

Mattel, Inc.

Mattel's Vendor Plants

Compliance with Mattel's Global Manufacturing Principles

Conducted by



International Center for Corporate Accountability, Inc. (ICCA)

A non-for-profit, educational-research organization

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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 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. 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 environmental health and safety (EHS) audit consists of three distinct evaluations 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.
3. Examination and evaluation of available documentation provided by the plant management. These documents pertain to, among others, permits for waste water and hazardous waste disposal, air quality and noise control, findings of various required monitoring tests, site surveillance, compliance and follow-up.

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

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. Formal Audit – Vendor Plants 5 and 6

1. INTRODUCTION

1.1 Audit History

This report is based on the field audit of Plants #5 and #6. Both plants are owned by the same holding company and operated by the same senior management team. The plants are located in the Guangdong Province of China. The current audit is the second full-fledged formal audit of these plants. The first round of formal audit of the two plants was conducted in August 2002. Based on the findings of these audits, ICCA conducted a follow-up audit of Plant #6 in July, 2004. Published reports of the initial and follow-up audits as well as Mattel's responses to their findings may be found on ICCA's and Mattel's websites.

1.2 Plant Overview

Plants #5 and #6 produce plastic toys for Mattel as well as other toy manufacturers; Plant #6 also manufactures soft toys and metal toys. Both facilities are large, consisting of multiple buildings. The company has been a major vendor for Mattel during the past 10 years.

1.3 Workforce Profile

At the time of the ICCA audit, Plants #5 and #6 jointly employed 16,000 workers and 2,300 administrative personnel. The size of the direct workforce varies throughout the year and ranges between 6,000 - 14,000 for Plant #5 and 4,000 - 6,000 for Plant #6, depending on seasonal production requirements. Almost 85% of the workers are female. Average age of workers is 28 years and the minimum hiring age is 16. Currently, the two plants have no employees younger than 18. Ninety percent of the joint workforce has completed high school, and 10% have middle school education. The average length of employment for the interviewed workers was 3 years.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

Of the interviewed workers, 75% are hired through walk-in applications. The remaining 25% are recruited via local advertising.

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

ICCA interviews with workers confirmed that the factory had used certain discriminatory practices in its recruitment, which prevented some applicants from being hired. Mattel's follow-up inquires with the plant confirmed the accuracy of our findings. In response, Mattel indicated that the plant management had agreed to discontinue these practices with immediate effect. Furthermore, plant management would:

- a) include statements of non-discriminating policies in the employee handbook, employment contract, and post a statement to this effect on factory and dormitory notice board; and,
- b) train HR recruiters to ensure that these policies are strictly enforced.

Mattel's internal audit department would verify as to the factory's compliance with these policies in its next round of audits. These would be undertaken with the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

Workers are also required to undergo medical examination upon hiring. The costs of these exams are borne 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.

a. Probation Period

All newly hired workers undergo a 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. Probation periods of audited workers were in compliance with the Chinese labor law. Payroll audit of workers' records showed that all workers were paid wages similar to those paid to regular workers while on probation.

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. Sampled workers' contract durations ranged from 3 to 7 months.

c. Personnel Files

Each worker has a personnel record on file. It contains information on medical check-ups, probation periods, employment registration, contract, and copy of a recent picture ID. In addition, the company keeps separate records with regard to annual leave, and maternity leave.

2.2 GMP Awareness

According to Mattel’s GMP, all vendor plants are required to provide information and training to all their workers about their rights in the workplace. Plants 5 and 6 provide an employee handbook to each new hire, covering company policies, rules and regulations, wage systems and all other pertinent information as required in Mattel’s GMP. Among the responses received from interviewed workers, there was no specific reference to GMP standards. However, 55% of them stated that they received some information with regard to workplace safety and fair treatment of workers.

2.3 Payroll System and Record Keeping

Both plant workers use magnetic swipe-cards for workers to record their time at the factory. The payroll systems are automated and workers are paid within 10 days of pay-period end via bank-transfer.

Interview data indicated that workers’ understanding of their regular wages, overtime wages, and payroll deductions was clear for around 50% of the respondent workers. Some 10% had very little understanding of the wages they receive.

Workers’ Understanding of Monthly Pay-Stub

| | everything | some | little |
|--------------------------|-------------------|-------------|---------------|
| Regular hours and wages | 47% | 39% | 10% |
| Overtime hours and wages | 45% | 40% | 11% |
| Benefits and deductions | 53% | 34% | 4% |

a. Production Processes and Working Hours

Common primary production processes at the two plants are roto-casting, injection molding, and assembly. Paint spraying is performed only at Plant #5, and Plant #6 has Sewing and metalworking processes.

The workweek at the two plants is defined as six days, Monday through Saturday. Production scheduling templates are identical and call for a maximum of 61.25 hours of work per week year-around. The normal workweek is considered to consist of 40 hours, with any excess treated as overtime. Peak period demands are met by hiring workers in additional shifts for approximately 5 months during the year. Both plants have secured 'consolidated hours' permissions from the local labor bureau, which allows them to schedule overtime in excess of the daily limits as long as the total overtime within a six-month period does not exceed the legal maximum of 216 hours.¹

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

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.

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.

Plants #5 and #6 have systems in place to ensure that workweeks do not exceed 66 hours, and no worker works more than 11 hours per day, or more that 13 consecutive days without a rest day. ICCA's audit of workers' time records as well as interviewed workers indicates that both plants are operating within the guidelines provided by Mattel's GMP.

Overtime at both plants is voluntary. Workers may opt out by notifying their line leaders in advance, verbally or by standardized form, if they do not want

¹ Consolidated work hours are widely practiced in this region, and even otherwise, most plants routinely exceed the maximum overtime hours permitted under China's labor laws. ICCA questions the legality of both these practices. Notwithstanding, local authorities accept these practices to be the norm and give wide leeway to plants to design consolidated work hours to meet their production needs, which are routinely approved by the local authorities. Therefore, in practice, consolidated working hours do not conform to an overall industry framework or regional considerations. Instead, they are permitted by local authorities to suit the needs of individual factories.

to work overtime. Worker interviews confirmed that all overtime was voluntary and workers could opt out anytime they wished.

b. Regular Wages

The minimum wage rate in the two plants' district is RMB780 per month. ICCA audit of workers' payroll records confirmed that all workers were paid at least the applicable minimum monthly wage.

c. Overtime Wages and Bonuses

All direct labor workers 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. Where this is not practicable, workers are paid at double the regular rate in the next pay cycle. ICCA audit confirms that all overtime wages were paid properly.

Workers are also entitled to night shift, special skills, and quota achievement bonuses, which the audited payroll records indicate that about 33% workers are receiving. The average bonus is around RMB20, with some workers receiving up to RMB110.

d. Deductions

The plants charge RMB60 for dorm usage, deducted from pay and RMB120 - 180 collected in cash for food each month. Total deductions for food and dormitory rent amount to RMB180-240 per month. Use of dormitories and canteen facilities is completely optional, a fact confirmed by the interviewed workers. Workers also confirmed that their deductions for food and dorm were fair and reasonable. ICCA audit has concluded that both plants are in compliance with Mattel's GMP regarding the extent of living expense deductions which is required to be less than 50% of minimum wage.

e. Benefits

Plants pay medical insurance, unemployment and social benefits premiums for approximately 15% of the workforce. This arrangement is approved by the local labor bureau.

Workers are entitled to 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. Plants #5 and #6 limit the annual leave to entitled workers during the Chinese New Year holidays. Depending on the calendar, 3 – 5 days leave is scheduled by the plant for all workers, when the plant is closed. If the annual leave days granted during this

period is less than the workers' entitlement, the remaining days' wages are paid to the workers in the next pay period. This practice prevents the workers from taking their annual leave, and limits the workers' ability to claim their earned benefits at will and imposes an undue restriction, which is not consistent with Mattel's GMP.

Both plants have a policy of paying maternity benefits of 90 days paid leave to all workers. Two and one-half months wages of this benefit is payable during their leaves and the final payment is made upon the workers' return. Plant records indicated that about 17% of those workers who took maternity leave did not return to work and did not receive their full benefit. As both plants disburse wages via bank transfers, there is no practical constraint, which would limit the plants' ability to pay the workers' entitled wages.

ICCA's findings indicate that this practice is inconsistent with China Labor Laws, which do not stipulate any qualifications or pre-conditions for maternity leave benefits on the part of eligible workers. In its follow-up response, Mattel has agreed with ICCA's finding, indicating that the company will take immediate steps to communicate this understanding to the plants and vendor factories and require that they develop a plan to ensure eligible employees receive their full maternity benefit. Mattel is also reviewing its detailed GMP compliance standards to determine if clarifications are appropriate and maternity benefits will be included in GMP capacity building programs.

ICCA would request that Mattel's internal audit department verify as to the factory's compliance with these policies in its next round of audits. These should be undertaken within the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

2.4 Workplace Discipline of Employees

Plants #5 and 6 have written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. The policies provide that employees receive a warning letter in case of a violation. In case of continued disobedience or depending on the severity of the violation, the employee may be terminated from employment. The plants also impose cash fines as a disciplinary measure. Plants' fine policy allows a range of RBM30-50 for undesirable behavior such as spitting, abusive conduct, or violating dorm policies. It should be noted here that although fines are allowed under the Chinese labor law, Mattel's GMP limits their use to fire and safety violations. Interviewed workers indicated that most fines were confined to severe safety issues such as smoking in production areas. Mostly, workers feel that they are treated fairly by supervisors, know how to dispute unfair treatment and do not feel threatened to report complaints.

2.5 Freedom of Association, Discrimination, and Access to Management

Plant #5 and #6's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. These policies are posted in factory work areas and are available to all workers. The factory also recognizes all employees' right to join a lawful organization or association.

Suggestion and complaint boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. Daily meetings with line leaders and quarterly safety committee meetings routinely address workers concerns about their work environments. A majority of the interviewed workers indicated that they were able to talk to line leaders and production supervisors regarding their concerns in the workplace.

2.6 Protection from Harassment

Both plants have policies addressing workers' protection in factory and dorm facilities. These policies also provide venue for employees to report instances of harassment and abuse and how they are able to be handled by the plant management. Interviews with factory workers indicated that these policies are widely known by the workers who also indicated their belief that the two factories were a safe place to work in terms of harassment and abuse.

2.7 Dormitories, Clinic, Canteen and Kitchen

All of the above were satisfactory in both plants. The facilities are clean and meet specification requirements. Both clinics are excellent. They are well staffed with doctors and nurses, medical supplies and equipment with good record keeping. Interviewed workers also confirmed their general satisfaction with the cleanliness, safety and adequacy of dormitories as well as food facilities. The workers are required to pay only for non-job related medicines, whereas all treatment is provided free of charge. Workers are satisfied with the clinic and the medical care they receive.

