance is difficult to rationalize. ICCA would, therefore, ask Mattel's internal audit department to:

- a) where work hours exceed more than 60 per week beyond 17 weeks, require Plant 13 to take corrective action; and
- b) provide a report to ICCA of the factory's plans for corrective action by October 31, 2005

Minimum Wages

The minimum wage rate in Plant 13's local district was raised from RMB480 per month to RMB580 per month as of May 1, 2005. During the month of May 2005, all workers were paid on the basis of the new minimum wage as stipulated by law.

Overtime Wages

All direct labor workers at Plant 13 receive normal pay for their first 40 hours per week, and overtime wages at 1.5 times their regular rates for all overtime hours worked on regular workdays. For work performed during their rest days, typically Sundays, workers are paid double the regular wage, and for work done during national holidays, wages are paid at triple the basic rate. ICCA's audit confirmed that all overtime wages were paid properly to all workers for their overtime hours in every category.

At Plant 13 all overtime work is voluntary. Workers unanimously confirmed that they were not required to work overtime. Since four hours of overtime are included in a normal workday, no official announcement is necessary for overtime work during regular workdays. However, employees may refuse to work overtime by signing the "Overtime Application Form". Nearly 56% of the interviewed workers acknowledged that permission is given at any time they ask for overtime exception, while over 38% stated that they get overtime exceptionally when they have given advance notice to this effect. Over 88% of the workers were happy with the current overtime arrangement. One third of these workers stated that they would like more overtime.

Deductions

Workers who live in the dormitory pay RMB46 to the dormitory cooperative. This amount is paid in cash by the workers on the payday. Food in the company canteens is provided to workers on a pay-as-you eat basis. Workers are given rechargeable swipe-cards, which they use to pay for their meals. The cards may be re-charged for cash payments at the workers convenience. Workers eating all their meals at the company canteens would spend approximately RMB150 per month for food. The total of food and dormitory expenses for Plant 13 workers is less than 50% of their basic minimum monthly wages, and within the guidelines set by Mattel's GMP.

Other Charges

Plant 13 provides two sets of uniforms, one for summer and one for winter, to all new employees. Any additional uniforms that workers may need in the future, must be purchased and paid for by the workers. The company policy

requires all workers to wear uniforms while on duty. Plant 13 charges RMB14 for summer uniforms and RMB38 for winter uniforms.

This practice imposes an unreasonable burden on employees since no one should expect these uniforms to last forever. Given the mandatory requirement of wearing uniform while at work, the net effect of limiting the free uniforms to the initial set must be considered a mandatory uniform charge imposed upon the employees.

Additional charge items, which result in payroll deductions, include damages to company property and materials. Workers are also responsible for any damaged dormitory fixtures and appliances.

Plant 13 imposes a charge of RMB14 for lost factory ID cards, and RMB40 for rechargeable meal cards. Company records show that such charges were collected from 75 employees (2% of the workforce) during May 2005.

ICCA's Recommendations

The current situation with regard to uniforms is unfair and inconsistent with GMP standards, which require that workers must be provided with free uniforms when they are mandatory. ICCA recommends that Plant 13 consider providing a free set of uniforms to workers for every two years. When a worker needs uniforms beyond the free sets provided by the factory, the worker may be asked to pay for the extra uniforms.

During post audit briefing with Plant 13's management, ICCA indicated that it considered RMB40 for replacing the swipe-card to be excessive and suggested that the plant management consider a reduced fee for swipe-card replacement. Plant 13's management took note of ICCA's recommendation and promised to look into it. ICCA would like a report from Mattel's internal audit department by October 31, 2005 as to how its recommendations have been implemented.

Understanding of the Pay Stubs

A majority (63%) of the workers stated that they understood all entries on their pay-stubs concerning working hours, overtime wage calculations, and deductions taken. However, nearly 29% of the workers in the sample stated that they did not understand calculations on their pay-stubs.

Benefits

Plant 13 pays all legally mandated social insurance and related benefits. ICCA auditors have confirmed that all benefits were paid according to the applicable laws, and that company practices have been approved by the local

social insurance bureau. The plant provides one week of paid annual leave to all workers during the Chinese New Year holiday period.

Plant 13 has a stated policy of offering 90 days of paid maternity leave benefits. These benefits are paid to workers in cash upon their return to work. This policy also allows for an employee-designated representative to collect maternity leave pay. Factory records show that while several staff workers have enjoyed their maternity leave benefits, no hourly worker has ever applied for or received such benefits in the history of the plant. Only 10% of the interviewed workers responded affirmatively when asked whether women are given maternity leave. Plant 13's maternity leave policies, which delay the benefit payments until the end of the leave period are at variance with national laws and the GMP. Both standards require that maternity leave benefits be made available to the workers while they are on leave.

ICCA's Recommendation

ICCA finds that there is considerable inconsistency and somewhat reluctance in the proper implementation of maternity leave policy among Mattel's vendors, and Plant 13 is no exception. This was also found to be the case during ICCA's first round of vendors audit in years 2002 and 2003.

ICCA would recommend that Mattel's internal audit department make a sustained effort to correct this situation. There can be no justification to allow this situation to persist when the cost of implementation is insignificant given the small number of female workers who reportedly become pregnant while working at this plant. And yet, its social impact could be quite significant given the fact that an overwhelming majority of production workers are female. As such, a violation of this principle has a negative impact on large majority of employees in Mattel's vendor plants.

Personnel Records

Plant 13's personnel records are quite comprehensive and well maintained. They are organized along functional lines, e.g., orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and maternity leave, to name a few.

5.4. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Workplace Discipline

Plant 13 has established and documented a complaint procedure and disciplinary action policies at the plant. Workers are informed about the policies

and procedures related to disciplinary actions through the worker's handbook and training.

A large majority of the interviewed workers (75%) confirmed their familiarity with these policies. A majority of the workers (56%) also indicated knowing what should be done in case of unfair disciplinary action taken against them. When asked whether they would feel threatened to file a complaint, over 88% responded negatively. It should be noted that only one employee among the interviewed workers reported having been disciplined at work during the 6 month period prior to the ICCA audit.

Imposition of Cash Fines

Prior to ICCA's audit and up through May 2005, Plant 13 had a policy of imposing cash fines for disciplinary infractions. Company records indicated that 134 workers had been fined ranging from RMB5 to RMB100 for work rule infractions such as violation of safety instructions, sleeping while on duty, playing, etc. These fines were deducted from workers' paychecks. According to management statements, Plant 13 has terminated its policy of imposing cash fines as of June 2005. Since ICCA audit covered the May 2005 pay period, it was unable to confirm the cessation of fines as disciplinary measures. ICCA would request that Mattel's internal audit team verify Plant 13's new policy and confirm its compliance with the GMP.

Discrimination and Protection from Harassment

Plant 13's MCR states that there is a non-discrimination policy in place at the plant. Workers interviewed by ICCA were unanimous in their opinion as to the absence of discrimination at Plant 13 in terms of promotion or wage increase based on religion, race, ethnicity, or region of origin. Workers were also fully aware of their right to file complaints anonymously into a suggestion box for any discriminatory action by supervisors or other individuals.

Among the interviewed workers, there was almost unanimous (96%) consensus that employees at Plant 13 were treated fairly and with respect by line leaders, supervisors, upper management and co-workers. They also indicated that they were personally unaware of any instances of verbal or physical abuse of workers by their line leaders or other supervisors. It was also indicated that they would not hesitate to file complaints in instances of harassment without any fear of retribution.

Management – Employee Communications

ICCA analysis of workers responses to the questions related to the employee-management communication channels revealed that workers mostly relied on line leaders (94%), co-workers (77%) and notice board (75%) when

having concerns and questions about wages, overtime, working conditions, dormitory, transportation, etc. Complaints and suggestions are preferably channeled through suggestion box (94%), line leaders (71%) and HRM staff (27%).

5.5. Employee Services

Food Services

Plant 13 operates a canteen facility, which serves 4 meals a day and accommodates around 3,600 people per day. The lunch break is approximately one hour. The interviewed workers expressed overall satisfaction with the variety of food offered and the amount of food served per meal. Nevertheless, a number of workers also complained about the quality of food served in the plant's canteen.

Plant 13's records show that workers are required to get permission from their supervisors to leave the factory premises during their lunch hour. This requirement acts as a deterrent to the workers who might wish to take their meals elsewhere.

During the post-audit meeting with ICCA, plant management claimed that permission slips pertained only to those workers leaving the factory on company business but that workers and supervisors may have misunderstood the policy. Plant 13's management has agreed to clarify this policy to ensure that everybody understood that workers were free to eat their meals at any place of their choosing. ICCA would like to commend Plant 13's management for their forthright statement of their policy intent and their willingness to put it in practice. Nevertheless, ICCA would like Mattel's internal audit department to confirm the action and provide a report for ICCA by October 31, 2005.

Medical Facilities and Health Care:

Plant 13 does not have a licensed clinic and, therefore, cannot dispense medications to its employees. It does not have a qualified medical doctor on staff; therefore, it cannot provide routine medical treatments. It does have a one-bed facility, which is staffed with two qualified nurses. There are 150 employees trained to provide first aid. Even though there is a hospital 15 minutes by car from the plant, the company does not comply with GMP requirements.

Some of Mattel's vendors, without acceptable level of on-site medical clinic, indicated that it was quite difficult, if not impossible, to obtain necessary permits to properly staff an on-site clinic that would meet the minimum requirements of China's labor laws and GMP standards. This is the position taken by Plant 13. At the same time, many other vendors have been able to

overcome these difficulties and have established properly staffed clinics at the factory premises. It should also be noted that all of Mattel's owned and operated plants in China have properly staffed on-site clinics.

ICCA Recommendations

ICCA believes that vendor plants employing 7000 – 8000 workers are putting their employees at significant health risk by not establishing a minimal level of medical care with qualified staff. This is particularly important in view of the fact that a vast majority of the workforce is comprised of younger female workers with special needs for timely medical attendance.

ICCA would ask Plant 13 and Mattel's internal audit department to take all necessary actions to remedy this situation. ICCA would also like a report from Mattel's audit department by October 31, 2005 as to the actions taken to implement these recommendations.

5.6. Environment, Health and Safety

GMP Standards for Environment, Health, and Safety

Mattel's GMP has two sets of EHS Standards. Tier I standards are more stringent and are required of all Mattel owned and operated plants. Tier II standards are designed for application to Mattel's vendors. Both standards cover similar issues. However, in the case of Tier II standards, vendor plants are afforded greater flexibility in compliance especially as they pertain to scheduling and maintenance of equipment, record keeping, and securing proper approval permits from local authorities for disposal of hazardous waste, and waste water treatment to name a few.

The absence of complete records makes it difficult for ICCA's audit team to verify vendor plant's assertions as to full compliance with Mattel's GMP standards. It also places greater burden on the ICCA's audit team to rely on one-time on-site observation of plant's operational and maintenance practices and draw conclusions about the plant's regular practices in these areas.

Mattel's internal audit department has been working closely with the company's vendors to improve their maintenance and record keeping practices, and takes the approach of requiring and encouraging continuous improvement.

Safety Issues

The company claims to be in full compliance on the following workplace safety issues; e.g., fire prevention, electrical systems, evacuation system including drills. An incident reduction program is partially in place. Plant 13 also

claims to be in full compliance with: an implemented tagout/lockout system including trained personnel, a machine guarding program and explosion proofing where required. There is no machine-servicing program in place.

PPE Usage

Plant 13 claims to be in full compliance with all PPE requirements. However, ICCA was unable to find any written respirator protection program for users of respirators and only a partial training program for employees on the proper use of respirators.

Hazard Management Including Asbestos, Chemicals and Compressed Air

Full compliance is claimed by the company for the following: ventilation, LEV, an asbestos survey, labeling of hazardous chemicals, storing of hazardous materials, and immediate access to MSDS, storage of compressed air cylinders, proper maintenance of underground and aboveground storage tanks, and a PCB survey. ICCA audit confirmed that industrial air sampling has been performed. The company plans to conduct an industrial hygiene survey within one month of any new or changed equipment or process. This would include training for asbestos affected employees, a written operational and maintenance plan for asbestos containing material, and a system to track quantities and locations of hazardous materials. The company has a "compliance in progress" program for employees to receive hazard communication training.

Noise and Temperature

Plant 13 claims full compliance for the following: monitoring the temperature in all non-air conditioned or heated areas. The factory has a program in place to reduce ambient temperatures in very warm areas such as injection molding during the summer months by improving ventilation. Programs are also in place for hearing conservation and training of affected workers on hearing conservation.

Environmental Safety, Discharge and Waste Disposal

Plant 13 claims that identification of all wastewater discharge points and permits for wastewater discharge are centralized by the local government and are paid for by a wastewater discharge fee. There is no sampling and analysis of production wastewater by the company as all hazardous wastewater is collected by an approved disposal company. All non-production wastewater water is run through the domestic treatment plant onsite. Plant 13 claims to be in full compliance with: removal of sludge by an approved licensed source; proper installation of grease traps; identification, quantification and characterization of hazardous waste, and proper handling of hazardous wastes by trained employees. Hazardous waste is collected and disposed properly. Similarly,

medical waste and batteries of lamps and ballasts are collected and disposed through government-approved contractors.

ICCA's Overall Observations

The status of environmental health, safety, and maintenance programs at Plant 13 were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of all buildings and a review of company records with regards to EHS requirements stipulated in the GMP and detailed in the MCR. The 'walk-through' inspection showed all facilities to be in excellent condition with good maintenance and housekeeping.

Mattel's vendor Plant 13 is an excellent facility with a few exceptions as noted below. It is a well-run, efficient plant with a sophisticated high technology component exhibiting good, professional production management. The layout and facilities of the circuit board areas, the injection molding facility and the warehouse among others are impressive.

The following exceptions are noted to an otherwise excellence performance record.

1. The site has a Pollutant Discharge registration but has no integrated discharge permits for air emissions, wastewater discharges, solid wastes generation, and boundary noise emission as required by legislation.
2. There are three groundwater wells on the property but no extraction permit was available for review.
3. There is an underground wastewater treatment system for site generated sanitary wastewater installed in 2001. At that time tests indicated compliance with discharge limits. However, no further monitoring has since been conducted.
4. Records were not available for review that would indicate annual, integrity pressure testing of the underground fuel leading from the diesel tank to the generator room.
5. Exhaust systems provided for the individual soldering stations were at times inadequate. Some workers were found to be ignoring the device, which resulted in the inhalation of flux fumes by the workers.
6. There is a strong solvent and paint odor in the Tempo Printing area, although the machines are fitted with exhausts. The major problem here is that tempo machines are an all-open tray-system. The factory

claims that even though the current process passes the IH test, they are planning to change this process to a closed tray version.

7. A number of fire aisles in the electronic assembly area were blocked by stored goods.
8. Minor oil staining was observed at the diesel unloading area above the storm water drainage trench. An oil drip tray should eliminate their condition. Also the area may need a higher containment ledge.
9. The EHS expert members of the audit team observed excessive noise in the grinding and non-electronic assembly area. Although, no on-site test of noise level was possible during the audit, ICCA recommends that plant management conducts a noise sampling study in the two areas.

5.7. Extra Curricular Activities¹⁰ and Good Corporate Citizenship and Community Outreach Programs

Workers interviewed at Plant 13 indicated that there was not much involvement with extra curricular activities. Very few workers indicated their participation in fire drills and computer-lab activities.

Plant 13's MCR states that there's no social outreach and community involvement activity in which the plant engages directly or indirectly.

¹⁰ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of vendors' activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Follow-up Audit - Vendor Plant 13

1. INTRODUCTION

Plant 13 was formally audited on July 15-16, 2005 and a formal report was issued on August 23, 2005. In its report, ICCA made two types of findings:

1. ICCA asked for further clarification and amplification of the information generated by the field audit including one-on-one confidential interviews with a randomly selected group of workers representing the entire workforce at Plant 13.
2. Based on its audit findings, ICCA made certain recommendations for the Plant 13's management so as to improve the factory's compliance with Mattel's GMP.

Subsequently, at ICCA's own initiative, a follow-up audit was conducted on December 20, 2005. The intent of the follow-up audit was:

- (a) to observe the changes made by the plant management in response to ICCA's audit report; and,
- (b) to confirm that these changes have been embedded in the factory's policies and procedures so that their continuous implementation would become an integral part of Plant 13's operations.

2. FOLLOW-UP AUDIT FINDINGS

Working and Overtime Hours

Plant 13's Management Compliance Report (MCR) states that at the time of the formal audit, actual work schedule involved 35 weeks for which the working hours exceed 60 hours during the period June 2004 – May 2005. ICCA audit of workers' payroll files confirmed this practice. At the same time, Plant 13's recording system does not control the number of weeks during which the workweek exceeds 60 hours throughout the entire year.

Plant 13 has started tracking this information starting in April 2005. This was confirmed by Mattel's internal audit department, which would continue to monitor this situation. Nevertheless, the fact remains that Plant 13 has made no commitment to the effect that it would abide by Mattel's revised standards with regard to various limits on overtime hours as stipulated in the GMP.

The number of permissible maximum working hours has become a major issue with a majority of Mattel's vendors in China with regard to complying with the company's GMP.¹¹ In recognition of this situation, early in 2004, Mattel revised its standard for maximum regular and overtime hours.¹² The object was to unify worldwide practices across all plants that manufacture Mattel's products. In

The revised GMP standard states:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production weeks.
- Workers will not be scheduled to work more than 72 hours per week on peak production weeks.
- The number of peak production weeks will not exceed 17 per year.
- Workers will not be scheduled to work more than 13 consecutive days, without a rest day in between.

Under the revised GMP standard, the maximum hours that a worker may work is 3184 hours per year¹³, consisting of 2008 regular and 1176 overtime hours. The 2004 revised GMP standard also stipulates that during peak production period all workers must have at least one day of rest per week and that no worker may work more than 13 consecutive days without a rest day. The intent of the revised GMP standard toward rest days was to accommodate exceptional circumstances where a plant may have to work an occasional rest day.

