Mattel, Inc. – VENDOR PLANTS IN CHINA

Audit Report

Prepared by

International Center for Corporate Accountability, Inc.

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MATTEL, INC. – INDEPENDENT EXTERNAL AUDIT OF VENDORS IN CHINA

Introduction

This report is based on our audit of 12 factories in China that are among the major suppliers of Mattel, Inc. This is the first audit conducted by ICCA of Mattel’s vendors for their compliance with Mattel’s code of conduct, called “Global Manufacturing Principles (GMP)”. All previous ICCA conducted audits have been limited to plants that are wholly owned or controlled by Mattel.

The implementation of Mattel’s GMP is carried out according to detailed standards covering various principles of GMP. These 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.

Scope of GMP Audit

Mattel out-sources approximately one-half of its production needs to about 40 major vendors in China. Approximately 75% of Mattel’s Chinese vendor operations, by dollar volume, involve 20 vendors, operating 22 plants. This report covers twelve (12) plants – all of them located in the Guangdong Province of China. The audit was conducted in two phases: August 2002 (4 plants), and January 2003 (8 plants). These plants constitute approximately 50% of Mattel’s total vendor business in China in terms of U.S. dollars. ICCA’s current vendor audits covering over 53,000 workers represent almost 43% of the workforce employed by Mattel vendors in China.
At the time of audit, these factories devoted between 20% and 100% of their manufacturing capacity to Mattel products. It should be noted that the lower percentage of dedicated plant capacity was invariably related to larger plant size (Table 1).

**Table 1: Factory Capacity Allocation to Mattel’s Products and Total No. of Workers**

<table>
<thead>
<tr>
<th>Dedicated Capacity for Mattel’s Products (%)</th>
<th>Number of Factories</th>
<th>Total # of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 %</td>
<td>1</td>
<td>7,000</td>
</tr>
<tr>
<td>26 - 50 %</td>
<td>4</td>
<td>23,800</td>
</tr>
<tr>
<td>51 – 75 %</td>
<td>4</td>
<td>18,220</td>
</tr>
<tr>
<td>76% and above</td>
<td>3</td>
<td>4,280</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>53,300</strong></td>
</tr>
</tbody>
</table>

**ICCA’s Audit Protocols**

ICCA’s audit protocols are designed to verify vendors’ 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.

**Pre-Audit Preparation**

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

**The Field Audit**

The field audit is comprised of four parallel activities. The first is an audit of a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant’s entire workforce. Auditors supervised by ICCA conduct this audit. These professional 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 expert advice on Chinese labor laws and practices from the legal counsel retained by ICCA. The intent of this audit is to ensure that all workers receive wages for regular and overtime work as mandated by law; operate within legal and GMP standards as to regular and overtime hours; and receive benefits as mandated by law and GMP standards.

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

The third element of the audit is a thorough examination of the plant’s practices and policies with regard to environment, health and safety issues. Independent professional environmental experts accompanied by an ICCA professional engineer carry out this examination. These professionals have extensive knowledge of China’s laws and regulations with regard to environment, health and safety standards and also considerable experience with manufacturing operations, environment, health and safety issues related with those operations. Plant’s records are further verified by a thorough “walk-through” of the factory floor and related facilities. Inspection includes an examination of the general maintenance of the manufacturing facilities, storage, treatment and disposal of hazardous waste materials, hygiene in toilets and bathrooms, kitchen and eating facilities with particular emphasis upon safety and health. The walk-through also includes a thorough inspection of the dormitories and recreational facilities in terms of hygiene, adequacy of space, worker comfort, privacy and security, and other related matters as deemed appropriate in specific situations.

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

**Post-Audit Activities**

All data and information generated by the audit, including confidential worker interview questionnaires, is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The findings are first provided to Mattel so that the company – in consultation with its vendors – may respond to the audit findings. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses through corrective actions. In the event of a disagreement between ICCA and Mattel as to the nature of findings or the adequacy and timeliness of corrective measures, ICCA makes public its findings and the company’s responses without any editing by ICCA or Mattel.

**SUMMARY OF CONSOLIDATED AUDIT FINDINGS**

This report is a summary of Mattel's general performance with regard to China-based vendors as reflected in the compliance efforts of twelve (12) plants with Mattel's
GMP. To ensure maximum cooperation from the vendors, it was agreed between Mattel and ICCA that factory names would not be publicly disclosed in the present instance, and that individual factories would be identified only by a number, e.g., Factory No. 1, 2, and so on. The summary findings contained here pertain to issues that are common to most vendor operations, raise similar concerns, and call for group-wide remedial actions to assure compliance. In some cases, we have included information, even when it is applicable to a single vendor, where it was felt that the saliency of the issue merited such inclusion. Detailed audit findings and Mattel’s responses with regard to overall findings and also individual plants, are attached to this Executive Summary. They are available on ICCA’s Website [www.ICCA-corporateaccountability.org](http://www.ICCA-corporateaccountability.org) as well as on the Mattel Website [www.mattel.com/about_us/Corp_Responsibility/default.asp](http://www.mattel.com/about_us/Corp_Responsibility/default.asp).

I - General Observations

1. Prior to the current formal audit, ICCA had visited a number of plants about two years ago with a view toward developing a better understanding of the prevailing operating conditions in vendor plants and their impact on employees’ working and living conditions. Vendor plants audited by ICCA have shown significant improvements in a number of areas, which were considered critical non-compliance issues only a few years ago. These subsequent formal audits also indicate that Mattel has committed considerable resources to advise and assist its vendors in order to improve their level of compliance with Mattel’s GMP.

2. The audits, using built-in multiple investigative measures, have persuaded us that in this group of vendors the minimum age of 16 is strictly enforced. In fact, ICCA did
not find any workers under the age of 18. A related factor was that workers tended to have longer tenure in terms of number of years of work making them somewhat older workers.

3. Another definitive improvement has been in the area of payment of minimum wages. With one or two minor exceptions, all plants were found to be in full compliance for the payment of legally mandated minimum wages for regular and normal overtime working hours.

4. Areas showing significant improvement included safety of workplace, dormitories and canteens, workers’ access to all levels of management, lack of discrimination or promotion based on sex, race or ethnic origins, and, significant reduction in poor treatment of workers.

5. Areas needing improvement included: non-availability of records to verify that workers who performed overtime work on rest days, received either double the normal rate of wages or a compensatory day-off; inconsistent application of regulations with regard to fringe benefits, e.g. maternity leave, annual leave, and ineffective use of cash fines; and, worker training with regard to safety, and inadequate use of personal protective equipment. Most factories were also found to be inadequate in varying degrees of GMP pertaining to environmental issues. These included: disposal of wastewater, frayed electrical insulation and poor ventilation in areas with painting fumes and soldering processes.

6. The worst area of non-compliance, pertained to excessive overtime hours. This practice has been particularly pervasive even in the case of the “Consolidated Work
Hours,” where factories are allowed to condense their total allowable yearly overtime hours into a shorter-time span to meet peak season production requirements.¹

II - Employee Profile

The average age of workers in Mattel’s China-based vendor plants is approximately 23 years. Female workers were in the majority in all the plants audited by ICCA and ranged between 50% and 90% of plant’s workforce (Figure 1).

Figure 1

The general education level of the workers for the 12 plants audited during years 2002-2003 was approximately 8 years on the average. For 39% of the workers, their current job was also their first job.

¹ It should be noted here that consolidated work hours are widely practiced in the 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 any type of overall industry framework or regional considerations. Instead, they are permitted by local authorities to suit the needs of individual factories.
III - Work Hours and Wages

III. A - Work Hours

Under the Chinese national labor law, total normal work-hours must be less than 2008 per year (251 work days, 8 hours per day), and overtime hours must not exceed 432 hours per year. The national law specifically restricts the number of overtime hours worked to 3 per day or 36 hours per month. The law also requires that at least one rest day must be provided each week.

There are two prevailing industry practices with regard to scheduling of work hours, both of which are also found among Mattel vendors. The first practice uses a work schedule of 8.0 hrs/day, 5 days/week for a total of 40 regular hours. Any hours in excess of 8 per day during the week, and all hours worked on Saturdays, are considered overtime hours. The second practice is based on a 6-day workweek. For wage calculations, this system uses a 7-hour workday for Monday through Friday, and a 5-hour workday on Saturday for a total of a 40-hour normal workweek. Any hours in excess of 7 per day for days 1 through 5, and hours in excess of 5 on day 6 are considered overtime.

Mattel’s GMP restricts the workweek to a maximum of 60 hours, including overtime, in any given week. Strictly speaking, a 60-hour workweek exceeds the maximum weekly hours permitted under the Chinese national labor laws. However, it should be noted that local plants in this region almost always operate for the hours that are far in
excess of those stipulated in China’s national laws. This practice is authorized by the local authorities.\(^2\)

ICCA’s audit of the 12 vendors covered in this report shows that most of the vendors were scheduling work hours that were in excess of the 60 hr/week limit stipulated in the GMP. Of the twelve plants audited by ICCA, only one (#7) claimed to schedule work on the basis of a 60-hour workweek. However, in actual practice, Plant #7’s workers were also observed to exceed this limit. The other eleven plants routinely scheduled, and actually operated, on the basis of 66-72 hour workweeks based on a 6-day workweek.

There are two other related issues with regard to scheduling excessive overtime hours and payment of appropriate wages for such overtime work. It is a common practice among all vendors to schedule a 7-day workweek during peak production periods. When such instances occur, Mattel’s GMP mandates that workers must be given an alternate rest day within 30 days of work done on every Sunday or an alternately scheduled rest day. Where a compensatory time-off day is not provided within 30 days, workers must be compensated at 2.0 times the normal wage rates.

Of the 12 plants audited, five plants (#3, 6, 7, 9, and 11), representing 23,000 workers or 43.4% of the total workers covered in the audit, had been noted to have scheduled work on Sundays or other stipulated rest day during a week. These plants, however, were unable to provide any records to ICCA to show that they either provided an alternate rest day within 30 days or compensated their workers with double wages as required by the GMP standards. Four plants (#5, 8, 10, and 12) representing approximately 25,000 workers or 47.2% of the total workers covered in the audit, lacked adequate records to make definitive audit conclusions. Three plants (#1, 2, and 4, as stated in footnote 1, the legality of this practice is questionable.
representing 5,200 workers or 9.7% of the total) could be verified at the time of the audit to have paid accurate or compensatory time-off for rest days.

**III. B - Consolidated Work Hours**

The practice of Consolidated Work Hours (also known as Comprehensive Work Hours) is perhaps one of the most contentious issues from the perspective of workers’ advocates and public interest groups for its alleged abuse by plant managers in forcing plant employees to work extraordinary long hours for days and weeks in order to meet heavy manufacturing demands during peak production periods. At the same time, it is also one of the areas in which vendor plants have been uniformly and seriously violating not only the general restriction on excessive overtime, but also the extended overtime hours for which they seek special authorization under the Consolidated Work Hours schemes.

Consolidated Work Hours Permission is an authorization that businesses seek from their local government labor bureaus. This permission provides flexibility to the national labor law’s restrictions regarding overtime hours. This permit allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period. There are a number of important characteristics of China labor law with regard to Consolidated Work Hours that should be recognized here.\(^3\) Chinese law contemplates

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\(^3\) The industries subject to Consolidated Work Hours envisaged under the Chinese labor laws are primarily seasonal in character, e.g., farming, airline pilots, etc. The legality of its application to toys, apparel, and other industries subject to peak production period, is of questionable validity. Nevertheless, local authorities in China routinely give such permission to accommodate the needs of the factories in their area.
consolidated work to be applicable in a contiguous time frame and the total number of overtime hours must not exceed the maximum allowed for the entire year. Therefore, when a plant uses a large part of its overtime allocation during the Consolidated Work Hours period, it has fewer overtime hours remaining for the remaining part of the year.

When employees are asked to work on Sundays or on a rest day in a week, they must be paid twice the rate of normal wages. Chinese labor law allows employers to compensate rest-day work with an alternate day off, but does not stipulate a time frame during which the alternate rest day must be awarded. However, Mattel’s GMP requires that the factory provide the worker a compensatory day off within 30 days. The intent of this provision is to ensure that workers receive appropriate compensation within a reasonable time period.

All 12 vendors audited by ICCA had received permission from local authorities to operate on the basis of Consolidated Work Hours. Mattel’s GMP and its interpretative “Check List” do not specifically recognize the notion of Consolidated Work Hours. ICCA’s audit revealed that this area, poses by far the biggest challenge to Mattel in creating and enforcing standards that are transparent and reasonable, and take into account the legitimate interests of all concerned parties, and most notably the workers.

At present, vendors appear to ignore even the relaxed conditions or flexibility granted under the local authorization permits. The contents of some of these permits would suggest that they are issued without regard to either the letter or the spirit of China labor law. Local permits were granted inconsistently and varied not only among the cities in the same region, but also among the factories located in the same locality or neighborhood and between plants in the same jurisdiction. Many plants’ consolidation
periods were defined to cover the entire calendar year. Therefore, in practice, a plant could arbitrarily decide to designate any time period, or a series of time periods, during the year as being covered under its Consolidated Work Hours and thereby negate the very purpose of creating the system.

There are three other points with regard to Consolidated Work Hours, as practiced by the vendors that should be kept in mind.

1. In a number of cases, the provisions of the permit were so outside the prevailing norms as to question their authenticity. For example, waiver permits are required to clearly state the specific time period covered in permit, the total number of hours to be worked in the specified line period, and also maximum number of hours to be worked by individual workers in a particular day, to name a few. A careful examination of the vendor permits by ICCA showed that most of them were missing one or more of these specifics and thus absolving the vendors from any constraints in scheduling overtime. Specific details of these situations are noted in individual plant audit reports.

2. The local authorization permits received by Plants #10 and 11 included an authorization to exceed the maximum annual overtime hours provided under the Chinese labor law. This is unprecedented as ICCA had found no other instance of similar extension in its audit work in China. The permits for Plants #11 and 12 allow them to work a total of 1040 overtime hours during 2002. This authorization extends the national PRC labor law limit of 432 minimum overtime hours by almost 250%.
3. A number of plants were found to have implemented overtime schedules that exceeded the provisions of their consolidated work permits. Table 2 provides details of various types of authorization permits used by different vendors.

**Table 2: Consolidated Hours Permission Terms**

<table>
<thead>
<tr>
<th>Plant #</th>
<th>Duration</th>
<th>Normal Hours</th>
<th>Overtime Hours</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6 Months</td>
<td>1004</td>
<td>216</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>2</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>3</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>4</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>5</td>
<td>6 Months</td>
<td>1004</td>
<td>216</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>6</td>
<td>6 Months</td>
<td>1004</td>
<td>216</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>7</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>8</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>9</td>
<td>3 Months</td>
<td>502</td>
<td>108</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>10</td>
<td>Full Year</td>
<td>2008</td>
<td>1040</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>11</td>
<td>Full Year</td>
<td>2008</td>
<td>1040</td>
<td>Max 66 hrs/wk</td>
</tr>
<tr>
<td>12</td>
<td>Full Year</td>
<td>2008</td>
<td>432</td>
<td>Max 66 hrs/wk</td>
</tr>
</tbody>
</table>

**III. C - Involuntary Overtime**

Both China labor law and Mattel’s GMP require that all overtime work should be voluntary and that workers have the right to decline overtime work. In reality, a large
part of overtime is mandatory and built into the workers' employment expectations where the normal workweek is described as 60 or 66 hours. This is a common practice and is accepted by workers.  

4 Notwithstanding, the common practice of 66-72 hour scheduled workweek, no worker contract, given to employees in any of the vendor plants, specifically states the work hours that a worker would be obliged to work. According to the China labor laws, every worker must be given a signed employment contract stating all pertinent conditions of work, overtime, and applicable wages for regular and overtime work.

The problem of excessive overtime is generally related to peak production periods when a workweek can easily extend to 72 hours and beyond. Most plants announce work schedules that require the entire workforce to be present during the extended workday, which includes the overtime period. Therefore, from the perspective of the workers, the issue of involuntary overtime arises where (a) the implied consent as discussed above does not apply, and (b) a worker's request to be excused from overtime work because of tiredness, feeling ill, or other personal reasons has been denied. For example, in the case of Plant #1, management required that a worker must find a substitute before he/she is allowed to decline overtime work. Similarly, some plants limited the number of workers who could refuse mandatory overtime (Plants # 5 and 6).

A particularly serious noncompliance of voluntary overtime policy was discovered by ICCA at plant #12. In this case, the entire workforce of 4,600 workers was asked to work on a national holiday. It was also found that the plant management had not received the necessary authorization from the local bureau. Workers were also not paid double wages for the work done on a national holiday. It would seem that there was some misunderstanding or miscommunication between the plant management and Mattel's Hong Kong office as to the need for scheduling work on a national holiday and
whether Mattel had acquiesced to the fact that workers would be paid only a normal day’s wages for such work.

III. D - Payment of Wages

China labor law and GMP require that all workers must be paid at least the minimum guaranteed wage for a normal day as mandated by various local and provincial authorities. Where a plant follows a practice of piece-rate wage system, workers must receive wages that are at least equal to the corresponding minimum wage for that locality based on the number of hours worked.

ICCA’s audits confirmed that all vendors pay the legally established minimum hourly wage applicable to their locations. This is a positive development and a significant improvement from the practice of 2 to 3 years ago during ICCA’s earlier information gathering visits to these plants. Improvements in proper wage payments apply to wages for normal regular and overtime hours. However, as we mentioned earlier, ICCA found numerous cases where the vendor failed to provide satisfactory documentation with regard to compensation for work on Sundays or other rest days.

1. Increase in Minimum Wage Rates

In a few cases (Plants #9 and 11), ICCA found that the management had postponed the effective date of increase in minimum wage rates by one month and thereby denied this wage increase to almost 6,000 workers. Plant managers’ explanation was that they did not receive the proper government notification in time. In fact, the wage increase was publicly announced by the government authorities and
widely publicized in the news media. Nor does it explain as to why these wage increases had not been paid retroactively subsequent to the receipt of the notice. Another practice at some factories has been to increase the dormitory rent and cost of food in parallel with the minimum wage increase, and thereby effectively reduce the benefit of government initiated increases in the minimum wage rates.

2. Payment of Wages during Probation

Most vendors were found to be in full compliance with the provision that all workers must receive at least the minimum guaranteed wage during the probation period. ICCA’s audit of payroll records, however, indicated that in Plant #12 workers were paid less than the guaranteed minimum wage during the probationary period. Chinese national law states that all newly hired workers may be subject to a probation period based on the length of their employment contracts. The maximum probation term for a one-year contract is one month and shorter contracts warrant proportionally shorter probation terms. The significance of the probation term stems from the ability of an employer to terminate an employee without the necessary compensation clauses in the standard worker contract. ICCA’s audits reveal that some vendors place workers on probation for periods extending up to 3 months. This illegal practice gives employers the latitude to make significant reductions in the workforce levels without having to pay the one-month severance pay as required by law when a worker is terminated prior to his/her contract’s expiration date. ICCA’s audit revealed that with the exception of Plant #2 and #12, all other plants were found to be in non-compliance of the probation period
regulations details of which are provided in the individual plant audits appended to this report.

3. **Punching Time Clocks**

   Another positive improvement from the GMP’s perspective is that most vendor plants were found to keep accurate time records and workers generally punched their own time clocks. This is a recent phenomenon. ICCA had earlier observed during its information-gathering visits that Chinese vendors used a variety of means to obscure the actual time worked by the workers through the manipulation of time sheets, having all time sheets signed by line supervisions and by similar other practices. Elimination of these practices has a salutary effect on the payment of accurate wages to the workers.

   An exception to this positive observation by ICCA was noticed in the case of Plant #9. This plant’s management circumvented workers punching in on Sundays, by giving the workers an alternate day off during the week, and punched in and out on the worker’ rest day to make up for the workers’ actual hours worked. This practice is prohibited by the Chinese labor law and Mattel’s GMP. In another case, two plants (#3 and 11), representing 3,361 workers, required that workers punch out and wait on factory premises when there were temporary material shortages, or machine breakdowns. This practice also is inconsistent with both Chinese labor law and Mattel's GMP.

4. **Maternity Leave**

   China labor law mandates that workers are entitled to 90-day maternity paid leave immediately following the delivery of a baby. Most vendors do not comply with
this regulation by a variety of means. Many vendors indicate that they provide maternity leave benefits only to full-time, salaried staff members and that hourly workers are not entitled to these benefits. Other vendors insist that payments are paid when workers return to their jobs after giving birth to their babies. Finally, ICCA’s one-on-one confidential interviews with workers in a number of plants suggested that some vendors refuse to hire workers who are found to be pregnant at the time of their hiring, while other vendors would likely fire a worker who is found to be pregnant.

5. Annual Leave

This is another area of frequent abuse by the vendors. Chinese labor law provides for 5 days of paid leave upon completion of a year's service. While many vendors observe the law regarding annual leave, some others have denied their workers this benefit. Some vendors also resort to executing short-term contracts and rolling them frequently for subsequent short-term periods so that workers are shown to have less than one year of continuous work while in practice they may have worked continuously for one year or longer periods. In other cases, vendors create a policy whereby workers are paid for annual leave benefits only if they ask for it, and workers who are unaware of this policy forego their leave benefits.

V - Employee Relations

A positive finding of ICCA’s audit has been in the area of rationalization and modernization of management with regard to personnel practices and overall treatment of workers; access to management in handling worker complaints; workplace discipline; hiring and promotion policies; and, protection from harassment. ICCA has noticed a
marked improvement in these practices with emphasis on openness, fair and equitable treatment, and a modicum of due process. ICCA’s one-on-one confidential interviews also indicated that workers were generally satisfied with their initial hiring process and felt comfortable in expressing their views both about the positive as well as the negative aspects of their experiences. The overall direction is salutary.

V. A - Initial Orientation

All plants were found to have formal hiring procedures that included orientation, medical checkups, job-related training, a signed written contract, and quite frequently, a visit to the plant and dormitories. Many plants also included a speech by a senior manager followed by Question and Answer period. ICCA also found that the time spent for initial orientation ranged in most factories between 2 hrs and 2 days. Each plant separates the initial orientation from the detailed job related or safety training and shorter orientation period may be due to the fact that not all workers would be required to handle hazardous materials and thus necessary training. At the same time, it was also felt that in some vendors’ plants the minimum time devoted to orientation might not be sufficient.

V. B - GMP Awareness

Vendor plants have generally done a poor job of making employees aware of the GMP and what it means for workers’ rights and protection when employed in making toys for Mattel. Plants generally indicated that they informed their workers about GMP through multiple channels of communications including orientation, plant meetings, and
posting on the notice boards located around the plant and dormitories. Some vendors also expressed difficulty in making employees familiar with Mattel’s GMP as they must deal with similar requirements from other companies.

V. C - Workplace Discipline

This is another area where significant progress has been noted in vendors’ operational practices. All plants audited by ICCA were found to have written procedures detailing factory’s policies with regard to acceptable conduct in the workplace and other factory facilities used by employees, e.g., dormitories and canteens, and recreational areas. Workers are informed of these rules during orientation. They are also posted on various notice boards located on factory grounds. Most of the rules are related to the workplace conduct. Others deal with dormitory rules, security, and fighting with other workers to name a few. All these rules share three common traits: (a) they list conditions of unacceptable conduct; (b) they provide a process of warning ranging from verbal warning, written warning, and a hearing followed by disciplinary action including termination.

V. D - Imposition of Cash Fines

Among the 12 plants audited by ICCA, seven plants (Plants #2,3,4,7,8,9, and 10) covering 50% of the workers do not use cash fines as a disciplinary measure. Cash fines are imposed by the remaining five factories (Plants #1, 5, 6, 11, and 12) representing 50% of the workers covered in the current audit.
It should be noted here that the imposition of cash fines is permissible under both Chinese law and Mattel’s GMP. Mattel’s GMP restricts cash fines to no more than 20% of the legal minimum monthly wage. We also note that maximum fines imposed by different plants do not exceed the maximum limit provided in GMP. Nevertheless, the frequency with which these fines have been imposed, the total amount of funds raised by the plants’ management through fines, and the disposition of these funds give rise to questions as to their effectiveness and utility.

The purpose of cash fines, like any other disciplinary measure, is to create both specific deterrence, i.e., change individual worker’s conduct, and, general deterrence, i.e., set an example for other employees and thereby cause anticipatory and preventive behavior modification in the entire workforce. ICCA’s analysis of disciplinary issues and the number of workers involved did not show any measurable difference between the plants that imposed cash fines and the plants that did not.

Cash fines are an extreme form of punishment, which should be treated as an exception rather than a rule. Fines hurt the workers with the least amount of discretionary income. Therefore, it stands to reason that workers subject to fines would be rather few. These would most likely have serious behavioral problems and would be repeat offenders. In case cash fines are an effective deterrence, it should lead to a gradual reduction in the number of workers fined and the total amount of fines collected. ICCA’s analysis of the fine data suggests otherwise. In the plants that do impose fines, the number of workers fined and the total amount of funds collected has been either stationary or gradually increasing. This would suggest that cash fines are not necessarily a better or more effective form of maintaining employee discipline.
For example, plants #5 and #6 had collectively assessed cash fines of RMB100,000\(^5\) in calendar year 2002. Furthermore, of the 72 offenses that are subject to disciplinary action, 43 or 60% imposed cash fines. ICCA’s estimates show that almost 40% of the workforce of the two plants had been fined at least once during the year. In another instance, ICCA’s finding suggest that in Plant #1 cash fines were imposed on an average of 221 workers per month in a total workforce of approximately 4,000 workers. These figures, when projected on a full year basis, would suggest that more than half of the entire workforce was subjected to cash fines at least once a year where a typical fine averaged RMB14. Workers also mentioned that they were fined at the rate of RMB1 per minute for “tardiness.”

In case of Plant #12, ICCA’s analysis of the plant’s payroll data showed that workers were fined a total of RMB150,000 over the 12-month period of 2002. This figure comes to approximately RMB3 per worker (fines range from RMB2 to 7, averaging 3 per incident). A simple calculation would suggest that the average worker at Plant #12 was fined at least once a month. For a plant employing 4,600 workers, it amounts to about 50,000 disciplinary problems a year that are subjected to fines.

Vendors generally indicated that funds collected through cash fines were used for employee welfare activities, including holiday celebrations and other entertainment programs. The factory managers’ assertions in all these plants, however, could not be verified because the plants failed to provide any information or financial records to show how these funds were expended.

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\(^5\) US $1.00 was RMB8.3
V. E - Protection from Harassment

ICCA’s field audits asked a series of questions pertaining to workers own experiences and those of their friends and co-workers. Interviewed workers by large majorities (88% and above) indicated that they were treated fairly by all levels of management with regard to hiring and promotions. The only exception to this overall high rate of satisfaction was the conduct of line leaders and floor supervisors. Interviewed workers, in response to open-ended questions, reported instances of verbal abuse and shouting at employees who were perceived to be slowing down, showing tardiness and had quality control problems. This was particularly notable in the case of Plants #5, 6, 8, and 12. The other plants did not elicit significant negative responses. Additional evidence of improved management worker relations was also found in the fact that vast majority of interviewed workers stated that neither they nor anyone they knew was subjected to discrimination or harassment based on gender, age or ethnicity; and, in case of personal or job related problems.

VI. - Living Conditions, Canteens and Medical Facilities

VI. A - Dormitories and Living Quarters

Dormitories represent another area where vendors have made noticeable improvements in the physical facilities as well as worker amenities. All plants generally gave workers the choice of whether to live in the factory provided dormitories, or make their own housing arrangements. This is apparent from the wide variations in dormitory usage by workers in different plants (Table 3).
Table 3: Distribution of Workers Living in Dormitories

<table>
<thead>
<tr>
<th>% of Workers Living in Dormitories</th>
<th># of Factories</th>
<th># of Workers Living in the Dormitories</th>
<th>Total # of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 %</td>
<td>1</td>
<td>552</td>
<td>4600</td>
</tr>
<tr>
<td>26 - 50 %</td>
<td>4</td>
<td>8895</td>
<td>27760</td>
</tr>
<tr>
<td>51 - 75 %</td>
<td>3</td>
<td>5781</td>
<td>8250</td>
</tr>
<tr>
<td>76 - 100 %</td>
<td>4</td>
<td>10907</td>
<td>12690</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>26135</strong></td>
<td><strong>53300</strong></td>
</tr>
</tbody>
</table>

Workers interviewed by ICCA expressed overall satisfaction with dormitories and living conditions. With minor exceptions dormitories met the GMP criteria in all essential elements, e.g., individual beds, personal lockers, safety and cleanliness, lighting and ventilation, toilet facilities, running water, and laundry services.*

The only exception this area was plant #12 where the dormitories failed GMP criteria in all essential categories and were rated unacceptable. Availability of personal amenities was found to be generally inadequate in some areas for plant #8: Hot water access was hindered as workers must walk/climb long distances with heavy water buckets. Clothing storage on the roof was inadequate.

Vendor plants imposed widely divergent charges for dormitory rent which did not seem to have relation to the quality of lodgings. They had a disparate impact on the workers’ take-home pay (Table 4). ICCA also found certain financial charges imposed

* For further details, see the section of this report entitled, “Physical Working Conditions and Related Facilities”.
by various plants to be mandatory. Plant #8 and #9 required workers to make an upfront, non-refundable payment of RMB80 as the cost of initial supplies for dormitory living, such as bed sheets, towel, etc. Plants #1 and #11 also imposed a mandatory monthly fee charge regardless of where a worker lives.

<table>
<thead>
<tr>
<th>Cost of Dormitories</th>
<th>Number of Factories</th>
<th>Number of Workers Living in Dormitories</th>
<th>Total Number of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB30-RMB44</td>
<td>5</td>
<td>10,779</td>
<td>15,480</td>
</tr>
<tr>
<td>RMB45-RMB59</td>
<td>2</td>
<td>7,803</td>
<td>12,780</td>
</tr>
<tr>
<td>RMB60-RMB75</td>
<td>5</td>
<td>7,553</td>
<td>25,040</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>26,135</strong></td>
<td><strong>53,300</strong></td>
</tr>
</tbody>
</table>

**Table 4: Living Expenses of Workers**

**VI. B - Food and Canteen Facilities**

Among the 12 plants, the typical lunch break ranged between 30 and 90 minutes. Plants generally served three meals per day. On an average, 51% of the workers (combined total of all 12 factories) ate in the company's canteens. The percentages of workers eating in canteen for different factories are shown in Figure 2. Overall, workers appeared to be satisfied with the quality and quantity of food served in the canteens. Although, given the widely divergent personal and regional taste in food, it was not surprising to find some workers in every plant complaining about the food in the canteens.
The canteens are generally well maintained. Food is refrigerated and garbage is picked up 1-3 times a day. In all factories, the food handlers are trained and are given physical examinations. Canteens are cleaned daily. Management of canteens differed in various plants: some plants operate their own canteens with their own staff. In other cases, the canteens were managed by private contractors, with partial subsidiaries from the plant in terms of physical space and utilities. There was wide disparity in the cost of food charged to workers, which did not appear to be related to the quality of food. These charges were deducted from the workers’ monthly paychecks (Table 5, Figure 3).
Table 5: Food-related Expenses of Workers

<table>
<thead>
<tr>
<th>Cost of Food</th>
<th>Number of Factories</th>
<th>Total # of Workers</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below RMB75</td>
<td>2</td>
<td>2471</td>
<td>4.64</td>
</tr>
<tr>
<td>RMB76-RMB100</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>RMB101-RMB125</td>
<td>3</td>
<td>22045</td>
<td>41.36</td>
</tr>
<tr>
<td>RMB126-RMB175</td>
<td>5</td>
<td>18574</td>
<td>34.85</td>
</tr>
<tr>
<td>Above RMB176</td>
<td>2</td>
<td>10210</td>
<td>19.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>53300</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Figure 3

Workers in all but three factories (Plants #1, 7, 11) could either bring their own food or eat in the plant’s canteen. Plants #7 and 11 imposed mandatory deduction for food, from workers’ paychecks, regardless of whether they ate in the canteen or not. In Plant #1 eating in the canteen was mandatory. In Plant #8, although eating in the canteen was voluntary, many workers were not aware of it and ended up paying for it through mandatory deductions. In Plant #1, there appeared to be a question of different levels of subsidies provided to different groups of workers. This problem is unique in
VI. C – Medical Facilities

Most plants appeared to have adequate facilities to meet the needs of the workers. In the case of medical facilities, vendors have made significant improvements since ICCA’s earlier information-gathering visit. These clinics treated workers both for job-related injuries and sicknesses, and also for personal, non-job related health problems. In general, in the former case, the workers were provided all the services without charge. In the latter case, the workers were provided with free check-ups and consultation with the doctor. However, they were required to pay for the medication. ICCA found these charges to be generally reasonable.

