



INVESTIGATION 238

ALLEGED DUMPING AND SUBSIDISATION OF CERTAIN DEEP DRAWN STAINLESS STEEL SINKS EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - EXPORTER

Zhuhai Primy Kitchen & Bathroom Company Limited

**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

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ABBREVIATIONS

ACBPS	Australian Customs and Border Protection Service
The Act	<i>Customs Act 1901</i>
China	The People's Republic of China
COGS	Cost of goods sold
the Commission	the Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
EQR	Exporter questionnaire response
FOB	Free On Board
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
MEPS	MEPS International
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry
Primy	Zhuhai Primy Kitchen & Bathroom Company Limited
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SG&A	Selling, general and administrative
Tasman	Tasman Sinkware Pty Ltd
VAT	Value added tax

1 BACKGROUND AND PURPOSE

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 its 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.

1.1 Background to meeting

Following initiation of the investigation, a search of the Australian Customs and Border Protection Service's (ACBPS) import database indicated that Zhuhai Primy Kitchen & Bathroom Company Limited (Primy) exported deep drawn stainless steel sinks from China to Australia in the period 1 January 2013 to 31 December 2013 (the investigation period).

The Commission notified Primy of the initiation of the investigation and sought its cooperation with the investigation and provided an exporter questionnaire for the company to complete. Primy completed the exporter questionnaire, and a non-confidential version of the questionnaire response is available on the public record.

1.2 Purpose of visit

The purpose of the visit was to verify information contained in the exporter questionnaire response (EQR) submitted by Primy.

Primy's EQR included background to its activities, export sales data to Australia and other countries, domestic sales data, cost to make and sell data and information about any grants or subsidies received from the Government of China. The EQR was supported by attachments. A non-confidential version of the EQR is available on the Public Record.

Verified information obtained during the verification visit to Primy has been used to make preliminary assessments of:

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

1.3 Meeting details

Company	Primy Corporation Limited Primy Industrial Park 220 Dexiang Road Pingsha Zhuhai China
Dates of visit	23, 24, 25 and 28 July 2014

The following were present at the meetings:

Primy and Primy Representatives

Mr Zhou Guobao	Primy	Director of Managing Department
Ms Huang Lali	Primy	Manager Export Department
Mr Xu Ruliang	Primy	Chief Accountant
Ms Yang Yawei	Primy	Domestic Sales Staff Member
Mr Andrew Percival	Corrs	Lawyer
Mr Weihuan Zhou	Corrs	Lawyer
Mr Li Fayin	Junzejun Law Offices	Lawyer
Ms Li Yanchun	Junzejun Law Offices	Lawyer

Anti-Dumping Commission

Mr An Chew	Acting Assistant Director – Operations 1
Mr Jukka Mäntynen	Assistant Director – Operations 1

1.4 Investigation process and timeframes

Primy was advised 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.

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- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (9 December 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The Commission will not make a PAD until (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 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 Commission 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 Commission will provide its 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 is approved by the Parliamentary Secretary.

1.5 Visit report

We informed Primy that a report of the visit (this report) would be provided to the company to review its factual accuracy and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, a non-confidential version of the report would be placed on the investigation's Public Record.

1.6 Cooperation

Primy was well prepared and co-operative during the verification and supplied documentation as requested during the visit.

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

2 COMPANY INFORMATION

2.1 Company background

Primy stated that it is a privately-owned limited liability company that was established in 2007. Its major shareholder is [REDACTED]. Primy advised that [REDACTED]

[REDACTED]. [confidential information regarding shareholder and related company information]

Primy has indicated in its EQR that it is not a subsidiary of any company and its shareholders are:

[REDACTED]
[REDACTED]

Primy indicated that it is located in Zhuhai, Guangdong Province and does not have production facilities elsewhere in the country. It states that it does not use other business names for export or to sell goods in China.

2.2 Principal activities

Primy's principal activities are the production and sale of kitchen and bathroom products. These products include deep drawn sinks and sinks with fabricated bowls, all made of stainless steel, as well as related accessories such as taps, colanders and knife blocks.

Primy sells products with its own branding, as well as original equipment manufactured to order. It makes all its sales on its own behalf, without agents, and does so in several markets including China, Europe, Oceania, the Middle East, South East Asia and the USA.

Primy's annual sales are approximately RMB [REDACTED], approximately [REDACTED] per cent of which are deep drawn sinks. Around [REDACTED] per cent of the value of Primy's deep drawn sink sales are sold in the domestic market and around [REDACTED] per cent are exports to Australia. The remainder are sold to other countries.

2.3 Accounting

Primy's financial year is the calendar year, 1 January to 31 December.

Primy stated that its accounting practices are conducted in accordance with the *Generally Accepted Accounting Principles* in China. It advised that it maintains two cost centres: Sinks and taps.

Primy's costing system is based on actual costs that are allocated to respective products based on the weight of stainless steel, the major material used in the production of those products.

In its EQR, Primy provided the following accounting information:

- its Chart of Accounts;
- audited financial statements for 2012;
- unaudited financial statements for 2013;

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- unaudited financial statements for the first three months of 2014.

At the meeting, Primy provided its audited financial statements for 2013 (**Confidential attachment GEN 1**) and a copy of its general ledger for 2013 (**Confidential attachment GEN 2**). Primy indicated that it does not maintain separate accounting records for management and taxation purposes. Primy utilises *Yon You* software for accounting system.

