

Mattel, Inc.

Mattel Operated Plants in China
**Compliance with Mattel's Global
Manufacturing Principles**

Conducted by



International Center for Corporate Accountability, Inc. (ICCA)

A non-for-profit, educational-research organization

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A. ICCA'S AUDIT PROTOCOLS

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

A.1 Pre-Audit Preparation

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

A.2 The Field Audit

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

The second element of the audit involves confidential, one-on-one interviews with the same group of workers who were previously selected for the payroll and personnel file audit. This process allows for a comparison of the information contained in the plant's payroll records and personnel files, and the information elicited from the workers through confidential, one-on-one interviews. The personal interview questionnaire was developed by ICCA and is designed to

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

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

The environmental health and safety (EHS) audit consists of three distinct evaluations with some minor overlaps:

1. An evaluation of the MCR completed by plant management indicating either 'Full Compliance', 'No Documentation Available', 'Compliance-in-Progress', and 'Not Applicable' to each of the items presented.
2. A physical 'walk-through' of the plant to observe from an engineering and EHS point of view the status of the plant.
3. Examination and evaluation of available documentation provided by the plant management. These documents pertain to, among others, permits for waste water and hazardous waste disposal, air quality and noise control, findings of various required monitoring tests, site surveillance, compliance and follow-up.

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

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

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

A.3 Post-Audit Activities

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

CHANG AN PLANT

1. INTRODUCTION

The following report presents findings of a field audit of the Chang An plant (CA), conducted by the Sethi International Center for Corporate Accountability (SICCA) on June 13-14, 2008. This is the fourth formal audit of this plant.¹

SICCA's previous audit of Chang An facility was conducted in March, 2007. That audit revealed a number of substantive inconsistencies between workers' statements in the interviews and plant management's assertions. Furthermore, the integrity of that audit was compromised due to non-cooperative attitude on the part of the management. It caused some difficulty in selecting a random sample of workers for one-on-one confidential interviews, which is an integral part of SICCA audit. Subsequent to that audit, it was mutually agreed between SICCA and Mattel that SICCA would conduct another full-fledged formal audit to re-examine the issues that were questioned by SICCA in its 2007 audit.

The CA plant is located in the Chang An district of Dongguan, Guangdong Province, PRC. It operates under a processing fee agreement between Mattel and the local government. However, for purposes of this audit, CA is considered a Mattel controlled facility, which is dedicated to the manufacturing of Mattel products.

The workforce at CA fluctuates according to the production seasons, with approximately 4800 direct labor workers employed during low production period, and reaching 8900 direct labor workers in the peak season. At the time of the audit, CA employed about 7500 workers. Of these, about 6% were administrative and managerial personnel, and 94% were direct labor. Almost 60% of the workers at the factory are female. The average age of the workers is 25 years and their education level is around 9 years of formal schooling. For one-third of the workers (32%) this was their first job.

¹ Earlier audits of the CA plant were conducted in 2000, 2003, and March 2007. SICCA's audit reports for Chang An and other Mattel owned plants, as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: www.sicca-ca.org and www.mattel.com.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

A majority of the workers at CA (98%) are hired through walk-in applications or through referrals from friends and family members. The remaining 2% are enrolled through recruitment agencies for which the fee is paid by the plant. Upon hiring, workers are given a general orientation, which covers terms and conditions of employment, workplace safety and discipline, living accommodations, and other relevant matters.

a. Medical Examination

All workers hired at the CA facility are required to undergo a medical examination as a condition of employment. The cost of the medical examination is borne by the workers.

b. Pregnancy Tests

Among the workers interviewed by SICCA, a small number of female workers (5%) indicated that they were required to take a pregnancy test as part of the required medical examination at the time of hiring. They also voiced their belief that the factory did not hire pregnant workers. The practice of giving female workers a pregnancy test and denying employment to pregnant workers are inconsistent with China labor laws and Mattel's GMP standards.

c. Initial Deposit

One of the most troublesome findings of the previous SICCA audit in 2007 was the fact that one-half of the interviewed workers reported that the plant required them to leave a deposit at the time of their initial hiring at the factory. The amount of the deposit was indicated to be either RMB500 or RMB800, or an equivalent of 15 or 20 days of salary. Workers believed that the deposit was meant to prevent them from leaving their jobs before the completion of their contract and also to discourage them from leaving during the peak production period.

At the time of the 2007 audit, the plant management disagreed with this finding by (a) indicating that there was no such practice and (b) suggesting that workers had misinterpreted the time lag of 2-3 weeks between the end of a pay period and the actual date when they received their month's wages. At the time of 2008 audit, plant management re-iterated its earlier position and stated that workers had misinterpreted another provision of the contract. CA management explained that in the case of breaching a contract either the plant or the worker was required to pay RMB500 for liquidated damages. This sum would be paid upon the last settlement of the terminated contract. This policy was mentioned in

the employee contracts. CA's management also stated that that policy had been abolished as of January 2008. However, 28% of the workers who stated various complaints in regard to this policy were hired after January 2008.