Of the 12 clinics audited by ICCA, nine were rated as “generally satisfactory”, Plants # 2 and 4 were rated as “generally unsatisfactory”, and Plant #12 was rated as “Needs Improvement” (Table 6).
### Table 6: Physical Condition of Medical Facilities

<table>
<thead>
<tr>
<th>Plant No.</th>
<th>Medical Facilities Involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Improvement since ICCA’s last recommendations, has moved to a larger space, 2 rooms-1 waiting and 1 examining. Has 3 beds, 2 doctors and one nurse. Frequent patient visits from the plant and workers are only charged for medication for personal medical services.</td>
</tr>
<tr>
<td>2</td>
<td>Not extensive, but adequate for the plant (1100 workers). One medical technician on duty. Adequate medical supplies and equipment available. Accidents reported informally.</td>
</tr>
<tr>
<td>3</td>
<td>One room in one of the dorms serves as clinic. One doctor lives in the clinic. Adequate selection of drugs. General health problems, accident cases treated. Employee health reports kept in the clinic. Employees pay for medication.</td>
</tr>
<tr>
<td>4</td>
<td>Small room with 1 bed, staffed by one nurse. 2 first aid providers on each floor of the plant. Only general first aid available. Medical service for emergencies. Workers pay only for medication costs when non-work related medical help is needed.</td>
</tr>
<tr>
<td>5</td>
<td>Excellent, well staffed with medical doctors and nurses, medical supplies and equipment. Adequate record keeping.</td>
</tr>
<tr>
<td>6</td>
<td>Excellent, well staffed with medical doctors and nurses, medical supplies and equipment. Adequate record keeping. 2 doctors, 3 nurses, 3 beds, adequate medical supplies. Day + Night shifts.</td>
</tr>
<tr>
<td>7</td>
<td>14-bed facility, staffed with 4 nurses and 3 doctors. Treatment is free. Workers are charged only for medication. Quite good and sufficient to meet workers’ needs.</td>
</tr>
<tr>
<td>8</td>
<td>2 doctors, 2 nurses, available 24 hrs. Medical records are kept in the clinic. Small pharmacy and first aid kits are available at production lines. Clinic reports are not used effectively to identify major sources of work-related accidents that require treatment.</td>
</tr>
<tr>
<td>9</td>
<td>Located near plant in a separate building. 2 doctors, 3 nurses, 2 beds. Medical services and medicine, including non-work related consultations, are free of charge. Workers felt free to use services. Adequate in all respects.</td>
</tr>
<tr>
<td>10</td>
<td>4 beds, 4 nurses, X-ray machine, Medical Services are available to workers around the clock.</td>
</tr>
<tr>
<td>11</td>
<td>No medical examination to test for occupational diseases as required under legislation.</td>
</tr>
<tr>
<td>12</td>
<td>Medical Clinic is totally inadequate both in terms of personnel and medical supplies. Single medical technician working one shift. (4500 workers employed, impossible.)</td>
</tr>
</tbody>
</table>
VII - Physical Working Conditions and Related Facilities

Overall Assessment

ICCA’s audit of the 12 factories with regard to environmental, health and safety standards, presented a decidedly mixed picture. All plants demonstrated increased attention and concern for environmental issues both as they impact the workers inside the plants’ facilities, and as the plants’ air emissions, water discharge, and waste treatment impact the surrounding areas.

Of the 12 plants, four (#3, 4, 10, 11) showed significant improvements since ICCA’s previous informational visit, with Plant #10 being a paragon of maintenance and upkeep. These plants represented 29% of the total workforce of the 12 plants. They were rated as “Generally Satisfactory.” Another four plants (#1, 5, 6, 7) were making progress but “Need Improvement.” These plants represented 52% of the workforce. The remaining four plants (#2, 8, 9, 12) representing 19% of the workforce had poor EHS compliance both inside and outside the plants, and were rated “Generally Unsatisfactory.”

ICCA’s findings of the plants’ environmental, health and safety issues are divided into two broad categories: inside the plants and outside the plants. The primary issues examined inside the plants were: asbestos hazard, industrial hygiene, personal protective equipment, electrical hazard, and, compliance issues and permits. The primary issues examined outside the plants were: air emissions, wastewater, volatile liquids and chemical storage, medical facilities, and dormitories (Table 7).
**Table 7: Vendor Compliance with GMP – EHS Standards**

<table>
<thead>
<tr>
<th>Inside Plant Variables</th>
<th>Plant #</th>
<th># of Employees</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Asbestos hazard</td>
<td>#2,5,6,11,12</td>
<td>24386</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#1,3,4,7,8,9,10</td>
<td>28914</td>
<td>NI</td>
</tr>
<tr>
<td>2 Industrial hygiene</td>
<td># 8,11</td>
<td>6820</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td># 5,6,7,10,2</td>
<td>31156</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#1,3,4,9,12</td>
<td>15324</td>
<td>GU</td>
</tr>
<tr>
<td>3 Personal protective equipment</td>
<td>#3,5,7,10,11</td>
<td>25446</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#1,4,6,8,12</td>
<td>22410</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#9,2</td>
<td>5444</td>
<td>GU</td>
</tr>
<tr>
<td>4 Electrical Hazard</td>
<td>#4,5,6,7,11</td>
<td>26916</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#1,3,8,9,10,12</td>
<td>25464</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#2</td>
<td>920</td>
<td>GU</td>
</tr>
<tr>
<td>5 Compliance issues and permits</td>
<td># 5, 6</td>
<td>17445</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#1-4, 7-12</td>
<td>35855</td>
<td>GU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outside Plant Variables</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Air emissions</td>
<td>#11</td>
<td>1421</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#1-10,12</td>
<td>51879</td>
<td>GU</td>
</tr>
<tr>
<td>7 Wastewater</td>
<td>#5,6,7,10,11</td>
<td>31657</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#1,3,8,9,12</td>
<td>19673</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#2,4</td>
<td>1970</td>
<td>GU</td>
</tr>
<tr>
<td>8 Volatile liquids and chemical storage</td>
<td>#3,7,11</td>
<td>10361</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#2,4,5,6,9,12</td>
<td>28539</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#1,8,10</td>
<td>14400</td>
<td>GU</td>
</tr>
<tr>
<td>9 Medical facilities</td>
<td>#1,3,5-11</td>
<td>46730</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#2,4</td>
<td>1970</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#12</td>
<td>4600</td>
<td>GU</td>
</tr>
<tr>
<td>10 Dormitories</td>
<td>#1,2,4-11</td>
<td>46760</td>
<td>GS</td>
</tr>
<tr>
<td></td>
<td>#3</td>
<td>1940</td>
<td>NI</td>
</tr>
<tr>
<td></td>
<td>#12</td>
<td>4600</td>
<td>GU</td>
</tr>
</tbody>
</table>

* GS – Generally Satisfactory, NI – Needs Improvement, GU – Generally Unsatisfactory. The rating system was created by ICCA and is based on the scoring of several plant constructs and observables using a Likert type scale and then classifying the subject plant into one of three categories i.e., generally satisfactory, generally unsatisfactory and unacceptable. As in all such type evaluations the inputs required are both subjective and objective.
EHS Findings - Inside the Plant

Despite considerable improvement, a number of major issues remain unresolved. A critical issue in this area is improper and insufficient ventilation and air filtration creating potential health hazards for workers especially in the areas of Tampo printing and soldering. In the former case, exhaust systems are generally poorly maintained. In the latter case, workers doing the soldering are given facemasks while workers sitting across the same assembly line are not wearing facemasks.

There was a general lack of attention to industrial hygiene. Workers in all plants, with the exception of Plant #2, complained of strong chemical odor at their workstations and of inadequate exhaust or ventilation systems. Six of the audited plants (#1, 2, 3, 4, 7, 9) were found to have poorly maintained equipment and inadequate machine guarding. In Plants #7 and #9, workers complained about uncomfortable level of indoor temperature. In Plants #1 and 3 floor tiles were broken, which increased the risk of worker injury.

Proper use of the PPE is of critical importance to prevent worker injury. All plants maintained that they provided workers with the necessary PPE and required that workers use them. However, ICCA’s audits found that assembly floor-level supervision with regard to PPE usage was generally lacking and not enforced by the floor supervisors. Moreover, ICCA observed many floor supervisors to be not using the PPE in areas where PPE usage was required on the part of workers. Workers were also less inclined to use the PPE when work-area was experiencing overly high temperatures. The situation was unusually bad in Plants #2, 5, 12.

An ancillary issue, which further compounded the problem, was the lack of proper EHS compliance records and permits at the majority of plants. These included lack of
Environmental Impact Assessment (EIA) report, EIA Approval, “Three Synchronies” inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by government regulation.

**Environmental Hazards**

Significant shortfalls in this area were improper storage, handling and disposal of chemical materials. Most plants routinely left some chemical containers without lids, and stored them in improper areas without MSDS. The chemical storage areas were often found to be without sufficient ventilation or exhaust systems. It would seem that plant managements in general underestimate the health-related risks to their workers and the environment. This problem manifests itself in the absence of effective environmental management systems. Almost all of the plants had problems with air ventilation systems – the systems were either not installed or were not working properly. Wastewater treatment and discharge was another neglected area. Six of the 12 plants (Plants #1, 2, 3, 4, 7, 9) lacked wastewater discharge systems, and in the remaining six plants (Plants #5, 6, 8, 10, 11, 12) those systems needed further improvement. In addition, most plants also lacked proper monitoring systems for wastewater and industrial waste disposal.

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# Material Safety Data Sheet
EHS Audit Findings – Outside the Plant

1. Compliance Issues

With the exception of Plants #5 and 6, all other plants failed to provide ICCA with sufficient records of their EHS compliance. These included lack of Environmental Impact Assessment (EIA) report, EIA Approval, “Three Synchronies” inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation.

Plants #5 and 6 were able to submit records on Medical Waste Disposal, Hazardous Waste Disposal, Sound level, Spray air velocities.

2. Water Supply

Of the 12 plants, only one plant (Plant #10) provided documentation indicating an appropriate monitoring system for drinking water supply. In two plants (Plants #2 and 8) drinking water did not meet the water quality standard. In plant #1 drinking water containers were found to be in poor condition and subject to contamination.

3. Wastewater Management

Wastewater treatment in all plants was found to be in poor condition. Six plants (Plants #1, 2, 3, 7, 9, 12) did not have a separate drainage system for production water. In two plants (Plants #4 and 5), wastewater discharge systems were poorly maintained. Most of the plants did not conduct any monitoring of their wastewater discharge.
4. Soil Contamination

Similar to waste water treatment, most plants seemed to pay little attention to underground leakage and soil contamination. An important preventive mechanism, i.e., integrity testing for underground diesel pipelines, was almost non-existent. This problem was observed in 4 of the 12 plants (Plants #1, 3, 4, 7). In Plants #9 and 12, diesel stains from spillage were observed. In addition, in Plant #12, workers were found to be discharging leftover paint in the common drainage system.

5. Waste Management

During ICCA’s physical monitoring of the production facilities, three plants (Plants #3, 9, 10) were found to have problems handling work-related waste. Two of these plants (Plant #9, 10) were mixing contaminated containers with regular waste, and one plant (Plant #3) was storing paint sludge too close to the water supply containers on the roof.

6. Asbestos

Friable asbestos was found in several locations in 7 plants (Plants #1, 3, 4, 7, 8, 9, 10). In two cases (Plants #7 and 10), materials were not marked and workers were not aware of the hazard.

7. Air Emission

All plants were found to have strong solvent odor in one or more areas. For most of the plants, air emission was a serious problem. Scrubbing systems at 8 plants (Plants #1, 2, 3, 5, 7, 8, 9, 11) were in poor condition, and in two plants (Plants #6 and 12), the systems for all practical purposes were non-existent.
8. Emergency Preparedness and Fire Hazard:

In seven of the twelve plants audited by ICCA (Plants #1, 2, 3, 7, 8, 9, 12), the emergency equipment was badly maintained and not easily available. In four other plants (Plants #1, 3, 8, 9), emergency evacuation exits were blocked by boxes of stored materials. Only two plants (#5 and 6) had well-established emergency systems including fire protection and prevention teams. These plants were also conducting regular fire drills.
Appendix A: The Scaling Methodology and Scoring System for EHS Ratings

A one-dimensional scaling methodology similar to those used by Likert, Thurstone and Guttman was used. In all scaling methods, the initial step is to define what is being measured. In this particular case it was the environment, health and safety components of each of the twelve Mattel vendor plants surveyed.

A five-point scale was utilized to evaluate the variables (components) under consideration and to then classify each plant's EHS components into one of the following three categories:

1. Generally Satisfactory
2. Needs Improvement
3. Generally Unsatisfactory

Ten environmental, health and safety variables were selected for consolidation out of approximately 20 possible categories surveyed at the twelve plants visited.

1. Inside the plant
   a. Asbestos hazard
   b. Industrial hygiene
   c. Personal protection equipment
   d. Electrical hazard
   e. Compliance issues and permits

2. Outside the plant
   a. Air emissions
   b. Wastewater
   c. Volatile liquids and chemical storage
   d. Medical facilities
   e. Living conditions including dormitories and mess facilities.

Since each variable was scored against a five-point scale with the highest possible total score being 50 and the lowest being 0. For comparison purposes only total scores in the upper third could also be classified as 'Satisfactory', the middle third as 'Needing Improvement' and the lower third as 'Unsatisfactory'. Plants 5, 6, 7, & 11 fell into the upper third; plants 1, 2, 3, 4, 8, 9, & 10 into the middle third and plant 12 in the lower third.
Mattel Response To Vendor Audit Report:

Mattel is pleased with the progress made by vendors under the rather difficult competitive manufacturing and procurement environment in China, and recognizes the challenges that lie ahead in bringing all vendors into full compliance with GMP. To achieve this goal, Mattel will work with suppliers, and in consultation with ICCA, to design and implement a plan of action to correct deficiencies to set the stage for continuous improvements in all of its overseas facilities and operations. This plan should be finalized within the next 90 days.
ICCA Audit Report – Vendor Plant #1

I. Introduction

Plant #1 is located in the Guangdong province of China. In 2002, Mattel products accounted for 60% of this plant’s total production capacity. This report is based on the first formal field audit of Plant #1, conducted by ICCA on January 8, 2003.

At the time of the ICCA audit, the Plant #1 employed 3,700 workers, comprised of 61% female and 39% male workers. During peak production season, the workforce increases to around 5200 employees. All the employees of the plant are over 18 years old and the average age is 26 years. The average education level of the workers is 8 years of formal schooling. For 40% of the workers, employment at Plant #1 was their first job. Average length of employment for a typical worker is 14 months.

II. Audit Findings

II. A. Recruitment and Hiring

A large majority (76%) of the workers at Plant #1 got their jobs through walk-in. The remaining 24% found their jobs through personal reference. Before starting work at the factory, the new hires receive a medical examination, job and safety training along with general orientation. The average length of the orientation is 2.5 days. Topics covered include employment contracts, rules of conduct, disciplinary measures,
grievance procedures, wages and deductions, living conditions, facilities, and other amenities (Figure 1).

**Plant #1- Figure 1**

![Initial Employment Orientation](image)

<table>
<thead>
<tr>
<th>Attended Orientation</th>
<th>Rules of conduct</th>
<th>Wages and deductions</th>
<th>Living conditions</th>
<th>Grievance</th>
<th>Facilities and amenities</th>
<th>Contract</th>
<th>Plant Tour</th>
<th>Informal meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>96%</td>
<td>96%</td>
<td>94%</td>
<td>92%</td>
<td>92%</td>
<td>86%</td>
<td>82%</td>
<td>62%</td>
<td>28%</td>
</tr>
</tbody>
</table>

**Workers’ Contracts:** All workers at Plant #1 received signed employment contracts at the time of hiring. These contracts are for 10 months, typically starting at the end of Chinese New Year holidays. Workers who remain with the factory, get an extension contract for two months. Interviewed workers confirmed that rules and conditions of their employment contracts were explained to them during the initial orientation at the time of employment.

**Probation Period:** At Plant #1, all workers must undergo a mandatory probationary period. During this period, workers are paid the mandatory minimum wage of RMB2.69 per hour. This plant’s personnel records did not contain any information on
workers’ probationary period. 12% of interviewed workers indicated that their probationary period exceeded the government-mandated limit of 30 days.

II. B. GMP Awareness

II. B. GMP Awareness

Plant #1’s Management Compliance Report (MCR) states that Mattel Global Manufacturing Principles (GMP) are introduced and explained to all employees during the orientation period. The report also states that the GMP Principles were translated into the local language and posted on the factory’s notice board. Worker interviews revealed that only 40% of the employees were familiar with the GMP. Over 60% of the interviewed workers stated that they received information on some management standards for worker conduct, which they could not identify. None of the interviewed workers had received or seen a local language copy of the GMP. With regard to the low GMP awareness among the workers, the plant management stated that, as a supplier to many multinational corporations, the factory was required to comply with multiple codes of conduct. Therefore, it was not always possible for the workers to recognize individual codes of conduct for different buyers.

II. C. Wages, Working Hours, and Benefits

Wages: Plant #1 pays a basic wage of RMB450 per month, which is the local minimum wage, for a 40-hour workweek. Plant #1’s pay structure is based on a piece-rate system for some production processes. However, all workers are guaranteed the government-mandated minimum wage rates regardless of their individual output. The pay system allows for special skills and night shift allowances but no bonus for quota
achievement. Average take-home pay is around RMB600, and may rise to RMB700 during peak production periods due to higher overtime. Workers are paid monthly, via bank transfer, within one month of the pay-period end.

**Working Hours:** ICCA conducted a desk audit of a randomly selected sample of personnel files and payroll data of a group of workers. The audit was performed for the month of September 2002 to verify the accuracy of the Company’s records with regard to workers’ payroll records and personnel files.

At Plant #1, a typical workweek consists of 6 days, Monday through Saturday, 11 hours per day during peak times (66-hour workweeks). When production schedules require, plant workers may work up to 72 hours per week. Of the total hours worked in a day, 8 hours are paid at normal rates, and the remaining hours are paid at overtime rates (1.5 times the regular rate). Each worker is entitled to one day off per week. When work is performed on a rest day (Sunday), they are entitled to either double wages or an alternate day off within 30 days of the extra day worked.

According to Plant #1’s system, during the month of September, which had 20 Monday-Friday days and 5 Saturdays, workers could work a maximum of 160 regular hours (20x8), and 115 overtime hours (20x3 + 5x11), for a total of 275 hours (25x11). ICCA’s audit findings revealed that 10% of the workers in the audit sample had worked in excess of 25 workdays during September 2002. In addition, 94% of the sampled workers were found to have worked overtime hours of up to 75.5 hours per week, which was far in excess of the China labor law, Mattel’s GMP and even the permission granted by the local labor bureau under Consolidated Work Hours. These findings
show that the entire workforce at the factory was required to put in work hours that far exceeded China’s labor law and Mattel’s GMP standards.

**Consolidated Work Hours:** Plant #1 has received permission from the local labor bureau to operate on the basis of *Consolidated Work Hours*. This authorization permit provides that total normal work-hours must be less than 1004 for the 6-month period March 2002, through August 2002, and that overtime hours must not exceed 216 hours during the same period. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day) on peak production periods. In its Management Compliance Report, Plant #1 states that the factory has worked in excess of allowable regular and overtime hours that exceeded the limits promulgated by the China labor laws and GMP standards on a semi-annual basis, even though they may be within permissible limits for normal and overtime hours during any specific week or month.

ICCA also audited workers’ payroll records for the six-month period covering June-November 2002 - the period for which Plant #1 had secured a consolidated hours permit from the local labor bureau. ICCA auditors found that all workers had exceeded the total number of overtime hours that could be worked before the end of September, and thus violated the consolidated hours permission granted to the Plant #1 factory by the local labor bureau.

**Involuntary Overtime:** Interviewed workers unanimously reported that were asked to put in excessive work hours and the fact that the factory rarely allowed any worker to refuse overtime work.

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6 Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
Recording of Work Hours: Time cards are used to record working hours at the factory. Interviews with workers indicated that employees were familiar with this system. Workers also unanimously confirmed that they punched their own time cards.

Benefits: Plant #1 provides medical, retirement and accident insurance to 40% of its workforce. The local Labor Bureau has approved this practice.

Maternity Leave: China’s labor law states that all workers are eligible for a maternity leave of 90 days. At Plant #1, maternity leave is provided only to administrative staff workers. Production workers are not eligible for maternity leave. This practice is in noncompliance with China’s labor law and GMP. Among the interviewed workers— which included both administrative staff and production workers, only 12% indicated that they were aware of the factory’s maternity leave policy and only 6% could actually specify the length of the leave period.

Annual Leave: Plant #1 Co. does not have a policy of providing paid annual leave to those employees who have completed one year of service to the company. This practice is in noncompliance with the GMP as well as the PRC labor law.

Sunday and Rest Days: Workers who work on their rest days (typically Sundays) are entitled to an alternate day off within 30 days, or get compensated at double-the-regular-wage-rate. Company policy is to schedule 7-day workweek with double paid rest days during peak production period. Payroll records show that, during the audited period, all workers were given alternate days off when Sunday work was required.

Personnel Records: Plant #1 keeps satisfactory records on work related injuries, disciplinary actions, and employees’ medical examinations by functional area.
II. D. Workplace Discipline of Employees

Plant #1 MCR indicates that the factory has adopted a set of disciplinary rules to prevent inappropriate behavior. The written procedures on employees’ discipline are included in the Company’s employee handbook, which is provided to each worker. They are also explained to the workers during general factory orientation.

Imposition of Cash Fines: Plant #1 has a policy of imposing cash fines for violations of work rules. The factory’s financial records show that during the 4-month period, September-December 2002, a total of 884 workers were imposed cash fines for work-related misconduct. ICCA’s findings indicate that in a given month, the plant imposed cash fines on an average of 221 workers in a total workforce of approximately 4,000 workers. These data, when projected on a full year basis, would suggest that more than half of the entire workforce was subjected to a cash fine at least once a year where a typical fine averaged RMB14. A commonly imposed fine, as told by Plant #1 workers during interviews was a RMB1/per minute imposed upon “tardy” workers. Plant management claims that the proceeds from the fines are used for employees’ welfare and entertainment activities. Plant #1, however, did not provide ICCA auditors with any records to verify these claims.

II. E. Access to Management

Plant #1 has adopted a set of formal procedures to ensure that no discrimination takes place in the process of hiring and promotion. These procedures, according to the factory’s management, are included in the Company’s Policy & Regulations and explained to the workers during the general orientation.
Among the workers interviewed by ICCA, 98% indicated that they had used a “suggestion box” or other means to communicate with their supervisors and also top management. When asked about main sources of information regarding wages, overtime, living conditions, transportation and other issues concerning work and living conditions, most of the workers mentioned their line leaders and the notice board at the factory or dormitory (Figure 2).

Plant #1- Figure 2.

Sources of Information on Work Related Issues, Canteen and Dormitories

II. F. Discrimination and Protection from Harassment

Workers interviewed by ICCA were unanimous in stating that had never been subjected to discrimination on the basis of their religion, race, ethnicity, or region of origin. They were also unanimous in confirming that neither they nor anybody they knew were subjected to sexual or verbal harassment. Almost all of the interviewed workers felt that line leaders, supervisors and top management treated them with respect.
II. H. Medical Facilities

Plant #1 has made noticeable improvements in this area. The clinic has been moved to a larger space. It has two rooms; one serves as the waiting room and the other one is used as the examining room. The clinic has three beds. Two doctors and one nurse are on staff. All work-related injuries are treated free of charge. Workers are charged only for medicines when they seek personal medical services from the clinic.

II. I. Use of Personal Protective Equipment

Workers at Plant #1 are provided with Personal Protective Equipment. During the one-on-one interviews, a majority of the interviewed workers (80%) reported to use safety equipment on a regular basis. Almost all interviewed workers also acknowledged that they received training in the proper use of this equipment. However, during the physical inspection of the factory facilities, ICCA’s audit team found a large number of cases of the PPE being used by the workers in an inappropriate manner. These included face masks (for prevention of airborne diseases) worn by operators at the Color Mixing Area within the Injection Molding Workshop, Hand Painting, Tampo Printing and Spray Painting Workshops. Masks were usually worn below the nose, failing to protect airborne particle inhalation. Supervisors in the same work areas did not wear masks. Workers in the Injection Molding Workshop Machine Tooling Shop were not wearing safety shoes. Workers using the plastics crashing equipment within the Injection Molding Workshop were not wearing earplugs.
II. J. Dormitories and Living Quarters

Plant #1 dormitories consist of six buildings, built between 1994 and 2001, and have a total living area of 24,315 square meters with capacity to accommodate 5,664 people. The average room has a size of 23.6 square meters and living capacity for 12 workers. The ratio of toilets and showers to occupants is 1:12. Dormitories have hot water supply, running water in the showers, ventilation, laundry facilities, TV and karaoke. Each worker is provided with a private bed, locker and individual light.

Almost 90% of the interviewed workers live in dormitories. However, by company policy, all workers are charged RMB 35 per month, which is deducted from each worker’s paycheck, regardless of whether a worker lives in the dormitory or not. Dormitories provide adequate access to washing facilities and toilets. Workers feel that the dormitories are generally clean (Figure 3).

Plant #1- Figure 3

<table>
<thead>
<tr>
<th>Service</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety/Cleanliness</td>
<td>100%</td>
</tr>
<tr>
<td>Own bed</td>
<td>100%</td>
</tr>
<tr>
<td>Own locker</td>
<td>100%</td>
</tr>
<tr>
<td>Toilets</td>
<td>100%</td>
</tr>
<tr>
<td>Washing/Laundry</td>
<td>100%</td>
</tr>
<tr>
<td>Running water</td>
<td>93%</td>
</tr>
<tr>
<td>Radio/TV</td>
<td>60%</td>
</tr>
<tr>
<td>Individual light</td>
<td>27%</td>
</tr>
</tbody>
</table>
II. K. Food and Canteen Facilities

Plant #1 provides an average of 65 minutes for lunch break. Among the interviewed workers, there was unanimous consensus that they had sufficient time to eat their lunch. The canteen serves 3 meals day. The majority of the interviewed workers (82%) reported that they ate their lunch at the factory canteen and paid a fixed amount (RMB180) per month for food. ICCA’s inspection determined that the canteen was well maintained. Garbage was picked up twice a day, and the area was cleaned 3-4 times a day. Workers who ate at the canteen were provided with cold water and detergent for cleaning their own utensils.

Similar to mandatory dormitory rent, canteen charges of RMB 180 per month were deducted from workers’ paychecks regardless of whether or not they took their meals at the canteen. This is inconsistent with Mattel's GMP which requires such expenses to be voluntary. Plant #1 reimburses the entire cost of canteen and dormitory charges (RMB215) to its piece-rate workers. This benefit is not available to those workers who are paid hourly minimum wages.

ICCA’s analysis of payroll data shows that Plant #1 has historically increased its charges for dormitory rent and employee meals in lock-step with government-mandated increases in the minimum wage rates. The result is that the combined dormitory and food costs charged to workers consistently remain at the maximum rates allowed under the GMP, which is equal to 50% of monthly minimum wage rate. Plant management claims that it currently subsidizes workers’ dormitory and meal charges and, therefore, is entitled to reduce its subsidy.
II. L. Recreation Facilities

Plant #1 provides access to a number of sports and entertainment facilities at the plant and in the dormitories. Among the most popular are television, karaoke, badminton, and soccer (Figure 4).

![Plant #1 – Figure 4](image)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td>100%</td>
</tr>
<tr>
<td>Karaoke</td>
<td>98%</td>
</tr>
<tr>
<td>Badminton</td>
<td>98%</td>
</tr>
<tr>
<td>Soccer</td>
<td>92%</td>
</tr>
<tr>
<td>Basketball</td>
<td>24%</td>
</tr>
<tr>
<td>Library</td>
<td>22%</td>
</tr>
<tr>
<td>Table tennis</td>
<td>18%</td>
</tr>
<tr>
<td>Radio</td>
<td>18%</td>
</tr>
</tbody>
</table>

II. M. Non-Job Related Skills Enhancement Programs

Plant #1 currently provides a number of non-job related courses. These include: fire prevention, first aid, proper handling of hazardous waste and dangerous materials. The total capacity of the courses is 215 people. However, only a small number of workers seemed to be aware of these programs. During ICCA’s confidential one-on-one interviews with workers, 6% of the workers acknowledged knowing about these non-job related programs, and 4% of the workers reported having in of these programs.
III. Work Environment of Manufacturing Operations and Related Facilities

**The Physical Plant:** The original building in Plant #1 was constructed in 1994. Two further additions were built in 2001. Overall, the plant is in poor condition. This is primarily due to an ineffective maintenance program. Mechanical and electrical neglect has resulted in leaking equipment and frayed and possibly dangerous electrical wiring. Poor ventilation and improper use of PPE are among some of the other problems itemized below.

**Compliance Issues:** There was no “Three Synchronies” Inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharge, solid waste generation and boundary noise emissions as required by the Chinese laws and regulations.

**Water Supply:** Tap water from Block B of the dormitories was analyzed in 2002 and met the drinking water standards. However, drinking water tanks for the factory buildings had not been tested. Drinking water is stored in open concrete tanks, which are partially sheltered on the rooftops of each of the factory blocks. The water tanks are not properly maintained and were in poor condition.

**Wastewater:** According to the Environmental Impact Assessment (EIA) approval, all sources of industrial wastewater must undergo treatment (oil separation, sedimentation and filtration). However, aside for the water scrubber for the spray painting workshops, there was no other water treatment. There has been no monitoring for wastewater discharged from the factory to insure that it meets Class I of the integrated wastewater discharge standard (GB8978-1996). There is no separate sewer and storm water drainage system. Industrial wastewater arising from copper plating and
grinding processes are discharged into the storm water drainage system which drains from the factory into a river. Water from the water scrubber system undergoes several screenings as part of the filtration system. The screens are not effective and contaminant water is re-pumped from ground level back to the water scrubber on the rooftop. There was water leaking from a hole made in the wall of the tank.

