Australian Government
Anti-Dumping Commission

INVESTIGATION 238

ALLEGED DUMPING AND SUBSIDISATION OF CERTAIN DEEP DRAWN STAINLESS STEEL SINKS

EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - EXPORTER

ZHONGSHAN JIABAOLU KITCHEN AND BATHROOM PRODUCTS CO., LTD

FLOWTECH CO., LTD

AND

ZHONGSHAN FLOWTECH CO., LTD

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF ANTI-DUMPING COMMISSION

September 2014

CONTENTS

ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ACBPS	Australian Customs and Border Protection Service
ADN	Anti-Dumping Notice
The applicant	Tasman Sinkware Pty Ltd (Australian manufacturer of like goods)
BVI	British Virgin Islands
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
FOB	Free On Board
Flowtech	Flowtech Co., Ltd (trader of the goods under consideration)
GAAP	Generally accepted accounting principles
Gabalu	Jiabaolu's sink brand
[redacted]	[redacted] the Australian company importing the goods from Flowtech and Zhongshan Jiabaolu
Investigation period	1 January 2013 to 31 December 2013
Jiabaolu	Zhongshan Jiabaolu Kitchen & Bathroom Products Co., Ltd (the manufacturer of the goods under consideration)
LME	London Metal Exchange
MEPS	MEPS (International) LTD
NIP	Non-injurious Price
OEM	Original equipment manufacturer
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
SHFE	Shanghai Futures Exchange
the companies	Jiabaolu, Flowtech and Zhongshan Flowtech
the goods	the goods the subject of the application
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry
USP	Unsuppressed Selling Price
Zhongshan Flowtech	Zhongshan Flowtech Co., Ltd (company managing Flowtech and involved in the trading of the goods under consideration)

1 BACKGROUND AND PURPOSE

1.1 Background

On 31 January 2014, Tasman Sinkware Pty Ltd (Tasman) lodged an application with the Anti-Dumping Commission (the Commission) requesting that the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) publish a dumping duty notice and a countervailing duty notice regarding deep drawn stainless steel sinks exported to Australia from the People's Republic of China (China).

In this application, Tasman alleges that the Australian industry has suffered material injury caused by deep drawn stainless steel sinks exported to Australia from China at dumped and subsidised prices.

Tasman claims the industry has been injured through:

- lost sales volumes;
- reduced market share;
- price depression;
- price suppression;
- loss of profits and profitability;
- reduced return on investment;
- reduced capacity utilisation; and
- reduced employment numbers and wages.

Public notification of the initiation of the investigation was made on 18 March 2014 in *The Australian* newspaper and through Anti-Dumping Notice No. 2014/20.

1.2 Background to meeting

Following the initiation of the investigation, a search of the Australian Customs and Border Protection Service's (ACBPS) import database indicated that Flowtech Co., Ltd (Flowtech) exported deep drawn stainless steel sinks from China to Australia during the period 1 January 2013 to 31 December 2013 (the investigation period).

The Commission notified Flowtech of the initiation of the investigation, and sought its cooperation with the investigation through the completion of an Exporter Questionnaire regarding deep drawn stainless steel sinks.

As outlined below in Chapter 2, the goods sold to Australia by Flowtech are manufactured by another entity, Zhongshan Jiabaolu Kitchen and Bathroom Products Co., Ltd (Jiabaolu). A third entity, Zhongshan Flowtech Co., Ltd (Zhongshan Flowtech), also plays a role in the sale of the goods to Australia.

Jiabaolu, Flowtech and Zhongshan Flowtech all provided the Commission with completed Exporter Questionnaires in so far as the Exporter Questionnaire applied to each company's business.

The Exporter Questionnaire responses included (where applicable) background to the companies' activities, details of exports to Australia, details of exports to third countries,

cost to make and sell information, details of domestic sales, information on adjustments to domestic selling prices, and information about any grants or subsidisation that the companies may have received from the Government of China. The Exporter Questionnaire responses were supported by data contained in various attachments and appendices.

Non-confidential versions of the Exporter Questionnaires are available on the Public Record for this investigation.

1.3 Purpose of visit

The purpose of the visit was to verify information submitted in the Exporter Questionnaire responses. Information verified during the visit has been used to make preliminary assessments regarding:

- who is the exporter and who is the importer;
- export prices;
- normal values;
- dumping margins; and
- subsidy margins.

1.4 Meeting details

Companies	Zhongshan Jiabaolu Kitchen and Bathroom Products Co., Ltd Flowtech Co., Ltd. Zhongshan Flowtech Co., Ltd.
Address	*Zhongshan Jiabaolu* Fuyuan Road, Nansha Industrial Area, Shenwan Town, Zhongshan City, Guangdong Province *Flowtech Co., Ltd. and Zhongshan Flowtech Co., Ltd.* Xinxu CEIEC Industrial Area Sanxiang Town, Zhongshan, Guangdong
Dates of visit	23-25 and 28 July 2014

The following were present at various stages of the meetings.

Zhongshan Jiabaolu Kitchen and Bathroom Products Co., Ltd. Flowtech Co. Ltd.	[redacted] – General Manager, Flowtech Mr Henry Chen – General Manager, Jiabaolu Ms Zeng – Financial Manager, Jiabaolu Mr Zhang Xiaokang – Jiabaolu Domestic Sales Manager Ms Wang – Account Manager
Rayyin Lawyers	Mr Lin Yang – Senior Partner, Rayyin Lawyers Mr Shi Weitao – Partner, Rayyin Lawyers

	Mr Ming Liao - Partner, Rayyin Lawyers
The Commission	Andrea Stone - Manager – Operations 2 Danielle Rudolph – Senior Investigator – Operations 2
Interpreter	Howai (Adam) Tsui

1.5 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 January 2013 to 31 December 2013.
- The injury analysis period is from 1 January 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (19 May 2014) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

  The Commissioner of the Anti-Dumping Commission will not make a PAD until when and if it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or a countervailing duty notice.

  This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 7 October 2014, or such later date as the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) allows under s.269ZHI of the *Customs Act 1901* (the Act).[1]

  The SEF will set out the material findings of fact on which the Commissioner intends to base its recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein.
- Following receipt and consideration of submissions made in response to the SEF, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary.

  This final report is due no later than 19 November 2014, unless an extension to the SEF or the final report is approved by the Parliamentary Secretary.

[1] References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

1.6 Visit report

We explained to the companies that we would prepare a report of our visit (this report) and provide it to the companies to review its factual accuracy, and to identify those parts of the report they consider to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

1.7 Cooperation

All parties at the meeting were well prepared and co-operative during the verification, and supplied various requested documentation during the visit.

2 COMPANY INFORMATION

2.1 Company background

Jiabaolu, Flowtech and Zhongshan Flowtech (the companies) submitted they operate closely in various aspects of the process to manufacture and export Jiabaolu's deep drawn stainless steel sinks to Australia, as summarised in Figure 1 below.

[redacted] **[Redacted – the demonstration chart is deleted]**

Each company's corporate structure, functions and their affiliation with each other is discussed in detail in Sections 2.1.1to 2.1.3. A detailed discussion of the Australian export sales process is at Section 4.1.

2.1.1 Jiabaolu (manufacturer of the goods)

Jiabaolu is a limited liability company that manufactures and sells a variety of deep drawn and fabricated stainless steel sinks, and sink accessories.

Jiabaolu's Exporter Questionnaire included details as to the company's ownership structure, which shows that Jiabaolu is owned by [redacted] **[Redacted – the shareholders'names]**.

Jiabaolu submitted an affiliation and ownership chart in its Exporter Questionnaire that depicted its relationship with [redacted] **[Redacted – the shareholders'names]**. This forms **Confidential Attachment GEN 1**.

Jiabaolu manufactures stainless steel sinks at one site located in Zhongshan City, Guangdong Province, and has approximately 230 employees.

Jiabaolu sells its products to the domestic market and exports directly to countries other than Australia, but does not sell sinks to Australia directly.

[redacted]:

- [redacted]

[redacted] **[Redacted – the description of Jiabaolu's sales channels]**.

The details of these two Australian export sales channels are outlined in Chapter 4.

2.1.2 Flowtech

Flowtech is a limited liability company registered in the British Virgin Islands (BVI) that is 100% owned by one individual, [redacted] **[Redacted – shareholder name].**

[redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech and Jiabaolu]**

[redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech]**.

Flowtech is a trading company that sources a range of items from Chinese manufacturers, and on-sells these to Australian and third country customers.

We observed that Flowtech's website lists a broad range of products for sale other than stainless steel sink and sink accessories, such as ovens, cooktops, heated towel racks, taps and plumbing parts.

In relation to the goods (deep drawn stainless steel sinks), Flowtech's Exporter Questionnaire states it "serves as a trade agency between Jiabaolu and Australian Customers", through on-selling the goods manufactured or sold by Jiabaolu to its sole Australian customer for Jiabaolu's products – [redacted] **[Redacted – customer name]**.

2.1.3 Zhongshan Flowtech

Zhongshan Flowtech is a limited liability company [redacted] per cent owned by a Hong-Kong Based holding company ([redacted] **[Redacted – name of holding company]**).

[redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech]**.

[redacted] **[Redacted – Zhongshan Flowtech's relationship with Jiabaolu]**.

[redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech]**.

The companies submitted that the operational arrangement between Flowtech and Zhongshan Flowtech is in place to reduce Zhongshan Flowtech's tax burden, but also to ensure that Zhongshan Flowtech achieves the required volume of export sales needed to retain its Chinese exporting business licence.

2.2 Product range overview - Jiabaolu

Jiabaolu advised its product range consist of two distinct types of stainless steel sinks for purchase by domestic, Australian, South East Asian and European customers:

- deep drawn; and

- fabricated.

Jiabaolu also sells a range of sink accessories, most of which it purchases from suppliers, but a small amount of which are manufactured on-site.

The company also supplies installation clips and mounting components used to install its sinks, supplied as part of the sink.

Jiabaolu supplies its stainless steel sinks (deep drawn and fabricated) to two different customer segments, each of which are supplied a different category of sink:

1) distributors; and
2) original equipment manufacturers (OEM).

Jiabaolu explained that, in the domestic market, it manufactures and supplies its own brand of stainless steel sinks (the "Gabalu" brand), which it sells to distributors that then on-sell these sinks. These Gabalu sinks are not exported.

On the domestic and export markets, Jiabaolu supplies sinks to OEM customers. [redacted] the sole Australian customer, is considered to be an OEM customer.

Jiabaolu explained that its OEM-customer sinks are manufactured and packaged using the OEM customers' own brand names and to the specific design of each OEM customer.

2.2.1 Deep drawn stainless steel sinks (the goods and like goods)

The goods subject to the investigation are certain types of deep drawn stainless steel sinks, as further defined in Chapter 3. As outlined above, these are a sub-set of the full range of sinks manufactured by Jiabaolu.

These deep drawn stainless steel sinks are supplied in various sizes, designs, bowl configurations, finishes, and may be sold with or without drainer boards and accessories.

As discussed above, Jiabaolu's range of deep drawn stainless steel sinks includes its own "Gabalu" brand (sold exclusively to distributors on the domestic market) and OEM customer-branded sinks.

[redacted] **[Redacted – customer's brand name]** brand is the predominant Australian brand of deep drawn sinks sold by Jiabaolu to Australia. Jiabaolu submitted a copy of [redacted] **[Redacted – customer's brand name]** sink catalogue to show its various deep drawn stainless steel sink product range sold to [redacted] **[Redacted – customer name]** (**Confidential Attachment GEN 2**).

2.2.2 Fabricated sinks

Jiabaolu manufactures and sells a range fabricated sinks to domestic and third party country export markets, and also to the Australian market (again via Flowtech and Zhongshan Flowtech).

Fabricated sinks are not considered the goods for the purposes of this investigation (being specifically excluded). They differ from deep drawn sinks as they have different physical characteristics, and different manufacturing processes.

2.2.3 Accessories

Jiabaolu submitted that, in addition to sinks themselves, it also sells a variety of sink accessories, including:

- basket wastes (plug units);
- faucets (taps);
- colanders (identified as 'draining baskets');
- installation clamps / clips;
- pipes and drains;
- chopping boards;
- soap dispensers; and
- knife blocks.

Jiabaolu advised that it purchases most of these accessories from other manufacturers, including some overseas suppliers. It does, however, manufacture some accessories, such as some draining baskets.

The companies advised that accessories were always sold alongside sinks as part of a set and were not sold individually. However, we observed during our verification of Jiabaolu's data that it did make some irregular sales of accessories separate to sinks during the investigation period, in small quantities.

Jiabaolu submitted it purchases special basket wastes for sale to the Australian customer that meet Australian standards (i.e. they have 'watermark' approval). Jiabaolu advised these basket wastes differ to domestic basket wastes as they are watermarked to identify they meet Australian standards, but in practice there is little if any price difference between the basket wastes supplied to the domestic or Australian markets.

2.3 Accounting structure and details of accounting systems

All three companies operate a calendar year financial year - 1 January to 31 December.

The companies operate different accounting systems, as outlined below.

- Jiabaolu uses the Yonyou accounting system for bookkeeping purposes.

  Yonyou is not able to be used for sales management and issuing invoices, inventory or costing purposes. Jiabaolu advised it undertakes all these activities manually by recording on company vouchers any production and overhead costs, and using vouchers to issue invoices to customers (including Flowtech and Zhongshan Flowtech).

  Costing and sales information is then manually entered into Yonyou for bookkeeping purposes.

- Zhongshan Flowtech also uses the Yonyou accounting software for bookkeeping purposes. As with Jiabaolu, Zhongshan Flowtech manages sales and costs externally to Yonyou and enters the required details into the system manually.

- Flowtech advised it uses MYOB for bookkeeping purposes only. MYOB is not used to issue invoices, costing or managing inventory.

The companies also submitted they had different auditing requirements:

- Jiabaolu and Zhongshan Flowtech's financial reports are audited annually. Each company submitted both original Chinese version and English translations of its audited financial statements (in their annual reports) for 2012 and 2013 in their response to the Exporter Questionnaire. These form **Confidential Attachment GEN 3 and GEN 4,** for Jiabaolu and Zhongshan Flowtech respectively.

- Flowtech does not produce audited statements as it is registered in the BVI, and BVI authorities do not require listed companies to deliver audited statements.

Jiabaolu and Zhongshan Flowtech submitted their companies' accounting practices complied with China's generally accepted accounting principles (GAAP), and that Flowtech complied with Hong Kong GAAP.

We observed the auditor's opinion in both Jiabaolu and Zhongshan Flowtech's audited statements that each company's accounts were kept in accordance with the *Enterprise Income Tax Law of the People's Republic of China*.

2.4 Related parties

The companies engage in related party transactions, as outlined below. We have examined the reasonableness and impact of these related party transactions throughout this report.

2.4.1 Suppliers

Jiabaolu

Jiabaolu submitted it is not related to any of its suppliers. We found no evidence of any relationship other than a commercial buyer/seller relationship between Jiabaolu and any of its suppliers.

Flowtech and Zhongshan Flowtech

As outlined at Section 2.1, [redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech and Jiabaolu]**.

2.4.2 Customers

Jiabaolu

As noted above, Jiabaolu makes sales of sinks and accessories to [redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech and Jiabaolu]**.

Jiabaolu submitted that it is not related to any other customers, either on the domestic or third country export market. We found no evidence of any relationship other than a commercial buyer/seller relationship between Jiabaolu and any of its customers, other than [redacted] **[Redacted – Flowtech's relationship with Zhongshan Flowtech and Jiabaolu]**.

Flowtech and Zhongshan Flowtech

Flowtech and Zhongshan Flowtech submitted they are not related to any of their customers (Australian or third country). We found no evidence of any relationship other than a commercial buyer/seller relationship between Flowtech and Zhongshan Flowtech and any of their customers.

3 THE GOODS AND LIKE GOODS

3.1 The goods description

The goods the subject of the application (the goods) are:

> *Deep drawn stainless steel sinks with a single deep drawn bowl having a volume of between 7 and 70 litres (inclusive), or multiple drawn bowls having a combined volume of between 12 and 70 litres (inclusive), with or without integrated drain boards, whether finished or unfinished, regardless of type of finish, gauge, or grade of stainless steel and whether or not including accessories.*

The application contains the following further information in relation to the goods the subject of the application.

> *For the purposes of this definition, the term ''deep drawn'' refers to a manufacturing process using metal forming technology to produce a smooth basin with seamless, smooth, and rounded corners. Deep drawn stainless steel sinks are available in various shapes and configurations and may be described in a number of ways including flush mount, top mount, or undermount (to indicate the attachment relative to the countertop). Stainless steel sinks with multiple deep drawn bowls that are joined through a welding operation to form one unit are covered by the scope of the investigations. "Finished or unfinished" refers to whether or not the imported goods have been surface treated to their intended final "finish" for sale. Typically, finishes include brushed or polished.*
>
> *Deep drawn stainless steel sinks are covered by the scope of the investigation whether or not they are sold in conjunction with accessories such as mounting clips, fasteners, seals, sound-deadening pads, faucets (whether attached or unattached), strainers, strainer sets, rinsing baskets, bottom grids, or other accessories.*
>
> *Excluded from the definition of the goods the subject of this application are stainless steel sinks with fabricated bowls. Fabricated bowls do not have seamless corners, but rather are made by notching and bending the stainless steel, and then welding and finishing the vertical corners to form the bowls. Stainless steel sinks with fabricated bowls may sometimes be referred to as "fabricated sinks''.*
>
> *Deep drawn stainless steel sinks are commonly used in residential and non-residential installations including in kitchens, bathrooms, utility and laundry rooms. When used in the context of bathrooms, deep drawn stainless steel sinks may there be referred to, for marketing purposes, as "wash basins". As noted above, deep drawn stainless steel sinks may have may, or may not, have a single (or multiple) integrated drain board that forms part of the sink structure, designed to direct water into the sink bowl.*

3.1.1 Tariff classification

The application states that the goods are classified in tariff subheading 7324.10.00 (statistical code 52), in Schedule 3 of the *Customs Tariff Act 1995.*

The Australian Customs and Border Protection Service's (ACBPS) tariff branch has confirmed this is the correct tariff classification applicable to the goods.