As part of the interview process, SICCA requested to interview the same group of workers who had mentioned the issue of deposits during the 2007 audit. Of the original 25 workers, only 9 were still employed at the factory, All of the interviewed workers once again confirmed mandatory deposits and indicated that the deposit had not been returned to them either partially or in full. In addition to this specific interview sample, 28% of the interviewed workers in the general sample of randomly selected employees also confirmed that mandatory deductions were made by the factory from the first month's salary of the workers. Furthermore, another 11% of the workers stated that the practice of last month deduction for the bridge of contract was still in place.

It was further asserted by the workers (23%) that the resignation from the plant was extremely hard to achieve. Workers who wished to leave the factory were required to submit an application letter to the managers at least 30-35 days in advance. This application had to be approved by their supervisors. The approvals were granted only in cases of family emergencies or severe illness of the applicant worker. In SICCA's opinion, this requirement of resignation approval is more than excessive. Workers should be free to resign without supervisor approval as long as they provide 30 day advanced notice.

Notwithstanding, plant management's assertions, SICCA concludes that CA's imposition of restrictions aimed at discouraging workers from resigning are quite onerous and inconsistent with the spirit and letter of GMP standards. From SICCA's perspective, it is almost impossible to resolve these conflicting claims. First of all, CA has a dual management structure where the China partner has the responsibility of managing and keeping records of employee wages, benefits, working hours and other HR policies. Secondly, all payroll records are kept manually and all pertinent data are recorded manually by supervisors. Consequently, the integrity of the data cannot be independently verified.

d. Workers' Employment Contracts

Upon employment, each worker receives a signed contract from the plant as required by the labor laws of China and GMP standards. SICCA's audit confirmed that all workers had received a signed copy of their contract with duration of either one or two years.

Specific conditions of employment, including factory policies in regard to disciplinary actions, payment of wages, benefits and deductions, as well as Mattel's GMP guidelines, are included in the Employee Handbook. According to CA's Management Compliance Report, all workers receive a copy of the Employee Handbook at the time of hiring. In reality, however, copies of the

Employee Handbook are not provided to each individual worker. Instead, they are only available upon request in the factory's library and the dormitory administrator's office.

f. Personnel Files

The plant maintains good records in its workers' files. Each worker has a signed contract on file. Personnel files include employment registration/application form, a health certificate, copy of the employee's identification card, employment contract, working hours and wages and benefits and training records. In addition, company records that are kept by function include PPE distribution, injury reports and maternity leave reports.

2.2 GMP Awareness

SICCA's 2007 audit had revealed a low level of familiarity among the plant workers with Mattel's GMP standards. During the initial meeting with CA's management, SICCA team was informed that the plant had taken steps to improve this situation. Workers now receive information about GMP standards at the initial orientation, training programs, and staff meetings. In addition, GMP guidelines are posted on the notice boards. These activities have brought noticeable results. In the sample of the workers interviewed by SICCA, 68% of the respondents indicated some familiarity with Mattel's GMP compared to only 32% a year earlier.

2.3 Payroll System and Record Keeping

At CA, all payroll data, workers' time-in and time-out records, wages, regular and overtime working hours, benefits and deductions, and all other pertinent information is recorded manually. Line supervisors record daily work hours, which the workers sign once every week to confirm their accuracy. The line supervisors' records, however, do not indicate either the start or termination time of individual shifts. Instead, the time sheets only report the number of hours worked each day for each employee. SICCA's auditors noted that employees' attendance records were without exception identical for all workers, mirroring the standard production scheduling template.

CA workers are paid based on a piece-rate system. However, if a worker's piece-rate earnings fall below the minimum wage rate, they are guaranteed at least the minimum wage for their actual work hours. Therefore, it is impossible to determine the extent to which wages were accurately paid for regular and overtime hours based on the workers' time sheet and payroll records.

The manual record keeping at such a large scale defies logic. It is unlikely to be cost effective especially in view of the fact that CA's wage system is quite complex and requires multiple calculations and conversions between piece rates and hourly wages. In addition, the payments include performance bonuses calculated for entire lines as well as pro-rated pay calculations for individual workers. Such a complex system is prone to human error. And finally, in its current state, it is difficult to verify for accuracy.

