

MIMCO

**MATTEL INDEPENDENT MONITORING COUNCIL FOR
GLOBAL MANUFACTURING PRINCIPLES**

**AUDIT REPORT
FOR
MATTEL DIECAST CHINA**

**Address: Yongan East Road
Guanyao Nanhai
Guangdong, China**

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**MIMCO
C/o Zicklin School of Business
Baruch College - CUNY
17 Lexington Avenue
New York, N.Y. 10010**

E-mail: MIMCO@baruch.cuny.edu

MATTEL DIECAST CHINA (MDC)

Section 1- INTRODUCTION

This report is based on the field inspection of the Mattel Diecast China (MDC) plant that was conducted by the MIMCO team on August 21, 2000. MDC is a manufacturing facility controlled and operated by Mattel. The plant is located at Yang Au Road East, Guan Yao, Nan Hai, Guangdong, China, which is 240 kilometers north of Hong Kong and 40 Kilometers from Guangzhou. The plant is currently owned by the China Joint Venture (CJV), which was incorporated in June 1998. Mattel supplies all the capital equipment, tooling, raw materials, components, technology, and technical and management support. The MDC plant produces die-cast toy cars of various sizes and types that are sold under the brand names of “Hot Wheels®” and “Matchbox Cars®”.

MDC is quite different in its operation in that other Mattel plants in China are owned and managed by Mattel’s China partners where Mattel’s management and technical expertise is provided in an advisory capacity. From the very inception, Mattel exercised full management control over all plant operations in the case of MDC. This structure has allowed MDC to implement GMP from the very beginning as an integral part of the plant’s operating systems. The plant began operations in April 2000.