The rate of Customs duty payable is 5%.

3.2 Jiabaolu's sales of the goods and like goods

As outlined at Section 2.2, Jiabaolu manufactures and sells a variety of the goods to the Australian market, as well as a range of like goods on the domestic market and to third countries.

However, Jiabaolu submitted that the physical characteristic of deep drawn stainless steel sinks sold to Australia differ significantly from those sold on the domestic market (and to third countries), noting that all Australian sales are of [redacted] **[Redacted – customer name]** own-branded (OEM) products, exact versions of which are not sold to other customers (domestically or for third country export) unless with specific permission.

Jiabaolu submitted that different customer preferences between the Australian, domestic, and third country markets drives the different characteristics of the items sold to each market. Specifically, Jiabaolu identified differences in bowl configuration, inclusion of drainer boards, finish, steel gauge, included accessories and packaging types between the domestic, third country and Australian markets.

A comparison of the characteristics of deep drawn sinks sold on the Australian and domestic markets are at Table 1 below. Where possible, the differences have been verified to the Australian and domestic sales data discussed later in this report.

Characteristics	Australian market (the goods)	Domestic market (like goods)
Number of bowls	1, 1 ½, 1 ¾, 2	1, 2, 3
Number of drainer boards	0, 1, 2	0, 1 (uncommon)
Accessories	Always included basket wastes. Sometimes include colanders and wooden chopping boards.	Always included basket wastes. Most include additional accessories such as faucets and colanders, and many include other various accessories including knife blocks and knives.
Finish	Polished	Satin
Stainless steel type	Grade: 304 Gauge: .6mm or .8mm	Grade: 304 Gauge: .8mm or higher
Sound minimisation	Usually no sound minimising products applied. Will apply a foam pad on occasion, if	Foam pads or spray-on insulating polymer always applied.

	requested by customer.	
Packaging	Usually lined with a plastic sheet, covered by a cardboard 'envelope' and stacked on a pallet. Some higher tier sinks (mostly fabricated) individually placed in cardboard boxes.	All sinks individually boxed, in some cases with accessories and in other, accessories separately boxed.

Table 1: Comparison of the deep drawn sinks sold to domestic and Australian customers.

The companies noted that some sinks sold to the Chinese market may have configuration characteristics similar to those sold in Australia (e.g. single bowl with no drainer board). However, even in instances where the exact same sink configuration is sold to both markets, sinks sold domestically were typically sold with a much larger number of accessories and always have a different finish to the Australian export models.

We observed the differences between the sinks sold to Australian and domestic markets in Jiabaolu's showroom, in its sales data, and in catalogues for each market.

In light of these differing physical characteristics, the companies submitted that it would be unsuitable for the Commission to use Jiabaolu's domestic sales data to determine the normal value of the goods under s.269TAC(1) of the Act, as it is not possible to undertake a proper comparison between domestic and Australian sales due to the significant physical differences between the products sold to each market.

3.3 Production process

3.3.1 Manufacturing

In its response to the Exporter Questionnaire, Jiabaolu provided a summary of its deep drawn stainless steel sink production process (**Confidential Attachment GEN 5**).

During the verification visit with Jiabaolu, we toured its production facilities and observed the production process of deep drawn stainless steel sinks to be as follows:

- Stainless steel coil (304 grade in various thicknesses/gauges) is cut into sizes necessary for the manufacture of sink components (such as bowls and drainer boards).
- Bowl(s) and drainer board(s) are pressed by a pressing machine, and then washed and polished.
- Bowls and drainer board(s) are welded together to form the sink (note: this step will be missed if Jiabaolu produces a sink comprising of only one bowl and no drainer board).
- The sink is grinded to ensure an even surface, and polished to achieve the desired finish.
- The sink is cleaned to remove all debris.
- A sound-minimising foam pad or spray is applied to the sink, if required.
- The sink is packaged.

We observed that Jiabaolu's deep drawn and fabricated sinks were manufactured and packaged in separate facilities at the same site in Zhongshan City. We also observed that different machinery is used in the production of the two sink types.

Jiabaolu explained that staff members specialise in the production of one sink type only (either deep drawn or fabricated sinks); there is no cross-skilling across sink categories.

3.3.2 Design and intellectual property

Jiabaolu submitted that its domestic and export OEM customers, for which Jiabaolu manufactures sinks for sale under their own brand names, are closely involved in the design of all new sink products. In relation to the design of the "Gabalu" products sold to domestic distributors (Jiabaolu's own brand) Jiabaolu performs this independently.

In relation to its Australian products (all of which are sold to [redacted] **[Redacted – customer name]** for sale under its brand names) Jiabaolu said that when developing new deep drawn moulds, [redacted] **[Redacted – customer name]** makes an initial outlay to pay for new dies. Additionally, [redacted] **[Redacted – customer name]** sends engineers to Jiabaolu's factory to physically inspect the dies applicable to its sinks.

Jiabaolu submitted that it is responsible for paying for any maintenance of specialised machinery used for the production of [redacted] **[Redacted – customer name]** sinks.

Jiabaolu doesn't sell the products made by [redacted] **[Redacted – customer name]** funded dies to any other customer unless [redacted] **[Redacted – customer name]** provides permission to do so. If permission is given, Jiabaolu will pay [redacted] **[Redacted – customer name]** royalties for the intellectual property of the item.

3.3.3 Warehousing

Jiabaolu's factory in Zhongshan includes warehousing facilities, where products are held prior to being shipped to domestic or export markets. We observed these facilities during our tour of Jiabaolu's plant.

Jiabaolu advised that the goods exported to Australia, and its products sold to domestic OEM customers typically spend only a short time in warehouses as they are made-to-order.

Jiabaolu submitted that its Gabalu-branded products for sale to domestic distributors tend to be held longest in storage, as they can be bought 'off-the-shelf' by distributors (i.e. not made to order).

3.3.4 Stainless steel scrap

Jiabaolu submitted that around 30 per cent of all stainless steel purchased for sink production is scrapped.

Scrap is generated in various stages of the manufacturing process. For example, when stainless steel sheets are cut to size, or cut stainless steel sheets are drawn to form bowls, there will be chunks of scrap that result. Punching faucet (tap), drainage, and bypass holes into sinks is another major source of stainless steel scrap.

Additionally, Jiabaolu advised that any sub-standard sinks (i.e. defective product) are also scrapped.

Jiabaolu advised that product design influences how much scrap is produced during manufacturing and noted that bowls made with more manual labour (such as fabricated sinks) will generally produce more scrap.

Jiabaolu advised it sells its scrap domestically to generate revenue, and has only one customer of its stainless steel scrap, which it is not related to.

Further discussion of scrap pricing and verification of scrap revenue is located at Section 5.8.1.

3.4 Product codes

Jiabaolu operates a system of product codes that are used to identify models in the sales and cost to make and sell data provided in response to the Exporter Questionnaire (discussed later in this report).

Jiabaolu advised that its sink product codes all consist of five numbers, with the first four digits representing different models, and the fifth digit representing the edge type of the sink.

Jiabaolu confirmed that this product code refers to the sink itself, and does not take into account any accessories sold with the sink, or the sink finish (polished or satin).

Flowtech and Zhongshan Flowtech advised that they do not generate their own model numbering systems, and that they either use Jiabaolu's product codes or the product codes the Australian customer has allocated to its sinks.

3.5 Like goods – preliminary assessment

We consider that deep drawn stainless steel sinks produced by Jiabaolu for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore "like goods" in accordance with subsection 269T(1).

We have assessed the reasonableness of using domestic sales of these like goods as a means of determining normal values in Chapter 9 of this report, in light of Jiabaolu's submission that these sales are not suitable for determining normal values under s.269TAC(1) of the Act.

4 EXPORT SALES

4.1 Background and export sales process

As noted in Section 2.1.1, Jiabaolu sells the goods to Australia via two export sales channels:

- [redacted]
- [redacted] **[Redacted – the description to two sales channels]**.

Typically, the goods are exported to Australia directly via Flowtech through channel 1, although there are occasional exports via [redacted] **[Redacted – the description to sales channel]**.

The companies explained that, regardless of export channel, Flowtech is responsible for liaising with [redacted] **[Redacted – customer name]**, receiving orders, issuing invoices and receiving payments.

The below table compares export sales via each channel.

[Table redacted – the description to two sales channels]

Table 2: Comparison of the export sales process for deep drawn sinks sold to [redacted] [Redacted – customer name] via Flowtech and Zhongshan Flowtech

We found that in practice, exports via Flowtech and Zhongshan Flowtech only differ in how the companies manage the customs and port processing and domestic transport fees.

4.2 Export sales data provided

4.2.1 Export sales listings

In their responses to the Exporter Questionnaire, the companies submitted detailed line-by-line sales listings of their export sales to Australia as follows:

[redacted] **[Redacted – the description to two sales channels]**.

In relation to sales made via Zhongshan Flowtech to Australia, Jiabaolu advised that it considers these to be 'domestic' sales for accounting purposes, and that these sales are listed in *Jiabaolu's' domestic sales listing*, further discussed and verified in Chapter 7.

Jiabaolu's Australian sales listing forms **Confidential Attachment SALES 1**, while *Flowtech's Australian sales listing* forms **Confidential Attachment SALES 2**.

These sales listings included details as to the:

- customer;
- level of trade;
- product details (bowl number, number of drainer boards, finish, included accessories);
- Jiabaolu's product code;
- invoice number and date;
- payment date;
- order number;
- invoice price in RMB;
- quantity (in units); and
- shipping and payment terms.

In *Flowtech's Australian sales listing*, additional information was provided as to:

- Flowtech's product code (in some cases the same as Jiabaolu and in others different);
- credit costs;
- the cost of included accessories;
- inland freight and export handling charges paid by Jiabaolu;
- inland freight and export handling charges paid by Zhongshan Flowtech.

The inland freight and export handling charges paid for each shipment is attributed to Jiabaolu or Zhongshan Flowtech in the listing depending on which export sales channel the goods were supplied through (Jiabaolu pays for sales made via channel 1, while – Zhongshan Flowtech pays these charges for sales made via channel 2).

The companies advised that they had inputted all data in the sales spreadsheets manually, as their accounting systems were not used for invoicing purposes and were subsequently unable to generate a transaction summary for the investigation period.

4.2.2 Turnover aggregate data

In addition to the sales listings outlined above, all three companies submitted *Turnover* spreadsheets that reported the aggregate sales value of domestic, Australian and third

country export sales (where applicable to each company), at the whole company level and for the goods and like goods themselves.

These *Turnover* sheets form **Confidential Attachments SALES 3, 4 and 5** for Jiabaolu, Flowtech and Zhongshan Flowtech respectively.

4.3 Export volume

Flowtech's Australian sales listing, which captures all sales to Australia regardless of export sales channel (Confidential Attachment SALES 2) showed that [redacted] **[Redacted – sales volume]** sinks were sold to Australia across the investigation period.

We were unable to verify this volume against ACBPS data included in the ACBPS imports database, as the ACBPS data includes items outside the goods description (including fabricated sinks) and is not able to be cleansed to identify only deep drawn stainless steel sinks.

4.4 Pricing and trading terms

4.4.1 Jiabaolu to Flowtech and Zhongshan Flowtech

Jiabaolu submitted that the goods it sold to Flowtech and Zhongshan Flowtech for on-sale to Australian customers were priced by model, based on Jiabaolu's cost to make and sell plus a notional profit.

Jiabaolu advised that these prices have been developed historically, and are amended to account for changes in costs as necessary.

Jiabaolu advised that both parties agree to review the sales price every [redacted] months. If the variance of market price of cold rolled stainless steel exceeds [redacted] per cent, which is also confirmed by the variance trend of nickel, the sales price will be adjusted accordingly for the next [redacted] months.

Jiabaolu confirmed that the profit in the price achieved to Flowtech or Zhongshan Flowtech is more reflective of a preferential price between related parties than market prices, and is lower than would be expected for the transaction if it were to be made to Australia directly without using Zhongshan Flowtech or Flowtech.

The companies advised that Jiabaolu invoices Flowtech or Zhongshan Flowtech for the goods (based on an agreed price per model) and receives payment once the payment has been received by Flowtech from its Australian customer.

4.4.2 Flowtech and [redacted] [Redacted – Australian customer name]

The companies advised that Flowtech's prices to Australia are based on the price between Jiabaolu and Flowtech or Zhongshan Flowtech, and a margin to account for Zhongshan Flowtech and Flowtech's expenses and a profit.

The companies explained that the pricing policy and trading terms between it and its Australian customer are detailed in a Trading Agreement between Jiabaolu and [redacted] **[Redacted – customer name] (Confidential Attachment**

SALES 6). This agreement is directly with Jiabaolu, even though the Australian trade is managed through Flowtech and Zhongshan Flowtech.

However, as part of the response to the Exporter Questionnaire, the companies provided a copy of an 'Agency Agreement' between Jiabaolu, Zhongshan Flowtech and [redacted] **[Redacted – customer name]** that appoints Flowtech as Jiabaolu's agent under the Trading Agreement for supplying goods to Australia (**Confidential Attachment SALES 7**). This outlines that Flowtech's responsibilities under the agreement include receiving and processing purchase orders, order acknowledgement, receiving payment and dispatching all relevant commercial documents.

We observed from the Trading Agreement that:

- payment terms are by telegraphic transfer within [redacted] days of the bill of lading date;
- [redacted] retains the intellectual property, title and interest in the tools used by Jiabaolu to manufacture product for [redacted];
- prices are to be maintained in a price list that is reviewed on a [redacted] monthly basis, but provisions exist for the amendment of prices on a [redacted] monthly basis due to fluctuations in stainless steel costs;
- the trading terms are [redacted] **[Redacted – shipping terms]**, China.

Flowtech provided a copy of the current price list, which was effective from 1 June 2013. This forms **Confidential Attachment SALES 8**.

We observed from this price list that:

- prices are listed at [redacted] **[Redacted – shipping terms]**,in Chinese Yuan (RMB);
- ordering lead time is [redacted] days from order to dispatch;
- a price is listed for the sink itself, which includes a basket waste (plug), installation clips and sealant tape
- laundry tubs do not include a basket waste;
- prices for accessories are listed separately (e.g. wire baskets and 'prep boards' (chopping boards);
- for some ranges additional charges are listed for packing the sinks in a box (as opposed to in an 'envelope' for stacking);
- additional fumigation costs are listed per preparation board for fumigation, and this cost fluctuates depending on the number of preparation boards purchased;
- additional charges can be incurred for 'coloured packaging' on certain products;
- there is a minimum order quantity to have the sinks branded with the Australian customers' branding;
- materials used are 304 stainless steel of varying gauges; and
- a provision exists for prices to be adjusted in line with fluctuations in currency and stainless steel costs.

We clarified with Flowtech that the price list operated such that the customer pays the sink price, plus the price of any accessories ordered with the sink (other than the included basket waste), plus any other additional non-standard item such as to have the goods boxed instead of packaged in envelopes (where they do not already come boxed).

In relation to the pricing fluctuation clause, the companies explained that, as raw materials costs are a key component of the price between Jiabaolu and Flowtech or Zhongshan Flowtech, price setting with the Australian customer is tied to fluctuations in stainless steel and nickel (a key component in stainless steel) prices. Flowtech explained that the relationship with its customer on this point is very transparent.

Flowtech advised it provides its Australian customer with evidence to demonstrate fluctuations in raw material prices, such as Shanghai Futures Exchange (SHFE) stainless steel price data and Jiabaolu's relevant stainless steel purchase contracts. Flowtech advised that, when fluctuations see a decrease in stainless steel costs, these too are passed on to the Australian customer.

A copy of the May 2013 raw material cost details sent to the Australian customer was provided (**Confidential Attachment SALES 9**). We observed from this listing that the Australian customer is provided details of:

- Jiabaolu's cost of manufacturing;
- previous period metal costs;
- current period metal costs;
- a set factory margin (which not only provides for Jiabaolu's margin to Flowtech or Zhongshan Flowtech, but from Flowtech to Australia as well).

The companies explained that this transparency is due to the nature of the open relationship between the companies and the Australian customer, noting the Australian customer is aware of the costs incurred in manufacturing sinks (having previously manufactured them internally) and the need to provide the companies with an acceptable margin.

4.5 Warranties

Flowtech advised there is a warranty scheme in place with its Australian customer covering only sinks with major defects, under which Flowtech is responsible for reimbursing the full cost of the product. Flowtech advised there is no time limit on warranty claims.

The companies advised that they receive warranty claims very irregularly, and that the Australian customer limits the risk of warranty claims through quarterly tests on stainless steel quality and through ensuring Jiabaolu uses the Australian customer's preferred stainless steel supplier.

The companies further noted that the Australian customer has a dedicated quality officer posted in China that accesses the factory at random to conduct quality assurance tests.

Jiabaolu's domestic sales listing did not quantify the cost of warranties for Australia sales.

4.6 Packaging

Sales of the goods to Australia are generally packaged by Jiabaolu in plastic sleeves then surrounded by a cardboard 'envelope', allowing the goods to be stacked one inside the other for shipment.

Jiabaolu also offers sinks packaged in fully contained boxes, though this packaging is usually reserved for fabricated sinks and more high-end deep drawn sinks (in some cases).

As outlined above, Flowtech's sales lists to Australia provide for an additional charge for the goods to be packaged in fully contained boxed where the customer chooses to upgrade from the plastic sleeve and envelope configuration.

Neither *Flowtech's Australian sales listing* or *Jiabaolu's Australian sales listing* quantified the cost of packaging for Australian sales.

