

Mattel, Inc.

Company Managed Plants in China

- Guan Yao
- Hwa Tai
- Mattel Die Cast
- Chang An

Audit Report

Prepared by



International Center for Corporate Accountability, Inc. (ICCA)

A non-for-profit, educational-research organization

Zicklin School of Business, Baruch College
One Bernard Baruch Way, Box J-1034,
New York, NY 10010-5585
www.ICCA-corporateaccountability.org

<u>Contents</u>	<u>Page</u>
A. ICCA'S AUDIT PROTOCOLS	
A.1 Pre-Audit Preparation	3
A.2 The Field Audit	3
A.3 Post-Audit Activities	5
I. GUAN YAO PLANT	
1 INTRODUCTION	6
2 AUDIT FINDINGS	6
3 OVERALL OBSERVATIONS AND RECOMMENDATIONS	16
II. HWA TAI PLANT	
1 INTRODUCTION	17
2 AUDIT FINDINGS	17
3 OVERALL OBSERVATIONS AND RECOMMENDATIONS	26
III. MATTEL DIE CAST PLANT	
1 INTRODUCTION	27
2 AUDIT FINDINGS	27
3 OVERALL OBSERVATIONS AND RECOMMENDATIONS	37
IV. CHANG AN PLANT	
1 INTRODUCTION	48
2 AUDIT FINDINGS	48
3 OVERALL OBSERVATIONS AND RECOMMENDATIONS	51

A. ICCA'S AUDIT PROTOCOLS

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

A.1 Pre-Audit Preparation

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

A.2 The Field Audit

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

The second element of the audit involves confidential, one-on-one interviews with the same group of workers who were previously selected for the payroll and personnel file audit. This process allows for a comparison of the information contained in the plant's payroll records and personnel files, and the

information elicited from the workers through confidential, one-on-one interviews. The personal interview questionnaire was developed by ICCA and is designed to garner information, both quantitative and qualitative, on all aspects of the workers' working and living conditions at the plant. Professional interviewers, retained independently by ICCA and generally meeting the age and gender profile of the workers, conduct these interviews in the workers' native language and under the direct supervision of a senior ICCA advisor. Each worker is interviewed individually in a private, secured space to ensure complete confidentiality.

The third element of the audit is a thorough examination of the plant's policies, procedures and practices with regard to environment, health and safety issues. ICCA's EHS audit consists of three distinct operations with some minor overlaps:

1. An evaluation of the MCR completed by plant management indicating either 'Full Compliance', 'No Documentation Available', 'Compliance-in-Progress', and 'Not Applicable' to each of the items presented;
2. A physical 'walk-through' of the plant to observe from an engineering and EHS point of view the status of the plant; and,
3. An in-depth examination and evaluation of documentation pertaining to site history, permits, monitoring, surveillances, compliances, among others.

The criteria for these evaluations are based on Mattel's GMP/Checklist for Tier I facilities where plant's MCR provides the road map for the audit. Additional information is obtained from Mattel in-house audits.

Independent professional environmental experts conduct this phase of the audit under the supervision of ICCA's own professional and highly experienced industrial engineer. The China-based professionals are equipped with extensive knowledge and experience of China's laws and regulations in manufacturing operations. Plant's records are further verified by a thorough walk-through of the factory floor and related facilities. Inspection includes an examination of the general maintenance of the manufacturing facilities, storage, treatment and disposal of hazardous waste materials, hygiene in toilets and bathrooms, kitchen and eating facilities with particular emphasis upon safety and health. The walk-through also includes a thorough inspection of the dormitories and recreational facilities in terms of hygiene, adequacy of space, worker comfort, privacy and security, and other related matters as deemed appropriate in specific situations.

The final element of the ICCA audit is a series of individual and group meetings between ICCA's audit team members and various plant managers responsible for different aspects of a plant's operational facilities, employee

supervision and other human resource management activities, dormitories and canteen facilities, and plant and dormitory security functions, to name a few. These sessions serve to confirm and clarify issues in the MCR and elaborate on the plant management's practices regarding issues that emerge during the field audit.

A.3 Post-Audit Activities

All data and information generated by the audit, including confidential worker interview questionnaires, are brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary findings are first provided to Mattel to ensure the factual accuracy of various plant records used by ICCA in its audit reports. In case of a material error on the part of ICCA with regard to the use and interpretation of specific records, ICCA revises the draft report before making it public. In other cases, Mattel provides information with regard to corrective action and commitments in response to ICCA's preliminary findings. ICCA takes cognizance of these actions as to their adequacy and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance. The audit report records both the initial findings of the audit and the specifics of Mattel's responses through corrective actions. In the event of a disagreement between ICCA and Mattel as to the nature of findings or the adequacy and timeliness of corrective measures, ICCA makes public its findings and the company's responses without any editing by ICCA or Mattel.

I. GUAN YAO PLANT (GY) (Sino-American Toys)

1. INTRODUCTION

This report is based on the field audit of Guan Yao Sino-American Toys (GY). The plant is located in Guan Yao Town, NanHai district, Guang Dong Province, China. The GY plant operates under a processing fee agreement between Mattel and the local government. However, for the purpose of this audit, this plant is considered a Mattel managed facility, which is totally dedicated to the manufacturing of Mattel products. This is the third formal audit of the facility and was conducted on March 19-20, 2007. The first audit of the GY plant was conducted during 1999-2000, and the second took place in 2003. Published reports of previous audits are available at Mattel's and ICCA's websites.

GY currently employs 5,600 workers. Of these, 95% are direct labor and remaining 5% are administrative and managerial personnel. The size of the workforce varies throughout the year and ranges between 5,600 and 9,100 workers depending on seasonal production requirements. Almost 80% of the workers at the factory are female. Average age of workers is 25 years and the minimum hiring age is 18. The education level of workers is around 10 years of formal schooling. The average length of employment is 1.5 years. For almost half of the interviewed employees, this was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

Ninety-five percent of the GY workers are hired through walk-in applications or through a reference from friends and family members. The remaining 5% are provided by recruitment or government agencies for which the agency fees are paid by the GY factory.

Upon hiring, all workers are given an orientation which includes an information session on employment terms and conditions, workplace safety and discipline, living accommodations, Mattel's GMP and other relevant issues.

Workers are also required to undergo medical examination upon hiring. Of the interviewed workers, 93% confirmed this fact and stated that the exam mainly covered blood test, x-rays, sight and hearing test, and overall physical check-up.

a. Probation Period

All newly hired workers undergo a one-month probation period as allowed by law. During the probationary period, an employer is allowed to terminate workers without the mandatory compensation that is applicable when a contract is voided unilaterally. Payroll audit of workers' records showed that all workers were paid wages similar to those paid to regular workers.

In the sample of the interviewed workers, 73% confirmed to have undergone one-month probation upon employment. However, about 16% of interviewed workers stated that their probation period was three months long. 18% of the workers also indicated that their pay during the probation period was different and 5% stated that they were not adequately paid for overtime hours performed.

b. Workers' Employment Contracts

Upon employment, each worker is required to receive a signed contract from the plant as per the labor laws of China and GMP standards. The contract covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. ICCA's audit showed that approximately 25% of worker contracts that had expired on December 2006 had not been renewed as of March 20, 2007. Plant management stated that the contracts were drawn and sent to the local labor bureau, but had not yet been returned. Since then, ICCA has been informed by Mattel that the contracts have been endorsed and returned to the employees.

c. Personnel Files

Each worker has a personnel record on file. It contains information on medical check-ups, probation periods, employment registration and contract, copy of a recent picture ID and details of disciplinary action, if any. In addition, separately kept company records include details of illness and injury, annual leave, and maternity leave.

2.2 GMP Awareness

According to the plant's MCR, Mattel's GMP is provided to all workers via distributed booklets and notice-board postings. However, among the interviewed workers, about 30% stated that they had received training on GMP during the orientation period at the time of initial hiring.

2.3 Payroll System and Record Keeping

Line supervisors record daily work hours manually, and workers sign their attendance records weekly to confirm their accuracy. The line supervisors' records, however, do not indicate start and termination time of shifts. Daily

record sheets only report the number of hours worked each day for each employee. ICCA’s auditors noted that employees’ attendance records are without exception identical for all workers, mirroring the standard production scheduling template as detailed in the following section.

GY workers are paid wages based on a piece-rate system. However, if worker’s piece rate earnings fall below the minimum wage rate, they are guaranteed to earn at least the minimum wage for their actual work hours. Likewise, workers are also paid a minimum hourly wage during production downtime in the course of a day.

Interview data indicated a large measure of confusion on the part of the workers as to their pay-stubs (Table 1). About one-half of the workers interviewed expressed insufficient understanding as to how their wages for regular and overtime hours were calculated.

Table 1
Workers’ Understanding of Monthly Pay-Stubs

	everything	some	Little
Regular hours and wages	57%	17%	27%
Overtime hours and wages	50%	20%	30%
Benefits and deductions	70%	8%	15%

a. Production Processes and Working Hours

The primary production processes at GY are molding, painting, cutting sewing, assembly, and packaging. The workweek at the GY plant is defined as six days, Monday through Saturday. GY’s production scheduling template calls for a maximum of 60 hours of work per week for 35 weeks of the year, and 64.5 hours per week for the remaining 17 weeks.

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 policies¹.

The revised GMP requirements are:

- Workers will not be scheduled more than 60 hours per week on non-peak production weeks;

¹ 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 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.

GY has secured necessary permissions from the local labor bureau for its yearly production scheduling practices which exceed the federally stated limits. These permissions allow GY to schedule a maximum of 60 hours per week, while not exceeding 11 hours per day throughout the year.

Audited payroll records reveal work schedules in excess of 60 hours/week for the 4-month (17 weeks) peak-period of June through September 2006. During the ICCA's audited period of January, 2007, all workers had operated as per their regular work schedule. However, a detailed audit of the sampled workers' schedules during the period March – December 2006 revealed there were 4 workweeks when scheduled hours had reached 75.25 hrs per week.

ICCA concludes that GY's scheduling practices exceed Mattel's GMP guidelines. Specifically, the plant practices either exceed the 11-hour workday limit imposed by the local labor bureau and the 12-hour workday (or 72 hour workweek) limit of the GMP if the 75.25 hours is worked during a 6-day workweek; or both legal and GMP rest-day limits if the actual workweek consists of 7 days.