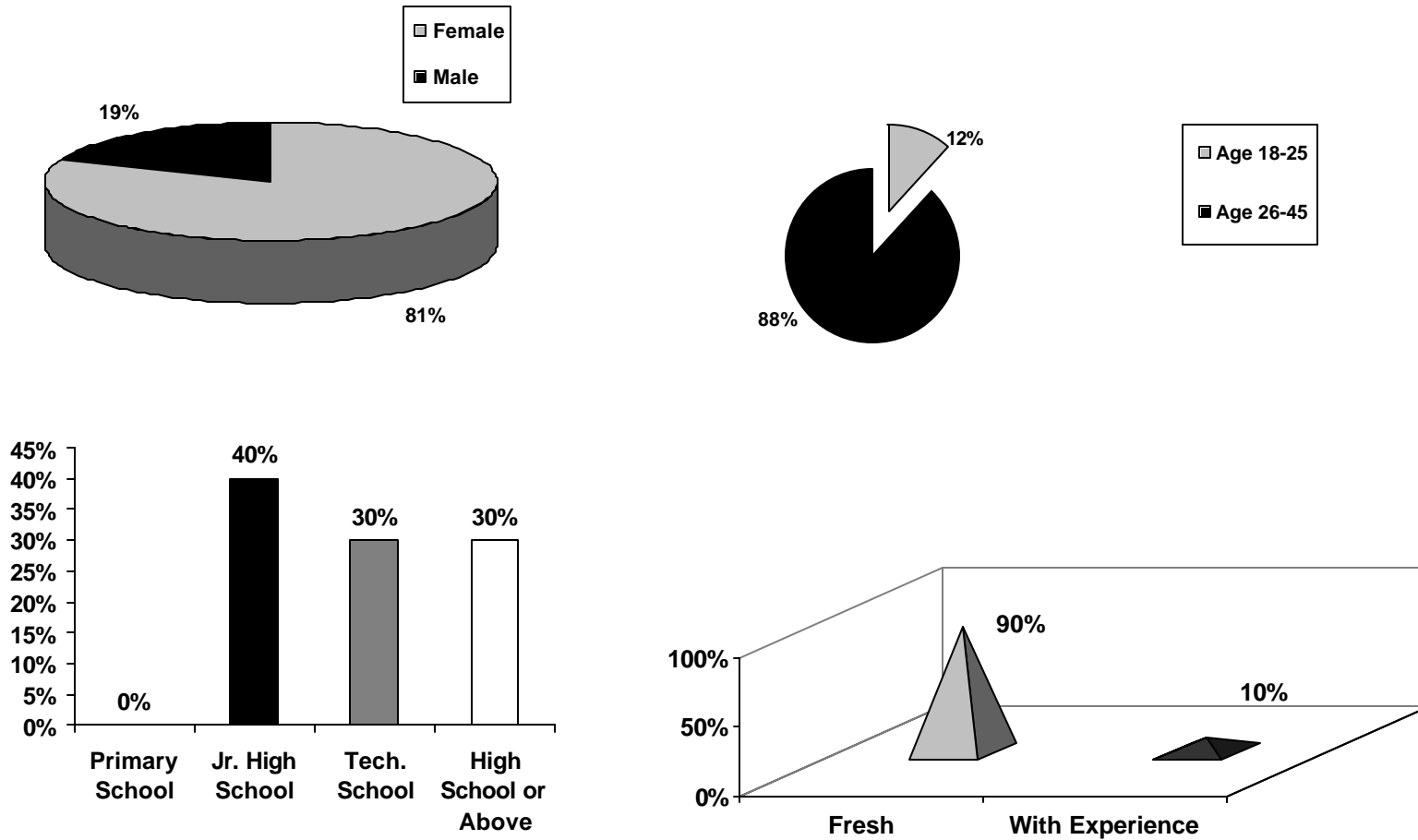
Section 2- EMPLOYEE PROFILE

At the time of the audit MDC employed 1180 people. This is expected to increase to 2600 people when the plant is in full operation. The employee profile presented here was developed from a randomly selected sample of the entire work force in the plant. This sample was determined to be a statistically valid representation

of the plant's total workforce. This result was further confirmed when the data from the sample workforce were compared with plant profile data provided to MIMCO by MDC in its Management Compliance Report (MCR). MIMCO found no statistically significant differences between the MCR and the MIMCO sample data with regard to worker demographics.

A large majority of workers is between the ages of 18-25 years. The gender distribution is 81% female and 19% male. An unusual aspect of the workforce at MDC is a relatively high level of education when compared with similar plants in China. Almost the entire work force has been educated at the junior high school level and above. Among the workers, 30% have a high school diploma. Another 30% have earned a technical school diploma, while the remainder have a junior high school level of education. The work force is almost evenly divided between local (48%) and non-local (52%) employees. For 90% of the workers, it is their first job (Figure 1).

Figure 1
WORKERS' PROFILE



Section 3- RECRUITMENT, ORIENTATION AND TRAINING

Recruitment: Among the workers interviewed by MIMCO, almost 98% got their job at MDC on their own, either by walking through the plant gate and applying for the job (71%), or through referrals from their friends. According to the MCR, some employees were referred by recruiting agencies, in which case the workers were responsible for paying the agency fee.

Employees were not required to make any kind of deposit in order to secure their jobs. None of the employees reported being asked to give their ID cards to the plant management, as is the case in many other manufacturing facilities in China.

Given the somewhat technical nature of the jobs at MDC, all recruits take a written test and go through a personal interview and a health check before being hired. An examination of the company records showed that over 90% of the workers were given medical examinations at MDC. The remainder had evidence of recent medical examination with former employers or local municipal authorities.

There was unanimous agreement that each employee received a signed copy of the employment contract.

Orientation: Workers interviewed were unanimous in their praise of the comprehensiveness of the new employee orientation and initial job training. The orientation covered wage structure, working hours, description of pay stubs, workplace discipline, and rules pertaining to in-plant operations and dormitory facilities.

GMP Orientation: 87% of the workers indicated that they were aware of the Global Manufacturing Principles. Most workers received their information about GMP during the orientation period. A number of workers also indicated receiving additional

information about GMP through meetings with supervisors (22%), and from the information posted on factory and dormitory notice boards (18%).

Initial Training: All of the workers interviewed stated that they received specific training pertaining to their assigned jobs. This training included safe operation of machinery and use of safety equipment.

Summary: Analysis of employee interview data indicated that MDC management has done an excellent job of orienting workers to the company's policies and procedures, awareness of GMP, calculation of wages and working hours, pay-stubs, and initial job training relating to the safe operation of machinery. When asked about their overall experience with orientation, recruitment, and job-related training, 87% of the workers interviewed expressed satisfaction. The remaining 13% could not recall their impressions of the orientation or did not express any opinion.

Section 4- WORKING HOURS, WAGES, BONUSES AND BENEFITS

Working Hours: The Chinese labor law provides a normal work week of 40 hours and a normal workday of 8 hours. Where overtime (extended hours) is worked, it shall not exceed 3 hours a day and the total extended hours shall not exceed 36 hours a month. The Chinese labor law also provides that overtime shall be paid at 150% of the normal wages for the working over 8 hours a day or 40 hours a week, 200% for working on rest days, and 300% if extended hours are worked on statutory holidays.

MDC currently operates on a two-shift basis, each shift working 10-hours a day and six days a week for a total of 60 hours a week. The plant maintains accurate and complete records with regard to the total number of regular and overtime hours worked and total wages paid including description of wages for normal and overtime hours.

With regard to the 60-hour work-week, our analysis of benchmark data available for this geographic area shows that, with rare exception, most factories in the area operate at rates that exceed the maximum number of hours allowed by the Chinese labor law. Where variations are allowed with permission from local labor authorities, these authorities also specify strict conditions under which excess overtime would be allowed and the start and expiration dates of such permits. At the time of this audit, MDC had not yet obtained this permit to exceed the regular and overtime hours. The plant is expected to receive this permit in the near future. However, as we have stated in our previous audits of Mattel plants, MIMCO notes that this dispensation does not conform with the letter of the China labor law.