4.7 Verification of Jiabaolu's sales to audited accounts

We sought to verify Jiabaolu's sales data to the company's audited financial statements.

In addition to the data provided in *Jiabaolu's Australian sales listing* (Confidential Attachment SALES 1), Jiabaolu also provided:

- detailed line-by-line domestic sales data for all sales of deep drawn stainless steel sinks sold during the investigation period hereafter referred to as *Jiabaolu's domestic sales listing*); and

- aggregate third country sales data (by country) for Jiabaolu's sales of all goods to third countries during the investigation period (hereafter referred to *Jiabaolu's third country sales listing*).

Jiabaolu's domestic sales listing forms **Confidential Attachment SALES 10**, while *Jiabaolu's third country sales listing* forms **Confidential Attachment SALES 11.**

For the purposes of this report, the 'upwards' verification of Jiabaolu's export, domestic and third country sales are discussed collectively in this section.

Separate discussion of Jiabaolu's domestic sales generally and the verification of those sales to source documents is found in Chapter 7 of this report. Discussion of third country sales can be found in Chapter 8 of this report.

4.7.1 Step one - *Jiabaolu's Australian sales listing* to *Turnover* sheet

As outlined in Section 4.2, *Jiabaolu's Australian sales listing* (Confidential Attachment SALES 1) included line-by-line data of sales of all products (not only deep drawn stainless steel sinks) by Jiabaolu to Australia that were sold directly to Flowtech (i.e. not via Zhongshan Flowtech). Jiabaolu's sales to Australia via Zhongshan Flowtech are recorded by the company as domestic sales, and appear in *Jiabaolu's domestic sales listing*, discussed further below.

Jiabaolu's Australian sales listing therefore included sales of:

- deep drawn stainless steel sinks;
- fabricated sinks; and
- (small amounts) of accessories sold independently to sinks.

We observed that, when filtered to show deep drawn sinks transactions only, *Jiabaolu's Australian sales listing's* volume and value of the goods sold to Australia (and respectively) matched the Australian goods volume and value figures recorded in Jiabaolu's *Turnover* spreadsheet (Confidential Attachment SALES 3).

We then observed that, when unfiltered the value for *all* Australian sales listed in *Jiabaolu's Australian sales listing* was . This reconciled directly to the figure recorded for all Australian sales in Jiabaolu's *Turnover* spreadsheet.

4.7.2 Step two - *Jiabaolu's domestic sales listing* to *Turnover* sheet

To verify the completeness and relevance of the deep drawn stainless steel sinks sales in *Jiabaolu's domestic sales listing* (Confidential Attachment SALES 10), Jiabaolu submitted a '*Domestic Sales Reconciliation*' workbook, which included spreadsheets showing:

- all domestic sales of deep drawn stainless steel sinks to all customers (i.e. the same sales data as in *Jiabaolu's domestic sales listing*);
- all domestic sales of all goods to OEM customers; and
- all domestic sales of all goods to distributors.

The package also included a reconciliation table that showed the monthly totals of all OEM and distributor sales, the sum of which equated to all sales.

This reconciliation spreadsheet forms **Confidential Attachment SALES 12**.

We observed that the *Jiabaolu's domestic sales listing's* recorded volumes and values of deep drawn stainless steel totalled deep drawn sinks at a value of RMB over the investigation period. This matched the corresponding values listed in Jiabaolu's *Turnover* spreadsheet for like goods.

Next, we observed that, when the OEM and distributors sales listings in the reconciliation workbook were filtered to only show sales of deep dawn stainless steel sinks (these listings identified the product type), the total sales volume and value of these two listings matched the total sales volume and value recorded in *Jiabaolu's domestic sales listing* of deep drawn stainless steel sinks.

When the OEM and distributors sales spreadsheets were unfiltered to show *all* domestic transactions, the total value of Jiabaolu's domestic sales was RMB. This was reflected in the reconciliation table in the reconciliation workbook and matched directly to the total company sales value listed in the *Turnover* spreadsheet.

Having matched the values in Jiabaolu's OEM and distributors sales listings when filtered on deep drawn sinks in *Jiabaolu's domestic sales listing,* we verified that the OEM and distributors listings were accurate in their characterisation of deep drawn sinks, and other products sold.

We selected from the OEM sales spreadsheet a sample of transactions which identified the sale of "fabricated sinks" or "accessories", and confirmed this data was correct by cross-checking these inputs against their associated invoices and packing lists, which

clearly identified these items as accessories or fabricated sinks (**Confidential Attachment SALES 13**).

4.7.3 Step three - *Jiabaolu's third country sales listing* to *Turnover* sheet

As outlined above, *Jiabaolu's third country sales listing* spreadsheet (Confidential Attachment SALES 11) detailed all third country sales of all products across the investigation period, in aggregate by country.

We totalled the volume ([redacted]) and value ([redacted] RMB) of third country sales as identified in the spreadsheet and matched this to the total third country sales figures recorded in Jiabaolu's *Turnover* spreadsheet.

We ensured that *Jiabaolu's third country sales listing* was accurate by matching the total sales showing in this spreadsheet as being made to Vietnam and Singapore against accounts receivable summaries from Yonyou that were provided by Jiabaolu for both countries (**Confidential Attachment SALES 14).**

4.7.4 Step four – *Turnover* sheet to audited accounts

We calculated the combined all company revenue shown in Jiabaolu's *Turnover* sheet, which we have reconciled to the total value of all sales identified in the Australian, Domestic and Third country sales spreadsheets above ([redacted] RMB).

As the Yonyou system does not create standard income statements, we matched this figure to a general ledger printed out from the Yonyou system which detailed Jiabaolu's "Main Business Revenue" for 2013 (**Confidential Attachment SALES 15**).

We then matched this total sales value to the "Operating Income" recorded in the company's 2013 audited income statement (part of Confidential Attachment GEN 3).

4.7.5 Conclusion

Having reconciled Jiabaolu's Australian, Domestic and Third Country sales listings to the company's audited accounts, we are satisfied that the sales data included in Jiabaolu's Exporter Questionnaire response is complete, contains all relevant sales and does not contain any irrelevant sales.

4.8 Verification of Flowtech's sales to company income statement

Flowtech's *Turnover* spreadsheet (Confidential Attachment SALES 4) reported that Flowtech made sales to Australia and third country markets, though the majority of these sales ([redacted]) were to Australia. Flowtech did not report any domestic (i.e. Chinese) sales of any products during the investigation period.

We sought to verify Flowtech's data to the company's income statement, noting that Flowtech does not produce audited accounts (exempted due to incorporation in the BVI).

Flowtech provided a copy of its 2013 MYOB income statement in USD, detailing sales revenue for the period. This income statement forms **Confidential Attachment SALES 16**.

We observed that Flowtech's income statement listed total sales revenue, as well as revenue by product category, including:

- Hardware;
- Bathroom furniture;
- Laundry tubs;
- Tapware; and
- Basins.

Flowtech explained that, of the sales categories, deep drawn stainless steel sinks are recorded as 'laundry tub' sales (despite not being only of laundry tubs in the normal sense of the term).

Flowtech then provided a 2013 laundry tubs account 'Account Transactions [Accrual]' listing from MYOB, showing all sales of laundry tubs (i.e. deep drawn stainless steel sinks including laundry tubs). This listing forms **Confidential Attachment SALES 17**.

We observed that the sales values included in the laundry tubs listing were in RMB, and were converted to USD on a sale-by-sale basis. Flowtech explained the exchange rate used for this conversion is the RMB:USD rate on the date of invoice for each transaction.

We observed that the total of the laundry tubs sales listing, once converted to USD, directly reconciled to the laundry tubs revenue in USD recorded in the MYOB income statement.

Flowtech explained that the laundry tubs sales listing is for sales of deep drawn stainless steel sinks to all countries and not just to Australia, and that, in manually creating *Flowtech's Australian sales listing*, only sales to Australia were included.

In the laundry tubs sales Account Transactions [Accrual] listing, Flowtech manually identified Australian sales in RMB, and totalled the amount of these sales. The reported Australian sales accounted for [redacted] per cent of the laundry tubs sales in the listing (consistent with the fact that Flowtech sells primarily to Australia with some third country sales that represent only [redacted] per cent of total company revenue).

We summed the value of all sales of deep drawn stainless steel sinks recorded in *Flowtech's Australian sales listing* (in RMB) and reconciled this to the manually-identified Australian sales total in the laundry tubs listing.

We examined the sales in the Account Transactions [Accrual] listing that Flowtech reported were not Australian sales (hence excluded from *Flowtech's Australian sales listing*). We observed that the customer names applicable to these sales were not within the [redacted] **[Redacted – customer name]** group, and have undertaken research into the company names and confirmed that they are [redacted] **[Redacted – country name]**-based businesses.

4.8.1 Conclusion

Having reconciled *Flowtech's Australian sales listing* to the company's MYOB income statement, we are satisfied that the sales data included in Flowtech's Exporter

Questionnaire response is complete, contains all relevant sales and does not contain any irrelevant sales.

4.9 Verification of export sales to source documents

We sought to conduct verification to source documentation of the sales data listed in both *Jiabaolu's Australian sales listing* and *Flowtech's Australian sales listing* to verify the accuracy of the listings.

In order to verify export sales to Australia to the companies' source documents, the Commission selected for verification:

- 12 export sales identified in *Flowtech's Australian sales listing*; and
- four sales to Flowtech identified in *Jiabaolu's Australian sales listing*.

4.9.1 Flowtech's sales to [redacted] [Redacted – customer name]

Flowtech supplied comprehensive sales source document packages for the 12 selected sales between it and [redacted]. These packages included:

- invoices from Flowtech to [redacted];
- packing lists;
- Jiabaolu's internal dispatch and packing notes;
- customs declarations forms;
- proof of payment (bank receipt printouts);
- bills of lading; and
- evidence of inland freight, port and handling fees, including invoices from shipping companies, and Jiabaolu's company vouchers as proof of port fee payment.

These documents form **Confidential Attachment SALES 18.**

Invoice details

For the fifteen selected sales from Flowtech to [redacted], we were able to match details in *Flowtech's Australian sales listing* against relevant source documents.

We matched the invoice numbers in *Flowtech's Australian sales listing* to corresponding invoices provided, and matched Flowtech's product code, price and quantity as recorded in the sales listing. We were also able to match the product details of number of bowls, number of drainer boards and product brand (e.g. [redacted] **[Redacted – brand name]**, etc) to the invoice.

We observed that several invoices included sales of fabricated sinks, but that these sinks were correctly not listed in *Flowtech's Australian sales listing* spreadsheet.

We observed that Flowtech's invoices to [redacted] were priced in RMB, and listed both fabricated and deep drawn sinks under the same invoice number.

We were able to reconcile the proof of payment (bank receipts) to the total invoice values they related to. We were also able to match the payment date in the source documents to the payment date recorded in the sales listing.

We saw no evidence of any discounts or rebates to the Australian customer during the verification.

Accessories

As identified at Section 4.2.1, *Flowtech's Australian sales listing* included line-by-line details as to:

- the number and type of accessories included in the sale (i.e. sold with the sink); and
- the value of these accessories.

We observed that the listed accessories were of three kinds:

- basket wastes (plug units);
- chopping boards; and
- colanders (strainers).

This is consistent with the companies' explanation that Australian sales do not include a large number or range of accessories, the Australian sinks observed in Jiabaolu's showroom and the product range in the provided [redacted] **[Redacted – customer's brand name]** catalogue.

We sought to verify the accuracy of the accessories listed in *Flowtech's Australian sales listing* spreadsheet to source documents to ensure the above was an accurate depiction of the accessories sold to Australia. The accessories included in Australian sales was not clear from the invoice itself. However, we observed that Jiabaolu's internal packing notes included details of the accessories packed with each product shipped, by listing the applicable accessory codes.

We observed that the number of accessory codes listed in the packing notes reconciled to the number of accessories listed for each corresponding item in *Flowtech's Australian sales listing*. We verified the accuracy of these accessory codes when examining domestic sales (see Chapter 7) and therefore did not examine these further in relation to export sales.

We then examined the 'value of accessories' data listed in *Flowtech's Australian sales listing*. The companies explained that this was provided for use by the Commission in 'backing out' the cost of accessories from the dumping calculation.

However, for the purposes of this report we do not consider that this removal of accessories should be conducted, the reasons for which are detailed in Section 11.1. Consequently, the submitted value of accessories data has not been used in the dumping calculation.

Regardless, we verified this accessory value to a weighted average accessory value calculation provided by the companies in a 'value of accessory' spreadsheet. This was based on actual sales data of these accessories made separately to sinks to Australia, which we were able to verify to *Flowtech's Australian sales listing*.

We observed that these accessory values were consistent with those listed in the Australian price list to [redacted], as discussed in Section 4.4.2 (Confidential Attachment SALES 8).

Inland freight

As outlined at Section 4.2.1, *Flowtech's Australian sales listing* included data relating to the inland freight paid by Zhongshan Flowtech for sales made via that company (export sales channel 2) and the inland freight paid by Jiabaolu for sales made directly via Flowtech (export sales channel 1).

The companies submitted that, regardless of the sales channel, inland freight costs were paid for by container, with each container costing [redacted].

The companies advised they allocated inland freight to the sales of deep drawn stainless steel sinks in *Flowtech's Australian sales listing* according to the proportion of the shipment that consisted of the goods (calculated by value, not weight).

We were able to match the provided inland freight invoices (part of Confidential Attachment SALES 18) to the container numbers listed on the bills of lading for each relevant shipment. We observed that inland freight per container was [redacted] on these invoices, as submitted by the companies.

We sought to reconcile the allocation of these inland transport fees to *Flowtech's Australian sales listing* by reference to the allocation method explained by the companies above, but were unable to reconcile these amounts. In some cases, the inland freight amount allocated to just the goods in the sales listing itself exceeded the [redacted] per container amount.

We queried this with the companies, which identified that an error had occurred in translating its original allocation into *Flowtech's Australian sales listing*.

To correct this, the company re-submitted *Flowtech's Australian sales listing* with inland freight re-allocated to each invoice line (this revision has been incorporated into the Confidential Attachment SALES 2 version of this listing).

Revision of inland transport for export channel 1 sales

The revised *Flowtech's Australian sales listing* included a 'three expenses allocation' worksheet that:

- summed the total inland transport incurred in the investigation period by Jiabaolu in relation to its Australian sales; then

- derived a unit inland freight amount by total units sold to Australia of all products.

This per unit inland transport was then apportioned to the sales listed in *Flowtech's Australian sales listing* by units sold, where those sales were made via export channel 1(i.e. where the freight was paid by Jiabaolu).

To verify the above calculation, the companies directed us to *Jiabaolu's Australian sales listing*, which listed per invoice, in the first line of these invoices, the total inland freight for that invoice (i.e. [redacted] per container). We were able to reconcile this to the inland freight invoices provided in the source document packs as appropriate.

We observed that the total of this inland freight incurred in *Jiabaolu's Australian sales listing* matched the total figure used in the 'three expenses allocation' worksheet. We further observed that the total sales volume of all sales by Jiabaolu to Flowtech (i.e. via sales channel 1) listed in *Jiabaolu's Australian sales listing* also reconciled to the total sales units used in the 'three expenses allocation' worksheet.

In assessing the reasonableness of the above allocation, we noted that the volume used to determine a unit inland transport amount was the sales volume between Jiabaolu and Flowtech of all goods destined for Australia sold via export channel 1. This includes:

- deep drawn stainless steel sinks;
- fabricated sinks; and
- accessories sold independently of sinks.

We considered that, as accessories are only sold separately in small amounts and are physically much smaller than sinks, it would be more reasonable to eliminate accessories volume from this calculation. We have made this amendment to the 'three expenses allocation' worksheet.

Revision of inland transport for export channel 2 sales

We observed that the revised *Flowtech's Australian sales listing* did not incorporate a revision for the inland transport allocated to sales made via Zhongshan Flowtech through export sales channel 2 (less than [redacted] per cent of total sales volume to Australia).

A similar calculation to that performed for channel 1 sales was not possible as we are unable to accurately identify the total inland freight amount paid by Zhongshan Flowtech in relation to its Australian sales in the data we have gathered from the companies.

Noting that:

- the RMB per container amount incurred by Zhongshan Flowtech is the same as that incurred by Jiabaolu when sending the goods via export channel 1; and
- the make-up of shipments sent via export channel 1 and export channel 2 to Australia is likely to be similar as they are sold to the same customer (only going through export channel 2 on occasion for export licensing purposes)

we consider it reasonable to amend the inland transport listed in *Flowtech's Australian sales listing* for those sales made via export channel 2 to align with the above-verified unit amount attributable to sales sent via channel 1.

We have made this amendment in the revised *Flowtech's Australian sales listing*.

Port fees

As with inland transport the companies submitted that port fees were allocated at a set cost of [redacted] per invoice, and that these expenses were allocated according to the proportion of the shipment that consisted of the goods (calculated by value, not weight).

We observed that port fees identified in company vouchers and shipping company invoices matched this [redacted] fee, but as with inland freight we were unable to perform the reconciliation between these invoices and the port fees allocated to the goods in *Flowtech's Australian sales listing*.

The companies identified the same error had occurred as was identified with inland transport, and re-calculated port fees freight in the revised *Flowtech's Australian sales listing*.

For sales via channel 1, this re-calculation was performed in the same way for inland transport and was included in the 'three expenses allocation' worksheet. As with inland transport, we amended the volume used to not include accessory units when determining a unit handling fee cost.

Additionally, as with inland transport, the companies did not make amendments to the port fees recorded for sales via channel 2. We determined these in the same way as for inland freight for sales via these channel, considering it is reasonable in the circumstances.