The issue of excessive overtime hours remains a vexing concern and potentially a major problem. The recent revision of GMP, which significantly extended the limits on maximum allowable overtime hours, was intended to take into account the concerns of the vendors and find a more realistic and enforceable standard. However, this does not appear to be the case. Rather than complying with the expanded overtime limits, the new standard has instead become the minimum starting point. With few exceptions, most vendors audited by ICCA express strong reluctance to comply with GMP standards.

¹¹ 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, totaling 2440 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.

¹² It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even larger work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

¹³ 17 peak period weeks corresponds to 102 days of 12-hour workdays, or 1224 work hours for the year. The remaining 196 days (298 – 102) of 10-hour workdays total 1960 hours per year. Thus, the yearly total work hours sum to 3184 (1224 + 1960).

The current situation is untenable and Mattel needs to find a better answer to this problem. At the same time, we would strongly caution against further relaxation of overtime hours, which in our view is potentially harmful to the workers, and indefensible as part of GMP standards.

Cost of Uniforms, ID Badges and Meal Cards

The company policy requires all workers to wear uniforms while on duty. Plant 13 provides two sets of uniforms, one for summer and one for winter, to all new employees. Any additional uniforms that workers may need in the future, must be purchased and paid for by the workers. In the formal audit report, ICCA had recommended that Plant 13 provide additional uniforms at no cost to make sure that workers can meet the factory's uniform requirements. The follow-up audit indicated that Plant 13 has revised its policy wherein workers will receive a new set of uniforms every 18 months. ICCA considers this to be a satisfactory response.

Plant 13 imposes a charge of RMB14 for lost factory ID cards, and RMB40 for rechargeable meal cards. ICCA suggested that the charge is excessive and should be reduced. During the follow-up audit, Plant 13's management indicated that these policies have been revised. The factory was able to source less expensive cards. Henceforth, the revised the charge of an ID card would be RMB8.0 and meal cards RMB25.

The revised practices has also been documented and verified by Mattel's internal audit team, ICCA is satisfied with the current policy.

Fines for Wasted Materials and Damage to Company Property

ICCA's formal audit findings had indicated that workers were required to reimburse the factory for the replacement of damage to company property and materials. Workers were responsible for any damage to dormitory fixtures and appliances. ICCA's follow-up audit indicated that the factory has cancelled all fines for material related damages. In case of the company property related damage, responsible workers are charged accordingly. The factory has also instituted a system where workers can appeal any charges or deductions, which they consider unfair. ICCA is satisfied with the company's revised policies in this regard.

Cost of Required Medical Examination

All employees at Plant 13 are required to undergo a medical examination at the time of their initial employment. This examination covers general body check-up, blood test, x-rays and pregnancy test. Interviewed workers

unanimously confirmed that they had been given a medical exam prior to their hiring.

Mattel's internal audit department indicated that all newly hired workers go through a medical screening in a nearby hospital. It also confirmed that the workers were responsible for covering the cost of the medical screening.

3. ICCA's COMMENTS

The cost issue with regard to medical examination has frequently emerged as a problem during ICCA's vendor plant audits in China. Another complication factor has been the wide differences in charge for such medical examination, and whether they are given at the factory or at an outside location.

In ICCA's view, this is not a good approach. A medical screening exam is a prerequisite for employment and workers should not be required to bear the cost such examination.

During discussions at the follow-up audit, Plant 13's management indicated that they recognized the validity of this issue and made three points:

- (a) the cost of medical examination could be significantly reduced where the factory undertakes a contract with outside vendor to provide medical examination to all newly hired workers.
- (b) a substantial portion of this cost occurs when a newly hired worker decides to leave the factory's employment within a few days of being hired. Given the high turnover rates in most vendor plant, this cost could be significant.
- (c) the management of Plant 13 indicated that they would consider absorbing the cost of medical examination, provided the worker continues his/her employment after 90 days of being hired.

ICCA recommends that Mattel should consider revising its GMP standard, where:

- (a) it would be the vendor's responsibility to organize and pay the medical examination fee of all newly hired workers;
- (b) the vendor may deduct the cost of the medical examination from the workers' last paychecks if the workers resign in less than three months.

Maternity Leave Policy

Factory records show that while several staff workers have enjoyed their maternity leave benefits, no hourly worker has ever applied for or received such benefits in the history of the plant. Only 10% of the interviewed workers responded affirmatively when asked whether women are given maternity leave.

A complete absence of maternity leave benefits to hourly workers is troublesome. It suggests that assembly line workers are discouraged from employment at the time of their hiring.

ICCA recommends that Mattel's internal audit department review the factory's personnel data on a 2-year period and determine (a) the number of female workers who become pregnant during this 2-year period, and (b) the number of workers who declared their pregnancy during the first six months from the date of their hiring.

Plant 13's maternity leave policies require for the benefit payments to be delayed until the end of the leave period, which is at variance with national laws and the GMP. From ICCA's perspective this condition imposed an undue burden on the workers and has the potential for forcing them to forego their legally mandated benefit. This requirement is not a pre-condition of maternity leave benefits either in PRC labor law or Mattel's GMP.

ICCA recommends that Mattel must insist that all workers eligible for maternity leave receive their benefits in full regardless of whether or not they wish to return to work upon completion of their maternity leave.

Imposition of Cash Fines

Company records indicated that 134 workers had been fined ranging from RMB5 to RMB100 for work rule infractions such as violation of safety instructions, sleeping while on duty, playing, etc. These fines were deducted from workers' paychecks.

During the follow-up audit, the factory management indicated that the policy of imposing cash fines was terminated as of June 2005. This was also confirmed by Mattel's internal audit department through verification of the factory's records. The only exception to this rule is where the worker is found to have committed a safety-related rule violation, which endangers the workers' safety and also that of fellow workers. ICCA is satisfied with this situation and no further action is required.

Poor Quality of Food in the Plant's Canteen

ICCA's formal audit revealed that a significant number of workers had complained about the poor quality of food served in the canteen. Plant 13's management has agreed with this finding and has since added one more canteen operator in the expectation that additional competition would have salutary effect the food quality and service in the canteen. This seems to have worked as the number of workers eating in the canteen has increased from approximately 2000 to 4000 people.

Unreasonable Requirement for Permission to Leave Factory Premises

Plant 13's records show that workers are required to get permission from their supervisors to leave the factory premises during their lunch hour. This requirement acts as a deterrent to the workers who might wish to take their meals elsewhere. During the post-audit meeting with ICCA, plant management claimed that permission slips pertained only to those workers leaving the factory on company business but that workers and supervisors may have misunderstood the policy.

Notwithstanding, the factory has since clarified its policy to ensure that everybody understood that workers were free to eat their meals at any place of their choosing. This has also been confirmed by Mattel's internal audit department. ICCA is satisfied with the current situation and no further action is required.

Medical Facilities and Health Care

Plant 13 does not have a licensed clinic and, therefore, cannot dispense medications to its employees. It also does not have a qualified medical doctor on staff; therefore, it cannot provide routine medical treatments. Plant 13's management has argued that on-site clinic is not legally required by PRC's labor law. Plant 13 does have a one-bed facility, which is staffed with two qualified nurses. There are 150 employees trained to provide first aid. The nearest hospital is about 15 minutes by car from the plant.

In ICCA's view, this effort is not sufficient. Notwithstanding the provisions of the Chinese law, ICCA feels that a plant of 7,000 workers is putting its workers at significant health risk. This is particularly important in view of the fact that a vast majority of the workforce is comprised of younger female workers, which have special needs for timely medical attendance.

ICCA would recommend that Mattel give serious consideration to creating a flexible standard for on-site clinic that takes into account the vendor concerns but also provides for the health care needs of the workers making toys for Mattel. One option might be to ask each factory to create an on-site clinic with at least

one qualified nurse on 24/7 basis, an essential supply medication that are particularly needed by young female workers, and one bed per thousand workers with a maximum of 5 beds.

Environment, Health, and Safety

ICCA's formal audit of Plant 13 indicated that it was in general an excellent facility. The plant is well maintained and has a staff professionally trained engineers and managers. The audit, however, noted the need for further improvements and greater attention to employee practices in certain areas of the factory's operations. These included, among others, excessive noise, improper use of the PPE, and certain shortfalls in regular maintenance and upkeep.

The follow-up audit confirmed that all necessary actions recommended by ICCA have been instituted. This was also confirmed by Mattel's internal audit department.

Formal Audit - Vendor Plant 14

1. INTRODUCTION

Plant 14 is located in the Zhonshang, Guangdong province in China. It's major products are small plastic toys. Currently, approximately 45% of the plant's capacity is dedicated to the production of Mattel toys.

This report is based on the field audit of the plant conducted by ICCA on July 11-12, 2005. This is ICCA's second visit to the Plant 14. The first visit to the plant was an informal consultation in December 2000. Informal consultative visits of vendor plants are a normal part of ICCA-Mattel audit regime. They are intended to familiarize ICCA with vendor operations. At the same time, they provide the vendor with an understanding of how ICCA would carry out its audits; and, note current deficiencies in the vendor's operations with regard to compliance with GMP standards. Finally, they provide Mattel's internal audit department with a road map for working with the vendor in improving its operations to meet GMP standards within a well-defined time frame. Vendor plant audits are an integral part of Mattel's Global Manufacturing Principles (GMP), which are adhered to by all of Mattel's suppliers.¹⁴

The purpose of this audit was to evaluate all aspects of Plant 14's operations and to ascertain their compliance with Mattel's GMP. These audits are carried out according to detailed standards covering various principles of GMP. They 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.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify plants' 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.

The audit process starts with the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. This document serves as the initial database and a starting point for the ICCA audit team to ascertain the extent of the plant's compliance with the GMP from the perspective of the plant's management.

¹⁴ ICCA audit reports for Mattel owned and operated plants as well as those of vendor plants are available at both ICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.Mattel.com.

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. 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. 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. Plant's records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. The final element of the ICCA audit is a series of 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 operations, and plant and dormitory security functions, to name a few.

All data and information generated by the field audit are brought to the New York office of ICCA for detailed analysis and preparation of audit reports. The initial draft report is first provided to Mattel so that the company may respond to the audit's findings. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. 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.

3. PLANT AND RELATED FACILITIES

Plant 14 consists of two spatially separated plants. These are approximately 10 to 15 minute car ride away from each other. The 'Old Factory' was built in 1986 and expanded in 2000. It contains 30,000 sq. m of floor space. The 'New Factory' was built in 1996 and expanded in 2004. It contains 66,667 sq. m of floor space.

The plant's normal year-round operations consist of two shifts in the injection-molding department, which employs approximately 900 workers. All other departments operate on the basis of one shift. A normal shift consists of 10 hrs/day (6.67 hours regular and 3.33 hours overtime), with a 6-day work schedule.

During peak production periods, all departments work two shifts for about 90 days. The only exception to this norm is the Rotocast Department with 100 employees who work three shifts for about 60 days.

The plant also has dormitories and canteen facilities for its workers. Details of dormitory operations, canteen facilities and food services are included in the following sections of this report.

4. COMPOSITION OF THE WORKFORCE

Plant 14 employs approximately 8,500 workers. Of these, almost 90% are production workers and the remaining 10% are administrative and management personnel. A large majority (84%) of production workers are women. The legal minimum age required of a worker is 16 years. There are no workers below the age of 16 at the plant. The average age of the plant's workers is 28 years. The general level of education among the production workers is middle school (80%) and the remaining 20% have high school diplomas.

Plant 14 has an annual workforce turnover rate of 33%. Among the group of workers, who were randomly selected for the one-on-one confidential interviews, approximately 72% stated that employment at Plant 14 was their first job and the average length of employment among the interviewed workers was 32 months.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

Initial Hiring Process

Plant 14's Management Compliance Report (MCR) states that all new workers are hired through walk-ins or references from friends. This statement, however, is at variance with the information obtained from the interviewed group of workers where 57% of the sample got their jobs through walk-ins, and another 22% went through a recruiter to secure employment at Plant 14. However, none of these workers had to pay any fee.

Medical Checkup: Each employee is required to undergo a medical examination upon hiring. The examination includes general body check-up, blood test and x-rays. A large majority of interviewed workers (88%) confirmed taking a medical examination prior to joining the factory.

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. It covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. The company's MCR states that contract length varies among workers. At the time of the audit, 33% of the workers employed at Plant 14 had a contract signed for up to 6 months of employment, 39% of the workers had a contract for 6-12 months of employment, and another 28% with employment of more than 12 months. ICCA's audit confirmed that all workers had received a contract, copies of which were found in their personnel files. However, 25% of the interviewed employees stated that they were not explained the terms of their contract during initial orientation.

Probation Period: All newly hired workers with a contract of over 6 months or longer are subjected to a probation period. ICCA audit findings indicated that all workers with 6-month contracts had a probation period of 15 days, and those with 12-month contracts had a 30-day probation period. Of the audited worker personnel files, 5% had first-time contracts with a record of probation period. All of these workers were paid their legally mandated wages during probation.

Training and Orientation

All newly hired employees undergo an orientation program, which covers the employment contract, rules of conduct, wages, benefits and overtime policies, and grievance procedures. Handbooks and notices in common areas are used to inform workers of their rights and responsibilities. Almost all interviewed employees received orientation averaging about 6 hours and covering safety rules, use of PPE, emergency evacuations trainings and drills, first aid, etc.

GMP Awareness

According to Plant 14's MCR, Mattel GMP Standards are made available in local language to all employees during the orientation, periodic training programs, through employee handbook, bulletins and posters. Nonetheless, among the interviewed employees, 78% indicated no awareness of Mattel's Global Manufacturing Principles.

5.2. Regular and Overtime Working 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, totaling 2440 hours per year. The national labor 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 per week.

Under Mattel's GMP guidelines of 2001, the maximum hours that a worker may work were based on a 60-hour workweek which consisted of 40 regular and 20 overtime hours. These standards allowed plants to schedule a maximum of 2980 hours in 298 workdays (365 - 52 Sundays - 10 national holidays - 5 annual leave days) by scheduling 60-hour workweeks throughout the year. The maximum allowed total overtime hours would be 976 per year under these standards.

In 2004, Mattel revised the GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products.¹⁵

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week during non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week during peak production weeks;
- The number of peak production weeks will not exceed 17 per year; and,
- Workers will not be scheduled to work more than 13 consecutive days, without at least one rest day intervening beyond 13 days of work.

Under the revised GMP standards, the maximum hours that a worker may work is 3184 hours per year¹⁶, consisting of 2008 regular and 1176 overtime hours.

Working Hours

Plant 14 has applied for and received an 'Extended Working Hours Permission' from the local government. This permission allows the Plant to schedule up to 66 hours a week (11 hours per day for a six-day workweek) during normal periods and up to 72-hour workweeks during peak production periods. All departments at Plant 14 except Injection Molding department have a regular week of six working days, consisting of 6.67 regular hours and 3.33 overtime hours, for a total of 60-hour workweek. Injection department operates on a 5 working days schedule, with 8 regular hours of work per day. Daily work schedules of employees, who work in high heat-stress operations, include a four-hour mid-day break during which they also eat their lunch. Departmental work

¹⁵ It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even larger work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

¹⁶ 17 peak period weeks corresponds to 102 days of 12-hour workdays, or 1224 work hours for the year. The remaining 196 days (298 - 102) of 10-hour workdays total 1960 hours per year. Thus, the yearly total work hours sum to 3184 (1224 + 1960).

schedules are approved by supervisors for any overtime work of up to 20 hours per week. The factory manager must approve any overtime. That would extend the workweek beyond 60 hours.

ICCA's audit of Plant 14's workers' payroll records revealed that all employees worked fewer than 17 weeks during which their workweek exceeded 60 hours. No worker was scheduled to work more than a 72-hour workweek during the year 2004. ICCA concludes that Plant 14 is fully compliant with GMP standards with regard to daily, weekly, and annual work hour limits.

Interviewed workers were unanimous in expressing their satisfaction with the overtime schedule at Plant 14. As a matter of fact, a majority of the interviewed workers also expressed a desire to work more overtime hours than permitted under the current schedule. None of the interviewed employees were forced by the management to work overtime.

5.3. Wages, Bonuses and Deductions

Regular and Overtime Wages

Plant 14's MCR states that workers are paid the minimum wage rate of RMB574 per month, as mandated by the local district. In addition to their regular wages, Plant 14 employees are eligible for efficiency bonuses when they meet their production quotas.

ICCA has confirmed that Plant 14 pays all direct production workers normal wages for the first 40 hours, and overtime pay of 1.5 times the normal wage rate for the remaining hours during regular workdays. Workers are paid double the normal wage rate for work performed on a rest day. During national holidays, wages are paid at triple the basic wage rate. The ICCA audit confirmed that all overtime wages are paid properly to all workers for their overtime hours in every category.

Benefits and deductions

Plant 14 pays all legally mandated social insurance and related benefits. ICCA auditors have confirmed that all benefits were paid according to the applicable laws, and that company practices have been approved by the local social insurance bureau. For 30% of the workers, Plant 14 pays Medical, social, unemployment, and retirement insurance premiums.

Plant 14 also provides 5-14 days annual leave depending on an employee's length of employment at the factory. One part of the workers' annual leave is granted when the factory closes for Chinese New Year holidays. The remaining days are compensated via cash payments. The company policy is to

reserve the right to deny actual leave days to workers if leave days cannot be arranged due to production schedule requirements. During worker interviews, a large majority (87%) of the workers indicated their awareness of the right to annual paid leave. Approximately 25% of the workers received extra pay, while another 37% took their annual leave.

Plant 14 has a stated policy of offering 90 days of paid maternity leave benefits. These benefits are made available to workers upon their return to work and are paid in cash. Those employees who choose not to return to work after their pregnancy terms forego their maternity benefits.

Plant 14 employees are not required to pay for their uniforms or personal safety equipment.