Wages: Our audit of the payroll data showed that MDC workers uniformly received wages that were in excess of the minimum mandated wages for regular working hours (RMB 430 a month) not including overtime. MDC offers the government mandated wage to its workers only during the probation period. Upon completion of their probation period, workers receive a minimum wage of RMB 450. For the majority of workers, the probation period lasts one month although, depending on the specific job, it may range between one and two months.

Workers receive a rate of 150% for overtime work after 8 hours daily and over 40 hours each week and 200% for working on Saturday.

All workers receive individual pay-stubs for each pay-period. The pay stub is a simple document that states the number of hours worked in terms of regular hours, normal and off-day and holiday overtime hours, and wages received for each type of work hours in terms of a multiple of the regular hourly rate. All of the workers

interviewed stated that they found the pay-stubs easy to understand and quite satisfactory.

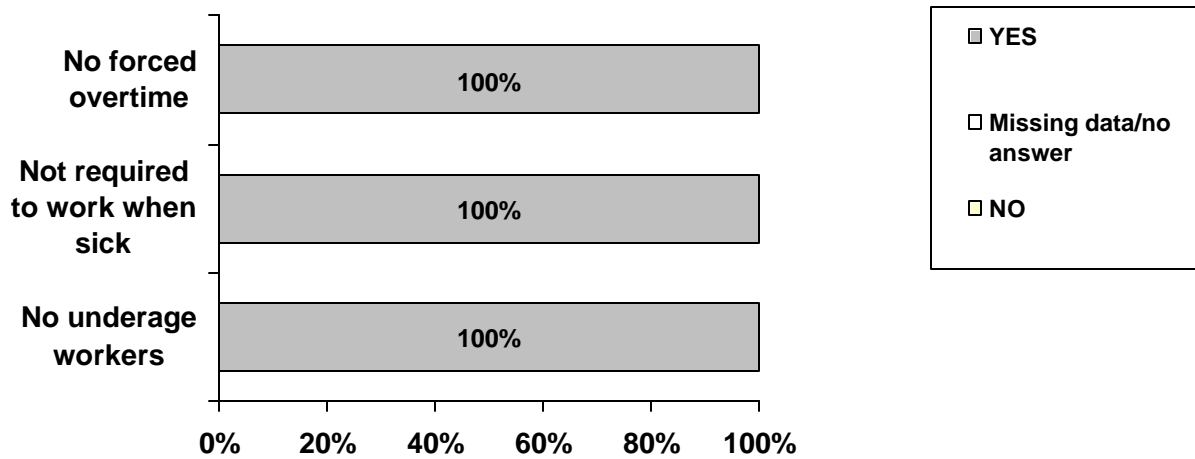
The desk audit of payroll data for the randomly selected group of workers showed that all workers received wages that were far in excess of minimum wages required by law, for regular working hours (exclusive of overtime). This was also confirmed by the workers during one-on-one confidential interviews. This is not unusual given the somewhat technical nature of the Die-cast work where there is a relative scarcity of trained and experienced workers.

Among the workers interviewed, there was overwhelming consensus (Figure 2) that:

- a) all overtime was voluntary
- b) although there were production quotas, workers were never penalized for not meeting quotas. Nor were they required to work extra hours to meet their quota before quitting work;
- c) all workers punched their own time cards; and,
- d) there were no under-age workers in the plant. This was also confirmed through the desk audit.

Figure 2

Workers' Opinions of Wages and Working Hours



When asked about their overall satisfaction with working hours and wages a large majority of the employees expressed satisfaction (67%) while 18% were neutral, and 15% were somewhat dissatisfied or had no opinion.

During informal discussions with the workers interviewed, many employees expressed the opinion that they would like to receive extra pay for hazardous work such as Die-cast and injection molding. Some workers also felt that the plant should institute a bonus system as an incentive for high performance.

Benefits: MDC provides its workers with a range of benefits, which are in accordance with the Chinese labor law. These include, paid national holidays, paid annual leave, and contributions to the Social Pension Fund and the Work Related Injury Insurance Fund.

Maternity Leave: MDC provides maternity leave benefits of 90 days paid leave, which is in accordance with the Chinese labor law. Workers are provided additional paid maternity leave of 15 days for "late" childbirth (for a female over 23 years and a

male over 25 years); 30 days for a "difficult" childbirth, and 35 days in cases of an "only" child.

Interviewed workers, however, exhibited some confusion with regard to maternity leave policies of the company. 65% of the interviewed workers stated that they did not know about MDC's maternity leave policies; 31% stated that the company provided 90-day paid leave for maternity; and the remainder reported that the policy provided 135 days (2%) and 180 days (2%).

MDC also provides its workers free meals and free dormitory space, which is not a common practice in this region.

Summary: When asked about their overall satisfaction with working hours and wages, 67% of the employees expressed satisfaction while 18% were neutral. Another 12% regarded their experience to be somewhat unsatisfactory, and 3% had no opinion.

Section 5- FACILITY CONDITIONS and OPERATING ENVIRONMENT

Plant facilities, layout of machines, ventilation systems, and other operational features were closely inspected by MIMCO experts through an extended "walk through" of the plant. They were also verified through an examination of the records maintained by the plant. The consensus of MIMCO members and experts was highly positive. MDC is a new, modern, and well-organized facility where maintenance, upkeep, and safe operations receive high priority.