Handling fees

We observed that the companies had provided us with the relevant handling fees invoices for our selected shipments. However, as with port fees and inland transport, we were unable to perform the reconciliation between these invoiced amounts and the figures listed in *Flowtech's Australian sales listing* where these fees had been allocated to the deep drawn stainless steel sink portion of the invoice.

As with port fees and inland transport, the companies performed a re-calculation for sales via channel 1 in the 'three expenses allocation' worksheet. As with inland transport and port fees, we amended the volume used to not include accessory units when determining a unit handling fee cost.

Additionally, as with inland transport and port fees, the companies did not make amendments to the handling fees recorded for sales via channel 2. We determined these in the same way as for inland freight and port fees for sales via these channel, considering it is reasonable in the circumstances.

Credit charges

In *Flowtech's Australian sales listing,* the company submitted credit calculations for each sale. This credit cost was calculated as follows:

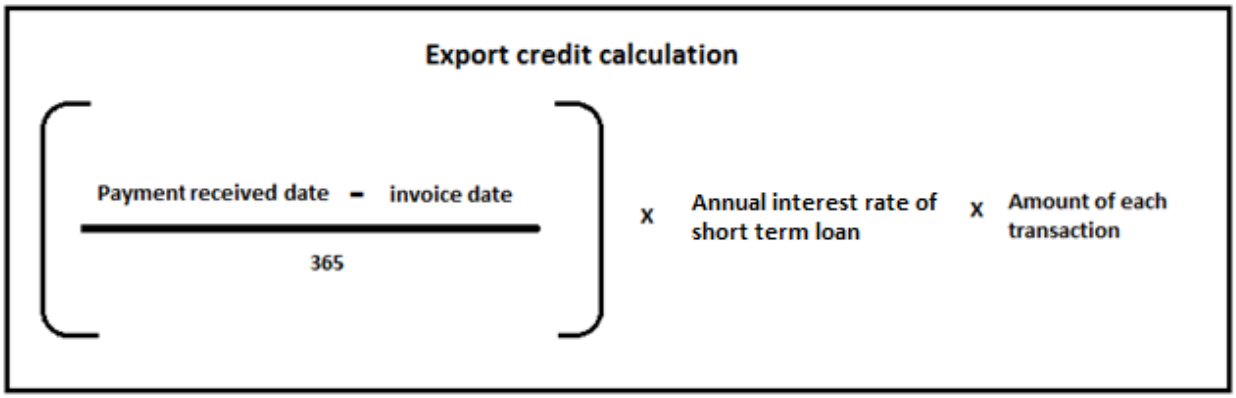

Figure 3: Flowtech's Australian credit calculation

Flowtech submitted that the "annual interest rate of short-term loans" was [redacted] per cent, the published rate effective July 2012 from the People's Bank of China (unchanged throughout 2013).

The Exporter Questionnaire included an attached document from the People's Bank of China website which showed this was the applicable interest rate for that period (**Confidential Attachment SALES 19**).

We consider the above credit calculation to be reasonable.

4.9.2 Jiabaolu's sales to Flowtech

The companies provided various documents to assist in the verification of the four selected sales between Jiabaolu and Flowtech selected from *Jiabaolu's Australian sales listing* (Confidential Attachment SALES 1), including:

- commercial invoices from Jiabaolu to Flowtech;
- associated packing lists;
- Jiabaolu's vouchers that recorded sales to Flowtech (for internal recordkeeping purposes only);
- customs declarations forms;
- bills of lading; and
- a shipping summary for [redacted] **[Redacted – customer name]**, which identifies what purchase orders were shipped by container number.

These documents form **Confidential Attachment SALES 20.**

For the four selected shipments between Jiabaolu and Flowtech, we were able to match *Jiabaolu's Australian sales listing* against source documents.

We used the invoice numbers for each selected sale to identify the corresponding sale in *Jiabaolu's Australian sales listing* spreadsheet. For the selected sales, we matched the model code, price and quantity against the spreadsheet. We found that *Jiabaolu's*

Australian sales listing included all the products listed in the invoice - including both deep drawn and fabricated sinks.

Noting the methodology recommended for calculation export price (outlined below) is to use the price between Flowtech and its Australian customer. We did not conduct any further verification of *Jiabaolu's Australian sales listing*.

4.9.3 Conclusion

Following verification to source documents, we are satisfied with the accuracy of *Jiabaolu's Australian sales listing* and *Flowtech's Australian sales listing* spreadsheet.

4.10 The exporter

We consider Jiabaolu to be the exporter of deep drawn stainless steel sinks to Australia from China.

Jiabaolu:

- is the manufacturer of the goods;
- understood that the goods were being produced for export to the Australian market;
- packed the goods ready for shipping to the Australian market;
- arranged and paid the inland freight and export handling fees for goods sold through export channel 1; and
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia.

4.11 The importer

Having reviewed applicable information gathered at this verification, we consider that for Jiabaolu's export sales of deep drawn stainless steel sinks, [redacted] should be considered the importer of the goods.

[redacted]:

- is listed as the importer on the customs entry;
- is listed as the consignee on the Bill of Lading;
- arranges for the international shipping and insurance for the goods;
- is invoiced by Flowtech for the goods; and
- pays Flowtech directly (via telegraphic transfer) for the goods.

Consequently, we consider [redacted] to be the beneficial owner of the goods at the time of importation, and therefore the importer.

4.12 Arms length

In respect of Flowtech's sales transactions to [redacted] (the Australian customer) during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that the transactions from Flowtech to the Australian customer during the investigation period were arms length transactions.

In relation to the sales between Jiabaolu and Flowtech and Zhongshan Flowtech, we found:

- there may be consideration payable for or in respect of the goods other than their price, noting that Zhongshan Flowtech has been provided shares in Jiabaolu as a result of it bringing Jiabaolu the Australian export customer's business; and
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller, being a price where the profit is not set at a commercial market rate.

We therefore consider that the transactions from Jiabaolu to Flowtech and Zhongshan Flowtech during the investigation period were not arms length transactions.

4.13 Export price – preliminary assessment

We consider that:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have not been purchased by the importer from the exporter (being purchased by the importer from Flowtech which is not considered to be the exporter); and
- the purchases of the goods by the importer were arms length transactions.

Noting that the goods have not been purchased by the importer from the exporter, as well as the non-arms' length nature of the relationship between Jiabaolu and Flowtech and Zhongshan Flowtech, we recommend that the export price be determined under subsection 269TAB(1)(c), having regard to all the circumstances of the transaction. We consider that export price under s.269TAB(1)(c) should be determined as the FOB price between the importer and Flowtech.

Export price calculations form **Confidential Appendix 1**.

5 COST TO MAKE & SELL - JIABAOLU

This Chapter focuses on the verification and assessment of reasonableness of the calculations in Jiabaolu's submitted cost to make and sell (CTMS) data.

Discussion of Flowtech and Zhongshan Flowtech's cost to sell (CTS) data is contained in Chapter 6.

5.1 Data provided and CTMS categories

In its response to the Exporter Questionnaire, Jiabaolu submitted CTMS calculations for all of its manufactured models of stainless steel sinks (both deep drawn and fabricated) sold during the investigation period. This data was provided on a monthly basis, by product code (model), using Jiabaolu's numbering system.

Although separate calculations for the domestic and Australian markets were provided, we observed that Jiabaolu submitted no difference between the data calculated by model by month between each market (either for selling expenses or costs of manufacture).

5.1.1 Omission of certain models from CTMS

We observed that there appeared to be some sales of a few models on the domestic market by Jiabaolu that a CTMS calculation was not provided for. These represented an insignificant proportion of domestic sales.

Jiabaolu investigated these sales and advised that these models were some purchases of sinks from other manufacturers that were on-sold on the domestic market by Jiabaolu. Jiabaolu provided VAT vouchers and internal purchase records to verify this, which form **Confidential Attachment CTMS 1**.

We consider it correct that these models should be omitted from the company's cost calculations, meaning that production costs are not allocated to these purchased models.

5.1.2 Data categories

The below outlines key elements of Jiabaolu's CTMS calculations.

Production and sales volumes

Jiabaolu's CTMS calculations provided the following volume data by model by month for the investigation period:

- production volume (units)
- production volume (Kg)
- sales volume (units)
- sales volume (Kg)
- the Kg per unit weight for each model (i.e. model 1005A has a weight of [redacted] Kg).

Cost to manufacture (CTM)

Jiabaolu's submitted CTM was divided into the following three cost categories (and various sub-categories).

1) Direct materials
    a) Stainless steel
    b) Supplementary materials (accessories and packaging materials)
2) Manufacturing overheads
    a) Overheads
    b) Cutting fee
3) Wages

Cost to sell (CTS)

Jiabaolu provided unit (per sink) selling, general and administrative (SG&A) costs by month and model.

As with its CTM calculations, Jiabaolu's CTS calculations were the same for both Australian and domestic sales (i.e. no SG&A differentiations made across markets).

Scrap offset

Jiabaolu provided a per Kg 'scrap offset' amount (an annual weighted average for the investigation period). This accounted for the revenue generated by Jiabaolu in making sales of scrap on the domestic market, which Jiabaolu submitted should reasonably reduce its raw material costs.

Accessories cost in supplemental materials

As with the export sales data in *Flowtech's Australia sales listing* (see Section 4.9.1), Jiabaolu included in its CTMS data the cost of accessories in the supplementary materials sub-category of direct materials.

Jiabaolu explained this was intended to be used to 'back out' the cost of accessories from the CTMS for the purposes of dumping calculations.

We have verified and amended this accessories cost in supplemental materials as part of a re-allocation of supplementary materials costs, discussed below.

However, we do not consider this 'back out' of accessory costs should be performed for the purposes of this report. This is discussed in more detail at Section 11.1.

5.1.3 Direct materials category split - stainless steel and supplementary materials

As outlined above, Jiabaolu's CTM calculations split its cost category of direct materials into two sub-categories:

- 'stainless steel'; and
- 'supplementary materials' (accessories and packaging).

Jiabaolu also included a separate item of 'accessories cost in supplemental materials' as outlined above.

Jiabaolu advised that its split of direct materials into stainless steel and supplementary materials was to comply with the requirements of the Exporter Questionnaire to identify stainless steel costs separately. Jiabaolu explained that, in order to calculate the value of stainless steel in the direct materials cost category, it had identified the costs of 'supplementary materials' in the direct materials, and left the remainder as stainless steel costs.

We sought to verify this split of direct materials into stainless steel and supplementary materials, and the further identification of accessories as a component of supplementary materials with Jiabaolu.

Use of cost of inputs

Jiabaolu explained that it does not maintain cost of finished goods records that separate the cost of stainless steel raw materials from the remaining direct materials. However, the company does maintain monthly costs of inputs into the manufacturing process split by stainless steel and supplementary materials.

Jiabaolu advised that, in the absence of an accurate cost of finished goods split, it used this cost of inputs split to determine the cost of supplementary materials (and then to identify accessories within supplementary materials). Jiabaolu then calculated the cost of stainless steel to be the remainder of direct materials costs.

As the cost of inputs figure includes the cost of inputs that remain as work in progress at the end of the month, but also excludes work in progress inputs from the previous month, the company acknowledged that using the cost of inputs spilt of direct materials into sub-categories would not precisely determine the split in the finished goods, though it would reasonably represent the split.

In the case of supplementary materials (accessories and packaging), we consider that consumption of these products in the month would be similar to the cost of accessories into finished goods in any case as these require little further working (as opposed to stainless steel which passes through the whole manufacturing process). We therefore consider the use of the cost of supplementary materials consumed in the month to be reasonable to determine the split between these materials and stainless steel in the cost of finished goods.

Identifying cost of inputs

To calculate the value of supplementary materials in the direct materials, Jiabaolu referred to an internal material costs working spreadsheet for November that split input costs into 'stainless steel' and 'accessories'. Jiabaolu had used this reported 'accessories' figure in this spreadsheet as the value of supplementary materials in the direct materials, apportioned to models based on sink weight (see discussion of Jiabaolu's allocation methods at Section 5.1.5 for further discussion).

However, during the verification of Jiabaolu's CTM to audited statements (discussed in Section 5.7) we found that the 'accessories' value in this listing in fact included some manufacturing overheads (particularly, manufacturing consumables). We therefore considered this to not be an accurate basis for performing the split of direct materials into supplementary materials and stainless steel. Jiabaolu agreed with this assessment.

Jiabaolu then referred us to its yearly Yonyou 'production cost' sub-ledger which shows the monthly cost of inputs into manufacturing by certain cost categories, and identifies the consumed stainless steel, total accessory, and packing costs separately (**Confidential Attachment CTMS 2** - discussed further in Section 5.7).

We used the packaging and accessory costs recorded in these ledgers to determine 'supplementary material' costs (splitting them in the CTMS calculations into accessory and packaging costs, creating a new sub-category for packaging).

We observed that the monthly accessory costs identified in the Yonyou sub ledger reconciled to the 'accessories cost in supplemental materials' reported by Jiabaolu in its CTMS calculations.

5.1.4 Manufacturing overheads category split - overheads and cutting fee

As outlined above, Jiabaolu's manufacturing overheads cost category was presented split into the sub-categories of overheads and 'cutting fee'.

Jiabaolu explained that this cutting fee in fact refers to the cost of laser cutting stainless steel sheet using the laser cutting machine in-house for use in making fabricated sinks, and is not related to the manufacture of deep drawn stainless steel sinks.

We observed this laser cutting machine during our tour of Jiabaolu's facilities, noting it was located in the facility used only for fabricated sinks.

Jiabaolu explained it is able to readily identify this cutting fee in its manufacturing overheads costs records, and hence isolated it for the purposes of the Exporter Questionnaire response to allocate this only to models of fabricated sinks.

We observed that these fees were only allocated to fabricated sink models in the CTMS provided, based on sink weight.

Jiabaolu provided a 'manufacturing overhead – cutting fee' sub-ledger for January – December 2013 (**Confidential Attachment CTMS 3**). We observed that the monthly costs of laser cutting for each month of the year shown in this ledger directly reconciled to the total cutting fee for each month in the CTMS calculations.

We observed that the balance of the Manufacturing Overheads costs category was included in the CTMS as 'Overheads'.

5.1.5 Allocation of CTM to models

Allocation submitted

We discussed Jiabaolu's method of splitting the total pools of its three CTM categories (direct materials, manufacturing overheads and wages) and sub-categories across models (prior to converting them to unit cost per model – see below).

Jiabaolu advised that it routinely calculates its CTM for all sinks by model on a monthly basis, by allocating total costs for each cost category (incurred for all production – fabricated and deep drawn sinks collectively) amongst models. Jiabaolu explained that the total pools of monthly costs for all CTM categories are allocated based on the total production weight of each model in the month as a proportion of the total weight of all sinks production in the month.

Jiabaolu advised that the weight of production is calculated by reference to the units produced multiplied by the standard Kg per unit (i.e. per sink) weight in Jiabaolu's records.

Jiabaolu explained that the CTM calculations submitted in response to the Exporter Questionnaire used this same methodology.

We considered this method of allocation to be reasonable in terms of stainless steel costs (which are a sub-category of the direct materials category). However, we observed that Jiabaolu's steel weight-based allocation method presented some accuracy problems in relation to other costs, including:

- evenly allocating accessory costs across models irrespective of the inclusion of many or few accessories in sales of that model;
- allocating wages and overheads more to heavier sinks than lighter ones though this may not directly correlate to labour or overheads actually applying to that sink (e.g. a full double-bowl sink with a drainer board that would reasonably have similar pressing, welding and polishing needs to a one and ½ bowl sink, though differences in their relative weight would result in the double bowl sink being allocated more labour and overheads); and
- allocating all manufacturing wages (for both the fabricated workshop and the deep drawn sinks workshop evenly across models based on weight (regardless of what type of sink they are) even though fabricated sinks are much more labour-intensive than deep drawn sinks, meaning that the labour expenses allocated to the deep drawn products are likely to be higher than those actually incurred.

Jiabaolu accepted these issues, but noted that the methodology applied is that which is maintained in the ordinary course of business, and queried the availability of any other possible method of allocating these manufacturing costs.

Commission reallocation of accessories

We examined the data contained in Jiabaolu's costs records verified and obtained with the company during the verification. With this in mind, we considered other methods of allocating cost to manufacture to models.

In terms of wages, overheads, stainless steel, and packaging materials we consider the method adopted by Jiabaolu to be the most reasonable in the circumstances.

However, during our verification with Jiabaolu, we obtained a copy of an 'accessories and supplementary materials report' for 2013, that showed the cost of all 'direct materials' by month, categorised into each type of accessory (chopping board, drainer baskets, knives, etc.), packaging materials (cardboard boxes, PE bags) and stainless steel. This was supported by the Yonyou sub-ledgers for each of these materials for the month of November. This forms **Confidential Attachment CTMS 4**.

This report reconciled directly above-mentioned to the Yonyou 'production cost' sub-ledger that shows the monthly cost of inputs into manufacturing by certain cost categories, identifying total accessory consumption costs for the month (Confidential Attachment CTMS 2).

In this report, we were able to isolate accessories that were not sold to the Australian market (which were limited to chopping boards, drainer baskets and strainers – see Section 4.9.1). We consider these accessories were destined for either the domestic or third country export markets.

After isolating these accessories, we performed a re-allocation of Jiabaolu's accessory value to ensure:

- accessories destined only for the domestic and third country markets were allocated to models sold on those markets; and
- only accessories destined for Australia (which were also to domestic and third country markets) are allocated to Australian models.

To allocate accessories across models, we used the Jiabaolu method of total monthly model sink weight as a percentage of total sink weight in the month, in the absence of any more reasonable method of allocation.

We consider this re-allocation method to more accurately represent the cost of accessories in each model and to the markets they are destined for, and alleviates some of the issues identified above with allocating the total 'pool' of accessories across models based solely on sink weight.

Commission corrections to allocations

In undertaking analysis of Jiabaolu's CTM data, we observed that, while the monthly fluctuations in the recorded cost of direct materials, wages and manufacturing overheads appeared to be reasonable in most instances, there were several occurrences where 'spikes' in the company's unit CTM for certain models were observed.