Therefore, it must be emphasized that SICCA's audit findings presented in this section are entirely based on the factory provided data. SICCA has no confidence as to the veracity of this data and the extent to which it might differ from the information provided by the workers in one-on-one confidential interviews or the actual conditions prevailing in the factory.

a. Working Hours

According to the data provided by the management, the CA plant operates on the basis of 6-day / 40-hour workweek, with Sunday being a rest day for all workers. The only exception is that of the Injection Molding department where workers have a floating system of rest days. CA's payroll records confirm that the plant is in full compliance with all work-hours provisions of Mattel's GMP.

Overtime hours at CA plant are voluntary as confirmed by the interviewed workers, who indicated that they were never forced to work additional hours. At the same time, when asked whether they would like to have more overtime scheduled, 23% of the workers indicated that they would prefer less overtime hours than currently scheduled. In addition, 11% of the interviewed workers disagreed with the statement that they would prefer to work extra hours whenever asked by the management.

b. Wages

Starting April 2008, the minimum wage rate in Dongguan area is RMB770 per month. Workers in all departments except Injection Molding are paid based on the piece rate system. Workers are also entitled to seniority bonuses after one year of service at the factory.

Wage rates at CA are RMB4.43 for the normal hours, 1.5 times the normal wage for the overtime hours on regular working days. In certain cases when rest-day work is scheduled, the company policy is to award a replacement day off within one week. CA's policy also provides for 200% of normal wage rate for non-replaced rest day work. The employees are required to take the annual leave days. Only if the plant can not arrange the workers to take the annual leave, the plant would pay the worker 300% of the normal wages.

Payroll records, based on the work hour records provided by the plant management, confirm that all workers are paid at least the minimum wage for regular hours worked and all overtime wages are paid according to the law. Workers also receive seniority bonuses and night-shift allowances in addition to their regular wages. Workers' average take-home pay averaged RMB1300 including bonuses, allowances and deductions. Monthly payments are given to workers in cash about 20 days after the pay period is over.

c. Benefits

CA pays legally mandated accident insurance benefits for the entire workforce. Medical and pension insurance contributions are applied to 25% of the workforce, which is in accordance with the requirements imposed by the local labor bureau. The plant has not received a certification from the local labor bureau regarding their implementation of social insurance benefits

CA has modified its maternity leave pay policy since SICCA's previous audit visit in 2007. The revised policy, which became effective in July 2007, provides that workers on maternity leave would not have to wait for payment until after they return to the plant. Instead, they would receive regular monthly pay for the 90-day maternity leave either through bank transfer or have a designated person sign up for their monthly salaries.

The factory has also revised its sick leave policy. During 2007 audit, it was found that some workers receive less than stipulated by law payment during sick leave. CA has modified this policy to meet applicable GMP standard and China labor law requirement of at least 80% minimum wage payment.

d. Deductions

CA factory charges RMB52 for dormitory rent and RMB93 – 250 for meal plans. In addition, workers are deducted RMB70 for social insurance and RMB2 plant medical fund. A small number of interviewed workers (7%) complained about mandatory food deduction for the first month of their employment.

e. Workers' familiarity with benefits and wages calculation

Interviewed workers demonstrated a low level of familiarity with the employment terms and policies. In part this reflects a high turnover among workers. Equally important is the dual basis of calculative wages, i.e., piece rate and hourly rate and multiple bonuses. It is not surprising that the wage system and pay stubs are difficult to comprehend by the workers. Among the workers interviewed by SICCA, a very large majority (79%) indicated that they did not understand the wage system and did not know hourly rates for normal and overtime hours. A significant majority (58%) of the workers were unable to explain what portion of their working hours constitutes regular hours and what

portion is considered to be overtime. More than a quarter (26%) of the workers did not fully understand their paystubs.

Workers were also poorly informed about other aspects of the benefit system. In the sample of workers interviewed by SICCA, 84% did not know the provisions of the factory's maternity leave policy. Furthermore, a little over one-third (37%) of the interviewed workers could not explain the company's annual leave policy.

2.4 Employee Services

a. Dormitories

There are four dormitory buildings located on and nearby the territory of the plant and built between 1986 and 1997. The combined capacity of the dormitories is 7,796 people and the total floor area is 60,000 ft².

Rooms have fans and lockable storage space for each tenant. All dormitory buildings meet GMP requirements for minimum allowable space per person. However, dormitories 2 and 3 located outside of the plant do not meet GMP standards in regard to the minimum number of toilets and showers. Dormitory buildings with 4 and 5 floors do not have showers and toilets on each floor. All workers have to walk outside the dormitory to a separate facility, which does not have enough toilets and showers to meet the minimum level of GMP requirement.

b. Food Services

Lunch break at CA is one hour. Workers are free to choose to take their meals at the canteen or outside the factory. They can opt out of the canteen services on a monthly basis. The factory canteen provides four meals daily. However, employees may only choose to have either 1 or 3 meals per day at the canteen.