2.8 General Working Conditions

All workers in both plants indicate that the factory in general and all their work areas are clean, adequately ventilated, comfortable, and relatively free of workplace hazards.

2.9 Use of Toilets Facilities and Access to Drinking Water

Nearly 70% of the workers interviewed by ICCA expressed dissatisfaction concerning their ability to use the toilet facilities and/or to access drinking water while at work.

Both plant policies limit the number of workers who can leave their workstations by a permit system. The number of permits varies from one permit for 10 to 30 workers for various production processes. Several workers also mentioned that they were allowed to leave their workstations only if they are able to locate another worker who can take their place

ICCA has observed similar concerns in other plants. Experience shows that while a ratio of one permit for 10-30 workers may be reasonable, it should not be rigid. Nor should the workers be required to find a replacement before they are permitted to leave their work stations.

2.10 Use of Personal Protective Equipment (PPE)

Both plants regularly issue PPE to their workers where necessary. Worker interviews and plant walk-through confirm that PPE usage is common and adequate in general. The two notable exceptions include common injuries involving cut fingers in flashing operations; and inadequate PPE usage in Plant #5 where employees exposed to benzene were not wearing facemasks.

2.11 Workplace Operating Environment

Both plants #5 and #6 are very large (77,000 and 67,000 sq.m. of production space respectively) and their production facilities are 6 years old.

ICCA has been informed by the plants' management that both facilities are going to be relocated to a new site within one year. Hence, this section of the audit report is separated into two distinct parts, i.e., 1) environmental health and safety findings that require immediate attention and should be corrected within six weeks in the existing plants, and 2) other environmental health and safety findings that need to be addressed at both plant sites but do not present a danger. ICCA also recognized that any major changes in the plant physical structure and operational conditions may be economically impractical because of their impeding relocation.

This portion of the audit report has been divided in three categories as follows:

- A. Issues and shortfalls that are common to both plants;
- B. Observations and issues specific to Plant #5; and
- C. Observations and issues specific to Plant #6

2.11.1 Existing Problems That Need Immediate Attention

| A. Common To Both Plants |
|--|
| <p>1. Chemical Storage: No labeling in Chinese, no hazardous identification signs, no secondary containment, no spill control devices are provided at certain chemical storage areas and the underground diesel storage tanks (UST). In addition, Plant #6 had no spill control devices for its above ground tanks.</p> <p>2. Air Emission: No air emission monitoring has been provided for most of the air emissions from roto casting and paint spraying.</p> <p>3. Fire Fighting and Protection: Both plants were observed to be very crowded and had several fire safety aisles blocked. Assembly line belts cut directly across access ways making an orderly evacuation extremely difficult. Many of the assembly aisles were dead ends while some exit walkways were partially blocked.</p> <p>4. Industrial Hygiene: The exhausts of some soldering stations were positioned wrong and were facing the adjacent workstations.</p> <p>5. Medical Surveillance: No entrance medical surveillance for occupational disease was performed on workers exposed to occupational hazards.</p> |

| B. Plant #5 | C. Plant #6 |
|--|--|
| <p><u>1. PPE:</u> No facemasks are provided at the workstation where employees are exposed to a solvent, containing benzene.</p> <p><u>2. Accidents:</u> The company reported a total of 49 work related injuries in 2006. Eighty percent of the injuries were cut fingers</p> | <p><u>1. Air supply filters:</u> Filters used to filter the air in paint spraying masks are changed every three months as per management's statement. At the site, during the audit, the existing filter was removed and examined. It was found to be both corroded and clogged.</p> <p><u>2. Pipelines:</u> Broken pipelines were observed at the water scrubbers located on the roof in the building that contains spray painting.</p> |

| | |
|--|--|
| | <p><u>3. Contamination:</u> An abandoned tank on the roof was filled with severely contaminated, greenish water. It would be an ideal insect breeding site.</p> <p><u>4. Machine Guarding:</u> Insufficient guarding was provided at the grinding wheels and cutting machines.</p> |
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2.11.2 Existing Problems That Do Not Need Immediate Attention

| A. Common To Both Plants |
|--|
| <p>1. No Environmental Impact Assessment (EIA) or its approval issued by the local Environmental Protection Bureau (EPB) on site.</p> <p>2. No Completion Inspection Acceptance monitoring has been conducted by the local Environmental Station (EMS) or its approval issued by the local EPB is on site.</p> |

| B. Plant #5 | C. Plant #6 |
|---|---|
| <p><u>1. Wastewater:</u> The water scrubbers on the roof are in fair to poor condition; there is no filter replacement program.</p> <p><u>2. Contamination</u> a. Leaking water from a corrosive pipeline and oily wastewater runoff were observed on unpaved ground along the boundary of Block 7 workshop opposite the diesel generator room. Management reported that the wastewater was from the roto-casting cooling water originating on the fourth</p> | <p><u>1. Wastewater:</u> Wastewater monitoring performed by Baiyun EMS on June 28, 2007 found chemical oxygen demand, biological oxygen demand, grease and suspended solids exceeded Class I limits of <i>Emission Standard of Wastewater Discharge in Guangdong Province (DB44/26-2001)</i></p> <p><u>2. Contamination</u> a. Stressed vegetation and corroded concrete pavement were seen adjacent to the sulfuric acid washroom. Management reported that the stressed vegetation was the result of sulfuric acid leaking during off-loading. b. Oil stains were observed at the</p> |

floor of the Block 7 workshop.

b. Homogeneous red stains, oil stains, and stressed vegetation were observed by a water cooler along the boundary of Block 7.

c. Oil stains were observed at the oil storage area and the diesel off-loading area adjacent to the diesel UST.

3. Housekeeping:

It was observed to be fair to poor at the site especially at the water scrubbers and pipelines

4. Hazardous waste:

Condensate from the air compressors is discharged on to the ground.

5. Work licenses:

Management reported that the site had three licensed crane operators. All the rest of the crane operators were unlicensed but were trained in-house by the licensed operators. According to Safety Production Law, special operating staff shall not hold their posts unless they have_ according to the relevant provisions of the State taken part in special training and obtained the qualification for this special operation. In addition, the Management Methods of Special Operators states that the operators and the concerned administration employees of boiler, pressure vessel, elevator, lift facility, should take part in special training and obtain a certificate for this special operation. If a special operator has left his work for six months or more, the operator will be retrained and must pass the examination prior to resuming the special operations.

storm-water ditch adjacent to the diesel generator room. Management reported that the storm-water was discharged directly in to the creek immediately adjacent to the site.

c. Stressed vegetation was observed adjacent to the air-drying equipment with coolant from the equipment discharged on to the unpaved ground.

3. Housekeeping:

House keeping was observed to be fair to poor, especially on the roof and the machine shop.

4. Permits:

No Pollution Discharge Permit

5. Air Emission:

Kitchen tests conducted by Baiyun EMS on June 28, 2007 indicated 'Ringlement Blackness' from the kitchen mission exceeded Class I Time Zone Limits of *Emission Standards of Pollutants in Guangdong Province (DB44/27-2001)*. At the time of the site-visit, smoke was coming out of the kitchen smoke stack.

| | |
|--|---|
| | <p>6. Boundary noise: a. Tests conducted by Baiyun EMS on June 28, 2007 showed that the boundary noise along the southern boundary exceed the applicable standard. b. No nighttime boundary monitoring has been conducted at the site.</p> |
|--|---|

2.11.3 Conclusions

The two plants were previously audited in 2002 and 2004. Although many improvements have been made since the last audit, there remain many serious EHS problems. Many are caused by overcrowding due to a lack of useable floor space and plant neglect. Capital investments that would be required to eliminate many of these problems such as overcrowding, poor water scrubbing set-ups, pollution, and contaminations have probably not been expended because of the company's planned move in the near future.

2.12 **Extracurricular Activities**

Plants offer skills training in the areas of safety, ISO 9001, and OHS 18001. Job-related training includes safety and skills enhancement programs in special-skill processes such as soldering and sewing.

In addition to the job-related training, workers at both plants can participate in English, Mandarin, Cantonese classes, computer training and dance classes.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

ICCA's evaluation of Plants #5 and #6's operations is at a satisfactory level of overall compliance with GMP standards. However, there are some notable exceptions where plants' conduct significantly deviates from GMP standards and underlying values of Mattel as a responsible global enterprise. They require immediate and unambiguous action on Mattel's part to ensure that Plants #5 and #6 live up to their commitment of meeting GMP standards.

In the area of worker treatment, ICCA audits revealed certain discriminatory practices in the company's hiring process. The accuracy of these

findings was confirmed by Mattel's internal audit department. Mattel indicated that the plants' management had agreed to discontinue these practices with immediate effect.

Mattel's internal audit department would verify as to the factory's compliance with these policies in its next round of audits. These would be undertaken with the next six months, but no later than June 30, 2008.

3.2 Physical Facilities

ICCA audit and subsequent analysis of site observations have accommodated the fact that Plants #5 and #6 are relocating within one year. While this fact makes some of the long-term remediation actions impractical, ICCA has also detailed those issues that pose imminent danger to either worker safety and / or occupational health. ICCA has indicated these issues during the site visit and has noted the cooperative intent of these facilities' management to provide those remedies that require mostly management attention and little in the way of capital expenditures.

II. Formal Audit – Vendor Plant 7

1. INTRODUCTION

1.1 Audit History

This report is based on the third field audit of Plant #7, which was conducted on July 2007. The plant is located in the Guangdong Province of China. The first formal audit of this plant by ICCA was conducted in January 2003, which found significant deficiencies in the plant's compliance with GMP standards especially in the area of workers' wages. Subsequent to ICCA's report, Mattel had announced that Plant #7 would be discontinued as a vendor. Consequently, ICCA's follow-up audit in August 2004 did not include this plant. The second audit of Plant #7 was conducted by ICCA in July 2005. This was in response to Mattel's decision that Plant #7 would continue as a vendor having concluded that plant's management has made satisfactory progress in its GMP compliance efforts. A follow-up was also conducted in December 2005. Reports of these audits are available at both Mattel and ICCA web sites.

1.2 Plant Overview

Plant #7 consists of three modern buildings that were built between 1998 and 2003. It is a large plant with approximately 200,000 square meters of floor space. The company has been a major vendor for Mattel during the past 10 years.