The factory provides a safe and clean work environment with the exception of a few minor situations that are described below. A detailed examination of the plant data on environment, health and safety standards indicated that MDC would meet GMP standards if some readily remedied conditions were dealt with.

Workplace Injuries and Accidents: The plant maintains comprehensive records pertaining to work-place injuries and the treatment of those injured. Accidents and injuries at MDC are investigated immediately and include corrective actions designed to reduce future injuries. This was confirmed by the MIMCO experts through on-site examination of the factory floor and related areas as well as through one-on-one worker interviews conducted by the MIMCO team. The record of workplace injuries indicated these to be well within GMP standards.

Factory Lighting: The factory lighting is good and more than adequate for shop-floor employees to perform their assigned tasks. MDC maintains records which verify that the plant is in compliance with GMP lighting standards.

Emergency Evacuation: The factory is well marked with yellow and red stripping to indicate areas for personnel movements. In case of emergency situations, evacuation routes are clearly posted throughout the plant. The plant has developed and put in place fire prevention and emergency evacuation plans. There is also an emergency lighting and fire alarm system. Evacuation drills are conducted in both the factory (both shifts) and the dormitories once a year. According to Mattel's standards, if turnover rates exceed 30% annually the facility should conduct two evacuation drills annually. MDC has not conducted two drills as required.

Temperature: Employees reported dissatisfaction with temperature controls within the facility. Some workers mentioned instances where employees operating machines actually fainted due to heat exhaustion. Some workers did not like to wear personal protective equipment (PPE) because it was too hot and uncomfortable to wear while working. This situation was reported despite the fact that workers were informed

of the importance of wearing PPE and the management emphasized and monitored use of PPE on the part of workers.

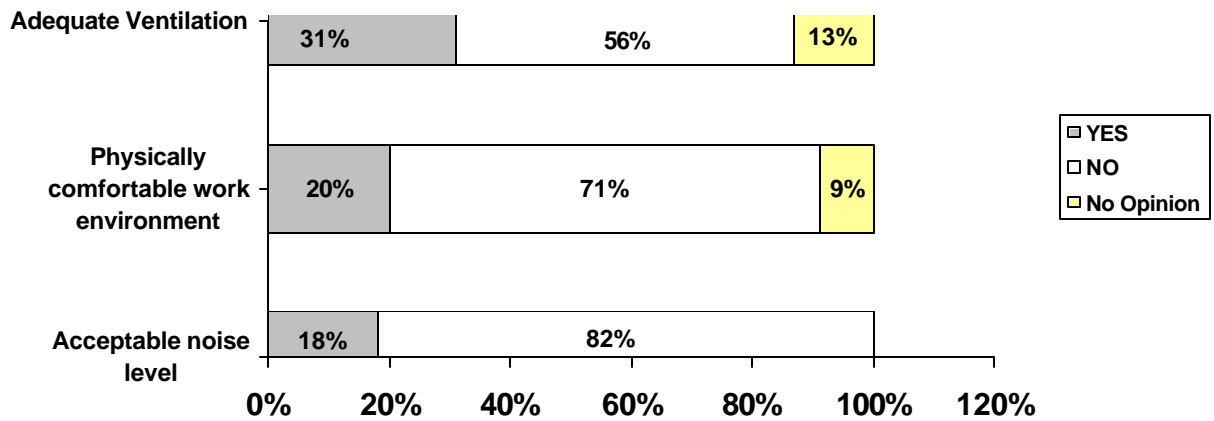
It was clear during our visit, and MDC agrees, that the plant temperature is above the acceptance level. Plant data indicate that temperatures reach 40° C, Dry Bulb, (104°F). The temperature is further increased due to Die-cast and Molding operations, which generate heat in the process. Work in temperatures of this range is extremely uncomfortable and can - as indicted by the employee incidents - create unsafe conditions. According to MDC management, in cases where the temperature exceeds 86°, Wet Bulb Temperature, the plant implements a heat stress program which includes additional breaks and drinking water. In addition, MDC is experimenting with cooling technologies including individual cooling equipment and area cooling but has not fully implemented any of these solutions. In MIMCO's opinion, this is an area that needs urgent attention and more substantive action prior to the start of the hot season next summer.

Noise Levels: Employees also reported that there was excessive noise which was created by the operation of machinery within the plant. MDC management reported that the plant and the Mattel Corporate Environment, Health, and Safety (EHS) organization have conducted noise monitoring at the facility. There are areas where noise levels exceed the GMP standard of 85dba over 8 hours. In this case, MDC has provided hearing protection and a hearing conservation program. While this is technically correct, the heat levels at the plant make wearing hearing protection uncomfortable and for this reason employees reported that they do not wear the hearing protection as required.