**Soil Contamination:** There has been no pipeline integrity testing for the underground pipelines from the diesel storage tank to the canteen.

**Chemicals Handling:** There was no MSDS available. There was no secondary containment in the chemical storage area. ICCA found strong solvent and paint odors in the rooms where some of the containers were left open. Some rooms are not equipped with effective explosion proof equipment (frayed wiring and improper ventilation). Several drums were bloated and corroded. Five 200-liter drums of solvents were stored in the chemical area and within the Spray Painting Workshop. The diesel oil loading area was heavily stained with oil residues.

**Air Emission:** The water scrubber, including the filtration system on the rooftop, was not working according to its intended design. Air emissions from the water scrubber system and diesel generator have not been tested to insure that they meet applicable standards. The impacted area had a strong solvent and paint odor. Air emission from stock of the diesel burners in the kitchen appeared to be below the required standards. Smoke generated by these diesel burners would blow into the dormitories under certain wind conditions. There was a strong diesel smell at the Diesel Generator Room. The cover of the diesel day tank had been left open.
Asbestos: An asbestos survey was conducted and Chrysotile Asbestos was identified in three locations. Those were not labeled and some of the insulation was in a dangerous condition. No plan had been developed for removal of asbestos contained.

Medical Surveillance: There has been no medical examination to test for occupational diseases as required under the legislation.

Industrial Hygiene: The factory provides individual exhaust fans for each soldering station. However, the workers were not utilizing them. There was a strong solvent and paint odor in the Tampo Printing Workshop where the machines use an open tray printing system. Machines not in use also had exposed printing inks. There was a strong solvent and paint odor in the Spray Workshop. The spray hoods in the Spray-painting Workshop are made of metal and cardboard and some of these were filled with paint residues. A number of exhaust systems did not have sufficient positive air pressure. The industrial hygiene sampling conducted in 2002 did not reflect the full suite of chemicals (only testing for volatile organic compounds) to which the workers were exposed.

Machine Guarding: The pulley guard of the top pulley in the seven Roto-casting workshop had been removed. This could cause inadvertent worker injuries.

Electrical Hazards: The electric wiring in the factory was found to be in poor condition. It was frayed in the case of injection molding machines, tampo-printing machines, exhaust fans, air compressors, etc. The door of the electrical panel (390V, 300 amps) from the generator was open. A high voltage transformer (in 390 V, out 230 V) was observed on one of the walkways. The electrical grounding system did not appear to be effective.
Emergency Preparedness and Response: ICCA did not find any emergency equipment such as safety showers, eye wash stations and spill control kits in the Dangerous Goods Store and in most of the chemical storage areas. There was no fire hose-reel attached to the firewater outlet at the top floor landing of Factory Building Number 8. There was no emergency exit in the Raw Material Warehouse.

Work Control Procedures: Plant #1 does not appear to have an effective maintenance program. Poorly maintained equipment was observed throughout the plant; e.g. widespread compressed leakage (especially in the Tampo Printing Workshop); widespread water leakage from the water pumps (broken water pump seal of water pump between Blocks C and D of the dormitories causing severe corrosion of the pump and staining on the ground).

Falling Objects and Falling from Height Hazards: There were no annual statutory inspections conducted for the cranes and hoists as required by law. There were no stacking boundaries laid out in one of the raw material warehouses or height restrictions for raw material stacking. Raw materials of 25 kg per bag were stacked to a maximum height of 5 meters, approximately 30 bags high. The bags were stacked or retrieved through workers climbing onto the stacks.

Housekeeping: Waste such as ducting and old equipment is kept on the rooftops of the factory buildings. Scrap materials such as papers, cartoons and rugs are stored in the chemical storage areas. This is a fire hazard. There are extensive oil stains in the pump room. Floor tiles are broken in the roof top. Equipment gauges are not calibrated.
ICCA Audit Report - Plant #2

I. Introduction

This report is based on a field audit of Plant #2, conducted by ICCA on August 2, 2002. It is the first formal audit of Plant #2 by ICCA. Plant #2 is located in the Guangdong province in China. In 2002, 100% of the plant’s capacity was dedicated to the production of Mattel products.

Plant #2 employed approximately 1100 workers at the time of the ICCA audit. Of these, 90% were direct labor and the remaining 10% comprised administrative and managerial personnel. The workforce is about equally divided between male and female. All workers are over 18 years and older with an average age of 27 years. The average length of employment at Plant #2 is three years. For almost one-half of the currently employed workers at Plant #2, this is their first job. The education level of workers averages around 9 years of formal schooling.

II. Audit Findings

II. A. Recruitment and Hiring

All newly hired workers are required to go through an orientation program. Workers by a large majority confirmed receiving EHS-related information during orientation (90%), general company orientation (80%); and, job-related training (85%).

ICCA’s investigation showed that in terms of initial employment, Plant #2 complies with prevailing labor standards. Prior to starting work at Plant #2, workers are given a medical examination, which is generally held at the factory clinic. It includes a
general health check-up, X-rays and blood test. Any worker in possession of a health certificate issued by a hospital is exempted from the mandatory medical examination.

ICCA conducted one-on-one confidential interviews with a random sample of workers, which was statistically selected to be representative of the plant’s workforce. Among the interviewed workers, almost 75% indicated getting their jobs by walk-in to the plant’s recruitment office or through referral from friends. The plant does not employ any recruitment agencies for hiring workers. All workers acknowledged that they were not required to give any deposits upon hiring or leave identification documents with plant management.

Workers’ Contracts: Upon employment, each worker receives a signed contract with a standard duration of 3 months and is considered temporary. A large majority (95%) of the interviewed workers confirmed that they received signed contracts upon employment. The only workers on a year long contract are administrative staff, which works on the basis of monthly salaries. In practice, however, a large number of workers stay with the company in excess of one year. Consequently, workers’ contracts are renewed an average of 4-5 times during their tenure. The practical impact of this practice is that all such workers are denied paid annual leave which is required under the China labor laws as well as GMP standards (see details below in section marked “annual leave”).

Probation Period: All new workers are required to serve a probationary period of 15 days during which time they receive wages and overtime pay similar to regular workers. This practice was confirmed by 80% of the interviewed workers.
II. B. GMP Awareness

According to Plant #2’s management, all plant workers are provided with copies of Mattel’s GMP in local language. The provisions of GMP are also explained by the plant’s managers. However, in one-on-one interviews, workers demonstrated little familiarity with or knowledge of GMP principles (Figure 1).

Plant #2 - Figure 1

<table>
<thead>
<tr>
<th>Sources of Information about GMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with GMP</td>
</tr>
<tr>
<td>15%</td>
</tr>
</tbody>
</table>

II. C. Wages, Working Hours, and Benefits

ICCA’s audit of payroll audit was performed on the records for the month of June 2002. It covered issues pertaining to workers’ regular and overtime hours, normal and overtime wages, benefits and deductions. The sample of payroll data and personnel files was based on a scientifically selected random sample of workers, which represented the plant’s total workforce.

Wages: Plant #2 pays a basic wage of RMB460 per month based on a 40-hour workweek, which is the local minimum wage in the Shenzhen area. The plant’s pay structure is based on a piece-rate system. However, all workers are guaranteed the minimum wage regardless of the output. The piece-rate system generates individual
performance bonuses for workers who meet or exceed their quotas, but does not adversely impact the minimum wage guaranteed to all workers.

Among the sampled workers, 12% received an average of RMB106 per month in position allowance, based on their added job responsibilities. Almost one-half (47%) of the workers received production bonuses averaging RMB192 based on quota achievement. Average take-home pay is between RMB 650 – 720, based on peak and off-peak seasons.

**Working Hours:** For purposes of calculating wages and working hours, Plant #2 operates on the basis of a 40-hour workweek (Monday through Friday). Saturday is considered an off day while Sunday is treated as a rest day. In practice, a typical workweek consists of 6 days; Monday through Saturday, where Monday-Friday is considered the normal workweek, and Saturday is worked on an overtime basis. Employees work for 66 hours per week (six 11-hour workdays). Of these, 40 hours are paid at normal rates and the remaining 26 hours are paid at overtime rates. The maximum overtime per day is limited to 3.0 hours. 30% of the sampled workers were found to have worked overtime hours in excess of China labor law and Mattel’s GMP.

**Consolidated Work Hours:** Plant #2 has received permission from the local labor bureau to operate on the basis of Consolidated Work Hours. This authorization permit provides that total normal work-hours must be less than 2008 for the year, and that overtime hours must not exceed 432 hours during the same period. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day) during peak production periods. According to ICCA’s calculations, at this rate,

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7 Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
Plant #2 would exhaust all permissible available hours (regular and overtime hours) in less than 37 weeks and thereby leaving the remainder of the year with no available work hours. In its Management Compliance Report, Plant #2 claims that the factory has been operating in full compliance with the terms stated in its Consolidated Hours Permission. The plant management, however, was unable to provide records for cumulative yearlong overtime hours worked by individual workers. Consequently, ICCA could not verify Plant management's claims in this respect.

**Recording of Work Hours:** Time cards are used to record the start and finish times of each day's work. At the end of each month, time card records are entered into a computer information system, which reports daily work hours and corresponding pay, as well as deductions, allowances and bonuses for each worker.

**Benefits:** The Company provides accident insurance to all workers. Pension insurance – a rising concern among Chinese workers – is negotiated between the Chinese factory and local labor bureau. The goal is to ultimately cover all workers. At present, Plant #2 provides pension insurance to less than 7% of the plant's workforce. The local Labor Bureau had approved this practice.

**Maternity Leave:** Plant #2 restricts maternity leave only to administrative staff workers, while legally all workers should be eligible for such leave. In this regard, Plant #2 is inconsistent with both the PRC labor law and Mattel's GMP.

**Annual Leave:** Plant #2 does not provide any annual leave benefits to its employees. Plant #2 justifies this practice by claiming that all its employees work on a 3-month contract basis, and as such they are not entitled to annual leave, which requires workers to provide a full year service before becoming eligible. Many workers
do indeed serve a full year via multiple contracts, but this service is not recognized by Plant #2 as fulfilling eligibility requirements. This practice is clearly inconsistent with the Chinese labor law and GMP standards.

**Sunday and Rest Days**: PRC labor law mandates that employers must guarantee each worker a day off every week (Sundays). When Sunday work is required, workers are entitled to a replacement off day or double the normal rate of wages for work performed on Sunday. ICCA’s examination of the factory’s records revealed that 50% of the audited workers had worked on a Sunday and were compensated with an alternate day off within 30 days.

**Personnel Records**: All workers at Plant #2 have a signed contract on file. ICCA found that worker records were properly maintained with regard to initial medical exams, orientation attendance, training periods, safety instructions, and safety equipment issued.

**II. D. Workplace Discipline of Employees**

Plant #2 has written and posted guidelines for workplace discipline. The plant does not impose any cash fines on workers for rule infractions or disciplinary problems. Disciplinary actions range from verbal warnings to dismissal, depending on the severity of infractions. Workers may appeal disciplinary actions to floors and higher levels of management.
II. E. Access to Management

Plant # 2 has clearly established policies and formal written procedures that prohibit discrimination in hiring, promotion, and other workplace practices based on sex, age, ethnic origin and other factors. These procedures appear to be effective. Interviewed workers were unanimous in stating that neither they, nor anyone else that they knew, had been subjected to any form of discrimination.

A majority of the interviewed workers aspired to become line leaders and believed that the promotion to the line leader and other supervisory positions was based on merit.

Interviewed workers also confirmed that there were frequent communications between the workers and all various levels of management. Regular morning briefs were scheduled to inform workers about production and other work-related issues. Workers also frequently used these opportunities, with encouragement from management, to air any complaints and offer suggestions pertaining to the conditions prevailing at the factory.

II. F. Discrimination and Protection from Harassment

Interviewed workers were almost unanimous in expressing that senior management and other supervisors treated workers with respect and that workers received help and useful information from their supervisors. A small number of interviewed workers (13%), however, stated that either they or their co-workers were subjected to verbal abuse by their supervisors (Figure 2).
II. G. Dormitories and Living Quarters

ICCA’s inspections found employees’ living conditions generally satisfactory. Dormitories are owned and operated by the plant management. Workers are provided with their own beds individually lockable storage space, and hot/cold water supply. The Plant also provides housekeeping and cleaning services to common areas such as toilets, showers, etc. Workers living in the dormitories are responsible for cleaning their rooms. Brooms and cleaning supplies are supplied to the workers for such tasks. Factory guards are responsible for the personal security of workers.

Living in the dormitories is strictly voluntary. Workers are free to make their own arrangements with regard to housing and meals. Among the interviewed workers, 54% lived in the dormitories. Occupancy rate is 12 workers to a room. There are adequate
number of showers and bathroom facilities provided to workers in the dormitory areas. Laundry facilities are located in the shower rooms.

Workers living in the dormitories pay an average of RMB20-40 per month for dormitory expenses, which are deducted from their paychecks. ICCA finds these charges to be reasonable and appropriate and well within the range permitted by GMP.

The interviewed workers expressed a high level of satisfaction and approval regarding their living conditions (Figure 3).

**Plant #2 - Figure 3**

![Employee Satisfaction With Dormitory Conditions](image)

II. H. Medical Facilities

Although not extensive, the medical facilities at Plant #2 are adequate for a plant employing 1000 people. There is one medical technician on duty that lives in the dormitory and is on call. There are adequate medical supplies and equipment available. All accidents were reportedly recorded using an informal system.
II. I. Use of Personal Protective Equipment

Management stated that plant provides appropriate PPE to the workers in areas suggested by EHS staff, line leaders or managers. Interviewed workers (90%) confirmed receiving safety training and understood the importance of using PPE at work. Among the interviewed workers, 67% mentioned that they could operate their equipment free of hazard to themselves and to the facility. About 2/3 of the interviewed workers stated that they regularly used the PPE, while 13% claimed "occasional" or "almost never" use of PPE at their jobs.

During their walk-through of the plant, ICCA’s Environmental Health and Safety experts concluded that the use of PPE needed reinforcement. Many articles of the PPE were not being properly used or maintained due to inadequate employee training or line management supervision. Specific examples include:

- Hand painting area workers were found to be wearing their masks below nose level.
- Unprotected use of razor-type knives in plastic flashing.
- Workers handling heavy equipment without hard-toe shoes.

II. J. Food and Canteen Facilities

All workers are given between 30-90 minutes lunch breaks depending on their shifts and the production processes to which they are assigned. There are no additional breaks. Among the interviewed workers, there was general satisfaction with the length of lunch breaks with the exception of some workers in the group, which received the 30-minute lunch breaks. Employees could either eat in the company canteen or buy their
lunch from outside. The factory charged between RMB100 -160 per month for eating in the cafeteria.

The plant canteen is operated by the factory management and serves three meals per day. Hot water and soap are available to workers to clean their utensils after meals. Canteen workers are trained in food handling and are given physical examinations. Food is refrigerated and garbage is picked-up three times a day.

II. K. Recreation Facilities

Workers expressed their general satisfaction (92%) with the recreational facilities provided by the company. These included: soccer, badminton, television, radio, karaoke and library. Television (77%) and karaoke (72%) were the most popular activities among workers.

II. L. Non-Job Related Skills Enhancement Programs

Plant #2 does not have any non-job related training programs for its workers.

III. Work Environment of Manufacturing Operations and Related Facilities

Environmental Health and Safety audit by ICCA experts have identified problems in the following areas:

- There is a plant-wide need for upgrading electrical wiring.
- Poor upkeep in the oven room, which is also used for storage.
- Loose wiring was found in the generator room.
- Combustible materials are stored next to the generator room.
• There is degraded wiring in the roto-casting area, which needs to be replaced..

• Chlorine content of potable water was tested at .02 ppm, which is considerably below the required standard of .3 ppm.

• Engine exhaust from the generator is water-scrubbed, and the contaminated water is then discharged untreated into the sewage system.

• Paint- Water Scrubbing: The system in place is inadequate and needs to be replaced. Untreated water is being discharged into the sewage system.

• Solids Removal: An uncertified contractor removes separated solids.

• Wastewater Discharge: Domestic use water and wastewater from the kitchen and canteens are discharged into the river without testing to verify whether it meets government standards.

• Documentation: ICCA was informed by Plant #2 management that documentation pertaining to firefighting acceptance, wastewater discharge compliance, air emission reports, noise contamination, and detailed accident reports were not available on premises. This is clearly inconsistent with the PRC law, and the GMP, as all such documentation is required to be made available upon request by ICCA as well as regulatory agencies.

• Fire Prevention: At Plant #2, there is a fire prevention and protection team, which conducts regular monthly meetings. Among the areas of concern identified by EHS experts in the ICCA audit team, the following are of particular concern and need to be addressed:

  i) Emergency response team is not trained for chemical spills, natural disasters, etc.
ii) The two fire pumps, piping, and the water reservoir are not properly engineered, and poorly kept, which make it dysfunctional. The required government approval of the system could not be verified.

iii) All fire extinguishers are Halon-equipment, which need to be phased out according to national regulations.

ICCA’s concerns with regard to EHS, as discussed in this report, fall under two general categories: General plant maintenance and Environmental health. Several plant maintenance issues are easily fixable, with minimal management attention and no capital outlay. However, on the environmental issues, Plant #2 needs to modify and improve some of its discharge and filtration systems to comply with local laws and GMP requirements. Most important, paint-related chemical contaminants and wastewater discharge systems need to be designed to comply with legal codes.

Plant management mentioned that air monitoring is conducted in production areas by the government, once every year. Workers, interviewed by ICCA, indicated that they were provided with ventilation fans and herbal tea as heat-stress management aids. Both ICCA and GMP consider these measures to be inadequate.

Overall, interviewed workers expressed their satisfaction with their physical work environment at the plant (Figure 4).
During the interviews, workers indicated that they were very satisfied with general hygiene conditions, bathroom and toilet facilities and availability of drinking water at the plant, with the exception of sanitary supplies (figure 5).
I. Introduction

Plant # 3 is located in the Guangdong province of China. It has a relatively small workforce with around 1,700 workers, which increases to 2000 during peak production period. Approximately, 85% of the plant’s production capacity is dedicated to manufacturing Mattel products. This report is based on ICCA’s formal field audit of the plant, which was conducted on January 13-14, 2003.

Of the total workforce, 92% are direct labor and the remaining 8% are administrative and managerial staff. The gender distribution of the workforce is 77% female and 23% male. Workers’ ages range between 18-33 years, with the average of 24 years. Education level of employees is approximately 8.5 years of formal schooling. Average length of employment at the factory is 22 months. Unlike most other vendors, workers at the Plant #3 appear to be more experienced. Over 80% of the workers had worked at other factories before accepting their current jobs at Plant #3.

II. Audit Findings

II. A. Recruitment and Hiring

A large majority of the interviewed workers (87%) got their jobs through walk-in at the plant site, while remaining 13% were hired through referrals from friends and current workers. All workers are given a medical examination before starting work at the factory. This examination includes a general check-up, x-rays, blood and pregnancy tests. 15% of the interviewed employees stated that they had to pay RMB25 as the cost of their medical check-up.
All workers attend a series of job training sessions as part of their orientation. These sessions cover a discussion of the factory’s policies with regard to wages, working conditions, employment contracts, rules of conduct, disciplinary measures, grievance procedures, living conditions, facilities and amenities, safety training, and job-related skills. Nearly all of the interviewed workers confirmed that they had attended the required training programs in addition to general orientation (Figure 1).

**Plant #3 - Figure 1**

![Initial Employment Orientation and training Programs](image)

**Workers’ Contracts:** ICCA’s audit of payroll files and interviews with a sample group of workers confirmed that all workers received a signed employment contract, which included relevant facts about their wages, working hours, and working conditions, etc.

**Probation Period:** Plant #3 requires all newly hired workers to undergo a probationary period, which according to the interviewed workers, lasted an average of 1.5 months. ICCA’s audit confirmed that wages for regular and overtime work paid to workers during the probationary period were similar to paid all other workers.
Notwithstanding, the 1.5 month length of the probationary period is at variance with the China labor law and Mattel's GMP, which require that probationary period for a one year contract may not exceed one month while six month contracts’ probation period may not exceed 15 days.

II. B. GMP Awareness

Plant #3’s management affirmed that Mattel’s GMP was available to all employees in the local language, and that additional efforts were made by the factory to inform workers about these principles through other communication channels. However, interviews with factory workers revealed that less than 30% of the employees were familiar with GMP, and 22% of the workers said that some standards and principles were explained to them. Of the interviewed workers who were familiar with Mattel's GMP, a very large majority received this information during one of the weekly morning meetings.

II. C. Wages, Working Hours and Benefits

ICCA’s audit of the payroll data was performed on the records for the month of September 2002. It covered workers’ regular and overtime hours, normal and overtime wages, benefits and allowable deductions. The sample of payroll data and personnel files was based on a scientifically selected random sample of workers, which represented the plant’s total workforce.

Wages: Plant #3 pays its workers RMB2.75 per hour, which is the prevailing minimum wage rate in the region. Overtime during regular workdays is paid at 1.5 times the regular wage rate, and Sunday work is compensated at the double wage rate. If a regular workday is shifted to a Sunday due to power outage, or emergency production
schedules, then Sundays are paid at regular wage rates, with an alternate day off provided to workers at a later date.

Plant #3 requires its workers to clock out when production equipment is down or there is a shortage of material until such time that the equipment is fixed or necessary materials are obtained.

China’s labor law permits an employer to hold workers without pay in the event of power blackouts over which the factory has no control. However, workers wages cannot be withheld when the plant is shut down for material shortages or machine breakdowns, etc. This practice has the effect of giving workers “forced unpaid leave” for reasons that are beyond their control. ICCA audit concludes that this factory has illegally withheld workers’ wages in noncompliance with both the China labor law and Mattel’s GMP.

**Work Hours:** For purposes of calculating wages and working hours, Plant #3 operates on the basis of a 40-hour workweek (Monday through Friday). Saturday is considered an off day while Sunday is treated as a rest day. In practice, a typical workweek consists of 6 days; Monday through Saturday, where Monday-Friday is considered the normal workweek, and Saturday is worked on an overtime basis. Employees work for 66 hours per week (six 11-hour workdays). Of these, 40 hours are paid at normal rates and the remaining 26 hours are paid at overtime rates. The maximum overtime per day is limited to 3.0 hours.

ICCA’s audit of the workers’ payroll data revealed that 63% of the sampled employees had worked in excess of 66 hours per week during September, 2002. Further examination of the payroll data showed that several workers had worked in
excess of 13 consecutive days, which meant that they did not receive their one rest day per week as mandated by law. ICCA’s analysis also showed that 70% of Plant’s workers had worked more than 25 days during the month of September. Considering that there were 21 workdays (Monday-Friday), and 4 Saturdays in September 2002, this finding would suggest that a majority of the workers had worked at least one, and in some cases two Sundays in addition to their 6-day workweek. This practice contravenes China’s labor law and Mattel’s GMP.

II. D. Consolidated Work Hours

Plant #3 has on file a permission from the Local Labor Bureau to operate on the basis of Consolidated Work Hours. According to the terms of this permission, overtime hours must not exceed 3 per day. Furthermore, each worker should be given at least one rest day per week, and that total work hours for the entire year must not exceed 2440 (2008 hours of regular time, and 432 hours of overtime).

ICCA’s analysis of the payroll data indicates that Plant #3 has failed to provide at least one rest day per week. A majority (63%) of the workers audited had worked in excess of 3 overtime hours per day, and 70% of the workers were not given at least one rest day per week. Many workers were observed to have worked up to 2960 hours during the first nine months of 2002, while the factory’s Consolidated Hours Permission limits the entire year’s work hours to 2440.

Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
Recording Work Hours: Plant #3 uses a punch card system for recording working hours. The interviewed workers confirmed that they always punched their own time cards.

Benefits: All workers at this plant are provided with injury insurance, 70% have pension plan, and 10% have Social Insurance. The percentage of workers covered for pension and social security insurance was approved by the local Labor Bureau.

Maternity Leave: Plant #3’ management reports that married employees are allowed to get 90 days of maternity leave. A majority of the interviewed workers were aware of this policy. However, an examination of the factory records for the past two years did not show any worker ever taking a maternity leave.

Annual Leave: Plant #3 pays a seniority bonus of RMB300-500 instead of a paid annual leave. This sum is the equivalent of 2.7-4.5 weeks of pay at the minimum wage rates. This practice is contrary to the China labor law and GMP. It results in denying annual leave benefits to many workers who typically resign by the Chinese New Year, and do not return to Plant #3. These workers are not paid their annual leave benefits.

Transportation Allowance: Interviewed workers reported that after one year of work, the company gave them money for traveling home on national holidays. The amount of money varies from RMB150 to RMB200. This allowance is voluntary on the part of the factory and is not required by China labor law or Mattel’s GMP.

Sunday and Rest Days: Over 56% of the workers interviewed by the ICCA team reported that they worked 2-4 rest days a month. These workers are entitled to an alternate day off within one month after the Sunday or rest day work.
ICCA’s audit of the Plant’s payroll data indicated that no worker was given an alternate day-off or double wages – as compensation of work performed on a rest day. The management of Plant #3 claimed that in some cases, due to a shortage of electricity in the region, power is shut off during the regular workweek. In such cases the rest day is shifted to the day of power outage. However, Plant #3’s management failed to provide any documentation to support these claims.

Mandatory Expenses: Factory workers at Plant #3 are to purchase their own uniforms, which cost on average RMB65. This practice is inconsistent with Mattel's GMP.

Personnel Records: Plant #3 keeps separate records of various types of worker information, by function. ICCA’s auditors have verified the existence of signed employment contracts, training and orientation records, disciplinary action reports, and workers’ illness and injury records. There were no records of medical examinations conducted upon initial hiring, annual leave records, or maternity leave records.

II. E. Workplace Discipline of Employees

Plant #3 has adopted a set of written disciplinary procedures to handle inappropriate behavior of factory's workers. Nearly half of the interviewed workers (46%) reported that in case of rule violations, they receive verbal or written warnings. When an employee receives three warnings within six consecutive months, the worker may be subject to termination. Workers have an opportunity to file an appeal or a grievance for disciplinary actions taken against them.
Among the interviewed workers, one-third acknowledged that they were disciplined for tardiness, defective work, missed quotas, loss of equipment, or slow work.

Plant #3 management had stated that the factory did not use imposition of cash fines as a disciplinary measure. However, interviewed workers indicated otherwise: Among the interviewed workers, 11% stated that were subjected to cash fines ranging from RMB5 for small violations to RMB100 for serious violations such as smoking in the warehouse.

II. F. Access to Management

Workers interviewed by ICCA, almost unanimously confirmed that they had a variety of channels available to them to express their views to all levels plant management. These included: suggestion box, direct communications with line leaders, and workers’ representatives. When asked about the most helpful sources of information regarding wages and hours, working and living conditions, they named notice boards at the factory and dormitories as well as direct communications with line leaders (Figure 2).
**II. G. Discrimination and Protection from Harassment**

There was unanimous confirmation among the interviewed workers that there was no discrimination against workers with regard to promotion or wage increases based on their religion, race, ethnicity, or region of origin. Interviewed workers almost unanimously expressed their satisfaction with the way they are treated at the workplace. Confidential, one-on-one interviews conducted by ICCA confirmed that supervisors or line leaders never sexually, physically or verbally harass employees.

With regard to promotion policies, Plant #3’s management has adopted a standard procedure where line leaders and other floor supervisors recommend workers for promotion. Promoted workers must agree to be employed by the factory for at least one year. All interviewed workers confirmed their satisfaction as to the fairness of this procedure.
II. H. Access to Drinking Water and Toilet Facilities at the Plant Site

The plant has sufficient facilities for drinking water and access to toilet facilities in the operational areas. However, their use of strictly controlled by floor level supervisors. A very large majority (85%) of the interviewed workers complained that the use of these facilities was severely restricted by plant supervisors. A worker is required to obtain a permit in order to leave his/her workstation to use bathroom facilities. The number of these permits is limited and in many areas the ratio is one permit for every fifty workers. Interviewed workers made repeated reference to physical discomfort because they were not allowed to use toilet facilities when needed.

II. I. Medical Facilities

A room in one of the dormitories serves as the plant clinic. It is staffed by a doctor who sleeps/lives in the clinic. Adequate selection of drugs is available. General health problems, as well as accident cases, are treated in the clinic. Employees pay for medications only. Employee health records are kept in the clinic. Serious cases are sent to the hospital.

II. J. Use of Personal Protective Equipment

Plant #3’ management has adopted a system of standard requirements for the use of Personal Protective Equipment (PPE) in different work areas. Protective equipment is provided to the workers free-of-charge. Line-leaders and floor supervisors are required to make sure that the equipment is properly used.
A hazard assessment has reportedly been conducted to identify the areas that require PPE usage. However, this did not appear to be effectively implemented. The use and maintenance of PPE was inadequate in certain areas and in other instances the PPE was inappropriately used. Inappropriate PPE usage included, mask worn above or below nose by operators at the individual soldering stations, plastic mixing rooms. Employees working on the Ultrasonic Plastic Welding machines, in Injection Molding machines, and on the power screwdrivers, did not wear the earplugs in the correct manner. Some of the employees, who worked with plastic crushing equipment, were not wearing earplugs, safety glasses or dust masks during compressed air cleaning. Some workers at Injection Molding workshop had no finger protection while dealing with sharp objects. Workers operating in the vicinity of cranes in the Injection Molding Workshop and Machine Tooling Workshop had no safety shoes.

II. K. Dormitories and Living Quarters

Plant #3 has three dormitories, which were built in March 2001. These consist of 2 medium sized and one small dormitory with a total living area of 17,000 square meters. The two larger dormitories are for workers, and the smaller one is for local management, Hong Kong staff and the plant owners. Rooms in the workers’ dormitories have total area of 34 square meters and living capacity for 12 people. The staff dormitory building has some larger rooms while the rooms in the staff dormitory building are larger (45 square meters) and with assigned capacity for 8 people. All rooms have fans, toilets and showers with hot running water. A new dormitory with dining hall is under construction with planned capacity to house one thousand workers.
Deductions related to living expenses average RMB87 per month. These include charges for rent (RMB60), laundry (RMB12.5), and electricity and water (RMB14.5). Over 72% of the interviewed employees reported to be living in dormitories where each room averaged 10 workers. Each worker has individual bed and locked storage space. Access to toilets, showers, and washing facilities is satisfactory and meets GMP standards (Figure 3).

**Plant #3 - Figure 3**

Overall, workers living in the dormitories reported that the facilities were generally clean and safe to live. A small number of workers reported that management allows workers to use dormitory rooms, with individually assigned beds, at their own request, if they wish to use these beds for occasional naps during lunch breaks. However, the workers must pay the full monthly rent for such usage.

**II. L. Food and Canteen Facilities**

Plant #3 provides a lunch break of one hour, which most workers consider quite satisfactory. Two independent sub-contractors operate the canteens. The sub-
contractor firm is also responsible for everyday cleaning of the kitchen and eating areas as well as garbage disposal. Workers buy their 15-day coupon books directly from the canteen operators. The charges for both canteens are RMB4.5 per day for 3 meals served. Workers in general were not happy regarding the quality of food and service at the factory canteen. They expressed concern about the variety of food provided. Other concerns expressed by the workers included: hygiene at the canteen, insufficient number of people serving food, and uncomfortably cold temperature in the cafeteria during winter months.