Canteen kitchen is clean and well maintained. Employees who work in the canteens are trained in food handling and are given physical examinations each year. Garbage is picked up four times daily.

Among the workers using canteen services and interviewed by SICCA, there was general satisfaction in the amount of food served per meal. However, 30% of these workers complained about the poor quality and lack of variety in food.

c. Medical Facilities

CA has a one-bed 24 hour clinic on-site. There are five medical doctors in the clinic who work different shifts. Employees' medical costs are partly covered by plant medical fund. Through this program, workers are offered four free treatments per month. Subsequent visits are charged at RMB2 per visit.

2.5 Workplace Operating Environment-Environment,

At the time of the 2007 audit, a series of EHS related deficiencies were noted. This audit is focused on the previous deficiencies and aims to determine the extent to which these issues have been properly addressed. In addition the plant's documentation was rechecked for compliance with applicable national and local Chinese laws and regulations.

a. Production processes and physical layout of the plant

CA is a very large plant consisting of six company-owned buildings and one rented warehouse. The total floor space is 42,739 sq. m. or approximately 450,000 sq. ft. The company-owned buildings are 8 to 22 years old with the exception of the rented warehouse, which is five years old. The primary production processes are molding, painting, cutting sewing, assembly, and packaging.

b. Physical Conditions of the Plant

1. Plant Deficiencies noted in the 2007 audit:
 - a. Leaking pump seals in four water coolers: corrected
 - b. Power station safety enclosure: corrected
 - c. Model shop electrical line on ground: corrected

2. Housekeeping

Scrap and debris in dormitory maintenance room, power station #1 and injection molding have been removed.

3. Fire Safety

All problems with fire extinguishers, fire hose station boxes, and emergency lighting have been corrected.

4. Warehousing

a. Problems with the shack type structure containing scrap on the roof of Building #1 have been corrected.

b. Wiring problems in the warehouse have been corrected.

5. Ventilation

Ventilation problems in the spray and hand painting areas, tampo painting area and assembly and packaging areas have been partly corrected.

6. Hazardous Material Storage

a. MSDS are now available in both Chinese and English languages.

b. Secondary containment and a warning sign have been provided at the injection molding oil warehouse.

7. Personal Protection Equipment

The use of PPE has been upgraded. No deficiencies were observed.

c. Documentation, Compliances and Permits

1. No completion Inspection Monitoring for the plant had not been conducted, or its approval issued by the local Environmental Protection Bureau (EPB): Not corrected.

2. No Pollutant Discharge Permit was obtained from the local Environmental Bureau (EPB): Not corrected.

3. Domestic wastewater tests conducted by Central Testing International (CTI) on December 5, 2006 and July 20, 2006 showed that the concentration of Chemical Oxygen Demand (COD) and Biological Oxygen Demand (BOD) exceeded the Class II limits of Guangdong Provincial Water Pollutants Discharge Limit (DB44/26-2001). Recent tests performed by CTI on April 24, 2008 showed that the COD and BOD still exceeded the allowable limits. COD was 160 mg/L to 664 mg/L vs. the standard of 130 mg/L. BOD was 43 mg/L to 167 mg/L vs. the standard of 30 mg/L. Management stated that a fee is paid to the municipality to allow the discharge.

4. Air emission tests conducted by CTI on July 20, 2006 showed that the concentration of the total hydrocarbon in the air from the No. 11 spray paint line

exceeded the Class II limit of Guangdong Provincial Air Pollution Limits (DB44/27-2001). This has been corrected. Recent tests performed by CTI on April 24, 2008 showed that (1) the concentration of total hydrocarbon emissions from the No. 2 hand painting line (270 mg/L) exceeded the Class II limit of Guangdong Provincial Air Pollution Limits (DB44/27-2001 (120 mg/L) and (2) the concentration of toluene emissions from the No. 1 tampo painting line (132 mg/L) exceeded the Class II limit of the applicable standard limits of DB44/27-2001 (40/mg/L).

5. Boundary noise tests conducted on July 26, 2006 by Guangzhou Environmental Protection Science Institute showed that the boundary noise at the western, eastern and southern boundaries exceeded the Class II limits of the Standard for Noise of Industrial Enterprises (GB12348-1990) in addition all three boundaries at the plant exceeded the Class III limits of the same standard.

Boundary noise tests were conducted again on April 24, 2008 by CTI. Their findings show that the day and night time boundary noise levels at the eastern, southern and western boundaries continue to exceed the Class II limits of the Standards for Noise of Industrial Enterprises (GB 12348-1990).

6. Fire-fighting completion approval for the on-site diesel oil storage room has been received from the local fire fighting authority.

7. Inspection reports for the compressed air pressure vessels, which were not available previously are now available and have been evaluated.