Ventilation in the Paint Mixing Area: Employees reported solvent odors originating from the paint mixing room. MDC has committed to reevaluate and upgrade this operation. MDC has conducted industrial hygiene monitoring and produced industrial hygiene sampling information that indicates that solvent air concentrations in the paint mixing room exceed GMP air standards and employees working in the paint mixing room do wear respiratory protection. The problem is that these vapors spread to areas outside the paint mixing room and other employees are affected.. While there are detectable odors according to the data, they do not exceed GMP standards. Independent of the data, MDC should address this issue to reduce the solvent odors throughout the plant. MDC agrees that the ventilation in this area needs to be upgraded and operators need additional training in order to eliminate odors moving from paint mixing to the other areas of the plant. Worker dissatisfaction, as elicited from worker interviews, was quite noticeable in this aspect of MDC's operations (Figure 3). When asked their opinion as to overall working conditions, however, 72% of the workers expressed satisfaction, 20% were neutral, and only the remaining 8% found the conditions to be somewhat unsatisfactory.

Figure 3

Workers’ Opinions with Regard to Comfort Level in the Plant



On a positive note, the ventilation in the spray-painting operation is some of the best that MIMCO has observed throughout the industry.

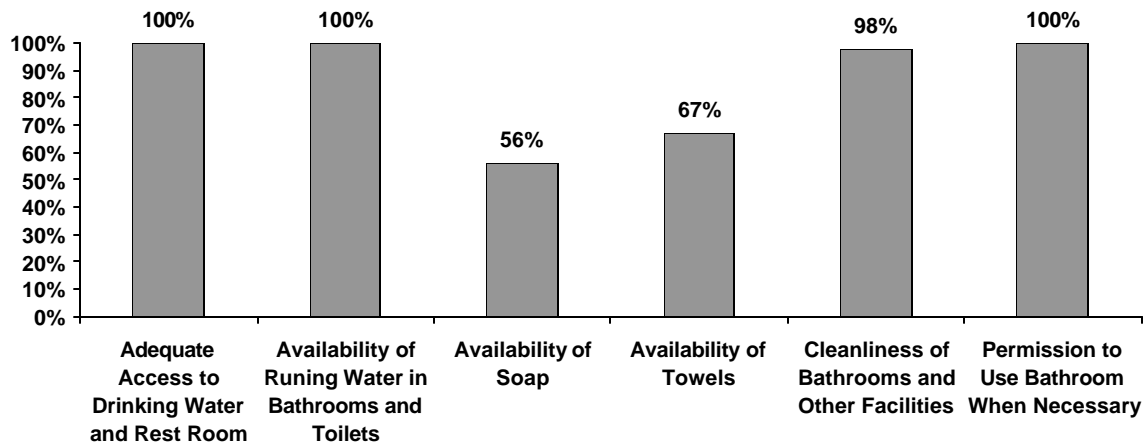
Drinking Water and Personal Hygiene Facilities: Employees were on the whole quite satisfied with bathroom facilities and drinking water in the plant. Interviewed workers, by a large majority, stated that there were plenty of bathrooms, which were always clean. Interviewed workers, however, were somewhat less satisfied with the adequacy of the supply of towels and soap in the bathrooms. There were some employee concerns that bathrooms were not adequately cleaned during weekend shifts (Figure 4).

On-Site Medical Facilities: MIMCO found MDC's on-site medical facilities to be well maintained and in excellent condition. The clinic is located on the first (ground) floor of the dormitory, which is adjacent to the plant. It occupies a floor area of 51.2 square meters. The clinic is staffed by two doctors, each covering one manufacturing shift respectively. The clinic is open 22.5 hours on Monday through Friday and 21.00

hours on Saturdays and Sundays. The clinic maintains records of patient visits, which were available for our examination. There are three beds and one medical oxygen apparatus, The clinic handles minor injuries as well as general diseases. All cases of serious injury or illness are transferred to the local hospital, which is situated within 10 minutes driving distance.

Figure 4

Employee Satisfaction with Drinking Water and Toilet Facilities



Section 6 - CANTEEN, MEALS AND LUNCH BREAKS

Lunch Breaks: MDC does not provide any formal breaks - other than for lunch – to the workers during a work shift. Workers may take breaks for using toilet facilities or drinking water whenever needed. This was confirmed by the interviewed workers who stated that they had no problem going to bathrooms when needed. Workers also expressed satisfaction with the availability of drinking water and the fact that they had no problem leaving the production line or their workstations for drinking water whenever necessary. (Figure 4). In terms of their overall opinion, interviewed workers expressed

these facilities to be satisfactory (72%), another 20% were neutral or had no opinion, while a small minority (8%) considered them to be somewhat unsatisfactory.

Meals: An unusual feature of the plant is that workers are provided all meals free of charge and the plant bears the entire cost of providing food to its workers. According to MDC management, this practice was intended to ensure that all employees would eat nutritionally balanced and healthy meals. There are no separate eating facilities for administrative and managerial staff. Everyone, including the plant's general manager, eat in the canteen and all employees eats the same food. The workers, however, are responsible for buying their food if they choose not to eat in the cafeteria.