1.3 Workforce Profile

At the time of the ICCA audit in July 2007, Plant #7 employed 8,000 workers and 1,000 administrative personnel. The size of the direct workforce varies throughout the year and ranges between 6,000 and 9,000, female workers represented 65% of the workforce. The average age of the workers is 22 years and the factory minimum hiring age is 16 years. Workers in the age group of 16 – 18 years represent 9% of the plants current workforce. Education level is middle school for 80% of the workers while 15% have completed high school. The average length of employment for the interviewed workers is 3 years. For 40% of the interviewed employees, this is their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

All workers are hired through walk-in applications. ICCA's audit found that Plant #7 had hiring practices had the effect of systematically discriminating against significant number of applicants from being hired by the company. These practices are also in violation of China Labor Laws and GMP requirements.

Mattel's follow-up inquires with the plant confirmed the accuracy of our findings. In response, Mattel indicated that the plant management had agreed to discontinue these practices with immediate effect. Furthermore, plant management would:

- i) include statements of non-discriminating policies in the employee handbook, employment contract, and post a statement to this effect on factory and dormitory notice board; and,
- ii) train HR recruiters to ensure that these policies are strictly enforced.

Mattel's internal audit department would verify as to the factory's compliance with these policies in its next round of audits. These would be undertaken within the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

Upon hiring, workers undergo an orientation upon hiring, which included an information session on employment terms and conditions. However, only 60% of the workers interviewed by ICCA confirmed that they had received orientation at the time of their hiring. Employee handbooks and orientation materials that describe factory rules and regulations are available to workers.

Workers at Plant #7 are also required to undergo medical examination at the time of hiring, and the factory pays for its costs. In its follow-up, Mattel has agreed that the situation needs to be clarified. It 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

All newly hired workers undergo a 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. Probation periods of audited workers complied with the Chinese labor law. All audited workers were paid wages similar to those paid to regular workers while on probation.

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 confirmed that all of the workers among the randomly selected group had employment contracts of 12-month durations. According to the Chinese labor law, all contracts must be endorsed by the local labor bureau within 30 days of employment. However, among the audited workers by ICCA, 16% of the workers were not endorsed. Another 10% of the worker files showed that their contract endorsement was delayed, some up to six months.

c. Personnel Files

Each worker has a personnel record on file. It contains an application form, contract, orientation & training materials, and copy of a recent picture ID. In addition, separately kept company records include disciplinary actions, and details of sick leave and annual leave.

2.2 GMP Awareness

According to Mattel's GMP, all vendor plants are required to provide information and training to all their workers about their rights in the workplace. Plant #7 provides an employee handbook to each new hire, covering company policies, rules and regulations, wage systems and other pertinent information as required in Mattel's GMP. Of the interviewed workers, 30% indicated their exposure to this information from Plant #7's management.

2.3 Payroll System and Record Keeping

Plant #7 does not use an automated system (i.e. punch-clocks or swipe cards) to record workers' arrival and departure times. Time records are manually kept by line leaders and supervisors. This is an onerous and time-consuming task. In addition, given the large number of workers, it is prone to human error and susceptible to unwarranted manipulation.

The factory keeps two sets of records of each worker's working hours. One set records work hours during the regular workweek; and another set keeps records of rest-day work. Time records do not indicate start and end of the workday; only total number of daily work hours is recorded. Workers sign their attendance records at random intervals as confirmation. Wages are also computed separately but paid in one disbursement.

The system apparently is quite confusing to the workers. Interviewed workers expressed lack of understanding of their pay-stubs with regard to wages for regular and overtime hours as well as benefits and deductions.

Workers’ Understanding of Monthly Pay-Stubs

| | everything | some | little |
|--------------------------|-------------------|-------------|---------------|
| Regular hours and wages | 2% | 57% | 40% |
| Overtime hours and wages | 2% | 58% | 38% |
| Benefits and deductions | 18% | 52% | 20% |

The complexity of the system and its lack of transparency with regard to double book keeping and manual record keeping has been repeatedly brought to the plant management’s attention in ICCA’s previous reports and was also noted by Mattel internal audit reports over the last four years, but to no avail. ICCA is disappointed that Plant #7 has not seen fit to make the necessary improvements in its record keeping which could be more efficient and probably a great deal cheaper than a system of manual recordkeeping. We must also make note of the fact that Mattel has not seen fit to exert the necessary pressures on Plant 7’s management to bring about a greater transparency in this important area of working hours and payment of proper wages.

a. Production Processes and Working Hours

Primary production processes at Plant #7 are injection-molding, roto-casting, painting and assembly.

The normal workweek consists of 40 hours, with any excess time treated as overtime. The regular workweek is comprised of six days, ranging from 8 to 9.5 or 10 daily work hours.

The plant has secured ‘extended hours’ permissions from the local labor bureau, which allows them to schedule overtime in excess of the daily limits as long as workdays do not exceed 11 hours and workweeks are limited to 72 hours.

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.

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.

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.

ICCA audit has confirmed that no worker is scheduled to work for more than 12 hours per day or more than 13 consecutive days without a rest-day. All interviewed workers confirmed that their regular work schedule consisted of 9.5 - 11 hour days, six days a week. Workers also unanimously confirmed that they were always given one rest day each week and that no worker had worked more than 13 consecutive days.

Overtime at Plant #7 is voluntary. All interviewed workers stated that they had the right to opt out of overtime simply by notifying their line leaders in advance.

b. Regular Wages

The minimum wage rate in the two plants' district is RMB690 per month. ICCA audit workers' payroll records confirmed that all workers were paid at least the minimum wage rate.

c. Overtime Wages and Bonuses

All direct labor workers receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. Twenty-five percent of the audited workers were paid performance bonuses ranging from RMB90 to RMB260, averaging RMB172. When rest-day work is scheduled, workers are paid at double the regular rate. ICCA's payroll audit confirmed that all overtime wages were paid properly.

d. Deductions

The plant deducts approximately RMB55 for dorm and utility usage and RMB195 for food each month. Workers' usage of dormitories and canteen facilities is entirely optional. Among interviewed workers, 20% thought the deductions to be reasonable and fair. Another 25% considered the food charges to be excessive given its poor quality. The remaining 55% indicated that they did not understand the system of deductions and hence were unable to comment on their adequacy.

ICCA's audit confirms that Plant #7 is in compliance with Mattel's GMP with regard to deductions for dormitories and food expenses, which constitutes less than 50% of the workers' minimum wage.

e. Benefits

Plant #7 pays pension, unemployment, injury and medical insurance premiums to a portion of its workforce. This arrangement is approved by the local labor bureau. Workers are entitled to one week of paid annual leave upon completion of one year of service. The number of days of annual leave increases proportionally with tenure at the factory. Plant #7 limits the annual leave to entitled workers during the Chinese New Year holidays. The workers are paid 5 days of wages during the Chinese New Year holidays, when the plant is closed. This practice prevents the workers from taking their annual leave, and limits the workers ability to claim their earned benefits at will and imposes an undue restriction, which is not consistent with Mattel's GMP.

Plant policy allows 90 days of maternity leave, during which 60 days of wages are paid while the workers are on leave, and the remaining 30 days' wages paid upon their return to work. ICCA's findings indicate that this practice is inconsistent with China Labor Laws, which do not stipulate any qualifications or pre-conditions for maternity leave benefits on the part of eligible workers. In its follow-up response, Mattel has agreed with ICCA's finding, indicating that the company will take immediate steps to communicate this understanding to the plants and vendor factories and require that they develop a plan to ensure eligible employees receive their full maternity benefit. Mattel is also reviewing its detailed GMP compliance standards to determine if clarifications are appropriate and maternity benefits will be included in GMP capacity building programs.

ICCA would request that Mattel's internal audit department verify as to the factory's compliance with these policies in its next round of audits. These should be undertaken within the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

2.4 Workplace Discipline of Employees

Plant #7 has written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. These policies provide that employees receive formal warning letters in case of violations. In case of continued disobedience or depending on the severity of the violation, the employee may be terminated from employment. The plant does not impose cash fines as a disciplinary measure. Seventy percent of the interviewed workers confirmed receiving this information at the time of their hiring.

2.5 Freedom of Association, Discrimination, and Access to Management

Plant #7'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 may use suggestion boxes to report any policy violations, or work-related concerns. Workers have daily access to supervisors for voicing their work-related concerns, and regular meetings provide a venue for workers to make suggestions. They may also request confidential meeting with their supervisors. Almost 50% of the workers stated that they were aware of their rights to complain about unfair treatment by their supervisors and did not feel threatened to do so if called for. In addition, they unanimously stated that they are treated fairly and reasonably by the plant management.

2.6 Protection from Harassment

Plant #7 has written policies addressing workers' protection in factory and dorm facilities. These policies prohibit any form of employee harassment by peers and/or supervisors. Interviewed workers unanimously stated that their workplace is free of any harassment, and that they are treated with respect by their peers and supervisors.

2.7 Dormitories, Clinic, Canteen and Kitchen

2.7.1. Dormitories, Kitchen, Canteen

The physical requirements of both the dormitories and the canteen meet GMP requirements. They are clean, orderly and well maintained. Interviewed workers confirmed that their dorms were safe, and clean; they had access to satisfactory toilet and shower facilities; and that they were generally satisfied with their living arrangements.

2.7.2 Clinic

The twelve-bed clinic is fully staffed with eight qualified medical doctors and nurses. In addition, there are 50 employees trained to render first aid. Treatment is provided without charge, and personal medicine costs are deducted from workers' pay. All workers confirmed that they have free access to the clinic's services, and that they were generally satisfied with the treatment they receive.

2.8 General Working Conditions

All interviewed workers in Plant #7 indicate that the factory in general and all their work areas were clean, adequately ventilated, comfortable, and free of potential workplace hazards.

2.9 Use of Toilets Facilities and Access to Drinking Water

The plant is equipped with adequate toilet and drinking water facilities. Factory policies allow free access to these amenities without any restrictions. All interviewed workers indicated that were free to use the toilets or get drinking water without any hindrance.

2.10 Use of Personal Protective Equipment (PPE)

In general, ICCA's walk-through observations, and analysis of Plant #7's safety programs indicate a satisfactory level of PPE usage. A notable exception regarding Plant #7's PPE program concerns noise levels in the plant. The facility has a hearing conservation program, including the training of employees is in place. Among the interviewed workers, 69% indicated that their work area was excessively noisy. Detailed analysis of these responses indicated that 98% of those who complained about excessive noise were not provided earplugs.

Additional observations regarding PPE usage include the following issues:

- A few spray painters were not wearing protective gloves.
- A few injection molders were not wearing protective earplugs and finger protectors.
- According to the incident records for 2006, 89 incidents were reported. The most common incidents were related to finger injuries at the injection mold stations. Management stated that no preventive maintenance (PM) has been put in place to reduce finger injuries other than training.