8. Previously there were no inspection test reports showing that integrity tests had been performed at the diesel oil-storage tank area and the associated piping. The tank and associated piping have been integrity tested since then and the reports were made available and evaluated during the current audit.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

SICCA's observations in regard to CA's management response to audit findings of 2007 present a mixed picture. In regard to the physical plant and operating facilities, plant management has demonstrated a willingness to address SICCA's findings and where necessary take corrective action.

The situation with regard to employee related issues is not satisfactory where a majority of the recurring problems are embedded in the operational policies and procedures, e.g., lack of electronic system for recording employee hours, manual record keeping of payroll data, and supervisors' recording employee working hours. The situation has been further exacerbated by a

management culture, which is resistant to any payroll-related findings that call for improvement on the part of the management.

At the time of the 2008 audit visit, Mattel's representatives at the plant together with representatives of the China partner presented a road map that Mattel has put in process in collaboration with its China partner, and planned to be fully implemented over the next 6-12 months. In SICCA's view, these proposals are an important step, and when fully implemented, would go a long way in addressing most, if not all, of the employee-related problems that have been raised by SICCA and also Mattel's own internal audit department over the last 5+ years.

Notwithstanding, it is important that CA take immediate steps to rectify certain important issues that were identified during the audit. For example:

1. Payroll record-keeping should also be computerized with sufficient security to ensure the integrity and transparency of the data.
2. CA should attempt to simplify its complex system of wage calculation and to make it easier for workers to understand.
3. Henceforth all workers should record their own hours.

Physical Facilities and Environment, Health & Safety Issues

CA's management has taken major strides toward correcting the deficiencies observed during the SICCA EHS audit in 2007. As noted in the main body of this report, it has corrected almost all of the physical plant problems found and has obtained several of the required documents and permit. Overall, from an EHS viewpoint, CA is currently a good and well managed plant.

A few problems with boundary noises, wastewater treatment and air emissions still exist. These should be addressed as soon as possible. In addition, a major effort should be made to obtain the required documentation that is still missing.

CA's road map makes no mention of the changes needed in the dormitories. This is a serious omission. As we have noted in the main body of this report, significant improvements need to be made in the dormitories where toilet facilities and showers are not easily accessible and also fail to meet the GMP requirements.

I. RADICA PLANT

1. INTRODUCTION

The following report presents the findings of a field audit of Mattel's Radica Plant conducted by International Center for Corporate Accountability (SICCA) on June 4-5, 2008. The Radica facility (formally known as the Dongguan Radica Games Manufacturing Co., Ltd.) is located in Long Yan Management Area, Humen Town, Dongguan City, Guangdong Province, China. Radica is wholly owned by Mattel, Inc. and is dedicated to the production of Mattel brand toys.

The purpose of this audit was to evaluate all aspects of Radica's operations and to corroborate the plant's compliance with Mattel's Global Manufacturing Principles (GMP). This is the first formal audit of the Radica plant since its acquisition by Mattel in 2006.

Radica currently employs 3,100 workers. Of these, 90% are direct labor and the remaining 10% are administrative and managerial personnel. Almost 90% of the workers at the factory are female. The minimum hiring age is 18 and the average age of workers is 27 years. A large majority (70%) of the direct workforce has 9 years of formal education and 30% have completed high school. The size of the direct labor workforce is relatively stable throughout the year. For 25% of the interviewed workers, employment at Radica was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

Radica hires its workers mostly through walk-in applications. However, a small number of workers (15%) are recruited through agencies where all costs are borne by the plant. Upon hiring, all workers are given an orientation, which includes information on the terms of employment, workplace safety and discipline, living accommodations, Mattel's GMP and other relevant issues. Workers are also required to undergo a medical examination at the time of hiring, which mainly covers blood and urine tests, lung x-rays, sight and hearing tests. The cost of this medical examination is borne by the workers.

a. Probation Period

All newly hired workers undergo a one-month probation period as allowed by law. Payroll audit of workers' records showed that all probation workers were paid basic wages similar to those paid to regular workers.

b. Workers' Employment Contracts

Upon employment, each worker is given a signed contract by the plant. The contract covers the duration of the contract, working hours, wages, and benefits and other conditions of employment. SICCA audit confirmed that all workers had a one-year current contract in their personnel files.

c. Personnel Files

Each worker has a personnel record on file. It contains information on employment registration/application form, employment contract, disclosure document regarding voluntary overtime work, background check, receipt of employee handbook, and health check report.