Penalty for Material Waste: Plant 14 has another unusual practice wherein workers are required to reimburse the factory for the cost of materials lost whenever the defect rate at the assembly line exceeds 2% level established by the factory. Although infrequently used, its rationale is questionable. ICCA also notes that it has not found such deductions in any of the vendor plants it has audited in China.

A product defect rate may occur for a variety of reasons, e.g., complex product, excessive speed of the assembly line, poor training and inadequate supervision, to name a few. This is essentially a management problem for which workers are being unfairly penalized.

ICCA's Observations and Recommendations

ICCA finds that there is considerable inconsistency and somewhat reluctance in the proper implementation of maternity leave policy among Mattel's vendors, and Plant 14 is no exception. This was also found to be the case during ICCA's first round of vendors audit in years 2002 and 2003.

ICCA would recommend that Mattel's internal audit department make a sustained effort to ensure that this practice is effectively eliminated from company's operations. There can be no justification to allow this situation to persist when the cost of implementation is insignificant given the small number of female workers who reportedly become pregnant while working at this plant. And yet, its social impact could be quite significant given the fact that an overwhelming majority of production workers are female. As such, a violation of this principle has a negative impact on large majority of employees in Mattel's vendor plants.

ICCA would also recommend that Plant 14 consider eliminating the bicycle-parking rental of RMB10 per month. It seems to be an unnecessary burden on the workers.

In regard to the material waste penalty, ICCA recommends that this type of deduction should be immediately rescinded as it is inconsistent with GMP Standards. ICCA would also request Mattel's internal audit department to ensure compliance with this recommendation.

Personnel Records

Personnel records at Plant 14 are quite comprehensive and well-maintained. They are organized along functional lines, e.g., orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and, maternity leave, to name a few. The factory maintains time clocks to record work time of the employees. Workers interviewed by ICCA almost unanimously confirmed that time clocks were used to record employees' time at work.

5.4. Employee Relations, Freedom of Association, Workplace Discipline, Protection from Harassment, and Communications with Management

Workplace Discipline

Plant 14 has a written complaint procedure in place for employees to voice concerns without fear or reprisal. Details of the discipline procedures are communicated to employees during initial orientation as well as through employee handbook, bulletins, and periodic training.

Interviewed workers unanimously confirmed that the factory does not impose any cash fines as disciplinary action. Among the interviewed employees, a very small number indicated being disciplined during the last six months. These cases were primarily related to employee negligence such as smoking inside the facility or being absent without informing line leader. Disciplinary action consisted of a warning letter. An oral warning was given in cases of not using personal safety equipment.

Discrimination and Protection from Harassment

Plant 14's MCR states that all employment policies are applied equally to all employees, regardless of age, religion, sex, ethnicity, or other characteristics. The factory has zero tolerance for discrimination and the same is communicated to the employees during orientation and supervisors at regular meetings.

Interviewed workers were unanimous in their opinion that workers at Plant 14 were not discriminated against in terms of promotion or wage increases based on religion, race, ethnicity, or region of origin. Nearly all (92%) of the interviewed workers indicated that they could file anonymous complaints against any act of discrimination by putting a note in a suggestion box. All interviewed workers

unanimously confirmed that there were no incidents of verbal or physical abuse by line leaders or supervisors. They were also unaware of any cases of sexual harassment reported by employees.

Management – Employee Communications

ICCA's analysis of worker responses to the questions related to the employee-management communication channels revealed that most of the workers (92%) rely on line leaders to provide information regarding their wages, overtime and working conditions, followed by the notice board at the factory (87%), and co-workers (60%). A very large majority of the workers (92%) primarily rely on speaking directly with their line leaders, followed by the use of suggestion box (89%) with regards to complaints pertaining to working or living conditions.

Workers at Plant 14 are in constant touch with their line leaders - nearly 65% of the workers indicated meetings with line leaders either daily or at least once a week and 39% indicated meetings with supervisors at least once a week. The factory's top management also held occasional meetings with workers. About one-third of the interviewed workers recalled attending a meeting with the top management during the 12 months prior to the ICCA audit.

5.5. Employee Services

Food Services

Plant 14 operates a canteen facility, which serves four (4) meals a day. Approximately 20% of the workers and 15% of the staff eat at least one meal in the canteen. The cost per meal is RMB1.5 - 3 or RMB104 per month, if an employee regularly eats all meals at the canteen. Workers buy meal tickets, which they use at their discretion to purchase meals at the factory canteen. Unused tickets are refundable.

The lunch break lasts an average of 1.3 hours, while the waiting-time in the line is approximately 3-10 minutes. Workers were generally satisfied with the variety of food choices available at the factory canteen, although a very small number of interviewed workers expressed dissatisfaction with the quality of food served at the canteen.

Dormitories

Plant 14 has a dormitory facility of about 14,300 sq. m with maximum capacity of 2400 people. Monthly dormitory charges are RMB60 and RMB45 for staff and workers respectively. Maximum capacity per room is 9 people. There is one shower and one toilet per room. Workers are expected to clean their own

dorm rooms and they are provided with cleaning supplies. Factory hires housekeepers for daily cleaning of bathrooms, hallways and other common areas. Factory provides other amenities such as running water, hot water in shower, exhaust fan for air circulation, lockers, etc. Entertainment for the dormitory residents includes internet, television, library and other recreational facilities. Dormitory has 24 hour security guards.

Living in the dormitory is voluntary. About 13% of interviewed workers currently live in the dormitory. These workers unanimously confirmed that dormitory facilities were adequate and comfortable. They were also satisfied with security arrangements.

Medical Facilities and Health Care

There is no onsite clinic at Plant 14. However, first aid kits are available in every workshop and at the dormitory. The closest hospital is about 10 minutes drive from the plant.

Some of Mattel's vendors, without acceptable level of on-site medical clinic, indicated that it was quite difficult, if not impossible, to obtain necessary permits to properly staff an on-site clinic that would meet the minimum requirements of China's labor laws and GMP standards. This is also the position taken by Plant 14. At the same time, many other vendors have been able to overcome these difficulties and have established properly staffed clinics at the factory premises. It should also be noted that all of Mattel's owned and operated plants in China have properly staffed on-site clinics.

ICCA Observations and Recommendations

Plant 14 does not comply with the Mattel GMP's clinic requirements for companies with over 1000 employees. It is also in violation of the Chinese Labor Law. ICCA believes that vendor plants often employing upwards of 7000 – 8000 workers are putting their workers at significant health risk by not establishing a minimal level of medical facility with qualified staff. This is particularly important in view of the fact that a vast majority of the workforce is comprised of younger female workers, which have special needs for timely medical attendance.

ICCA would ask Plant 14 and Mattel's internal audit department to take all necessary action to remedy this situation. ICCA would also like a report from Mattel's audit department by October 31, 2005 as to the actions taken to implement these recommendations.

5.6. Environment, Health and Safety

GMP Standards for Environment, Health and Safety

Mattel's GMP has two sets of EHS Standards. Tier I standards are more stringent and are required of all Mattel owned and operated plants. Tier II standards are designed for application to Mattel's vendors. Both standards cover similar issues. However, in the case of Tier II standards, vendor plants are afforded greater flexibility in compliance especially as they pertain to scheduling and maintenance of equipment, record keeping, and securing proper approval permits from local authorities for disposal of hazardous waste, and waste water treatment, to name a few.

The relative absence of complete records makes it difficult for ICCA's audit team to verify vendor plants' assertions as to full compliance with Mattel's GMP standards. It also places greater burden on the ICCA's audit team to rely on one-time, on-site observation of a plant's operational and maintenance practices, and to draw general conclusions as to the plant's regular practices in these areas.

Mattel has argued that its internal audit department has been working closely with the vendors to improve their maintenance and record keeping practices. Mattel takes the approach of requiring and encouraging continuous involvement.

Work Environment

The 'New Factory' is a modern, well laid out and properly maintained facility except for the area where Injection Molding work is performed. The injection molding machines are housed in older, single floor buildings. These buildings have corrugated steel roofs, which are severely corroded in some places. This portion of the 'New Factory' is not well maintained. It has poor housekeeping and also defective wiring in certain other places. The 'Old Factory' is an old run down facility with poor housekeeping and contains scrap parts, equipments and materials.

Safety Issues

Plant 14 claims to be in 'full compliance' or 'compliance in progress' on the following workplace safety issues: fire prevention, electrical systems, evacuation systems except for evaluation of spill potential; and, cleanup of spills. It also claims to have trained personnel in chemical exposure during evacuation, accident prevention including but not limited to EHS goals, hot work permit system, lockout/tagout permit system, machine guarding, machine servicing and explosion proofing. There is no formal incident reduction system in place.

Among the interviewed workers, there was almost unanimous (94%) confirmation that they had received specific instructions about what to do in case of fire. They also acknowledged that they were provided with safety equipment to prevent accidents.

PPE Usage

A hazard assessment, including documentation, is in progress and not yet completed. Plant 14 claims to be in 'full compliance' with the posting of PPE signs, PPE training where required, and to have completed an evaluation to determine where respirators are required. It also claims to have a 'partial compliance' or 'compliance in progress' program for the proper type and use of respirators, for a written respirator protection procedure, and the training of employees requiring the use of a respirator. Nearly 81% of the interviewed workers mentioned that they are required to use PPE, which consists of goggles, finger guards, masks, hats and earplugs. When asked if they or their colleagues use PPE at the workplace, 79% of the interviewed workers stated that they used PPE either regularly or occasionally.

Hazard Management

Plant 14 claims to be in 'full compliance', 'compliance in progress' or 'partial compliance' with ventilation requirements including LEV measurements, hood enclosures, an air quality program based on minimum allowable air quality and quantity, and an industrial hygiene program including the evaluation of air contaminants. However, the Sampling Frequency is not compliant with the established criteria. The factory also claims to be in 'full compliance', 'compliance in progress' or 'partial compliance' with chemical exposures, extreme temperature exposures and a procedure to conduct an industrial hygiene survey within one month of any new equipment or process purchase or installation.

Asbestos

Plant 14 has had a certified asbestos inspector, but not AIHA accredited, to conduct and document an asbestos survey. The analysis of the collected data was run by an AIHA accredited laboratory or its equivalent. At the present time, it is claimed there is a 'compliance in progress' program for the training of applicable personnel who come in contact with asbestos. The company also claims to be preparing a written operations plan for the demolition, renovation, and maintenance of asbestos containing structures.

Chemicals and Compressed Air

The plant claims to be in 'full compliance' with the GMP Standards with regard to containers, proper storage of containers, access to MSDS,

communications training, and tracking quantities and locations of hazardous materials. Compressed air cylinder storage requirements are in 'full compliance'. Periodic checks for leakage are performed on underground storage tanks. Aboveground tanks and associated pipelines do not appear to be on the checking schedule. Also a definition of 'periodic' is required.

Noise and Temperature

The company claims that it has a hot stress/cold stress program in place but does not state if it is in compliance with the GMP Standards. A hearing conservation program including training of employees is in place and the plant claims to be in 'full compliance' with the GMP Standards.

Approximately one-fifth of the interviewed workers complained that their work area was too noisy. A small number of the interviewed workers mentioned that they were not provided with earplugs.

Environmental Safety, Discharge and Waste Disposal

Plant 14 claims to be in 'full compliance' with installation of grease traps, handling of hazardous waste, training of employees who handle hazardous waste, disposal of medical waste, and dispensing of hazardous materials. It claims to be in 'compliance in progress' for identification, quantification and characterization of hazardous waste, and hazardous and solid waste reduction assessments. The factory does not have a waste water treatment plant but rather contracts with the local government to collect and treat its waste water. Hazardous wastes are collected by a licensed waste collector. Air emission roof and wall penetrations have been identified. However, the company claims that a discharge permit is not available. The factory is in the 'compliance in progress' stage concerning quantification of air emissions.

Walk Through On-Site Inspection

The environmental health, safety and plant maintenance conditions were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of both facilities. ICCA team also conducted a review of the factory's records with regard to EHS requirements as stipulated in the GMP and detailed in the MCR.

The walk-through inspection showed a major portion of the 'New Factory' to be in very good condition while the minor portion of the 'New Factory' and the most of 'Old Factory' were in poor condition. The following discrepancies were noted:

1. *Compliances*: There were no Completion Inspection, Pollutant Discharge registration, and permits for air emissions, wastewater discharges, solid waste generation, and boundary noise emission as required by local laws.
2. *Hazardous waste*: Hazardous wastes and non-hazardous wastes were not completely separated. Rags containing solvent, oil, and paint residues were observed in a non-hazardous waste container, and reportedly collected and disposed of by a non-licensed contractor.
3. *Wastewater*: There is no monitoring for wastewater discharged from the factory to ensure that it meets the required limits of Class 1 of the Wastewater Discharge Limits of Guangdong Province (DB44/62-2001).
4. *Personal protective equipment (PPE)*: It is reported that a job hazard analysis has been conducted to identify the areas requiring PPE usage. However, this did not appear to be effectively implemented. For example masks were worn below the nose of several workers and supervisors in the same work area did not wear masks.
5. *Medical surveillance*: Plant 14 has provided medical examinations to test for occupational diseases as required by legislation. Review of the 2004 report indicated that 109 employees should be checked again. Reportedly, confirmation checking has been conducted for these workers.
6. *Machine guarding*: A machine guard has been installed on a roto-molding machine. However, the guard does not cover the entire running part of the machine.
7. *Emergency preparedness and response*: One emergency door was locked in the old plant's plastic warehouse.
8. *Housekeeping*: Poor in injection molding portion of new facility and in old facility.
9. *Electrical wiring*: Frayed in many locations in addition to jerry rigging in some locations.
10. *Heat stress*: It was reported that the ambient temperature in the injection molding buildings exceeded 37 degrees C (98.6 F) at times. Heat stress is a strong possibility at this temperature.

ICCA's Overall Observations and Recommendations

With regard to the 'New Factory', ICCA is satisfied with the overall level of plant maintenance, upkeep, and quality standards pertaining to industrial hygiene and worker health and safety. ICCA also concludes that the 'Old Factory' fails, in almost every respect, including the minimal standards of worker health and safety, plant operation, and maintenance. Moreover, ICCA's experts have concluded that it is unlikely to be cost effective to make the minimal necessary improvements to make it acceptable for safe operations.

5.7. Good Corporate Citizenship and Community Outreach Programs¹⁷

Plant 14 provides a variety of instructional classes for its workers. These include efficiency and effectiveness workshop, art appreciation, painting and English. During the past several years, over 3000 workers have participated in these classes. In addition, in 2005 the factory has sponsored a Workers' University Program, which would allow achieving a certificate in different types of skill enhancement programs.

Factory management participated in blood drives, visits to elderly homes and orphanages and talent shows in 2005. Workers also take part in city and district cultural activities such as singing contests and art competitions. Hundreds of workers participate in these events, which are funded by the factory and the union.

¹⁷ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of vendors' activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Follow-up Audit - Vendor Plant 14

1. INTRODUCTION

Plant 14 was formally audited on July 11-12, 2005 and a formal report was issued on August 23, 2005. In its report, ICCA made two types of findings:

1. ICCA asked for further clarification and amplification of the information generated by the field audit including one-on-one confidential interviews with a randomly selected group of workers representing the entire workforce at Plant 14.
2. Based on its audit findings, ICCA made certain recommendations for the Plant 14's management so as to improve the factory's compliance with Mattel's GMP.

Subsequently, at ICCA's own initiative, a follow-up audit was conducted on December 19, 2005. The intent of the follow-up audit was:

- (a) to observe the changes made by the plant management in response to ICCA's audit report; and,
- (b) to confirm that these changes have been embedded in the factory's policies and procedures that their continuous implementation would become an integral part of Plant 14's operations.

2. FOLLOW-UP AUDIT FINDINGS

Contract Details and Orientation: The follow-up audit confirmed that Plant 14 has expanded its orientation program to ensure that all newly hired employees are provided with essential details of the employment contract with regard to wages, working hours, probation period, if any, length of contract, and rules of conduct. Furthermore, the factory is creating a video/tape of the entire orientation. This would ensure that all newly hired employees receive the same standardized training.

Maternity Leave: Plant 14 has also changed its maternity leave policy to bring it in line with the PRC labor law as well as Mattel's GMP. Henceforth, all employees on maternity leave will receive their wages on a monthly basis as they become due and not wait until after they have returned to their jobs upon completion of their maternity leave. These payments would be made through

direct deposit in the employees' account and not in cash. This would provide positive proof of such payments to the employees during the period of their maternity leave.

Fines for Wasted Materials: ICCA's audit findings had indicated that the factory "workers were required to reimburse the factory for the cost of materials lost whenever the defect rate at the assembly line exceeded 2% level established by the factory." ICCA's follow-up confirmed that the factory imposed such a fine only on rare occasions where there was evidence of considerable loss of materials. This was also confirmed by the fact that these fines amounted to only RMB205 during the previous 2-year period and involved approximately 8500 workers per year. Furthermore, the plant has a formalized system whereby a worker can appeal the imposition of such a penalty. ICCA is satisfied with the company's explanation and does not call for any additional action.

Medical Facilities and Health Care: ICCA's audit had indicated a lack of on site medical clinic which would meet the basic minimum needs of the workers. It was also suggested that somewhat better on-site clinic and medical facilities should be considered.

Plant 14's management has debated that on-site clinic is not legally required by PRC's labor law. The factory has in-place emergency first-aid room and supplies available to workers. Emergency response plan will also include an evacuation plan to transport severely injured workers to the nearest hospital, which is about 10 minutes drive-time from the factory.

In ICCA's view, this is not a good approach. Notwithstanding, the provisions of the Chinese law, ICCA feels that a plant of 7,000 workers is putting its workers at significant health risk by not establishing a minimal level of medical facility with qualified staff. This is particularly important in view of the fact that a vast majority of the workforce is comprised of younger female workers, which have special needs for timely medical attendance.