Overtime at the GY plant is voluntary. Workers may opt out by notifying their line leaders in advance if they do not want to work overtime. Worker interviews indicate that while in general overtime is voluntary, 5% of the interviewed workers could not reject overtime even when tired because of the need to meet production schedule.

b. Minimum Wages

The minimum wage rate in the GY's district is RMB690 per month. ICCA audit of workers' payroll records confirmed that all workers were paid at least the minimum wage rate. This was also true where wage rates were initially calculated on a piece-rate basis. Workers are also entitled to performance bonuses, which average around RMB40 per month. The average take-home pay for GY workers is around RMB990 per month, for combined regular and overtime work hours, and inclusive of any bonuses and allowances.

c. Wages for Overtime Work

All direct labor workers at GY receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. In certain cases when rest-day work is scheduled, company policy is to award a

replacement day off within one week. ICCA audit confirms that all overtime wages were paid properly.

d. Benefits

GY pays all legally mandated social insurance and related benefits. GY provides one week of paid annual leave to all workers upon completion of one year of service. The number of paid annual leave days increase in proportion to the workers tenure with the plant. GY pays medical insurance, unemployment and social benefits premiums for approximately 25% of the workforce.

e. Deductions

The plant charges RMB40 for dorm usage and RMB245 for food each month. Total deductions for food and dormitory rent amount to RMB285 per month. Payroll records show that all employees were charged food deductions, and around 67% of the audit samples were charged for dormitory expenses. GY is in compliance with Mattel's GMP regarding the extent of living expense deductions which is required to be less than 50% of minimum wage.

2.4 Workplace Discipline of Employees

GY plant has written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. They are also posted on the notice boards at the public areas throughout the plant. The policy provides that employees receive a verbal warning in case of a violation. Repeated violations receive warnings, and in case of continued disobedience the employee may be terminated from employment. The factory does not impose any cash fines as a disciplinary measure. Among the interviewed workers, 98% stated that they were not disciplined during the three months prior to the audit.

2.5 Freedom of Association, Discrimination, and Access to Management

GY's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. The factory also recognizes all employees' right to join a lawful organization or association. Workers are promoted according to appropriate factory procedures. These policies are explained to the employees at the initial factory orientation and posted on the notice boards throughout factory facilities.

Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. GY management also conducts semi-annual meetings with the employees to discuss any work-related issues.

Ninety seven percent of the interviewed workers agreed that the factory does not discriminate any workers in regard to promotion or wage increase based on sex, race, religion or ethnicity. In terms of means of communications, 90% of the workers relied on information provided on the notice boards, followed by 65% that relied on line leaders, 58% - on co-workers, and 30% - on HR personnel.

2.6 Protection from Harassment

Interviews with factory workers indicated that GY maintains a fair and harassment-free work environment. Workers were unanimous in their positive expressions with regard to fair treatment line leaders, supervisors and management. Workers also confirmed that they were not aware of any instances of verbal or physical abuse at the factory.

2.7 Workplace Operating Environment

GY is a very large plant consisting of five buildings. The total floor space is 47,567 sq. m or approximately 500,000 sq. ft. The buildings are 3 to 22 years old.

2.7. 1. Plant Maintenance and Fire Prevention

Examination of relevant documents indicated that the plant was, in general, full compliance with regard to overall maintenance and upkeep, fire prevention, and evacuation. A walk-through of plant facilities by the ICCA team, however, indicated certain shortcomings.

A. Evacuation:

Building A, Third floor: Fire aisle along external wall and next adjacent aisle were found to be partially blocked. Safety stripping needs replacement

Building C: There were no true fire aisles in work rooms on the roof; aisles were crowded and cluttered. There was waste storage on upper deck of stairway, and there was no fire-fighting system in the work area. On the fifth floor, combustible waste was found in file storage corridor entrance.

B. Equipment:

- There is no fire fighting system in the work area on Building C roof.
- Some fire extinguishers in the work shops were under-pressurized.

- There is an empty fire extinguisher on the floor Building C, 4th floor.

C. Housekeeping:

- Building C: The fourth floor balcony was loaded with unused furniture and old machine parts. These materials appeared to have been in the same location for a long time. A storage room with a steel door contained scrap, tubing and has a petrochemical odor. There is waste storage on upper deck of stairway.
- Building D: The roof area storage contained old furniture and miscellaneous old equipments. The outside area indicated poor housekeeping. Scrap and litter were found adjacent to water tank. There were no signs or labels in the waste storage room that is located adjacent to the chemical warehouse. Outside has poor housekeeping. There is scrap and litter under the water tank. A similar observation of the diesel storage room showed that it was loaded with scrap, old machine parts and cotton bales, etc.

2.7.2 Material Safety Data Sheets

Some MSDS was found in the workshops and warehouses with English labels and no information are in Chinese. This same fault was noted in the ICCA Audit Report of March 29, 2004.

2.7.3 Hazard Management

A. Ventilation

The ventilation in the warehouses is relatively poor and VOC odor was detectable. There were no designated warning signs. It was noted in the ICCA Audit Report of March 29, 2004 that there was a strong solvent smell in the Dangerous Chemical and Hazardous warehouses and that the ventilation systems were not operating efficiently. These conditions from 2004 audit have not been remedied.

Ventilation in the tampo and spray painting areas in Building B has been considerably improved with the addition of a new ventilation system as reported in ICCA's audit report of March 29, 2004.

B. Hazardous Material Storage

There were no designated warning signs. This was also noted in the ICCA Audit Report of March 29, 2004 that there was a strong solvent smell in the Dangerous Chemical and Hazardous Warehouses. Also that the ventilation systems were not operating efficiently still seems to be the case.

Storage for paints, lubricating oil, TCE, and butanone is relatively poor and VOC odor was detectable.

2.7. 4 Workplace Safety

The plant places strong emphasis on requiring all employees to use proper personal safety equipment (PPE). All employees are provided with the necessary PPE free-of-charge. Line leaders and floor supervisors are supposed to regularly monitor employee usage of their PPE. The plant also shared the reduction of accidents from 2005 which was 12 and reduced to 4 in 2006. Overall this would have reduced the Loss Day Incident Rate (LDIR) of the plant. The plant walk through by the ICCA team, however, found lapses in the proper usage of the PPE by the workers. Specific observations include:

- In the tampo and spray painting areas the use of PPE was inadequate. Masks were either not worn or in many cases were worn below the nose.
- No worker was observed to be wearing safety glasses or gloves.
- In building C, second floor, workers were using a razor blade type tool to remove plastic flashing while using an ordinary adhesive tape to protect their fingers.
- In many cases, sewing machines cover guards were left open.

ICCA's general observation about the GY plant is that proper and mandated use of PPE has declined and housekeeping has deteriorated compared to the ICCA Audit Report of March 29, 2004.

2.7. 5 Plant Amenities

A. Toilets and Drinking Water

All interviewed workers confirmed that the number of toilets and drinking stations were sufficient at GY plant. A majority of the interviewed workers also stated that these facilities were clean and well-maintained. Employees were free to use toilets and drinking stations at any time. A small number of workers indicated that they were required to notify the line leader in case a worker needed to leave a workstation, they also indicated that receiving permission was not a problem.

B. Medical Clinic

The medical clinic at Guan Yao seems appears to have been downsized since ICCA's last audit of this facility in March 2004. The clinic now has two medical doctors, one on duty at a time. The doctor working the afternoon shift

stays over and sleeps on the premises until 7:30 AM the next morning. This compares with three medical doctors on staff that provided coverage on 24/7 basis. The current level of medical staffing meets the requirements of Mattel GMP.

The doctor on duty during ICCA's visit indicated they currently treat mostly common colds. The medical supplies stocked at the clinic confirmed this situation. Every other medical condition including minor injuries is treated at the local hospital which is 3 minutes away. The clinic is run by the hospital and the doctors are hospital employees. No records of injuries are kept at the clinic. There were no records available as to the number of employees treated for common colds.

C. Kitchen and Canteen

The kitchen and canteen as facilities are quite spacious and well maintained. The factory provides four meals a day and garbage is picked-up twice a day.

D. Dormitories

There are four dormitories. All four together dormitories can accommodate 6,992 people. Of these, three were occupied at the time of the audit. Dormitory #3 is not presently being utilized. Dormitory #4 which was built in 2000 is excellent while dormitory #1 built in 1986 and dormitory 2 built in 1995 are in need of improving and updating. Dormitory #1 houses 20 people in each room. It does not have sufficient number of toilets to meet GMP specifications; nevertheless, it meets all other requirements of GMP specifications.

Dormitory #2 houses 12 people in a room being part of a complex of 3 bedrooms, a lavatory, and showers. The complex has only one door, which may be a problem for people trying to sleep while other people are moving in and out of their sleeping quarters during shift changes.

E. Recreation Facilities

For the leisure activities, GY factory provides library and karaoke rooms. TV sets and radios are available to employees in common areas. The factory also provides sports facilities, which include soccer and badminton fields, table tennis, gym, and basketball court.

2.7. 6 Documentation, Compliances, Surveillances, and Findings

- a. Pollutant Discharge permit is valid through June 15, 2009. However no Annual Pollutant Discharge Registration Form has been prepared by the plant and submitted to EPB.

- b. An air emissions monitoring report on July 21, 2006 showed that the four monitoring parameters i.e., benzene, toluene, xylene total measured in the air emissions meet the applicable limits.
- c. Completion Inspection Monitoring for the onsite Wastewater Treatment Plant (WWTP) approval was issued on March 14, 2003. A domestic wastewater monitoring report on December 2006 stated that the Chemical Oxygen Demand (COD) and Biological Oxygen Demand (BOD) in domestic wastewater discharged from the Site was over the Class II limits of the *Guangdong Provincial Water Pollutants Discharge Limit*
- d. A report prepared by Guangzhou Environmental Protection Science Research Institute on June 20, 2004 showed that the boundary noise at all four boundaries of the Site exceeded the applicable limits. This situation was also reported in ICCA Audit Report dated March 29, 2004. No updated boundary noise monitoring has been conducted since and the GY management has reported that no noise abatement system has been installed to reduce boundary noise.
- e. GY management reported that inter-city hazardous waste transfer approval was in the renewal process.
- f. An internal indoor noise monitoring report for tests conducted in July 2006 indicated that noise levels at the hair curling area A1, regrinding areas C2 and C3 and roto-casting areas A4 and B4 exceeded the 8 hour indoor noise exposure legal limits and GMP requirements. It was noted that at these work areas some employees did not wear hearing protection while working. No external working noise monitoring report was available at the time of this site visit.
- g. An internal heat stress monitoring report for tests conducted in August 2006 indicated that the ambient temperature at the assembly and packaging areas, hair rooting, sewing, die-cutting, roto-casting and spray painting were higher than the GMP allowable of 30 degrees C.