2.11 Workplace Operating Environment

Plant #7 is an excellent facility. It is well laid and well maintained with excellent housekeeping. The environmental health, safety and maintenance of the plant were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of all the facilities and a review of plant records with regard to EHS requirements as stipulated in the GMP given below is a summary of our findings subsequent to the plant walk-through and an evaluation of pertinent documents and records.

2.11.1 Environmental Health, Discharge, and Waste Disposal

The facility has identified all roof and wall penetrations associated with air emissions and has obtained an air discharge permit. The plant has its own non-production wastewater treatment plant and the treated water is reused. The treatment plant appears to be well designed and effectively operated. Annual integrity tests are run on underground and above ground storage tanks and pipelines. The PCB survey requirement has been met by a certificate from the local power supplier that the plant's transformer does not contain PCB.

2.11.2 Safety

- Fire drills are regularly conducted for the day shift but none for the night shift.
- Chemical odors were detected when entering paint and thinner storage room; The ventilation equipment should be checked
- Improper signs were observed in the hand-printing workshop.
- No entrance or regular occupational disease medical examination has been conducted for workers other than those working at spray painting stations.
- The door in the power distribution room was observed to be open. For safety purposes, it should be shut.

2.11.3 Noise and Temperature

No daytime boundary noise for the southern, eastern and western boundaries or nighttime boundary monitoring for all boundaries has been conducted.

2.11.4 Asbestos

The company has an asbestos inspector conduct an asbestos survey but the analysis of the collected data is not run by an AIHA accredited laboratory. ICCA was informed by Mattel that there is no AIHA accredited laboratory in the Hong Kong area, and one is not required by Mattel standards but would be preferable. Currently, there is a program for the training of applicable personnel who is exposed to asbestos and a written operations plan for the demolition, renovation, and maintenance of asbestos containing material.

2.12 Extracurricular Activities

Plant #7 offers computer skills classes, fire-safety and first aid training programs to its employees.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

ICCA's evaluation of Plant #7's operations is at a satisfactory level of overall compliance with GMP standards. However, there are some notable exceptions where the plant's conduct significantly deviates from GMP standards and underlying values of Mattel as a responsible global enterprise.

An issue of foremost concern to ICCA is the inability of Plant #7's workers to understand the work-hours accounting system and payment formulae. Despite numerous observations regarding the lack of transparency in Plant #7's work hours recordkeeping and pay systems, management has insistent in preserving the status quo for the past five years. We strongly recommend that Mattel consider requiring all vendors to install automated time keeping systems as a GMP Standard. This would create better transparency and improve the accuracy and quality record keeping with regard to working hours and payment of appropriate wages. Plant #7 should also be required to take necessary steps to eliminate discriminating hiring practices.

3.2 Physical Facilities and Workplace Safety

Plant #7, from an EHS viewpoint, is generally a good and well-run facility, especially considering its size and number of employees. However, noise, and lack of widespread earplug usage, as indicated in the body of this report remains as a major source of discomfort for a large number of workers.

III. Formal Audit – Vendor Plant 13

1. INTRODUCTION

1.1 Audit History

This report is based on the field audit of Plant #13. The plant is located in the Guangdong Province of China. The first formal audit of this plant was conducted in July 2005. Based on the findings of this audit, ICCA conducted a follow-up audit of Plant #13 in December 2005. Published reports of the initial and follow-up audits as well as Mattel's responses to their findings may be found on ICCA's and Mattel's websites.

1.2 Plant Overview

Plant #13 produces plastic and electronic toys for Mattel as well as other toy manufacturers. It is a medium-sized, seven year old plant consisting of production, warehousing and worker dormitory buildings. The company has been a major vendor for Mattel during the past 10 years.

1.3 Workforce Profile

At the time of the ICCA audit, Plant #13 employed 4,000 workers and 1,000 administrative personnel. The size of the direct workforce varies throughout the year and ranges between 3,000 and 4,000, depending on seasonal production requirements. Almost 90% of the workers are female. Average age of workers is 25 years and the minimum hiring age is 18. Twenty percent of the workforce has completed high school, and 80% have middle school education. The average length of employment for the interviewed workers is 1.5 years. For almost 30% of the interviewed employees, this is their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

Most of the workers (90%) are hired through walk-in applications. The remaining 10% respond to local advertising.

Upon hiring, all workers are given an orientation, which includes an information session on employment terms and conditions, workplace safety and

discipline, living accommodations, and other issues required by Mattel's GMP. Employee handbooks are available to all workers and describe factory rules and regulations. However, the plant's sick leave, annual leave and maternity leave policies are excluded from the orientation and its documentation. Mattel's internal audit reports have also noted this issue in the past.

ICCA interviews with workers indicated that the factory had used certain discriminatory practices in its recruitment, which prevented some applicants from being hired. Mattel's follow-up inquires with the plant confirmed the accuracy of our findings. In response, Mattel indicated that the plant management had agreed to discontinue these practices with immediate effect. Furthermore, plant management would:

- i) include statements of non-discriminating policies in the employee handbook, employment contract, and post a statement to this effect on factory and dormitory notice board; and,
- ii) train HR recruiters to ensure that these policies are strictly enforced.

Mattel's internal audit department would verify as to the factory's compliance with these policies in its next round of audits. These would be undertaken within the next six months but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

Plant #13 also requires all newly hired workers to undergo medical examination at the local hospital. The costs of these exams (RMB15 – 50) are borne by the workers and paid directly to the hospital. The issue of requiring workers to pay for their pre-hiring medical examination has persisted at this plant for a number of years. It has also been a recurring problem in a number of other vendor plants.

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 highly unusual practice on the part of Plant #13 is that its employee handbook makes no mention of the company's policies – and legal requirements – with regard to employee entitlement of annual leave, sick leave and maternity leave.

A majority of the workers interviewed by ICCA also confirmed the fact that they were not aware of their sick, annual and maternity leave entitlements. A

small number of workers who did confirm their awareness of these practices did not know of their exact nature and conditions of their applicability. Third of the interviewed workers also stated that they would not be paid if they were unable to work due to a sickness.

This is an untenable situation and needs to be rectified. ICCA urges that Mattel require Plant #13's management to improve its communication with the workers by:

- i) discussing all these policies during the hiring-orientation process; and,
- ii) incorporating them in the company's employee handbook and workers' employment contract.

a. Cost of Uniforms:

Workers are required to wear company-issued uniforms while on production facility premises. Management provides one set each of summer and winter uniforms, free of charge. Workers are required to pay RMB18 – 33 if they wish to purchase additional sets. This implementation essentially requires that each worker must buy an additional set of uniform in the summer and winter since they need to be laundered. ICCA considers this to be unreasonable requirement since it would be impossible for the workers to adhere to requirement of the factory wearing uniform while at work. ICCA also interprets this practice to be at variance with Mattel's GMP, which states that the cost of meeting factory-mandated requirements should be borne by the employer.

b. Probation Period

All newly hired workers undergo a 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. ICCA confirms that probation periods of audited workers were in compliance with the Chinese labor law. Payroll audit of workers' records also showed that all workers were paid wages similar to those paid to regular workers while on probation.

c. 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. All interviewed workers' contract durations were 6 months.

Chinese labor law requires that employment contracts include pertinent information about occupational hazards that the worker(s) will be exposed to

because of their employment. ICCA notes that Plant #13 does not provide such information to the employees.

d. Personnel Files

Each worker has a personnel record on file. It contains an application form, contract, and copy of a recent picture ID. The factory keeps separate records with regard to employees' annual leave and maternity leave benefits.

2.2 GMP Awareness

According to Mattel's GMP, all vendor plants are required to provide information and training to all their workers about their rights in the workplace. Plant #13 provides an employee handbook to each new hire, covering company policies, rules and regulations, wage systems and other pertinent information as required in Mattel's GMP. Exceptions noted with regard to this point include workers entitlements to leave benefits as mentioned in the previous section. Among the interviewed workers, 69% indicated that their orientation did not include any information regarding their rights in the workplace.

2.3 Payroll System and Record Keeping

Workers use magnetic swipe-cards to record their time at the factory. The payroll systems are automated and workers are paid within 22 days of pay-period end via bank-transfer. All workers at the plant have signed an agreement as a part of their employment contract to receive their paychecks in 22 days after pay-period-end instead of 7 days as legally mandated by the Shenzhen labor district. It should be noted here that the labor law allows for such a deviation from the 7-day mandate only for unique and specific cases. ICCA also notes that Plant #13's payroll system is based on electronic time records and data processing requirements which should easily accommodate timely payment of wages required by law.

Plant #13's current practice is a violation of applicable local laws. Plant #13 cannot compel workers to waive their legal right and accept the condition of delayed payment as part of their employment contract and then use it as a justification for such practice. ICCA would urge Plant #13 and also Mattel to institute uniform procedures to ensure timely payment of wages to workers as required by local laws.

Interview data indicated that workers' understanding of their regular wages, overtime wages, and payroll deductions were clear for around 11-28% of the respondent workers. Some 10% had very little understanding of the wages they receive.

Workers' Understanding of Monthly Pay-Stub

| | everything | some | little |
|--------------------------|-------------------|-------------|---------------|
| Regular hours and wages | 15% | 75% | 10% |
| Overtime hours and wages | 11% | 80% | 9% |
| Benefits and deductions | 28% | 70% | 3% |

a. Production Processes and Working Hours

Primary production processes Plant #13 are injection molding, electronics, spray painting and assembly. Direct labor force works in two shifts throughout the workweek. The workweek at the plant is defined as six days, Monday through Saturday. The normal workweek is considered to consist of 40 hours, with any excess treated as overtime. All interviewed workers stated their workweeks consisted of six days and that Sunday was their rest day.

Overtime at the plant is voluntary. All interviewed workers said that they might opt out by notifying their line leaders in advance, if they do not want to work overtime.

The plant has secured 'consolidated hours' permissions from the neighborhood local labor bureau, which allows them to schedule overtime in excess of the daily limits as long as the total overtime within a year does not exceed the legal maximum of 432 hours.

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 policies³.

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.

Plant #13 has implemented scheduling controls to assure that workers always are given one rest day per week. Similarly, ICCA audit has confirmed that

³ 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.

no worker is scheduled to work for more than 12 hours per day. However, regarding the peak period scheduling practices, Plant #13 does not observe Mattel's GMP guidelines, which require that the number of workweeks, which exceed 60 hours per week, be limited to 17. Of the audited workers, more than half has worked more than 17 weeks, averaging more than 30 weeks within the period 7/2006 - 6/2007. All interviewed workers stated that their regular work schedule consists of 11 hours per day and that their daily work hours exceed 10 throughout the entire year.