We highlighted this to Jiabaolu, and requested the company provide an explanation for these CTM 'spikes'.

Jiabaolu explained that these may be due to corrections to the CTM made by the accounting team, where in the previous month an error in the recording of stainless steel for that specific model had occurred at the factory. This resulted in an under-allocation in one month that was corrected in the following month. However the production quantity of that model in the following month may have been significantly lower and hence the unit cost of raw materials was significantly higher than the previous month.

In these instances, Jiabaolu has deviated from its monthly model production weight/total monthly production weight allocation and directly attributed the materials to the model that was incorrectly recorded in the previous month.

To counteract these anomalies, the Commission has made corrections to the monthly CTM categories to ensure that the total costs of each category in each month are evenly attributed across all models using the model production weight/total monthly production weight allocation method.

The impact of this is to raise the unit CTM of all models in the impacted months by apportioning CTM 'spikes' across all models (meaning they are overstated), while at the same time retaining the low unit cost for the impacted models in the previous month where the error occurred.

Noting the method adopted to calculating normal value outlined in Chapter 9, we observe that the overall impact of this approach has been to increase the dumping margin calculated for Jiabaolu.

In the absence of CTM calculations from Jiabaolu with these spikes properly accounted for, we consider the above approach to be reasonable in the circumstances.

5.2 Unit CTMS calculations

To calculate its unit (per sinks) CTMS in its submitted data, Jiabaolu arrived at a net monthly 'manufacturing cost' amount that represented:

- the sum of all three cost categories; minus
- the identified accessories cost in supplemental materials.

After arriving at a total net (minus accessories) 'manufacturing costs' by model for each month Jiabaolu divided this total cost by model by month by the corresponding production units of that model in the applicable month to arrive at a unit cost to manufacture each model.

Jiabaolu then summed this CTM with the:

- unit CTS of Jiabaolu; and
- unit CTS of Flowtech and Zhongshan Flowtech (see Chapter 6 for verification and discussion).

Jiabaolu then deducted a unit (per sink) scrap offset from the above (calculated by converting the per Kg scrap offset to a per sink amount for each model by multiplying the per Kg offset by the unit weight of each model). This scrap offset is verified at Section 5.8.1.

This unit CTM calculation is illustrated in the below diagram:

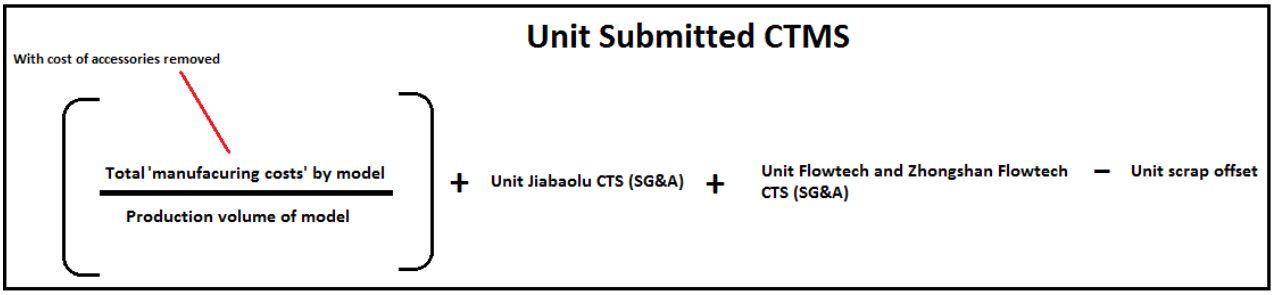

Figure 3: Jiabaolu's unit CTM calculation method

We observed that the inclusion of the Flowtech and Zhongshan Flowtech CTS (SG&A) in this calculation arrived at a CTMS for export sales only (as domestic sales would not be subject to this additional CTMS).

For the purposes of constructing normal value (see Chapter 9 for approach), it was necessary to also determine a domestic CTMS for Jiabaolu, which we were able to do simply by removing the export companies' CTS.

5.3 Value of CTM categories

Jiabaolu's CTM shows the weighted average percentage break-down of costs items (as a percentage of total costs incurred – not including the scrap offset or reduction for accessories in supplementary materials costs) is as follows.

Category	Sub-category	Percentage of total costs incurred
Direct materials	Stainless steel	[redacted]
	Supplementary materials	[redacted]
	Packaging	[redacted]
Manufacturing overhead	Overheads	[redacted]
	Cutting fee	[redacted]
Wages	Wages	[redacted]

Table 3: Jiabaolu's cost categories as a percentage of total manufacturing costs

5.4 Value of deductions/offsets

As discussed above, Jiabaolu sought to reduce its submitted CTM by:

1) removing a calculated 'cost of accessories in supplementary materials' figure to arrive at CTM for the sink alone; and
2) offsetting raw material costs by the revenue generated from scrap.

As discussed later in Section 5.8.1 of this report, Jiabaolu has submitted that the recorded scrap offset should in fact be significantly higher than the figure recorded in its accounts and reflected in its CTMS calculations.

The weighted average percentage deduction to the total CTM of Jiabaolu for each of these items is tabulated below.

Item	Percentage offset of total cost incurred
Accessories cost	[redacted]
Scrap offset	[redacted]

Table 4: Value of Jiabaolu's accessory deduction and scrap offset as a percentage of total CTM

The weighted average percentage deduction to the total raw material costs of Jiabaolu for each of these items is tabulated below.

Item	Percentage offset of total cost incurred
Accessories cost	[redacted]
Scrap offset	[redacted]

Table 5: Value of Jiabaolu's accessory deduction and scrap offset as a percentage of total raw material costs

5.5 Verification focus

We focussed our verification of Jiabaolu's CTMS on the month of November 2013.

Where applicable, we sought to focus verification on model 1016E, the highest selling model to Australia.

5.6 Verification - production volumes

As discussed above, Jiabaolu included production volumes (in units of sinks and kilograms) by model by month for the investigation period.

Jiabaolu also included the unit weight for each model type (i.e. model 1005A has a weight of [redacted] Kg). We observed that the production figures were determined by multiplying the production or sales units (in sinks) by the unit weight for each model type to arrive at total sales and production weight for that model.

5.6.1 Units produced

Jiabaolu explained that, to record units produced, the workshop keeps daily production slips that record the units manufactured of each model type each day. These feed into production summary records generated at the end of each month that feed into the internal costs workings.

We observed that the production units by model and the monthly total recorded in Jiabaolu's cost of finished goods internal costs working sheet (discussed further in Section 5.7) matched the provided CTMS data.

We sought to verify the production units recorded in the CTMS for November 2013 for the following selected models:

- 1016E
- 1001A
- 1007A
- 1007L

Jiabaolu provided copies of the daily factory slips for November, highlighting the production of each of the above selected models. The total monthly production shown in these slips for the selected models reconciled directly to the CTMS calculations.

Copies of the relevant daily production slips form **Confidential Attachment CTMS 5**.

5.6.2 Kg per unit (sink) weight for each model type

We confirmed with Jiabaolu that the Kg per unit recorded in its CTMS relates to the weight of the sink only and not to the weight including accessories, installation items or packaging.

We asked Jiabaolu to demonstrate how unit Kg weight for each model type recorded in its CTMS workings was determined.

Jiabaolu advised that this was a standard weight known to it for each model type, developed historically over the years of production of each model. The company

explained that it did not possess documentary evidence to demonstrate how these Kg per model weights were determined.

We examined these Kg per units weights in light of the type of sink represented by several specific models (e.g. single/double bowl, drainer board included/excluded, general size of the sink) and considered them to be reasonable. They appear consistent across models of similar type (e.g. models of 1.75 bowl sinks with a drainer board have similar Kg per unit weights recorded).

We are satisfied with the accuracy of the Kg per unit weights recorded in the CTMS calculations.

5.7 Verification - Jiabaolu's costs to manufacture to audited financial statements

We explained to Jiabaolu that we would seek to reconcile the production costs (CTM) in its submitted costs calculations to its audited financial statements to assess the completeness and relevance of the CTM data.

5.7.1 Step one – monthly cost of finished goods worksheet to submitted CTMS calculations

In line with our selection of November for CTM verification, Jiabaolu provided its monthly cost of finished goods internal costs working sheet (referred to above at Section 5.6.1) for the cost of finished goods by model for that month (**Confidential Attachment CTMS 6**). This displayed the cost in finished goods for all three costs categories separately, as well as a total cost of finished goods.

We observed that the recorded total monthly cost in finished goods for each cost category reconciled directly to the monthly totals in Jiabaolu's submitted CTMS calculations.

5.7.2 Step two – cost of finished goods to Yonyou production costs sub-ledger

Jiabaolu then directed us to its monthly production costs sub-ledger produced from Yonyou for January – December 2013 (Confidential Attachment CTMS 2), showing the monthly value of:

- Opening stock
- Inputs into production by the following categories:
  - Stainless steel
  - Other materials (accessories)
  - Packaging
  - Wages
  - Manufacturing overheads
- Value of finished goods
- Closing stock at the end of the month

This related to all manufacturing activities of the company (deep drawn and fabricated products collectively).

We examined the month of November in this ledger, and observed that the total monthly value of finished goods matched the total costs for all categories in the cost of finished goods worksheet (Confidential Attachment CTMS 6 above).

To verify the value of inputs into production by cost category as recorded in Yonyou, Jiabaolu supplied internal November input costs workings spreadsheets for wages, manufacturing overheads and materials (**Confidential Attachment CTMS 7**). These displayed total input costs by category for the month, as well as these costs allocated to the models produced in that month (based on steel weight).

As discussed in Section 5.1.3, the 'materials' worksheet provided split costs into 'stainless steel' and 'accessories'.

We saw that the total of the wages and manufacturing overheads worksheets reconciled directly to the Yonyou production costs sub-ledger, as did the recorded cost of 'stainless steel' in the materials worksheet.

However, we observed that the 'accessories' figure listed in the materials worksheet did not directly reconcile to the other materials (accessories) recorded in Yonyou. Jiabaolu explained this was due to the inclusion of certain manufacturing overheads in the 'accessories' data in this internal worksheet, and that it represented the cost of accessories and manufacturing consumables (i.e. all physical 'materials' used in the manufacturing process). This is discussed above at Section 5.1.3.

To verify the costs of 'other materials' (accessories) and packaging in Yonyou, Jiabaolu provided an 'accessories and supplementary materials report' that showed the cost of all 'direct materials' by month, categorised into each type of accessory (chopping board, drainer baskets, knives, etc.), packaging (cardboard boxes, PE bags) and stainless steel. This was supported by the Yonyou sub-ledgers for each of these materials for the month of November.

This package forms **Confidential Attachment CTMS 8**.

We observed that the sub-ledgers provided reconciled to the covering report for the month of November.

We were able to directly match the stainless steel, packaging and accessories costs in the accessories and supplementary materials report to the Yonyou monthly production costs sub-ledger by reference to each relevant cost category.

5.7.3 Step three – Yonyou production costs sub-ledger to income statement

Jiabaolu advised that the Yonyou accounting system was not able to generate standard income statement/profit and loss statement reports.

Instead, Jiabaolu referred us to its Attachment A5 Income Statement submitted in response to the Exporter Questionnaire (**Confidential Attachment CTMS 9**), which the company generated for the Commission's purposes.

We were able to match the costs of manufacture in this income statement to the CTMS calculations (verified above to Yonyou).

Jiabaolu submitted copies of general ledger printouts from Yonyou that verified key other items in its income statement, including beginning inventory, ending inventory, cost of goods sold, gross sales, non-operating income, non-operating expenses and tax. These form **Confidential Attachment CTMS 10**.

5.7.4 Step four – A5 income statement to audited accounts

Following the above, we were able to directly reconcile the 'cost of goods sold' in the Appendix A5 Income Statement to the 'cost of main operations' recorded in Jiabaolu's income statement in the company's audited financial reports (in Confidential Attachment GEN 3).

5.7.5 Conclusion

Following the above reconciliation, we are satisfied that the CTM calculations submitted by Jiabaolu represent reasonably complete and relevant accounts of the fully absorbed manufacturing costs of deep drawn stainless steel sinks during the period from 1 January to 31 December 2013.

5.8 Verification - costs to manufacture to source documents

Following the above reconciliation to Jiabaolu's audited statements, we sought to verify the company's CTM to source documents. We performed these verifications for each of Jiabaolu's CTM categories. This verification is discussed below.

5.8.1 Direct materials – stainless steel

Stainless steel purchases

Jiabaolu provided a copy of its Yonyou stainless steel direct materials sub-ledger for January – December 2013 (**Confidential Attachment CTMS 11**). This demonstrated the opening balance, purchases (collectively by supplier name), consumption and closing value of stainless steel for the company by month.

We observed that the November consumption figure recorded reconciled to the Yonyou monthly production costs sub-ledger (Confidential Attachment CTMS 2).

We also observed that the purchases (by month and yearly total) listed in this ledger reconciled directly to the *Steel purchases* sheet submitted by Jiabaolu in its response to the Exporter Questionnaire (discussed further in the following section).

We asked to verify all purchases of stainless steel in the month of November to invoice documents (these were from two separate suppliers – [redacted] **[Redacted – supplier names]**).

Jiabaolu provided the VAT purchase invoices for all purchases of stainless steel in November (8 in total). These invoices reconciled directly to the Yonyou stainless steel sub-ledger.

We reconciled these invoices to evidence of their payment (Jiabaolu's internal bookkeeping slips).

The stainless steel invoices and proof of payment form **Confidential Attachment CTMS 12**.

Coil slitting costs

We note that Jiabaolu predominantly purchases stainless steel in coil form that is slit in-house into the correct sizes for drawing sinks and conversion into fabricated sinks. However, the *Steel purchases* spreadsheet provided in response to the Exporter Questionnaire showed that Jiabaolu made some purchases of pre-slit stainless steel from one supplier during the investigation period.

We explained to Jiabaolu that, in the event the Commission determines that the company's recorded costs of stainless steel raw materials do not represent reasonably competitive market costs; it is likely that the Commission would seek to replace these incurred costs with a competitive market substitute. To do so, the Commission would use the steel costs recorded in Jiabaolu's *Steel purchases* spreadsheet (which we have been able to trace to Yonyou – see above) and determine the difference between the purchase value and the competitive market substitute.

We explained that, in doing so, the Commission may only have access to a competitive market cost of steel coil and not coils pre-slit in to sheets. To be able to determine a market substitute for slit stainless steel, the Commission would look to establish the purchase cost difference between stainless steel sheet and coil.

We therefore asked Jiabaolu if there was any way we could reasonably determine the additional cost for slitting incurred by them as opposed to purchasing steel in coil.

Jiabaolu provided a copy of its stainless steel purchase agreement with the concerned supplier, and highlighted that this list showed a 'sheet slitting' extra for purchase of stainless steel in sheet form rather than coil. This agreement forms **Confidential Attachment CTMS 13**.

Where possible, we compared this recorded price difference between coil and sheet to Jiabaolu's *Steel purchases* listing, which had some purchases of sheet and coil at comparable times. This confirmed the price difference reported in the purchase agreement.

Verification - scrap offset

As discussed previously, Jiabaolu submitted that the Commission should allow for an offset of its raw materials (stainless steel) costs to recognise the revenue generated by it in selling scrap on the domestic market. This offset was calculated as a per Kg amount for the investigation period in the CTMS calculations, and converted to a 'per unit' (sink) cost prior to its deduction from the unit costs to manufacture (as outlined above).

To verify the submitted per Kg scrap offset amount, Jiabaolu submitted a *Scrap offset* worksheet, showing the total scrap sales value for 2013 and the total production quantity (by Kg) in 2013, which were used to determine a per Kg scrap offset.

We verified the production Kg to the CTMS calculations (the verification of these volumes themselves is discussed at Section 5.6).

The value of scrap sold in 2013 was supported by Jiabaolu's 'other business income' sub-ledger for 2013, which showed the individual sales of scrap recorded by Jiabaolu during that period. This was supported by sales invoices for these sales of scrap. These documents form **Confidential Attachment CTMS 14**.

[redacted] **[Redacted – information on the accounting practice relating to scrap sales]**

To support this claim, Jiabaolu provided printouts from the webpage of the local scrap steel market showing the market scrap price of 304 stainless steel across the investigation period. These form **Confidential Attachment CTMS 15**. We observed that the recorded market price of scrap from this website was significantly higher on a per tonne basis than that recorded by Jiabaolu in its accounts.

Jiabaolu requested that we adopt the market price listed on the website (or the market price achieved by other exporters) to increase the quantum of the scrap offset in the CTMS calculations.

We asked Jiabaolu if it maintained any records to demonstrate the actual revenue generated by scales of scrap during the investigation period. Jiabaolu advised there were no such records.

While we acknowledge the difference between the recorded sales price of scrap in Jiabaolu's accounts and the market price evidence provided by Jiabaolu, we do not consider that sufficient reliable evidence exists to demonstrate that Jiabaolu in fact received more revenue for sales of scrap than is recorded in the company's accounts.

We therefore consider it reasonable to retain the calculations in Jiabaolu's CTMS that rely on the actual scrap revenue recorded in the company's accounts.

5.8.2 Direct materials – accessories

As discussed in Section 5.7.2, Jiabaolu provided an 'accessories and supplementary materials report' that showed the cost of all 'direct materials' by month, categorised into each type of accessory, packaging and stainless steel. This was supported by individual Yonyou sub-ledgers for each of these direct materials categories for the month of November. This forms Confidential Attachment CTMS 8.

Among the sub-ledgers, we selected the two largest accessory costs to verify to source documents, faucets (taps) and strainer pipes (the pipes sold with sinks for installation purposes).