During worker interviews a number of informal comments and suggestions were made by the workers with regard to food and eating facilities. The most pronounced complaint related to insufficient variety and quantity of food for late night meals. Other comments dealt with the need for more meat for lunch, an increased quantity of food and sugar water for lunch, and less spice in the lunch food. It was also noted that the canteen staff ignored workers' suggestions with regard to changes in the menu.

Canteen: The plant has one canteen with seating capacity of 500. All employees who work in the canteen are trained in safe food handling practices. There is ample refrigeration capacity for food storage. The canteen and cooking facilities are clean. The garbage is removed twice a day. The entire area is thoroughly cleaned at least 3 times a day.

Summary: Worker dissatisfaction, as elicited from worker interviews, was quite noticeable in regard to MDC's operations primarily related to temperature, noise and

solvent odors (Figure 3). When asked their opinion as to their overall satisfaction with working conditions, however, 72% of the workers expressed satisfaction, 20% were neutral, and the remaining 8% found the conditions to be somewhat unsatisfactory.

Discussions with plant management indicated an awareness of these problems as they were largely connected with lack of temperature controls in the plant. However, a high level of employee dissatisfaction indicates that corrective measures taken to date are not completely satisfactory and that some long-term solution must be found to alleviate these problems.

Section 7- LIVING CONDITIONS and DORMITORY FACILITIES

Dormitories: The current dormitory space accommodates 1418 workers. MDC also has additional dormitory space under construction or in the planning stage. The planned-for expansion includes library facilities, sports/fitness rooms, a games room, a computer room, and enhanced recreational areas to provide for movie and video watching, talent shows and other employee recreational and socialization activities.

The dormitories at MDC are the finest seen by MIMCO in any of the facilities audited in China or otherwise visited by MIMCO members and its advisors and consultants. In our opinion, these dormitories could be used to establish standards for efficient, and yet, worker-friendly accommodations for workers in China.

Each dormitory room accommodates eight people in a small group, family-like environment. This is a far cry from the large, warehouse style, sleeping halls that are the norm in China. The minimum space allocated a worker considerably exceeds current GMP standards for new dorms. For example, each room has ceiling fans. Workers have their own dedicated beds and personal lockable storage space. There is

hot and cold running water, and sufficient toilets and bathroom facilities (14.4 occupants per toilet and 12 occupants per shower stall). The dormitory also provides ample laundry facilities. There is adequate security that includes an alarm in each room, janitors and security guards 24 hours a day, 7 days a week. Employees have complete freedom to come and go from their dormitory rooms, although the plant imposes a curfew from 11:30pm to ensure employee safety.

Another unusual feature of MDC's dormitory facilities is that workers are provided their living space free of charge.

Summary: Among the interviewed workers, 96% of the workers expressed satisfaction with the overall dormitory conditions, while the remaining 4% had no opinion. MDC management advised MIMCO that they were aware of the issues surrounding the noise during shift changes and planned to rearrange the groups to accommodate the concerns.

Section 8- HUMAN RESOURCE MANAGEMENT, FREEDOM of ASSOCIATION

Human Resource Management: MDC management has an organized program of human resource management in place. At present, a large part of the activities of the Human Resources department is devoted to employee recruitment, orientation, and pre-job training. This has been necessitated by the need to recruit large number of workers within a short period of time to staff the new facility. Additionally, the HR department emphasizes open channels of communication between workers and all levels of management.

In talking with plant managers at different levels and workers, MIMCO gathered the distinct impression that MDC's senior management devotes considerable time and

attention to maintaining open channels of communication and to encourage open discussion among workers, and between management and workers. A variety of formal and informal communication channels is provided to disseminate information about GMP, plant working conditions, production levels, and other issues relevant to workers. This reflects, in MIMCO's opinion, the frequency and frankness with which workers were willing to raise issues and share their opinions during confidential one-on-one interviews and also through informal comments made to MIMCO members and MIMCO-interviewers. We found a similar sense of openness and lack of fear in discussing controversial issues - and sharing information that was less than complementary to MDC operations - on the part of different levels of supervisors at MDC.

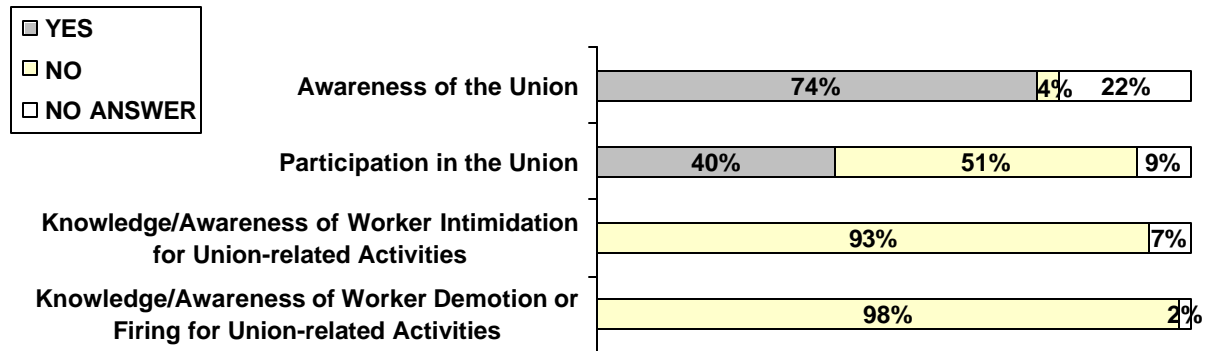
Freedom of Association: We asked a randomly selected group of workers a series of questions in confidential one-on-one interviews. Our objective was to elicit information about their experiences pertaining to: (a) freedom of speech and the right to organize, and, (b) the extent to which these workers felt that they had access to various levels of management with regard to grievances and whether or not their views were taken into consideration on issues that affected their working and living environment.