It would seem that Mattel has not been successful in maintaining a ceiling over excessive work-hours. The sad fact is that rather than being the upper limit, Mattel's more liberalized work-hour regime is increasingly being used as the acceptable minimum from which the plants continuously seek to extend the range of additional hours to be worked at the factory.

b. Regular Wages

The minimum wage rate in the two plants' district is RMB700 per month. ICCA audit workers' payroll records confirmed that all workers were paid at least the minimum wage rate.

c. Overtime Wages and Bonuses

All direct labor workers 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, workers are paid at double the regular rate. ICCA audit confirms that all overtime wages were paid properly.

d. Deductions

The plant collects, in cash, RMB45 for dorm usage and RMB200 for food each month, and both are optional. All interviewed workers indicated that they feel all deductions to be reasonable and fair. ICCA audit has concluded that Plant #13 complies with Mattel's GMP regarding the extent of living expense deductions, which is required to be less than 50% of minimum wage.

e. Benefits

Plant #13 pays social insurance benefits premiums its workforce. Workers are entitled to one week of paid annual leave to all workers upon completion of one year of service. However, the number of paid annual leave days does not increase in proportion to the workers tenure with the plant as the Chinese labor law stipulates. Plant #13 limits the annual leave to entitled workers during the Chinese New Year holidays. This practice limits the workers' ability to claim their earned benefits at will and imposes an undue restriction, which is not consistent with Mattel's GMP.

The plant does not have a policy on maternity, bereavement, or sick leaves, and has not provided ICCA with any records of a worker ever having taken such leave. Worker interviews suggested that 37% were aware of maternity benefits and only 10% knew the extent of these benefits.

These findings are consistent with ICCA's previous two audit reports of this plant as well as Mattel's internal audit reports dating back to mid-2005. It would appear that Plant #13 is not inclined to comply with the relevant provisions of China Labor Laws and GMP standards. ICCA recommends that Mattel require Plant #13's management to:

1. develop a policy regarding maternity, bereavement, and sick leaves immediately;
2. have provisions of the revised policies be included in both the worker orientation materials as well as employee handbooks; and,
3. ensure that these policies are implemented within the next six months but no later than June 30, 2008. ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review factory's compliance.

2.4 Workplace Discipline of Employees

Plants #13 has written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. The policies provide that employees receive a verbal warnings and formal letters in case of a violation. In case of continued disobedience or depending on the severity of the violation, the employee may be terminated from employment. Although the company policy allows for cash fines for safety-related offenses, its practice has been discontinued since 2005.

All interviewed workers indicated that they have been informed of discipline rules and regulations at the time of their hiring. In addition, they unanimously stated that they are treated fairly and reasonably by the plant management.

2.5 Freedom of Association, Discrimination, and Access to Management

Plant #13's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. Workers are referred to the union representatives for reporting any policy violations, or work-related concerns. Interview findings also confirm that workers are not afraid to voice their concerns, or intimidated from filing complaints if they were to feel mistreated.

2.6 Protection from Harassment

Plant #13 has policies addressing workers' protection in factory and dorm facilities. These policies are outlined in the human resources handbook and made available to workers. Interviewed workers unanimously stated that their workplace is free of any harassment, and that they are treated with respect by their peers and supervisors.

2.7 Dormitories, Clinic, Canteen and Kitchen

2.7.1. Dormitories, Kitchen, Canteen

Dormitories, kitchen, and canteen are satisfactory and have not changed substantially since the last ICCA audit in 2005. Interviewed workers also confirmed their general satisfaction with the cleanliness, safety and adequacy of dormitories as well as food facilities.

2.7.2. Medical Clinic

Plant #13 does not have a medical clinic on premises.

2.8 General Working Conditions

All interviewed workers in Plant #13 indicated that the factory in general and all their work areas are clean, adequately ventilated, comfortable, and free of work hazards.

2.9 Use of Toilets Facilities and Access to Drinking Water

Plant policies limit the number of workers who can leave their workstations by a permit system. The number of permits varies from one permit for 25 to 27 workers in various production processes. Nearly 75% of the interviewed workers complained about the inadequacy of such permits and voiced the discomfort they experience because of this rule. This issue has also been brought up in several other facilities that ICCA has audited. Experience shows that while a ratio of one permit for 10-30 workers may be reasonable, it should not be rigid. Nor should the workers be required to find a replacement before they are permitted to leave their work stations.

Another disturbing finding of the audit was inability of workers to leave plant site during lunch hours. Of the interviewed workers, 23% stated that they

had to obtain a special permit to leave the facility in case they wanted to have lunch outside the factory.

2.10 Use of Personal Protective Equipment (PPE)

Plant #13 has an effective PPE usage policy and implementation practice, which was observed during the plant walk-through as well as interviewed workers. All workers indicated that they were issued appropriate PPE trained on its usage and that it was mandatory.

2.11 Workplace Operating Environment

Plant #13 occupies 330,000 sqf. of production and 129,000 sqf. of warehousing space. It is a seven year old, medium-sized plant.

ICCA has been notified that Plant #13 is moving out of most of its current facilities within a comparatively short time. Hence, the following findings have been divided into two categories, i.e., 1) issues that need addressing within approximately six weeks, and 2) issues that do not present an immediate danger and which can be addressed at a later time for the facility that is not being vacated and ignored for those existing in the soon-to-be vacated premises.

2.11.1. Problems That Need Immediate Attention

- A. Hazardous Waste: Waste rags containing volatile solvents and chemicals are being disposed as domestic waste.
- B. Housekeeping:
 - 1. Housekeeping is generally good at the site except there is leakage at the cooling tower letting water puddle. Algae are growing in these puddles on the roof.
 - 2. The kitchen floor is slippery and oily.
- C. Fire Fighting
 - 1. Fire drills although conducted regularly for the day shift in the production areas none are conducted for the night shift.
 - 2. Fire hydrants are blocked at several locations in the storage warehouse and in the injection-molding workshop.
- D. Industrial Hygiene: No radioactive badges are provided to workers exposed to radioactive equipment.
- E. Personal Protection Equipment (PPE): Use of PPE needs stricter enforcement.

1. Some workers at the regrinding sites were not wearing eye protection.
 2. Some workers on the injection-molding floor were not wearing earplugs, nor using finger protectors.
 3. A few workers were wearing breathing masks below their noses.
 4. Some workers in machine shop were not wearing safety shoes.
- F. Equipment Licenses: A crane operator and the radioactive equipment operator were not licensed as required. According to Safety Production Law, special operating staff shall not hold their posts unless they have, according to the relevant provisions of the State taken part in special training and obtained the qualification for this special operation. In addition, the Management Methods of Special Operators states that the operators and the concerned administration employees of boiler, pressure vessel, elevator, lift facility, should take part in special training and obtain a certificate for this special operation. If a special operator has left his work for six months or more, the operator will be retrained and must pass the examination prior to resuming the special operations.

2.11.2. Existing Problems That Do Not Need Immediate Attention

- A. Wastewater: A 2007 monitoring test was conducted by Shenzhen EMS, which included analyzed parameters of suspended solids, chemical oxygen demand, and biological oxygen demand. No tests were conducted to measure analyzed parameters for grease, ammonia, and total phosphates.
- B. Boundary Noise: No daytime boundary noise monitoring has been conducted at the site.
- C. Ambient Temperatures: The bonding room and injection-molding workshop may be exceeding the allowable ambient temperature requirements. No data was available.
- D. Industrial Hygiene:
1. There appears to be insufficient lighting in several work areas.
 2. There may be insufficient ventilation at several of the soldering work stations.

2.11.3. Conclusions

Since the bulk of the Plant #13 facility is moving to a new location shortly, many of the findings in this current audit are academic. When the move is finalized, a new EHS audit would be in order to evaluate the new facility.

2.12 Extracurricular Activities

Plant #13 offers skills training which is available to all workers. In addition, English classes are held in plant premises.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

The management of Plant #13 has continuously shown a disregard for compliance with China labor laws and GMP standards with regard to its leave policies and other worker benefits. These have been detailed in the main body of the report.

An even more disconcerting factor appears to be Mattel's unwillingness or inability to exert pressure on Plant #13 to rectify the noted short falls and improve its treatment of workers. It is no longer enough for Mattel's internal audit department to report continuous violations. In the absence of a more forceful response on Mattel's part, it would appear that Plant #13 has little incentive in changing its conduct. If this state of affairs were allowed to continue, it would greatly diminish the utility of Mattel's own internal audits and those conducted by ICCA.

3.2 Physical Facilities and Workplace Safety

ICCA audit and subsequent analysis of site observations have accommodated the fact that Plant #13 is relocating imminently. While this fact makes some of the long-term remediation actions impractical, Plant #13 must address other operating conditions and physical work environment that pose danger to either worker safety and/or occupational health. ICCA has also indicated these issues during the site visit. The mentioned remedies require mostly management attention and little in the way of capital expenditures. Therefore, these issues should be addressed with all due speed and efficiency.

IV. Formal Audit – Vendor Plants 19 and 20

1. INTRODUCTION

1.1 Audit History

This report is based on the first formal field audit of Plants #19 and #20 by ICCA, which were conducted in July 2007. The two plants are situated in the Guangdong Province of China. They are located adjacent to each other. Both plants are owned by the same holding company and operated by the same senior management team.

1.2 Plant Overview

Plants #19 and #20 produce plastic toys for Mattel as well as other toy manufacturers. In addition, Plant #19 also produces soft toys. This vendor has been working with Mattel for over 10 years.

Plant #19 was built in 1998, and Plant #20 was built in 2002. They occupy a total production area of 70,000 square meters. The two factories collectively consist of six buildings.

1.3 Workforce Profile

At the time of the ICCA audit, Plants #19 and #20 jointly employed 4,500 workers and 450 administrative personnel. The size of the direct workforce varies throughout the year and ranges between 1,800 - 2,500 for Plant #19 and 1,500 – 3,000 for Plant #20. Almost 85% of the workers are female. Average age of workers is 21 years in Plant #19 and 24 in Plant #20. Although, the minimum hiring age is 16, the two plants do not currently have any employees under the age of 18. Almost 90% of the joint workforce has middle school while the remaining 11% have completed high school. The average length of employment for the interviewed workers was 1 year. For a third of the interviewed employees, this was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

All the workers are hired through walk-in applications. Upon hiring, all workers receive an orientation, which includes an extensive information session on employment terms and conditions, workplace safety and discipline, living accommodations, and other relevant issues.