II. M. Recreation Facilities

Interviewed workers appeared to be quite happy with the sports and recreation facilities provided by the factory. These activities included television, karaoke, badminton, library, basketball, tennis, etc. (Figure 4).

**Plant #3 - Figure 4**

<table>
<thead>
<tr>
<th>Availability of Sports and Recreation Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV 83%</td>
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</table>

II. M. Non-Job Related Skills Enhancement Programs

Plant #3 does not have any non-job related training programs for its workers.

III. Work Environment of Manufacturing Operations and Related Facilities

Plant #3 factory is a modern well-planned installation. Although there is continued need for improved housekeeping and maintenance, this plant has made good progress since ICCA’s last visit a year ago. Given below is a list of problem areas that require further attention. These include insufficient and improper use of the PPE, and wet paint scrubbing. Special attention also needs to be paid to ventilation at the soldering stations. A new test unit has been installed for evaluation, which is likely to be a major improvement. However, it will still require individual hoods at each station.

Compliance Issues: There were no “Three Synchronies” inspection, Pollutant Discharge registration. There were also no permits available for ICCA’s examination for air emissions, wastewater discharges, solid-waste generation and boundary noise emission as required by the Chinese labor and environmental laws.

Water supply: There has been no monitoring of drinking water. Drinking water supply should be monitored and record kept to verify that water quality meets required standards.

Wastewater: There has been no monitoring for wastewater discharged from the factory. Wastewater should be monitored to ensure it meets the standard (GB8978-1996).

Soil contamination: There has been no pipeline integrity testing for the underground pipelines from the diesel storage tank to the Rotocasting workshop.
Chemical handling: There was no ventilation, secondary containment and spill control equipment ventilation in the Dangerous Goods Store and chemical storage areas. Some of the chemical drums were bloated and corroded. Chemicals, such as open paint cans, were stored in areas that were not designated for chemical storage: Block B - 5th floor, Block C - 4th floor and the various storerooms in each workshop. These areas were not provided with facilities or equipment for chemical storage. There was some evidence that paint was being poured into one of the storm water drain inlets.

Waste management: Paint sludge from the water scrubber was stored in bags under the water tank on the rooftop of Block C. There was no secondary containment and some of the sludge was leaking on the roof.

Air emission: The water scrubber on the rooftop of Block C was not working effectively. Air emission from the rooftop of Block C has not been tested to ensure that it meets the standards. There was a strong solvent and paint odor.

Asbestos: An asbestos survey had been conducted and Chrysotile Asbestos was identified in 3 locations. Asbestos containing materials in the door gasket at the fire resistance doors were not removed.

Industrial hygiene: There were no exhaust systems provided for the individual soldering stations. The exhaust system provided for the solder bath was not working properly. There was strong solvent and pain odor in the Tampo Painting Workshop where machines use an open tray printing system. There was strong solvent and paint odor in the Spraying Workshop. Some of the exhaust systems did not have sufficient positive air pressure. The industrial hygiene sampling conducted in 2002 did not reflect
the full suite of chemicals (only testing for volatile organic compounds) to which the workers were exposed.

**Electrical hazards:** Lock-out-tag-out (LOTO) was not used on the Injection Molding machines during maintenance. Frayed wiring was observed in the Injection Molding machines.

**Emergency preparedness and response:** Some of the fire extinguishers and fire hose reels were blocked by equipment and goods. The fire hose reels next to the clinic towards the end of the walkway in the dormitory (room 114) were missing. One of the water outlets of the fire hose reel near the family dormitories was blocked off. It was a wrong type of outlet being a dual head instead of a single head.

**Work control procedures:** There was no calibration of the air pressure and electrical equipment gauges. Broken floor tiles were observed on the rooftop of Block C.

**Falling objects and falling from height hazards:** There were no annual statutory inspections conducted for the cranes and hoists as required by law and regulations. Goods were not stacked according to the stacking boundaries laid out in the warehouses. The ladder leading up to the water tank on the roof of Block C was not secured.
Housekeeping: There were oil spills and oil stains on the Injection Molding machines and the floor of the Injection Molding Workshop. Oil should be cleaned off the floor and drip trays provided in places prone to oil leakage.

In ICCA’s opinion, Plant #3 management must inculcate a culture of safety with strong emphasis on “risk management”. This must be implemented at all levels of supervision and operational responsibility.
ICCA Audit Report - Plant #4

I. Introduction

Plant #4 is located in Guangdong Province, China. This plant devotes almost 70% of its capacity to the manufacture of Mattel Toys.

This report is based on a field audit of the plant, conducted by ICCA on January 10, 2003. At the time of ICCA’s audit, Plant #4 employed approximately 1250 workers. During the off-peak period, the workforce is reduced to around 820 employees. The total workforce is comprised of 85% direct labor and the remaining 15% are managerial and administrative personnel. The gender distribution among the workers is: 75% female and 25% male. Education level among workers is 6.7 years. All employees at the factory are 18 years or older, and the average age of workers is 27 years. For 44% of the employees, Plant #4 is their first place of employment.

II. Audit Findings

II. A. Recruitment and Hiring

Plant #4 recruits most of its workers from “walk ins” at the plant site (66%) and the remaining 34% through referrals from current employees and friends. All workers receive an orientation prior to starting work at the factory. This orientation includes, among others, rules of conduct, grievance procedures, wages, benefits, deductions, overtime policies, job safety, environmental issues, and information about food, canteen and dormitories. The average time devoted to employee orientation is approximately one hour.
Each employee is required to undergo a medical examination upon hiring. This includes a general check-up, which is comprised of blood sample, eyesight and auditory testing, and x-rays. Some employees also stated that they were given pregnancy tests and that pregnant workers were not hired.

**Workers’ Contracts:** All workers are given one-year employment contracts upon hiring. The Interviewed workers unanimously confirmed that they received signed copies of their employment contracts in approximately six weeks from their date of initial employment.

**Probation Period:** A large majority of the interviewed workers (88%) indicated that they had to undergo a probationary period, lasting an average of five weeks, but in some cases up to three months. All workers received government-mandated minimum wages while on probation.

The probationary period at Plant #3 is at variance with the requirements of China labor law and Mattel’s GMP; both state that workers’ contracts for a full year may have a probation period of no more than one month, and six month contracts’ probation periods may not exceed 15 days. Workers confirmed receiving government mandated minimum wages during this period.

**II. B. GMP Awareness**

Plant #4’s Management Compliance Report (MCR) states that the factory management disseminates information on Mattel’s Global Manufacturing Principles (GMP) to the workers during orientation the program and also when conducting on-the-job training. Among the interviewed workers, no worker acknowledged any knowledge
about Mattel or its GMP principles. There was, however, general consensus that workers were told about some standards and regulations during their training program.

**II. C. Wages Working Hours and Benefits**

A desk audit was performed on the payroll data and personnel files of the workers for the month of September 2002. It covered workers’ regular and overtime hours, normal and overtime wages, benefits, and allowable deductions. The sample payroll data and personnel files was based on a scientifically selected random sample of workers, which represented the plant’s entire workforce. The purpose of this audit is to verify the effectiveness and accuracy of the plant’s financial and other record keeping system dealing with pay and payroll related practices.

Plant #4 employs a piece-rate system for determining workers’ pay. However, all workers are paid at least the government-mandated minimum hourly wage for the area regardless of their output on the basis of the piece-rate system. This was indeed confirmed by ICCA’s audit of the Company’s payroll data.

Wages: Plant #4 pays its workers the local minimum wage of RMB460 per month, or RMB2.75 per hour. Overtime on regular workdays is 1.5 times the regular rate, and twice the regular rate on rest days. ICCA’s audit of the September 2002 payroll records confirmed that all workers were compensated properly. Analysis of workers’ payroll data indicated that a majority of workers earned more than the mandated minimum wage for work during normal hours, i.e., 40 hours per week. For ICCA’s audit month of September 2002, the average take-home pay of Plant #4 employees was RMB722.
**Work Hours:** Plant #4 defines its regular workweek as 8 hours per day, Monday through Friday. Workers work up to 3 hours of overtime during weekdays. Any work done on Saturday is considered overtime work. If Sunday work is required, an alternate day-off must be awarded, or the worker must be compensated at double the normal wage rate. In practice, Plant #4 management states that a typical workweek is six 10-hour days (Monday-Saturday). During peak production periods, the workweek is extended to 66 hours at the rate of 11 hours per day and six days per week. Payroll records showed that, of the audited sample, 56% of the workers worked less than 60 hours per week and the remaining 44% worked between 60 and 66 hours during September 2002.

**Consolidated Work Hours:** Plant #4 has received permission from the local Labor Bureau to operate on the basis of Consolidated Work Hours. This permit allows Plant #4 to consolidate its total allowable annual overtime hours into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period. Plant #4’s consolidation period covers the entire calendar year of January through December 2002. This authorization permit provides that total normal work-hours must be less than 2008 per year (251 work days, 8 hours per day), and that overtime hours must not exceed 432 hours per year.

ICCA’s audit of workers’ payroll data revealed that total overtime work had exceeded 432 hours (maximum allowable per year) during the period January-
December, 2002. Some workers were recorded to have worked up to 2855 hours during the same period - compared to the legal limit of 2440 per year. As a matter of fact, Plant #4’s own management Compliance Report (MCR) states that the Company is not in compliance with the PRC labor law, the Local Consolidated Hours permit, and the GMP regarding overtime hours regulations. Plant #4 has further exacerbated this situation by not keeping records showing cumulative working hours by the plant or by individual workers. Thus ICCA’s auditors had to calculate individual workers’ cumulative yearly hours manually through an examination of monthly time cards. In the absence of a tracking system, it is not possible to ascertain actual total overtime working hours during the Consolidated Working Hours period, or the extent of their compliance/non-compliance with the standards established by the local Labor Bureau and Mattel’s GMP.

**Recording of Work Hours:** Workers at Plant #4 use time cards to record their work hours. All the workers interviewed by ICCA indicated that they punched their time cards themselves.

**Benefits:** The factory provides its workers with accident and medical insurance. In addition, 5% of the workforce was paid pension benefits. Plant #4 has the approval of Local Labor Bureau regarding the percentage of workers who would be provided with insurance coverage.

**Maternity Leave:** According to Plant #4’s management, all employees who have lawful marriages and birth permission certificates are eligible for paid maternity leave of 90 days. ICCA could not confirm this practice, as no records exist that show maternity-leave payments for any worker. A majority of the interviewed workers did not seem to
have any knowledge of the company’s maternity leave policies. Moreover, a number of the interviewed workers stated that at the time of initial hiring, the company had refused employment to pregnant workers.

**Annual Leave:** Plant #4’s management stated that they gave 5 days of paid annual leave to all workers who completed one year of service. The China labor law and also GMP mandate this paid annual leave. ICCA’s audit of payroll records, however, failed to show any evidence of workers’ receiving annual leave. Moreover, among the interviewed workers, not a single worker indicated any awareness of this benefit.

**Sunday as Rest Day:** PRC labor law and GMP mandate that employers must guarantee each worker a day off every week (typically Sundays). When Sunday work is required, workers are entitled to a replacement rest day or double the normal rate of wages for work performed on Sunday. All audited workers’ payroll records showed that employees received one rest day per week as required by law and Mattel’s GMP.

**Personnel Records:** Plant #4 keeps separate records, by function, of illness and injury reports, orientation and safety training upon hiring, employment contracts, fines, and medical examinations.

### II. D. Workplace Discipline of Employees

Plant #4 has written policies and procedures to control workplace conduct. Workers are provided with detailed information about these rules during orientation at the time of initial hiring. These regulations are also posted on the factory’s notice board.
Disciplinary actions by the management include verbal and written warnings, and imposition of cash fines. The factory also has written procedures to be followed in case of employees’ resignations or terminations.

The factory also imposes cash fines, which range between RMB2 and RMB50 per incident depending on the type and severity of misconduct. The Plant management indicated that all funds collected through fines are spent on employee welfare activities. Although a part of the company’s formal disciplinary policy, cash fines are rarely used at Plant #4 and are insignificant in terms of their role in maintaining employee discipline. According to the factory records, total fines collected during 2002 amounted to RMB39, stemming from 8 incidents of worker misconduct.

II. E. Access to Management

Plant # 4 provides a variety of ways through which workers are encouraged to communicate with all levels of management. A majority of the interviewed workers expressed their satisfaction in terms of access to management. They were aware of various means through which they could make suggestions or complaints to management, either writing to the management through suggestion box or talking to managers directly. Over 80% of the interviewed employees named line leaders as their primary means of communication with management (Figure 1).
II. F. Discrimination and Protection from Harassment

Plant #4’s management indicated that the factory had formal written procedures to ensure that there would be no discrimination in hiring, promotion and other workplace practices. Furthermore, the factory management enforced these procedures through HR policies and personnel training. According to the factory’s MCR, there were no discrimination case records during the 12 months prior to ICCA audit. Interviewed workers unanimously indicated that they were happy with the management’s policies in this regard and that they did not find any discrimination in promotion or wage increases among workers based on their religion, race, ethnicity or region of origin.

Worker interviews also showed that employees believed their line leaders, supervisors and managers, treated them fairly and with respect. There was no indication of sexual harassment of any worker by his/her line leader, supervisor or manager, as well as any co-workers.
II. G. Access to Restrooms and Drinking Water Facilities

A large number of the workers who participated in the interviews indicated that they had sufficient access to drinking water facilities at Plant #4 factory. Regarding access to the bathrooms, more than 60% of the interviewed workers mentioned that to use the bathrooms they had to apply for a permit, issuance of which was usually limited to an average of 1 per 25 workers.

II. H. Medical Facilities

The clinic is a small room with one bed. One nurse staffs it and there are 2 first-aid providers on each floor of the plant. Only general First Aid was available. Medical service was provided basically for emergencies. The factory did not charge employees for accident related cases. Workers pay only the cost of medicines when they seek medical help at the clinic for non-work related ailments. Common work related accidents included: sewing needle injuries, and scissor cuts. Other health problems are referred to the hospital where patient is responsible to pay for services.

II. I. Use of Personal Protective Equipment

The factory provides all workers with the appropriate PPE based on their specific job requirements. Employees were not charged for their PPE. Areas where PPE should be used were assigned according to a hazard assessment. The factory also encouraged PPE usage through training, posters and poster notices. The factory has MSDS training, on-the-job training and orientation program in place to reduce work-related injuries. Among the interviewed workers, a majority (69%) indicated that they
knew how to operate their equipment safely. Over 78% of the workers confirmed that they were provided with safety equipment. However, only 59% of the workers said that they use PPE regularly.

II. J. Dormitories and Living Quarters

There are three dormitory buildings provided by Plant #4. The first dormitory was built in 1993, and the other two were built in 1995. Two of the dormitories are reserved for female workers, and the third one is assigned for male workers. Each dormitory room has a capacity to house 12 workers.

Dormitory living is entirely voluntary. Of the total workforce, 78% live in the dormitories. Plant #4 charges RMB70 per month as dormitory rent. However, any worker who stays for less than 15 days is charged one-half month’s rent, i.e., RMB35. Among the interviewed workers, 28% indicated that factory gave them RMB50 as allowance toward dormitory rent thereby effectively reducing the monthly rent to RMB20.

Of the three dormitories, the oldest one built in 1993, had bathrooms and showers down the hall. The other two dormitories have bathrooms and shower in the rooms. Laundry may be done in bathrooms or on the ground floor. Hot water is available only on the ground floor. Articles such as soap and toilet paper are not provided and may be purchased at the plant’s commissary. The physical inspection of the living facilities revealed that dormitories were well marked with ‘no smoking’ signs; evacuation routes, fire extinguishers, emergency lights, floor numbers, and drinking water outlets were in place. In the oldest dormitory building, clothing was hung in an open area in the center of the building. In the newer dormitories balconies were used for
hanging clothing. Roofs of dormitory buildings have areas for sunning and other leisure activities.

A dormitory officer is responsible for the operation of the dormitories. Daily cleaning staff is responsible for housekeeping and cleaning the dormitory rooms as well as common areas. Interviewed workers indicated that they had sufficient access to washing, laundry services, hot/cold running water and toilet facilities. A number of amenities were provided for employees in the dormitories. These included lighting, private beds and lockable storage space, clothes hanging linings, partition, electric fans, brooms, and buckets.

In the interviews, workers also indicated that the dormitories were safe, clean and pleasant. From ICCA’s perspective, Plant # 4’s dormitory facilities were quite good and generally met the GMP standards.

II. K. Food and Canteen Facilities

Plant # 4 provides a lunch break of 90 minutes. Most of the employees confirmed that they were satisfied with the time provided for their lunch breaks. Use of canteen facilities that company provided is entirely voluntary. Workers may choose to eat at the canteen or bring their own food.

The canteen serves 3 meals per day during a regular workday and 4 meals are served for workers in the case of overtime. The canteen is under the control of a consigned owner. The factory employed workers who are trained in food handling. They are also given annual medical examinations. Employees use their own dishes for meals. The factory provides detergent and facilities for washing the dishes.
The factory charges RMB2.7 per day for food, with a subsidy of RMB2.3 as meal allowance. Of the employees interviewed by ICCA, 75% confirmed that they ate at the company cafeteria either on a regular basis or occasionally, while 22% of the interviewed workers brought their own food. A large majority of the interviewed workers expressed satisfaction with the canteen facilities and food.

II. L. Recreation Facilities

Nearly all of the workers interviewed during ICCA’s audit confirmed that Plant #4 management provided a satisfactory number of recreation and sports facilities. These include library, karaoke bar, video and television, soccer, badminton, basketball and table tennis.

III. Work Environment of Manufacturing Operations and Related Facilities

Plant #4’s factory is a relatively small operation employing approximately 1250 people. Although, it was built in 1993 and is comparatively old, it is in fairly good condition. There has been a marked improvement in housekeeping and maintenance since informal visit a year ago. ICCA’s audit showed that a continuing improvement effort is called for to build on the success already achieved. It was, however, felt that a majority of the outstanding issues can be handled through greater attention to regular and preventive maintenance. A major problem area is in the maintenance, upkeep, and safe storage of hazardous materials, proper handling of wastewater, and other related environmental issues. The factory needs to create proper maintenance and record keeping procedures. The following are among the major specific concerns:
**Maintenance:** Frayed electrical wiring was observed in the Assembly Workshop and Mechanical Cotton Stuffing Room. The electric ground system for volatile liquids did not appear to be properly grounded. Some of the chemical MSDS were not kept in the workshops and were not available. There was no secondary containment and some of the paint cans were left open in the chemical storage area on the rooftop of Factory B. There was no ventilation in the chemical storage room next to the diesel storage tanks.

There were no level gauges for the two diesel oil storage tanks. Plant #4 should collect MSDS for all the chemicals used onsite and provide this information in the Chinese language in the workshops and other chemical storage and usage areas. All chemical containers should be kept closed.

Insulating materials on the generators were not maintained and were in a friable condition; asbestos testing was not conducted in this area.

Compressed air leakage was noted in the Tampo Printing Workshop and the Mechanical Cotton Stuffing Room. A more thorough compressed air maintenance system is required.

**Compliance issues:** There was no Environmental Impact Assessment (EIA) report, EIA Approval, “Three Synchronies” inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation. There was no permit for the four ground water extraction wells. Approximately 150,000 liters were drawn from the well.
**Wastewater:** There has been no monitoring of wastewater discharged from the factory. There was a wastewater drainage channel behind Factory B that had debris, oil and paint residues.

**Soil contamination:** There has been no pipeline integrity testing for the underground pipelines from the diesel storage tank to the Rotocasting workshop and canteen.

**Industrial hygiene:** Workers were not utilizing the exhaust fans provided for the individual soldering stations. The Tampo Printing Workshop used machines with an open tray printing system, allowing access of fumes to escape to the atmosphere. Some of the spray hoods in the Spray Painting Workshop were made of cardboard. Some of the exhaust systems did not have sufficient positive air pressure. Solvent and paint fumes from the oven in the Tampo Printing Workshop were exhausted into the workshop. The industrial hygiene sampling conducted in 2002 did not reflect the full suite of chemicals (only testing for volatile organic components) that the workers were exposed to.

**Machine guarding:** There were no pulley guards for the top pulley of the machines in the Rotocasting Workshop.

**Pressurized equipment:** There were no calibration records of the equipment gauges for the air compressors. The air receivers were not fully bolted at their inlet and outlet sources. At one point, only 2 bolts out of the 6 were in place.

**Falling objects and falling from height hazards:** Broken wooden pallets were used for stacking raw materials, work-in-progress and finished goods in the warehouse. There was a cat ladder behind Factory B that had no metallic cage to prevent the
climber from falling. There was no fall protection for the two diesel oil storage tanks. Workers have to stand on the tank during unloading in order to determine the level of diesel oil.

**Housekeeping:** Scrap materials such as paper cartons and rags were stored in the spray Painting Workshop, Generator Room and rooftop of Factory B. This presented a fire hazard. Compressed air tubing was observed on the walkways (e.g., Mechanical Cotton Stuffing Room), presenting a trip hazard.
I. Introduction

Plant #5 is located in the Guangdong province in China. The plant currently employs approximately 9200 workers, which falls to around 6,000 workers during off-peak production period. Approximately 60% of plant capacity is dedicated to Mattel toys.

This report is based on a field audit of the Plant #5 conducted by ICCA on August 1, 2002. Of the total workforce, 85% are direct labor and the remaining 15% comprise administrative and managerial personnel. The workforce is predominantly female (90%). All workers are over 18 years and older with an average age of 25 years. The education level of workers averages 8.5 years of formal schooling. The average length of employment at Plant #5 is three years. For 40% of the employees Plant #5 is their first job.

II. Audit Findings

II. A. Recruitment and Hiring

Over 90% of the workers got their jobs by walking in to the plant’s recruitment office or were referred by their friends. A small minority of workers (4%) mentioned that they had to pay to a recruiter to get the job in the factory. Plant #5’s management confirmed that about 3% of employees are hired through agencies and employees pay the agency a fee that ranges between RMB10-70.
All workers are required to go through an orientation prior to their starting work at the factory. The orientation lasts an average of 3 hours. It covers employment contracts, wages and payment policies, information about living conditions, grievance procedures, and rules of conduct, facilities and amenities, and transportation services. In addition, workers receive environmental, health and safety training. They also receive emergency evacuation training, how to report an emergency, use of first aid, and handling workplace hazards. All newly hired workers are given a medical examination, which includes a general physical examination, blood test, urine test, X-rays, and eye examination.

ICCA conducted one-on-one confidential interviews with a random sample of workers, which was statistically selected to be representative of the plant's workforce. Among the interviewed workers, approximately one-third indicated that they were given a tour of the factory. Others (20%) also stated having informal meetings with some plant managers. Workers also confirmed receiving job specific training lasting for half a day.

Workers' Contracts: All workers receive a signed contract from the Company within one month of hiring. All contracts expire on September 30, 2002 regardless of when they were initiated. In addition, some contracted workers are hired as temporary workers.

Probation Period: National labor laws of the PRC state that workers with contracts less than 1-year duration can be placed on probation for no more than 15 days; and if the contract term is one year, maximum probation period allowed is 30 days. At plant # 5, probation periods are not consistent with China labor laws and GMP standards. Of the workers interviewed by ICCA, 16% indicated that they had worked on
probation for two months upon initial hiring. ICCA’s audit of the factory’s payroll data, however, indicated that all workers on probation had received wages similar to those paid to regular workers.

II. B. GMP Awareness

According to Plant #5’ Management Compliance Report (MCR), the factory management does not provide local language copies of Mattel’s GMP to the employees. Instead, GMP principles and standards are communicated to the workers through multiple channels including general meetings with the employees, postings on the notice board, etc. However, among the interviewed workers, only one in 10 acknowledged any familiarity with GMP (Figure 1).

Plant #5 - Figure 1

![Source of Information about GMP](chart)

II. C. Wages, Working Hours and Benefits

ICCA performed an audit of the payroll data and workers’ personnel files for the month of June 2002. The audit was conducted on a scientifically selected random
sample of workers, which was representative of the plant’s total workforce. The intent of the audit was to verify the effectiveness and accuracy of the plant’s financial and other record keeping system dealing with workers. It included, among others, workers’ regular and overtime hours, normal and overtime wages, benefits and allowable deductions, accidents and workers injury records,

**Wages:** Plant #5 guarantees a basic wage of RMB450 per month, which is the local minimum wage, for a 40-hour workweek. The plant’s pay structure is based on a piece-rate system for some production processes. However, all workers are guaranteed the minimum wage regardless of the actual output. The system allows for special skills and night shift allowances, but no bonus for quota achievement. ICCA’s analysis of Plant #5’s payroll data indicated that all workers were compensated properly for all normal and regular overtime. Verifiable records were also indicated that workers were paid appropriately for rest-day overtime hours. Among the audited group of workers, the average pay received for normal and overtime work was RMB635 per month plus another RMB40 for bonuses and allowances.

**Work Hours:** In Plant #5, a typical workweek consists of 6 days; Monday through Saturday. On Monday through Friday, workers are paid regular wages for the first 40 hours, and overtime wages (1.5 times the regular rate) up to 11 hours maximum per day. In essence, employees work for 66 hours per week (11 hours per day, Monday through Saturday). Each worker is entitled to one day off per week by law. If they work on rest days (Sunday), they are entitled to either double wages or an alternate day off within 30 days of the extra day worked.
According to Plant #5’s payroll system, during the month of June, which had 22 Monday-Fridays and 4 Saturdays, workers could work a maximum of 286 hours (26x11). Analysis of payroll records showed that among the sampled workers, 22% had worked in excess of 26 workdays during June.

Consolidated Work Hours: Federal law governing labor practices in China states that total overtime hours worked by any worker throughout the year cannot exceed 432 hours. This permit allows a plant to consolidate its allowable overtime hours for the entire year into a shorter time span because of heavy demand during peak production periods. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period.

Plant #5 has obtained a Consolidated Work Hours permit\(^\text{10}\) from the local labor bureau, which entitles the plant to schedule a maximum of 11 hours of work per day including overtime, provided that each worker gets at least one rest day per week. The authorization permit also states that total normal work-hours must be less than 1004 for the 6-month period March 2002, through August 2002, and that overtime hours must not exceed 216 hours during the same period. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day) on peak production periods. Plant #5 management asserted that it had a computerized record keeping system, which enables the factory to keep track of total hours worked for each worker. However, plant management was unable to provide any information about the existence of such system or the payroll data created by this computerized system. Therefore, ICCA is

\(^{10}\) Please refer to the 'Vendor Audits- Executive Summary Report' for details pertaining to the Consolidated Hours Permission system.
unable to verify any of the Plant management’s claims with regard to the existence or the accuracy of such records. Furthermore, Plant 5’s Management Compliance Report (MCR) states that, on a semi-annual basis, the factory has been operating in excess of allowable regular and overtime hours beyond those allowed under China’s labor laws and Mattel’s GMP standards.

Involuntary Overtime: In addition to scheduling overtime in excess of allowable limits, Plant #5 has also instituted other restrictive practices to minimize worker’s right to refuse overtime. Voluntary overtime is one of the basic tenets of Mattel’s GMP as well China labor laws. According to information gathered from one-on-confidential interviews with workers, it would appear that any worker unwilling or unable to work must first apply for permission. While this is a reasonable expectation and may be necessary for efficient planning of work schedule, its impact in practice is more onerous. For example, workers may be allowed to refuse overtime only when they can find substitute workers to replace them. Plant #5 may disallow requests for overtime refusal in order to meet production quotas or shipment deadlines.

Recording Work Hours: Time clocks are used to record the start and finish times of each day’s work. All interviewed workers indicated that they punched their own time cards. At the end of each month, a computer information system reports daily work hours and corresponding pay, deductions, allowances and bonuses, for each worker. Workers are paid monthly, in cash or bank transfer, 15 to 20 days after each pay period ends. All interviewed workers indicated that they found their monthly pay checks accurately reflect their work hours. However, 40% of the workers also stated that did not understand their base wages.
Benefits: Plant #5 provides disability and social insurance to 33% of its workforce for which it has the approval of the Local Labor Bureau.

Maternity Leave: PRC labor law provides that all workers are entitled to mandatory maternity leave of 90 days. A large majority (76%) of the workers indicated that they were aware of the company’s maternity leave policies. Of those who were aware of the company’s maternity leave policy, 93% agreed to the fact that the did indeed provide such paid leave and that the workers could return to work as the same wage as before they left. However, in responses to open-ended questions about maternity leave, some workers indicated that they were led to believe they would not be allowed to stay at the factory if they were to become pregnant, or that they, as production workers, were not entitled to any maternity leave.

Sunday as Rest Day: PRC labor law mandates that employers must guarantee each worker a day off every week (typically Sundays). When Sunday work is required, workers are entitled to a replacement rest day or double the normal rate of wages for work performed on Sunday. An examination of the factory’s payroll records for the ICCA’s audited month of June 2002 revealed that 70% of workers had worked more than 6 consecutive days, and that 36% of the workers in the audited group had worked in excess of 12 consecutive days; up to 20 days, without a rest-day. Plant #5 was unable to provide ICCA with any record to indicate that these workers had either received a compensatory day off for work on a rest day or that they were paid double the normal wage rates as compensation for work on a rest day.

Personnel Records: Plant #5 keeps records of all workers’ initial medical exams, orientation attendance, training periods, safety instructions, and safety equipment
issued. Workers’ records show that this information is available in all workers’ personnel files.

II. D. Workplace Discipline of Employees

Plant #5 has adopted a set of written procedures to promote employee discipline. Employees are informed about the procedures during training and general orientation. According to this set of disciplinary rules, workers receive a warning letter from the management but have the right to file an appeal or a grievance for the actions taken against them. The most severe disciplinary action taken against employees is termination.

Imposition of Cash Fines: An important component of the disciplinary system at Plant #5 is the imposition of cash fines for employee misconduct. The employee handbook at Plant #5 lists 72 types of activities subject to workplace discipline. Of these, 43 are subject to varying amounts of cash fines. ICCA’s interviews with Plant #5 employees revealed that 14% of the workers had been disciplined at work. 4% of the audited payroll files had fine records during the month of June. The disciplinary actions were taken mostly for defective or slow work and for missed quotas, ranging from RMB2 to RMB25 per offense.

II. E. Access to Management

Plant #5’s MCR indicates that workers have multiple channels of access to management to express their concerns and complaints. Among the interviewed workers, there was general consensus that most effective communications existed between workers and their line leaders. Workers also received a large part of their
information about plant related activities from the notices posted on boards in common areas. Relatively few workers found upper management useful in receiving information on work-related issues (Figure 2).

**Plant #5 - Figure 2**

Channels for Access to Management

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice board at the plant</td>
<td>82%</td>
</tr>
<tr>
<td>Line leader</td>
<td>62%</td>
</tr>
<tr>
<td>Notice board at the dormitory</td>
<td>48%</td>
</tr>
<tr>
<td>Co-workers</td>
<td>36%</td>
</tr>
<tr>
<td>HRM people</td>
<td>36%</td>
</tr>
<tr>
<td>Plant manager</td>
<td>30%</td>
</tr>
</tbody>
</table>

**II. F. Discrimination and Protection from Harassment**

According to the Management Compliance Report, there are no restrictions on employees’ association with union-related activities. The interviewed workers confirmed that neither they nor anybody they knew was subjected to any disciplinary actions or harassment for union-related activities. It should be noted here that Plant #5, like all other vendor plants covered in this audit, did not have a union.