2.8 Non-Job Related Skills Enhancement Programs

In addition to the job-related training, workers at GY can participate in the computer class, first aid and female health training, road traffic safety as well as occupational health and safety trainings offered by an OHS specialist.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1. Wages, Working Hours and Employee Treatment

Based on our audit findings, we rank management performance in this area to be quite satisfactory. Overall, the worker treatment is excellent. GY management has created open and frequent channels of communications with the workers at all levels. There is no evidence of worker mistreatment or discrimination of any kind.

An area that needs further improvement: GY must take further action to ensure that the plant does not exceed the GMP limits with regards to maximum hours to be worked. The current limits prescribed in the GMP are already quite generous and far exceed the provisions of the China labor laws.

3.2. Physical Facilities and Workplace Safety

The Guan Yao plant is a comparatively old facility and requires additional managerial attention to keep it at a desirable level of operations. Although the overall facility is basically acceptable, it does require a stricter enforcing of PPE requirements, improved housekeeping, maintenance and up dating its documentation, and compliance. Addressing the shortcomings detailed in this audit especially with regard to the health and safety issues should be a top priority on the part of GY management.

II. HWA TAI PLANT (MEC)

(Mattel Engineering China)
(Precision Moulds Ltd. - PML)

1. INTRODUCTION

This report is based on the field audit of Mattel Engineering China Plant (MEC), also known as the Hwa Tai plant. Previous audit reports referred to the MEC plant as Precision Moulds Ltd. (PML). The facility is located in Guan Yao Town, NanHai district, Guang Dong Province, China. Primary function of the plant is to design and build molds, tools and other fixtures used in Mattel's fabrication processes worldwide. The MEC plant operates under a processing fee agreement between Mattel and the local government. However, for the purpose of this audit, the plant is considered a Mattel controlled facility, which is totally dedicated to the manufacturing of Mattel products. This is the third formal audit of the facility and was conducted in March 2007. The first audit of this plant was conducted in 1999, and the second visit took place in 2003. Published reports of previous audits are available at Mattel's and ICCA's websites.

MEC currently employs approximately 330 workers. Of these, 75% are direct labor and the remaining 25% are administrative and managerial personnel. 80% of the workforce is male, and the average age of workers is 30 years. About 5% of workers have college degrees and 60% have completed high school. The workforce tends to be quite stable and experienced. The average length of employment in MEC is 5 years. For less than 13% of the interviewed employees, this was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

About 20% of MEC workers got hired through agencies, where the agency fee was paid by the company. The remaining workers are hired through local advertising and referrals from current employees and friends. Each new hire is provided an orientation booklet which covers EHS, GMP, wages, hours, benefits and other pertinent employment information. New hires also undergo a general medical examination arranged by MEC and paid for by the employee.

The company provides orientation to all newly recruited employees. This includes information on rules of conduct, disciplinary measures, and grievance procedures, living and working arrangements, wages, deductions, and payments. Among the interviewed workers, 87% confirmed these details.

a. Probation Period

All workers undergo a probation period for one month, which conforms to China labor law and GMP. Interviewed workers stated that they had to work on probation upon hiring. For those workers hired prior to mid-2004 (63%), the probation period lasted three months. ICCA's audit of the payroll data, and confidential one-on-one worker interviews confirmed that all workers were paid at least the minimum wage rate and appropriate overtime premiums during the probation period.

b. Workers' Employment Contracts

Upon employment, each worker receives a signed, 1-year contract from MEC. The contract describes the hours to be worked, wages, and benefits involved in the workers' employment. All audited workers' personnel files contained a signed contract, outlining the terms of their employment.

c. Personnel Files

MEC maintains good records in workers' personnel files. These contain employment registration, copy of a picture ID, disciplinary record, and medical check-up records. In addition, company records include illness, injury, and disciplinary action, annual leave, and maternity leave reports.

2.2 GMP Awareness

Mattel's GMP has been made available to workers via distributed booklets, posters and notice-board postings. Senior managers address employee concerns and provide information updates at tea-talks on a monthly basis. 67% of the interviewed workers indicated their familiarity with the GMP.

2.3 Payroll System and Record Keeping

At MEC, wages are determined on an hourly basis. A regular workweek is defined as Monday through Friday, 40 hours per week. Any additional hours during the regular workweek are paid at 1.5 times the regular rate. Work on Sundays or any other designated rest day work is paid at twice the regular wage rate. Work hours are recorded on monthly time cards. All interviewed workers unanimously confirmed that they punched their own cards.

a. Production Processes and Work Hours

Primary production activity at the MEC plant is the design, manufacturing and maintenance of molds that are used in Mattel's manufacturing facilities worldwide.

The plant does not have an established peak production period, and operates on a six-day, 10 hrs / day, or 60 hrs per week schedule. Plant management monitors weekly work hours to ensure that workers do not exceed 11 hours per day or 72 hours per week, as well as receiving at least one rest day per week.

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 policies².

The revised GMP requirements are:

- Workers will not be scheduled 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.

MEC has secured local permissions in the form of a Consolidated Work Hours Permission³ which allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs.

ICCA's audit of the payroll records of a random sample of workers showed the plant had exceeded these limits during the audited period (July-December,

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 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.

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

2006) when over 75% of the workers had worked in excess of 72 hours and up to 77 hours per week.

b. Minimum Wages

The minimum wage rate applicable in the MEC's district is RMB690 per month. All direct labor workers receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times the regular wage rate. ICCA audit confirmed that all workers were properly paid their basic monthly salaries and overtime wages.

The average take-home pay for MEC workers is around RMB3500. Due to the high-skilled nature of the work performed at MEC, most workers' wages far exceed the minimum wage rate. Workers are also entitled to special skills, night shift, and attendance bonuses, which average around RMB330 per month. In addition to regular wages, workers are also entitled to seniority allowances based on length of service with the plant.

c. Wages for Overtime Work

All workers at MEC receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. ICCA audit confirms that all overtime wages were paid properly.

d. Benefits

MEC pays all legally mandated social insurance to all its workers. Factory records are verified and considered appropriate by the local labor bureau and confirmed as to their accuracy. MEC is also in full compliance with regard to other applicable benefits, e.g., maternity leave and annual leave.

e. Deductions

Workers are charged RMB60 for dormitory rent and a maximum of maximum of RMB90 for food. Payroll records show that actual food deductions ranged from RMB39 to RMB90, and that about 33% of workers paid dorm charges. These expenses are optional. Workers have a choice to make alternate arrangements. A number of interviewed workers (17%) complained that meal charges were deducted from their wages regardless of whether or not workers actually eat their meals at the factory canteen. The plant management responded that employees are free to opt out by providing a 7-day notice to management.

Employees' share of medical social insurance premiums are the only other deductions from the workers' pay. All interviewed workers confirmed that they understood all their pay, deductions and other elements of their pay stubs.

2.4 Workplace Discipline of Employees

MEC has written policies with regard to employee discipline. Workers are informed about these policies and procedures during the orientation period. Most disciplinary actions are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department and the workers' representative body. Personnel files indicate that 15% of the workers were subjected to disciplinary action during 2006. The plant does not impose any cash fines as a disciplinary measure.

2.5 Freedom of Association, Discrimination, and Access to Management

MEC's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. The factory also recognizes employees' right to join a lawful organization or association. Workers are promoted according to appropriate factory procedures. These policies are explained to the employees at the initial factory orientation and posted on the notice boards throughout factory facilities. Interviewed workers agreed that the factory does not discriminate any workers in regard to promotion or wage increase based on sex, race, religion or ethnicity.

Line leaders address workers at weekly workshop meetings. Daily communication channels consist of line leader interactions when necessary. For anonymous complaints and suggestions, suggestion boxes are available at the factory and at the dormitories.

2.6 Protection from Harassment

Workers at MEC are protected from any type of verbal or physical harassment via a set of factory policies. Interviewed workers confirmed that there were no cases of abuses neither on the part of the workers or supervisors during the 3 months prior to the ICCA audit.

2.7 Workplace Operating Environment

MEC's manufacturing facility consists of two plants. The older one was built in 1994 and contains 6233.6 sq. m. of floor areas. The newer one was built in 2001 and has 900 sq. m. of floor space.

2.7. 1. Plant Maintenance and Fire Prevention

ICCA's examination of relevant documents indicated that the plant was, in general, full compliance with regard to overall maintenance and upkeep, fire prevention, and evacuation. Workers interviewed by ICCA team unanimously confirmed that the factory at large, as well as their workstations, is kept clean. 93% of the workers stated that the ventilation is adequate and 87% of the workers noted that the temperature level is comfortable. 17% of the interviewed workers, however, felt that they were exposed to health and safety hazard at their workstations.

A walk-through of plant facilities by the ICCA team also indicated certain shortcomings requiring further attention and remediation.

- Three 10KV transformers and associated power lines installed adjacent to engine generator room are not properly maintained. They are also enclosed with a fence that is shorter than one meter and have less than three meters of free space surrounding them. Per the Electricity Safety Operation Rule (DL408-1991) the safety margin should be at least 3 meters in normal operation. As the voltage increases the safety margin must also increase accordingly. In addition, the Rule states that there should be a fence at least 1.7 meters high and locked. The key to be held by the person in charge of the transformer(s).
- The roof of the building #1 and its associated equipment are not maintained properly. There are several bad electrical connections, leaking pump packing resulting in accumulated water, water chiller corroded, and scrap waste, including 5 gallon drums. Fungicide and herbicide was observed on the roof.