Workers are also required to undergo a medical examination as a condition of hiring. The fees for medical exams are paid directly to the hospital (RMB30-40) and are borne by the workers. Among the workers interviewed by ICCA, 56% stated that they had to pay for their medical exam either directly to the hospital, or the fee was deducted from their first paycheck (RMB40-60).

The issue of requiring workers to pay the cost of the pre-hiring medical examination has been a point of disagreement between ICCA and Mattel. The practice is quite widespread among Mattel's Tier II vendor plants audited by ICCA. While not specifying the cost of medical examinations, Mattel's GMP standards clearly state that the factory must be responsible for paying all costs associated with a worker's employment at the factory.

In its follow-up, Mattel has agreed that this 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

All newly hired workers undergo a 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. Probation periods of audited workers complied with the Chinese labor law. Payroll audit of workers' records showed that all workers were paid wages similar to those paid to regular workers while on probation. All workers indicated that their probation period was less than or equal to one month and that their pay was the same as regular workers' during this period.

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. Sampled workers' contract durations ranged from 3 to 12 months. Chinese labor law requires that a factory must inform and train

workers prior to their being assigned to jobs that are subject to occupation-related health hazards where they might be exposed to occupation-related health hazards in their jobs. However, this information is incomplete in Plant #19's contracts and not included in Plant #20's.

c. Personnel Files

Each worker has a personnel record on file. It contains information on medical check-ups, probation periods, employment registration, contract, and copy of a recent picture ID. In addition, separately kept company records include orientation & training materials, annual leave, and maternity leave.

2.2 GMP Awareness

According to Mattel's GMP, all vendor plants are required to provide information and training to all their workers about their rights in the workplace. Plant #19 and #20 provide an employee handbook to each new hire, covering company policies, rules and regulations, wage systems and all other pertinent information as required in Mattel's GMP. Of the interviewed workers, 52% confirmed receiving information from supervisors and/or employee handbooks about any management principles or standards of behavior, which describe fair and safe working conditions for workers.

2.3 Payroll System and Record Keeping

Workers at both plants use magnetic swipe-cards to record their time at the factory. Interview data indicated that workers' understanding of their regular wages, overtime wages, and payroll deductions were clear for around 30% of the respondent workers.

Workers' Understanding of Monthly Pay-Stub

| | everything | some | little |
|--------------------------|-------------------|-------------|---------------|
| Regular hours and wages | 30% | 70% | 0% |
| Overtime hours and wages | 30% | 70% | 0% |
| Benefits and deductions | 28% | 72% | 0% |

The payroll systems at the two plants are automated and workers are paid within 7 days of pay-period end for Plant #19 workers and 12-16 days for Plant #20's, both via bank-transfer. Local labor laws require that workers in the two plants' district should be paid within seven days of pay-period end. ICCA recommends that Plant #20's payment practices should be aligned with those of Plant #19 to ensure compliance with China's Labor laws.

a. Production Processes and Working Hours

Primary production processes at both plants are injection molding, painting, sewing, and assembly. The workweek at the two plants is defined as six days, Monday through Saturday. Workers at Plant #19 work 5 days per week, 11 hours per day in all departments. About a third of Plant #20's workers follow the same schedule, while the remaining two-thirds work six 10-hour days each week.

Both plants have secured 'extended hours' permissions from the local labor bureau, which allows them to schedule overtime in excess of the legal limits as long as workweeks do not exceed 66 hours during a 17-week peak period.

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;
 - 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.

Plants #19 and #20 have installed control policies to assure that workweeks do not exceed 66 hours, and no worker works more than 11 hours per day or more than 13 consecutive days without a rest day. For Plant #19, these control policies seem to be implemented successfully. However, Plant #20 records show significantly higher overtime hours. Records show that the number of weeks during which total work hours exceed 60 may be as high as 27 in some departments. Workers interviewed by ICCA also confirm these practices. All workers in Plant #19 stated that their workdays were 10 hours or less, and that they seldom worked more than 60 hours per week. On the other hand, Plant #20 workers unanimously stated that their workweeks consistently exceeded 60 hours. For many of the interviewed workers, this condition prevailed the entire year. ICCA's findings with regard to excessive overtime hours are consistent with Mattel's several internal audit reports of this plant during the past one year.

Overtime at both plants is voluntary. Workers may opt out by notifying their line leaders in advance verbally if they do not want to work overtime. Worker

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.

interviews confirmed that all overtime was voluntary and workers could opt out anytime they wished.

b. Regular Wages

The minimum wage rate in the two plants' district is RMB700 per month. ICCA audit workers' payroll records confirmed that all workers were paid at least the minimum wage rate.

c. Overtime Wages and Bonuses

All direct labor workers 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. If this is not practicable, workers are paid at double the regular rate. ICCA's payroll audit as well as interviewed worker responses confirms that all overtime wages were paid properly.

d. Deductions

The plants charge RMB60-70 for dorm usage, and RMB75-145 for various food plans each month; both are optional and deducted from workers' paychecks. Interviewed workers indicated that they are free to choose when to eat in the cafeteria and whether they live in the company-provided dorms. All workers also indicated that their deductions for food and dorm were fair and reasonable. ICCA audit has concluded that both plants comply with Mattel's GMP regarding the extent of living expense deductions, which is required to be less than 50% of minimum wage.

e. Benefits

Plants pay medical insurance, injury, and social benefits premiums for the workforce. This arrangement is approved by the local labor bureau.

Workers are entitled to one week of annual leave pay upon completion of one year of service. Interviewed workers also confirmed that they receive annual leave benefits upon completion of one year's service.

Both plants have a policy of paying maternity benefits of 90 days paid leave to all workers. Majority of the workers were informed about the plants' maternity leave policies, and confirmed that they were entitled to 90 days pay benefits. Two months' wages is payable during the leave period and the final payment is made upon the workers' return by policy. ICCA's findings indicate that this practice is inconsistent with China Labor Laws, which do not stipulate any qualifications or pre-conditions for maternity leave benefits on the part of eligible workers.

In its follow-up response, Mattel has agreed with ICCA's finding, indicating that the company will take immediate steps to communicate this understanding to the plants and vendor factories and require that they develop a plan to ensure eligible employees receive their full maternity benefit. Mattel is also reviewing its detailed GMP compliance standards to determine if clarifications are appropriate and maternity benefits will be included in GMP capacity building programs.

ICCA would request that Mattel's internal audit department verify the implementation of these policies by Plants #19 and #20. These should be undertaken with the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

2.4 Workplace Discipline of Employees

Plants #19 and #20 have written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. The policies provide for warnings, dismissals, demotion, and fines. Fines, which range from RMB50 to RMB140, are confined to those violations, which involve safety issues, as allowed by the Chinese labor law and Mattel's GMP. In addition, employee discipline is monitored via a "point" system, by which continued disciplinary violations are monitored. Interviewed workers indicated that most fines were confined to severe safety issues such as smoking in production areas. Mostly, workers feel that they are treated fairly by supervisors, know how to dispute unfair treatment and do not feel threatened to report complaints.

2.5 Freedom of Association, Discrimination, and Access to Management

Plant #19 and #20's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. These policies are indicated in orientation sessions and posted in factory work areas. Daily meetings between supervisors and workers facilitate communication of workers' concerns in a timely fashion. The factory also recognizes all employees' right to join a lawful organization or association.

Workers are free to report any policy violations, work-related concerns and suggestions for improvement. They may use suggestion boxes and report their concerns to their direct supervisors without fear of reprisal. Worker representatives also act as a liaison between the workforce and plant management. Monthly meetings with line leaders routinely address workers concerns about their work environments. A majority of the interviewed workers indicated that they were able to talk to line leaders and production supervisors regarding their concerns in the workplace and file a complaint if necessary.

2.6 Protection from Harassment

Both plants have policies addressing workers' protection in factory and dorm facilities. These policies also provide venue for employees to report harassment and abuse. Implementation policies also include disciplinary action in the form of point deductions from supervisors' evaluation scores. Interviews with factory workers confirmed that these policies were widely known by all workers and the workplace was free from any form of harassment.

2.7 Dormitories, Clinic, Canteen and Kitchen

2.7.1 Canteens and Dormitories

The physical requirements of the canteens and dormitories for both plants meet GMP requirements. They are clean, orderly and well maintained.

2.7.2 Clinic

There is a local community clinic serving the needs of employees from both plants. Medical care is provided free of charge, workers are responsible for only the cost of medication. Worker interviews confirm clinic access and services are satisfactory.

2.8 General Working Conditions

All interviewed workers confirmed that their workstations were generally clean, the workplace well ventilated and their work environment was comfortable and free of health or safety hazards.

2.9 Use of Toilets Facilities and Access to Drinking Water

Over 98% of the workers interviewed by ICCA expressed their dissatisfaction concerning their ability to use the toilet facilities and/or to access drinking water while at work. Both plant policies limit the number of workers who can leave their workstations by a permit system. The number of permits varies from one permit for 10 to 30 workers for various production processes. Several workers also mentioned that they were allowed to leave their workstations only if they are able to locate another worker who can take their place

ICCA has observed similar concerns in other plants. Experience shows that while a ratio of one permit for 10-30 workers may be reasonable, it should not be rigid. Nor should the workers be required to find a replacement before they are permitted to leave their workstations.

2.10 Use of Personal Protective Equipment (PPE)

Both plants regularly issue PPE to their workers where necessary. Hazards assessment is conducted in both plants and signs are posted where PPE usage is required. Worker interviews indicate that they are trained in PPE use, and plant walk-through confirms that PPE usage is common and adequate in general.

2.11 Workplace Operating Environment

Plant #19 consists of three buildings, built in 1998, with 32,697 square meters and Plant #20, built in 2002, has a total production area of 38,200 square meters, consisting of three buildings. As both plant and facilities' management personnel are common to both plants, the two plants are regarded as a single entity for the purposes of this report. Where differences exist, either structurally, or in the findings of the ICCA professional engineering team's 'walk-through' and document examinations, they are reported separately in the report. This EHS report is structured in three parts: A. Common issues; B. Those that pertain to only Plant #19; and C. Issues that are unique to Plant #20.

A. Common To Both Plants

I. Environment

1. Chinese law provides that a company must engage a licensed institute to conduct a Completion Acceptance Inspection (CAI) of occupational hazards and control equipment. The inspection that approves the Occupational Disease Hazard Pre-Assessment (ODHA) is required to ensure that the mandated occupational hazards and control equipment are integrated into the plant at the trial stage. The CAI could be performed by the local EMS and approval issued by the EPB. No Completion Inspection Acceptance monitoring other than the domestic wastewater treatment plant (WWTP) has been conducted by the local EPB. No approvals were issued.
2. There is no procedure in place regarding changing conditions that require changes in PPE usages.