Workers were unanimous in their view that no discrimination based on religion, race, or ethnicity existed at the plant against workers for promotion. Over 55% of the interviewed workers stated that they understood as to how line leaders were chosen and promoted, and nearly 45% expressed a desire to become line leaders one day.
Worker interviews conducted by the ICCA’s audit team showed employees held the unanimous belief that they were treated fairly, and with respect by their line leaders, supervisors and managers. There was no indication of sexual harassment of any worker by his/her line leader, supervisor or manager, as well as any co-workers.

II. G. Availability of Drinking Water and Bathroom Facilities

Among the interviewed workers, there was high level of satisfaction with regard to the availability of clean bathrooms and drinking water. The workers stated that they had no difficulty in leaving their work station for drinking water or to use the toilet facilities.

II. H. Medical Facilities

Plant #5 has an excellent clinic. It is well staffed with medical doctors and nurses, medical supplies, and equipment with good record keeping.

II. I. Use of the Personal Protective Equipment

Plant #5 Management states that employees of the factory are required to use Personal Protective Equipment (PPE). PPE usage is enforced through training and monitoring by safety supervisors. The plant provides workers with the required safety equipment. ICCA’s general conclusions, regarding PPE use is that there is room for improvement. Many articles of PPE are not being used where required, or maintained properly because of inadequate employee training.
ICCA’s EHS experts have identified the following issues regarding PPE use at the Plant #5:

- Finger protection for trimming plastic flash is not in common use.
- Use of individual soldering vent units for soldering stations not in use or available.
- Open glue pots are not being vented at individual stations.
- Employees working adjacent to paint areas do not use masks.
- Paint sprayers wear air fed masks. They need to be fitted properly.
- Supervisors on paint spraying lines do not use masks.
- Since production floors are setup to accommodate multiple functions, employees other than mask spray and Tampo painters, also require masks, and air protection.
- Safety warning signs requiring the use of hearing, eye, and respiratory protection were not posted in applicable areas.
- Safety shoes are not being worn where needed- such as the machine shop area where heavy lifting is involved.

In contrast, majority (94%) of the interviewed employees in the plant indicated that they had received PPE training before starting their jobs. They were also told what was expected of them and the way that their performance would be measured. 96% of the employees interviewed claimed they knew how to operate their equipment free of hazard to themselves as well as to the facility. Workers were provided with safety equipment and 91% of the interviewed workers stated that they were used regularly.
The stated impressions of workers regarding safety indicate improper level of recognition regarding safe working conditions and proper PPE usage.

II. J. Dormitories and Living Quarters

Plant # 5 has one dormitory. Built in 1994, it has 250,000 square feet of living space and the maximum capacity to house 5000 workers. Each room is 210 square feet and is equipped with an electric fan for ventilation. Occupancy rates range between 6 – 11 workers per room. The monthly rent of RMB60 is deducted from employees’ monthly paychecks. Almost 85% of the occupants in the dormitory are female workers. Living in the dormitory is entirely voluntary and workers may choose to make their own living arrangements.

Each dormitory resident is provided with a private bed, personal locker, and dressing area. The dormitory also has restrooms and showers with hot running water, available at the ratio of 1 to every 20 occupants. Nearly half of the employees who live in the dormitories stated they have access to radio and/or television. All of the workers who live in the dormitories acknowledged that the living facilities are generally clean and safe. Overall, workers appeared to be quite satisfied with their living conditions. The only complaint, expressed by a handful of workers, pertained to lack of cooking facilities and insufficient laundry and clothes washing area. However, it should be noted that none of the dorms inspected by ICCA – either in vendor plants or Mattel’s own plants, provide for cooking facilities in the dorm room, which are considered a fire hazard (Figure 3).
II. K. Food and Canteen Facilities

Plant #5 provides on average one hour-long lunch break for the employees. There are no additional breaks for food during a work shift. The confidential interviews conducted by ICCA confirmed that the majority of the workers believe they have enough time to eat their food.

Plant #5 puts a lot of emphasis on canteen facilities and quality of food. The company serves 4 meals a day, and charges RMB1-2 for each meal. In addition, the factory also provides coupons for free tea during summer. The canteen is cleaned three times a day and garbage is picked up. Nevertheless, among interviewed workers there were quite a few reporting that many times plates and vegetables were not clean.

Eating in the company canteen is entirely voluntary and the workers may choose to eat at the canteen or bring their own food. Of the employees interviewed by ICCA, 56% confirmed that they ate at the company cafeteria either on a regular basis or
occasionally while others generally brought their food from home and also ate occasionally at the company canteen. Overall, workers appears to be quite satisfied with their food arrangements and options provided by the company.

II. L. Recreation Facilities

Nearly all of the workers interviewed by ICCA expressed their satisfaction with the recreational facilities provided by the company. These included: a good library, karaoke bar, and television, and a variety of sports activities (Figure 4).

**Plant #5 - Figure 4**

![Availibility of Sports and Recreational Facilities](image)

II. M. Non-Job Related Skills Enhancement Programs

Plant #5 provides various programs to workers to acquire skills that are not related to their day-to-day work operations. These programs are presented through a night school, which offers classes in computer literacy, English, Mandarin and Cantonese languages. According to the Management Compliance Report, about 500 workers participate in the non-job related programs.
III. Work Environment of Manufacturing Operations and Related Facilities

Plant # 5’s manufacturing facilities consist of twelve buildings. They are setup on a product type basis where one factory floor can consist of Assembly, Injection Molding, Mask Spray Painting, Tampo Painting, Rotary Molding and Sewing.

At the time of ICCA’s survey, the facility was being over-utilized and manufacturing floor space and equipment were at a premium. Due to the layout of the floors, they are noisy, crowded, and air polluted. The plant is very busy and as such, many problems that now exist are likely to disappear during slower work periods.

The most pressing problem is the totally inadequate water scrubbing system for spray paint, and in turn water and air contamination. However, as long as the plant configurations are based on product work areas rather than functional work areas, many problems involving air and water contamination, noise, heat plus the need for special wiring will continue to exist unless addressed directly by the management. Some of the specific problem areas are mentioned below:

Ventilation: Where spray painting is located adjacent to assembly lines, the ventilation system is inadequate to protect the assemblers from paint fumes. Some employees spray paint in areas that do not have ventilation hoods. Others were observed to operate sprays away from the hood openings; nullifying the ventilation system. These employees do not utilize any PPE. Tampo painting machines with open trays expose the operators to high fume levels without the protection of masks or respirators.

Gauge Calibrations: There is no indication that electric, pressure and temperature gauges have been calibrated. Plant voltages run as high as 430 VAC.
Crammed Space: Since the plants are working at overcapacity, some employees have inadequate workspace. For example, in one area 10 assemblers were working in a space of approximately 20 square feet (2 sq.ft. per person).

Wiring: Explosion proof wiring and controls are not installed where volatile fumes are present on a production floor.

Paint-Water Scrubbing: The paint scrubbing system of this plant is inadequate. Approximately half of the contaminated water is treated in slurry tanks (some are leaking). The sludge is collected manually and the untreated water is recycled or dumped into a storm drain. The other half of the contaminated water flows openly in channels (channels are created by removing floor tiles) on the roof, and into a storm drain, leading to the public water system.

Fire Protection and Prevention: There is a fire prevention and protection team in place. Detailed plans regarding its organization are available. Fire drills are conducted on a regular basis for both shifts.

Documentation: All documentation except productivity records was supplied as requested. The records submitted included Medical Waste Disposal, Hazardous Waste Disposal, Sound levels in db's, and Spray booth air velocities. The assembly lines appeared to be operating at very high levels of productivity (actual vs. design) and hence the request for the records to ensure that work speed does not unduly endanger workers. Unfortunately, they were not available.

Air Quality: Guangzhou Sanitation and Epidemic Prevention Station measured the quality of air on August 13, 2001. Out of 132 checkpoints, 14 did not meet minimum criteria.
Waste Water: Wastewater discharge was measured on 28 June 2002 and did not meet the limit of 100 COD (chemical oxygen demand). It had a reading of 1924 before treatment and 619 after treatment. In addition, wastewater storage tank is in need of maintenance and monitoring for leakage.

The findings of the EHS audit team were also confirmed by the worker interviews. Nearly half of the interviewed workers expressed some discomfort with factory’s working conditions. Workers stated that it was too hot in the workshops during the summer months. Other employees mentioned paint odors, heat, cold, and noise among the most common causes of discomfort.
I. Introduction

Plant #6 is located in the Guangdong province in China. At present, 60% of the plant’s capacity is dedicated to the production of Mattel products. At the time of the audit, Plant #6 employed approximately around 8,100 workers. During off-peak production periods, employment at the plant falls to approximately 3,100 workers. This report is based on a field audit of Plant #6 conducted by ICCA on August 1, 2002. This is the first formal audit of the facility conducted by ICCA.

The gender composition of the plant is 90% female and 10% male. Of the total workforce, approximately 90% is comprised of direct labor and the remaining 10% is administrative and managerial personnel. All workers are over 18 years and older with an average age of 24 years. The education level of workers averages around 8.5 years of formal schooling. The average length of employment at the Plant #6 is 1.8 years. For 22% of the employees, Plant #6 is their first job.

II. Audit Findings

II. A. Recruitment and Hiring

At Plant #6, a majority (55%) of the workers got their jobs through walk-in at the factory’s recruitment office. Another 37% were hired through reference from current employees and friends.

All workers are given a general orientation prior to their starting work at the plant. It covers issues such as employment contracts, rules of conduct, grievance procedures, wages, deductions, overtime and pay policies, information about living conditions,
transportation services, facilities, amenities as well as a tour of the factory. The average time spent in the orientation was approximately 6 hours.

Workers also undergo extensive job-related training. Among the employees interviewed by ICCA, 78% stated that they received an average of one month training before formally starting their jobs.

**Workers’ Contracts:** All workers receive a signed contract that specifies the conditions of employment at the plant. These include, among others, work hours required, pay rates and conditions of employment at the factory. The contracts are one full year, although some workers are hired as temporary workers for a period of less than one year, and consequently receive contracts of less than one year.

**Probation Period:** According to China labor law and GMP standards, workers may be required to undergo a probationary period, which cannot exceed one month for contracts lasting one year, and 15 days for contracts of less than one year. All workers must receive, at the least, the government mandated minimum wage applicable to the area. Among the sample of workers selected for audit by ICCA, 94% had undergone a probation period. Records also showed that all workers were paid the requisite minimum wage during their probationary periods. However, among the interviewed workers, 63% had worked for two months on probation upon initial hiring. The lengthy probation period does not comply with the provisions of the China labor law and GMP guidelines.
II. B. GMP Awareness

Plant #6’s Management Compliance Report (MCR) states that Mattel Global Manufacturing Principles are not provided to the employees in the local language. Instead, plant management explains these principles to the workforce several times during regular meetings between workers and the management. GMP is also posted on numerous notice boards around the factory. Among the interviewed workers, only 2% claimed to have any knowledge or familiarity with GMP.

II. C. Working Hours, Wages, and Benefits

ICCA’s audit of the financial data, payroll records, and personnel files was performed on records for the month of June 2002. The audit findings regarding workers’ regular and overtime hours, normal and overtime wages, benefits and allowable deductions, are based on a scientifically selected random sample of workers, which represented the plant’s total workforce.

Minimum Wages: Plant #6 pays a basic wage of RMB450 per month, for a 40-hour workweek, which is the local minimum wage. The company’s pay structure is based on a piece-rate system for certain production processes. However, all workers are guaranteed the minimum wage regardless of their output. The system allows for special skills and night shift allowances but no bonus for quota achievement. Average take-home pay is around RMB600.

Working Hours: At Plant #6, a typical workweek consists of 6 days, Monday through Saturday. On Monday through Friday, workers are paid regular wages for the
first 7.25 hours worked, and overtime wages (1.5 times the regular rate) up to 11 hours maximum per day. Saturday work hours consist of 3.75 regular hours and overtime wages thereafter, up to 11 hours maximum per day. In essence employees work for 66 hours per week (11 hours per day, Monday through Saturday). Of these, the first 40 hours are paid at normal rates, and the remaining 26 hours are paid at overtime rates. Each worker is entitled to one day off per week. When the work is done on rest days (Sunday), workers are entitled to either double wages or an alternate day off within 30 days of the extra day worked.

According to Plant #6’s payroll system, during the month of June - which had 20 (Monday-Friday) days and 5 Saturdays - workers could work a maximum of 163.75 regular hours (20 days @ 7.25 hours and 5 days @ 3.75 hours); and 111.25 overtime hours, for a total of 275 hours (or 25 days x 11 hours per day).

ICCA’s audit findings show that 25% of the workers were paid regular wages for hours in excess of 163.75 for the month of June instead of overtime rates of 1.5 times the normal rate. In addition, payroll records showed that 45% of the sampled employees worked in excess of 25 workdays during June, and half of these workers were not given a replacement day off or paid double wages. It appears that the excess hours were primarily accounted for the work performed on Sundays, for which workers are entitled double wages or compensatory time off during the subsequent 30-day period. ICCA’s audit of the June payroll data did not reveal any payments or compensatory time-off to the workers emanating from the previous month, i.e., May 2002. Examination of company records revealed that 30% of the audited workers had worked on a Sunday and were not compensated with an alternate day off or double
wages. In addition, 74% of the workers were observed to have worked more than 6 consecutive days. Another 24% of the workers worked in excess of 14 consecutive days (in some cases up to 30 days) without a day off. Since ICCA was not provided with any additional information by Plant #6’s management, we must conclude that Plant #6 had not complied with the payment of appropriate overtime wages as indicated here.

**Consolidated Work Hours:** Plant #6 has received permission from the local authorities to operate on the basis of Consolidated Work Hours, allowing the plant to consolidate its allowable overtime hours of the entire year into a shorter time span during peak production period. The authorization permit, however, must clearly state the time of the year and the actual number of days per year that would constitute Consolidated Work Hours period.

Plant #6’s authorization permit provides that total normal work-hours must be less than 1004 for the 6-month period from March through August 2002, and that overtime hours can not exceed 216 hours during the same period. A particular workweek may also be extended to 66 hours on the basis of six days per week, and 11 hours per day.

Plant #6 management indicated the existence of a computerized system to keep track of the total overtime hours worked for each worker, which would allow the company to stay within the permissible work hour limits. During the plant visit, ICCA’s auditors were not provided any data to support the existence of such monitoring. Moreover, in its Management Compliance Report (MCR), Plant #6 had stated that the

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11 Please refer to the 'Vendor Audits- Executive Summary Report' for details pertaining to the Consolidated Hours Permission system.
factory’s total hours worked exceeded the permissible limits in a given 6-month period. Therefore, in the absence of any other verifiable information, ICCA must conclude that Plant #6 has worked in noncompliance of its Consolidated Work Hours permit, which in itself exceeded the maximum hour limits contained in Mattel’s GMP.

**Involuntary Overtime:** Mattel’s GMP states that all overtime work must be voluntary. However, Plant #6’s current practice of scheduling overtime does not meet this standard. Confidential interviews with workers revealed that Plant #6 required that any worker unwilling or unable to work must first apply for permission. While this is a reasonable expectation and may be necessary for efficient planning of work schedule, its impact in practice is more onerous. Several workers indicated that Plant #6 allowed only 4-5 workers per hundred to be excused from overtime. They also stated that in some cases a maximum of 1 out of 12 workers in a production area would be excused. Furthermore, the permission not to work overtime was also contingent upon the availability of a substitute worker, and the urgency of shipment deadlines.

**Recording Work Hours:** Time cards are used to record the start and finish times of each day’s work. All of the interviewed workers indicated that they punched their own time card. At the end of each month, a computer information system reports daily work hours and corresponding pay, as well as deductions, allowances and bonuses for each worker. Workers are paid monthly, in cash or bank transfer, 15 to 20 days after each pay period ends.

ICCA conducted one-on-one, confidential interviews with a sample group of workers, which was representative of the entire worker population at Plant #6. All interviewed workers indicated that they were familiar with their normal work hours and
base wage rates. However, almost one-half of the interviewed workers indicated that they did not understand their overtime hours worked during off-days or holidays.

**Benefits:** The plant provides disability and social insurance to 33% of its workforce. Plant #6 has the approval of Local Labor Bureau regarding its insurance coverage.

**Deposits:** Plant #6 workers are not required to place any deposits for any materials or tools they are provided by the plant.

**Maternity Leave:** PRC labor law provides that all workers are entitled to a mandatory maternity leave of 90 days. Among the interviewed workers, 66% indicated that the company provides 90-day maternity leave to workers and that they can return to work at the same wage as before they left. Some others indicated that their supervisors told them that production workers were not entitled to maternity leave, and that they would lose their jobs if they became pregnant.

**Annual Leave:** All workers who have worked for a full year at Plant #6 are entitled to a 5-day paid vacation. The vacation days increase in proportion with the length of worker’s employment with the company.

**Personnel Records:** Plant #6 keeps records of all workers’ initial medical exams, orientation attendance, training periods, safety instructions, and safety equipment issued. Workers’ records show that this information is available in all workers’ personnel files.
II. D. Workplace Discipline of Employees

Plant #6 has an elaborate system of classifying employee misconduct at the workplace and handling disciplinary issues. An important part of the disciplinary system is imposition of cash fines. The employee handbook at Plant #6 lists 72 types of activities subject to workplace discipline. Of these, 43 are subject to a cash fine. Several types of fines are imposed for violations. According to this set of disciplinary rules, workers receive a warning letter from the management but have the right to file an appeal or a grievance for the actions taken against them. The most severe disciplinary action taken against employees is termination.

ICCA’s audit estimated\(^\text{12}\) that Plant #6 collected RMB 47,000 as cash fines from workers in the year 2002. Among the interviewed workers, one in five had been disciplined at work. A large number of disciplinary actions pertained defective or slow work, and for missed quotas. One in six workers’ payroll audit data showed imposition of a fine.

II. E. Access to Management

Plant # 6 appears to have established an fairly open, multi-channel system of communications with workers, and was recognized as such by a near unanimous opinion of workers interviewed by ICCA (Figure 1).

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\(^\text{12}\) Plant #6’s cash fine records are combined with those of Plant #5 as both plants are owned by the same parent company. ICCA’s estimate is based on total fines collected from both plants and allocated proportional to the number of workers at each plant.
II. F. Discrimination and Protection from Harassment

A union does not represent employees at Plant #6. The management, however, does not impose any restrictions on employees for union-related activities. This situation was confirmed by the interviewed workers who indicated that neither they nor anybody that they knew was the subject of any disciplinary action or harassment for union-related activities.

Workers interviewed by ICCA were also unanimous in their view that there was no discrimination of workers with regard to wage increases and promotions based on religion, race, or ethnicity. It was also felt that promotion to line leaders was at the plant was based on merit. Nearly 30% of the workers expressed a desire to become line leaders one day.

Interviewed workers also unanimously confirmed that neither they nor anybody they knew had ever been subjected to sexual harassment by co-workers or supervisors.
However, significant minorities of workers interviewed by ICCA expressed concern that they were not treated fairly and with respect by their supervisors (Figure 2).

**Plant #6 - Figure 2**

<table>
<thead>
<tr>
<th>Fair and Respectful Treatment of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free of sexual harassment</td>
</tr>
<tr>
<td>Free of verbal or physical abuse</td>
</tr>
<tr>
<td>From managers</td>
</tr>
<tr>
<td>From supervisors</td>
</tr>
<tr>
<td>From line leaders</td>
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</tbody>
</table>

### II. G. Availability of Bathrooms, Drinking Water and Related Facilities

Among the interviewed workers, there was general satisfaction with the facilities with regard to cleanliness and proper maintenance (96%), and adequate ventilation (86%), and, sufficient outlets for drinking water (94%). A significant minority of workers expressed some concern about the lack of soap and towels in the bathrooms.

A more important concern has to do with the restrictions placed on the workers for visiting the toilets. Almost 70% of the interviewed workers expressed dissatisfaction with their access to the use of bathrooms by their supervisors. It would seem that workers needed to receive shift cards every time they had to use a bathroom or get drinking water. The number of such cards was limited, which required workers to wait a long time for their turn.
II. H. Medical Facilities

The clinic at Plant # 6 is an excellent installation. It is well staffed with medical doctors and nurses, medical supplies, and equipment with adequate record keeping.

II. I. Use of Personal Protective Equipment

Plant #6's management states that employees of the factory are trained in the use of Personal Protective Equipment (PPE). The use of PPE is mandatory and constantly monitored by safety supervisors. The plant provides workers with the required safety equipment.

ICCA's EHS experts have identified the following issues regarding PPE use at Plant #6:

- Finger protection for trimming plastic flash is not in common use.
- Individual soldering vent units for soldering stations are not in use or unavailable.
- Open glue pots are not being vented at individual stations.
- Employees working adjacent to paint areas are not using masks.
- Paint sprayers wear air fed masks. They are not fitted properly.
- Supervisors on paint spraying lines do not use masks.
- Safety warning signs requiring the use of hearing, eye, and respiratory protection were not posted in applicable areas.
II. J. Dormitories and Living Quarters

Plant #6’s dormitories were built in 1994 with a 25,000 square meter area. Maximum capacity of the dormitories is 5000 occupants. The dormitories are operated by the Plant’s management. Among the interviewed workers, 29% lived in dormitory.

Around 14 workers stay in each dormitory room. Workers are provided with private beds, lockable storage space, lighting, hot/cold water etc. The ratio of toilets and showers to occupants is 1:20, which is higher than GMP requirements. The housekeeping and cleaning of the dormitory facilities is carried out on a daily basis.

Dormitory living is completely voluntary. Workers are free to make their own arrangements with regard to housing. Workers are deducted RMB60 per month for dormitory expenses. In the case of Plant # 6, and upon examining the conditions prevailing in the dormitory, ICCA finds the dormitory charges to be fair and reasonable. Workers living in the dormitories were almost unanimous (93%) in expressing their satisfaction with the facilities in the dormitories (Figure 3). When asked their suggestions, a small number of workers suggested the number of toilets need to be increased, and that the supply of hot water should be increased.
II. K. Food and Canteen Facilities

Plant #6 provides four meals per day. Workers may choose to eat at the canteen, outside the plant from local vendors, or bring their own food. Workers are charged RMB1.00 per meal at the factory canteen. These expenses are voluntary. Among the interviewed workers, 71% mentioned that they bought their own food. The factory operates the canteen and employs kitchen staff and food handlers, who are given annual physical checkups. Canteen is cleaned three times per day. Food is refrigerated and garbage is picked-up once a day.

Workers are given a 60-minute break for lunch during the morning shift, in most departments. During the evening shift, most departments are given break of 30 minutes. 96% of interviewed workers indicated their satisfaction with the adequacy of their lunch break.
II. L. Recreation Facilities

Plant #6 offers a variety of recreational activities to its workers. The different facilities available, listed according to popularity, are Karaoke (92%), Television (92%), Library (90%), Badminton (86%), Soccer (20%) and radio (8%). Some workers also mentioned that factory arranges a yearly field trip.

II. M. Non-Job Related Skills Enhancement Programs

Plant #6 offers a variety of non-job related skills enhancement programs. These include English, Chinese, and computer courses. However, only a small group of workers reported their participation in the programs. Management mentioned that 172 employees attend the non-job related training programs that are offered by Plant #6. In confidential interviews, 40% of workers mentioned that knew about programs such as English, Chinese, Computer courses, and dancing courses. 8% of the interviewed workers said that they participated in these programs. Some of the interviewed workers stated that although they were interested in such programs, they felt too overworked and too tired to participate.

III. Work Environment of Manufacturing Operations and Related Facilities

Plant #6 factory consists of seven buildings. They are setup on a product type basis where one factory floor can consist of Assembly, Injection Molding, Mask Spray Painting, Tempo Painting, Rotary Molding and Sewing. The plant is very busy and as such, many problems that now exist will disappear during slower periods. The most pressing problem is the totally unacceptable water scrubbing system, which in turn
causes water and air contamination. However, as long as the plant configurations are based on product work areas rather than functional work areas, many problems involving air and water contamination, noise, heat plus the need for special wiring will continue to exist unless addressed directly by the management. Some of the specific problem areas are mentioned below:

Confined Workspace: Since the plant is working at overcapacity, some employees have inadequate workspace. It was noted in one area, 20 flash trimmers were working in a space of approximately 60 square feet (3 ft² per person).

Ventilation: Several areas have inadequate ventilation, which exposes workers to hazardous pollution:

- Where spray painting is located adjacent to assembly lines, the ventilation system is inadequate to protect the assemblers from paint fumes.
- Tampo painting machines with open trays expose the operators to high fume levels without the protection of masks or respirators.
- The mask spray area is permeated with strong paint odors. The spray paint operators wear air feed masks but there is no protection for the rest of employees working on the floor. There are open paint cans in this area.
- The paint exhaust system (negative draft) for mask spray painting was tested on 25 October 2000 and 50 hooded vent areas out of 171 did not meet the minimum standard of 100 fpm. No follow up action has been taken to correct this situation.
- The paint scrubbing system, for all intent purposes, is nonexistent. There is one test unit on the roof, which is fed by one vent system that has not been
proven capable of adequate performance. All the other vent systems, approximately 10 to 12, feed into cut down, perforated 50 gallon drums that accomplish nothing with regard to paint scrubbing since very little if any paint contaminants are absorbed in the water.

**Housekeeping:** The sample shop is a temporary make shift shed with inadequate space and a corrugated un-insulated steel roof. Much of the free ground surrounding the factory buildings has been turned into temporary warehouse and storage areas with temporary structures clad in canvas. There are trash buildups in some of the manufacturing areas.

**Wiring:** Since functions are mixed on each production floor, the possibility exists of volatile fumes being present. Therefore, where necessary, explosion proof wiring and controls should be installed.

**Gauge Calibrations:** There is no record of electric, pressure and temperature gauges being calibrated. Plant voltages run as high as 430 VAC.

**Needle Control:** Although management states that there is a complete control program in effect, no evidence of broken needle control or metal detection was observed in the plant.

**Fire Protection and Prevention:** There is a fire prevention and protection team in place. Detailed plans regarding its organization are available. Fire drills are conducted on a regular basis for both shifts.

**Volatile Liquid and Chemical Storage:** Paint, thinners, acetone, methyl ethyl ketones, etc. are stored in a hazardous waste area. The grounding provisions are satisfactory. There are no secondary containments or spill kits in the area.
Nearly half of the interviewed workers expressed discomfort with factory’s working conditions. The most common complaint concerned high temperatures at the plant facilities. Likewise, a significant number of interviewed workers (43%) reported that they were exposed to health and safety hazards in the factory.
ICCA Audit Report - Plant #7

I. Introduction

Plant #7 is located in the Guangdong province in China. At the time of the audit, the factory employed approximately 7800 workers. During the off-peak production period, this figure drops to around 5800 workers. Approximately, 20% of the plant’s capacity is dedicated to the production of Mattel toys. This report is based on a field audit of Plant #7 conducted by ICCA on January 6, 2003. This is the first formal audit of the Plant #7 by ICCA.

The composition of the workforce is 90% direct labor and 10% administrative and managerial personnel. The ratio of female to male in the direct workforce is 72:28. Average age of the workforce is 22 years, and average education level is 8 years of schooling. Among the interviewed workers, the average length of employment is 2.5 years. For over half of the workers, this is their first job.

II. Audit Findings

II. A. Recruitment and Hiring

A majority of the workers were hired by applying at the factory site or referred by current workers and friends, with a very small number being hired through a recruiting agency or other sources (Figure 1).
All new hires undergo general orientation, which covers issues such as employment contract, rules of conduct, grievance procedures, wage deductions, overtime and pay policies, information about living conditions, transportation services, facilities and amenities and tour of the factory. The average length of orientation was reported to be 2.7 hours. In addition, workers receive training in Environmental, Health and Safety Training (EHS Orientation). This training includes Emergency Evacuation Training and Drills, training on workplace hazards, how to report an Emergency, Safety rules, and first aid personnel access. Plant #7 also provides job training before employees are assigned to specific jobs. The average duration of the training was 76 hours.

Workers are also given a medical examination prior to starting work at the factory. This included vision, blood test, and tattoo checking (people with tattoos are not employed). A small number of the workers mentioned that female workers were required to take a pregnancy test.
**Workers’ Contracts:** Upon employment, each worker receives a signed contract, which states the duration of the contract (normally one year), hours to be worked, wages, and benefits involved in the workers’ employment.

**Probation Period:** All newly hired workers are required to undergo a probationary period of one to three months. The length of the probationary period at this factory exceeds the limits provided under the China labor law and GMP guidelines, both state that workers with contracts for one full year may have a probation period of no more than one month, and six month contracts’ probation periods may not exceed 15 days.

**II. B. GMP Awareness**

Plant #7’s Management Compliance Report (MCR) states that Mattel’s Global Manufacturing Principles (GMP) is made available to all employees in Chinese language. They are also displayed on various notice boards in the factory, and are frequently explained by various levels of management in general meetings of workers. However, among the interviewed workers, there was very low awareness of GMP with only 9% expressing any knowledge or familiarity with GMP and what it entails.

**II. C. Working Hours, Wages, and Benefits**

As part of its audit protocols, ICCA conducted a desk audit of the company’s payroll records and personnel files of a scientifically selected random group of workers, which was a representative sample of the plant’s entire workforce. The audit was performed on the plant’s payroll records and workers’ personnel files for the month of September 2002.
Minimum Wages: Plant #7 pays a basic wage of RMB2.69 per hour, or approximately RMB450 per month for a 40-hour workweek, which is the local minimum wage in the area. Average take-home pay is around RMB620 and varies on basis of overtime work during the peak and off-peak seasons.

There are several categories of production workers employed at Plant #7: Some workers are hired with hourly pay rates, some are paid by piece rate plans, and some others are paid on a monthly rate. Notwithstanding, all workers are guaranteed at least the government-mandated minimum wage regardless of their output.

Working Hours: For purposes of calculating wages and working hours, Plant #7 operates on the basis of a 40-hour workweek (Monday through Friday). Saturday is considered an off day while Sunday is a rest day. In practice, a typical workweek consists of 6 days (Monday through Saturday). According to Company policy, Plant #7 regularly schedules employees to work for 60 hours per week. Of these, 40 hours are paid at normal rates, and the remaining 20 hours are paid at overtime rates.

ICCA audit showed that monthly rate workers were not paid overtime wages when their work hours exceeded 8 hours/day or 40 hours/week. This is clearly inconsistent with China labor law and Mattel’s GMP.

The actual overtime hours scheduled at Plant #7 exceed the limits indicated in Plant #7’s Management Compliance Report (MCR) and also GMP guidelines. For example, among the sampled group of workers whose payroll data was audited by ICCA, 20% of the workers had worked in excess of 60 hours/week (as many as 70 hours/week).
Consolidated Work Hours: Plant #7 has received a permission from the local Labor Bureau to operate on the basis of Consolidated work hours.\textsuperscript{13} This permit allows Plant #7 to consolidate its total allowable annual (or semi-annual) overtime hours into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute the Consolidated Work Hours period.