We selected the largest listed purchase in the Yonyou ledger for the month for each of these accessories, and Jiabaolu provided a copy of its internal bookkeeping slip and copies of supplier invoices that directly reconciled to the Yonyou sub-ledgers.

These documents form **Confidential Attachment CTMS 16**.

5.8.3 Direct materials – packing materials

To verify the costs of packing materials recorded in the Yonyou 'accessories and supplementary materials report' (Confidential Attachment CTMS 8) and monthly production costs sub-ledger (Confidential Attachment CTMS 2), Jiabaolu provided its packing materials sub-ledgers for November. This displayed beginning and closing inventory, purchases and consumption of packaging materials in the month.

The figure for packaging materials consumed in November reconciled directly to Yonyou materials report for that month.

In these ledgers, we selected one purchase of paper boxes, and one purchase of plastic bags for further verification.

Jiabaolu supplied VAT invoices for each of these purchases, which reconciled to the purchases listed in the packaging sub-ledgers.

These documents form **Confidential Attachment CTMS 17**.

5.8.4 Wages

To verify wage costs, Jiabaolu provided a copy of its internal bookkeeping slip that showed total wage costs for November 2013 for the whole company, which was split into manufacturing wages and other wages. This forms **Confidential Attachment CTMS 18**.

We observed that the manufacturing wages listed in the bookkeeping slip reconciled directly to the Yonyou monthly production costs sub-ledger (Confidential Attachment CTMS 2).

5.8.5 Manufacturing overheads

Jiabaolu provided its manufacturing overheads sub-ledger for November. This displayed the cost of each type of overhead consumed in the month, the total of which reconciled directly to the Yonyou monthly production costs sub-ledger (Confidential Attachment CTMS 2).

The manufacturing overheads sub-ledger was supported by further sub-ledgers for each overhead cost (e.g. depreciation, consumables, etc.).

These sub-ledgers form **Confidential Attachment CTMS 19**.

We chose depreciation for further verification, and were provided a copy of Jiabaolu's internal bookkeeping slip for depreciation for November, which showed depreciation split into manufacturing deprecation and management depreciation.

We observed that the figure for manufacturing deprecation reconciled to the overheads sub-ledgers.

We also obtained a copy of Jiabaolu's depreciation register from June 2006 onwards, which demonstrated both the manufacturing and management depreciation figures for November 2013 recorded in the overheads sub-ledger.

These documents form **Confidential Attachment CTMS 20**.

5.8.6 Conclusion

Following the above verification, we are satisfied that the costs of manufacture submitted by Jiabaolu are a reasonably accurate record of those incurred by Jiabaolu in its manufacture of deep drawn stainless steel sinks.

5.9 Jiabaolu's selling, general and administrative expenses (cost to sell)

As discussed in Section 5.1.1, Jiabaolu provided its unit monthly SG&A (CTS) calculations by model.

We observed that Jiabaolu had calculated this unit monthly model CTS as the total combined selling, general and administrative expenses incurred by the entire company in the month, allocated to each model in the month by reference to the total sales volume in Kg of that model as a proportion of the total sales volume in Kg.

5.9.1 Reasonableness of allocation – domestic and export

Jiabaolu's submitted CTS calculations did not differentiate between its Australian or domestic sales. We examined each of the expenses in each of Jiabaolu's expense categories (selling, administration and financial) to assess the reasonableness of this approach.

From this exercise, we determined that all incurred administration and financial expenses should reasonably be allocated across domestic and export markets (including Australia). However, in relation to selling expenses, we identified certain expenses (such as inland freight to the port, customs fees and port charges) that are related only to Jiabaolu's exports to Australia or third countries, and not to sales to domestic markets.

Jiabaolu agreed, and explained that it had sought to account for this by including an 'other costs' column in *Jiabaolu's domestic sales listing* that it intended to be used for fair comparison purposes. However, we determined that it was necessary to account for this in the CTS calculations to determine accurate domestic-only CTS for our normal value calculation purposes, as detailed in Section 9.3.

Our normal value calculation does not require the use of Jiabaolu's export CTS, and hence we have not pursued a re-calculation of this for the purposes this report.

Jiabaolu directed us towards its Exporter Questionnaire attachment E2.10, in which the company had identified, line-by-line for all selling expenses on a monthly basis, whether

they were attributable to export, domestic or both markets. This listing forms **Confidential Attachment CTMS 21**.

We examined this listing, and consider it correctly allocates costs into each applicable market.

We re-calculated Jiabaolu's domestic SG&A expenses to remove the export-only expenses as they do not relate to Jiabaolu's domestic sales of like goods.

We retained Jiabaolu's selling expenses identified as being relevant to both domestic and export markets, and the domestic market alone.

5.9.2 Reasonableness of allocation – use of sales weight

We discussed the reasonableness of Jiabaolu's method of allocating SG&A to each model by its proportion of total sales volume in Kg.

Some sinks have a heavier model weight than others, and this method of allocation necessarily allocated a higher proportion of the monthly SG&A costs to heavier models than lighter models.

We explained to Jiabaolu that we considered that a more reasonable method of allocation would be to use sink units as opposed to weight in Kg.

Jiabaolu explained that its method of using Kg was based on its belief that heaver sinks are generally more expensive in their selling price and should therefore be allocated more SG&A expenses to reflect 'sales effort'. Jiabaolu further submitted that an alternative method of allocation would be to use sales revenue.

We considered the need to allocate more SG&A to heavier or more expensive sinks and reviewed Jiabaolu's sales process and discussion with sales staff. We came to the conclusion that, although more 'selling effort' would go in to the final sale of deep drawn stainless steel sink to the installer or end user (as price sensitivity is more of a factor to these customer segments), this is not experienced by Jiabaolu as its business model is to sell to distributors and OEM customers who on-sell the goods to other parties and end users. Consequently, we understand that the sales process for Jiabaolu does not differ from a more expensive or heavier sink, to a cheaper or lighter one.

We therefore determined that Jiabaolu's SG&A calculations should be amended to allocate these expenses based on units of sinks sold. Jiabaolu made these amendments as directed.

5.9.3 Reallocation of domestic SG&A – domestic-only goods

As outlined above, we have re-calculated the total pool of Jiabaolu's SG&A expenses to identify only those relevant to domestic sales for the purposes of calculating an accurate domestic SG&A.

As a result, we have determined that it is necessary in the CTMS calculations to ensure that this domestic SG&A is allocated only to models sold domestically by Jiabaolu (and not diluted by allocation overall sales regardless of market).

We have therefore identified those models sold domestically during the investigation period with reference to the sales data collected and verified with the companies, removing sales to Zhongshan Flowtech that are in fact destined for export, and then re-allocating the identified domestic SG&A only over these models.

We have then determined a weighted average quarterly domestic SG&A for Jiabaolu using the above re-allocated SG&A (for use in our normal value calculations discussed further at Section 9.3).

5.9.4 Verification – SG&A

To support its SG&A calculations, Jiabaolu submitted a 'SG&A allocation' worksheet, that showed the monthly total selling, administration and finance costs incurred by the company during the period January – December 2013. We observed how the total of these expenses fed into the CTMS calculations sheet where they were allocated to each model (as discussed above). We used the SG&A allocation worksheet to remove the irrelevant export expenses from the SG&A allocated to deep drawn stainless steel sinks, as outlined in Section 5.9.1 above).

The revised SG&A allocation worksheet forms **Confidential Attachment CTMS 22**.

To support its monthly expenses, Jiabaolu provided individual general ledger printouts for each expense category for the entire investigation period. These form **Confidential Attachment CTMS 23**.

We observed that these ledgers reconciled exactly with the monthly SG&A totals in the SG&A allocation worksheet.

We summed each of the three expense categories in the SG&A allocation worksheet and were able to reconcile these totals directly to the Exporter Questionnaire Attachment A5 income statement submitted by Jiabaolu.

We were able to directly reconcile the expenses in this income statement to Jiabaolu's audited financial account income statement in Confidential Attachment GEN 3.

5.9.5 Conclusion

Following the above verification, we are satisfied that the selling, general and administrative costs submitted by Jiabaolu are a reasonably accurate record of those incurred by Jiabaolu in its sale of deep drawn stainless steel sinks.

5.10 Costs to make and sell – preliminary assessment

We have verified Jiabaolu's CTMS for deep drawn stainless steel sinks to source documents and to audited financial statements, as well as assessed the allocation methods and calculations for their reasonableness.

As discussed throughout this Chapter, amendments have been made to the CTMS submitted, as deemed necessary by the verification team. The amended CTMS forms **Confidential Appendix 2.**

As a result of the verification and amendment process, we are satisfied that Jiabaolu's CTMS as amended is reasonably accurate, relevant and complete.

We consider the CTMS as amended is suitable for:

- determining a constructed normal value under section 269TAC(2)(c) of the Act; and
- assessing ordinary course of trade under section 269TAAD of the Act.

6 COST TO SELL – FLOWTECH AND ZHONGSHAN FLOWTECH

This Chapter focuses on the verification and assessment of reasonableness of the calculations in Flowtech and Zhongshan Flowtech's submitted cost to sell (CTS) data.

6.1 Data provided

In their response to the Exporter Questionnaire, neither Flowtech nor Zhongshan Flowtech provided any costs calculations, submitting that, as these entities do not manufacture the goods, that section of the Exporter Questionnaire is not applicable.

Prior to the verification, we explained to the companies the Commission's requirements for SG&A calculations to be provided for both Flowtech and Zhongshan Flowtech, to determine the full costs associated with exporting the goods to Australia.

During the verification, Flowtech and Zhongshan Flowtech provided unit (per sink) SG&A by model by month data for both companies combined. This was inserted alongside the Jiabaolu CTMS calculations contained in Confidential Appendix 2.

To support the calculations of the submitted SG&A for Flowtech and Zhongshan Flowtech, the companies submitted a '*SG&A Allocation Flowtech'* worksheet (included in Confidential Appendix 2).

This worksheet:

- apportioned the amount of the total companies' SG&A expenses to deep drawn stainless steel sinks sold to Australia by reference to the deep drawn stainless steel sinks sales revenue as a percentage of the total company revenue; then
- calculated a unit annual SG&A per Kg figure, which was then applied to the CTMS worksheet by reference to the Kg sold by model by month.

6.1.1 Reasonableness of allocation – deep drawn stainless steel sinks revenue as a proportion of total company revenue

Flowtech and Zhongshan Flowtech determined what percentage of their total company 'pool' of SG&A expenses should be attributed to Australian deep drawn stainless steel sinks based on the percentage of total company revenue represented by those goods. The companies explained that this is the most reasonable method in the circumstances as it sells various products in different units of volume, and hence any volume measures would not be useful for allocating these expenses across sales.

While we consider, for the reasons outlined in Section 5.9.2, units sold might be a more reasonable method of allocating pools of SG&A costs in relation to sinks, we consider this approach to be reasonable in the circumstances, noting the limitations of the companies' sales volume data.

6.1.2 Reasonableness of allocation – use of sales weight

For the same reasons outlined in Section 5.9.2 in relation to Jiabaolu's SG&A calculations, we considered that the submitted method of allocating SG&A over sales

volume in Kg was not the most reasonable method in the circumstances, and that sales units was again the most reasonable method.

The companies re-submitted its calculations to account for this change.

6.1.3 Verification

Flowtech

Flowtech directed us to its 2013 MYOB income statement (Confidential Attachment SALES 16). This displayed the total company selling, general and administration expenses for the financial year.

We were able to reconcile the RMB total company expenses for Flowtech in the *SG&A Allocation Flowtech* worksheet by converting the profit and loss statement USD amount by an annual average exchange rate provided by the companies sourced from the People's Bank of China.

We were also able to reconcile the total income of the company, as well as the revenue represented by deep drawn stainless steel sinks sold to Australia, to the sales data already verified with Flowtech.

Zhongshan Flowtech

Zhongshan Flowtech directed us to its general ledger for 2013 (**Confidential Attachment SALES 21**).

We observed that the general ledger reported the company's expenses for that period, and we were able to directly reconcile these to the total expenses listed in the *SG&A Allocation Flowtech* for Zhongshan Flowtech, and then directly to the company's 2013 audited financial accounts income statement (Confidential Attachment GEN 3).

We were also able to reconcile the total income of the company to this general ledger, income statement and audited accounts. We reconciled the revenue represented by deep drawn stainless steel sinks sold to Australia, to the sales data already verified with the companies.

6.1.4 Conclusion

Following the above verification, we are satisfied that the selling, general and administrative costs submitted by Flowtech and Zhongshan Flowtech are a reasonably complete, relevant and accurate record of those expenses incurred by each company Jiabaolu in their sale of deep drawn stainless steel sinks to Australia.

Zhongshan Flowtech and Flowtech's CTS are included with the Jiabaolu CTMS attached in Confidential Appendix 2.

7 DOMESTIC SALES

7.1 Background and domestic sales process

As discussed in Section 2.2, Jiabaolu makes domestic sales to its two distinct customer segments:

- distributors that sell Jiabaolu's 'Gabalu' branded products; and
- OEM customers that purchase sinks from Jiabaolu, which are manufactured to the OEM's specifications and branded with the customer's own brand.

Jiabaolu submitted that its two domestic customer segments vary in terms of average order volume. Domestic distributors typically purchase eight to ten items at a time, while OEM sales usually occur in higher volumes (manufactured to the customer's specifications).

The companies emphasised that neither domestic customer segment purchase items in quantities as large as [redacted] **[Redacted – Australian customer name]**.

Jiabaolu advised its domestic sales process is typically as follows:

- the customer faxes in a purchase order to Jiabaolu;
- Jiabaolu confirms the purchase with the customer and then confirms the pick-up or delivery date;
- Jiabaolu either produces or selects the order from stock and then (if needed) delivers the order;
- Jiabaolu confirms the customer is satisfied with the quality of its products and issues an invoice after delivery;
- the customer makes payment to Jiabaolu.

Jiabaolu submitted that most customers pay for products after invoicing or delivery as detailed above, but there are some instances in which customers pay at the time of order.

7.2 Domestic sales data provided

As outlined in 4.6, the companies provided *Jiabaolu's domestic sales listing* (Confidential Attachment SALES 10), a detailed line-by-line domestic sales data for all sales of deep drawn stainless steel sinks sold during the investigation period.

Jiabaolu also provided aggregate sales data for its domestic sales in its *Turnover* spreadsheet (Confidential Attachment SALES 3).

Jiabaolu's domestic sales listing included data as to:

- customer;
- level of trade (OEM or distributor);

- product details (bowl number, number of drainer boards, finish, included accessories);
- the cost of included accessories;
- Jiabaolu's product code;
- invoice number and date;
- order number;
- price in RMB;
- quantity (in units);
- delivery and payment terms;
- credit costs; and
- other costs.

No amount was provided for inland transport though some sales are listed as being delivered (discussed in more detail below).

7.2.1 Inclusion of export sales via Zhongshan Flowtech and purchased sinks in *Jiabaolu's domestic sales listing*

As outlined in Section 4.2.1, Jiabaolu records sales made to Zhongshan Flowtech that are destined for export (export sales channel 2) to be 'domestic' for its accounting purposes, and included these sales in *Jiabaolu's domestic sales listing*.

The companies advised that these sales were considered as domestic sales because the nature of export transactions via Zhongshan Flowtech meant that Jiabaolu was not responsible for arranging exportation paperwork, and made the sale to a Chinese domestic company.

We verified that the sales to Zhongshan Flowtech included in the domestic sales spreadsheet were inputted correctly and accurately by checking these sales listings against a sample set of invoices (see below).

In doing so, we observed that the model numbers identified in the invoices (such as [redacted]) matched various models that were listed in *Flowtech's Australian sales listing*.

We determined, however, that as these sales were for export to Australia, they were not suitable for inclusion in Jiabaolu's normal value calculations. We subsequently excluded these sales from *Jiabaolu's Australian sales listing* for the purposes of our analysis.

In addition, Jiabaolu also made domestic sales of some sinks that are not manufactured by the company (sourced from other manufacturers and on-sold). These sales are also included in Jiabaolu's domestic sales data, but have also been excluded from normal value calculations.

7.3 Domestic sales volume

Jiabaolu's domestic sales listing spreadsheet identified that the company sold [redacted] deep drawn stainless steel sinks valued at [redacted] RMB during the investigation period, including sales to Zhongshan Flowtech and of sinks manufactured by other companies.

When sales to Zhongshan Flowtech and sales of purchased sinks are removed, *Jiabaolu's domestic sales listing* records the company's domestic sales of deep drawn stainless steel sinks during the investigation period as being [redacted] units with a value of [redacted] RMB.

7.4 Pricing and trading terms

Jiabaolu advised that it maintains trading agreements with both distributor and OEM customers. The company provided examples of:

- a trading agreement with an OEM customer,
- a trading agreement with a distributor customer; and
- a sample sales contract with a distributor customer.

These form **Confidential Attachment SALES 22**.

We observed that the trading agreements included provision for:

- transport terms;
- intellectual property protection (for the OEM customer);
- payment and credit terms; and
- quality assurance.
- payment terms (which vary depending on the customer);
- the products carry a warranty (minimum 2 years);
- [redacted] **[Redacted – Australian customer name]** retains the intellectual property, title and interest in the tools used by Jiabaolu to manufacture product for [redacted] **[Redacted – Australian customer name]**; and
- prices are to be maintained in a price list that is reviewed on a 12-monthly basis, but provisions exist for the amendment of prices on a four-monthly basis due to fluctuations in stainless steel costs.

7.4.1 Price setting

Jiabaolu advised that it maintains price lists with its domestic customers, and that these prices are set in the trading agreements with these customers.

Jiabaolu advised its distributor price lists denote net prices, not net (rebate-reduced) amounts, and that these price lists are updated regularly. Rebates do not apply to OEM customers. Further discussion of domestic rebates is at Section 7.4.4.