2.2 GMP Awareness

Radica's Management Compliance Report (MCR), submitted to SICCA as part of the pre-audit preparation, states that information on Mattel's Global Manufacturing Principles (GMP) is provided to all workers via distributed booklets, monthly EHS meetings, quarterly employee updates, and weekly tea-talks. However, among the interviewed employees, less than 20% confirmed their familiarity with GMP, which may account for the fact that Radica became a fully owned and operated by Mattel facility in 2006.

2.3 Payroll System and Record Keeping

Radica workers are paid on a monthly basis via bank transfer, seven days after the end of their pay-period. Workers use swipe-cards to record their daily work hours. Workers interviewed by SICCA indicated a high level of understanding about the content of their pay-stubs and the accuracy of wages, recorded hours, bonuses, benefits and deductions.

a. Working Hours

The workweek at Radica is 6 days with Sunday being a rest day. Wages are calculated based on 7.25 regular hours performed daily Monday through Friday, and 3.75 regular hours worked on Saturday. Any work in excess of the above hours is considered overtime. Overtime at the Radica plant is voluntary by plant policy, which allows workers to opt out by notifying their supervisors.

In 2004, Mattel incorporated in its GMP a revised set of requirements for regular and overtime hours. The company's objective was to unify worldwide practices across all plants that manufacture its products.²

The revised GMP requirements are:

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

SICCA's audit of workers payroll records verified that Radica was in compliance with the GMP requirements that pertained to consecutive workdays. However, Radica had failed to comply with the GMP provision that a work week would not exceed 72 hours. An analysis of the year-long payroll data of the interviewed workers showed that over one-in-five (22%) of the workers had worked in excess of 72 hours in one week.

b. Wages

The minimum wage in Radica's locality is RMB770 per month. Overtime wages are 1.5 times the regular rate for normal workdays, double the base wage rate for rest days, and triple for any hours worked on national holidays. SICCA's audit confirms that all workers' regular and overtime wages were paid properly. Monthly take home pay of audited workers averaged RMB915 (\$120), including bonuses, allowances, and deductions.

SICCA's audit, however, found one discrepancy in Radica's payment of appropriate wages to its workers, which occurred in 2006, i.e., during an inventory count, a number of employees were forced to take a day off as annual leave.

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

c. Benefits

Radica is in general compliance with the China labor law requirements and Mattel's GMP in regard to applicable benefits. There were, however, some exceptions:

- (a) The plant pays legally mandated social insurance, workmen's compensation and retirement fund benefits on behalf of 83% of its workers, which is in accordance with the requirements imposed by the local labor bureau.
- (b) The plant has a policy of paying maternity benefits for 90 days upon workers' return to the factory. China's labor laws, and by implication, Mattel's GMP requires that all maternity benefits must be paid to the worker when they are due and not be held back until after the worker has returned to the factory.

d. Deductions

Deductions from employee earnings include employee's mandatory contributions to social security, insurance, and retirement funds. Workers also pay for their food at the company canteen by purchasing meal coupons from the company. Monthly coupon books cost RMB135. Radica charges RMB60 per month rent for dormitory residence. The total cost of workers' food and living accommodations are within Mattel's GMP provisions.

SICCA's audit revealed several non-compliance practices with GMP in regard to workers' use of Radica's dormitories:

- (a) It would appear that Radica has a policy of requiring its newly hired workers to live in the company-provided dormitory space, and that their automated payroll deductions for the dormitory rent would start with their first paycheck even if they do not live in the dorms. This is contrary to Mattel's GMP standards which mandate that all dormitory living must be voluntary on the part of workers.
- (b) Interviewed workers also indicated that they were told by the company that they could apply to leave the dorms. However, such an application would normally take 3-4 months before the mandatory deductions would stop. This practice had the effect of forcing many workers to stay in the dorms against their will since they already had paid their mandated dormitory rent. Alternately, they would forfeit three months' rent from their monthly wages.

SICCA's audit of the payroll data confirmed that the plant did not return the mandatory deductions in a number of cases where it could be verified that the workers had requested to leave the dormitories and had indeed done so. However, their mandatory rent for the unused period of 3+ months was not reimbursed.

2.4 Workplace Discipline of Employees

Radica has written policies and procedures on employee discipline. They are explained to the employees during orientation at the time of hiring. The policy provides that employees receive a verbal warning in case of a violation. Repeated violations receive multiple warnings, and in extreme cases the employee may be terminated from employment. Workers have the right to file grievances and appeal via employee representatives or the employee union. All interviewed workers stated that they were not disciplined during the three months prior to the audit. They also confirmed their understanding of grievance venues and stated that they did not feel threatened to voice their concerns.

Radica's disciplinary policies include two provisions, which are unique to the factory and are not practiced at any other plant owned and operated by Mattel in China or in other parts of Asia.

- (a) Radica withholds a worker's wages of 0.25 hrs. when the worker has reported late for work, or has left early, by 1-15 minutes.
- (b) In cases of "tardiness" of between 16-30 minutes, wages are withheld for 0.50 hrs.