The period covered by the Plant #7’s Consolidated Hours Permit is February 2002 - January 2003. This permit provides that total normal of work-hours must be less than 2008 per year (251 work days, 8 hours per day), and that overtime hours must not exceed 432 hours per year. According to the factory management, the factory did not keep records showing cumulative working hours by the plant or by individual workers, although it was planning to install such a system in 2003. Therefore, it could not state whether or not the factory operations as well as individual workers cumulative overtime were within the limits imposed by the Consolidated Work Hours permit.

ICCA's audit of workers’ payroll data showed that total overtime work had exceeded 432 overtime hours (maximum allowable per year) during the period March-December, 2002. Some workers were recorded to have worked up to 500 hours of overtime during the same period. Plant #7’s MCR also states that the factory was in noncompliance with the PRC labor law, the Local Consolidated Hours permit, and the GMP.

\textsuperscript{13} Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
Recording of Work Hours: Plant #7 does not use time cards to record work hours. Instead, line supervisors keep manual records of hours worked by each worker each day. At the end of each month, records are entered into a computer information system, which reports daily work hours and corresponding pay, as well as deductions and allowances for each worker. Workers are paid their salaries in cash on a monthly basis. Payments are made within one month. At pay-day, each worker signs a record, which shows all regular and overtime hours worked, associated pay, all deductions, bonuses, and take-home pay.

Manually kept records, especially involving such a large number of employees, is subject to potential errors. Mattel’s internal audit records also showed that manually kept records and worker statements had been at variance, especially concerning work performed on rest days and number of consecutive days worked. Another issue of concern that needs further investigation pertains to the comments made by some workers during confidential interviews indicating that they or more of their co-workers had worked off-the clock.

Plant #7 has indicated that the factory was in the process of installing a smart-card system to record work hours. However, ICCA was not provided with any information as to the probable date when this system would be fully installed and become operational.

Benefits: The Company provides pension insurance to 50% of its workers. All workers have disability insurance. Plant #7 has the approval of Local Labor Bureau regarding its insurance coverage. There are no other allowances or performance related bonuses.
Maternity Leave: PRC labor law provides that all workers are entitled paid maternity leave for 90 days. Plant #7 has a stated policy of awarding maternity leave to all its workers. Records show that workers at Plant #7 typically resign upon becoming pregnant, and the company pays 90 days of wages to the worker.

Annual Leave: Plant #7 employees are entitled to 5 days of paid annual leave per year. In actual practice, Plant #7 normally pays its workers 5 days of minimum wages in lieu of actual leave. ICCA’s audit of Plant #7’s payroll data of the sampled worked confirmed that all entitled workers received such payments.

Sunday as Rest Day: PRC labor law and GMP mandate that employers must guarantee each worker a day off every week (typically Sundays). When Sunday work is required, workers are entitled to a replacement off day or double the normal rate of wages for work performed on Sunday. ICCA’s audit of September 2002 payroll records revealed that workers, who worked on rest days, were paid their regular wages instead of legally mandated double overtime rate.

Personnel Records: Medical records of workers consisted of blood pressure and pulse checks. Accident and injury records are kept in separate file by function. Orientation attendance, maternity leave and disciplinary action reports are also kept as separate files.

II. D. Workplace Discipline of Employees

Plant #7 does not impose cash fines on workers as a disciplinary measure. The Company has written policies with regard to employee discipline. All workers are informed about these policies and procedures during the orientation period. Disciplinary
actions take the form of primarily verbal and written warnings. In a very small number of extreme cases a worker may be terminated from employment.

II. E. Access to Management

Management at Plant #7 has created multiple channels of communication with workers, whose adequacy and frequent use were confirmed by the workers in ICCA interviews. The most likely sources of information were line leaders and factory notice boards (Figure 2). Workers were also unanimous in indicating that management encouraged such communications and that they were not afraid to report any incidences at the workplace.

![Plant #7 - Figure 2](image)

### Sources of Information for Job-related Issues

- Notice Board at Dormitory: 84%
- Notice Board at the Plant: 83%
- Line Leader: 51%
- Co-workers: 28%
- HRM people: 9%
- Plant Manager: 7%

II. F. Discrimination and Protection from Harassment

Workers interviewed by ICCA were unanimous in their view that there was no discrimination based on religion, race, or ethnicity against the workers at the plant. Some mentioned that the plant had a policy not to hire people with colored hairs and tattoos. Plant #7’s management admitted to the existence of such a policy but insisted
that it was intended to ensure a harmonious workplace where outrageous dress and appearance could be distracting to other employees.

Over 48% of interviewed workers stated that they understand how line leaders were chosen and promoted, and believed that promotions were based on merit and good performance record. Interviewed workers also confirmed that neither they nor anybody else that they knew had been subjected to any type of harassed. They felt that employees were treated fairly and with respect (Figure 3).

![Plant #7 - Figure 3](image)

**II. G. Drinking Water and Toilet Facilities:**

ICCA’s inspection of toilets and drinking facilities indicated that they were well maintained, clean and properly ventilated. Interviewed workers also expressed a high level of satisfaction with their work environment. They were almost unanimous (98%) in indicating that they had sufficient access to running and drinking water.
While workers were generally satisfied with their access to toilet facilities, there were also complaints about difficulties in getting permission to use these facilities. Workers mentioned that they needed to receive permission cards every time they had to use the bathroom. Since the number of permission cards was limited (they can be as few as 1 per 40 workers), quite often they had to wait a long time to get their turn.

II. H. Medical Facilities

The medical clinic at Plant #7 is a 14-bed facility staffed with 4 nurses and 3 doctors. Medical services are available to workers around the clock, where treatment is free and workers are charged only for medication. ICCA found Plant #7’s facilities to be quite good and sufficient to meet the needs of its workers.

II. I. Use of Personal Protective Equipment

A hazard assessment has reportedly been conducted to identify the areas that require PPE usage. However, this did not appear to be effectively implemented. The use and maintenance of personal protective equipment (PPE) was inappropriate and inadequate in several places. These included health mask (for prevention of airborne disease) worn by operators at the Hand Painting, Tampo Printing and Spray Painting Workshops. Workers in the Machine Tooling Workshop were not wearing safety shoes. Workers in the milling and drilling area within the Machine Tooling Shop were not wearing safety goggles. The operators and adjacent workers were not wearing ear protectors nearby the ultrasonic plastic welding areas within the Assembly Workshop. Compressed air and various unidentified solvents were used in the Assembly Workshop.
and workers in this area were not provided with PPE. Workers conducting touch-up hand painting in the Assembly Workshop were not wearing PPE. Not all workers working with sharp objects were wearing finger protection. Workers in the chemical storage and mixing rooms did not wear their respirators properly and the cartridges were not changed on a regular basis.

Plant #7 management states that employees are required to use protective equipment and that the plant provides Personal Protective Equipment along with safety training for using the equipment. Most of the interviewed workers asserted that they had the knowledge of operating their equipment free of hazards and use the safety equipment regularly. Nevertheless, it was apparent that a significant number of workers were not using their required PPE. Furthermore, spotty PPE usage was prevalent throughout the plant and was not confined to certain departments. Some of the interviewed workers stated that line leaders and floor supervisors pushed for the use of PPE only during audits.

II. J. Dormitories and Living Quarters

Plant #7 has four dormitories, which were built in 1998. Each dormitory covers 1500 square meter area. Maximum capacity of each room is 12 occupants. The ratio of toilets to occupants in dormitory is 1:4 while ratio of showers to occupants is 1:10. The factory provides other amenities such as running water, hot water in shower, exhaust fans for air circulation, lockers, private beds, lighting, etc. Dormitories have security guards and dormitory supervisors.
Among the interviewed workers, 85% lived in the dormitories. All workers mentioned that they had private beds and lockers. ICCA's inspection showed that dorms were clean and safe. Employees seem to be quite happy with their living conditions in the dormitory (Figure 4). Workers are charged RMB 45 per month as dormitory rent which appears quite reasonable. In ICCA's opinion, Plant #7 dormitories were among the most pleasant of facilities operated by Mattel's vendors. The only discordant note in this otherwise happy picture is the fact, reported by the interviewed workers, is the fact that Plant # 7 requires all workers to pay an initial charge of RMB80 for a “start-up” set of supplies such as towels, bed sheets and other necessities. These charges are mandatory. Workers are required to pay RMB40 at the time of hiring. The remaining RMB40 is deducted from their first paycheck. Mattel’s GMP requires that all such charges must be voluntary and that workers must be free to purchase these items from any source of their choice.

**Plant #7 – Figure 4**

![Employee Satisfaction with Dormitory Conditions](chart.png)
II. K. Food and Canteen Facilities

Plant #7 operates its canteen facilities and provides workers with three meals per day. The canteen is cleaned after every meal. Garbage is picked up every day and food is refrigerated. The employees who cook and handle food are given annual physical checkups. Workers are charged RMB180 per month for their meals, which is deducted from their salary. This charge is mandatory. A large number of the interviewed workers objected to the mandatory nature of the charges for food, and voiced their unhappiness with the cost of food, which they considered too high.

The mandatory nature of food deductions is inconsistent with Mattel’s GMP. All workers must be given the choice to make alternative arrangements if they wish. A majority of workers also considered that food quality to be poor.

The factory provides a lunch break is for 90 minutes. Interviewed workers indicated that the time allowed for lunch was quite sufficient.

II. L. Recreation Facilities

Plant #7 provides various recreation activities. Workers list television (94%), badminton (69%), radio (28%), soccer (20%), library (9%) and karaoke (2%) as available to the dormitories residents.

II. M. Non-Job Related Skills Enhancement Programs

Plant #7 does not offer any non-job related training programs to its employees.
III. Work Environment of Manufacturing Operations and Related Facilities

Plant #7’s is a relatively new and well laid out facility. It is also quite large. During ICCA’s audit, a number of problems were noted which would require corrective measures. However, given the newness of the plant, these corrective measures should not be expensive or difficult to correct.

Compliance Issues: There was no Environmental Impact assessment (EIA) report, EIA Approval, “Three Synchronies” Inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation.

Wastewater: Wastewater in some areas (e.g., canteen) was directly discharged into the storm water drainage system. Wastewater discharged from the site should be monitored to ensure it meets standard (GB8978-1996).

Soil contamination: There had been no pipeline integrity testing for the underground pipelines from the diesel underground storage tanks (UST) to the point of fuel usage.

Chemical handling: There were no MSDS available. Chemicals such as paints in the chemical storage areas and acidic solder flux in the soldering area within the Spray Painting Workshop were not covered. This allowed the fumes to escape into the workshop atmosphere. Workers did not wear gloves while spray painting and would wash the paint stains off with thinner.

Air Emission: The water scrubber on the rooftop of Block D was not working according to its intended design. The method for sludge removal also did not appear to be an effective procedure.
Asbestos: An asbestos survey had been conducted and Chrysotile Asbestos was identified in 5 types of installations. However, the operators working on these machines were not aware of it. No plan was developed for removal of the contained asbestos.

Medical surveillance: There has been no medical examination to test for occupational diseases as required under the legislation. Occupational diseases registration should be submitted to the local Sanitary and Epidemiological Station. Medical examinations were not conducted to check against the listed occupational diseases.

Industrial hygiene: There was no or inadequate ventilation in several areas: Hand Painting, Tampo Printing, soldering area within the Spray Workshop and chemical storage areas. The solvent and paint odor became stronger the further one was away from the windows. There was a strong solvent and paint odor in the Tampo Painting Workshop where the machines use an open tray printing system. Solvent and paint fumes from the oven in the Tampo Printing Workshop were exhausted into the workplace.

Machine guarding: Machine guarding in the Machine Tooling Shop and ultrasonic plastic welding area within the Assembly Workshop were inadequate to prevent injury to the workers.

Emergency preparedness and response: There was no indication that the fire hose reels had been inspected. There was no emergency equipment such as safety showers, eyewash stations, and spill control kits in the two Dangerous Goods Stores and in most of the chemical storage areas. Some of the workers were not aware of the usage of the fire masks or the emergency evacuation plan.
Work control procedures: There was no cold stress program implemented on-site. During the site visit, the temperature at the Spray Painting Workshop was 56 F. A little over one-fourth of the interviewed workers mentioned that working area was too hot during the summer. Although fans were provided, these measures were considered inadequate

Slipping hazard: The kitchen floor was very slippery after washing. “Slippery Floor” signs were not posted in the appropriate areas such as the kitchen, toilets, etc.
I. Introduction

Plant #8 is located in Dongguan province in China. The plant currently employs approximately 6200 workers. At present, approximately 40% of the plant’s capacity is dedicated to the production of Mattel products. This report is based on the field audit conducted by ICCA on January 6-7, 2003.

Of the total workforce, 87% is direct labor and the remaining 13% comprise administrative and management personnel. The gender distribution of direct labor is 80% female and 20% male. All of the employees at Plant #8 are 18 years old or higher with the average age of 25 years. The average length of employment of the workforce is approximately 2 years, and the workers’ education level is 9 years of schooling.

II. Audit Findings

II. A. Recruitment and Hiring

Approximately 94% of the workers got their jobs by directly applying at the plant site or through referrals from current workers or friends. The remaining 6% were hired through the use of recruitment agencies.

All newly hired workers go through an orientation, safety training, and job-related training prior to start of work at the factory. The general orientation lasts around 5 hours and covers, among others, issues of employment contract, rules of conduct, grievance procedures, wages, deductions and overtime policies, information about living
conditions, facilities and amenities. The length of job-related skills and safety training varies according to the type of jobs to which individual workers are assigned. All workers are required to take a general medical check-up except where they can provide evidence of a medical examination already received through the local labor office.

**Workers Contracts:** All workers at Plant #8 receive signed employment contracts within 30 days of their starting to work at the factory. This was confirmed through an examination of workers’ personnel records maintained by the factory (90%) and also by the workers interviewed by ICCA (92%).

**Probation Period:** At Plant #8 all workers are required to undergo a probationary period. ICCA’s analysis of the plant’s payroll data confirmed that all workers received at least the government-mandated minimum wage during the probation period. All workers received the guaranteed minimum wage during this period. Chinese national law and Mattel’s GMP state that the probation period may not exceed one month for workers with one-year contracts, and 15 days for workers with contracts of six-month duration. During the probationary period, an employer is allowed to terminate a worker without paying severance pay.

ICCA’s analysis of the plant’s payroll data revealed that some workers’ probation periods lasted as long as 90 days for a one-year contract. Moreover, as part of its audit protocols, ICCA selected a random sample of workers for one-on-one personal confidential interviews. The workers selected were a scientifically representative sample of the plant’s entire workforce. Among the interviewed workers, the average probation period mentioned was around 2 months. Plant #8’s probation practices are inconsistent with the China labor laws and GMP guidelines.
II. B. GMP Awareness

According to the Management Compliance Report (MCR) provided to ICCA by Plant #8, the factory disseminated information on Mattel’s Global Manufacturing Principles (GMP) to the workers through their library and also as part of their orientation and other training programs. Information concerning GMP was also made available to the workers in local language. This situation was not confirmed by the workers interviewed by ICCA, where only 6% of the workers indicated some familiarity with Mattel’s Global Manufacturing Principles. Notwithstanding, over 91% of the employees acknowledged that they received information about some management principles and standards of behavior.

II. C. Wages, Hours and Benefits

Minimum Wages: The effective minimum wage in Plant #8’s district is RMB450 as of July 1, 2002. ICCA’s audit of payroll data showed that all workers received at least the minimum wage or higher; and that no worker received less that the guaranteed minimum wage.

Working Hours: Plant #8 defines its workweek as 5 days - Monday through Friday. Saturdays and Sundays are considered rest days. The normal workweek is 40 hours and overtime is limited to 3 hours per day. During peak production period, workweek is extended to six days, consisting of 11 hour workdays, Mondays through Saturdays.

During the month of September 2002, 50% of the sampled workers had worked in excess of 11 hours per day. Furthermore, in some cases this schedule was
maintained up to 22 working days. ICCA’s audit also showed that among the sampled workers, almost 50% had worked 14-29 consecutive days, without a rest day. ICCA auditors concluded that 64% of the sampled workers had exceeded Mattel's GMP limits on a daily, weekly, or monthly basis.

Consolidated Work Hours: Plant #8 has received permission from the local Labor Bureau to operate on the basis of Consolidated Work Hours\textsuperscript{14}. This permit allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period. Regardless of the Consolidated Hours permission, PRC labor law stipulates that yearly total normal hours must be less than 2008, and the yearly total overtime hours must be less than 432, thus restricting the total number of hours to be worked to less than 2440 per year.

Plant #8’s authorization permit provides that total normal work-hours must be less than 502 for the 3-month period September through December 2002, and that overtime hours must not exceed 108 hours during the same period, thus restricting the total hours to 610, including both regular and overtime hours. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day).

Plant #8’s Management Compliance Report states that the factory has been consistently in non-compliance with its Consolidated Work Hours Permit as well as PRC labor law and GMP standards. ICCA’s audit of the sampled group of workers’ payroll

\textsuperscript{14} Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
records confirmed that most workers had worked in excess of 610 total hours, up to 685 hours, during the period covered under the Consolidated Hours Permission, i.e., September through November 2002.

**Benefits:** The factory provides accident, medical and retirement insurance benefits to 26% of its workforce. The local Labor Bureau has approved Plant #8's insurance and benefits payment plan.

**Maternity Leave:** According to the factory management, the company provides its employees with maternity leave of 90 days with proper documentation as required by law. This was confirmed by an examination of workers' payroll data. However, the payroll data analysis also showed that employees returning from maternity leave were not given special consideration with regard to their overtime work as required by law. PRC labor law states that workers may not work overtime hours while nursing.

**Annual Leave:** Plant #8 provides 5 days of paid annual leave to each worker upon completion of one-year service. The annual leave entitlement increases in proportion to seniority, up to a maximum of 14 days.

**Personnel Records:** Personnel files for each worker contain the worker's contract and medical examination. Disciplinary actions, maternity leaves, injury records, training and annual leave records are kept by function.

**II. D. Workplace Discipline of Employees**

Plant #8 has written procedures on employee discipline to prevent inappropriate behavior among employees. They are described in the employee handbook, which is provided to every worker. Discipline procedures are documented in the employee
handbook. Plant #8 has a point system in which penalty points are deducted for each offence and a statement is conveyed to concerned employee through “Warning Letter”. Workers are entitled to an appeal for review at an adjudication meeting. Among the interviewed workers, who were subject to some type of disciplinary action, mentioned that they were issued warnings for various reasons such as defective work (70%), slow work (29%) and missed quotas (29%). Workers also mentioned that if the accumulated points reach 10, then the employee is fired.

II. E. Access to Management

Plant #8 provides a variety of communication channels to disseminate information to the workers. According to interviewed workers, the strongest communication links are through notice boards at the plant, co-workers, and line leaders (Figure 1). Also, through a suggestion box, the factory encourages workers to communicate with the management regarding complaints and suggestions for improvement. Among the interviewed workers, 70% indicated that they were aware of the suggestion boxes and a few of them acknowledged utilizing them.
### II. F. Discrimination and Protection from Harassment

The factory has a written policy with regard to Freedom of Association. The interviewed workers unanimously agreed that the factory did not discriminate against workers based on race or religion or ethnicity. They also indicated their belief promotion to line leader was based on merit, and a little over one-third indicated that they would like to become line leaders.

Interviewed workers confirmed that neither they nor anybody else they knew had been subjected to sexually harassed or otherwise abused. There was general consensus that workers were treated fairly and with respect by line the leaders and floor supervisors (Figure 2). However, about one in five interviewed workers also mentioned that either they or somebody they knew had been verbally abused. The reasons given for such treatment were defective work, not meeting quota, and sometimes for trivial issues.

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#### Plant #8 - Figure 1

**Sources of Information for Job-Related Issues**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice Board at the Plant</td>
<td>56%</td>
</tr>
<tr>
<td>Co-Workers</td>
<td>56%</td>
</tr>
<tr>
<td>Line Leaders</td>
<td>52%</td>
</tr>
<tr>
<td>Notice Board at Dorm</td>
<td>48%</td>
</tr>
<tr>
<td>HRM People</td>
<td>20%</td>
</tr>
<tr>
<td>Plant Manager</td>
<td>16%</td>
</tr>
</tbody>
</table>
II. G. Access to Drinking Water:

Interviewed workers unanimously confirmed their access to running and drinking water, which they considered to be satisfactory. However, they also mentioned that they were required to obtain a permit card every time they wanted to go to the restrooms. In some sections, there was only one card available for 70-80 workers.

II. H. Medical Facilities

Clinic personnel consist of two doctors and two nurses, who are available 24 hours a day. Medical records are kept in the clinic. There is a small pharmacy, and first aid kits available at production lines. The clinic records are not used to identify major sources of work related accidents that require treatment.

II. I. Personal Protective Equipment (PPE)

Plant #8 factory provides Personal Protective Equipment where necessary. Certified safety officers determine the PPE requirements. Management uses training, posters and warning letters to enforce the use of PPE among employees.
A large majority of the workers (84%) indicated that they were trained to operate their machines free of hazards. They also stated that the factory provided them with PPE. Over 77% of the interviewed workers mentioned that they used their PPE either regularly or occasionally.

A hazard assessment has reportedly been conducted to identify the areas that require PPE usage. However, this did not appear to be effectively implemented. The use and maintenance of personal protective equipment (PPE) was inadequate. This was particularly noticeable among workers who were working in the vicinity of the cranes. Employees were not wearing safety issues in the Injection Molding Workshop and safety shoes in Machine Tooling Workshop. Injection molding workers, working with sharp objects, had no finger protection. Injection Molding and Assembly workers using solvents were not wearing masks. Mold Workshop workers performing grinding were not wearing dust masks. Sewing Room workers were wearing dust masks under their noses. Workers conducting touch-up hand painting in the Assembly Workshop were not wearing any PPE. Workers working with compressed air, power screwdrivers, and metal work were not wearing earplugs. Some workers in the Spraying Workshop were not wearing the air-supplied masks in the correct manner.

II. J. Dormitories and Living Quarters

Factory housing at Plant #8 consists of 6 dormitories. Of these, 4 were built in 1995 and 2 in 2000. Each dormitory is 3600 square meters, with a maximum capacity of 1032 workers. On an average, each room is assigned 8 workers. Ratio of toilets to occupancy rate is 1:18 (higher than the GMP code of 1:12) while ratio of showers to
occupants is 1:12. Common toilets and showers are located on each floor at the end of the hall and are provided with cold running water. Each room is equipped with 2 fans for air circulation. Residents are provided with individual lockers, private beds, and lighting. Individual bed lights and radios are not permitted. Housekeeping and cleaning of rooms are the responsibility of the workers. The factory provides them with brooms and mops. Dormitories have security guards and are managed by a factory employed administrative manager.

Living the dormitory is completely voluntary. Among the interviewed workers, approximately 72% lived in the dormitories. With the exception of two areas, most workers appeared highly satisfied with their living situation in the dormitories. The areas of complaint related to the lack of hot water, which is available on the ground floor only. There were also complaints about laundry space allocation, which is limited and inconvenient to use. At present only the roofs of the dormitory buildings are used for clothes hanging.

Workers pay RMB30 toward monthly rental for their dormitory space, which is deducted from their paychecks. All workers living in the dormitory are required to make a mandatory initial, non-refundable payment of RMB80 as the cost of first-time supplies, e.g., bed sheets, towel, soup, etc. The workers do not have the option of bringing their own supplies or buying them from the outside. This practice is inconsistent with GMP guidelines, which requires that all employee expenses must be voluntary.

II. K. Food and Canteen Facilities

The factory provides a lunch break of 60 minutes, which the workers consider quite satisfactory. The factory owns and operates the canteen. Plant #8 provides 4
meals per day. Separate dining areas are designed for workers and different levels of staff based on seniority. Food served in different dining areas is also different. The kitchen staff undergoes annual health check-ups.

Canteens and eating areas are thoroughly cleaned after every meal. Food is properly stored and refrigerated. Garbage is collected and carted away daily.

At Plant #8, it is mandatory that all workers who live in the dormitories must also eat in the factory cafeteria. The food cost is RMB150 per month and is deducted from the workers’ paycheck. In case workers choose not to eat in the canteen, they have to get special permission to avoid automatic deductions from their salary. It seems that many workers do not know this factory policy of allowing the workers to choose where to eat.

Regardless of the practically mandatory nature of deductions, many workers choose to eat outside the factory due to the bad quality of food. This seems to be a major area of complaint on the part of the workers. A majority of workers expressed their dissatisfaction with the quality of food, which they considered “bad considering the amount they pay for”. The workers’ overall assessment of quality of food and canteen facilities was the lowest among all the vendors audited by ICCA.

II. L. Recreation Facilities

Plant #8 provides various sports and recreation facilities. The interviewed workers mentioned library, karaoke, badminton, television and radio, and soccer as some of the recreational activities in which they have frequently participated.
III. Work Environment of Manufacturing Operations and Related Facilities

The plant is a medium to large size factory built between 1995 and 1997. It is in poor condition primarily due to over crowding, and lack of a proper maintenance regime. Some specific problems include:

- Drinking water does not meet the safety standards. Therefore, the tap water must be boiled before drinking. However, it was not known whether this met acceptable standards. Drinking water was kept together with chemicals in some of the workshops, e.g., Spark Room. Hot drinking water was prepared next to toilets in the assembly workshop.

- There was solvent and paint odor in the Tampo Painting workshop where machines use an open tray printing system. The industrial hygiene sampling done in 2002 was not adequate.

- Some of electric wiring were frayed and in bad condition in the Injection Molding workshop.

- There were numerous trip hazards in the workshop, e.g., electric wiring, compressed gas lines, metal chipping, boxes containing raw materials and work-in-progress, etc.

Paint-Water Scrubbing: Most of the water scrubbers on the rooftop of Block A (9 out of 13 units) were disconnected and not functioning; one was badly leaking and one had no door. Those on Block B were not working or were inadequately maintained. There was a strong solvent and paint odor. There was evidence of sludge accumulation on the rooftops. There was an exhaust system for the soldering and tampo printing operations, but not all individual stations had been connected to the exhaust system.
**Needle Control:** The factory has a needle control policy to ensure that broken needles are accountable. All sewn items are screened through a metal detector with a metal detection sensitivity of 0.1 mm diameter. However, some of the products had metal appliqués sewn on that would set off the metal detector. These products were not checked after the metal appliqués were sewn on.

**Fire Protection and Prevention:** The wall mountings of the fire extinguishers were in poor condition. The safety passageways in most of the workshops were blocked by boxes of raw materials and work-in-progress. Some of the passageways were very narrow. There was no emergency equipment such as safety showers, eyewash stations, and spill control kits in the two Dangerous Goods Stores and in most of the chemical storage areas. The powder coating workshop was equipped with explosion proof lighting but other equipment was not explosion proof.

**Documentation:** There was no Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation.

**Volatile Liquid and Chemical Storage:** An asbestos survey has been conducted and Chrysotile Asbestos was identified in 4 locations. No plan was developed for removal of asbestos contained. There was no MSDS available for solvents and paints. Sanitary wastewater treatment chemicals were kept on the bare ground behind the treatment plant. There was strong diesel smell at the diesel storage area due to previous spillage around the tanks. Chemicals belonging to contractors were not labeled, nor was there any indication/system to identify as to whether they were compatible with chemicals kept in dangerous goods store. No proper grounding was
provided for the solvent drums. Some of the drums were found to be stored outside contained area. The cement leading to the storm water drainage system from the anti-rust chemical storage was severely eroded.

Workers appeared generally satisfied with the cleanliness of working areas. At the same time, despite management’s report that a new ventilation systems had been installed, almost one-half of the interviewed workers stated that their work area was too hot during summer, and that the fans were insufficient to cool these areas. About one in five workers also complained of excessive noise, chemicals smells, etc. On the positive side, interviewed workers were almost unanimous in stating that management encouraged them to report incidents of injury and that they were not hesitant to do so.
I. Introduction

Plant #9 is located in Shenzen, China. At the time of the ICCA audit, there were approximately 3500 workers employed at this plant. The variation of total workforce at Plant #9 during peak and off-peak periods is not significant. According to company’s Management Compliance Report (MCR), the factory employs an average of 4750 workers during production peak, and 4400 workers during normal level of production periods. Mattel’s products account for around 40% of the plant’s total production capacity. This report is based on a field audit of this facility only, conducted on January 15-16, 2003.

The total workforce is composed of 87% of direct labor, and the remaining 13% is managerial and administrative personnel. Gender distribution of direct labor is 78% female and 22% male. The average education level of the workers is 9 years. All of the employees at this plant are 18 years old or higher with the average age of 24 years. The average length of employment is approximately 5 years. For 32% of the current workers, employment at Plant #9 was their first job.

II. Audit Findings

II. A. Recruitment and Hiring

A large majority (74%) of the workers at Plant #9 got their jobs through walk-in at the plant site. Of the remaining workers, 22% got their jobs through referrals from current workers and friends, and 4% of workers used other methods.
All newly recruited workers receive a general orientation, which lasts approximately 2.5 hours. It covers issues of employment contract, rules of conduct, grievance procedures, wages, deductions and overtime policies, information about living conditions, facilities and amenities (Figure 1).

**Plant #9 - Figure 1**

![Initial Employment Orientation](image)

Workers are also given a medical examination prior to starting the work at the factory except where they provide evidence of a medical check already received through the local labor office. In addition, all workers are required to attend a job-related and general safety-training program. The length of this program varies based on the particular job assignment of the worker.

As part of its audit protocols, ICCA conducts one-on-one confidential interviews with a randomly selected group of workers representing a statistically representative sample of the plant’s entire workforce.
Workers’ Contracts: ICCA’s audit of payroll files and interviews with a sample group of workers confirmed that all workers received a signed contract within 30 days of their starting to work at the factory.

Probation Period: At Plant #9 all workers are required to undergo a probationary period. The length of probation, according to workers’ replies, ranged between 7 days and 3 months. All workers received the guaranteed minimum wage during this period. Chinese national law and Mattel’s GMP state that workers’ contracts for a full year may have a probation period of no more than one month, and six month contracts’ probation periods may not exceed 15 days. During the probationary period, an employer is allowed to terminate workers without the mandatory compensation that is applicable when a contract is voided unilaterally. Plant #9’s personnel records reveal that some workers’ probation periods lasted as long as 90 days for a one-year contract. This situation is in noncompliance with both the China labor law and Mattel’s GMP.

II. B. GMP Awareness

According to Plant #9’s management, GMP related information are disseminated to workers through the plant’s library and also through continued program of employee communications. GMP was also available in local language as well. Among the interviewed workers, only 8% indicated some familiarity with Mattel’s GMP. However, almost 62% of the employees acknowledged that they received information about some management principles and standards of behavior.
II. C. Wages, Hours and Benefits

Minimum Wages: The effective minimum wage in Plant #9’s district is RMB460 per month as of May 1, 2002. However, the factory management put this rate in effect as of June 1, 2002, paying the old rate of RMB440 for the month of May. The practical effect of this practice was to deprive the plant’s workers their legally guaranteed wage rate for one month. The lower base rate also adversely affected all overtime rates and thus reduced overtime pay to the workers.