ICCA would recommend that Mattel give serious consideration to creating a flexible standard for on-site clinic that takes into account the vendor concerns but also provides for the health care needs of the workers making toys for Mattel. One option might be to ask each factory to create an on-site clinic with at least one qualified nurse on 24/7 basis, an essential supply medication that are particularly needed by young female workers, and one bed per thousand workers with a maximum of 5 beds.

ICCA's discussions with different vendors during the course of its field audits indicated that such an approach would be feasible.

Environment, Health and Safety: Plant 14 comprises of two factory sites. The new factory which houses all operations, with the exception of

injection molding, is a “modern, well laid out and properly maintained facility.” The injection molding department is housed in a number of older buildings which are poor condition and also suffer from poor maintenance.

ICCA’s follow-up audit has confirmed that the old facility has undergone a thorough clean-up job. Furthermore, the factory has instituted policies for improved house-keeping, regular inspection and repair of electric wiring, and proper record keeping of periodic inspection of all phases of the old plant’s maintenance and upkeep.

Following ICCA’s recommendations, Plant 14 has: (a) instituted monthly inspection of above ground piping; (b) revised procedures for waste management storage and disposal; (c) modified machine guards have been installed on roto-molding machines and now cover all moving parts of these machines. Plant 14’s management has strengthened its engineering staff to ensure that all changes are effectively implemented. Finally, the factory is continuing its efforts to obtain the necessary permits from the appropriate local authorities that would verify the factory’s compliance with safe disposal of waste water and also cover other aspects of air and ground water treatment.

In the area of worker health and safety, Plant 14 has undertaken the following changes in response to ICCA’s recommendations. (a) regular monitoring of noise level in all work areas and provide hearing protection where necessary; (b) improved worker training for proper PPE usage, and enhanced monitoring to ensure that all workers use the PPE in all indicated work areas; (c) the factory has installed a mist system to reduce room temperature in the injection molding and other departments. The factory is also considering moving the injection molding department to a new building, which would effectively eliminate this problem.

3. ICCA’s OVERALL OBSERVATIONS OF THE FOLLOW-UP AUDIT

ICCA is satisfied that Plant 14 has substantially responded to all of its recommendations. Plant 14 is to be commended for its efforts to enhance its compliance with Mattel’s GMP standards.

Formal Audit – Vendor Plant 15

1. INTRODUCTION

The following report pertains to the findings of a field audit of Mattel's Vendor Plant15, performed by the International Center for Corporate Accountability (ICCA). The field audit was conducted on December 14, 2005. This is the first formal audit of Plant 15. These audits are conducted to evaluate all aspects of a vendor's operations and to ascertain the extent of the plant's compliance with Mattel's Global Manufacturing Principles (GMP).

The implementation of Mattel's GMP audit is carried out according to detailed standards covering various principles of GMP. These 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, higher Mattel standards are considered applicable.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify a plant'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. The first step in this process is the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. ICCA considers MCR to be a very important document and treats it as the plant management's formal response to various aspects of the plant's operations covered in the GMP.

The field audit is comprised of four parallel activities. The first element of the audit consists of drawing a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant's entire workforce. The second element 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 a comparison of the information contained in the plant's payroll records and personnel files and the information elicited from the workers. The third element of the audit is a thorough examination of the plant's policies and practices with regard to environment, industrial hygiene, and health and safety issues pertaining to the plant's employees. Factory's records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. It also includes a careful inspection of the dormitories, canteen and recreational facilities. The final element of the ICCA

audit is a series of meetings between ICCA's audit team members and various plant managers responsible for different aspects of the plant's operations. These meetings are intended to elicit further explanations of various issues that were noted by the ICCA audit team.

All data and information generated by the field audit is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary audit findings are first provided to Mattel so that the company may respond to them. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses toward corrective action. In the event of disagreement between ICCA and Mattel as to the nature of the 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.

3. PLANT AND RELATED FACILITIES

Plant15 is located in the Shenzhen City, Baoan District of the Peoples Republic of China (PRC). It is a fairly new facility with all buildings built between July 2000 and November 2005. The plant manufactures a variety of toys, with Mattel being one of its major customers.

The plant consists of ten buildings. The manufacturing facilities are comprised of four buildings with a total area of a little over 20,000 sq. m. The remaining buildings include the factory's management and staff offices, storage facilities, and support services. The plant also has two dormitory buildings on site with a capacity for housing 2040 employees.

Primary production processes include injection molding, metal work, decoration, electronic assembly, packing, and quality control operations. Most operations are conducted in a single shift, which operates on a 6-days per week basis. The only exception to this schedule is the injection molding department, which regularly operates 2 or 3 shifts. Sunday work is scheduled primarily during peak periods. The production generally reaches its highest volume during the period of May through October.

4. COMPOSITION OF THE WORKFORCE

At the time of the audit, Plant 15 employed approximately 2400 people. Of these, 93% are direct labor while the remaining 7% are comprised of clerical,

administrative and supervisory staff. About 70% of the employees are female. The entire workforce is over 16 years old, with an average age of 25 years.

A majority of employees (83%) have completed middle school, and another 13% have high school diplomas. The plant experiences a relatively high turnover among workers (115%) and the average length of employment for a typical factory worker is a little over 9 months.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

A majority of the employees at Plant 15 got their job by applying at the factory site. Another 8% of the interviewed workers indicated that they were hired through a recruitment agency. However, no worker had to pay any recruitment fee to get the job.

Upon hiring, workers receive factory orientation, which outlines terms of employment, wages, benefits, deductions, and other rules and regulations that govern employee relations with plant management. Workers are also required to undergo safety training, which covers factory's general safety issues such as fire prevention, evacuation, spill management, etc. A vast majority of the interviewed workers (90%) confirmed attending the orientation.

5.2. Employment Contracts and Effective Probation Periods

Upon employment, each worker receives a signed contract from the plant as required by the labor laws of China and GMP standards. It contains specific details as to an employee's wages and working conditions, benefits and deductions, and rules of conduct. Workers interviewed by ICCA unanimously confirmed that they had received their employment contract. This was also confirmed by ICCA's audit of the factory's payroll and personnel records.

The company policy is to issue 3, 6 and 12 month contracts to its workers. The contract states that if a worker quits without a 30-day notice while his contract is in effect, a pro-rated portion (based on the actual number of days of notice given prior to quitting) of the worker's basic wages are withheld by the factory, while all overtime wages are paid. Conversely, if the factory terminates workers prior to their contract's expiration, workers with less than 6-month contracts receive 15 days of basic wages as severance pay, while those with longer contracts receive 30 days wages as severance pay. The contract also states that if the worker's contract is less than 6 months, then only 15 days notice is needed if the worker wants to resign.

All newly hired workers undergo a probation period. For workers with a six-month contract, the probation period is 15 days; while for workers with a 12-month contract, the probation period is 30 days. Among the interviewed workers, there was a general confirmation about working a probationary period prior to regular employment. However, approximately 10% of the interviewed workers mentioned that their probation period lasted far longer than one month. All audited personnel files showed that workers were paid their legally mandated wages during probation. ICCA's audit of payroll data also indicated that some of the workers with 6-month contracts had a probation period of 30 days, which is at variance with the applicable labor laws and GMP principles.

Another practice at Plant 15, which is at variance with the applicable labor laws regarding worker contracts, is that the management at Plant 15 does not explicitly state the exact amount of wages to be paid to workers during and after they have completed their probationary period. However, the contract states that the worker's wage rate is the minimum wage rate as per local law. The plant management states that their reason for this wording is that in the SZ region, the minimum wages usually raise in mid-year, while most contracts are still valid. In the past, they were challenged by their customers for having outdated wage rates on current contracts.

During the probationary period, an employer is allowed to terminate a worker without the mandatory compensation that is applicable when a contract is voided unilaterally. This means that, for workers with six-month contracts, the factory can terminate a worker during the first 15 days without any recourse on the part of the worker.

5.3. GMP Awareness

Plant 15's MCR states that at the time of orientation, workers are provided with information about Mattel's Global Principles and what it means for the workers in terms of wages, working hours, health and safety, and working conditions.

5.4. Regular and Overtime Working Hours

In 2004, Mattel revised its GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products. Mattel has incorporated a series of provisions regarding work hours policies.¹⁸ The revised GMP requirements are:

¹⁸ It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even longer work days. This approach, however, makes the practice more transparent and eliminates

- Workers will not be scheduled to work more than 60 hours per week during non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week during peak production weeks;
- The number of peak production weeks will not exceed 17 weeks in a year;
- Workers will not be scheduled to work more than 13 consecutive days without a rest day in between.

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, totaling 2440 hours per year. The national law specifically restricts the number of overtime hours worked to 3 per day and 36 hours per month. The law also requires that at least one rest day must be provided each week. Under Mattel's GMP guidelines, the maximum hours that a worker may be required to work is 3174 hours per year compared to PRC national labor law's 2440 hours per year limit.

In conformity with the practice of many employers in the area, Plant 15 has applied for and received a "Consolidated Working Hours Permission" from the local government. This permission allows the factory to schedule monthly overtime hours in excess of the nationally mandated 36 hours during peak production periods while keeping the yearly total permissible overtime hours to a maximum of 432. Plant 15's regular workweek is a six day schedule consisting of 7.25 regular hours during Monday-Friday and 3.75 hours on Saturdays. During peak production period, which lasts around 29 weeks (the actual peak period may range between 24 to 35 weeks, varying by departments) in a year, workers typically work six days of 11-hour days per week, which corresponds to a 66-hour workweek. It is also common for Plant 15's workers to work in excess of 72 hours per week in some departments. The factory management acknowledges the problem and has stated their intentions to improve their performance in this area.

Company records indicate that (i) 343 workers have exceeded the 72-hour workweek limit during the period November 2004 – December 2005, and (ii) several departments have scheduled workweeks in excess of 60 hours for more than 17 weeks. A majority of interviewed workers (92%) reported that they work 11 hours a day. When asked about how often workers are required to work in excess of 10 hours, almost one third of the employees stated that they work 11 hours on a regular basis. In addition, when asked if only individual workers or entire departments work in excess of 10 hours, 78% of the respondents stated that the entire factory works on the 11-hour schedule.

the wide gap that otherwise exists between proclaimed working hours against actual working hours.

ICCA's audit of the workers' payroll records confirms the Plant 15 management's statements in terms of exceeding work hours, which are higher than even the maximum hours allowed under Mattel's latest version of GMP standards. These standards do not allow workweeks in excess of 72 hours and peak period production schedules (workweeks in excess of 60 hours) that last more than 17 weeks in a year. Consequently, Plant 15's scheduling policies result in far more work hours than Mattel's GPM standards. In addition to exceeding Mattel's criteria for overtime hours, Plant 15 has also not secured an 'Extended Work Hours' permission from the local government, which is a common industry practice, and the factory is required to do in order to comply with Mattel's GMP.

Most of the interviewed workers (88%) indicated their satisfaction with the level of overtime work. Workers by a large majority (83%) also confirmed that all overtime work was voluntary and that the permission not to perform overtime work was given any time upon an employee's request.

ICCA's Comments and Concerns

1. The issue of excessive overtime hours remains a vexing concern and potentially a major problem. The recent revision of GMP, which significantly extended the limits on maximum allowable overtime hours, was intended to take into account the concerns of the vendors and find a more realistic and enforceable standard. However, this does not appear to be the case. Rather than complying with the expanded overtime limits, the new standard has instead become the minimum starting point. With few exceptions, most vendors audited by ICCA express strong reluctance to comply with GMP standards with regard to overtime hours.

The current situation is untenable and Mattel needs to find a better answer to this problem. At the same time, we would strongly caution against further relaxation of overtime hours, which in our view is potentially harmful to the workers, and indefensible as part of GMP standards.

2. Plant 15 should also be required to provide details of minimum wages and method of their calculation in the employee's contracts.

5.5. Wages, Benefits and Deductions

The minimum wage rate in Plant 15's local district is RMB580 per month. All workers are paid at least the minimum wage as stipulated by law. All direct labor workers at Plant 15 receive normal pay for their first 40 hours per week, and overtime wages at 1.5 times their regular rates for all overtime hours. During their rest days, typically Sundays, workers are paid double their normal wages

when they work. During national holidays, wages are paid at triple the basic wage rate.

ICCA's audit of workers' payroll records indicates that Plant 15's overtime wage rate calculations do not include the position bonus, which augments the workers' minimum wage rate. As a result, overtime wages are calculated as 150% of the minimum wage, and not the workers' basic wage. Chinese labor law requires that overtime rates to be based on the basic wage rate, which includes any additions to the minimum wage due to seniority, expertise, skill, position allowance, etc. ICCA's audit of October 2005 payroll records from a random sample of the workforce shows that approximately 40% of the workers' monthly earnings are from overtime work. Furthermore, ICCA's analysis of payroll data shows that for the month of October 2005, the take-home pay for 46% of the sampled workers would have increased by 3.7% on the average if the overtime rate calculations were based on their basic wage rates rather than the minimum wage rate.

Payment of Wages

Recent changes in Shenzhen district's local laws require that workers must be paid their wages within seven days of the pay-period end. As commonly observed in other factories in the district, at the time of the ICCA audit, Plant 15's policy is to disburse wages within 20-22 days of pay-period end. Since then, Mattel's internal audit department reported that the payment lag has been reduced to 15 days with little opportunity for further reductions due to the amount of clerical work required to complete necessary computations and to generate pay slips.

Benefits

Plant 15 pays all legally mandated social insurance and related benefits. ICCA auditors have confirmed that all benefits were paid according to the applicable laws and that company practices in this regard have been approved by the local social insurance bureau. The factory pays pension, medical and injury insurance premiums for its workers as a part of their benefit package.

The plant provides 5 days of annual leave to all workers regardless of their length of employment. This was confirmed by ICCA through its audit of the personnel records and payroll data. Although applicable laws mandate longer annual leaves for workers with 5+ and 10+ years of tenure, the management claims that its annual leave policy is in compliance with the regulations since no worker has ever exceeded 3 years of tenure at the plant. Pursuant to the ICCA audit, Mattel's internal audit department has reported that the factory has already modified its policy to include workers with 5+ year's tenure.

Plant 15 has a stated policy of offering 90 days of paid maternity leave benefits. Newly adopted company policies make these benefits available to pregnant workers while on maternity leave.

Deductions for Dormitory Rent and Meal Plans

Employees who wish to live in the company provided dormitories pay a monthly rent of RMB45 for lodging and RMB3 for utilities. This fee is paid in cash on a monthly basis. Workers may also choose to participate in monthly meal plans, which cost RMB150 – 210, depending on the number of meals taken. Meal tickets are purchased by employees for cash payments. Total living expenses for employees, who live in the company dormitories, are within the guidelines established by labor laws and Mattel's GMP.

Mandatory Deductions for Medical Examination and Uniforms

At Plant 15, all newly hired workers are required to undergo a medical examination as a condition of their being hired. All workers are required to pay a fee, which ranges between RMB24 (at the factory clinic) and RMB60 (at the local hospital). About 25% of the interviewed workers also stated that female workers were required to take pregnancy test upon hiring. Plant management claims that there is no requirement to have pregnancy test as it is not in the medical test plan or the report.

In addition, approximately 17% of the workers reported to be paying for their uniforms. The size of the deduction varied from RMB20 to RMB70. The factory management responded that they issue 2 sets of uniforms (short sleeves), free of charge. They require the workers to put on the uniform during work, and it is also acceptable to put this uniform on top of thick cloths during winter. If the worker loses the uniform, the cost will be RMB20 to get a replacement while it is free of charge to get a replacement if it worn out normally. The factory also provides options to workers to buy long-sleeve uniforms for RMB30, but it is NOT a factory requirement to wear them.

Personnel Records

Plant 15 maintains personnel records by function. These include: orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and maternity leave.

ICCA's Comments and Concerns

1. We believe that Plant 15 is wrong in excluding any work-related bonuses, e.g., night shifts, in calculating the basic wages on which overtime rates are calculated. These should be corrected immediately to ensure all workers earn accurate wages for overtime work.

2. In the vendor group audited by ICCA, there are different practices with regard to initial medical examination. A number of vendors either provide free medical examination at the factory site, or require that workers produce a doctor's certificate for having undergone a medical check-up at a location of their own choice. ICCA feels that since medical examination is a condition of employment, it should be the vendor's responsibility to cover its cost.
3. The practice of requiring female workers to undergo a pregnancy test is in violation of the Chinese labor laws and also GMP standards. It would seem that despite ICCA's frequent audit reports and Mattel's own efforts, some vendors persist in such practices, which also include resisting, in various forms, toward paying for legally required maternity leave. We would strongly urge that Mattel create a more effective monitoring system to eliminate these practices.
4. ICCA recommends that Mattel's internal audit department work with the plant management and confirm that uniform charges only apply to lost uniforms.

5.6. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Management – Employee Communications

Factory policies and procedures are communicated to workers through postings on the notice board. This information is also included in employees' manuals received upon hiring. Suggestion boxes are located in factory canteen and dormitories. In addition, the factory organizes semi-annual meetings between management and employees to hear workers' concerns and suggestions.

When asked about existing communication channels, interviewed workers stated that suggestion boxes are the primary means of communication with the management. Two-third of the workers also stated that they meet with line leaders at least once a week.

Freedom of Association

Plant 15's Management Compliance Report states that the factory does not forbid or discourage workers from associating. Workers are allowed to join any party or association, which is legal, including communist party, youth league and workers union.

Workplace Discipline

Plant 15 has a formalized system of workplace discipline. It is progressive starting with verbal and written warnings, to suspension without pay and eventual dismissal. Work rules and regulations are provided to workers in written form as well as during initial employment orientation. Rules and regulations also outline the process by which employees may file grievances.

Plant 15's MCR states that the plant imposes fines for safety violations only. Total fines imposed are typically RMB2000 per year for the factory, and the proceeds are put into a community chest to support worker-related social functions. According to the management of Plant 15, nine people were subjected to cash fines for violating safety rules.