These policies seem unusually harsh. One would expect that these practices are not widespread in which case they would require a systemic change in the company's operational policies. Conversely, in a plant that employs over 3,000 workers, it would not be unusual that a handful of workers would arrive a few minutes late or leave a few minutes earlier. In such cases, a selective and more compassionate approach may be more effective than denial of wages.

2.5 Freedom of Association, Discrimination, and Access to Management

Radica's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. These policies are explained to the employees at the initial factory orientation and posted on the notice boards throughout factory facilities. Suggestion boxes are

available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. Formal complaint procedures are also provided in the employee handbook.

All interviewed workers agreed that the factory did not discriminate against workers concerning promotion or increase in wages based on sex, race, religion or ethnicity. In addition, all respondents confirmed that employees were promoted based on merit. Among the interviewed workers, there was unanimity in stating that they could register their complaints freely, without fear of recrimination. The plant also has a system in place for those workers who may wish to make anonymous suggestions or file complaints.

From communications perspective between the employees and plant management, line leaders were considered to be the primary source of information and advice by 76% of the interviewed workers. In terms of means of communications, most employees (88%) relied on information posted on the factory and dormitory notice boards. This was followed by line leaders (76%) and co-workers (61%).

2.6 Protection from Harassment and Employee Treatment

Interviews with factory workers indicated that Radica's line leaders were perceived as generally fair in the way they treat their subordinates. Similarly, no worker claimed verbal abuse by his or her superiors.

2.7 Employee Services

a. Dormitories

The dormitory complex consists of four buildings. These were constructed between 1994 and 1997. Occupancy rates range between 4 and 12 per room. Rooms are equipped with fans, proper lighting, and personal lockers. Workers are responsible for cleaning their own rooms while public areas are maintained by the plant management. The dormitories meet all the GMP requirements. Common areas include recreational spaces for sports, TV, dancing and other entertainment.

b. Food Services

The plant operates a canteen accommodating approximately 1,500 workers. Maintenance and upkeep of the kitchen was observed to be

satisfactory, except that at the time of this audit visit, kitchen servers were not wearing their facemasks properly.

c. Medical Services

Radica does not have a medical facility on its premises. A first aid room is available to attend to minor injuries. For serious injuries or illness workers are transported to the hospital nearby for their medical needs.

d. Access to bathroom and drinking water facilities.

A large number of the interviewed workers (50%) complained about their difficulty in the use of bathroom facilities and drinking water during work hours. It would seem that the factory has a permit system to make use of these facilities, with each permit controlling between 10-30 workers.

2.8 Workplace Operating Environment

The Radica manufacturing facility is spread over three buildings covering approximately 60,000 m² of floor space. One building was constructed in 1994 and the other two, in 1997. One of these two buildings went through a major expansion in 2005. The primary production processes at Radica are injection molding, painting, assembly and packaging.

As part of its audit protocol, SICCA team undertook a thorough walk-through of the factory's physical facilities and examined conditions both inside and outside the factory premises. The team also reviewed various documents required by local authorities to ensure the proper and safe maintenance and operation of the plant's physical facilities.

The 'walk-through' survey found the plant to be in good operating condition. Given below is a list of short-falls that were observed during the audit visit. We recognize that these short-falls are most likely to be corrected over the next six months while the plant is undergoing its already scheduled transformation. Nevertheless, these are noted here for the record and also to ensure that remediation action and corrective measures planned by Mattel would also incorporate changes recommended in this document.

2.9.1. Environment

- *Environmental Permitting*

The annual production capacity at the plant in 2007 was 14.4 million pieces, which exceeded the rated production capacity in the

Environmental Impact Assessment Form (EIF) of 12.0 million pieces approved by the Dongguan Environmental Protection Bureau (EPB).

- *Air Emissions*
 - a. Emissions monitoring was conducted by Centre Test International (CTI) in 2007. It stated that NO_x from the four emission stacks for the diesel engine generator sets exceeded Class II limits of *Guangdong Provincial Air Pollution Limits* (DB44/27-2001).
 - b. At the time of the site visit, black smoke was emitting from the kitchen stack.
- *Wastewater*

Domestic wastewater monitoring was conducted by CTI in 2007. It exceeded Class II limits of *Guangdong Provincial Water Pollutants Discharge Limits* (DB44/27-2001).

2.9.2. Health and Safety

- *Occupational Disease Hazards Assessment.*

The plant has not prepared an Occupational Disease Hazards (ODH) Pre-Assessment or ODH Effectiveness Control Assessment (ODHECA). The plant has not submitted its ODH declaration and registration form to the local health administration bureau.