2.7.2. Hazard Management, Storage and Waste Disposal

Workers interviewed by the ICCA team confirmed that both the factory-at-large as well as their workstations were generally kept clean. 93% of the workers expressed their satisfaction with ventilation and 87% of the workers reported comfortable level of indoor temperature.

The factory walk through by the ICCA team revealed certain deficiencies in proper storage and waste management.

- Waste storage: metal debris containing waste emulsification liquid was observed within room, oil stains on floor and insufficient warning sign.
- Chemical storage: There were insufficient warning signs and labels.
- Engine generator exhausts was not tested. Engine generator exhausts emissions have to be measured in accordance with *Guangdong Provincial*

Emission Limits (DB44/27-2001). The regulation states that “soot concentrations for standby engine generator sets cannot exceed 80.5 mg/cubic meter and 60.0 mg/cubic meter for stacks shorter than 15 meters.”

- MSDS was not available at work place where chemicals are used.
- MSDS of some chemicals were in English only.

2.7.3. Workplace Safety

The plant places strong emphasis on requiring all employees to use proper personal safety equipment (PPE). Interviewed workers confirmed that safety equipment and personal protective equipment are provided by the factory free of charge. Workers are trained on the proper use of this equipment. Eighty-three percent of interviewed workers confirmed that they used PPE regularly. The remaining workers stated that the current level of PPE (masks and earplugs) was not sufficient.

The plant walk through by the ICCA team found many lapses in the proper usage of the PPE by the workers suggesting that floor supervisors need to pay more attention to the employee use of the PPE. Specific observations include:

- Some employees doing metal polishing were not wearing safety glasses. The use of safety glasses was not being strictly enforced.
- The use of safety glasses was not being strictly enforced. Hand spraying workers were not wearing protective gloves.

It should be noted here that ICCA's 2004 audit of the plant observed similar shortcomings in MEC's housekeeping and safety management practices:

- i. Improvements in required housekeeping functions and standards.
- ii. Stored chemicals should be properly labeled in English and Chinese languages.
- iii. Certain building sections contained frayed wiring that needed to be replaced. The factory should establish a regular inspection scheduled for wiring and other materials and installation that are subject to periodic deterioration.

2.7.4. Plant Amenities

A. Toilets and Drinking Water

The factory receives high marks from 87% of the interviewed workers who confirmed that there were adequate number of toilets and drinking stations in the factor. Furthermore, these were generally kept clean and that workers had access to them when needed.

B. Medical Clinic

The very small size of the workforce makes it infeasible to have an on-site clinic. This is in accord with GMP Standards. The Guan Yao Hospital clinic is used by the company. It is a two minute walk from the plant.

C. Kitchen and Canteen

The canteen serves three meals a day and has the capacity to serve the entire worker population at the same time. Cafeteria workers are given medical checkups yearly and are trained in food handling. Garbage is picked up three times a day. The canteen is well kept, clean and spacious.

Lunch break at MEC lasts 60 minutes. Ninety-three percent of the workers eat at least one meal at the factory canteen. Although workers seem to be satisfied with the amount of food they receive during their lunch breaks, about 25% of the interviewed workers complained about insufficient quality of food served at the canteen.

D. Dormitories

The factory has three dormitories with a capacity to house 258 workers. Thirty percent of the interviewed workers stay at the factory managed dormitories. The dormitories are well maintained, provide adequate recreation facilities and are well-equipped. Overall, their conditions exceed GMP standards.

2.7.5. Documentation, Compliances, Surveillances, and Findings

A. Environnent

- i. No completion report was available during site visit as required by Article 26 of Environmental Protection Law of PRC (1989). Management was unaware if Completion Inspection Monitoring has been conducted. No boundary noise monitoring has been conducted at the Site to date.

- ii. A domestic wastewater monitoring report conducted by Centre Test International (Shenzen) Ltd. (CTI) on December 4, 2006 stated that the concentration of Chemical Oxygen Demand (COD) and Biological Oxygen Demand (BOD) in the domestic wastewater discharged from the site exceeded Class II limits of *Guangdong Provincial Water Pollutants Discharge Limit (DB44/26-2001)*. The concentration of COD in the wastewater was 160mg/L vs. the standard of 130mg/L. The concentration of BOD was 33.8mg/L vs. the standard of 30.0mg/L.
- iii. Plant management reported that some hazardous waste (emulsification liquid containing metal debris) was being sold to an unlicensed hazardous waste collector. A service contract signed between the Site and Guangdong Recycle Co. on May 8, 2006 was available for ICCA review. Management reported that other hazardous wastes were collected by a licensed hazardous waste collector, Guangzhou Panyu Industrial Waste Reclamation Treatment Co. Ltd. However, the inter-city hazardous waste approval had expired in November 2006. Management reported that the approval was under review. The expired approval was not approved by the Guangzhou Municipal EFB.

B. Health and Safety

Management reports that the occupational medical examination is conducted once a year. The surveillances should also be conducted at entry and termination otherwise there are no baselines for evaluation to determine if personal injuries and sicknesses are job-incurred.

2.8 Extracurricular Activities

Although not required by Mattel GMP, MEC is offering a number of non job-related training programs for its employees. Workers at MEC can attend English language courses, computer class, safety training. The factory also offers library facilities and a dance studio. MEC workers also participate in a number of outreach programs, which include fundraising for local kindergarten and orphans house

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1. Wages, Working Hours and Employee Treatment

MEC has demonstrated a high level of overall performance and GMP compliance with regard treatment of workers, maintenance of employee regards pertaining to wages, working hours and other related matters. Plant management has created multiple channels of communication with workers. Employees generally feel satisfied with regard to their treatment at the plant concerning training, promotion, protection from harassment and fair treatment with regard to workplace discipline. They are also satisfied with the accuracy of record keeping and payment of appropriate wages for regular and overtime hours, benefits and deductions.

ICCA's primary area of concern in this regard has to do with scheduling work hours that exceed the GMP's current limits that are quite generous when compared to China's labor laws. This seems to be a persistent problem with all of Mattel's plants in China and needs to be by the company on a system-wide basis.

3. 2. Physical Facilities and Workplace Safety

The overall conditions at the factory with regard to physical environment, safety, and waste management have not markedly changed since ICCA's last visit to the factory in 2004. Overall housekeeping, while improved in some areas, has declined in others. Improvements in maintenance and safety of the high voltage transformer area needs prompt attention. The factory should institute a system of regular inspection and replacement schedule in all phases of physical maintenance and upkeep. The use of PPE needs to be more strictly enforced and discrepancies found in the 'walk-through' should be remedied. Greater attention during this audit was given to documentation than previously. The audit revealed several shortfalls regarding proper documentation, compliances and surveillances. They should be addressed promptly.

III. MATTEL DIE CAST PLANT (MDC)

1. INTRODUCTION

This report is based on the field audit of MDC plant. The plant is located in Foshan City, Guang Dong Province, China. The MDC plant operates under a processing fee agreement between Mattel and the local government. However, for the purposes of this audit, the plant is considered a Mattel controlled facility, which is dedicated to the manufacturing of Mattel products. This is the third formal audit of the facility and was conducted on March 22 - 23, 2007. Earlier audits of the MDC plant were conducted in 2000 and 2003. Published reports of previous audits are available at Mattel's and ICCA's websites.

MDC currently employs around 3150 workers. Of these, 95% are direct labor and the remaining 5% are administrative and managerial personnel. Throughout the year, the number of direct-labor employees range from a low of 2500 to 4500 during peak production periods. Average age of workers is 27.8 years. The education level of workers averages around 10 years of formal schooling. The average length of employment currently at MDC is 1.8 years. Among the workers interviewed by ICCA, less than one in five reported employment at MDC as their first job.

2. AUDIT FINDINGS – MANAGEMENT SYSTEMS

2.1 Recruitment and Hiring

Eighty percent of the workers got their jobs through direct application or through a reference of friends and relatives. The remaining 20% were recruited through advertising local media. Among the interviewed workers, the percentage of workers hired directly at the factory was 93%.

Upon hiring, all workers are given an orientation which includes an information session on employment terms and conditions, workplace safety and discipline, living accommodations, Mattel's GMP and other relevant issues. Interviewed workers also generally agreed that prior to starting work they received job-related training including proper use and safe operations of the equipment.

As part of their hiring process, and a pre-condition of employment, all workers take a general health medical test, which they have to pay for. This fact was confirmed by the workers interviewed by ICCA and verified by the factory provided payroll records. It should, however, be noted that the factory pays for medical tests for those employees who are exposed to occupational hazards as a part of their jobs.

In its follow-up, Mattel has agreed that the situation needs to be clarified and has proposed a plan of action in its formal response to ICCA's audit, which accompanies this report. ICCA is satisfied with this response, but plans to revisit this issue during the next round of audits to ensure that the new procedures have been effectively implemented.

a. Probation Period:

MDC's Management Compliance Report states that all workers are required to undergo a probation period of one month and that all workers are paid wages for regular and overtime work that is equal to those paid to regular employees. The one-month probationary period requirement was confirmed by the company's payroll records. Among the interviewed workers, however, 13% stated that their probation period was longer than one month; 15% stated that their wages were lower than the prevailing minimum wage, and in 47% of these cases workers' wages were lower by RMB20 than the minimum monthly wage.

b. Workers' Employment Contracts and Personnel Files

MDC maintains good records in its workers' files. Workers' files also include health check-up records, disciplinary records, and copies of picture IDs. Upon employment, each worker receives a signed contract from the plant as required by the labor laws of China and GMP standards. The contract covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. ICCA's audit confirmed that all workers had received a contract, copies of which were kept in their personnel files.

2.2 GMP Awareness

MDC's policy is to explain Mattel's GMP as a part of worker orientation and training. The Principles are also listed in the employee handbook. However, when asked about GMP, only one-half of the interviewed workers indicated their familiarity with the Principles.

2.3 Payroll System and Record Keeping

Workers use swipe-cards to record their time at work. Of interviewed workers who work in the off-site warehouse, 6% stated that the working hours are recorded manually by the supervisors. Electronic records obtained from the cards are compared to planned production schedules and the workers are paid for their overtime if production plans have called for overtime schedules.