MDC workers participate in a union that is approved by the government. Non-government-approved union activity is against the law in China. Worker membership in a union is voluntary.

Workers interviewed indicated a high level of awareness of the existence of a union at MDC, but also a low level of worker participation in the union. There was also an overwhelming consensus that workers were not intimidated or punished for their participation or lack of participation in union related activities (Figure 5).

Figure 5

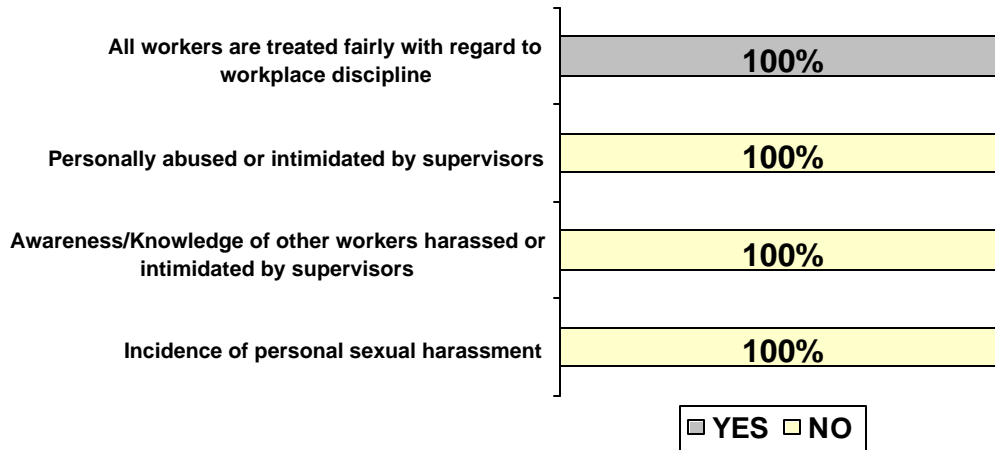
Workers' Opinions Concerning Union Related Activities



Discrimination: An overwhelming majority of interviewed workers commented favorably about the harmonious and worker-friendly environment in the plant. There was little indication that workers were unfairly treated, or that they were personally abused, demeaned or intimidated by their supervisors. Workers also unanimously indicated that they were not subjected to any sexual harassment. There was little evidence of any incidence of sexual harassment by the interviewed workers, or their knowledge of similar incidences on the part of their fellow workers (Figure 6).

Figure 6

Opinions with Regard to Workplace Disciplines a Discrimination



Discipline of Employees: According to the MCR, MDC has no written policies and procedures with regard to workplace discipline and termination of workers. Disciplinary issues are handled informally first by line supervisors and then through higher levels of management. Most of the disciplinary issues pertain to improper work practices, i.e., failure to operate machines in a safe manner, disputes with other workers, deliberate slowdown of work, and sabotage of machinery. All, but the most serious issues of workplace misconduct are resolved through written or oral warnings. Only in rare cases does the management resort to firing workers.

This lack of formal disciplinary and grievance handling procedures is also reflected in worker uncertainty and confusion. 62% of the workers interviewed stated that management handling of worker disciplinary issues on the whole is fair and proper. The remainder 38% professed no knowledge or declined to answer.

At the same time, 73% of the workers interviewed stated that they had not been subjected to any disciplinary action during their period of employment with the company;

18% admitted to being the subject of some form of disciplinary action, and the remaining 9% declined to answer. Of the 18% who were subjected to disciplinary action, the primary reasons were tardiness, loss of safety equipment, failure to use safety equipment, and fighting (broadly defined to include using confrontational and abusive language) with fellow workers. Only 4% of the workers indicated that they were warned for slow work or for missing their quota.

Grievance Procedures: During the interview process there were frequent complaints from employees who they felt that their opinions and suggestions were not solicited and when the employees offered suggestions, they were not acted upon. Examples were specifically related to food in the canteen, living arrangements by shift, heat, noise and odors.