In the sample of workers interviewed by ICCA, 75% were familiar with the company's disciplinary policies. Almost 20% of the interviewed workers stated that they were subjected to disciplinary action. In all these cases, it was the first violation where workers received verbal or written warnings. When asked about the possibility to file complaints for unfair treatment, two-third of the interviewed workers responded that they knew how to file grievances. Over 90% also stated that they would not feel threatened to file such a complaint.

Protection from Harassment and Discrimination

Plant 15 has a written policy in regard to workplace harassment. This policy is included in employee manual as well as posted on the company's notice boards. ICCA's confidential, one-on-one interviews with employees unanimously confirmed that workers did not experience any verbal or physical abuse, or sexual harassment from their fellow workers, line supervisors, or other staff.

Workers interviewed by ICCA, almost unanimously (97%) confirmed that there was no discrimination at Plant 15 toward salary increases, promotions, or other incentives and benefits, based on religion, race, ethnicity or region of origin. However, when asked about possible actions that workers may take in case of discrimination, nearly 42% of the interviewed workers stated that they did not know what they would be required to do in such situations.

5.7. Employee Services

Medical Facilities and Health Care

Plant 15 has a small, one-bed clinic on site, staffed with a registered doctor and a nurse. The clinic provides all services and medicines offered to the employees at cost. In the sample of workers interviewed by ICCA, a small number (11%) stated that they had minor injuries at work. All of the workers

confirmed that they were given immediate medical help and that no money was deducted from their pay stubs for time lost due to the incident.

Food Services

At Plant 15, canteen and food services are provided by a subcontractor. The services of the canteen sub-contractor are monitored by the factory's Administration Department. The canteen serves three meals a day, which cost between RMB1.5 – 3.0 depending on the type of the meal. Workers are not required to purchase their meals at the canteen and are free to take their meals from any source of their choice, a fact that was generally confirmed by the interviewed workers. Nevertheless, a vast majority of the workers ate at the factory's canteen. There was also a large measure of satisfaction expressed by the workers as to the quality and quantity of food available at the cafeteria.

Dormitories

Plant 15 has two dormitory buildings with the total area of 8,300 square meters and maximum capacity of 2040 people. The number of occupants per room is 12 people for a room of 27.7 square meters. There is at least one shower stall per 12 occupants. Each worker has a personal locker and a reading light. Dormitories are cleaned on a regular basis. Smoking is permitted in the dormitory rooms. Cooking is allowed only if the room is safely equipped.

Approximately 50% of the interviewed workers stated that they lived in the dormitories. The remaining workers made their own arrangements, usually sharing an apartment in the nearby area. All of the workers stated that they found their dormitories satisfactory and a secure place to live.

Access to Toilet Facilities and Drinking Water

Plant 15 has a policy which requires that any worker wishing to leave his/her work station must get a "leaving license or permit" from the line leader. The factory policy is to allow 4 permits for 50 workers.

ICCA's Comments and Concerns

The situation with regard to easy access to toilet facilities and drinking water at Plant 15 is quite similar to the one found by ICCA in many other vendor facilities. It would seem that this issue has not received the attention it deserves. ICCA recommends that Mattel's internal audit department – in consultation with vendors – review these practices and create and incorporate a common standard for all plants, which is fair to the workers and practical for the plant.

5.8. Environment, Health and Safety

Overall Plant 15 is a good and well planned facility. The areas dedicated to higher technology, primarily electronics, are excellent. The only exception to the above observation is the machine shop located in Building #5, which is in poor condition. It is neither clean nor well maintained and calls for updating.

Workplace Safety Issues and PPE Usage

The factory claims to be in full compliance with the MCR requirements for a written fire prevention plan; trained personnel in the use of fire extinguishers and hoses; fire prevention systems inspection and documentation; electrical systems inspection and documentation - partial compliance for all electrical power systems above 415 volts; and, easily accessible and adequately installed fire extinguishers. The plant also has a complete written emergency evacuation plan and system; accident prevention plans complete with EHS regulations and an EHS committee; hot work permit system; lockout/tagout program; machine guarding; and, explosion proofing.

Plant 15 claims to be in full compliance with requirements for hazard assessment; posting of PPE signs; PPE training; evaluation to determine where respirators are necessary. The plant provides training to the employees requiring the use of a respirator and maintains paper training records. The factory also has in place a hearing conservation program.

Hazard Management

The company claims to be in full compliance or partial compliance with the MCR requirements for local exhaust annual measurements (LEV); a written industrial hygiene program; asbestos training for affected employees; written asbestos operation and maintenance plan; proper labeling of hazardous chemical containers; proper storing of hazardous materials; and, immediate access to MSDS for all hazardous materials. There is also in place a hazard communications training for affected employees; proper storing of compressed gas cylinders; proper maintenance of underground and aboveground storage tanks with inspections performed weekly; and, temperature monitoring in all non-air conditioned or unheated spaces.

Plant 15 has an Indoor Air Quality Program, which differs somewhat from the MCR requirements. It consists of 3M test badges carried by employees where VOC is frequently used, e.g. tempo pad printing, glue applications, etc. The results claimed a pass in all tested locations. An asbestos survey was conducted on six of the ten buildings in October 2003. The other four buildings that have been completed, or are still under construction, will be surveyed when all construction is completed.

Environmental Safety, Discharge, and Waste Disposal

The company claims to be in full compliance with the MCR requirements for a government approved system of waste water treatment and disposal of hazardous waste materials. The factory has in place a training program for the wastewater plant operators as well as training in the proper disposal of hazardous and medical-waste materials. The company has also identified and regularly maintained all roof and wall penetrations associated with air emissions.

Furthermore, Plant 15's management claims that it has the required permits and government approval of all wastewater discharge points. The factory's waste water discharges (production and non-production) have been monitored by the authorized section of the local governments and the factory is awaiting a report from the local authorities. All sludge removal from the domestic wastewater treatment system is carried out by an approved licensed contractor. The company claims that the level of sludge is monitored semimonthly to determine if sludge removal is necessary. The removal of the sludge, if necessary, is then arranged. The removal information is documented.

The factory has three types of air emissions, i.e., tempo printing, plastics defect grinding and soldering. These have been tested for and qualified to meet the standards set by the authorized section of the government. The coating spray booths are under construction and will be tested when construction is completed. The monitored results of diesel emissions in the kitchen met the government's 2004 standard, but have failed compliance in 2005. The factory is building an entirely new kitchen, which should be completed by July 2006, and would meet government requirements. An air monitoring test will be redone after the building is completed.

Personnel Protection Equipment (PPE)

ICCA's observations of the PPE usage during the plant walk-through indicated the use of PPE to be effective. This was also confirmed by the worker interviews. There were, however, some areas where additional action is recommended:

- a) lack of hard toed shoes in the machine and mold storage shops;
- b) non-use of ear protection plugs in Building #5;
- c) non-use of protective goggles in the raw material mixing work shops; and,
- d) there are better flash removal tools available from a safety point of view than are currently being used.

Most of the workers at Plant 15 use Personal Protective Equipment either on a regular basis (72%) or occasionally (17%). All required PPE is provided by the factory free-of-charge to the workers and replaced when necessary.

Interviewed workers also confirmed that the factory's line leaders regularly inspected the assembly floor to make sure that workers use PPE appropriately.

ICCA's Comments and Concerns

The environmental health, safety, and maintenance of the plant were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of the entire facility and an in-depth review of factory records with respect to EHS requirements as stipulated in the GMP and detailed in the MCR. Overall, ICCA confirms that Plant 15 has a good track record as to the condition of physical plant, and maintenance of plant facilities with regard to health and safety standards and employee welfare.

There are, however, certain areas that require further action. For example, the company does not have a pollution discharge permit. A pollution discharge registration form has not been submitted to the local Environmental Protection Board (EPB). Instead the factory has carried out inspection for waste water and air discharge and the results meet government standards.

An air emissions survey was conducted by Shenzhen Baoan Branch Environmental Station on October 12, 2005. Only the concentration of lead was tested for and results indicated that it was within the designated environmental standard. Compliance or non-compliance of other air pollutants listed in the Environmental Impact Assessment Report have been reported.

Boundary noise records indicate that tests were performed on September 14, 2005 and October 21, 2005. According to these records, the boundary noise exceeded the designated boundary noise standard. An indoor noise survey was conducted on October 14, 2005. The records indicate that indoor noise level exceeded the legal requirement specified in *Sanitation Standard for Industrial Enterprise Design (GBZ1-222)*. Plant management states that the factory is located next to a major highway whose inspected background noise already exceeds the limit.

Since the time of the ICCA audit, Mattel's internal audit department confirms that the following audit findings have been remedied:

- The factory should provide additional warning signs and labels in hazardous chemical storage and hazardous waste storage areas. Designated discharge graphic signs have not been posted for wastewater and air emission discharge points.
- MSDS was not available at the hazardous chemical area.
- No secondary containment was provided where lubricant oil drums and cutting oil containers are stored on the first floor of Building #2.
- Some ventilation set-ups for soldering appear to be inadequate to provide sufficient ventilation. Additional ventilation should be provided

- One new wet scrubbing system is being installed. It should contain the redesign required.
- Evacuation signs need upgrading. They do not appear to be sufficient to identify the escape routes in the buildings.
- The grinders did not have proper eye-guards
- Water scrubbers located on the roof need activated carbon holder redesign.

The machine shop in Building #2 is an eyesore in an otherwise very good and well maintained factory. It indicates poor housekeeping and poor maintenance of both electrical and mechanical components. Cutting oil was found on the shop floor. The machines themselves, while still functional, require additional upkeep to prevent further deterioration.

5.9. Good Corporate Citizenship and Community Outreach Programs¹⁹

As a part of Plant 15's general attempt to facilitate employee communication and community involvement, the factory organizes annual and semi-annual festivals and get-togethers. In addition, the plant's employees participate in the annual local basketball competition. Plant 15 does not offer any additional skill enhancement programs to the factory employees.

¹⁹ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of Plant 15's activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Formal Audit – Vendor Plant 16

1. INTRODUCTION

The following report pertains to the findings of a field audit of Mattel's Vendor Plant16, performed by the International Center for Corporate Accountability (ICCA). The field audit was conducted on December 13, 2005. This is the first formal audit of Plant 16. These audits are conducted to evaluate all aspects of a vendor's operations and to ascertain the extent of the plant's compliance with Mattel's Global Manufacturing Principles (GMP).

The implementation of Mattel's GMP audit is carried out according to detailed standards covering various principles of GMP. These 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, higher Mattel standards are considered applicable.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify a plant'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. The first step in this process is the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. ICCA considers MCR to be a very important document and treats it as the plant management's formal response to various aspects of the plant's operations covered in the GMP.

The field audit is comprised of four parallel activities. The first element of the audit consists of drawing a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant's entire workforce. The second element 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 a comparison of the information contained in the plant's payroll records and personnel files and the information elicited from the workers. The third element of the audit is a thorough examination of the plant's policies and practices with regard to environment, industrial hygiene, and health and safety issues pertaining to the plant's employees. Factory records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. It also includes a careful inspection of the dormitories, canteen and recreational facilities. The final element of the ICCA audit is a series of meetings between ICCA's audit team members and various plant managers responsible for different aspects of the plant's operations. These

meetings are intended to elicit further explanation of various issues that were noted by the ICCA audit team.

All data and information generated by the field audit is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary audit findings are first provided to Mattel so that the company may respond to them. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses toward corrective action. In the event of disagreement between ICCA and Mattel as to the nature of the 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.

3. PLANT AND RELATED FACILITIES

Plant 16 is located in Zhongshan, Guangdong province of the Peoples Republic of China (PRC). The manufacturing facility is totally dedicated to the production of plastic, mechanical and electronic toys. All buildings containing production facilities as well as dormitories were built in 1994. The production and warehouse buildings cover a space of approximately 50,000 square meters, and the dormitory facilities cover an area of over 31,000 sq. meters.

Primary production processes include injection molding, tempo printing, spray-painting, and assembly/packing operations. Most operations are conducted in one shift, Monday through Saturday, except injection molding department where regular operations are carried out daily in two shifts.

4. COMPOSITION OF THE WORKFORCE

At the time of the audit, Plant 16 employed approximately 4600 people. The workforce is comprised of direct labor (97%) and administrative/managerial staff (3%). Almost 95% of the direct labor workforce is female. The factory does not employ anyone under 16 years old, and the average age of workers is 28 years. A majority of the workers (85%) have seven years of schooling (primary school level), while another 10% have completed middle school and 5% have high school degrees. Plant 16 experiences a very high turnover of almost 93%. The average length of employment at the factory is approximately 20 months.

5. AUDIT FINDINGS

5.1 Recruitment, Orientation and Initial Training

Plant 16 does not use recruitment agencies to hire workers. Most of the workers apply for a job directly at the factory or hear about openings from advertisements in the local area. Almost all of the interviewed workers confirmed that they got their jobs either by applying at the factory site or through a reference from a friend.

Each worker, upon employment, undergoes an orientation session. A majority of the workers interviewed by ICCA (61%) stated that they had attended the company's orientation at the time of hiring. The orientation included, among others, a brief description of factory facilities, policies with regard to wages and working hours, and rules and regulations for proper conduct. The orientation lasted between 1.5 – 4.0 hours.

5.2. Employment Contracts and Effective Probation Periods

Upon employment, each worker signs a contract with the plant as required by the labor laws of China and GMP standards. The contract covers, among others, period of employment, working hours, wages, and benefits and other conditions of employment. The company policy is to issue 24-month contracts to its workers. ICCA's audit confirmed that all workers had received a contract within one month of their being hired. ICCA's audit of payroll records and personnel files confirmed that signed copies of the workers' employment contracts were placed in their respective files.

Plant 16 maintains personnel records by function. These include: orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and maternity leave.

Probation Period

Plant 16's Management Compliance Report states that no probation is required of newly hired workers as of April 2004. A majority of the interviewed workers (76%) confirmed that they were not required to work on probation.

5.3. GMP Awareness

Plant 16's MCR states that at the time of orientation, workers are provided with information about Mattel's Global Principles and what it means for the workers in terms of wages, working hours, health and safety, and working conditions.

5. 4. Regular and Overtime Working Hours

In 2004, Mattel revised its GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products. Mattel has incorporated a series of provisions regarding work hours policies.²⁰ The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week during non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week during peak production weeks;
- The number of peak production weeks will not exceed 17 weeks in a year;
- Workers will not be scheduled to work more that 13 consecutive days without a rest day in between.

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, totaling 2440 hours per year. The national law specifically restricts the number of overtime hours worked to 3 per day and 36 hours per month. The law also requires that at least one rest day must be provided each week. Under Mattel's GMP guidelines, the maximum hours that a worker may be required to work is 3174 hours per year, compared to 2440 hours per year limit provided in the labor law.

As is practice with many employers in the area, Plant 16 has applied for and received a "Consolidated Working Hours Permission" from the local government. This permission allows the factory to schedule monthly overtime hours in excess of the nationally mandated 36 during peak production periods, while preserving the yearly total permissible overtime hours to a maximum of 432.

A typical workweek at Plant 16 comprises of 7.5 hours per day, six-day schedule, consisting of 45 hours per week. During peak periods, which last from June to October, workers work six 10-hour days, Monday-Saturday for a total of 60 hours per week. It is common for Plant 16's workers to work in excess of 60 hours per week. However, factory management monitors each worker's work history and starts generating weekly reports once a worker's 60+ hour

²⁰ It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even longer work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

workweeks exceed 11 during the year. These reports, as well as ICCA's audit of a randomly selected sample of workers' payroll records show that workers' yearly work histories comply with Mattel's GMP standards regarding work hours.

ICCA's audit of workers' payroll records indicate that night-shift injection molding operators, who comprise about 10% of the total workforce, are not paid for one-half hour of their daily work. Plant 16's standard policy is to calculate night shift work hours assuming a one-hour meal break, while in practice, workers take only a half-hour break, and work during the remainder of the lunch break hour. In addition to the obvious pay-related consequences, which are discussed below, this practice distorts company records that monitor weekly work hours for the workers. It is quite likely that, for at least 5 months out of a year, all 60-hour workweeks are in fact 63-hour work weeks, which are not reported accurately. Given this distortion, ICCA team is unable to ascertain whether these workers' work hours are in conformance with Mattel guidelines.

Interviewed workers at Plant 16 indicated that they worked between 6.6 to 10.5 hours of regular time (average response: 6.87 hours) and between 0 and 9 hours of overtime (average: 2.28 hours). Interviewed workers, by a large majority (88%) stated that they had never worked more than 10 hours per day whereas 7% stated that they had worked between 10.5 – 11.0 hours in a day. Interviewed workers were almost unanimous (98%) in stating that they did not work more than 13 consecutive days without a rest day in between.

When asked whether they were happy with their overtime schedule, 90% responded affirmatively. As to the adequacy of overtime hours, about 40% of the interviewed workers expressed a desire for more overtime hours, while another 27% of workers preferred fewer hours of overtime.

5. 5. Wages, Bonuses and Deductions

Minimum and Overtime Wages

The minimum wage rate in Plant 16's local district is RMB574 per month. ICCA's audit of payroll data confirms that all workers are paid at least the minimum wage as stipulated by law. The audit also confirms that all direct labor workers receive normal pay (minimum wage) for their first 40 hours of work per week. Overtime wages are 1.5 times regular wage rates. During their rest days, typically Sundays, workers are paid double wages when they work. During national holidays, wages are paid at triple the basic wage rate.

Payment of Wages

As mentioned above, night-shift injection molding department workers are not paid wages for 30 minutes of work per day, because the plant management

considers the workers to be on their meal break. As of matter of fact, these workers actually work for part of that meal break – a fact confirmed by the plant management. As the injection department schedules overtime every workday of the year, correct accounting of these workers' weekly work hours correspond to 4.5 hours (0.5 hrs/day * 6 days/week * 1.5 regular rate) of earned basic wages not paid to workers each week. In relative terms, these calculations represent non-payment of 5-8% of earned wages. The actual loss of wages would depend on the weekly work schedules for different workers in the injection molding department through the entire year.