Jiabaolu advised that domestic sales prices are set by a combination of manufacturing cost, marketing expenses, transport costs (where applicable), rebates (for distributors only) and a profit margin. As with export sales, Jiabaolu's distributor price lists are reviewed regularly to adjust them in line with fluctuations in stainless steel prices.

7.4.2 Marketing expenses

Jiabaolu submitted that marketing expenses cover costs for expenses such as advertising at trade fairs, online marketing, and in-store advertising. Jiabaolu noted these are costs that are not incorporated into prices for the Australian market.

7.4.3 Transport expenses

Jiabaolu advised that is transport arrangements differ between OEM customers and distributors.

For OEM customers in Guangdong Province (where Jiabaolu is located), Jiabaolu is responsible for arranging and paying for transportation. For customers outside Guangdong Province, Jiabaolu will arrange the transportation for the customers and the customers will reimburse the transportation cost. We observed this to be reflected in the provided OEM trading agreement discussed above.

Jiabaolu advised it pays a third party trucking company to transport goods to OEM customers, and that these costs are incorporated into sales prices.

Jiabaolu advised it doesn't factor in any transport costs for distributors, as all sales to distributors occur under an EXW arrangement.

We queried why there were Guangdong-based OEM customer transactions that did not have costs allocated in the transport costs column in *Jiabaolu's domestic sales listing,* despite being identified as delivered sales. Jiabaolu advised that "trucking" costs are identified in the "Other costs" column, and that it was too difficult to allocate costs to OEM sales only. Further discussion of this is contained in Chapter 10 in relation to adjustments to normal value.

7.4.4 Rebates and discounts

Jiabaolu advised that it applies volume-based rebates to distributor customers only, to incentivise sales of Gabalu-branded sinks. These rebates are based on volume; the larger quantity of sinks purchased, the higher the rebate applied.

Jiabaolu advised that rebate amounts vary by customer and by region, but that a typical rebate structure would include a [redacted] per cent rebate for sales of over [redacted] items in a set period, dropping to [redacted] per cent for sales of over [redacted] items.

Jiabaolu explained that, when a rebate is generated it is applied to subsequent sales simply by incorporating the rebate amount into future invoice prices. Jiabaolu advised the net price is reflected in the sales spreadsheet, and as a result there may be rather low transaction prices for some domestic sales that are due to rebates paid in relation to previous sales.

Jiabaolu advised that trading agreements with distributors include references to rebate structures and that this was evidenced in the trading agreement with a distributor customer provided by Jiabaolu (Confidential Attachment SALES 22). We observed that in this trading agreement, which we confirmed applied to a distributor customer referenced in the *Jiabaolu domestic sales listing*, rebates were similar to those advised by Jiabaolu.

We queried whether we would be able to identify rebates in Jiabaolu's records and accurately apportion them to their applicable invoice, to avoid unusually low invoice values for those invoices that collective rebates from previous sales apply to. Jiabaolu explained that this was not possible, as the process is for sales staff simply to reduce the invoiced amount for subsequent invoices once the rebate is payable and not to issue a credit or identify the rebate amount separately.

In performing an ordinary course of trade test using Jiabaolu's invoice values compared to its CTMS, this may result in sales with inaccurately high profits due to disproportionate rebates being applied.

Noting the approach to calculating constructed normal values for Jiabaolu (discussed in Chapter 9), we highlighted to Jiabaolu that, particularly the first point above, could result in a higher normal value calculation than would be determined if rebates were able to be allocated to the sales they directly related to. Jiabaolu acknowledged this issue, but was unable to address it given the limitations of their data.

7.4.5 Payment and credit terms

Jiabaolu submitted that its domestic customers pay under a variety of payment terms, including payment at purchase, payment after delivery, and bulk invoice payment at the beginning or end of each month. This is reflected in *Jiabaolu's domestic sales listing*.

Jiabaolu advised its customers mostly pay for purchases via telegraphic transfer; some pay by cheque or online banking if they are located within Zhongshan.

7.5 Warranties

Jiabaolu advised it provides warranties for domestic sales of both Gabalu and OEM brand sinks. Jiabaolu advised that all sinks have a 10 year warranty; parts have a one year warranty and faucets (taps) have a 3 year warranty.

Jiabaolu advised it pays out any claims itself and does not use an insurer to do so, but that warranty payouts are very uncommon anyhow as most claims relate to improper use of sinks and accessories.

Jiabaolu's domestic sales listing did not quantify the cost of warranties for domestic sales.

7.6 Packaging

We observed in our tour of Jiabaolu's manufacturing facilities that for all domestic customers, sinks were individually boxed, with accessories either packaged in the sink box, or boxed separately to sinks. Jiabaolu noted that some customers even require sinks to be packed in wooden boxes.

The companies explained that Chinese customers require more robust packaging due to often-lengthy shipping times and poor road conditions.

Jiabaolu's domestic sales listing did not quantify the cost of packaging for domestic sales.

7.7 Verification of sales to audited financial statements

Refer to Section 4.5 for verification of *Jiabaolu's domestic sales listing* through to the company's audited financial statements.

7.8 Verification of domestic sales to source documents

7.8.1 Invoice details

In order to verify the completeness and accuracy of *Jiabaolu's domestic sales listing* the Commission selected for verification twelve transactions listed in this spreadsheet. The section included sales to Zhongshan Flowtech and to unrelated customers.

Jiabaolu submitted various source documents relating to the selected sales, including:

- invoices from Jiabaolu to domestic customers;
- proof of payment (telegraphic transfer confirmation, and accounts receivable summaries by customer name);
- VAT vouchers; and
- packing lists.

These documents form **Confidential Attachment SALES 23**.

Invoice details

We matched key items such as price, quantity, invoice number, invoice date and customer name in the provided invoices to *Jiabaolu's domestic sales listing*.

We observed that in the proof of payment documents provided, the payment amount matched the invoice amount, and was consistent with the Yonyou Accounts Receivable payment summaries.

We further observed that the model numbers listed in the invoice and packing list matched the associated line items in *Jiabaolu's domestic sales listing*.

Credit charges

7.8.2 Credit terms

In *Jiabaolu's domestic sales listing,* the company submitted credit calculations for each sale.

As credit terms vary from customer to customer, Jiabaolu's approach to calculating these credit costs was as follows:

Domestic credit calculation

Credit period x Annual interest rate of short tem loan x Amount of each transaction

Figure 4: Jiabaolu's domestic credit cost calculation

As with export sales Jiabaolu submitted that the "annual interest rate of short-term loans" was [redacted] per as per the published rate of the People's Bank of China.

Jiabaolu calculated the credit period in line with the preferred formula included in the Australian *Dumping and Subsidy Manual*, with reference to the opening and closing balances of the company's accounts receivable for 2013, and domestic sales revenue for the period.

The credit calculation was submitted in a 'Credit expense' working sheet, which forms **Confidential Attachment SALES 24.**

We verified the opening and closing accounts receivable amounts to Yonyou's general ledger, printouts of which form **Confidential Attachment SALES 25.**

We are satisfied with the reasonableness and accuracy of Jiabaolu's domestic credit costs calculation.

7.8.3 Conclusion

Following verification to source documents, we are satisfied with the accuracy of Jiabaolu's domestic sales spreadsheet.

7.9 Arms length

In respect of domestic sales to unrelated customers during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the sinks other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all domestic sales to unrelated parties during the investigation period were arms length transactions

We do not consider that sales by Jiabaolu to Zhongshan Flowtech are 'domestic sales', and have assessed the arms length of these sales at Section 4.12.

7.10 Ordinary course of trade

As discussed in Chapter 9, we do not consider that domestic sales of deep drawn stainless steel sinks made by Jiabaolu are suitable for determining normal values under s.269TAC(1), and that normal values constructed under s.269TAC(2)(c) should be used in determining a dumping margin for Jiabaolu.

For this reason, we have not undertaken an ordinary course of trade test for the purposes of identifying suitable sales for use in s.269TAC(1) normal values.

However, in determining an amount for profit for inclusion in s.269TAC(2)(c) normal values, we have assessed the level of profit achieved by Jiabaolu made on domestic sales of like goods sold in the ordinary course of trade. This comparison was made by comparing the CTMS determined for Jiabaolu's domestic models with the invoiced price paid by Jiabaolu's domestic customers for those models.

This comparison has been made between the full CTMS after the re-allocation of accessory costs discussed at Section 5.1.5 and the invoiced price recorded in *Jiabaolu's domestic sales listing.*

The calculation excluded sales made by Jiabaolu to Zhongshan Flowtech (destined for export) and sales of sinks purchased from other suppliers and on-sold.

Ordinary course of trade and profit calculations form **Confidential Appendix 3**.

8 THIRD COUNTRY SALES

In light of the recommendation of the visit team that normal value should not be established under s.269TAC(1) with reference to Jiabaolu's domestic sales (see Chapter 9 for further discussion), we sought to examine whether it would be reasonable to adopt Jiabaolu's sales to third countries as a basis for calculating normal value in line with s.269TAC(2)(d).

We discussed these sales with Jiabaolu, which submitted that these sales are also not relevant for the purposes of establishing normal values, as they differ significantly in physical characteristics to those sold to Australia, being sold to third country OEM customers to meet their specifications.

We agree with Jiabaolu's submission that these sales are unsuitable for determining normal value due to their significant physical differences to those goods sold to Australia.

9 NORMAL VALUE

9.1 Suitability of domestic sales and third country sales

As discussed in Section 3.2, we found that domestic and exported models of sinks vary significantly in their physical characteristics, as do the number and type of accessories sold along with the sink and included in the invoiced price. These differences include:

- domestic sales are a satin finish while Australian sales are polished finish;
- Australian goods tend to include drainer boards while domestic sinks do not;
- Australian sinks are of 1, 1 ½, 1 ¾ and 2 bowls, while domestic sales are of 1, 2 and 3 bowls;
- domestic sinks are 'insulated' with a plastic/rubber spray coating on their base, while Australian sales either have a foam or wooden backing board for insulation;
- domestic sales include a range of accessories including chopping board, colander, knives and knife blocks, etc.

Noting the nature and number of the above differences, and the limitations of Jiabaolu's costs data, it is considered that an accurate and meaningful method cannot be found to adjust domestic selling prices to make them comparable with export prices.

We therefore consider that, in line with s.269TAC(2)(a)(i), there is an absence of relevant sales of like goods on the domestic market in China that would be reasonable to be used for calculating normal values based on selling prices under s.269TAC(1) of the Act.

As outlined in Chapter 8, we also do not consider third country export sales to be a suitable basis for determining normal value for the same reasons as outlined above in relation to domestic sales.

9.2 Particular market situation

In its application, Tasman submitted that domestic prices of deep drawn stainless steel sinks in China are not suitable for the determination of normal values under s.269TAC(1) of the Act, as a particular market situation in relation to deep drawn stainless steel sinks renders domestic selling prices unsuitable.

Noting the above determination that domestic selling prices for deep drawn stainless steel sinks in China are not suitable for determining normal values under s.269TAC(1)) in any case, we consider that the issue of whether a particular market situation exists is not applicable to Jiabaolu's dumping margin calculation.

9.3 Constructed normal value

In accordance with s.269TAC(2)(c), we have constructed a monthly unit (per sink) RMB FOB normal value for the investigation period using:

- the verified Jiabaolu quarterly weighted average cost to manufacture deep drawn stainless steel sinks exported to Australia by model (including the re-allocation of accessory costs) – quarterly costs were aggregated from the monthly data provided;

- the verified quarterly weighted average selling, general and administrative costs incurred by Jiabaolu in the domestic sale of deep drawn stainless steel sinks during the investigation period; and

- the profit achieved by Jiabaolu in the investigation period on domestic sales[2] of like goods in the ordinary course of trade, manufactured by Jiabaolu.[3]

We have made adjustments to this normal value, in accordance with s. 269TAC(9) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal value and export price. These adjustments are discussed in detail in Chapter 10.

Our normal value calculations form **Confidential Appendix 4**.

9.4 Substitution of stainless steel costs

Following the verification visit, on 13 August 2014, the Commissioner of the Anti-Dumping Commission (the Commissioner) released a Preliminary Affirmative Determination (PAD) that deep drawn stainless steel sinks exported to Australia from China had preliminarily been assessed to have been dumped, and that this dumping was causing material injury to the Australian industry producing like goods. Refer to *PAD Report 238*, available on the Public Record.

As part of this preliminary finding of dumping, the Commissioner made a preliminary determination that the cost of stainless steel raw materials incurred by Chinese exporters of the goods do not reasonably represent competitive market costs for the purposes of Regulation 180(2) of the *Customs Regulations 1926.* Consequently, the Commission replaced the stainless steel raw material costs recorded by Chinese exporters with a reasonably competitive market substitute, determined to be a MEPS International (MEPS) world composite price.

In light of this preliminary finding, for the purposes of this report, we have substituted the cost of stainless steel incurred by Jiabaolu in its manufacture of deep drawn stainless steel sinks, using the same MEPS International world composite determined for the PAD. However, the MEPS composite has been amended to:

- determine a MEPS composite price for slit sheet by adding the verified average extra slitting cost to buy coil pre-slit rather than in sheet form incurred by Chinese deep drawn stainless steel sinks exporters in the investigation period (as the MEPS prices are for stainless steel in coil form); and

---

[2] Excluding sales to Zhongshan Flowtech for export.

[3] Excluding sales of deep drawn stainless steel sinks purchased from other manufacturers and on-sold by Jiabaolu.

- determine a delivered MEPS composite price using the verified average incurred delivery costs incurred by Chines stainless steel sinks exporters in purchasing stainless steel coil in China during the investigation period (the PAD MEPS composite used delivery values verified during a previous investigation of the Commission).

Where Jiabaolu has purchased pre-slit sheet instead of coil and/or delivered stainless steel during the investigation period (as reported in the *Steel purchases* spreadsheet submitted by Jiabaolu), we have ensured that the correct MEPS composite price has been used to match the delivery terms and physical form of the purchased stainless steel.

10 ADJUSTMENTS

10.1 Adjustments made

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made.

10.1.1 VAT rebate

In China, it is common for the value-added tax (VAT) liability to differ between domestic and export sales, and the Commission routinely conducts an adjustment for these taxation differences.

The standard Chinese VAT rate is 17%.

The companies submitted that Chinese companies are eligible for a VAT refund of 9% on their export sales.

Jiabaolu advised that:

- in the case of sales made via Zhongshan Flowtech (export sales channel 2), this rebate is calculated based on the price between Zhongshan Flowtech and Jiabaolu, and that the rebate is paid to Zhongshan Flowtech;

- in the case of sales directly via Flowtech (export sales channel 1), Jiabaolu receives the VAT refund based on the price for the goods between Jiabaolu and Flowtech.

To verify this, Jiabaolu provided copies of its China Customs export declaration forms for export sales to Australia, and a corresponding VAT refund form from China Customs (**Confidential Attachment ADJ 1**). We observed that the above description of the operation of the VAT rebate is correct.

We note from the above explanation and verification that Jiabaolu is only receiving a reduced VAT rebate for the sales made via Channel 1. For sales made via Channel 2 it receives no VAT rebate.

In light of the existence and receipt of these rebates on exported goods, we have made an upwards adjustment to normal value:

- for sales made via channel 1for the difference between the standard VAT rate and the rebate percentage; and

- for sales made via channel 2 for the full VAT rate.

10.1.2 Credit terms

We consider:

- a downward adjustment for domestic credit terms; and

- an upwards adjustment for export credit terms

are required in the normal value calculation to ensure fair comparison between normal value and export price.

As discussed in Sections 4.9.1 and 7.8.2, we verified the reasonableness and accuracy of the submitted cost of export and domestic credit in the applicable sales listings. Using this verified data, we have calculated weighted average quarterly domestic and export credit costs per unit (sink) and performed this adjustment.

The weighted average credit costs calculations are attached with the export price calculations in Confidential Appendix 1 (export) or in *Jiabaolu's domestic sales listing* (Confidential Attachment SALES 10).

10.1.3 Flowtech and Zhongshan Flowtech SG&A

Australian sales are either made directly via Flowtech (channel 1) or via Zhongshan Flowtech and Flowtech (channel 2).

However, we consider that, regardless of which sales channel is used to export the goods to Australia, an upwards adjustment to normal value should be applied to account for the SG&A of both Zhongshan Flowtech and Flowtech. This is due to the fact that, although Zhongshan Flowtech may not have a direct role in the export of goods via channel 1, it operates Flowtech from its premises and the staff used by Flowtech are in fact Zhongshan Flowtech staff. Consequently, we consider that Zhongshan Flowtech's SG&A expenses should reasonably be allocated to all Australian export sales regardless of export channel.

We have included an upwards adjustment to normal value to account for the combined SG&A of Zhongshan Flowtech and Flowtech.

As sales made by channel 2 have their inland freight to the port and export charges paid by Zhongshan Flowtech, we have removed these selling costs from Zhongshan Flowtech's SG&A calculation used in the above adjustment to ensure there is no 'double count' of the adjustment to normal value for inland transport and port and handling fees (discussed below).

The SG&A calculations for Flowtech and Zhongshan Flowtech are contained in the CTMS calculations in Confidential Appendix 2.

10.1.4 Inland transport

We consider that the following inland freight adjustments to normal value are warranted:

- an upwards adjustment to include the cost of inland freight incurred in the exportation of goods to Australia; and
- a downwards adjustment to deduct inland freight incurred by Jiabaolu on its domestic sales (limited to OEM customers in Guangdong Province).

Export inland transport

As discussed at Section 4.9.1, we were able to verify the cost of inland transport:

- incurred by Jiabaolu in exporting goods via export sales channel 1; and
- incurred by Zhongshan Flowtech in exporting goods via export sales channel 2.

Noting that the costs incurred whether the goods are shipped via channel 1 or channel 2 are similar (with the per container costs of inland freight being the same regardless of sales channel), we have calculated a quarterly weighted average export inland transport adjustment for both channels combined, using the verified data in *Flowtech's Australian sales listing*.