Overtime accounting and payment for overtime work does not follow a standard practice. Due to the shift operation nature of work at MDC, line leaders

and material handlers, although comprising a small percentage of the total workforce, normally stay back for half to one hour to cover the shift change. The extra time spent by the line leader and material handler is compensated by time off during the same wage period. This is at the discretion of department supervisors. Workers may be paid overtime wages or given time-off in an alternate day, depending on the supervisors' decisions. Likewise, workers who work on their rest days are either given an alternate day off or are paid double wages. Plant management stated that payment or replacement days were awarded to workers within one month. However, ICCA could not verify this information because the plant had not kept any record of these payments.

These practices are inconsistent with GMP and are at odds with good management. While the workers are required to work to meet the factory's needs, the payment for this work is arbitrarily decided at the discretion of the management. Worse still, a significant part of these wages may be denied the workers until such time that they leave their employment at the factory.

ICCA can find no justification for these practices, which have the impact of denying workers prompt payment of the wages for completed work, and force them to take alternate day off when in fact they may have preferred to receive overtime pay in cash. It should also be noted that ICCA has not found instances of such conduct in any of ICCA's audits of Mattel's owned and operated plants and for that matter any of Mattel's top tier vendors.

a. Production Processes and Working Hours

The primary production processes at MDC are die-casting, painting, and assembly/packing operations. The off-peak workweek at the MDC plant is defined as six days. Peak periods involve a 66-hour workweek, which may extend to a 7-day, 70 hrs/ week schedule during very high peak periods.

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 policies⁴.

The revised GMP requirements are:

- Workers will not be scheduled 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;

⁴ 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.

- 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.

MDC has secured a 'consolidated hours permission' from the local labor bureau which allows it to schedule overtime hours in excess of legal limits for a limited period of time as long as the yearly total overtime hours stay within the yearly maximum.

ICCA's audit of payroll records revealed several instances where work schedules exceeded 72 hours/week during 2006. This finding, which represents a deviation from MDC's yearly production scheduling template was also reported in the MCR prior to the audit by plant management. It was, however, not possible to determine the extent of this practice, since payroll records reflected management's accounting methods, and did not necessarily mirror the workers' actual work hours.

These policies make it impossible for the ICCA audit team to ascertain that MDC's work hours comply with Mattel's GMP. The factory's time records show only the management's accounting of workers time in the plant, and not the actual days/times that the worker was at work.

Based on a careful analysis of the system of record keeping and the actual payroll records, ICCA concludes that MDC's accounting system lacks transparency. It also makes it impossible to verify the accuracy of record keeping. We cannot determine with any degree of assurance as to how much regular time and overtime was performed by workers in each day and the extent to which these work scheduled (regular and overtime hours) were in non-compliance with Mattel's GMP. Similarly, ICCA was unable to determine as to whether the workers were correctly paid for their regular and overtime work. The problem of obfuscation is further compounded by the fact that department supervisors may arbitrarily choose and manually record as to who would be paid cash wages and/or alternate time off for overtime work and work on their rest days.

Notwithstanding the uncertainty surrounding the extent of MDC's payroll practices for overtime accounting, ICCA auditors have concluded that in the case of 12% of the workers included in our audit, worker records showed unpaid overtime hours when management's time records (taken at face value) were compared to pay-stubs.

MDC management has stated that it is in the process of installing control systems to alert supervisors in advance if weekly work hours are to exceed 72; if the number of 60+ hour workweeks will exceed 17 within a year; and if number of consecutive workdays will exceed 13 for any worker.

These steps are indeed necessary and MDC's efforts to improve their record keeping are needed. The current system is prone to human error in record keeping. Although, reform of the system, along the lines indicated by MDC's management, is a welcome sign, we do not believe that these actions alone would be sufficient in creating a transparent and trustworthy record keeping system that would ensure compliance with Mattel's GMP. Mattel must take immediate steps to modify the actual practices with regard to payment of wages and eliminating the arbitrariness of determining by department supervisors as to how workers would be paid for overtime work.

b. Minimum Wages

The minimum wage rate in the MDC's district is RMB690 per month. The average take-home pay for MDC workers is around RMB1100 per month for combined regular and overtime work hours. Based on the written records, ICCA could confirm that all audited workers were paid at least the minimum wage rate for the hours that were recorded.

A similar situation applies to payment for unplanned work stoppages due material shortages or other scheduling problems. MDC states that all workers are paid minimum wages on an hourly basis. However, among the interviewed workers, 15% indicated that that they are not paid for the down-time.

c. Wages for Overtime Work

According to MDC's management, all direct labor workers are paid normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. MDC's policy also provides for 200% of minimum wage rate for non-replaced rest day work.

Given the current state of payroll record keeping, and variable payment systems, ICCA's audit could not confirm that overtime wages were paid properly to all workers who were eligible to receive such overtime wages. Payment of regular wages for overtime work is a violation of China labor laws and Mattel's GMP standards.

d. Benefits

MDC pays all legally mandated social insurance and related benefits. The plant also provides one week of paid annual leave to all workers upon completion of one year of service. Company records indicate that all entitled workers were granted their leave.

Sick Leave: MDC's policy for sick-leave benefits is to pay 45-70% of daily minimum wage (depending on their length of service) to the workers while on sick leave. This policy is also in-consistent with GMP and China labor law, which

require that sick leave pay should be at least 80% of the minimum wage for all workers.

e. Deductions

The plant charges RMB15 – RMB45 per month for dorm usage depending on tenure, and RMB171 for food each month. The employees are provided a food subsidy of RMB50 per month. Total deductions for food and dormitory rent amount to RMB186 - RMB216 per month. ICCA confirms that MDC is in compliance with Mattel's GMP with regard to deductions for dormitory and food charges.

2.4 Workplace Discipline of Employees

MDC has written policies with regard to employee discipline. The company has created a rating system that ranks different levels of employee misconduct requiring disciplinary action. Most instances of misconduct are resolved through verbal or written warning. However, in severe cases of misconduct, e.g., smoking on the manufacturing floor or stealing, it may lead to termination of employment. The factory does not impose cash fines as a disciplinary measure. Among the interviewed workers by ICCA, there were no reported incidents of employee misconduct or disciplinary action.

2.5 Freedom of Association, Discrimination, and Access to Management

MDC's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. The factory also recognizes all employees' right to join a lawful organization or association. Factory policies with regard to these issues are discussed at the orientation during initial hiring. They are also posted on the notice boards around the factory.

MDC's management conducts periodic meetings, e.g., tea-talks, with factory workers to discuss work-related issues. Suggestion boxes are available for workers to report any policy violations, work-related concerns and ideas for improvement. The factory, however, does not accept anonymous notes.

Interviewed workers generally confirmed that they are treated fairly and without any sort of discrimination by the factory managers (94%), supervisors (92%), and line leaders (85%).

2.6 Protection from Harassment

Interviewed workers at MDC were unanimous in their belief that all workers at the factory are treated in an appropriate manner, free of verbal or physical harassment by plant's management. However, in 10% of cases, workers complained of verbal and physical abuse on the part of line leaders. No cases of sexual abuse were reported by the interviewed workers.

2.7 Workplace Operating Environment

There has been a significant change in MDC's product mix from the previous ICCA audit, which was conducted in 2003. At that time, MDC was a totally dedicated facility metal die-casting. The factory had a relatively stable year-round work force of approximately 1,500 employees. At present, approximately 60% of the factory's output consists of plastic toys while the remaining 40% represents metal die-cast toys.

The change in product-mix has brought about changes in the composition of the work force, which has become subject to large seasonal fluctuations. There has also been a significant change in the equipment mix as well. The factory has installed many injection molding machines and has added more assembly lines. The factory's physical space of 88,000 sq. m. has been modified to accommodate the new manufacturing processes. MDC's management believes that its product mix will shift even more toward injection molding in the future.

2.7. 1. Plant Maintenance

The changes in the product mix and workforce levels have come at some cost to the physical layout, maintenance and upkeep of the facility. Housekeeping has slightly deteriorated. Combustible waste material was found in the storage corridor entrance on the top floor of Building C. Scrap furniture and machine parts were stored on the fourth floor balcony of Building C and on the roof of Building B. The issues presented here should be addressed and rectified as soon as it is feasible.

2.7.2 Hazard Management

A walk through of the plant's physical facilities by ICCA's team indicated certain deficiencies in safe storage and hazard waste disposal that would require further management attention and more stringent enforcement of workplace safety rules.

No warning signs or fully weathered proofed facilities were provided at the waste solvent and emulsification liquid drum storage area. House keeping needs improving in this area.

Approximately 30% of the interviewed workers indicated their dissatisfaction with the temperature level in the factory. Similarly, 21% complained about exposure to health and safety hazards at the work site, e.g., excessive noise, dust, and chemical odors.

2.7.3. Use of PPE

Plant management indicated that all employees are required to use appropriate PPE, which is regularly monitored by the line leaders and floor supervisors. Interviewed workers unanimously stated that they had received special training on the usage of safety equipment and personal protective equipment (PPE). They also stated that the PPE is provided by the factory free of charge. Eight-one percent of the interviewed workers use PPE on a regular basis, and another 13% use PPE occasionally.

A walk through of the factory floor by the ICCA team revealed that overall PPE usage is very good. However, several employees were not wearing masks in the spray painting area. While others in the die-casting and mold assembly areas were not wearing hearing protection.

2.7.4. Plant Amenities

A. Toilets and Drinking Water

Workers at MDC are satisfied with the number of toilets and drinking stations. They also believe that these facilities are well-kept and maintained. Line leaders use a system of permits to allow workers to leave their workstation in order to use toilets or drink water. There is one leave permit for every 30 workers. In ICCA's sample, 19% of the workers complained that there were not enough permits for the workers to leave their work stations when necessary.

B. Medical Clinic

The medical clinic is quite good. It is staffed with three doctors who provide full coverage. It is essentially similar size and layout as the one observed in ICCA's previous audit in 2003. Therefore, it may need some enlargement to accommodate the larger workforce levels.

All medical care, including personal ailments, is provided free of charge. Workers only pay for the cost of medicines administered for personal services. During February 2006, i.e., the month prior to ICCA's visit, about 320 workers were treated at the clinic.