Benefits

Plant 16 pays all legally mandated social insurance and related benefits. ICCA auditors have confirmed that all benefits were paid according to the applicable laws, and that company practices have been approved by the local social insurance bureau. The plant policy provides 5 days of annual leave after one full year of employment. After 5+ and 10+ years of tenure, annual leave days increase to 7 and 10 respectively. Two- third of the interviewed workers at Plant 16 confirmed that they were entitled to 10 paid national holidays. At the same time, about one quarter of the interviewed workers was not familiar with the national holiday policy.

The plant also has a stated policy of offering 90 days of paid maternity leave benefits. The factory policy makes these benefits available to pregnant workers while on maternity leave. Although most of the interviewed workers (83%) were aware of the maternity leave policy, they couldn't specify the actual number of days of the maternity leave.

Access to Toilet Facilities and Drinking Water

Plant 16 has a policy which requires that any worker wishing to leave his/her work station must get a "leaving license or permit" from the line leader. However, the number of permits was quite limited, which meant that workers often had to wait for an uncomfortable length of time before using the toilet facilities or getting drinking water.

Deductions for Insurance, Dormitory Rent and Meal Plans

Employees who wish to live in the company provided dormitories pay RMB60 per month for lodging. Meals at the company canteen cost RMB5.5 per day for 2 meals a day. Total monthly living expenses of approximately RMB225 for employees who live in company dormitories are within the guidelines established by labor laws and Mattel's GMP. Dormitory and meal charges are deducted from the employees' monthly pay. Dormitory living and meals in the canteen are completely voluntary. Workers are free to make their own living arrangements and also buy their meals from other outlets. Other deductions

include voluntary social insurance deductions of RMB48 per month. These are paid to the government on behalf of the workers.

Mandatory Deductions for Medical Examination and Security Deposits

At Plant 16, all newly hired workers are required to undergo a medical examination as a condition of their being hired. All workers are required to pay a fee of RMB38 for the medical check-up or provide documentation from health authorities.

A number of interviewed workers (10%) stated that they had to leave a deposit to receive factory ID (RMB30 on average). Plant management has explained that this subset of workers was employed more than 3 years ago, and that the factory no longer charges for badges as of 1/1/2002.

ICCA's Comments and Concerns

3. Overtime hours: The issue of excessive overtime hours remains a vexing concern and potentially a major problem. The recent revision of GMP, which significantly extended the limits on maximum allowable overtime hours, was intended to take into account the concerns of the vendors and find a more realistic and enforceable standard. However, this does not appear to be the case. Rather than complying with the expanded overtime limits, the new standard has instead become the minimum starting point. With few exceptions, most vendors audited by ICCA express strong reluctance to comply with GMP standards. The current situation is untenable and Mattel needs to find a better answer to this problem. At the same time, we would strongly caution against further relaxation of overtime hours, which in our view is potentially harmful to the workers, and indefensible as part of GMP standards.
4. Lunch break: We believe Plant 16 is wrong in excluding one-half hour of work-time by the employees working the night shift in the injection molding department. It has been effectively demonstrated – and Plant 16's management agrees with this observation – that although the lunch time is scheduled for one hour, at least one-half of this time is spent by employees performing regular operations at their workstations. ICCA recommends:
 - a. This practice should be immediately corrected by indicating the lunch time to be of 30-minute duration and adding the remaining 30 minutes in the employees' time at work.
 - b. All payroll records should be corrected to reflect this situation.
 - c. Plant 16 should review its payroll records for the year 2005, and in the case of workers currently employed at the factory, arrangements should be made to pay these workers their

appropriate wages for the 30-minute work performed during the night shift through the entire year of 2005

5. Cost of Medical Services: In the vendor group audited by ICCA, there are different practices with regard to initial medical examination. A number of vendors either provide medical examination at the factory site or require that workers produce a doctor's certificate for having undergone a medical check-up at a location of their own choice. ICCA feels that since medical examination is a pre-condition of employment, it should be the employers' responsibility to cover this cost
6. Pregnancy Tests Required of Female Workers: In the group of workers interviewed by ICCA, about 10% of the workers indicated that pregnancy test is given to female workers upon hiring. The practice of requiring female workers to undergo a pregnancy test is in violation of the Chinese labor laws and also GMP standards. It would seem that despite ICCA's frequent audit reports and Mattel's own efforts, some vendors persist in such practices, which also include resisting, in various forms, toward paying for legally required maternity leave. We would strongly urge that Mattel create a more effective system of monitoring to eliminate these practices.
7. Access to Toilet Facilities and Drinking Water: The situation with regard to easy access to toilet facilities and drinking water at Plant 16 is quite similar to the one found by ICCA in any other vendor facilities. It would seem that this issue has not received the attention it deserves. ICCA recommends that Mattel's internal audit department – in consultation with vendors – review these practices and create and incorporate a common standard for all plants which is fair to the workers and practical for the plant.

5. 6. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Management – Employee Communications

Factory policies and procedures are communicated to workers through postings on the notice board and through periodic training sessions. When asked about the most trusted communication channel for workers to address their concerns and questions regarding wages, overtime, working and living conditions, transportation and other issues, most of the interviewed workers named direct communication with the line leader (83%), notice board (78%), dormitory board (68%), co-worker (54%), HRM (20%) and factory manager (20%). Communications between the employees and different levels of management regarding suggestions or complains about work and living conditions are made through suggestion box (88%), line leader (63%), written

letter to management (29%), group meetings (12%), and speak to HRM staff (12%).

Workplace Discipline

Plant 16 has a formalized system of workplace discipline. Work rules and regulations are provided to workers in written form as well as during initial employment orientation. The primary means of disciplinary action are verbal and written warnings. The factory does not impose any financial penalty for rules violation. Rules and regulations also outline the process by which employees may file grievances.

Workers interviewed by ICCA indicated that disciplinary procedures were lightly used. None of the interviewed workers reported being disciplined during the 6-month period prior to ICCA's audit visit. Workers also showed a high level of awareness of disciplinary policies. Two-third of the interviewed workers confirmed that they were knowledgeable about the company's disciplinary policies and procedures; 54% expressed familiarity with the procedures for filing grievances in cases where they felt being disciplined unfairly, and 90% indicated that they did not feel threatened to file a complaint.

Protection from Harassment and Discrimination

Plant 16 prohibits any physical or verbal abuse or any form of physical and psychological intimidation. The company follows local regulations and international conventions preventing workplace harassment. The factory conducts regular awareness and training programs. All interviewed workers at Plant 16 unanimously confirmed that they did not experience any verbal or physical abuse, or sexual harassment from their fellow workers, line supervisors, or other staff personnel.

Workers interviewed by ICCA were also unanimous in their belief that there was no discrimination at Plant 16 in terms of salary increases, promotions, or other incentives and benefits, based on religion, race, ethnicity or region of origin. The factory has several locations with suggestion boxes for employees to make anonymous complaints or provide suggestions.

ICCA's Comments and Concerns

ICCA commends the management of Plant 16 for installing a first-rate system of human resource management. Plant 16 has a good track record of implementing policies and programs with regard to employee communications, workplace discipline, and protection from harassment and discrimination. This is reflected in overwhelming confirmation on the part of the interviewed employees.

5. 7. Employee Services

Medical Facilities and Health Care

Plant 16's MCR indicates that the factory houses a clinic with four beds, and staffed with three doctors. Company does not charge patients for medical services provided, however, that the patients are responsible to cover the cost of medicine they get from the clinic involving non-job related illness.

An examination of the clinic and related facilities during ICCA's audit revealed that the medical clinic was very clean and orderly and that there was a medical doctor in attendance. The clinic consisted of one bed and several stretcher type folding cots, which could be used to provide extra beds when needed. The medicine chests appeared to be well stocked with medicines and first aid needs.

Food Services

The kitchen and canteen services at the Plant 16 are operated by a subcontractor. The factory serves two meals per day. Most of the factory employees (over 90%) take two meals each day. Workers can choose from three types of dishes - both spicy and non-spicy. The cost of canteen food is RMB5.5 per day. Although the canteen and kitchen are cleaned by the vendor, workers are responsible for cleaning their own utensils.

The length of the lunch break at Plant 16 averages 90 minutes. The meals are served fast and it usually does not take workers more than 5 minutes to get their food. Workers were unanimous in their satisfaction with regard to the quantity and quality of food served in the canteen. The eating areas and kitchen, as found by ICCA, were clean and well-maintained.

Dormitories

Plant 16 operates three dormitory buildings. Dormitories are provided for both the administrative staff and workers. Dormitories #1 and 2 are dedicated to the housing of staff and management employees. Dormitory #3 houses all other employees. The floor area of Dormitory # 3 is approximately 18,000 sq. meters. Each room is occupied by 15 people with an average space of 2.05 sq. meters per occupant. All workers have their own beds and lockers. Each room has running water, shower and adequate toilet facilities. However, there is no hot water available in the shower rooms. Some workers mentioned that hot water was available only on the first floor making it difficult for the workers living on other floors to get hot water. Plant management has stated their intended plans to install hot water access in each floor in 2006. ICCA requests a follow-up report from Mattel's internal audit department regarding the completion of this project.

Workers were almost unanimous (95%) in their expression that the dormitories were safe, clean and pleasant.

5. 8. Environment, Health and Safety

Plant 16 is in a fairly good condition considering that these structures were built eleven years ago. ICCA's walk-through of the plant buildings indicated that maintenance and house-keeping had shown considerable improvement since ICCA's initial informal consultation visit a few years ago. The plant is clean and well organized. The plant's management has been paying greater attention to the environmental health and safety of their employees. There is, however, a need for improved waste disposal measures. It is possible that there is ground and water contamination from previous plant usage

The environmental health, safety and maintenance of the plant were confirmed by the ICCA professional engineering team through an extensive walk-through of the entire facility and an in-depth examination of the factory records with regard to EHS requirements as stipulated in the GMP and detailed in the MCR.

The company does not have an Environmental Impact Assessment (ESA) report and approval from the local Environmental Protection Bureau (EPB). The Plant has received a temporary discharge permit valid from March 4, 2005 to March 3, 2006 from the local EPB. A required pollution discharge registration form has also been obtained by the factory.

One air emissions monitoring test has been conducted by EMS on 24 November, 2005 for the paint-spray workshop. The findings on emissions and concentrations of Benzene, Toluene, and Xylene were inconclusive.

Air emissions for boilers and the canteen were collected on November 29, 2005. The results of these tests had not been received as of the time of the audit. Domestic water disposal monitoring had been performed at Plant 16. The plant pays a discharge fee to the municipality instead.

Overall maintenance could be improved especially in the electrical and plumbing and piping areas:

- a) Internal and external wiring needs closer surveillance. In several locations, such as in regrinding, the wiring is in poor condition and is frayed.
- b) Plumbing is in poor to fair condition in the entire plant. Attention should be paid to color-coding, missing valve handles and wheels, corrosion, and leakages.

There is also room for improvement in the area of hazardous materials management. For example:

- a) there is no secondary containment, or warning signs, and labels in the designated waste storage area;
- b) there is no secondary containment for the lubrication oil drum located in the diesel generator room;
- c) the diesel oil storage area is in poor condition;
- d) ICCA noted a possibility of soil and groundwater contamination at the hazardous waste storage area, diesel generator room, and oil storage tanks onsite despite secondary containment.

An asbestos survey was conducted on January 16, 2002 and a Prevention and Maintenance Procedure was established. The Procedure calls for an inspection every three months by a certified person and the repair and/or replacement of damaged asbestos, also by a certified person. According to the inspection records onsite, however, the inspectors conducting repair work were not properly certified. The factory management has indicated their plans to revise the procedure and all to have all repair work be conducted by certified vendors.

There maybe a need for additional ventilation in the spay paint areas and in the area where the open tray tempo printing machines are located.

The lockout/tag-out system is in place. However, the electrical box containing the shut-off relays is dirty and has not been properly maintained. Pressure gauges and electrical meters should be regularly checked. Oil cooled high voltage transformer area needs improved ingress and egress. Large safety signs should be posted.

Certain fire safety hazards were discovered during ICCA's walk-through audit. In particular:

- a) in several areas, fire hoses need inspection and/or replacement;
- b) some hose enclosures require cleaning and remarking; and,
- c) one fire aisle was blocked on an assembly floor.

Workplace Safety Issues and PPE Usage

The plant is stated to be in compliance with the safety requirements for trained personnel in the use of fire extinguishers and hoses; fire prevention systems inspection and documentation; easily accessible and adequately installed fire extinguishers; electrical systems inspection and documentation. The plant has a fire alarm system; complete written emergency evacuation plans and systems; and, accident prevention plans complete with EHS regulations and EHS committee. The factory maintains hot work permit system, lockout/tagout program, machine guarding and explosion proofing.

Plant 16 claims to be in full compliance with the GMP requirements for hazard assessment; posting of PPE signs; PPE training; proper type and use of respirators; a written respirator protection procedure; the training of employees requiring the use of a respirator. A vast majority of the interviewed workers stated that they were required to use the PPE (95%), and did so on a regular basis (93%). When PPE is not used by workers, line leaders gave verbal or even written warning to ensure proper use.

Plant 16 provides information about environment health and safety (EHS) to all workers. Over 95% of the interviewed workers indicated that they were given EHS training. The topics covered were safety rules (95% of the workers), use of PPE (90%), emergency evacuation training drills (100%), first aid personnel access (76%), how to report an emergency or accident (88%), and, training in workplace hazards (83%).

An internal hazard assessment has been conducted by the company, which revealed desirability of further improvements in certain areas. For example:

- a) the use of forced, fresh air breathing masks in the spray paint areas is a good idea. However, a strictly enforced written program outlining times for filter cleaning and replacements and a periodic monitoring of air quality is a necessity. If not instituted, it is possible for the paint spray operators to breathe contaminated air;
- b) heavily paint encrusted gloves are used in the spray paint, and tempo printing areas; and,
- c) there are better flash removal tools available from a safety point of view than those that are currently being used.

All the interviewed workers unanimously confirmed that individual working areas and the factory at large are clean and that temperature level is comfortable. However, excessive noise was an issue. Approximately 20% of the interviewed workers felt that their work area was noisy, and although earplugs were provided, workers considered them inadequate.

Hazard Management

The company claims to be in full compliance with the GMP requirements for local exhaust annual measurements (LEV). The factory has a written industrial hygiene program; asbestos training for affected employees; and, a written asbestos operation and maintenance plan. An asbestos survey was conducted for all buildings. The survey was conducted by a laboratory approved by the Hong Kong Environmental Protection Department since Hong Kong/China does not have an Australian International Health Institute accredited laboratory or equivalent. There needs to be proper labeling and proper storing of hazardous

chemical containers. The factory should also ensure that there is immediate access to Material Safety Data Sheets (MSDS) for all hazardous chemicals

The management states that the factory is in compliance with the requirements for hazard communication training for affected employees; proper storing of compressed gas cylinders; proper maintenance of underground and above ground storage tanks; and PCB survey.

Environmental Safety, Discharge, and Waste Disposal

Plant 16 claims to be in full compliance with the GMP requirements for sludge removal from domestic wastewater by an approved licensed contractor; generated hazardous waste has being identified, quantified and characterized; a system is in place for the proper handling of hazardous waste; training employees who handle hazardous waste; a solid waste assessment to identify waste reduction opportunities; proper disposal of medical waste; and, proper disposal of hazardous materials. These is also in place an identification of all wastewater discharge points except production wastewater which is collected by a licensed hazardous waste collector and domestic wastewater which discharged directly into the government sewage system with a discharge fee paid to the government. The factory has identified all roof and wall penetrations associated with air emissions. The company believes that the requirements for sludge removal from domestic wastewater by a licensed contractor and the training of wastewater treatment plant operators are not applicable since there is no wastewater treatment plant on site.

ICCA's Comments and Concerns

ICCA commends the management of Plant 16 for making substantial improvements in all aspects of plant maintenance and upkeep dealing with environmental, health and safety standards, as required by Mattel's GMP. ICCA notes that Mattel has recognized the difficulty confronted by most vendors in obtaining necessary permits and/or certificate of compliance from the local Chinese authorities. Therefore, ICCA has made an effort to satisfy itself through onsite visit that the plant management is making an adequate level of compliance effort to operate the facility in a safe manner.

ICCA comments as to various short-falls in plant operations and maintenance practices are in the nature of suggestions for improvement. Specific suggestions have been noted in different sections of the report where appropriate.

5.9. Extra Curricular Activities and Community Outreach Programs²¹

Plant 16 offers a number of additional non-job related skill enhancement programs to its employees. These programs include computer literacy courses, English language classes, health & safety training, engineering program, training for learning management skills. Plant 16 also organizes blood donation programs, and sport competitions and charity walk events for its employees.

²¹ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of Plant 16's activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Formal Audit – Vendor Plant 17

1. INTRODUCTION

The following report pertains to the findings of a field audit of Mattel's Vendor Plant 17, and performed by the International Center for Corporate Accountability (ICCA). The field audit was conducted on December 16, 2005. This is the first formal audit of Plant 17. These audits are conducted to evaluate all aspects of a vendor's operations and to ascertain their compliance with Mattel's Global Manufacturing Principles (GMP).

The implementation of Plant 17's audit was carried out according to detailed standards covering various principles of GMP. These 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 the plant's standards, the higher Mattel's standards are considered applicable.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify a plant'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. The first step in this process is the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. ICCA considers MCR to be a very important document and treats it as the plant management's formal response to various aspects of the plant's operations covered in the GMP.