Section 9 - GENERAL COMMENTS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

General Comments: MDC is among the best plants audited by MIMCO in terms of plant layout, efficiency of operations, and worker safety. We were also impressed by top management's emphasis in creating a worker-friendly environment where workers are encouraged to communicate freely with all levels of management. Through demonstration and direct action, MDC management has been attempting to foster a more egalitarian work environment, which is quite different from the typical hierarchical organization and management system prevalent in China. For example, all managers, supervisors and administrative staff eat in the same canteen along with production workers and also eat the same food. In addition to creating a sense of "family" this procedure also ensures that food services will be well maintained.

Overall, MDC meets or exceeds most GMP standards and is in compliance with the Chinese labor law with the exception of Item 6 listed below. It has initiated policies and procedures that are ahead of the curve in terms of employee benefits while in other areas progress is continuing but more work remains to be done. As data from interviewed workers showed, this worker-friendly approach has not yet fully seeped into the management psyche or into workers' perceptions and expectations. Nevertheless, we believe that it is the best approach to recruiting and keeping an experienced and loyal cadre of workers and managers as China continues on its path of economic growth. It is also likely to be the most economically rational approach because of its effect in reducing employee turnover, attracting and retaining more educated and technically proficient workers, and promoting people from within to higher skilled and supervisory level positions.

Corrective Action Request

In the following sections, we summarize our findings of the audit and offer recommendations for corrective action.

1. **Temperature Control**: MDC must address the problem of extreme temperatures which occur in the summer months. Although, MDC is currently using heat stress management, it is not sufficient to address the current conditions. MIMCO requests, as part of the corrective action, a report by May 15, 2001 of the specific actions to be taken.

Subsequent to the receipt of the initial draft of MIMCO's report, MIMCO was informed by MDC that the management is planning to install additional cold blast machines and will also make improvements in the heat stress

management program. These changes are to be implemented before June 30, 2001 and will have to be confirmed by MIMCO.

2. **Noise Control:** We recognize that in facilities such as MDC there will be noise and that the noise can on occasion exceed 85dba. In this case, it appears that some of the noise could be isolated or eliminated. Employees are provided with ear protection devices. However, due to the excessive heat, these devices are not always worn. We suggest that MDC revisit the noise problem and provide a more satisfactory solution.

MDC management has indicated that the excessive noise problem will be largely ameliorated as a consequence of improvements in the in-plant temperatures allowing employees to properly utilize hearing protection. Furthermore, safety officers will make additional on the spot checks to ensure that proper PPE is being utilized.

3. **Ventilation in Paint Mixing:** We recognize that industrial hygiene data indicates that there is no employee exposure issue in the factory area. In the paint mixing area, MDC has addressed the employee exposure issue with the use of respiratory protection. We suggest that MDC reevaluate the ventilation in the paint mixing area to increase the efficiency so as to prevent fumes from moving to the general factory area. In addition, the employees working in the paint mixing area should be retrained to ensure that they are properly using the current ventilation system.

MIMCO's follow-up of the initial audit report indicated that MDC has made improvements in the ventilation system, ensuring that odors from other areas of the plant are contained and do not pose a problem for the employees.

4. **Develop a Written Discipline Procedure:** Employees should understand the disciplinary procedures, which should be documented. GMP requires that a written procedure be in place and employees be briefed on the content. This should also include procedures for terminating employees. This would, in our opinion, eliminate employee misunderstanding of the disciplinary system.

Following receipt of MIMCO's initial draft, MDC management put in practice a written disciplinary procedure. The HR department is planning to offer training sessions to ensure that all employees are familiar with the new procedures. The HR department will develop additional training on wages, working conditions and benefits. An employee handbook will be developed explaining all of these issues. All these changes are to be fully implemented by MDC before June 30, 2001 and will be confirmed by MIMCO in a follow-up audit.

5. **Develop a Written Grievance Procedure:** GMP requires a written grievance procedure, which currently does not exist. This procedure should outline the system for soliciting and evaluating employee complaints and concerns. MIMCO believes that many of the employee minor concerns would be eliminated with the availability of formal grievance procedures.

MDC Management plans to remedy this situation in a manner similar to that of employee discipline procedures. The plant has developed a written grievance procedure and all employees are to be familiarized with this system

through training sessions to be offered by the HR department. The HR department will also develop additional training on wages, working conditions and benefits. An employee handbook will be developed explaining all of these issues.

6. **Obtain Written Approval for 60 Hour Work Week:** MDC is following the practice of other plants in the area where employees work 60-hours per week, which exceeds the working hours under Chinese law. Furthermore, at the time of our audit, MDC had not received the necessary authorization from the local Chinese labor bureau for this variation. It is important that MDC secure such authorization forthwith, since this approval from the local labor bureau is required under GMP.

MIMCO has been informed that MDC is in the process of applying and receiving the labor bureau's approval for current working hours, which should be obtained before June 30, 2001. This information will be confirmed to MIMCO as soon as the labor bureau approval has been received.

7. **Emergency Evacuation Drills:** MDC must conduct two evacuation drills annually due to the turnover rates exceeding 30% annually. MDC management has agreed that henceforth two fire drills will be conducted as required by GMP.