C. Kitchen and Canteen

The kitchen and canteen facilities are quite good, clean and well serviced. Lunch break is 40 minutes long. Another 20 minute break is available in the afternoon. The canteen offers 3 meals a day and serves about 3000 workers. When asked about their opinion in regard to the services provided by the canteen, 40% of workers complained about the quality and 30% - about quantity of the food served. Other minor complaints included slippery floors at the canteen, long lines.

D. Dormitories

MDC operates one dormitory building, which was built in 1998. The dormitory accommodates about 1440 people, with a maximum occupancy of 8 people per room. The facility was originally designed to resemble a campus with matching dormitories to accommodate 1418 employees. The dormitory has since been expanded to accommodate 1440 workers. The extra space seems to have been acquired by converting some of the first floor space previously used for employee entertainment and education purposes.

The ratio of showers and toilets per person is 1/12 which is within GMP requirements. The dormitories are as good, if not better, than any others previously inspected by ICCA's audit teams.

Of the interviewed workers, 21% lived in the factory's dormitory. All residents confirmed that the dormitory is kept clean, and that they have adequate access to showers, toilets, and laundry facilities. Each worker in the dormitory has a private bed and a locker.

E. Recreation Facilities

For the leisure activities, MDC factory provides TV sets and radios to employees in common areas. The factory also provides sports facilities, which include table tennis as well as a gym.

2.7.5. Documentation, Compliances, and Findings

A. Environmental

A report issued by the Centre Test International (Shenzen) Ltd (CTI) on November 3, 2006 stated that soot concentration from the engine generators used for standby power was 80.5mg/cubic meter. The allowable concentration specified in *Guangdong Provincial Air Pollutants Emission Limits (DB44/27-2001)* is 60 mg/cubic meter for stacks shorter than 15 meters.

Two air emission reports prepared by CTI on June 15, 2006 and May 31,

2006 state that the concentration of nitrous oxide from the engine generators exceeded the allowable limit of 60mg/cubic meter for stacks shorter than 15 meters. Test readings were in the range of 3,278 to 5,287 mg/cubic meter.

Water analysis conducted by CTI on August 18, 2006 and May 31, 2006 states that the bacterial limits found in water samples from fountain #0 (442/CFU/ml), fountain #1 (490 CFU/ml), fountain #6 (530CFU/ml), fountain #16 (570 CFU/ml), fountain #19(157 CFU/ml) and in the zinc reclaiming room fountain (114 CFU/ml) exceeded the applicable limit of 100CFU/ml as per the regulation in *Sanitary Regulations on Domestic Drinking Water (2001)*.

CTI's boundary noise report, dated November 3, 2006, states the Site met the Class III limits of the *Standard for Noise at Boundary of Industrial Enterprises (GB 12348-1990)*. In the 2004 audit the boundary noise limits were exceeded. Corrective action must have been taken. However, according to the EIA report prepared for introducing plastic toy production on June 13, 2005 the Site is now subjected to Class II limits of GB12348-1990 in the daytime. A June 15, 2006 report states that the noise generated by the engine generators exceeds the daytime Class II limits of *GB12348-1990*. The plant has not provided ICCA with report of any corrective action.

B. Health and Safety

No *Occupational Disease Hazard Pre-assessment (ODHA)* has been prepared for the plastic toy production area introduced in 2005. Thus no subsequent approvals were obtained from the appropriate health authorities. The ODHA report must be approved by the health authority before a construction project is started. However, the powers of the Authority vary from municipal health bureaus to state health departments. Therefore the plant should contact the local health authority, such as the Health Bureau, to verify which level of the health authority has the authorization power and should apply for the applicable approval.

In addition, the plant should also engage a licensed institute to conduct a Completion Acceptance Inspection of occupational hazards prevention and control equipment. The Completion Acceptance Inspection that approves the ODHA report is required to ensure that the required occupational hazards prevention and control equipment are integrated into all new, expansion or modification projects at the trial operational stage.

2.8 Extracurricular Activities

Although not required by Mattel GMP, MDC offers its workers an opportunity to participate in a number of other training courses offered by the factory. These include English language courses, computer literacy training, fire safety training, and personal hygiene and AIDS awareness courses. The factory

also offers sports and recreation facilities for its workers, such as basketball court, table tennis, TV and library rooms.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1. Wages, Working Hours and Employee Treatment

MDC's current management policies and programs indicate a notable deterioration in the quality of both systems and their implementation especially as they pertain to the accuracy and transparency of record keeping of the workers payroll, payment of accurate wages for overtime hours including recording of overtime hours and work performed on rest days. This situation is further complicated by arbitrary and inconsistent implementation of work rules with regard to overtime hours on normal and rest days.

ICCA would strongly urge Mattel's internal audit department to undertake a thorough review of MDC's policies and procedures in the indicated areas and to ensure that all required changes are implemented promptly and efficiently. These would be undertaken within the next six months but no later than June 30, 2008. Mattel internal audit department should also provide ICCA with a report of its findings. ICCA may, at its own discretion, revisit the plant and do a full-scale audit on issues dealing with the workers' payrolls records and system of payment for wages and benefits.

On the positive side, ICCA noted a large measure of employee satisfaction in the areas of management communications, freedom of speech, and a workplace that is free from harassment and poor treatment of workers. Although, it is not clear to ICCA as to why the MDC management would reject anonymous suggestions in their complaint boxes. This is a standard practice in soliciting worker complaints otherwise the management is unlikely to learn about "real" conditions in the factory because workers would be afraid of filing complaints for fear of reprisals from their supervisors.

3. 2. Physical Facilities and Workplace Safety

The plant also receives good marks from the workers and the ICCA's audit team with regard to the overall condition of dormitories, kitchen and canteen facilities, medical clinic, and recreational facilities.

The physical upkeep and plant maintenance is satisfactory although some improvement in individual areas is called for. These have been detailed in the main body of this report.

IV. CHANG AN PLANT (CA)

1. INTRODUCTION

This report is based on the field audit of CA plant, which is located in Dongguan City, Guang Dong Province, China. The CA plant operates under a processing fee agreement between Mattel and the local government. However, for the purposes of this audit, CA is considered a Mattel managed facility, which is dedicated to the manufacturing of Mattel products. This is the third formal audit of the facility and was conducted on March 23 - 24, 2007. Earlier audits of the CA plant were conducted in 2000 and 2003. Published reports of previous audits are available at Mattel's and ICCA's websites.

CA currently employs approximately 5700 workers. Of these, 94% are direct labor and the remaining 6% are administrative and managerial personnel. Almost 90% of the workers at the factory are female. The average age of the workers is 25 years and their education level is around 9 years of formal schooling. Throughout the year, the number of direct-labor employees range from a low of 4100 to a high of 8600 during peak production periods.

2. AUDIT FINDINGS

ICCA would like to note for the record that CA management was less than cooperative in assisting the ICCA audit team for interviewing workers that were randomly selected for this purpose. The management was unable to provide a list of employees working on the day of the audit. The list provided consisted of all workers on the payroll, this made it difficult of ICCA to select employees for the interview process and created delays. This is an important part of the audit protocols where a random selection ensures that the workers so selected would represent a statistically valid representation of the plant's entire workforce. In the first wave of interviews, CA's management declined to provide a majority of the workers selected for interviews indicating that their positions in the assembly lines made it impossible for them to be taken out for this purpose. The situation deteriorated to the point that ICCA was seriously concerned as to whether the audit could be carried out in an effective manner since we could not ensure the overall quality and integrity of the worker-sample. It was only through the direct intervention of Mattel's representative accompanying the audit team that CA's top management agreed to compromise whereby ICCA could continue with the interview process by making suitable substitutions in its sample.

2.1 Recruitment and Hiring

Eight-seven percent of the CA workers are hired through walk-in applications or through referrals from friends and family members. For 62% of the interviewed employees, this was their first job. The remaining 13% are provided by recruitment or government agencies or other means.

All workers are required to undergo an orientation at the time of initial hiring. This orientation includes, among others, terms and conditions of employment, workplace safety and discipline, living accommodations, and other relevant matters. Among the interviewed workers, 80% indicated that they received an orientation at the time they were hired at the plant.

Fee for Medical Examination

All workers hired at the CA facility are required to undergo a medical examination as a condition of employment. The cost of this medical examination is paid by the workers. In its follow-up, Mattel has agreed that the situation needs to be clarified and has proposed a plan of action in its formal response to ICCA's audit, which accompanies this report. ICCA is satisfied with this response, but plans to revisit this issue during the next round of audits to ensure that the new procedures have been effectively implemented.

Initial Deposit:

Among the interviewed workers, 50% reported that the plant required them to leave a deposit at the time with the factory. This deposit was either RMB500 or RMB800. The interviewed workers were quite confused and uncertain as to the reason for this deposit. However, approximately one-third stated their belief that this deposit was meant to prevent workers from leaving their job before the completion of their contract and also to discourage them from leaving during the peak production period.

CA's management, in meetings with the ICCA team, disputed the fact of mandatory deposit as well as the reasons given for it by the interviewed workers. The management claimed that the workers had interpreted the normal time lag of 19-22 days between pay-period-end and payday to mean a compulsory deposit being withheld by the factory.

ICCA is not satisfied with the credibility of this explanation. In the first place, the time lag of up to 30 days is common practice in all the plants (both Mattel owned and operated as well as vendor operated) audited by ICCA and is well understood by the workers. The issue here is not delayed payment of normal salary but a fixed amount of money, which is held until workers' contract expire withheld by the plant from the workers regardless of their salaries.

Interviewed workers spoke of a specific amount, i.e., either RMB500 or RMB800, which did not correspond to their monthly wages.

In a subsequent statement, ICCA was informed that CA required all workers to sign a contract indicating that in the event either party breaks the contract, it would be required to pay a compensation of RMB500 or RMB800 to the other party. Accepting this statement at face value, ICCA objects to the severity of this condition on a variety of grounds.

- a. In all of ICCA's experience of Mattel audits for almost nine years, we have never come across such a penalty clause in any of Mattel's owned/operated or vendor plants.
- b. This fee amounts to almost one month's minimum wage and becomes punitive when the penalty clause provides for no extenuating circumstances.

A normal operating condition of the industry is seasonal employment with high turnover rates, which is equally true for CA. Since no other Mattel-affiliated plant audited by ICCA imposes such a harsh condition, we see no reason why CA should resort such penalties.