Working Hours: ICCA’s analysis of workers’ payroll data raises questions about the accuracy of Plant #9’s statements as to the employees’ hours worked and wages paid. As part of its audit procedures, ICCA conducted a detailed analysis of the payroll records and personnel files of a scientifically selected random group of workers, which was representative of the plant’s entire workforce. The period covered for this analysis was September 2002. This analysis revealed that one-third of the workers in the sampled group had worked on at least one, and on some occasions up to 3 Sundays, which was in addition to their full Monday-Saturday 6-day workweeks. This finding would suggest that workers are not given their one rest day per week. In addition, considering that there are 21 Monday-Fridays in September, the total number of regular hours possible for the month is 168 (21 days x 8 hours per day). Payroll records show that 94% of the workers audited were paid regular wages for hours worked in excess of 168 hours for which they did not receive overtime pay. The factory has argued that these hours were paid at regular rates because the workers received compensatory time in lieu of overtime pay. However, ICCA is unable to verify this assertion with any degree of certainty because the factory had been knowingly mis-recording workers’ time.
for Sunday as normal work hours, and the failed to provide any records to substantiate their claims. (Please see following section for detailed explanation).

ICCA’s audit also found that among the audited workers, 70% had exceeded GMP guidelines for total weekly work hours, 68% had exceeded maximum overtime limits. Some workers were observed to have worked 6.5 overtime hours, or 14.5 total hours in one day.

**Consolidated Work Hours:** Plant #9 has received permission from the local Labor Bureau to operate on the basis of Consolidated Work Hours.\(^\text{15}\) This permit allows a plant to consolidate its allowable overtime hours of the entire year into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period.\(^\text{16}\)

Plant #9’s authorization permit provides that total normal work-hours must be less than 2008 for the 12-month period January 2002, through December 2002, and that overtime hours must not exceed 432 hours during the same period. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day) on peak production periods. According to ICCA’s calculations, at this rate, the plant would completely exhaust all the available hours (normal and overtime hours) in less than 19 weeks and thereby leaving the remaining 7 weeks of the 6-month period with no available work hours. In its Management Compliance Report, Plant #9 states that the factory has worked in excess of allowable regular and overtime hours which is

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\(^\text{15}\) Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
inconsistent with both the China labor laws and GMP standards within the indicated period covered under the Consolidated Work Hours permit.

Furthermore, ICCA’s audit of representative sample of workers payroll records showed that all workers had worked in excess of 2500 total hours – some up to 3375 hours during 2002, and all workers total overtime had exceeded by 500-1368 hours on an annual basis during the 2002 calendar year. A small group of workers (25%) also indicated that the factory did not allow workers to refuse overtime work.

**Recording Work Hours:** The workers use time cards to record their regular workdays. All the workers interviewed indicated that they punched their own time cards during regular working days. At the same time, a typical practice at Plant #9 is to ask workers not to punch in when they work on a Sunday, and, when the company provides an alternate day off to the employees, to let the supervisors punch in and out for the workers.

One consequence of this off-the record work done on Sundays is to undermine the integrity of payroll records and thereby put other financial information supplied to ICCA under a cloud of uncertainty as to their accuracy. This is not a good practice even where there is no intention on the part of the factory management to deprive the workers of compensatory time-off for work done on Sunday or rest day.

Confidential interviews with a sample of workers revealed that almost all of the workers (98%) were familiar with their normal and overtime work hours and base wages. The only exception was some confusion on deduction for taxes.

**Sunday as Rest Day:** Mattel’s GMP requires that any work done on a rest day (typically Sunday) must either be paid at double the normal wage rates, or the worker
must be given an alternate day off within 30 days following the rest day worked. ICCA has identified two major areas of non-compliance regarding work done on rest days:

(1) Plant #9 time card records for work done on Sundays as if the work was done on a regular workday.

(2) By policy, any work done on a Sunday, will be compensated within the next 3-6 months.

Benefits: Plant #9 provides accident insurance benefits to 80% of its workforce, and retirement insurance to 10% of its workers. The local Labor Bureau has approved Plant #9’s insurance and benefits payment plan.

Maternity Leave: Plant #9 management stated that employees were provided with a maternity leave of 90 days when supported with proper documents required by law. This was confirmed by the payroll audit with one major exception. Maternity benefits were paid to workers only after they had returned to the factory upon giving birth. This practice is against the Chinese National labor law as well as the GMP.

Annual Leave: Plant #9 awards 5 days of paid leave to a worker upon completion of one-year service, provided that the worker applies for it. If workers do not apply, then the benefit is forfeited. Among the interviewed workers, 37% were unaware that they were entitled to paid annual leave. Neither the China labor law nor GMP imposes such a condition. Plant # 9 is required to give 5 days’ of paid annual leave to all workers without any action on the part of the workers.

Personnel Records: Plant # 9 keeps proper records for each worker. These files contain the worker’s contract, disciplinary actions, and maternity leaves. In addition, Plant #9 keeps separate records, by function, for work related illness and injuries and
initial training upon employment. There are no records of initial medical examination upon hiring.

II. D. Workplace Discipline and Imposition of Fines

Plant #9 has a set of written procedures to maintain discipline among employees in the workplace. These rules are detailed in the employee handbooks provided to each worker at the time of initial hiring. The factory does not impose any cash fines. The factory also has written policies and procedures on workers’ terminations as well as resignations. Factory management uses a point system in the form of warning letters with regard to maintaining workplace discipline. When workers accumulate a certain number of penalty points, they may be dismissed from the factory. Interviewed workers almost unanimously confirmed their knowledge of these policies and considered them to be fair and reasonable.

II. E. Freedom of Association and Access to Management

Plant #9 provides a variety of communication channels to disseminate information to the workers. Worker interviews revealed that employees, by large majority, were aware of various means that they could use to make suggestions or complaints to management, portraying a high level of communication between workers and management (Figure 2).

Plant #9 - Figure 2
II. F. Discrimination and Protection from Harassment

The plant has formal written procedures to ensure non-discrimination in hiring, promotion and other workplace practices. The factory enforces these procedures by top down instructions and policy. There were no discrimination cases in the last 12 months.

All the interviewed workers indicated that there was no discrimination in promotion or wage increases among workers based on their religion, race, ethnicity or region of origin. Interviewed workers were also unanimous in stating that they knew of no worker who was ever subjected to sexual harassment by their co-workers or supervisors.

II. G. Access to Drinking Water and Restrooms:

Interviewed workers indicated that they had sufficient access to drinking and running water. However, more than half of the interviewed workers stated that they
needed to request a leave permit to leave the workstation. The availability of such permits is limited, usually 4 permits per 30 people to use the bathrooms.

II. H. The Clinic

Plant #9’s clinic is housed in a separate building located near the factory. It is a two-bed facility, served by two doctors and three nurses. All medical services and medicines, including non-work related consultations, are provided free of charge. ICCA auditors observed that workers felt free to use the clinic services. ICCA considered these facilities and services provided to the workers to be satisfactory in all respects.

II. I. Personal Protective Equipment (PPE)

The factory provides all workers, free of charge, with appropriate with Personal Protective Equipment. Plant #9 management enforces PPE usage through training, posters and a warning letter system. Safety officers regularly conduct risk assessment to ascertain proper use of PPE.

A hazard assessment has been reportedly conducted to identify the areas that require PPE usage. However, this did not appear to be effectively implemented. The use and maintenance of PPE was inadequate. The shortcomings included workers using sharp cutting objects without wearing finger protectors (Injection Molding Workshop). Some workers were using solvents were not wearing masks (Injection Molding Workshop, Assembly Workshop, Vacuum Coating Workshop). Workers in the Machine Tooling Workshop had no safety shoes. Workers surrounding the ultrasonic plastic welding area and compressed air cleaning within the Assembly Workshop were
not wearing earplugs. Workers were wearing masks under their noses (Spray Painting Workshop, etc.). Workers grinding in the Maintenance Workshop were not wearing earplugs. The industrial hygiene sampling conducted in 2002 did not reflect the full suite of chemicals that the workers were exposed to. Only volatile organic compounds were monitored.

II. J. Dormitories and Living Quarters

The dormitory for Plant #9 was built in 1988. It has living area of 19,000 square meters. Dormitory living is completely voluntary. Approximately 50% of the workers live in the dormitory. An administrative manager is responsible for the operation of the dormitory.

The employees pay for RMB30 as rent for dormitory, which is deducted from their pay stubs. All workers living in the dormitory are required to make an initial, non-refundable payment of RMB80 as the cost of first-time supplies, e.g., bed sheets, towel, soup, etc. This payment is mandatory and the workers have no choice to bring their own supplies or buy them from outside sources.

The ratio of showers to occupants is 1:8 in the dormitory with each room occupied by up to 8 workers. The ratio of toilets to occupants is 1:13. Workers are responsible for housekeeping and cleaning arrangements for dormitory rooms. These rooms have individual beds and lockers for the residents. Dormitories provide adequate access to washing facilities and toilets. Video, TV and table tennis were provided for the employees in the dormitory as entertainment facilities. The dormitory is guarded by
the factory’s own security system. Overall, workers felt that the dormitories were generally clean, safe, and pleasant.

II. K. Food and Canteen Facilities

The canteen serves 4 meals per day. The lunch break is 60 minutes which most workers consider sufficient. The canteen manager is an employee of the factory, which also employs all the canteen workers who are trained in food handling. These workers are given annual medical examinations. ICCA’s audit showed that all food was properly refrigerated and the canteen facilities were clean.

Workers are free to make their own arrangements regarding their meals or they eat at the factory canteen. Approximately, two-thirds of the interviewed workers indicated that they ate in the canteen. Those eating in the cafeteria are charged RMB150 per month, which is deducted from their paychecks. Overall, workers expressed positive sentiments about the quality of canteen facilities and food.

II. L. Non-Job Related Skills Enhancement Programs

A variety of non-job related training programs are offered by the company to enhance workers quality of life. These programs include dancing classes, and Chinese writings. The Factory also offers a program to train workers to serve in the community-based voluntary fireman team.
III. Work Environment of Manufacturing Operations and Related Facilities

Plant #9 is a comparatively old factory. It was built between 1989-1992 and shows signs of wear and tear. It is a large, old-fashioned complex. ICCA’s audit team discovered many problems with the major ones being wet paint scrubbing, electrical wiring and mask spray painting. The scrubbing units are a major health and safety concern and the associated problems should be addressed immediately.

Compliance Issues: There were no Environmental Impact Assessment (EIA) reports, EIA approval, “Three Synchronies” Inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation. There was no permit for the three ground water extraction wells.

Wastewater: There was no separate sewer and storm water drainage system. There has been no monitoring for wastewater discharged from the factory. There were stagnant water and oil residues in the storm water drainage system. There were several makeshift drainage channels observed e.g. behind Dangerous Goods Store, etc.

Soil Contamination: There has been no pipeline integrity testing for the underground pipelines of the three diesel underground storage tanks (USTs) to the point of fuel usage. There was a thick layer of diesel sludge at the unloading point of the diesel USTs. There were diesel stains at the forklift diesel loading area at the UST next to the Power House.

Chemical Handling: There was evidence of previous spillage in one of the vacuum coating tanks, unloading and unloading area of diesel USTs, etc. There was no
secondary containment in the Dangerous Goods Store and chemical storage areas. Open or pierced paint cans were observed in the Spray Painting Workshop and paint storage areas. There were two paint storage areas next to the Clinic that were not equipped with facilities or equipment for chemical storage. There was a strong solvent and paint odor in the chemical storage areas. Empty paint cans containing paint residues were left uncovered on the rooftop of Block K.

Waste Management: The paint sludge from a disused filtration tank had not been disposed. Wastewater discharged from the site should be monitored to ensure that it meets the wastewater discharge standard (GB8978-1996).

Air Emission: The water scrubbers were either not operating as designed, inoperative, or were in a state of disrepair. Contaminated air was being discharged without treatment into the atmosphere. Based on the current design, it did not appear they would be effective, although air emission monitoring conducted in 2002 shows that the standards were met. Nevertheless, it is uncertain whether these standards could possibly be met if the water scrubbers were not operating as observed. There was also a strong solvent and paint odor in the area.

Asbestos: An asbestos survey has been conducted. Chrysotile Asbestos was defined in 7 locations. Some of the insulation was in a friable condition. No plan was developed for removal of asbestos.

Industrial Hygiene: The machines in the Tampo Printing Workshop use an open tray printing system. Some of the machines were not equipped with exhaust systems. Some of the exhaust systems did not have sufficient positive air pressure. There was strong solvent and paint odor in the Spraying Workshop. Workers were not working
within the spray hoods. Some of the exhaust systems did not have sufficient positive air pressure. Some of the water curtains at the spray painting booths had no water or the water flow was blocked by a build-up of paint residue. There were individual exhaust fans provided for the individual soldering stations. However, the workers were not utilizing them. The industrial hygiene sampling conducted in 2002 did not reflect the full suite of chemicals (only testing for volatile organic compounds) that the workers were exposed to.

**Compressed Air:** Pressure vessels containing LPG and other welding gases were not braced. Workers in the Mold Workshop were seen cleaning themselves with compressed air.

**Machine Guarding:** There was no machine guarding on the grinding wheels and band saw in the Maintenance Workshop and one of the pumps in the Water Pump Room. There were no pulley guards on the electrostatic tanks in the Assembly Workshop.

**Electrical Hazard:** Lock-out-tag-out (LOTO) was not practiced during maintenance on the injection molding machines during repair. However one lock was used when three persons were maintaining a machine. Multiple locks should be used where more than one person is engaged in maintenance on a machine. Some of the electrical wiring was frayed and in bad condition, e.g., Injection Molding Workshop, Machine Tooling Workshop, Spray painting Workshop, Vacuum Coating Workshop and etc.
Slip and Trip Hazards: There were numerous trip hazards in the workshops, e.g., electrical wiring, compressed air lines, etc. Injection Molding Workshop floors were slippery.

Emergency Preparedness and Response: Some of the chemical storage areas (Dangerous Goods Store and two (2) paint storage areas next to the Clinic) were next to high voltage electrical transmission towers at the boundary of the plant. LPG cylinder was stored next to the grinding machine in the Maintenance Workshop. Fine dust was generated from the grinding operations. Fire and smoke was observed outside the firebox of the rice steamer in the kitchen. There was no emergency equipment such as safety showers and spill control kits in some of the chemical storage areas. Some extinguishers, fire hose reels and equipment and emergency exits were blocked by goods. The eyewash station in the Vacuum Coating Workshop was used for hand washing.

Work Control Procedures: There was no effective maintenance program. Poorly maintained equipment was observed throughout the plant; e.g., leaking pumps in the Water Pump Room with no valve handle; corroded water pipelines behind Water Pump Room; no calibration of air pressure and electrical equipment gauges. The temperatures during summer would be very high in the Spray Painting Workshop on the rooftop of Block K, Open Shed Assembly Workshop and the two paint storage areas next to the Clinic.

Falling Objects and Falling from Height Hazards: Some of the packaging materials were stacked or retrieved through workers climbing onto the stacks. The ramp next to the Water Pump Room had a handrail on only one side.
Housekeeping: There were oil spills and oil stains on one of the Vacuum Coating Tanks and the floor of the Vacuum Coating Workshop. The area below the Maintenance offices had a large amount of stored unused material. In general, housekeeping can use improvement.
I. Introduction

Plant #10 is located in the Guangdong province in China. At the time of the audit, the factory employed around 5800 workers. During peak production period, employee total may reach to 7000. At present, 60% of the plant’s capacity is dedicated to the production of Mattel products. This report is based on ICCA’s formal audit of the plant, which was conducted on January 8, 2003. This is the first formal audit of this plant by ICCA.

Of the total workforce, approximately 95% are direct labor and remaining 5% are comprised of administrative and managerial personnel. The ratio of female/male workers is 60:40. Workers’ average age is 23 years and education level is 7 years of schooling. The average length of employment at Plant #10 is 1.5 years. For approximately 54% of the workers, employment at Plant #10 was their first job.

II. Audit Findings

II A. Recruitment and Hiring

Almost 2/3rd of the workers got their jobs through walk-in at the plant site, and the remaining 1/3rd through referral from friends or other workers. All workers receive a general orientation at the time of hiring. The orientation covers issues such as employment contract, rules of conduct, grievance procedures, wages deductions and overtime and pay policies, information about the living conditions, transportation
services, facilities and amenities and tour of the factory. On average, workers spend about two hours at the orientation.

Workers also are also given a general medical examination. They also receive information and training on Environmental, Health and Safety Training (EHS Orientation), which included Emergency Evacuation Training and Drills, workplace hazards, and directions on how to report emergency situations. Workers are also given training in safety rules and first aid access. Finally, workers receive additional job training, which may last up to 40 hours based on the requirements of specific jobs to which workers would be assigned (Figure 1).

**Plant #10 - Figure 1**

<table>
<thead>
<tr>
<th>Training Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EHS Training</td>
<td>98%</td>
</tr>
<tr>
<td>Evacuation and Drills</td>
<td>100%</td>
</tr>
<tr>
<td>Safety Rules</td>
<td>98%</td>
</tr>
<tr>
<td>Workplace Hazards</td>
<td>92%</td>
</tr>
<tr>
<td>Emergency Report</td>
<td>71%</td>
</tr>
<tr>
<td>First Aid</td>
<td>71%</td>
</tr>
<tr>
<td>Medical Exam</td>
<td>92%</td>
</tr>
<tr>
<td>Job Training</td>
<td>86%</td>
</tr>
</tbody>
</table>

**Workers’ Contracts:** ICCA’s audit of personnel records and the responses of the workers interviewed confirmed that all workers receive their contracts within 45 days of
their employment at the plant. Contracts length ranges from six months and one year. Company records show that all workers have signed contracts in their files.

Probation Period: According to the Plant Management, all workers undergo a probationary period. Workers with one-year contracts undergo a 30-day probation period, while the probation period is 15 days for workers with 6-months contracts. All workers receive minimum wages during their probationary periods. However, the information gained from the interviewed workers was at variance with that of the factory management. All the workers interviewed by ICCA stated that their probation period lasted between one and two months. Among the workers interviewed, a small minority (13%) also stated that their probation pay was different from their regular wages. This situation is in noncompliance with both the China labor law and Mattel’s GMP.

II. B. GMP Awareness

Factory’s MCR stated that information on Mattel’s GMP was disseminated to the workers through postings on public displays. Information concerning GMP was also available in local language. However, among the workers interviewed by ICCA, only 4% indicated any familiarity with Mattel’s GMP.

II. C. Working Hours, Wages, and Benefits

A desk audit was conducted on a randomly selected group of workers’ personnel files and payroll data. This group was a statistically representative sample of the plant’s total workforce. The payroll audit was performed on the plant’s financial records for the month of June 2002.
Plant #10 operates on the basis of a 6-day, 40-hour workweek. Monday through Friday consist of 7 normal hours, and workers are scheduled to work 5 normal hours on Saturdays. Sunday is considered a rest day. Plant #10 has received an approval for its 6-day workweek policies from the Local Labor Bureau. According to the information provided in the factory’s MCR, workers are normally scheduled to work 60 hours per week, 10 hours each day, Monday through Saturday. Of these, 40 hours are paid at normal rates and the remaining 20 hours are paid at overtime rates.

**Minimum Wages:** Plant #10 pays a basic wage of RMB2.69 per hour, or RMB450 per month for a 40-hour workweek, which is the local minimum wage in the Plant #10’s district area. Take-home pay is around RMB870 during peak period.

**Working Hours:** Plant #10 management has recognized in its MCR, that the plant was in noncompliance with the PRC labor law as well the GMP with regard to its work-hours policies. Accordingly, ICCA’s evaluation of Plant #10’s work hours is based on the guidelines that are established in Mattel’s GMP code. GMP guidelines currently allow for a 66-hour workweek, consisting of 40 normal hours, and 26 overtime hours, spread over six days (Monday through Saturday), provided that these practices adhere to the law. At Plant #10, the actual practice during peak production periods is to regularly schedule a 72-hour workweek, 12 hours a day, Monday through Saturday. This practice is inconsistent of the GMP code, which restricts any work hours in excess of 66 hours. Workers are asked to sign-in each week for overtime when factory schedules exceed normal work hours.

PRC labor law and GMP also require that employers must give each worker a day off every week (typically Sundays). When Sunday work is required, workers are
entitled to a replacement off day or double the normal rate of wages for work performed on a Sunday. Plant #10’s stated practice is to provide a replacement day off within 30 days when workers work on Sundays. ICCA’s analysis of the payroll records for the sample group of workers for the month of June, 2002 showed that Plant #10 had not followed applicable legal guidelines in terms of the number of hours and days worked. The plant has also not followed its own stated policy of providing an alternate day off within 30 days of the rest day when the work has been on the job.

Factory records show that 72% of the sampled workers had worked in excess of 25 workdays (Monday-Saturday) during June, indicating that a large majority of the workers at the plant had worked on a Sunday. One in five workers had worked 7-day workweeks for at least two weeks in June. With regard to work hours, 70% of the audited workers had worked in excess of a 66-hour week on at least one, and in many cases, multiple occasions. Overall, the ICCA payroll audit concluded that for over 90% of the workers, Plant #10 had been in non-compliance with every applicable limit regarding the extent of overtime work that the factory can require from its workers.

Consolidated Work Hours: Plant #10 has a current permission from the Local Labor Bureau to operate on the basis of Consolidated Work Hours, which allow a plant to consolidate its total allowable annual (or semi-annual) overtime hours into a shorter time span because of the seasonal nature of its product and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute “Consolidated Work Hours” period.17

17 Please refer to the ‘Vendor Audits – Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
**Overtime Extension Permission:** Along with the Consolidated Hours Permission, received from the Local Labor Bureau, Plant #10 has received an overtime extension permission, which allows it to work a total of 1040 overtime hours during 2002. This authorization extends the national PRC labor law limit of 432 maximum overtime hours by almost 250%. Plant #10 management has informed ICCA that this permission was secured in agreement with the workers’ approval. Under this policy, Plant #10 workers are permitted to work an average of 20 hours of overtime per week throughout the entire year. It should be noted here that the extended overtime permission secured by Plant #10 is vastly different than the norm in this region.

Among all the audits conducted to date, ICCA has found it to be one of the only two instances where a factory has obtained a permission to greatly increase its total permissible overtime hour on the yearly basis. ICCA has been advised by its legal counsel that the local Labor Bureau lacks the authority to grant such permission. Secondly, ICCA has not been provided with any information by the plant management as to how it secured the concurrence of the plant's workforce for such an extension of total work hours.

**Recording Work Hours:** Time cards are used to record the regular workday of a worker. Interviewed workers unanimously indicated that they punched their own time cards.

**Familiarity with Pay Stubs:** A majority of the workers interviewed by ICCA indicated that they were familiar with their pay stubs and understood the calculations of normal base wage as well as payment for overtime work.
Benefits: Plant #10 provides, medical insurance and pension plans to 13% of its workforce, and disability benefits to 33% of its workers. This practice has been approved by the local Labor Bureau.

Annual Leave: Plant #10 employees are entitled to 5 days of paid annual leave per year by company policy. Management has informed ICCA that workers are granted their annual leave upon contract renewal. However, those workers who have completed one year of service, but do not choose to return to the factory, are excluded from this benefit. This practice is inconsistent of the China labor law as well as GMP guidelines.

Maternity Leave: Plant #10 Management indicated that employees were provided with maternity leave benefits of 90 days. In addition, during the ICCA visit, the management stated that pregnant workers were assigned lighter tasks with reduced overtime restrictions. ICCA’s audit of the company’s financial records and payroll data, failed to provide any evidence to the effect that maternity leave benefits have been paid to any workers. Furthermore, there was no indication of any pregnant workers among the 4000 female workers employed.

II. D. Workplace Discipline of Employees

Plant #10 has policies and written procedures with regard to employee conduct and workplace discipline. These are included in the employee handbook and given to each employee during orientation at the time of initial hiring. For workplace infractions, an employee receives at least two written or oral warnings before termination. Plant #10 does not impose any cash fines as a disciplinary measure. Most employees
indicated that they were familiar with the disciplinary policies and generally considered them fair and reasonable.

II. E. Freedom of Association and Access to Management

    Plant #10 has established formal written procedures to ensure that there was no discrimination in hiring, promotion and other workplace practices. All interviewed workers indicated that there was no discrimination in promotion or wage increases among workers based on their religion, race, ethnicity or region of origin. There were no discrimination case records during the previous 12 months.

    Interviewed workers were unanimous in stating that they were not afraid to report any injury at the workplace. Workers also indicated that they were familiar with various channels of communications that they could use to communicate with different levels of management about issues of concern to them and they in fact frequently made use of them (Figure 2).

    **Plant #10 - Figure 2**

![Sources of Information for Job-related issues](attachment:image.png)
II. F. Protection From Harassment

Among the interviewed workers, there was unanimous consensus that they had never been subjected to sexual harassment by their supervisors or co-workers. They also indicated that they did not know of anyone else in the factory who was subjected to sexual harassment. There was also common agreement that line supervisors treated workers with respect.

II. G. Plant Cleanliness, Drinking Water and Toilet Facilities

Among the interviewed workers, there was general consensus about cleanliness and adequate ventilation in the plant. Workers also reported unanimously that they had sufficient access to running and drinking water and soap. However, a large majority of the interviewed workers expressed dissatisfaction with the fact that they had to get permission cards every time they needed to use bathrooms and toilet facilities. Workers also indicated that the number of permission cards was restricted and that quite often workers had to wait for a long time to get their turn.

II. H. Medical Facilities

The medical clinic at Plant #10 is a 4-bed facility, which is staffed with 4 nurses. There is an X-ray machine on premises. Medical services are available to workers around the clock.
II. I. Use of Personal Protective Equipment

All workers are provided with Personal Protective Equipment. Management encourages and enforces its usage through education and training. Safety risk analysis is conducted to decide on local requirements of PPE usage.

ICCA’s EHS experts identified several areas of concern during their field inspection.

- Workers in the Injection Molding Workshop were not wearing safety shoes.
- Some of the workers were not wearing earplugs in the correct manner.
- Employees distributing earplugs at the Sewing Workshop were not able to demonstrate the use of earplugs in the correct manner.
- Respirators were not worn and kept properly in the chemical storage areas.
- Industrial hygiene sampling conducted in 2002 did not reflect the full suite of chemicals (only testing for volatile organic compounds) that the workers were exposed to.
- There was no record of noise monitoring in the work areas.

II. J. Dormitories and Living Quarters

Plant #10’s dormitory was built in 1999 with a total area of 24,000 square meters. Dormitory living is voluntary. Employees are free to make their own living arrangements outside the factory. Among the workers interviewed, 32% lived in the dormitory.

Each dormitory room accommodates on average between 12-14 people. The Company is responsible for the operation of dormitories. Amenities include lockable storage space, private beds, lightning, fans, and water heaters. There is access to
washing, laundry services, hot/cold running water and sufficient toilet facilities. The ratio of showers to occupants is 15:1. Video and TV are provided in the dormitory as entertainment facilities. The dormitory is guarded by the factory’s own security system.

Total deductions for rent and food amount to RMB192, which are deducted from workers’ paychecks. Plant #10 management has indicated that these charges represent the actual cost of maintaining facilities and operating the canteen. ICCA finds these charges fair and reasonable. Interviewed workers, by a large majority agreed that the dormitory was safe, clean and pleasant.

II. K. Food and Canteen Facilities

The canteen is operated by the factory and serves 3 meals per day. The factory employs workers trained in food handling who were given annual medical examinations. Food is refrigerated and the canteen is cleaned and the garbage is picked up after each meal.

Workers are free to make their arrangements regarding their meals. They can either eat in the factory canteen or buy their own meals. Workers are responsible for cleaning their own utensils in the cleaning area. Among the interviewed workers, 60% mentioned that they buy their food outside. Interviewed workers expressed a large measure of satisfaction with the quality and quantity of food served in the canteen and the prices they paid for their meals.
II. L. Recreation Facilities

Workers interviewed by ICCA were unanimous in their opinion that that the plant provided good sports or recreational facilities, which included soccer, badminton, television, radio and basketball.

II. M. Non-Job Related Skills Enhancement Programs

The factory offers a first aid program as a non-job related training program. Interviews with the workers showed that 24% of the employees participated in training programs provided by the factory regarding safety and health issues.

III. Work Environment of Manufacturing Operations and Related Facilities

Plant #10 is a very large, well-planned, modern factory. The plant’s problems, as itemized below, are fairly easy to correct. The organization is run very well and with minor modifications could be a “show-piece” plant.

Compliance Issues: There was no “Three Synchronies” Inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation. The environmental Impact Assessment (EIA) report, dated 16 Aug. 2002, has been submitted and approval is currently ongoing.

Water Supply: Tap water was analyzed once a year according to the drinking water standards. Some of the parameters such as total coli form, nitrogen, turbidity and color were outside the acceptable standards. Tap water is filtered and boiled before
drinking. It was not known whether this met the standards. Drinking water was located next to the toilets in the Assembly Workshop and should be relocated.

**Wastewater:** There is an oil separator for canteen wastewater. However, this is currently bypassed. There has been no monitoring for wastewater discharged from the factory. Canteen wastewater should undergo oil separation prior to discharge from the factory. Wastewater discharged from the site should be monitored to ensure that it meets discharge standard (GB8978-1996).

**Chemical Handling:** Some of the MSDS were not available. MSDS of the chemicals were not kept in the workshops. A number of the chemicals containers were not labeled; e.g. Waves Soldering Workshop. There was no secondary containment in the chemical storage areas. There was a strong solvent and paint odor in the room. Containers were left open and some rooms were not equipped with exhaust fans. There has been no tank integrity testing. Three 200-liter drums of solvents were stored in the chemical storage area within the Silk Screening Workshop.

**Waste Management:** Some of the hazardous wastes such as empty tin containers were disposed as general waste. They should be disposed by a licensed contractor.

**Air Emission:** The water scrubber on the rooftops of Block 3 and 4 was designed for removing the solvent and paint fumes. Air emission from the rooftops of Blk 3&4 has not been tested to insure that it meets the standards. There was a strong solvent and paint odor that could probably be partly eliminated by the installation of an additional filtration unit. Air emission tests should be conducted to insure the standards are met.
Asbestos: An asbestos survey has been conducted and Chrysotile Asbestos was identified in the heater insulation of the injection Molding machines and the insulation board of the hot cutting blade. These were not labeled and some of the insulation was in a friable condition in the Injection Molding machines. No plan was developed for removal of asbestos contained.

Medical Surveillance: There has been no medical examination to test for occupational diseases as required under the legislation. Occupational diseases registration should be submitted to the local Sanitary in Epidemiological Station. Medical examinations should be conducted to check for listed occupational diseases.

Industrial Hygiene: The soldering units were not equipped with exhaust systems. There was a solvent and paint odor in the Tampo Printing Workshop where the machines use and open tray printing system. There was a strong solvent and paint odor in the Spraying Workshop. Some of the exhaust systems were not working properly. Solvent and paint fumes from the oven in the Spraying Workshop were exhausted into the workshop.

Electrical Hazard: The lock out tag out system was not in place for maintenance of equipment. The LOTO system should be reinforced.
ICCA Audit Report - Plant #11

I. Introduction

Plant #11 is located in Bao An District, China. The factory currently employs approximately 1400 workers. During the peak production season, the workforce increases to around 2200 workers. Approximately 80% of the factory’s capacity is dedicated to Mattel products. This report is based on the first formal field audit was conducted in January 2003.

Direct labor accounts for 95% of the workforce. The gender composition of the workforce is 67% female and 33% male. All employees at Plant #11 are over 18 years old, with the average age around 24 years. The average worker has middle school education and has been working at the Plant #11 for approximately 16 months. For approximately 30% of the workers, Plant #11 is their first employment experience.