The weighted average inland transport calculations are attached with the Export Price calculations in Confidential Appendix 1.

Domestic inland transport

As identified in Section 7.4.3, Jiabaolu incurs the cost of inland transport to OEM customers based in Guangdong Province. All other sales are either made ex-works or are delivered by Jiabaolu but the domestic customer reimburses this cost.

As is further discussed at Section 7.4.3, Jiabaolu was unable to quantify the cost of domestic inland transport to Guangdong-based OEM customers in *Jiabaolu's domestic sales listings* due to limitations of its selling costs data.

As these sales are made locally within Guangdong province, and the port for export is also located locally, we consider it reasonable to calculate the cost of inland transport for the domestic sales to OEM customers in Guangdong using the annual weighted average export inland transport costs incurred for export sales.

This may arrive at a domestic inland transport cost that is lower than that actually incurred on delivered domestic sales as transport to the local port is likely to be shorter than transport across the entirety of Guangdong Province. The impact of this is that we have arrived at a smaller downwards adjustment to normal value than might actually be incurred. However, we believe this is the most reasonable approach in the circumstances noting the limitations of Jiabaolu's data.

We have then determined a quarterly weighted average for inland transport for Jiabaolu's domestic sales by reference to total Guangdong OEM inland transport (above) and all domestic sales volume (units).

The weighted average domestic inland transport calculations are attached in *Jiabaolu's domestic sales listing* (Confidential Attachment SALES 10).

10.1.5 Export handling fees and port charges

We consider an upwards adjustment to normal value is warranted to account for the cost of export handling charges and port fees:

- incurred by Jiabaolu in exporting goods via export sales channel 1; and
- incurred by Zhongshan Flowtech in exporting goods via export sales channel 2.

As discussed at Section 4.9.1, we were able to verify the cost of these export charges contained in *Flowtech's Australian sales listing.*

Noting that the export handling and port fees costs incurred whether the goods are shipped via channel 1 or channel 2 are similar, we have calculated a quarterly weighted average export inland transport adjustment for both channels combined, using the verified data in *Flowtech's Australian sales listing*.

The weighted average export charges calculations are attached with the Export Price calculations in Confidential Appendix 1.

10.2 Other possible adjustments – not made

During the verification with Jiabaolu, we identified the following additional differences between domestic and export sales that may warrant adjustment for fair comparison purposes:

10.2.1 Packaging

We identified a possible adjustment to normal value to account for the fact that packaging to Australia is generally less than to domestic sales (envelopes as opposed to boxes).

Noting that Australian sales incur less packaging costs than export sales, but that packaging costs have been allocated across models evenly based on sink weight (see Section 5.1.5), we consider it likely that the packaging component of our constructed normal value is overstated.

However, the limitations of Jiabaolu's costs data (in which cardboard packaging is recorded collectively and not split into envelopes and boxes) mean that we are unable to accurately perform an adjustment to account for this difference. Therefore, this adjustment has not been made.

10.2.2 Warranties

The companies have submitted that different warranties apply to the domestic and export market, with sinks in the domestic market having a minimum of 10 years and Australian sinks having an unlimited term warranty.

Jiabaolu has submitted that warranty claims are uncommon due to the quality controls in place domestically and for export.

The methodology of allocating Jiabaolu's costs evenly across sinks means that the Australian warranty costs are likely to be understated in the constructed normal value, and that an upwards adjustment to normal value may be warranted to account for this.

However, the limitations of Jiabaolu's costs data mean that we are unable to accurately perform an adjustment to account for this difference. Therefore, this adjustment has not been made.

It is considered that, in practicality, any such adjustment would be negligible and have no impact on the dumping margin calculated for Jiabaolu in any case.

10.2.3 Domestic marketing expenses

As outlined at Section 7.4.2, Jiabaolu submitted it incurs marketing expenses in relation to domestic sales that are not attributed to export sales. Jiabaolu submits that it factors these expenses in to its domestic sales prices.

We consider that a downwards adjustment to normal value may be warranted to account for these domestic marketing expenses.

However, Jiabaolu has been unable to accurately quantify these domestic marketing expenses, and as such we consider no adjustment for these is possible.

10.3 Adjustments – Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(9) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

VAT rebate	**Add** an adjustment to account for the VAT liability difference between domestic and export sales
Credit terms	**Deduct** the cost of domestic credit. **Add** the cost of export credit.
Flowtech and Zhongshan Flowtech SG&A	**Add** the incurred SG&A expenses of Flowtech and Zhongshan Flowtech, after removing the cost of export inland transport, handling and port fees from Zhongshan Flowtech's SG&A costs.
Inland freight	**Deduct** the calculated cost of domestic inland transport. **Add** the actual cost of export inland freight where applicable (to arrive at a FOB price).
Export handling charges and port fees	**Add** the cost of export handling charges and port fees.

.

11 DUMPING MARGIN

11.1 Assessment – 'backing out' of accessory cost

As outlined throughout this report, Jiabaolu has submitted that the most reasonable method for the Commission to calculate dumping is to 'back out' the cost of accessories (sales value) in the export price calculation, and deduct the cost of accessories from the CTMS calculation.

The purpose of this is to counteract the issues identified in Section 5.1.5, where accessories costs submitted by Jiabaolu were apportioned evenly to Australian and domestic sinks based on the sink weight of that model in the month as a proportion of the total weight of sinks produced in that month.

As noted in Section 5.1.5, we have undertaken a re-allocation of accessories in Jiabaolu's CTMS to alleviate some of the inaccuracies caused by the above approach, isolating accessories sold to Australia in the total pool of accessories costs incurred by Jiabaolu and ensuring only those accessories destined for the Australian market are allocated to Australian models.

Despite the improvement in the accuracy of the CTMS calculation we consider this achieves, we acknowledge that issues relating to the accuracy of the accessory allocation in the CTMS remain, with the pools of accessories to different markets remaining apportioned based on sink weight.

The Commission has considered Jiabaolu's submission that these accessory costs should be removed from the dumping calculation, in light of the above-noted inaccuracies.

The goods description specifically states that the goods under investigation are deep drawn stainless steel sinks '*whether or not including accessories'*. Consequently, we consider that the goods description encompasses deep drawn stainless steel sinks sold with accessories and those without as both being 'the goods', and that 'the goods' are effectively the sink and accessories combined where they are sold collectively.

As a result, we consider that there is no provision for us to dissect the products sold to Australia into segments of sinks and accessories and conduct our dumping assessment based wholly on the sink itself, as the sink with accessories combined is intrinsically 'the goods' as a whole.

We therefore have not performed this 'back out' calculation in our assessment of dumping by Jiabaolu, as outlined below.

11.2 Dumping margin

We compared the quarterly weighted average export prices (at FOB terms) over the whole of the investigation period with the quarterly weighted average corresponding normal values constructed under s.269TAC(2)(c) (also at FOB after adjustments) over the whole of that period, in accordance with s. 269TACB(2)(a) of the Act.

In some cases, due to no production in that quarter, we did not possess a constructed normal value for the exported Australia model in particular quarters. In these cases, the

constructed normal value from the earlier or later quarter (whichever was the most reasonable) was used as the basis for normal value.

The weighted average product dumping margin for deep drawn stainless steel sinks export to Australia by Jiabaolu is **28.6%**.

Details of the dumping margin calculations are at **Confidential Appendix 5**.

.

12 SUBSIDISATION

The Commission is investigating the following eight identified alleged countervailable subsidy programs:

Number	Title	Category
Program 1	Raw Materials Provided by the Government at Less than Fair Market Value	Raw materials
Program 2	Research & Development (R&D) Assistance Grant	Grant
Program 3	Grants for Export Activities	Grant
Program 4	Allowance to pay loan interest	Grant
Program 5	International Market Fund for Export Companies	Grant
Program 6	International Market Fund for Small and Medium-sized Export Companies	Grant
Program 7	Reduced tax rate for productive foreign-invested enterprises (FIEs) scheduled to operate for a period not less than 10 years	Taxation
Program 8	Tax preference available to companies that operate at a small profit	Taxation

We undertook verification with Jiabaolu, the exporter of the goods, to determine whether it had received benefits under any of these programs, or if other programs may have been received.

In response to the Exporter Questionnaire, Jiabaolu submitted that it had not received a benefit in the investigation period under any of the eight investigated subsidy programs being investigated by the Commission.

However, Jiabaolu declared that it had received payments from the Local Government of Shenwan Town of Zhongshan City during the investigation period, relating to four separate grants from the local government.

12.1 Declared programs

Jiabaolu's Exporter Questionnaire submitted the following table outlining the four grants received by the company during the investigation period.

Granting authority	Receipt Date	Amount (RMB)	Purpose
Local government of Shenwan Town of Zhongshan City	Apr 2013	15,000	Award to top ten tax payer
Local government of Shenwan Town of Zhongshan City	Apr 2013	5,000	Subsidy to attending China International Kitchen & Bathroom Equipment Exhibition (Assistance to take part on overseas trade fares)
Local government of Shenwan Town of Zhongshan City	Apr 2013	6,000	Award to product patent application
Local government of Zhongshan City	July 2013	14,533	Subsidy to electronic commerce

Jiabaolu advised that the local government had alerted the company to the fact that it was eligible for the grant programs.

To verify the benefit received under each program, Jiabaolu provided a copy of its general ledger printout of its 2013 non-operating revenue account (**Confidential Attachment CV 1**). In this ledger, Jiabaolu highlighted each grant, which was listed as 'subsidy from town government' or 'subsidy from financial bureau' in the ledger.

We verified the amounts for each grant listed in the above table to this ledger.

Jiabaolu provided its booking slips recording the revenue and copies of its bank payment notifications for each grant, which reconciled to the ledger. These form **Confidential Attachment CV 2**.

During the verification, Jiabaolu also provided a *Table of grants Awarded By Ministry of Commerce (Zhongshan)* schedule, which it explained is issued by the Zhongshan local government. This table listed 15 possible grants that were available from the Zhongshan government (of which Jiabaolu received two).

This schedule forms **Confidential Attachment CV 3**.

12.2 Eight investigated programs

General verification

Having obtained Jiabaolu's non-operating income ledger (see above), we examined the other non-operating revenue in this ledger to determine if evidence existed of the company receiving any other subsidy programs. The other income in this ledger related to non-subsidy matters such as interest income.

We are satisfied that no evidence exists to suggest that Jiabaolu has received any grants other than those declared and discussed above.

Reduced income tax

The Commission is investigating two programs that have the impact of reducing the income tax paid by the applicable entity to a rate lower than the standard corporate tax rate in China (which is 25%).

We examined Jiabaolu's audited income statement for 2013 (see Confidential Attachment GEN 3) and observed that the tax recorded in that audited statement was equivalent to 25% of gross income in that year.

Raw Materials (stainless steel) Provided by the Government at Less than Fair Market Value

Jiabaolu submitted a complete '*Steel purchases*' listing in its response to the Exporter Questionnaire.

This listing identified each purchase of stainless steel made by the company during the investigation period, and identified the supplier, manufacturer (where different to the supplier), and whether these entities were state-owned.

We verified the completeness and accuracy of this listing to the steel raw materials documents collected during our verification of those materials (see Section 5.8.1). We are satisfied of the completeness and accuracy of this listing.

In this listing, Jiabaolu lists that it has purchased stainless steel from three suppliers during the investigation period, all of which are the manufacturers of that product and none of which are state-owned enterprises.

Jiabaolu therefore declares that it has not received benefits under this program during the investigation period.

12.3 Subsidy margin

We are satisfied that Jiabaolu has not received any financial contributions under the eight subsidy programs initially investigated by the Commission.

We are satisfied that Jiabaolu has received financial contributions under four grant programs during the investigation period that are additional to the eight programs initiated against by the Commission.

If these programs are found to be countervailable subsidies, we have calculated a subsidy margin from these four programs of **0.07% of the export price** for the goods exported by Jiabaolu.

The Commission will continue to assess these new programs to determine whether they are countervailable subsidies.

Our subsidy margin calculations form **Confidential Appendix 6.**

13 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price calculations
Confidential Appendix 2	Amended CTMS calculations for Jiabaolu
Confidential Appendix 3	Ordinary course of trade and profit calculations
Confidential Appendix 4	Normal value calculations
Confidential Appendix 5	Dumping margin calculations
Confidential Appendix 6	Subsidy margin calculations
Confidential Attachment GEN 1	Affiliation chart of the companies
Confidential Attachment GEN 2	[redacted] **[Redacted – Australian customer's brand name]** product catalogue
Confidential Attachment GEN 3	Jiabaolu's audited accounts for 2012 and 2013
Confidential Attachment GEN 4	Zhongshan Flowtech's audited accounts for 2012 and 2013
Confidential Attachment GEN 5	Diagram of Jiabaolu's sink production process
Confidential Attachment SALES 1	Jiabaolu's Australian Sales listing
Confidential Attachment SALES 2	Flowtech's Australian Sales listing
Confidential Attachment SALES 3	Jiabaolu's turnover spreadsheet
Confidential Attachment SALES 4	Flowtech's turnover spreadsheet
Confidential Attachment SALES 5	Zhongshan Flowtech's turnover spreadsheet
Confidential Attachment SALES 6	Trading agreement between Jiabaolu and [redacted] **[Redacted – Australian customer name]**
Confidential Attachment SALES 7	'Agency Agreement' between Jiabaolu, Zhongshan Flowtech and [redacted] **[Redacted – Australian customer name]**

Confidential Attachment SALES 8	Price list between Flowtech and [redacted] **[Redacted – Australian customer name]**
Confidential Attachment SALES 9	Evidence of raw materials prices provided by Flowtech to [redacted] **[Redacted – Australian customer name]**
Confidential Attachment SALES 10	Jiabaolu's domestic sales listing
Confidential Attachment SALES 11	Jiabaolu's third country sales listing
Confidential Attachment SALES 12	Domestic sales listings for OEM and distributor customers
Confidential Attachment SALES 13	Evidence of fabricated sinks sold by Jiabaolu to domestic customers
Confidential Attachment SALES 14	Jiabaolu's accounts receivable summary for sales to Vietnam and Singapore
Confidential Attachment SALES 15	Jiabaolu's Yonyou "Main Business Revenue" ledger for 2013
Confidential Attachment SALES 16	Flowtech's 2013 MYOB income statement
Confidential Attachment SALES 17	Flowtech's "Laundry Tubs" account transaction ledger for 2013
Confidential Attachment SALES 18	Flowtech's source documents for selected Australian sales
Confidential Attachment SALES 19	Flowtech's evidence of credit expenses for Australian sales
Confidential Attachment SALES 20	Source documents for selected sales from Jiabaolu to Flowtech
Confidential Attachment SALES 21	Zhongshan Flowtech's general ledger for 2013
Confidential Attachment SALES 22	Trading agreements between Jiabaolu and its domestic OEM and distributor customers
Confidential Attachment SALES 23	Jiabaolu's source documents for selected domestic sales
Confidential Attachment SALES 24	Jiabaolu's domestic sales credit expenses worksheet
Confidential Attachment SALES 25	Jiabaolu's Yonyou general ledger for 2013

Confidential Attachment CTMS 1	Evidence of sinks purchased by Jiabaolu for on-selling to domestic customers
Confidential Attachment CTMS 2	Jiabaolu's Yonyou 'production cost' sub-ledger
Confidential Attachment CTMS 3	Jiabaolu's Yonyou 'Manufacturing overhead – cutting fee' sub-ledger
Confidential Attachment CTMS 4	Yonyou sub-ledgers for accessories sold by Jiabaolu
Confidential Attachment CTMS 5	Jiabaolu's daily factory production slips for November 2013
Confidential Attachment CTMS 6	Jiabaolu's evidence of monthly cost of finished goods for November 2013
Confidential Attachment CTMS 7	Jiabaolu's evidence of wages, manufacturing overheads and materials costs for November 2013
Confidential Attachment CTMS 8	Jiabaolu's Yonyou 'accessories and supplementary materials report'
Confidential Attachment CTMS 9	Jiabaolu's Income Statement for 2013
Confidential Attachment CTMS 10	Jiabaolu's Yonyou general ledgers for key income statement items
Confidential Attachment CTMS 11	Jiabaolu's Yonyou stainless steel direct materials sub-ledger for January – December 2013
Confidential Attachment CTMS 12	Jiabaolu's stainless steel VAT purchase invoices for November 2013
Confidential Attachment CTMS 13	Sample stainless steel purchase agreement between Jiabaolu and supplier
Confidential Attachment CTMS 14	Evidence of Jiabaolu's stainless steel scrap sales for 2013
Confidential Attachment CTMS 15	Evidence of market scrap price of 304 stainless steel in 2013
Confidential Attachment CTMS 16	Source documents showing Jiabaolu's costs of direct materials for accessories
Confidential Attachment CTMS 17	Jiabaolu's VAT invoices for packaging costs for November 2013

Confidential Attachment CTMS 18	Evidence of Jiabaolu's wage costs for 2013
Confidential Attachment CTMS 19	Jiabaolu's Yonyou manufacturing overheads sub-ledger for November 2013
Confidential Attachment CTMS 20	Jiabaolu's evidence of depreciation costs from June 2006
Confidential Attachment CTMS 21	Evidence of Jiabaolu's monthly selling expenses for export and domestic markets
Confidential Attachment CTMS 22	Jiabaolu's revised SG&A allocation worksheet
Confidential Attachment CTMS 23	Jiabaolu's Yonyou general ledger printouts for expense categories for 2013
Confidential Attachment ADJ 1	Evidence of VAT refunds to Jiabaolu
Confidential Attachment CV 1	Jiabaolu's Yonyou general ledger for 2013 non-operating revenue account
Confidential Attachment CV 2	Jiabaolu's receipt of payment for grants
Confidential Attachment CV 3	*Table of grants Awarded By Ministry of Commerce (Zhongshan)*