- c. Although GMP check list is silent on this issue, such a penalty seems counter to the spirit of GMP, which calls for fair and equitable treatment of workers.
- d. Plant management has asserted that imposition of such a clause is permissible under China's labor laws. ICCA would like Mattel to provide us with a definitive legal opinion on this issue and in particular, whether there should be some escape for such a penalty because of extenuating circumstances.

In its own audit report, Mattel has indicated that based on the information available, the company has been unable to resolve the discrepancy between the information provided by the interviewed workers and the factory's payroll records. Notwithstanding, the company has taken the following corrective action with immediate effect:

- a. CA's employee book will clearly state that workers are not required to make any deposits, which would be subject to forfeiture in the event that a worker leaves the company prior to the completion of the contract duration.
- b. All new hired employees will be made aware of this policy during pre-employment orientation. This information will also be included in the employee's handbook.

Probation Period:

China labor law⁵ provides varying probationary period based on the length of a worker's employment contract. It mandates that probationary period for a contract of less than 6 months cannot exceed fifteen days. For contracts of 6-12 months, the maximum allowable probation period is 30 days, which may extend to 60 days for a contract of between 1 to 2 years.

CA's Management Compliance Report (MCR) states that the required probation period is only three days during which the factory can terminate a worker's employment without mandatory compensation that required to be paid to workers when their contract is voided by the factory. However, among the workers interviewed by ICCA, there was wide divergence as to their own probation. Among the interviewed workers, only about 28% of the workers stated that their probation period was 3 days. For the remainder, the reported probation period was between 7-20 days (25%), between 21-30 days (27%), and the rest between 1-3 months. ICCA audit of workers' payroll records revealed that for 11% of the audited workers, the applicable probation period length was actually longer than legally prescribed (1.5% exceeded the 15 days limit for a six-month contract; 3% exceeded the 30 days limit for a one-year contract; and 4.5% exceeded the 60 days limit for a two-year contract).

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. ICCA's audit confirmed that all workers had received a contract whose duration ranged from 6 months to three years, copies of which were kept in their personnel files.

An unusual clause in CA's employment contract offers the workers an option of enrolling for living in the dormitories and signing up for the company provided meal plans. However, once workers have enrolled in either of these plans, the monthly charges become mandatory for the entire duration of their contracts regardless of whether or not they actually use these amenities. This is a highly restrictive practice and contrary to the best interest of the workers. Even if the intentions of the plant management are to minimize unforeseen changes, the workers should be permitted to opt out of these arrangements with prior notice of one or two months. In ICCA's opinion, this is an unwarranted burden imposed on the workers. It is also a violation of GMP standards, which indicates that living in the dormitories and eating in the company's cafeteria must be voluntary. Therefore, this restriction must be immediately removed from the workers' contracts.

In the sample of workers audited by ICCA, the payroll data showed that every one of the workers had dormitory and meal charges deducted from their

⁵ Article 3 of Circular on the Issues Related to Implementation of Labor Contract System.

monthly paychecks. A little over one-fourth of the interviewed workers stated that they had to pay the cafeteria charges regardless of whether or not they ate at the cafeteria. Among the interviewed workers, 73% indicated that they lived in the company provided dormitory, and 100% of those who did, indicated that it was mandatory.

In ICCA's opinion, this further confirms that Chan An management seems to have arbitrarily created mandatory conditions that force workers to pay for the dormitory living and cafeteria eating even when they actually do not make use of these facilities. ICCA concludes that these practices are in violation of GMP in that they effectively reduce workers wages. These practices must be discontinued immediately. ICCA would go so far as to suggest that Mattel's internal audit department undertake an analysis of the workers' payroll records to identify the cases where workers were forced into mandatory dormitory and canteen sign-ups at the time of their contract renewal and where appropriate seek refund of these charges and return the money to the impacted workers.

Personnel Files

The plant maintains good records in its workers' files. Each worker has a signed contract on file. Personnel files also include copies of health check and medical records; picture IDs, GMP in local language and employee handbook. In addition, company records kept by function include PPE distribution, injury reports and maternity leave reports.

2.2 GMP Awareness

Among the workers interviewed by ICCA, GMP awareness was rather low with only 32% of the workers indicating awareness of Mattel's GMP. The remainder of the workers had not heard of GMP and was not aware of what it meant for them.

2.3 Payroll System and Record Keeping

Line supervisors record daily work hours manually, which the workers sign once every week to confirm their accuracy. The line supervisors' records, however, do not indicate either the start or termination time of particular individual shifts. Daily time-record sheets only report the number of hours worked each day for each employee. ICCA's auditors noted that employees' attendance records were without exception identical for all workers, mirroring the standard production scheduling template. CA workers are paid based on a piece-rate system. However, if a worker's piece-rate earnings fall below the minimum wage rate, they are guaranteed to earn at least the minimum wage for their actual work hours. A problem, however, arises because of the fact that

some part of workers' time is manually recorded and paid for in cash or time-off based on the discretion of the department supervisor. Therefore, it is impossible to determine the extent to which were accurately paid for regular and overtime hours based on the workers' time sheet and payroll records.

ICCA finds it inappropriate as to why such a large facility, which is totally dedicated to manufacturing Mattel's products, continues to resort to manual record keeping, which is prone to human error as well as lacking in verifiability and transparency. Moreover, since the manual records show only the scheduled time and not the actual time worked, the usefulness of such data keeping is open to question.

a. Production Processes and Working Hours

The primary production processes at CA are molding, painting, cutting sewing, assembly, and packaging. The workweek at the CA plant is defined as six days, Monday through Saturday. CA's production planning template calls for a maximum of 64.5 hrs/ week June – September, and 60 hrs/ week during the remainder of the year.

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 policies⁶.

The revised GMP requirements are:

- Workers will not be scheduled 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.

CA has secured permission from the local labor bureau for its yearly production scheduling practices which exceed the federally stated limits. These permissions allow CA to schedule up to 64.5 hours/week or 10.75 hours/day during June – September, and up to 60 hours/week or 10 hours/day at other times.

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 longer workdays. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

Audited payroll records indicate work schedules in excess of 60 hours/week for the months of May thru September. This schedule represents more than 17 weeks of peak-period schedule. According to CA management, during the month of May, which is not a peak period month, the plant asked for and received approval from Mattel's Hong Kong headquarters to implement peak-period schedules which exceeded the 60-hour workweek.

The plant has a policy of replacing the rest-day work within one week. CA's management indicated that this policy was strictly enforced to ensure that no worker would work for more than 13 consecutive days throughout the year. ICCA's audit confirmed that this policy was fully implemented.

b. Minimum Wages

The minimum wage rate in the CA's district is RMB690 per month. Workers are paid minimum wages on an hourly basis. All audited workers' payroll records show that they were paid at least the minimum wage rate. Audit findings confirmed that workers' take-home pay, based on the piece-rate system, equals or exceeds the legally guaranteed minimum monthly wage. Workers are also entitled to seniority bonuses after one year of service at the factory. In instances of unplanned work stoppages due material shortages or other scheduling problems, workers are paid on the basis of minimum hourly rate. The average take-home pay for CA workers is around RMB1083 per month, for combined regular and overtime work hours.

c. Wages for Overtime Work

CA pays direct labor the minimum normal pay for the first 40 hours per week. Overtime wage rates are 1.5 times the normal wage rates. In certain cases when rest-day work is scheduled, the company policy is to award a replacement day off within one week. CA's policy also provides for 200% of minimum wage rate for non-replaced rest day work. ICCA's audit confirmed that all overtime wages were paid properly.

d. Benefits

CA pays all legally mandated social insurance and related benefits. The plant provides one week of paid annual leave to all workers upon completion of one year of service. The factory also gives the workers an option to receive cash for in lieu of vacation if they choose to do so. Factory records indicate that all entitled workers were either paid or granted leave.

Sick Leave: Another deviation from the GMP standards and China labor laws is CA's policy for sick-leave benefits where the factory pays between 60-100% of daily minimum wage to the workers on sick leave. The number of payable daily wages increase with workers' length of employment at the factory,

while the applicable GMP standard and China labor law stipulates at least 80% regardless of tenure. This policy is inconsistent with the Chinese labor law.

e. Deductions

The factory charges a combined total of RMB295 for dormitory rent and meals. ICCA's payroll audit confirmed the accuracy of this deduction, together with the fact that the total amount is well within the maximum limited stipulated in GMP which indicates that the total charges for food and dormitory rent should not exceed 50% of a worker's minimum monthly wage.

It was noted earlier that workers had to opt in or out of meal/dorm plans at the time of contract signing only and must stay in the plan until the end of their contract. This policy - when coupled with ICCA's payroll record analysis which shows that 100% of audited production workers were charged dorm and meal deduction from their payroll records. The records suggest that CA workers are not at liberty to choose where they eat and stay while employed at the plant.

2.4 Workplace Discipline of Employees

CA has written policies with regard to employee discipline. The company has developed a rating system to rank employee misconduct in order of severity. Most disciplinary actions are handled through verbal and written warnings. The plant does not impose any cash fines as a disciplinary measure. Among the interviewed workers, there were no instances of disciplinary action against any of the workers.

2.5 Freedom of Association, Discrimination, and Access to Management

CA's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. This was confirmed by 93% of the interviewed workers. A very large majority of the workers also believed that promotion and pay practices at the plant were free of any religious, racial or ethnic discrimination. Eighty-one percent of the interviewed workers also indicated their awareness of a worker's' union and that they were free to join the union.

Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. CA management also conducts semi-annual meetings with the employees to discuss any work-related issues.

2.6 Protection from Harassment

Interviews with factory workers indicated that CA maintains a fair and harassment-free work environment. Workers were unanimous in their positive expressions with regard to fair treatment on the part of line leaders, supervisors and senior management. Interviewed workers also confirmed that they were not aware of any instances of verbal or physical abuse at the factory.

2.7 Workplace Operating Environment-Environment,

CA is a very large plant consisting of six company-owned buildings and one rented warehouse. The total floor space is 42,739 sq. m. or approximately 450,000 sq. ft. The company-owned buildings are 7 to 21 years old with the exception of the rented warehouse, which is four years old.