II. Special Equipment

1. None of the manually operated cranes operators were licensed. According to Safety Production Law, workers must receive special training and be certified before being allowed to operate cranes and other such equipment. In addition, the Management Methods of Special Operators states that the operators and the concerned administration employees of boiler, pressure vessel, elevator, lift facility, should take part in special training and obtain a certificate for this special

operation. If a special operator has left his work for six months or more, the operator will be retrained and must pass the examination prior to resuming the special operations.

2. There are no regularly scheduled crane inspections. Cranes are classified as 'lifting devices'. According to Rules of Safety Supervision of Lifting Facility (1991), the goods-lifting facility should be inspected by a licensed institution every two years. The regulation applies to a lifting facility whose lifting capacity is higher than 0.5 tons and the lifting height is 2 meters or higher.

II. Wastewater

According to management no regular maintenance, inspection or integrity testing has been conducted on the underground domestic WWTP, underground and aboveground tanks and associated pipelines.

| B. Plant #19 | C. Plant #20 |
|--|--|
| <ol style="list-style-type: none"> 1. <u>Disposal</u> <ul style="list-style-type: none"> • Domestic wastewater drainages for pantries, floor washing, and kitchen were connected to the storm-water drainage system. • Condensate from air compressors were collected in 50-gallon drums. Overflow was observed in the collection area • Sludge from the wet scrubbers used in the spray painting process was disposed as domestic waste. 2. <u>Housekeeping</u> <ul style="list-style-type: none"> • Water leaking was observed at the cooling water tower on the roof that had algae growths. • The resin-paved ground at the diesel above ground storage tank (AST) was in poor condition with puddles of accumulated water. • There were oil stains on the floor of the diesel generator room • Water pipelines used in the spray painting process were leaking in the water pump room. | <ol style="list-style-type: none"> 1. <u>Disposal</u> <p>Water was discharged into oily storm inlets adjacent to the diesel generator room and dangerous goods storage area. Management was not aware of the source of water.</p> 2. <u>Housekeeping</u> <ul style="list-style-type: none"> • Water at the wet scrubber for the re-grinding workshop was spilled on the ground. The condition of the paved ground was poor with corrosive stains observed. Management reported that the water was not recycled • Firefighting lanes adjacent to the boundary of the injection-molding workshop were clogged with domestic waste. 3. <u>Contamination</u> <ul style="list-style-type: none"> • Accumulated oil was observed at the storm water inlets adjacent to the diesel generator room and dangerous good storage area. Management was not aware of the oil source. • Oil sheen was observed at storm water inlets adjacent to the dormitory |

| | |
|---|---|
| <p>3. <u>Contamination</u></p> <ul style="list-style-type: none"> Oil stains were observed at the storm water inlet adjacent to the injection molding workshop During an ICCA pre-audit conducted on 13 July 2006, it was noted that the diesel generator exhaust stacks were close to the air intake of the workshops air conditioning system. A suggestion was made that a test should be run to determine if inter-pollution was taking place. No test data was made available. <p>4. <u>PPE</u></p> <p>Some workers were observed not wearing finger protectors. The ones in use could be improved to provided greater protection</p> | <p>with oil stains surrounding the inlets.</p> <p>4. <u>PPE</u></p> <p>Some workers were not wearing gloves at the spray painting stations and wearing masks below their noses.</p> <p>5. <u>Industrial Hygiene</u></p> <ul style="list-style-type: none"> No Local Exhaust Ventilation installed at some hand painting workshops. No workplace noise monitoring has been conducted at workshops with high noise potentials such as at the re-grinding workshops and diesel generator rooms. Noise monitoring has been performed in the injection-molding workshop. <p>6. <u>Monitoring</u></p> <p>Domestic wastewater monitoring was conducted by Center Testing International (CTI) on May 7,2007, including parameters for pH, suspended solids, chemical oxygen demand, and biological and chemical demand, No analysis for grease, ammonia or total phosphate have been conducted.</p> |
|---|---|

2.12 Extracurricular Activities

Both plants offer computer classes as skills training activities. Other programs include dance and various sports classes as non-job related activities.

Employee interviews indicate that all workers participate to some extent, in computer training, dance and singing classes, as well as job, safety and skills training opportunities provided by the two plants.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

ICCA's evaluation of Plants #19 and #20's operations is at a satisfactory level of overall compliance with GMP standards. However, there are some notable exceptions where the plants' conduct significantly deviates from GMP standards and underlying values of Mattel as a responsible global enterprise. They require immediate and unambiguous action on Mattel's part to ensure that Plants #19 and #20 live up to their commitment of meeting GMP standards.

In the area of worker treatment, notable issues relate to workers responsibility to bear employment related costs, maternity benefits administration, and adequate access to drinking water and toilets. A related issue involves the proper dissemination of occupational hazard information at the time of hiring.

The differences between the two plants' policies regarding overtime-scheduling practices and payday lags are an issue of concern for ICCA. Both plants use identical processes, produce comparable product and operate within the same environment. There seems to be no reason why Plant #19 is fully compliant with the law and Mattel's GMP, while Plant #20 lags in its implementation.

3.2 Physical Facilities and Workplace Safety

Both plants are modern, air-conditioned and by correcting the discrepancies mentioned in the body of this report, they would both be Class A facilities and would be in significant compliance with Mattel's EHS standards of its GMP.

V. Formal Audit – Vendor Plant 21

1. INTRODUCTION

1.1 Audit History

This report is based on the field audit of Plant #21. The plant is located in the Guangdong Province of China. This is the first formal audit of Plant #21 by ICCA.

1.2 Plant Overview

Plant #21 produces plastic and electronic toys for Mattel as well as other toy manufacturers. It is a medium-sized, plant consisting of four production buildings, warehouse and worker dormitory buildings. The company has been a major vendor for Mattel during the past 10 years.

1.3 Workforce Profile

At the time of the ICCA audit, Plant #21 employed 2,000 workers and 110 administrative personnel. The size of the direct workforce varies throughout the year and ranges between 1,300 and 2,000. Almost 65% of the workers are female. Average age of workers is 20 years. The factory has no employee younger than 18. Around 85% of the workers have middle school education while the remaining 15% have completed high school. The average length of employment for the interviewed workers is 1.3 years. For 60% of the interviewed employees, this is their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

Approximately 50% of the workers are hired through walk-in applications and local advertising. Others are hired through recruiting agencies whose fees are paid by the plant.

Upon hiring, all workers are given an orientation, which includes an information session on employment terms and conditions, workplace safety and discipline, living accommodations, pay, wage and benefits, and other issues as

required by Mattel's GMP. Employee handbooks as well as posted notices are available to all workers and describe factory rules and regulations.

Workers at Plant #21 are also required to undergo medical examination at the time of hiring, and the factory pays for its costs.

a. Probation Period

All newly hired workers undergo a 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. Probation periods of audited workers complied with the Chinese labor law. All audited workers were paid wages similar to those paid to regular workers while on probation.

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. All audited workers' contract durations were 12 or 13 months. According to the Chinese labor law, all contracts must be endorsed by the local labor bureau within 30 days of employment. Twelve percent of the audited worker files showed that worker contracts' endorsement was delayed by up to 66 days.

c. Personnel Files

Each worker has a personnel record on file. It contains an application form, contract, orientation & training materials, and copy of a recent picture ID. In addition, separately kept company records include disciplinary actions, sick leaves and injuries.

2.2 GMP Awareness

According to Mattel's GMP, all vendor plants are required to provide information and training to all their workers about their rights in the workplace. Plant #21 provides an employee handbook to each new hire, covering company policies, rules and regulations, wage systems and other pertinent information as required in Mattel's GMP.

2.3 Payroll System and Record Keeping

Workers use magnetic swipe-cards to record their time at the factory. The payroll systems are automated and workers are paid cash within 30 days of pay-period end.

Interview data indicated that workers' understanding of their regular wages, overtime wages, and payroll deductions were clear for around 15% of the respondent workers. Some 25% had very little understanding of the wages they receive.

Workers' Understanding of Monthly Pay-Stub

| | everything | some | little |
|--------------------------|-------------------|-------------|---------------|
| Regular hours and wages | 15% | 61% | 24% |
| Overtime hours and wages | 15% | 58% | 27% |
| Benefits and deductions | 15% | 61% | 21% |

a. Production Processes and Working Hours

Primary production processes at Plant #21 are injection molding, roto-casting, die-cutting, electronics, painting and assembly.

The normal workweek consists of 40 hours, with any excess treated as overtime. Injection molding and roto-casting departments follow a year-around schedule of 11 hours per day during a six-day workweek, in two shifts. Other departments follow a six-day, 8 hours per day schedule in a single shift during normal operations; during peak periods, these departments follow a 10 or 11-hour workday schedule for six days a week in a single shift. All interviewed workers stated their workweeks consisted of six days and that Sunday was their rest day.

The plant has secured 'extended hours' permission from the local labor bureau, which allows them to schedule overtime in excess of the daily limits as long workdays do not exceed 12 hours and workweeks are limited to 72 hours.

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 policies⁵.

⁵ 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

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.

ICCA audit has confirmed that no worker is scheduled to work for more than 12 hours per day or more than 13 consecutive days without a rest-day.

However, Plant #21 does not observe Mattel's GMP guidelines with regard to the peak period scheduling practices. GMP standards require that the number of workweeks - exceeding 60 hours per week - must be limited to 17. Plant #21 has implemented a system, which reports the number of workers who have exceeded 60, 66, and 72-hour workweeks at the end of each week. Of the audited workers, 10% have worked more than 17 weeks, averaging more than 25 weeks (up to 32) during the period 6/2006 - 5/2007.

ICCA's findings regarding excessive overtime hours is also consistent with Plant #21's management statements as well as Mattel's several internal audit reports of this plant since 2005. All interviewed workers confirmed that their regular work schedule consisted of 10 - 11 hour days, six days a week. Workers also unanimously confirmed that they were always given one rest day each week, and that no worker had worked more than 13 consecutive days.