- *Fire Fighting*
 - a. Work stations on the third floor of Block A were re-positioned in early 2008. The fire safety lines on the floor however have not been changed to indicate the new fire aisles.
 - b. Some fire aisles are presently blocked.
 - c. Safety signs need to be reviewed. There appear to be too many signs and some of them are posted in the wrong places. This could lead to confusion in an emergency situation.
- *Industrial Hygiene*
 - a. No Local Exhaust Ventilations (LEVs) were provided at soldering workstations on the fourth floor of Blocks A and C.

- b. No testing of indoor air quality has been conducted since winter 2008. The production lines have been changed and moved since then. Indoor air quality tests are scheduled for August 2008.
- *Personal Protective Equipment (PPE)*
 - a. Indoor noise monitoring indicated that the noise level at injection molding in Blocks A, B, and C and at the spray painting workshops on the sixth floor of Block A exceeded 85 dBA. However, at the time of the audit no hearing protection was observed being worn.
 - b. Face masks should be required by employees in tampo printing. There is a strong solvent odor in the area.
 - c. A welder was using a self-made paper mask which is inappropriate.
 - *Boundary Noise*

External boundary noise tests indicated that the noise level was excessive in all locations for both day and night except for the South side in the daytime.
 - *Medical Surveillance*

Four employees who had indications of job related hearing problems were switched to new assignments. Follow-up examinations should be performed.
 - *Wet Paint Scrubbers*

The wet paint scrubbers on the roof of Building A are inoperable. They are being replaced with dry scrubbers, which are much preferable.

2.9.3. External Facilities

High voltage transformers are protected by an enclosure that is too low and does not meet Chinese law requirements. However, the power station is being relocated into a new enclosed building in July 2008, which should eliminate the enclosure problem.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

Wages, Working Hours and Employee Treatment

Radica has effective systems in place to manage employees' work-hours records and related pay. SICCA audit has found that personnel related documentation is properly kept; employees' benefits and entitlements are properly afforded. Radica also manages the work-hours control systems to ensure that all workers are given proper rest days and do not work excessive hours for long periods of time.

Notwithstanding, SICCA's audit also found a number of significant deviations in the implementation of plant's policies with regard to workers wages, benefits, and deductions, which have an adverse impact on the workers' wages and benefits. Presumably, these gaps between policies and practices can be laid to the transition period of Radica's acquisition by Mattel. However, it is very important that these issues should be addressed immediately and effectively. In particular, the factory management should:

1. thoroughly examine and correct its practices of requiring workers to stay in the dormitories, require them to seek permission to leave the dormitories, and deduct dormitory rent from the paycheck when in fact the workers were not living in the dormitories;
2. change its policy to ensure that no worker would be forced to take annual leave and all annual leave would be taken at a time of the employee's choosing. All workers would be paid for idle time for any work stoppage for reasons that are under plant management's control;
3. revamp its policy of paying for maternity leave and bring it in line with Mattel's GMP and Chinese labor law;
4. improve the factory's monitoring of overtime hours since our audit showed that some employees had worked in excess of 72 hours per week;
5. change its policies to facilitate workers' easy access to bathroom facilities and drinking water, when needed. SICCA's experience with audits at other plants has shown that with proper supervision and a supportive work environment, such a permit system is not necessary. Otherwise, the factory should consider lowering the upper limit from 30 workers to perhaps 15 workers or less;
6. take additional steps to enhance workers' familiarity and understanding of GMP and what it means to their working and living conditions at the Radica factory.

One measure of the gap between Radica's perceived personnel policies and as they are experienced by the workers can be seen from the workers' overall experience with their work life at the plant. As part of our interview process, we asked all workers

- a. about their level of satisfaction with Radica as an employer; and,
- b. whether they would recommend Radica to their friends and family members as a place of employment.

In general, Radica workers were neutral or less than satisfied with their overall assessment of working at Radica. Among the interviewed workers, less than half (46%) expressed an overall positive general opinion. Similarly, 44% of the workers stated that they would consider recommending Radica as a favorable place for work to their friends and family members.

Physical Facilities and Workplace Safety

Overall, Radica is a well run and maintained facility. Since its takeover by Mattel, the factory is undergoing a major transformation to improve its upkeep and operational effectiveness with the goal of making it a first-rate facility in line with Mattel's other plants.

Report on Corrective Action

During the post-audit meeting between SICCA, Radica Management and Mattel representative, it was agreed that Mattel would provide SICCA with a report on the factory's progress in implementing various corrective actions that were agreed to at this meeting. This report is to be provided to SICCA as soon as feasible but no later than December 31, 2008. Subsequent to this report, SICCA, at its own discretion, may choose to undertake a follow-up audit to verify the effectiveness of the implementation effort.