2.7. 1. Plant Maintenance and Fire Prevention

Examination of relevant documents indicated that the plant in general was in full compliance with regard to overall maintenance and upkeep, fire prevention, and evacuation.

2.7. 2. Workplace Safety

A number of shortfalls in CA's workplace safety were noted in ICCA's previous reports. The plant management has taken extensive measures to rectify many of the situations noted in the previous audit. An important element has been the improvement in the plant's ventilation system which included installation of an evaporate air conditioning system, fresh air duct system and additional exhaust fans. Workers interviewed by ICCA also expressed their general satisfaction in that the factory was well maintained (98%) and the ventilation was good (88%). Ninety-five percent of the interviewed workers stated that they could report incidents of workplace injury and unsafe working conditions to the management without fear of reprisal.

Conversely, 90% of the workers complained that they were exposed health and safety hazards at the factory. Another 40% stated that the temperature in the factory was too hot in the summer and too cold in the winter and caused discomfort while working.

A walk-through of plant facilities by the ICCA team also indicated certain shortcomings that would require management attention.

A. *Equipment Maintenance*

- Pump seal in bank of four water coolers on the roof of Building 5 is leaking and should be replaced.
- Building 5 Pump room needs servicing. There is leakage under one pump.
- Power Station number 2: 10 KV station containing seven oil-cooled transformers has obsolete workstations stored in rear. The safety gate is open. There is a walkway along one side of the area that leads to the dormitory maintenance shop. It is protected from the transformer area by a chain about three feet above the ground, which provides no real protection. The transformers themselves need servicing. Three of them are corroded. All the oil filters need servicing and or replacing.
Per the Electricity Safety Operation Rule (DL408-1991) the Safety margin for high voltage transformers should be at least 3 meters in normal operation. As the voltage increases the safety margin must increase accordingly. In addition the rule states that there should be a fence at least 1.7 meters high and locked. The key to be held by the person in charge of the transformer(s).
CA's management states that these transformers are owned by the local municipality and, therefore, the issue is outside the factory's control. Management will raise the ICCA finding with the municipality.
- In the Model shop there is a 208 V electrical line, pipe encased, lying on the ground. It needs a protective cover. Adjacent to it, there is a broken 208 V outlet which has been covered with a tape. This is a hazardous situation and needs to be corrected.

B. *Housekeeping*

Dormitory Maintenance Room is cluttered with scrap.

- Power Station #1 has no fencing, insufficient warning signs, discarded scrap and other waste materials.
- Injection Molding Oil Storage Room is cluttered with scrap, oily rags and has an oily floor.

C. *Fire Safety*

- Emergency light damaged *on the roof of Building 5*.
- Building 1, 2nd floor fire hose station box is full of litter.
- Phase 1 and 5 - Fire alarm button switches in two places were damaged.
- In one fire-hose station box, the water nozzle was found to be corroded.
- Fire extinguishers were missing gauges and some of them had sub-standard pressure.

D. Warehousing

- There is a shack type warehouse on the roof of Building 1. It contains scrap, old pumps, oily rags, and other flammable materials, etc. It is a chaotic storage area which creates a potential workplace hazard.
- Office warehouse wiring needs servicing. It is poorly installed. There are broken electrical inlets and loose wiring.

2.7.3 Hazard Management

A. Ventilation

- Spray and hand paint areas lack ventilation.
- Tampo Paint area has no air emission treatment facilities. In addition, the stack is lower than 15 meters. Volatile Organic Chemical (VOC) odor was noted at rooftop.
- Assembly and Packaging exhaust fans, where TCE is used, are not connected to air pump system.

B. Hazardous Material Storage

- MSDS for some chemicals were in English or Chinese only
- No secondary containment or warning sign was provided at the injection molding oil warehouse.

C. Use of PPE

The factory provides PPEs, free of charge to all workers, where appropriate for specific jobs. This was unanimously confirmed by the interviewed workers. It was also indicated by 72% of the workers in ICCA sample, that they used their PPE regularly and another 17% indicated the PPE use infrequently. A walk through of the plant indicated some problems that require management attention.

- Some workers using air driven tools were not using safety glasses and ear-plugs.
- PPE not being used properly in the Model Office and Shop

2.7. 4 Plant Amenities

Interviewed workers expressed their overall satisfaction with the availability of drinking water and freedom to use toilet facilities when needed.

Workers interviewed by ICCA were, in general, quite satisfied with their work environment in terms of cleanliness and available amenities. There are sufficient numbers of toilets which are regularly cleaned and are well maintained.

A. Medical Clinic

The medical clinic is well equipped. It is staffed with five medical doctors working three shifts comprising and providing services around the clock and throughout the year 24-hours a day and seven days a week. All medical care, including personal ailments, is provided free of any additional charges over the two RMB per month deducted from each employee's wages.

B. Kitchen and Canteen

CA has two canteens with a capacity to serve 2,200 workers at one time. The factory provides four meals daily, and up to 8,200 workers can be served each meal. Employees who work in the canteens are trained in food handling and are given physical examinations each year. Garbage is picked up four times daily.

ICCA team, however, noted that the kitchen floor was slippery and posed a potential slip hazard.

C. Dormitories

There are four dormitories built between 1986 and 1997. They have a total floor area of 23,766 sq.m., and can accommodate 7,796 workers. The dormitories meet the requirements set forth in Mattel's GMP. They are clean, pleasant and safe. Approximately 95% of all employees live in the dormitories.

D. Recreation Facilities

For the leisure activities, CA factory provides library and karaoke rooms. TV sets and radios are available to employees in common areas. The factory also provides sports facilities, which include badminton, soccer, basketball, table tennis, and a gym.

2.7.5. Documentation, Compliances, and Findings

- a. No Completion Inspection Monitoring was conducted for site operations.
- b. No Pollutant Discharge Permit was obtained from the local Environmental Protection Bureau (EPB)
- c. Two domestic wastewater monitoring reports conducted by the Centre Test International (CTI) on December 5, 2006 and July 20, 2006 stated that the concentration of Chemical Oxygen Demand (COD), Biological Oxygen

Demand (BOD), pH and biological oil in the wastewater from the Site exceeded the Class II limits of *Guangdong Provincial Water Pollutants Discharge Limit (DB44/26-2001)*. The concentration of COD in the wastewater ranged from 138 mg/L to 1130 mg/L vs. the standard of 130 mg/L, concentration of BOD ranged from 30.1 mg/L to 120 mg/L vs. the standard of 30mg/L, pH ranged from 4.19 to 5.82 vs. the standard of 6.9 and the concentration of biological oil ranged from 132 mg/L to 236 mg/L vs. the standard of 15 mg/L. According to ICCA's 2004 report wastewater was not being treated at all before discharge. A fee was paid to the municipality to allow the discharge.

- d. An air emission monitoring report prepared by CTI on July 20, 2006 stated that the concentration of the total hydrocarbon (90.2 mg/L) in the air emission from No. 11 spray paint line exceeded the related Class II limit of *Guangdong Provincial Air Pollution Limits (DB44/27-2001)*, which is 60 mg/L since the stack is lower than 15 meters.
- e. Boundary noise monitoring was performed by Guangzhou Environmental Protection Science Institute on July 29, 2005. The associated report states that boundary noise at the western, eastern, and southern boundaries exceeds the Class II limits of the *Standard for Noise of Industrial Enterprises (GB12348-1990)*. In addition, all three boundaries at the Site exceeded the Class III limits of GB12348-1990. The ICCA CA Report dated March 29, 2004 reported that based on monitoring results, many locations at the Site exceeded the applicable boundary noise limits. Apparently, the 'noise problem' has not been addressed.
- f. No fire-fighting system completion inspection approval for the on-site diesel storage room was obtained from the local fire fighting authority.
- g. No inspection reports for air compressed air pressure vessels were available for review. Management stated that the inspections had been conducted in October 2006.
- h. No reports were available showing that integrity tests had been performed at the diesel oil-storage tank area and the associated piping.

2.8 Extracurricular Activities

GMP does not call for any non-job related training to be provided to the factory employees. However, CA plant offers a number of extracurricular activities for its employees. These include computer training classes, English, first aid and hygiene training, road traffic safety as well as occupational health and safety trainings programs.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

ICCA's audit of CA's work hours and pay policies cannot confirm or refute their compliance with Mattel's GMP standards. ICCA would strongly urge Mattel institute non-manual systems for recording employees work hours and also maintenance of accurate and transparent payroll data. The current system, solely controlled by supervisors, who manually record workers' regular and overtime hours, is prone to human error as well as lacking in verifiability and transparency. One cannot help but be skeptical of a time recording system, which does not record time-in and time-out for workers. Its credibility is further weakened by the fact that time records are identical for all workers and that there are no day-to-day variations. This state of affairs should not be allowed to exist. In view of the ICCA findings detailed in the body of this report, we must conclude that CA has been violating GMP standards in a number of areas that are deemed critical.

With regard to CA's compliance with Mattel's work-hours guidelines, despite plant management's claim that their excessive work hours have been approved by Mattel Hong Kong headquarters, scheduling more than 17 workweeks that exceed 60 hrs/wk is considered as excessive.

CA must also take corrective action with regard to various issues pertaining to the factory's payroll record keeping and transparency, hiring practices, condition of employment, and payment of required benefits, as described in the body of this report.

Mattel has already provided ICCA with details of its plan for corrective action. ICCA would like a report as to their implementation by June 30, 2008. Based on Mattel's internal department progress report, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

3. 2 Physical Facilities and Workplace Safety.

CA plant as noted above is a mix of good and not so good. Its basic manufacturing facilities are good and well maintained. On the other hand, many of its support facilities need work. They are not well maintained, and could present danger if not addressed promptly.

Scrap and debris are stored almost every place where there is any square footage available. Both power stations, owned by the municipality, need safety measures installed and are badly in need of maintenance. The roofs are not maintained and are also being used to store scrap. This presents a fire hazard.

The fire protection systems need upgrading and closer inspection. They are deteriorating.

CA is in the process of switching from wet to dry paint scrubbing. Nine units have already been installed, and the remaining five wet units will eventually be replaced with dry ones. This is a commendable action as environmental impact of paint discharges is vastly improved.

Required documentation and compliance with applicable statues need addressing promptly. Health and safety issues are of the utmost importance and should be a management priority.