The field audit is comprised of four parallel activities. The first element of the audit consists of drawing a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant's entire workforce. The second element 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 a comparison of the information contained in the plant's payroll records and personnel files and the information elicited from the workers. The third element of the audit is a thorough examination of the plant's policies and practices with regard to environment, industrial hygiene, and health and safety issues pertaining to the plant's employees. Factory records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. It also includes a careful inspection of the dormitories, canteen and recreational facilities. The final element of the ICCA audit is a series of meetings between the ICCA's audit team members and various plant managers responsible for different aspects of the plant's

operations. These meetings are intended to elicit further explanation of various issues that were noted by the ICCA audit team.

All data and information generated by the field audit is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary audit findings are first provided to Mattel so that the company may respond to them. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses toward corrective action. In the event of disagreement between ICCA and Mattel as to the nature of the 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.

3. PLANT AND RELATED FACILITIES

The plant is located in the Shenzhen City, Baoan district of the Peoples Republic of China. Operating facilities of Plant 17 are comprised of nine buildings that were all constructed in 2004. The production buildings cover an area of approximately 62,000 square meters.

The factory manufactures a variety of toys with Mattel being one of its major customers. Primary production processes include injection molding, tempo printing, spray-painting, electronics department, and assembly/packing operations. Most operations are conducted in one shift, Monday through Saturday, except the injection molding department where regular operations are carried out two shifts per day.

4. COMPOSITION OF THE WORKFORCE

At the time of ICCA's audit, Plant 17 employed approximately 4200 people. Almost 95% of the total workforce is represented by direct labor. Unlike most other vendor factories where female workers are in the majority, at Plant 17, male employees represent 70% of the direct labor workforce.

The factory does not employ anyone under 16 years old. Only 10% of the factory employees are between the ages of 16 and 18 years. The average age of a typical male employee is 23 years, while that of a female employee is 22 years. Most of the workers at Plant 17 have seven years of schooling (primary school level). Another 12% of the workers have completed middle school, and 5% have high school diploma.

Plant 17 has a very high turnover rate, over 200%, which is almost twice as high as most other vendor plants visited by ICCA. The average length of employment at the factory is approximately 9 months.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

Most of the employees at Plant 17 got their job by directly applying at the factory site (85%). The remainder was hired through a recruitment agency. In case a worker is hired through a recruitment agency, the application fee is covered by Plant 17. However, among the interviewed workers, a small group stated that they were hired through a recruitment agency, and that some had to pay a recruitment fee of RMB10 - RMB150 in order to get a job at the plant.

Upon hiring, workers receive factory orientation, which outlines terms of employment, wages, benefits, deductions, and other rules and regulations that govern employee relations with plant management. Plant 17 provides information about environment, health and safety conditions during initial employment orientation. It covered various topics, e.g., safety rules, emergency evacuation training & drills, use of PPE, first aid personnel access, reporting emergency, and training on workplace hazards. The workers interviewed by ICCA were almost unanimous in confirming that they attended an orientation session at the time of initial hiring. They also confirmed that they had received EHS information during the orientation.

Upon hiring, all workers are required to undergo a medical examination. This usually includes blood test, x-rays, ear and eye examinations. Workers are responsible for paying the cost of the medical examination, which may range between RMB30 – RMB80. A small number of workers also stated that female workers were subjected to pregnancy tests.

5.2. Employment Contracts and Effective Probation Period

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 employment, working hours, wages, benefits and rules of conduct. The company policy is to issue 12-month contracts to all workers. ICCA's audit of the workers' personnel files confirmed that workers had signed their contracts, copies of which were found in their personnel files.

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 of employment without any recourse on the part of the worker.

All audited personnel files confirmed that workers were paid their legally mandated wages during the probation period. However, ICCA's audit findings also indicated that for some workers with 12-month contracts, the probation period lasted 90 days. This practice is at variance with the applicable labor laws and GMP principles, which limit the probationary period to 30 days for a one-year contract. Among the group of workers interviewed by ICCA, a large majority (77%) confirmed that they had to work on probation upon hiring. Most of these workers also confirmed that their probation period was one month or less. However, a small minority (11%) also indicated their probation period lasted over two months.

5.3. GMP Awareness

Plant 17's MCR states that the factory provides information on Mattel's GMP to all newly hired workers. However, among the sample group of workers interviewed by ICCA, not a single one indicated any knowledge of GMP. Furthermore, almost 50% of the interviewed workers had never heard of Mattel either. When asked about any other management principles or standards of conduct, which described fair and safe working conditions, a little over 40% of the interviewed workers reported that they were given some information on these issues during the initial orientation or were later told by their line leaders.

5.4. Regular and Overtime Working Hours

In 2004, Mattel revised its GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products. Mattel has incorporated a series of provisions regarding work hours policies.²² The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week during non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week during peak production weeks;
- The number of peak production weeks will not exceed 17 weeks in a year;

²² It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even longer work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

- Workers will not be scheduled to work more than 13 consecutive days without a rest day in between.

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, totaling 2440 hours per year. The national law specifically restricts the number of overtime hours worked to 3 per day and 36 hours per month. The law also requires that at least one rest day must be provided each week. Under Mattel's GMP guidelines, the maximum hours that a worker may be required to work is 3174 hours per year, compared to 2440 hours per year limit provided in the PRC national labor law.

The typical workweek at Plant 17 is six-day long, and consists of 6.66 of regular hours and 3.34 of overtime hours of work each day. During the peak period, which generally lasts around 25-29 weeks (varying by departments) a year, workers typically operate on a 12-hour/day basis, which corresponds to a 72-hour workweek. ICCA's audit also found that Plant 17 routinely scheduled workweeks in excess of 72 hours. Moreover, this practice was not confined to any individual department, but was common across all departments in the factory. In many cases, workers were scheduled to work more than a 72-hour workweek for up to 13 weeks in a year. ICCA's audit of workers' payroll records confirmed that Plant 17 routinely operated a weekly work schedule that was far in excess of the GMP's revised and expanded regime of regular and overtime hours-a fact that was confirmed by the management of Plant 17.

In addition to exceeding Mattel's criteria for overtime hours, Plant 17 has not secured a "Consolidated/Extended Work Hours Permission" from the local government. It should be noted that this is a common industry practice, and most of the vendors audited by ICCA had secured such permits. It should also be pointed out that Mattel's GMP makes the securing of such a permit as a requirement for a vendor's scheduling of regular and overtime hours.

There were considerable differences among the workers interviewed by ICCA with regard to their regular and overtime work hours. Almost two-third of the workers stated that their work schedule consisted of 6.6 hours of regular work and between 0 and 10 hours of overtime (average: 2.89 hours). A large majority (70%) also stated that they had to work more than 10 hours a day. On the positive side, interviewed workers (98%) were almost unanimous in stating that they did not work more than 13 consecutive days without a rest day in between. Despite the excessive work hours, overall, interviewed workers were satisfied with their work hours (90% favorable response). Furthermore, a majority of the interviewed workers (59%), also expressed a desire to work even longer hours to earn overtime pay.

5.5. Wages, Benefits and Deductions

The minimum wage rate in Plant 17's local district is RMB580 per month. ICCA's audit of the plant's payroll records confirmed that all workers are paid at least the minimum wage as stipulated by law. All direct labor workers receive normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates for all overtime hours. During their rest days, typically Sundays, workers are paid double wages when they work. Wage rates are three times the basic rate when work is performed on national holidays.

Plant 17 maintains personnel records by function. These include: orientation, safety training, medical examination, disciplinary actions, work-related injuries, annual leave, and maternity leave. Most of the workers interviewed by ICCA indicated their understanding of how their regular and overtime wages were calculated. They were also familiar with the mandatory deductions from their paychecks.

Payment of Wages

Recent changes in Shenzhen district's local laws require that workers must be paid their wages within seven days of the normal pay-period. As commonly observed in other factories in this district, Plant 17's policy is to pay the workers in around three weeks after the end of their pay period of one month. Plant management has stated that the reason for not adhering to this guideline is the amount of clerical work required to complete necessary computations and to generate pay slips.

Access to Toilet Facilities and Drinking Water

Plant 17 has a policy which requires that any worker wishing to leave his/her work station must get a "leaving license or permit" from the line leader. However, the number of permits are quite limited, which means that workers often have to wait for an uncomfortable length of time before using the toilet facilities or getting drinking water. Mattel has committed to work on this issue with factory management to increase the number of permits. ICCA would like to receive a report of the final resolution of this issue before the end of 2006.

Benefits and Deductions

Plant 17 pays all legally mandated social insurance and related benefits. ICCA's audit of the factory payroll records confirmed that all benefits were paid according to the applicable laws, and that the company's practices had been approved by the local social insurance bureau. These are deducted from the workers' paychecks.

The factory provides all workers with their required uniforms. These are provided at no cost to the workers.

The plant policy provides 5 days of annual leave to workers with 1-5 years of tenure at the factory, which was confirmed by the audit. Nevertheless, most of the interviewed workers were confused as to the company's annual leave policies and their own eligibility.

Plant 17 claims to offer 90 days of paid maternity leave benefits. This benefit is paid to workers upon their return to the factory after the end of their pregnancy. ICCA audit indicates that, according to company records, no worker has ever taken advantage of this benefit. Most of the interviewed workers also failed to show clear knowledge of this policy.

Sick Leave and Treatment of Workers When Sick

Employees are entitled to sick leave benefits, which is contingent upon a doctor's note. In practice, most workers forego their daily pay when they are sick and cannot report to work. This happens due to the lack of a clinic on the factory premises. Workers must travel to the local hospital and pay for their healthcare. Since the cost of travel plus medical consultation is RMB 25 - 60, and workers earn about RMB30-40 per day, many workers opt to forego their sick leave benefits. In addition, workers' contracts state that employees are required to request sick leave permission in person. Failure to appear in person results in loss of sick leave benefits and loss of daily wages.

ICCA's Comments and Concerns

5. Discrepancies between stated policies and audit findings: ICCA's overall impression of the company's personnel information is less than satisfactory. In many aspects of the personnel records, ICCA found inconsistencies between the information provided by the factory and the information reported by the workers during one-on-one confidential interviews. These include, among others, recruitment fee, probation period, pregnancy test given to female workers at the time of hiring, no record of any workers ever taking maternity leave, imposition of cash fines, access to toilets and drinking water.
6. Medical Examination: In the vendor group audited by ICCA, there are different practices with regard to initial medical examination. A number of vendors either provide free medical examination at the factory site, or require that workers produce a doctor's certificate for having undergone a medical check-up at a location of their own choice. ICCA feels that since medical examination is a condition of employment, it should be the vendor's responsibility to cover its cost.

7. Pregnancy Tests Required of Female Workers: The practice of requiring female workers to undergo a pregnancy test is in violation of the Chinese labor laws and also GMP standards. It would seem that despite ICCA's frequent audit reports and Mattel's own efforts, some vendors persist in such practices, which also include resisting, in various forms, toward paying for legally required maternity leave. We would strongly urge that Mattel create a more effective system of monitoring to eliminate these practices.
8. Probation Period: ICCA would like an explanation as to the significance and necessity of keeping certain workers under probation beyond the legally mandated period. In particular, are these workers adversely affected in any way with regard to wages for regular and overtime hours, and severance pay?
9. Overtime hours: The issue of excessive overtime hours remains a vexing concern and potentially a major problem. The recent revision of GMP, which significantly extended the limits on maximum allowable overtime hours, was intended to take into account the concerns of the vendors and find a more realistic and enforceable standard. However, this does not appear to be the case. Rather than complying with the expanded overtime limits, the new standard has instead become the minimum starting point. With few exceptions, most vendors audited by ICCA express strong reluctance to comply with GMP standards.

In the case of Plant 17, the annual turnover rate of 200% compounds the situation from bad to worse. A common complaint among the vendors is that workers prefer more overtime hours and are likely to leave a factory's employment if the factory is unwilling or unable to provide extra overtime hours. However, in the case of Plant 17, this assertion does not seem to hold. Plant 17 has far exceeded the maximum allowable hour limits and has shown no restraint in this regard. At the same time, it is losing its workers in a worst possible way. Therefore, one must draw the conclusion that Plant 17's labor practices and work environment are not conducive enough to hold workers despite the opportunity of earning high wages from excessive overtime hours. This view is further supported by our observations with regard to the poor working conditions, including dormitories, lack of on-site clinic, inadequate management-employee communications, and, overall poor condition of maintenance and upkeep in many aspects of plant's operations.

The current situation is untenable and Mattel needs to find a better answer to this problem. At the same time, we would strongly caution against further relaxation of overtime hours, which in our view is potentially harmful to the workers, and indefensible as part of GMP standards.

10. *Treatment of Workers When Sick:* ICCA believes that Plant 17's policies with regard to sick leave are counter-productive. By discouraging workers from taking sick leave when they are actually ill and otherwise unable to work, the company is shrinking the pool of workers who would otherwise be available to work normal hours. This situation is further compounded due to poorly equipped and staffed first aid room at the factory site. It jeopardizes workers' health and safety and is contrary to GMP principles and good management practices.
11. *Access to Toilets and Drinking Water:* The situation with regard to easy access to toilet facilities and drinking water at Plant 17 is quite similar to the one found by ICCA in many other vendor facilities. It would seem that this issue has not received the attention it deserves. ICCA recommends that Mattel's internal audit department – in consultation with vendors – review these practices and create and incorporate a common standard for all plants, which is fair to the workers and practical for the plant.

5.6. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Management – Employee Communications

Plant 17 communicates its policies and procedures to workers through postings on the notice-boards located at various sites in the factory. The company also organizes formal communication meetings between employees and different levels of management every three months. Factory's MCR further says that plant manager holds meetings with supervisors and employees to introduce GMP information and to handle complaints from workers.

Among the interviewed workers, the general consensus was a relative lack of communication with various levels of supervisors and managers. One-third of the interviewed workers stated that they meet with line leaders every week, while another one-third stated that they meet with them only sometime. When asked about existing communication channels, interviewed workers stated that they preferred to communicate and transmit their concerns through the suggestion box (83%), and, through direct communication with line leaders (63%). Interviewed workers were almost unanimous in stating that they had never had a chance to meet or speak with the plant manager.

Another group of the interviewed workers indicated communicating with the management through group meetings or via written letters addressed to the management. Only 15% of the interviewed workers felt that they could take their complaints to HRM staff.

Workplace Discipline

Plant 17 has a formalized system of workplace discipline. It initially starts with verbal and written warnings and may eventually lead to suspension and termination from employment. Contracts are terminated by the management for such violations as stealing equipment and goods, product damage, smoking during working hours, bringing cigarettes to the factory, and not following line leader's instructions. Details of rules and regulations, including the process for filing complaints or grievances, are provided to the workers in written form in the employee handbook as well as during initial employment orientation.

Among the interviewed workers, there was general consensus that they understood the factory's rules and regulations and considered them to be fair. All interviewed workers unanimously reported that they had never been disciplined. Interviewed workers also stated that they did not feel threatened to file a complaint about unfair treatment.

ICCA's audit, however, found one inconsistency in the management's statement with regard to imposition of cash fines. Plant 17's MCR states that the factory does not impose any cash fines as a disciplinary measure. Interviewed workers, however, reported that some workers (6% of the interviewed sample) were indeed fined for violating workplace rules, dormitory rules, and cafeteria rules.

Protection from Harassment and Discrimination

Plant 17 has in place a set of harassment and anti-discrimination policy statements. Physical or verbal abuse is not allowed in the factory. Furthermore, according to the factory's MCR, there had been no reported incidents of harassment in 2005. Nevertheless, of the workers interviewed by ICCA, only a small number (4%) knew about the company's discriminations policy.

Workers were generally quite satisfied with their treatment at the factory. However, a small number of interviewed workers were unhappy with the rude behavior of their line leaders. Some workers also mentioned that they were verbally abused by their line leaders and/or supervisors.

Workers interviewed by ICCA, were unanimous in stating that there was no discrimination or favoritism in the plant in terms of salary increases, promotions, or other incentives and benefits, based on religion, race, ethnicity or region of origin. The factory has several locations for suggestion boxes for employees to make an anonymous complaint or provide a suggestion. Most of the employees were aware of the suggestion boxes provided by the plant.

ICCA's Comments and Concerns

1. Worker communication is another area of apparent inconsistency between the stated management policies and personal experience of the workers, ICCA recommends that Plant 17's management review its policies regarding communication with workers, and where necessary, to make appropriate changes.
2. ICCA would also like an explanation with regard to the imposition of cash fines as noted by the workers. A similar recommendation applies to the treatment of workers by some line leaders.
3. Plant 17 has demonstrated good management practices with regard to employee protection from harassment and discrimination. One would hope that Plant 17's management would display similar far-sightedness in other areas of worker treatment.

5.7. Employee Services

Dormitories

Plant 17 has 4 dormitory buildings, which were built in 2005. A majority of the interviewed workers lived in the dormitories. The monthly rent per occupant is RMB75. Each room in the workers' dormitory is 29.2 square meters. It has toilet and shower, cold and hot running water, and fan for ventilation. A maximum of 12 people share one room. Plant 17's MCR states that dormitory living is voluntary and that employees are not obliged to live in the dormitories.

However, in practice it was a different story as expressed by the interviewed workers who lived in the dormitories. Complaints about the living conditions, and management's pressure on workers to stay in the dormitories, covered literally all aspects of dormitory operations.

One of the most common complaints about the dormitories was hot water. In one case, a worker complained that she had to get hot water from the canteen after waiting in line for a long time. It would appear that hot water did not reach everybody in the dormitories and was frequently the case for workers living on higher floors. Cleanliness and security were also issues of concern among workers. Workers interviewed by ICCA, frequently complained about the lack of cleanliness in the dormitories and that the dormitories were not well maintained.

One worker said that he had to pay RMB50 to the factory to get an authorization to be allowed to live on his own and away from the dormitory. Another worker said that she had to pay RMB30 to change a bed in the dorm, and another worker was told that her application for authorization to be allowed

to live elsewhere presented more than 4 months ago, could only be approved after a payment of RMB30.