II. Audit Findings

II. A. Recruitment and Hiring

Almost 80% of the workers got their jobs by applying at the plant site while the remaining 20% were hired through referrals from factory employees and friends. According to the Plant #11’s Management Compliance Report (MCR), a very small group (2%) of the workforce is recruited through employment agencies. However, all recruitment costs are borne by the Plant, and the workers are not subjected to any fees.

All workers are given a medical examination at the time of hiring except where they can provide evidence of a medical check already received through the local labor
Among the interviewed workers, about 30% were given the medical examination at Plant #11.

All workers undergo a general orientation at the time of hiring which lasts an average of 45 minutes. Employee orientation covers issues such as the employment contract, rules of conduct, disciplinary measures, grievance procedures, wages and deductions, living conditions, transportation, facilities, and amenities. (Figure 1)

**Plant #11 - Figure 1**

![Graph showing initial employment orientation](image)

In addition to the general orientation, workers receive job-related skills training, and Environmental, Health and Safety (EHS) training including Safety Training. It covers issues such as general safety rules, workplace hazards, emergency situations and personal aid (Figure 2).
Workers’ Contracts: All workers at Plant #11 received a signed contract. The most common contract at Plant #11 is for a period of five months, while a relatively small proportion receive a yearly contract.

Probation Period: Chinese national labor law requires that probation period cannot exceed one month for contacts of one year. Shorter contracts have proportionally shorter probation periods. At Plant # 11, many workers on 5-month contracts are put on probation for the entire duration of their contracts. Workers interviewed by ICCA were unanimous in stating that they were subjected to probation period lasting an average of three months. Plant #11’s probation policies are an extreme case of non-compliance China’s labor laws and GMP.

ICCA’s audit of payroll data revealed that all workers received at least the guaranteed minimum wage during the probation period. ICCA’s confidential interviews
with a sample of workers confirmed that all workers received overtime pay for extra hours worked.

**Mandatory Uniform Purchases:** Upon initial employment, Plant #11’s workers are required to purchase their own uniforms from designated vendors. These uniforms cost about RMB15-17 per set. On average, workers buy 4 sets per year. Although the employees purchase their uniforms from independent vendors, the fact that they have to bear the cost is inconsistent with Mattel’s GMP code. The issue of payment for uniforms has been brought to Plant #11’s attention at numerous times in the past by both Mattel’s internal audit department as well as ICCA’s previous consultation visit with Plant #11. Mattel’s GMP requires that employers must provide uniforms directly to workers free of charge.

**II. B. GMP Awareness**

The Management Compliance Report (MCR) provided by Plant #11 states that information on Global Manufacturing Principles (GMP) is provided to employees in local language. GMP Principles are also explained to workers during orientation and as part of other training programs. Among the workers interviewed by ICCA, less than 7% indicated any familiarity with the GMP. However, a significant number of workers (40%) also stated that the factory management informed them about some management principles or standards of behavior.
II. C. Working Hours, Wages, and Benefits

Minimum Wages: Base minimum wage at Plant #11 is RMB460 per month or RMB2.73 per hour, which is the legal minimum wage rate as of May 1, 2001. Although Plant #11 currently pays minimum wage as stipulated by law, plant management has delayed the starting date of the new minimum wage until September 1; continuing to pay at the old minimum wage rate of RMB440 per month during the period May through August. In effect, this practice has deprived Plant #11’s workers of their legally guaranteed minimum wage for a 4-month period. ICCA was given the explanation that the new wage information from the government had not reached the plant until September. ICCA notes that the change in the minimum wage was published in the periodic newsletter from the government, a document all businesses in China are required by law to subscribe. In ICCA’s opinion this explanation is unreasonable. According to China laws, any regulation published in the official documents and announced the newspapers, is legally enforceable. The factory is obligated to make good on the shortfall in the wages paid to the workers during this 4-month period.

Working Hours: Plant #11 has officially defined its workweek as Monday thru Friday, with Saturdays and Sundays as rest days. According to the PRC labor law, daily work hours may not exceed 11, at least one rest day must be provided to workers, and all work done on rest days must be paid at the rate of double wages. A random sample of the workers’ payroll records for the month of September 2002 showed that almost one-third of the plant workers frequently worked more than 60 hours per week. A number of these workers were observed to have worked up to 72 hours per week.
Interviewed workers, also stated that they regularly worked up to 104 hours of overtime per month during peak periods. Time card records of the sampled workers revealed that 30% of the plant’s workers had worked 13-19 consecutive days without a rest day. Thus Plant #11 has exceeded all prescribed limits to number of hours worked per day and per week.

**Overtime Extension Permit:** Chinese national labor law clearly states that regular hours per year must be less than 2004 and that yearly overtime hours must not exceed 432 to ensure that, yearly total work hours be less than 2440. Plant #11 has obtained a permission document from the Local Labor Bureau to extend its total allowable work hours to 60 per week. Plant #11 is one of the only two factories among all the vendors audited by ICCA to have received such permission. This permission effectively allows management to schedule approximately 3000 hours of work per year. ICCA has been advised by its legal counsel that the local labor bureau lacks authority to grant such permission. Despite this permission, Plant #11’s management admits to being in noncompliant of the law, which limits total yearly overtime to 432 hours.

**Non-Payment of Wages During Scheduled Shift Hours:** Plant #11 has a policy of requiring workers to clock out when production equipment is down or there is shortage of materials during an ongoing shift. When the materials arrive, or the equipment failure is fixed, workers clock back in and resume work. This practice is illegal under China’s labor laws. ICCA has also obtained expert legal advice confirming this conclusion. China’s national labor laws allows an employer not to pay workers in the event of power blackouts, which is a factor beyond the control of factory management. The employer
must pay workers appropriate wages for all other work stoppages such as discussed here.

**Recording of Work Hours:** The factory uses electronic time clocks and time cards to record employee work hours. Interviews conducted by ICCA confirmed that all workers were familiar with this system and they punched their own cards.

**Familiarity with Pay Stubs:** Plant #11’s employees interviewed by ICCA team showed good understanding of their pay stubs. Almost all of them (97%) reported that they understood how regular and overtime hours and wage rates were calculated, and the proper amount of deductions.

**Benefits:** Plant #11 provides social security to 20% of the factory’s employees, and injury insurance to 90% of the workforce. The Local Labor Bureau has approved this coverage.

**Maternity Leave:** Plant #11’s MCR states that all workers are allowed 90-days maternity leave as required by law. ICCA’s analysis of the payroll data, however, indicated that Plant #11 grants paid maternity leave only to its administrative staff and not factory workers. Maternity leave policies at Plant #11 are in noncompliance with the PRC labor law as well as Mattel’s GMP.

**Annual Leave:** According to the Chinese national labor law, employees are entitled to an annual paid leave of 5 days. At Plant #11, employees become eligible for their annual leave benefits after completing one year of continuous service. However, the practice at Plant #11 is to pay eligible employees RMB1 per day as a bonus, for each day they continue to work at the plant. For employees who stay at Plant #11 for a full second year, this amounts to a total compensation of RMB250 in lieu of five vacation
days. The cash equivalent of five workdays at Plant #11 is RMB110 calculated at the minimum wage rate. On the face of it, this system for compensating workers appears quite generous. Its practical impact, however, is quite different. In the event, workers leave Plant #11 at the end of one year, they do not receive any benefit under this system. In practice, workers would have to work for 110 workdays, or about 5 months past the end of their one-year tenure before they actually receive the equivalent of their entitled vacation pay. Considering that majority of Plant #11’s workers do not stay at the plant for more than one year - 80% of the plants workforce is hired anew each year - the net effect of this policy is the denial of annual leave benefits to most workers.

Personnel Records: Plant #11 keeps records of employees’ contracts and disciplinary action records in each worker’s personnel file. Other pertinent information such as training and orientation records are kept by function. ICCA auditors did not find any records of employees’ medical examinations although 20% of the interviewed workers stated that they were given a physical check up upon employment.

II. D. Workplace Discipline of Employees

Plant #11 has written rules and procedures on employee discipline. These are explained to workers during orientation and also through postings on factory notice boards.

The disciplinary measures include both warnings and fines. This plant is among the small minority of vendor plants, which impose cash fines as a disciplinary tool to curb employee misconduct. Among the interviewed workers, 40% reported that they were subject to a cash fine. Since the sample of workers selected for one-on-one
confidential interviews is a scientifically valid representative of the plant’s entire workforce, it would appear that almost 560 workers (40% of the entire workforce) were disciplined for one or more infractions of the plant’s disciplinary rules.

The minimum cash fine is RMB5. Workers also reported that in the case of repetitive violations, employees are likely to be fired. Disciplinary actions, subject to cash fines include, among others, time card loss (RMB10), careless work (RMB20), and smoking in the dormitories (RMB50).

Plant #11’s management reported that 100 workers were fined in 2001, for a total of RMB2000. The factory management indicated that money collected through these fines is targeted for workers’ entertainment and recreation activities. However, the factory was unable to provide any records to substantiate this claim.

II. E. Access to Management

Interviewed workers unanimously confirmed availability of multiple channels of communication between various levels of management and workers. These included suggestion box, postings on the factory notice boards, and direct communications with the supervisors. However, when asked about the most efficient ways of achieving work-related information, a majority of the workers (83%) listed notice boards at the dormitories and in the factory as their primary source of information.

II. F. Discrimination and Protection from Harassment

There is no formal union at Plant #11. The company has adopted a set of formal written procedures on freedom of association. These are communicated to all the
workers at the factory upon hiring. Workers interviewed during the ICCA audit unanimously reported that none of the employees at the factory had been discriminated in terms of promotion or wage based on religion, race, ethnicity, or region of origin. However, a number of workers reported that pregnant women, people with colored hair, or tattoos are not hired.

The confidential one-on-one interviews with Plant #11’s employees revealed that neither the interviewed workers, nor their co-workers had ever been subjected to sexual harassment. Almost all of the workers (97%) also acknowledged that neither them nor anyone they know of had been physically or verbally abused. All employees reported that line leaders, supervisors and managers treated them fairly and with respect.

II. G. Drinking Water and Toilet Facilities

Workers interviewed by ICCA generally expressed their satisfaction with their working conditions at the factory. Workers almost unanimously confirmed that they find factory and working area to be clean and properly ventilated. There were also sufficient number of restrooms and drinking water facilities. However, workers by large majorities complained that they had to get permission to leave the workstation to use restroom or get drinking water. These permits were offered in the ratio of 1 per up to 45 workers. Some of the workers also reported their dissatisfaction with the temperature condition at the factory and the exposure to safety and health hazards (Figure 3).
II. H. Medical Facilities

Plant #11’s medical facility is a 1-bed clinic, staffed by 1 attendant. The facility serves approximately 30 cases per month. Workers pay 5 RMB for personal visits to the clinic.

II. I. Use of Personal Protective Equipment

The factory provides all workers with personal protective equipment (PPE), which is appropriate for their job assignments. Workers are given training on the proper use of the PPE, and supervisors are responsible for ensuring that workers use their PPE in accordance with the job requirements. A hazard assessment has been reportedly conducted to identify the areas that require PPE usage. Among the interviewed workers, there was widespread agreement about the plant management’s emphasis on the use of proper PPE. Workers, by large majorities (86%) indicated that they used
their PPE on a regular basis. This was also confirmed by the ICCA audit team through a physical “walk through” of the factory. Although, a few deficiencies were observed. For example, the maintenance of some PPE was inadequate; respirators for the chemical storage areas were not stored in sealed bags.

II. J. Dormitories and Living Quarters

Living facilities consist of one dormitory building built in 1993 with a total area of 1,188 square meters. Rooms, which average 142.8 square feet, accommodate 7 people. All rooms have fan ventilation system, lights, toilets and bathrooms. All occupants have individual beds and lockable storage space. Workers are also provided with cleaning supplies and are responsible for keeping the living area clean. There is no running hot water.

All employees are required to stay in the dormitories, which are owned and operated by the local government. The workers are charged a monthly rent of RMB32. Almost 87% of the workers lived in the dormitories. Interviewed workers generally expressed overall satisfaction with the dormitory facilities.

The requirement of mandatory living in the dormitory is inconsistent with Mattel's GMP which calls for giving the worker a choice of either living in the housing provided by the factory dormitory.

II. K. Food and Canteen Facilities

At Plant # 11, lunch break lasts 90 minutes, which workers find to be quite satisfactory. ICCA audit team found the kitchen and mess hall in the factory in
satisfactory condition. Meals are served twice a day and the canteen is cleaned after each meal. Garbage is collected at a garbage station and picked up twice a day.

Workers’ cost of food for eating in the cafeteria for the entire month is RMB132. Plant #11 has a policy of imposing a mandatory charge on the workers equal to one-half month worth of meal tickets regardless of whether or not they use them. For the remainder period, they are free to make their own arrangements. The plant serves two meals per day. Breakfast is not served at the factory canteen.

The mandatory charge of food is inconsistent with GMP guidelines, which require that workers should be free to eat at the cafeteria or make other arrangements.

II. L. Recreation Facilities

Plant #11 provides access to a number of sports and entertainment activities, which are located in and around the dormitory facility. Among the most popular, according to the interviewed workers, are television, badminton, basketball, and table tennis.

II. M. Non-Job Related Skills Enhancement Programs

Plant #7 does not offer any non-job related training programs to its employees.

III. Work Environment of Manufacturing Operations and Related Facilities

Plant #11’s facilities consist of 2 production buildings, which were built in 1993. Manufacturing areas occupies a total area of 40,000 square meters.
It should be noted here that ICCA made an informational visit to this plant about one year ago when this plant was judged to be one of the worst manufacturing facilities then visited by ICCA. It is a pleasure to report that this small to medium sized plant has made major strides since ICCA’s previous visit and become one of the best manufacturing facilities within one year of our initial visit. There are still a few problems that require further attention. However, overall the plant management has every reason to be proud of turning essentially a dysfunctional plant into a factory that is both well managed and productive.

**Compliance Issues**: There were no Environmental Impact Assessment (EIA) report, EIA Approval, “Three Synchronies” Inspection, Pollutant Discharge registration and permits for air emissions, wastewater discharges, solid wastes generation and boundary noise emission as required by the legislation.

**Wastewater**: There was a separate sewer and storm water drainage system within the factory that drained into the same wastewater drainage channel outside the factory. There has been no monitoring for wastewater discharged from the plant.

**Soil Contamination**: There was a 10,000-liter diesel underground storage tank that had been decommissioned. There has been no soil and groundwater monitoring conducted to assess contamination.

**Chemical Handling**: Chemical stains were observed on the Dangerous Goods Store. There was residual diesel in the tanks and diesel stains were observed on the floor.
**Waste Management:** The secondary containment in the Waste Chemical Store was inadequate and there was no spill control equipment. There was a strong solvent and paint odor.

**Air Emission:** The water scrubber system is currently being upgraded. It has not been tested to ensure that it meets the standards.

**Medical Surveillance:** There has been no medical examination to test for occupational diseases as required under the legislation.

**Industrial Hygiene:** Individual exhaust fans had been provided for the individual soldering stations. However, some of the workers were not utilizing or were not provided with them. The industrial hygiene sampling conducted in 2002 did not reflect the full set of chemicals tested, instead only those organic compounds chemicals were tested to which the workers were exposed.

**Falling Objects:** There were no annual statutory inspections conducted for the hoists as required by the legislation. Some of the wooden pallets used for stacking materials were broken.
I. Introduction

Plant #12 is located in the Guangdong province in China. At the time of the current audit, Plant #12 had a workforce of approximately 4500 workers. Currently, 100% of the plant’s capacity is dedicated to the production of Mattel products. The following report is based on a field audit of the plant, which was conducted on August 2, 2002. This is the first formal audit of the plant by ICCA.

The plant’s workforce is comprised of 98% direct labor and the remaining 2% are administrative and managerial personnel. The gender composition of the workforce is 90% female and 10% male. All workers are over 18 years or older. Education level of the workforce is around 8 years of formal schooling. The average length of employment at Plant #12 is 1 year. For almost 50% of the employees, it is their first job.

II. Audit Findings

II. A. Recruitment and Hiring

A majority of the workers got their jobs either by applying at the plant site or through referrals from friends and current employees. A small number (5%) of the workers were hired through recruiting agencies.

The company provides an orientation program to all newly hired workers. In addition, workers are also given training in health and safety issues. This training consisted of knowledge about safety rules, emergency evacuation training and drills,
and workplace hazards. All newly hired workers are given a medical examination, which includes general check-up, X-ray, and blood test.

**Workers’ Contracts:** Upon employment, each worker receives a signed contract, which describes the duration of the contract, hours to be worked, wages, and benefits and other related issues.

**Probationary Period:** All newly hired workers are required to undergo a probationary period of at least 15 days. PRC labor law and GMP guidelines indicate that all workers must be paid at least the government-mandated minimum wage during the probationary period. However, an audit of the Plant #12 payroll data showed that Plant #12, workers were paid less than the minimum wage (RMB2.1 per hour) during their probationary period. This practice is in noncompliance with both the China labor law and GMP standards.

**II. B. GMP Awareness**

Plant #12 provides information about GMP through postings on the notice boards, discussions with friends, fellow workers, and floor supervisors. However, these efforts appear to be inadequate as less than 15% of the workers interviewed by ICCA acknowledged any familiarity with GMP standards. Some workers, however, mentioned that factory management gave them information about management principles and standards of behavior applicable at the plant.
II. C. Working Hours, Wages, and Benefits

A desk audit was conducted on randomly selected personnel files and payroll data of a statistically representative sample of the plant’s entire workforce. The audit was performed on the plant’s payroll records for the month of June 2002.

Minimum Wages: Plant #12 pays a basic wage of RMB2.51 per hour, or approximately RMB450 per month, which is a local minimum wage, for a 40-hour workweek. Average take-home pay is around RMB700, and varies somewhat based on peak and off-peak seasons.

Working Hours: For purposes of calculating wages and working hours, Plant #12 operates on the basis of a 40-hour workweek. A typical workweek consists of 6 days (Monday through Saturday) with Sunday as the normal rest day. According to company policy, Plant #12 regularly schedules employees to work for 60 hours per week. Of these, 40 hours are paid at normal rates, and the remaining 20 hours are paid at overtime rates. A typical workday during the week (Monday thru Friday) is comprised of 7 regular hours and 3 overtime hours. Saturdays consist of 5 normal hours and 5 overtime hours.

ICCA’s findings showed that 75% of the workers exceeded the maximum overtime limit for the month of June, calculated on the basis of the GMP code, which stipulates a maximum of 60-hour workweek including a maximum of 20 overtime hours. Moreover, as explained below, Plant #12 had also operated in excess of the more liberal overtime hours permitted by the local labor bureau under the provisions of the Consolidated Work Hours.
**Consolidated Work Hours**: Plant #12 has a current permission from the local labor bureau to operate on the basis of Consolidated work hours.\(^\text{18}\) This permit allows the plant to consolidate its total allowable annual (or semi-annual) overtime hours into a shorter time span because of the seasonal nature of its production and manufacturing needs. The authorization permit, however, must clearly state the time of the year and the actual number of days per year, which would constitute Consolidated Work Hours period.

The authorization permit for Plant #12 covers the entire calendar year, which in itself is an anomaly since it contradicts the notion of peak production period. The permit stipulates that total normal work-hours must be less than 2008 per year (251 work days, 8 hours per day), and that overtime hours must not exceed 432 hours per year. However, a particular workweek may extend to 66 hours per week (6 days per week, 11 hours per day) during peak production periods. According to ICCA’s calculations, at this rate the plant may completely exhaust all the available hours (normal and overtime hours) in less than 37 weeks and thereby leaving the remainder of the year with no available work hours.

At the time of the audit, Plant #12 management informed ICCA auditors that the plant did not keep records showing cumulative working hours either for the entire factory or by individual workers. Therefore, it was not possible to ascertain actual overtime working hours during the Consolidated Working Hours period. However, ICCA’s audit of the payroll data revealed that several workers had already worked more than 432

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\(^{18}\) Please refer to the ‘Vendor Audits- Executive Summary Report’ for details pertaining to the Consolidated Hours Permission system.
overtime hours by the end of July, leading ICCA to conclude that Plant #12 has systematically exceeded all permissible overtime hours limits.

    Plant #12’s inadequate payroll records also make it impossible to ascertain whether individual workers received accurate pay for all the overtime hours that they were called upon to work. Plant #12’s management has stated in its Management Compliance Report that the factory was in noncompliance with the PRC labor law, the GMP, and the local Consolidated Work Hours permit. Unfortunately, the real extent of the excessive work hours could not be ascertained due to unavailability of proper records.

    Recording Work Hours: Time cards are used to record the start and finish times of each day’s work. At the end of each month, time card records are entered into a computer information system, which reports daily work hours and corresponding pay as well as deductions and allowances for each worker. Workers are paid monthly in cash, approximately 25 days after the end of each pay period. All of the interviewed workers indicated that they punched their own time cards.

    ICCA’s analysis of Plant #12’s payroll data indicated that all workers were compensated properly for all normal and regular overtime, and rest-day overtime hours.

    Familiarity with the Pay Stubs: ICCA’s analysis of workers’ interview data indicated that an overwhelming majority of the interviewed workers (95%) were familiar with their pay-stub calculations and were satisfied as to their accuracy in terms of base wage, regular, overtime and holiday hours worked, and total payments received.

    Benefits: The company provides social insurance to 13% of its workers. All workers have medical insurance. The company does not provide pension, or disability
insurance. Plant #12 has the approval of Local Labor Bureau regarding its insurance coverage. Workers are not eligible for any bonuses or allowances for work skills, productivity improvement or any other performance recognition.

**Maternity Leave**: PRC labor law provides that all workers are entitled to mandatory maternity leave of 90 days. At Plant #12, only administrative staff receives maternity leave while production and assembly line workers are excluded from this benefit. This practice is contrary to PRC labor law and GMP guidelines. Worker interviews also revealed that Plant #12 had an explicit policy for ostracizing pregnant workers and had created a culture, which forced pregnant workers to resign.

**Annual Leave**: PRC labor law and GMP guidelines require that all workers, who complete one year of service, should be given paid annual leave of 5 days. ICCA’s audit revealed that Plant #12 was in full compliance with this policy.

**Sunday as Rest Day**: PRC labor law and GMP mandate that employers must guarantee each worker a day off every week (typically Sundays). When Sunday work is required, workers are entitled to a replacement off day or double the normal rate of wages for work performed on Sunday. Based on the records made available to ICCA by the factory, ICCA did not find any violation of one-day-per-week rest day. However, given the poor state of record keeping at Plant #12, the reliability and accuracy of this data cannot be ascertained.

**Work on National Holidays**: During our audit, ICCA discovered a potentially serious noncompliance of PRC labor law and GMP standards in terms of (a) work on national holidays, and (b) involuntary overtime on the part of the plant’s entire workforce.
Both the National PRC labor law and Mattel’s GMP require that any work done on national holidays must be compensated at triple the regular pay rate. On May 1-2, 2002, which were national holidays in China, Plant #12 workers were asked to report to work. For this work, they were paid regular wages, and were subsequently given two days off to compensate for their entitled days off for national holidays. The end result of this action was that:

(a) Workers were not asked whether or not they wished to work on a national holiday, which amounted to involuntary overtime on the part of the plant’s entire workforce of 4,500 workers.

(b) Workers were also not paid the required triple pay for work on a national holiday.

ICCA’s inquiries indicated that there was indeed some miscommunication and confusion between the Plant #12 and Mattel, which led to the scheduling of the plant operation on a national holiday. Regardless, it is important that the workers be paid the extra wages that they should have legitimately received. It is also important that Plant #12 puts in place appropriate safeguards to avoid recurrence of similar situations in the future.

**Personnel Records:** All workers at Plant #12 have a signed contract on file. The factory keeps records of workers’ initial medical exams, orientation attendance, training periods, safety instructions, and safety equipment issued.

**II. D. Workplace Discipline of Employees**

Plant #12 has written policies with regard to employee discipline and all workers are informed about these policies and procedures during the orientation period. Plant
#12 imposes a variety of cash fines for different types of disciplinary problems. These include, among others, stealing, fighting, sleeping at work, disobeying production process rules, and being late for work.

Audit findings show that Plant #12 had collected a total of RMB150,000 over the past 12 months in fines from its workers. This figure comes to approximately RMB3 per month per worker (fines range from RMB2 to 7). ICCA’s calculations suggest that on an average, each worker is likely to be fined at least one a month. For a plant employing 4500 workers, it amounts to about 50,000 disciplinary problems a year that are subject to fines. Given the number of incidents subjected to fines, and the total amount collected, there is a serious question as to the effectiveness of using cash fines as a deterrent to misconduct or to improve employee conduct.

Plant #12 management stated that all fine proceeds were used for worker welfare. Information made available to ICCA auditors was not clear on what welfare activities were included and whether these activities were actually undertaken. Information as to whether these worker welfare activities were intended for all workers or limited to particular groups of workers was not made available by plant management.

II. E. Access to Management

Plant #12 has a good record of encouraging its workers to seek out their line supervisors and managers and to express their opinion on issues of concern to them. Among the interviewed workers, a large majority expressed general satisfaction with its access to management. Workers also felt that plant management was receptive to suggestions for improvement. Workers indicated that they could speak freely and
without fear to senior management, line supervisors, and HR department with their complaints and problems. A variety of communication and consultation channels are available to workers, including notice boards at the plant and the dormitory, line leaders, co-workers, HRM personnel and plant managers.

II. F. Discrimination and Protection from Harassment

Plant #12 workers were asked a series of questions about their freedom of speech and association. Interviewed workers were unanimous in their view that there was no harassment for union-related activities, and that to the best of their knowledge, no worker was ever fired or demoted for any kind of union-related activity. Workers also confirmed by a large majority that there was no discrimination in promotion on the basis of religion, race, ethnicity, or region of origin. There was also consensus among the interviewed workers that promotions were based on merit.

All workers agreed that their line leaders and supervisors treated them fairly and with respect. None of the employees interviewed was subjected to any kind of sexual harassment by a co-worker, line leader, supervisor or manager personally. They were also unanimous in stating that they did not know or had heard of any other worker who was subjected to any form of harassment. All employees felt free to report incidents of harassment or injury at the plant without fear of reprisal.

II. G. Plant Cleanliness, Drinking Water and Toilet Facilities

One-on-one confidential interviews with a randomly selected group of workers indicated that employees were generally satisfied with the cleanliness of the factory as
well as their work areas. Employees have adequate access to drinking water and bathroom facilities. The toilets are clean and well maintained and there is adequate running water. Employees also expressed satisfaction with access to the bathroom facilities when needed.

II. H. Medical Facilities

The medical clinic at Plant #12 is totally inadequate both in terms of attending personnel and medical supplies. There is a single medical technician working one shift. The plant has 4500 employees and the medical technician is expected to treat patients during her off—hours as she resides at the dormitory.

II. I. Use of Personal Protective Equipment

ICCA’s EHS experts found that PPE was not properly used and poorly maintained in many areas of the plant. In particular, the instances listed below cause concern:

- Workers handling solvents were using cloth gloves, which are inadequate for the task.
- Reclaiming area supervisors and workers were found not to be using ear-protection.
- Facemasks were not worn properly, and were inadequate for the tasks by design.
- Workers adjacent to high-noise areas were not using ear protection
- Tempo painters need upgraded masks.
• Safety shoes were not worn in areas they are needed.

Among the workers who were interviewed in the factory, 75% claimed they knew how to operate their equipment free of hazard to themselves and to the facility. 65% reported that they were provided with safety equipment to prevent potential accidents.

II. J. Dormitories and Living Quarters

Plant #12 employees are required to pay, in cash, RMB180 per month for food and dormitory expenses. These expenses are voluntary. Workers are free to make their own arrangements with regard to housing and meals.

Among the workers interviewed by ICCA, less than 12% confirmed that they lived in the dormitories, which were located close to the factory facilities. These dormitories are owned and operated by the local government. ICCA found the physical conditions of these dormitories to be simply deplorable, which would fail to meet GMP standards or even minimum standards for maintaining worker health and safety. The ambient temperature was abnormally high in the summertime as the roof is made up of uninsulated, corrugated steel. There is hot water available for washing and bathing, which are the only offerings to the inhabitants. There is no fire prevention or protection system in place. Interviews with workers indicated that only one-half of those workers who lived in the dormitories had hot/cold running water. Less than one in three workers confirmed to having sufficient washing and toilet facilities, and found the dormitories safe, clean and pleasant. Workers also reported they had no access to radio or television.

The factory’s Management Compliance Report (MCR) states that the maximum capacity of the dormitory rooms is 16 people. However, one-on-one interviews with
Plant #12 employees revealed that the distribution of people in rooms is quite unsystematic: in some cases workers reported to share a room with 2-4 other workers, while in other cases, room occupancy reached 32 people (Figure 1).

**Plant #12 - Figure 1**

![Employee Satisfaction With Dormitory Conditions](image)

**II. K. Food and Canteen Facilities**

Plant #12 offers two meals per day to the employees, each meal costs RMB1.5. Plant #12 is responsible for the upkeep of the eating area and cooking facilities. Workers are responsible for cleaning their own utensils. Garbage is disposed twice daily, and the entire canteen area is cleaned every day.

Less than 10% of the interviewed workers stated that they ate their lunch at the factory canteen. The majority of the interviewed workers (92%) indicated that they preferred to buy or cook their own food. In general, lunch break lasts one hour, and workers have no additional breaks.
II. L. Non-Job Related Skills Enhancement Programs

Interviews with Plant #12 employees indicated that the factory did not offer any non-job related training programs. Although, about 10% of the interviewed workers stated that the company periodically provided some training programs, which were related to safety training and firefighting skills.

III. Work Environment of Manufacturing Operations and Related Facilities

A walk-through inspection of the Plant #12 facility revealed that the plant is generally clean and the ventilation is adequate. An EHS officer is responsible for safety in the plant and there is a monthly safety committee meeting.

ICCA’s overall assessment of Plant #12’s EHS policies and practices, however, is unsatisfactory. Plant #12’s record keeping in these areas – as in all other areas previously mentioned in this report – is quite deficient. In many cases, proper documentation could not be found with regard to potable water, wastewater, air quality, maintenance, medical, and accident reports.

In general, ICCA is concerned about the EHS management practices at Plant #12. A significant number of deficiencies noted in this report were also mentioned during preliminary consultations in December 2002, and still remain unresolved after two years. To a large extent, these problems can be traced to a lack of emphasis on maintenance. Some of the major shortcomings identified by ICCA’S EHS team are noted below.
**Wastewater**: Water from the plasticizer and condensation from the air compressors drain onto the floor. There is no water treatment or monitoring of the cooling towers.

**Soil Contamination**: Leftover paint is poured down into the drains. Air compressor room and vacuum plating area have oil contamination on the floor.

**Air Emission**: There is no exhaust monitoring for the vacuum metalizing room. The exhaust from the die-cast machines is discharged directly into the atmosphere.

**Ventilation**: Tempo printing area is not properly ventilated. There are open paint cans in the storage area. The negative draft in paint spraying vents is inadequate, causing fumes in work areas. Extremely high ambient temperatures (up to 106 F) are observed in the injection molding area. Of the interviewed workers, 25% complained of uncomfortably hot working conditions during the summer time in certain parts of the plant.

**Vacuum Metalizing**: The inter coolers are corroded. Lighting is inadequate. The air temperature is too high. Deficient wiring in this area was observed.