Overtime at the plant is voluntary. All interviewed workers stated that they could opt out from overtime work simply by notifying their line leaders in advance.

b. Regular Wages

The minimum wage rate of the plant's district is RMB690 per month. ICCA audit of workers' payroll records confirmed that all workers were paid at least the minimum wage rate.

c. Overtime Wages and Bonuses

All direct labor workers receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. About 60% of the audited workers were paid performance bonuses ranging from RMB10 to 450, averaging RMB142. When rest-day work is scheduled, workers are either

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.

given a replacement rest day, or paid at double the regular rate. ICCA's payroll audit confirms that all overtime wages were paid properly.

d. Deductions

The plant collects, in cash, approximately RMB90 for dorm and utility usage and RMB150 for food each month, both of these are optional. All interviewed workers expressed their satisfaction with regard to these deductions as fair and reasonable. ICCA audit also confirmed that Plant #21 was in compliance with Mattel's GMP in regard to these deductions.

e. Benefits

Plant #21 pays medical, unemployment, injury and medical insurance premiums to a portion of its workforce. This arrangement is approved by the local labor bureau. Workers are entitled to one week of paid annual leave upon completion of one year of service. Plant #21 limits the annual leave to entitled workers during the Chinese New Year holidays. The workers are paid 5 days of wages during the Chinese New Year holidays, when the plant is closed. This practice limits the workers ability to claim their earned benefits at will and imposes an undue restriction, which is not consistent with Mattel's GMP.

Worker interviewed by ICCA suggested that 85% of respondents were aware of maternity benefits, and 60% of those knew the extent of these benefits. Plant policy allows 90 days of maternity leave, during which 60 days of wages are paid while the workers are on leave, and the remaining 30 days' wages paid upon their return to work. ICCA's findings indicate that this practice is inconsistent with China Labor Laws, which do not stipulate any qualifications or pre-conditions for maternity leave benefits on the part of eligible workers.

In its follow-up response, Mattel has agreed with ICCA's finding, indicating that the company will take immediate steps to communicate this understanding to the plants and vendor factories and require that they develop a plan to ensure eligible employees receive their full maternity benefit. Mattel is also reviewing its detailed GMP compliance standards to determine if clarifications are appropriate and maternity benefits will be included in GMP capacity building programs.

ICCA would request that Mattel's internal audit department verify the implementation of these policies by Plant #21. These should be undertaken with the next six months, but no later than June 30, 2008. It would also provide ICCA with a report of its findings. Lastly, ICCA may, at its own discretion, conduct a follow-up audit during 2008 to review compliance.

2.4 Workplace Discipline of Employees

Plants #21 has written procedures concerning employee discipline. These policies are explained to the employees during the orientation period. All interviewed workers indicated that they had been informed of discipline rules and regulations at the time of their hiring. In addition, they unanimously stated that they were treated fairly and reasonably by the plant management. These policies provide that employees receive a verbal warning and two formal letters in case of violations. In case of continued misconduct or depending on the severity of the violation, the employee may be terminated from employment. The factory no longer imposes cash fines for safety-related offenses or any other type of misconduct.

2.5 Freedom of Association, Discrimination, and Access to Management

Plant #21'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. Management's anti-discrimination policies are included in the employee handbook and covered during workers' orientation meetings. Workers are free to join any legal association.

Workers may use suggestion boxes to report any policy violations, or work-related concerns. In addition, they have daily access to supervisors for voicing their work-related concerns, and regular meetings provide a venue for workers to make suggestions. Interview findings also confirm that workers can access management when needed and are not afraid to voice their concerns, or intimidated from filing complaints if they were to feel mistreated.

2.6 Protection from Harassment

Plant #21 has written policies addressing workers' protection in factory and dorm facilities. These policies are outlined in the employee handbook and they explicitly prohibit any form of employee harassment by peers and/or supervisors. Interviewed workers unanimously stated that their workplace was free of any harassment, and that they were treated with respect by their peers and supervisors.

2.7 Dormitories, Clinic, Canteen and Kitchen

2.7.1. Dormitories, Kitchen, Canteen

The physical requirements of both the dormitories and canteen meet GMP requirements. They are clean, orderly and well maintained. Interviewed workers

confirm that they are free to choose alternate food and living accommodations. Largely, they are satisfied with the amenities provided by the plant.

2.7.2 Clinic

The company has a first aid center. The nearest hospital is a five-minute drive. It has 32 employees trained to render first aid. A large majority of interviewed workers were satisfied with clinic services and indicated that they could use the clinic for personal illnesses free of charge; they are responsible only for personal medicine costs.

2.8 General Working Conditions

All interviewed workers in Plant #21 indicated that the factory in general and all their work areas were clean, adequately ventilated, comfortable, and free of work hazards.

2.9 Use of Toilets Facilities and Access to Drinking Water

Plant policies limit the number of workers who can leave their workstations by a permit system. The number of permits varies from one permit for 25-27 workers in various production processes. Several workers also mentioned that they were allowed to leave their workstations only if they were able to find another worker who could take their place. One-third of the interviewed workers complained about the inadequacy of such permits and voiced the discomfort they experienced because of this rule.

ICCA has observed similar concerns in other plants. Experience shows that while a ratio of one permit for 10-30 workers may be reasonable, it should not be rigid. Nor should the workers be required to find a replacement before they are permitted to leave their workstations.

2.10 Use of Personal Protective Equipment (PPE)

Plant #21 has an effective PPE usage policy and implementation practice, which was observed during the plant walk-through as well as interviewed workers. All workers indicated that they were issued appropriate PPE trained on its usage and that its usage was enforced.

2.11 Workplace Operating Environment

Plant #21 consists of four factory buildings built between 1996 and 2003. It is a small to medium sized facility containing 29,500 square meters of factory floor space. The environmental health, safety and maintenance aspects of the plant were confirmed by the ICCA professional engineering team through an extensive 'walk-through' of all the facilities and a review of plant records with

regards to EHS requirements as stipulated in the GMP and detailed in the MCR. The 'walk-through' and evaluation of records indicated the following discrepancies:

2.11.1 Environmental Impact

- i. The facility has an Environmental Impact Assessment Registration for an annual production of 10,000,000 pieces (toys). This approval was issued by Nanhai Environmental Protection Bureau on March 28, 2005. However, management reports that its production capacity at the site is 50,000,000 pieces.
- ii. Management reported that the plant had conducted Completion Inspection Acceptance monitoring. However, no Completion Inspection Acceptance report was made available for review. The plant says it has a 'remark' from Nanhai EPB stating that the site had obtained Completion Inspection Acceptance approval from the local EPB. However, no official approval remark from the local EPB was on site.
- iii. No Pollutant Discharge Permit is held on site.
- iv. No daytime or nighttime boundary noise monitoring has been conducted for the site.

2.11.2 Waste Disposal

- i. The facility has identified all wastewater discharge points but has not obtained any permits.
- ii. Non-production wastewater is discharged to the city sewage system via the factory's septic tank without sampling.
- iii. The company claims an approved waste collector collects its hazardous wastes but no claim is made that its hazardous wastes are identified, quantified, and characterized.
- iv. The facility has not conducted a solid waste assessment to identify waste reduction opportunities.
- v. According to wastewater monitoring conducted by Center Testing International (Shenzhen) on July 11, 2006, concentrations of chemical oxygen (COD), demand biological oxygen demand (BOD), and grease for domestic wastewater from the canteen, and concentrations of COD and BOD from sanitary wastewater exceeded Class II Time Zone Limits in *Emission Standard of Air Pollutants in Guangdong Province*.

2.11.3 Health and Industrial Hygiene

The company states Industrial Hygiene tests are performed annually for operations with hazardous health exposures. Information on who performs these tests was not available.

- i. Not all soldering stations were provided with Local Exhaust Ventilation (LEV).
- ii. It appeared that there was insufficient lighting at a few areas throughout the plant such as the cutting workshop.
- iii. The negative pressure in the spray painting hoods appeared to be less than required.
- iv. Management reported no LEV inspection programs for (i) Soldering workstations, and (ii) Spray painting workstations.
- v. No industrial hygiene monitoring for fugitive emissions from soldering or work place noise has been conducted at the plant.
- vi. A health assessment for those workers potentially exposed to workplace health hazards has not been completed.

2.11.4 Safety

- i. Chemical Storage
 - Labeling is only in English there is no labeling in Chinese.
 - There are no secondary containment or spill control devices at the chemical storage areas.
 - Improper hazardous identification signs were observed in the dangerous goods storage area.
 - Some MSDS are missing.
- ii. Fire Fighting
 - No Fire Fighting Completion Inspection Approval was secured for all facilities at the site, except one workshop.
 - Some fire fighting access ways at the sewing workshop and fire extinguishers were blocked.
 - Emergency evacuation maps were made in a very small print and were hard to read.
- iii. Personal Protection Equipment (PPE)

No procedure exists regarding the frequency of carbon filled mask changes for spray paint operators.
- iv. Accident Incident Investigation

Management reported that the plant has implemented accident/incident investigation procedures since June 2006. According to the records between June 2006 and June 2007, 37 incidents were reported and 80% of the incidents involved finger injuries. They occurred at the injection molding and assembly workshops. Management stated that the factory did not have a Preventive Maintenance (PM) program, which could help in reducing such injuries.

v. Miscellaneous

- The doors of the power distribution room were observed to be open.
- Cranes at the plant are operated by non-licensed employees. According to Safety Production Law, special operating staff shall not hold their posts unless they have, according to the relevant provisions of the State taken part in special training and obtained the qualification for this special operation. In addition, the Management Methods of Special Operators states that the operators and the concerned administration employees of boiler, pressure vessel, elevator, lift facility, should take part in special training and obtain a certificate for this special operation. If a special operator has left his work for six months or more, the operator will be retrained and must pass the examination prior to resuming the special operations.

2.11.5 Housekeeping

The plant was observed to be fair to good condition, with some room for improvement:

- Accumulated water and overflow of cooling water were observed on the roof.
- Oil stains were observed on the concrete paved ground at the machine shop. The condition of the concrete was generally poor with severe cracking.
- Oil stains were observed at the storm water ditches.
- Oil stains were observed adjacent to the diesel generator room at the diesel off-loading area.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

ICCA's evaluation of Plant #21's operations is at a satisfactory level of overall compliance with GMP standards. However, there are some notable exceptions where plants' conduct significantly deviates from GMP standards and underlying values of Mattel as a responsible global enterprise. They require

immediate and unambiguous action on Mattel's part to ensure that Plant #21 and lives up to their commitment of meeting GMP standards.

In the area of worker treatment, notable issues relate to workers access to toilet and drinking water facilities and involuntary scheduling of annual leave and maternity leave policies, to name a few. In the area of working hours, Plant #21 continues to schedule excessive overtime work for its workers throughout the entire year. Despite Mattel's much-relaxed guidelines regarding work-hours limitations, Plant #21 practices persistently exceed the revised GMP standards.

3.2 Physical Facilities and Workplace Safety

Plant #21 has many discrepancies with some requiring immediate attention. The plant is in satisfactory shape; but could be improved to make it a safer and a healthier place. A major effort should be made to obtain all the necessary documentation required whether it is through government sources or private approved and licensed sources.