There were also complaints about the lack of security, lost property, and verbal abuse on the part of the security guards. Interviewed workers also stated that their complaints about security guards, lost and stolen property, lack of cleanliness and poor maintenance were not taken seriously by the management.

Food Services

The factory serves three meals each day to all workers, and most workers eat regularly in the cafeteria at monthly cost of RMB150, which the employees are required to pay in cash. ICCA's calculations of total charges for dormitory rent and meal expenses are within the GMP guidelines. The factory management states that workers voluntarily choose to eat at the canteen. However, a majority of the interviewed workers stated that this was not the case and that the factory forced them to pay for their meals regardless of whether they wish to eat at the canteen or elsewhere.

There was general consensus that the quantity of food served at the canteen was sufficient. There were, however, complaints expressed about the poor quality and lack of variety in the meals served in the cafeteria.

Medical Facilities and Health Care

Plant 17 does not have a dedicated clinic on site. Current facility consists of a 1-bed first-aid room with a nurse. ICCA audit found that this one bed was in a make shift room crowded with trash containers. Furthermore, the nurse was not on duty at all times.

The facility treats only minor injuries. Any major injury or life-threatening ailment must be treated in a nearby hospital (10 minutes drive from the plant). There is no charge for services provided by the first-aid room or first-aid medicines provided to workers.

Workers interviewed by ICCA unanimously confirmed that they were aware of the first-aid room, and, in few cases, used that facility. Nearly 13% of the interviewed workers reported having been injured on the job; all of them for minor injuries, i.e., hand cuts. Three of them were treated in the factory; two were treated in the nearby clinic; and one indicated not getting any treatment. All of the workers, who had been injured while at the work, confirmed that there was no lost time deducted from their paycheck and that they were not required to pay for their treatment, medical services, or medicines provided.

ICCA's Comments and Concerns

The practice of coercing workers to stay in the dormitories and to force them to eat in the factory's canteen is in violation of GMP principles. The fact that the factory employs arbitrary measures of fines and permits to force workers is even more questionable. The situation is further compounded by poor living conditions and abusive security practices.

ICCA would request Mattel's internal audit department to take immediate and effective steps to rectify this situation. All arbitrary fees and permission requirements, which force workers to live in the dormitories, and eat at the canteen, must be immediately stopped. Prompt action should also be taken to ensure that workers' rights in these two areas are fully protected.

ICCA would request a full report by Mattel's internal audit department as soon as practicable. Notwithstanding, this issue would be an important part of a follow-up audit of Plant 17, which ICCA plans to take during the latter part of 2006.

5.8. Environment, Health and Safety

Although all buildings at Plant 17 are only one to two years old, the overall impression is that of poor maintenance and deterioration. There is widespread evidence of poor housekeeping. Many locations are loaded down with scrap rags, paper and cardboard, discarded tools and furniture.

Workplace Safety Issues

The company claims to be in full compliance with all workplace safety issues such as installed fire alarm system; easily accessible and adequately installed fire extinguishers; trained personnel in the use of fire extinguishers and hoses; fire prevention systems inspection and documentation; and, electrical systems inspection and documentation. The plant also claims to be in compliance with applicable EHS regulations. It has a dedicated EHS committee, and has conducted safety rules orientation as required by the Mattel Principles.

The factory conducts evacuation drills every 12 months on each shift at all buildings including dormitories. The factory has a written fire prevention plan and complete, written emergence evacuation plans and systems. In terms of emergency provisions, the factory has posted evacuation diagrams and emergency phone numbers at easily accessible locations; unobstructed emergency egress routes at least 36 inches wide; proper posting of emergency exit doors; and, unlocked emergency exit doors when building is occupied. In addition, Plant 17 has in place records of properly documented work-related incidents; a Hot Work Permit System; a written lockout/tagout program; machine

guarding program. Explosion-proof electrical equipment has been installed in areas where flammable and combustible liquids are used or stored.

PPE Usage

The company claims to be in full compliance with the GMP requirements for hazard assessment; posting of PPE signs; PPE training; evaluation to determine where respirators are necessary; the training of employees requiring the use of a respirator; and, maintenance of training records. Almost all of the interviewed workers indicated receiving training on safety issues and the usage of PPE.

Hazard Management

The company claims to be in full compliance with the GMP requirements for local exhaust measurements (LEV); proper labeling of hazardous waste containers; proper storage of hazardous materials; proper storing of compressed gas cylinders; proper maintenance of underground and aboveground storage tanks; immediate access to Material Safety Data Sheets for all hazardous chemicals; and, a hearing conservation program. There is hazardous communications training for affected employees; temperature monitoring in all non-air conditioned or unheated spaces; and, a first aid treatment room and a qualified nurse on-site. Plant 17 has in place a written industrial hygiene program; an asbestos survey to identify all building locations and equipment that contain asbestos; and, a written asbestos operations and maintenance plan.

The company does not have an indoor air quality program. Training of asbestos affected employees is not being conducted but warning labels are posted on asbestos parts that only qualified employees present are allowed to handle. There is no need for a PCB survey since none of their equipment contains PCB. In addition lead survey has not been conducted since it is not a part of the GMP requirement.

Environmental Safety, Discharge and Waste Disposal

The company claims to be in full compliance with the GMP requirements for all wastewater discharges (production and non-production) quantified by sampling and analysis. The company does not have the necessary discharge permits. The company asserts that there is no need to train wastewater operators of a wastewater treatment system since no system exists or is one needed. It claims that there are no production waste water discharges and others are collected by local EPB approved collector. The factory claims to be in compliance with Mattel's requirements for proper handling of sludge from the domestic wastewater treatment system and removal by a licensed contractor; proper handling of hazardous wastes; proper disposal of medical waste; and, proper

disposal of hazardous waste materials. The plant conducts training for employees who handle hazardous waste.

In addition to the issues mentioned above, hazardous waste generated at the facility has not been identified, quantified or characterized instead, a plant layout made with all the waste discharge points outlined. There is no record of a solid waste assessment to identify solid waste reduction opportunities. The facility has not identified all roof and wall penetrations associated with air emissions nor have they obtained appropriate air emission permits rather they claim they “just do air emission test for discharge point except for generator which only have limited usage frequency.”

In terms of hazardous waste management, ICCA team has several important observations:

- a) Warning signs and proper labeling were posted and available at the hazardous waste storage area;
- b) hazardous waste was stored in the general industrial waste storage area.;
- c) no secondary containment was provided for the wastes;
- d) it was reported that the company did not provide hazardous waste collection training for its in-house cleaners;
- e) no secondary containment was provided for: lubricant oil drums stored in air compressor and diesel generator room; lubricant containers for some injection molding machinery in Building A, floor 1; and chemical containers located in Building C, floor 1. A floor drain is located in the air compressor and diesel generator room. In the hazardous chemical storage area there are no warning signs or labels; and
- f) oil leakage was observed at some injection molding machines, in the diesel generator room, and onsite oil storage tanks.

The company does not have an Environmental Impact Assessment (EIA) and approval from the Environmental Protection Bureau (EPB). It also does not have an Environmental Inspection Report and a pollution discharge permit from the local EPB. A pollution discharge registration form has not been submitted to EPB.

An air emissions survey was conducted by the Shenzhen Environmental Monitoring Station (EMS) on January 28, 2005. The concentrations of Benzene, Toluene and Xylene complied with the maximum allowable limits. A wastewater discharge survey was also conducted by Shenzhen Environmental Monitoring Station (EMS) on January 28, 2005. Wastewater discharge was in compliance with Class II of Guangdong Province Integrated Wastewater Discharge Standard. The wastewater discharge point was not identified in the report;

A boundary noise survey was conducted by Shenzhen Environmental Monitoring Station (EMS) on January 28, 2005. The boundary noise complied

with Class II requirements of Standard of Noise at Boundary of Industrial Enterprises (GB123448-1990). Indoor noise monitoring was conducted twice, once on April 18, 2005 and again on November 15, 2005. The reports indicated that the indoor noise complied with the legal requirement.

It was observed that the wastewater from the kitchen flowed into the storm water drainage system and directed to the city sewage system. Although the company states it has conducted an asbestos survey and has established a 'Prevention and Maintenance Plan' which requires regularly conducted inspections no records were made available.

There are approximately 20 Halon-1211 fire extinguishers in the paint mixing rooms and in the hazardous chemical storage room. Per regulations Halon-1211 fire extinguishers are not permitted to be installed since 1999.

On site Material Safety Data Sheets (MSDSs) are not complete and some were outdated. The company does not provide occupational medical check-ups for new entries and departing employees who will or have worked in possible occupational disease areas. No regular mechanical inspection for forklifts is being performed. The last inspection validation expired on 18 November 2004. As per company records there are 15 licensed electricians onsite however only three licenses were made available for review.

In regard to fire safety, four fire drills are conducted every year, two for the operations buildings and two for the dormitories. However, the fire drill report made available to ICCA stated only one fire drill was conducted for the operations' day shift. No other fire drills were conducted for the night shift. In addition, some internal and external wiring was found to be improperly installed.

Although it was reported that an internal occupational hazard assessment has been conducted to identify the areas that require PPE it does not appear to be effectively implemented as indicated below in the individual building survey. There is a lack of proper PPE usage in the warehouses and maintenance workshops and lack of PPE signs which are needed to increase the individual employee's awareness to use PPE.

In Building A, there is no ventilation protection provided for some solderers; wiring is poor and frayed; and, fire aisles blocked. In Building B, the ventilation system is not working well and no ventilation protection at all is provided for some solderers. The roof wet scrubbers in Building C require major modifications to be classified acceptable. They need increased wall height and better filtration. A strong solvent odor was detectable in the immediate area; there were many broken cement roof tiles; and, frayed wiring. The auditors also found that fire aisles in Building C are blocked. The main inlet water hydrant line valve should be locked in the open position -if the valve is inadvertently closed there would be no water available to fight a fire on any floor.

A few shortfalls were found in Building D: no ventilation protection for some solderers; some fire aisles blocked; oil penetration on injection molding floor; and poor wiring in some areas. ICCA has identified potential areas of improvement in Building E. In particular: employees doing hole punching need hand protection; there was no ventilation protection for some solderers; flash trimmers need additional protection - some of them are using adhesive tape; some protection is used on the wrong hand; noise pollution is possible on injection molding floor; and some fire aisles are blocked.

Roof wet scrubbers in Building F require the same modifications as noted above for Building C. The roof had many broken and missing concrete tiles. The spray booths are mostly inadequate in Building F. They are encrusted with old paint, bent, some corners are held together with tape. There were open paint cans, stacked sheets of cardboard, miscellaneous scrap, dirt, and shavings in paint storage room and on sample floor. There was also poor and frayed wiring in some places, and no PPE for lathe operator in machine shop. Other safety regulations in Building F include no containment in volatile storage there is no containment, and broken ground lead's insulation.

Oil tanks and transfer drum in Diesel Generator Room had no containment; there was poor and loose wiring at some places; scraps, oily rags were piled on top of a drum; at the dispensing area and near related pipe lines there was evidence of ground pollution; and, in some places non-explosion proof electrical equipment was being used. Trash Room was found to be in very bad condition. Trash is piled as high as the retaining wall will permit without overflowing; and, oil and solvent soaked scrap rags should be stored in the locked, steel door nearby room.

ICCA's Comments and Concerns

The environmental health, safety and maintenance of the plant were confirmed by the ICCA professional engineering team through an extensive walk-through of the entire facility and an in-depth review of factory records with respect to EHS requirements as stipulated in the GMP and detailed in the MCR.

The poor condition of plant maintenance and upkeep has been previously mentioned. In addition to poor house keeping, without significant improvement, the factory is at risk of shortening the effective life of the plant and equipment, with resultant loss of capital and productivity. Much of the machinery and equipment is old and neglected. We recommended that the factory undertake major effort to upgrade and clean the facility so it becomes a safe and healthy place for all employees to work in. Immediate attention should be paid to eliminating many of the safety hazards now present. The factory may also consider strengthening its professional engineering staff to ensure that improvement and upgrading process continuously maintained.

5.9. Extra Curricular Activities, Skill Enhancement, and Community Outreach Programs²³

Plant 17 does not offer any additional non-job related skill enhancement programs to the factory employees. Neither has it had any outreach programs available for the community.

²³ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of Plant 17's activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of the vendor and its employees to be good corporate citizens and responsible members of the community.

Formal Audit – Vendor Plant 18

1. INTRODUCTION

The following report pertains to the findings of a field audit of Mattel's Vendor Plant 18, and performed by the International Center for Corporate Accountability (ICCA). The field audit was conducted on December 15, 2005. This is the first formal audit of Plant 18. This plant had received an informal consultation visit by ICCA in August 2000. These audits are conducted to evaluate all aspects of a vendor's operations and to ascertain their compliance with Mattel's Global Manufacturing Principles (GMP).

The implementation of Plant 18's audit was carried out according to detailed standards covering various principles of GMP. These 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 the plant's standards, the higher Mattel's standards are considered applicable.

2. ICCA'S AUDIT PROTOCOLS

ICCA's audit protocols are designed to verify a plant'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. The first step in this process is the plant management's own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. ICCA considers MCR to be a very important document and treats it as the plant management's formal response to various aspects of the plant's operations covered in the GMP.

The field audit is comprised of four parallel activities. The first element of the audit consists of drawing a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant's entire workforce. The second element 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 a comparison of the information contained in the plant's payroll records and personnel files and the information elicited from the workers. The third element of the audit is a thorough examination of the plant's policies and practices with regard to environment, industrial hygiene, and health and safety issues pertaining to the plant's employees. Factory records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. It also includes a careful inspection of the dormitories, canteen and recreational facilities. The final element of the ICCA audit is a series of meetings between the ICCA's audit team members and

various plant managers responsible for different aspects of the plant's operations. These meetings are intended to elicit further explanation of various issues that were noted by the ICCA audit team.

All data and information generated by the field audit is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary audit findings are first provided to Mattel so that the company may respond to them. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses toward corrective action. In the event of disagreement between ICCA and Mattel as to the nature of the 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.

3. PLANT AND RELATED FACILITIES

The plant is located in Humen Town, Dongguan Province of the Peoples Republic of China (PRC). Operating facilities of Plant 18 are comprised of four buildings, three of which were constructed in 1996 and the fourth one was constructed in 2004. The production buildings cover an area of approximately 90,000 square meters.

The factory manufactures a variety of toys with Mattel being one of its major customers. According to information provided in Plant 18's MCR, primary production processes include: injection molding, tempo printing, spray-painting, electronics, rotocasting, sewing, and assembly/packing operations. During the period of normal production, most operations are conducted in one shift, Monday through Saturday. The exceptions to this schedule are the injection molding department where regular operations are carried out over 5 days in two shifts per day, and, spray-painting department with a schedule of 2 shifts per day over a 6-day week. All these operations are accelerated during the peak production period by adding extra shifts and also extra hours in each shift.

4. COMPOSITION OF THE WORKFORCE

At the time of ICCA's audit, Plant 18 employed approximately 4200 people as direct labor. Approximately 55% of the employees are female workers and the remaining 45% are male. According to the Plant 18's MCR, the factory does not employ anyone under 18 years old. The average age of a typical non-staff, i.e., direct labor employee (both male and female) is 18 years as reported in the

company's MCR. Similarly, the MCR states that a majority of the workers (65%) at Plant 18 have completed middle-school while another 10% have completed high school.

5. AUDIT FINDINGS – Termination of the Audit in Mid-Stream

Approximately, three hours after the start of the audit, ICCA's team concluded that certain actions on the part of Plant 18's management, immediately prior to the day of the audit, had so compromised the integrity of the audit process that it would be impossible to generate information that would accurately reflect the extent to which Plant 18 was in compliance with Mattel's GMP principles. Consequently, ICCA decided to terminate the audit forthwith.

ICCA's decision was influenced by a number of factors. For example:

1. Worker interviews revealed that Plant 18's management had coached its workers, asked them to give specific types of answers, and even warned them that any worker giving different answers would be punished.
2. Worker interviews revealed that at least one or perhaps more workers were asked not to come to work on the day of the audit.
3. ICCA found a large number of compliance deficiencies related to plant up-keep and health and safety standards. However, in every case, ICCA team was told that the plant was in the process of making changes and undertaking other improvements in its machinery and plant layout. Thus it made the audit somewhat irrelevant since anything ICCA would discover would have been changed even before the report came out.
4. An added consideration complicating ICCA's audit was the fact that Plant 18's MCR failed to provide information on a number of important issues pertaining to overtime hours, work on rest days, and the number of days when the plant and individual workers may have worked more than 10.0 hrs/day or 72.0 hrs/week. The MCR's standard answers to these and similar other questions were either "yes, but no statistics," or "no statistics." All these issues eventually impacted the calculation and payment of wages to the workers. Therefore, the plant management had to create such data, but was unwilling to provide it to ICCA. In certain other cases, the MCR provided information whose accuracy appeared to be questionable when it was correlated with other data in the same MCR. When taken together, their cumulative impact meant a significant loss of confidence as to the veracity and accuracy of the information provided to ICCA by the management of Plant 18.

ICCA's Comments and Concerns

1. ICCA is very disappointed at this state of affairs. Plant 18 had almost five years to prepare for a formal audit since ICCA's informal visit in 2000. It would seem that the efforts of Mattel's internal audit department have not been effective in making Plant 18's management to improve its compliance with Mattel's GMP.
2. Plant management's actions in coaching and pressuring workers to provide incorrect information to ICCA, and also to withhold information in the MCR, does not speak well for the management's commitment to meeting Mattel's GMP standards.
3. Given these circumstances, ICCA would leave it to Mattel as to the action it might want to take with regard to Plant 18.
4. In the event that Mattel decides to continue its business relationship with Plant 18, ICCA would require a detailed report as to Mattel's efforts in bringing Plant 18's GMP compliance to an acceptable level as soon as possible. Furthermore, ICCA would have no choice but to undertake another formal audit of Plant 18 sometime in the latter part of 2006.