Primy's accounts are audited by Zhuhai Public United Accounting Firm.

2.4 Related parties

Primy indicated in its EQR that it is affiliated with the following companies through common individual shareholders or family relationships between individual shareholders:

- [REDACTED] – currently being established and not yet in operation:
 - [REDACTED] [REDACTED] per cent
 - [REDACTED] [REDACTED] per cent
 - [REDACTED] [REDACTED] per cent
- [REDACTED] – the company mainly manufactures hardware parts for [REDACTED], an unaffiliated electronics producer:
 - [REDACTED] [REDACTED] per cent
 - [REDACTED] [REDACTED] per cent
- [REDACTED] – A domestic distributor of Primy's products
 - [REDACTED] [REDACTED] per cent
- [REDACTED] – a company established by [REDACTED] with the intention to acquire products from [REDACTED] for sale in China.
 - [REDACTED] [REDACTED]
 - [REDACTED] [REDACTED]

At the visit, we established that [REDACTED] [related company] is located adjacent to Primy. We also established that [REDACTED] [related company] and Primy operate in different markets and manufacture different products.

Primy advised that [REDACTED] [related company] is treated as an arm's length customer that receives no pricing or service advantage over other customers. The prices paid by [REDACTED] [related company] as listed in the domestic sales summary spreadsheet were checked against the Primy price list. It was found that [REDACTED] [related company] paid the full price as listed for all sales.

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We noticed that two other customers of Primy, [REDACTED], use the name *Primy* as part of the company name. Primy explained that these companies are owned by former Primy employees who sell Primy products exclusively. Primy indicated that:

- these are independent companies that have no formal affiliation with Primy;
- they are treated the same as other distributors of Primy products;
- they receive no price or service advantage over other distributors of Primy products; and
- they do not pay Primy any licence or other fee to use the Primy name.

No evidence was found to contradict these statements.

2.5 Production Process

At the verification visit, a tour of the deep drawn sink manufacturing operation was conducted. The production process was observed and is conducted as follows:

- Primy purchases stainless steel that has been sheared into sheets of various sizes according to the size of the final product;
- a protective plastic coating is added and the sheets undergo a process that includes;
 - punching
 - drawing
 - shaping
 - cutting
 - stamping
 - rolling the edges
 - folding the edges
- corners and, if required, drainer trays and bowl sections are welded and the welds are ground;
- installation components are fixed;
- holes are punched;
- the product is polished in various stages using both manual and automated processes;
- the product is washed;
- a deafening pad is attached;
- quality checking is conducted; and
- the finished product is packaged with accessories.

Primy advised that some accessories are produced by Primy including strainers and taps. Other accessories, such as chopping boards, are sourced from other companies in China.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

The goods under consideration (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 includes 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 within tariff subheading 7324.10.00 (statistical code 52), in Schedule 3 of the *Customs Tariff Act 1995*.

The ACBPS has confirmed that this is the correct classification. The rate of Customs duty payable is 5 per cent.

3.2 Primy's sale of the goods and like goods

At C-3 of the EQR, Primy states that:

During the investigation period, none of the subject goods that Primy sold to Australia were sold domestically. That is no identical goods to those sold to Australian customers were sold domestically.

In Confidential Exhibit G-1-1, Primy provided a list of 159 product codes of goods it sold to Australia during the investigation period. None of these product codes match any product codes Primy sold in its domestic market during the investigation period.

However, at D-1 in the EQR, Primy states that:

[REDACTED]

[Confidential information regarding comparability between export sales and domestic sales]

At the visit, Primy indicated that [REDACTED] [distribution channel] are comparable in terms of the channel of distribution, but this does not necessarily mean that the respective products sold in this channel are identical to products sold to Australia.

The 'last channel of distribution' that Primy refers to is described in D-1 in the EQR as:

[REDACTED]
[REDACTED]. [Confidential information regarding domestic sales]

In section E-2 of the EQR, Primy adds:

As explained in response to D-1 above, among Primy's domestic sales, only [REDACTED] are at the same level of trade as its export sales to Australia while the other domestic sales include additional expenses and not at the same level of trade as its Australian sales. Accordingly, Primy believes its [REDACTED] [REDACTED] are comparable to its Australian sales.

Primy describes the other channels of distribution (i.e. non- OEM) as:

- [REDACTED]
- [REDACTED] and
- [REDACTED].

3.2.1 The Commission's assessment

Primy's claim that only sales of [REDACTED] [distribution channel] in the domestic market are comparable to sales to Australia is based on its statement at

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question D-1 in its EQR that sales to Australia incur lower [REDACTED] and [REDACTED] expenses than domestic sales in the other three categories and do not include [REDACTED]. Notwithstanding the different marketing costs incurred in these sales channels and the absence [REDACTED], the description of end uses and the general characteristics of the products are essentially similar. That is, despite which sales channel is used, stainless steel sinks are ultimately provided to households or commercial premises with similar end uses for them. [Confidential information regarding distribution channels in relation to export sales and domestic sales]

We found that the goods sold domestically by Primy generally have more [REDACTED], particularly [REDACTED], than the goods it exports to Australia. The goods sold domestically by Primy generally are smaller than those it exports to Australia. This is mainly due to the absence of [REDACTED]. [Confidential information regarding domestic sales and export sales]

In light of these differing physical characteristics, we consider it would be unsuitable to use domestic sales data to determine the normal value of the goods under section 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.

4 EXPORT SALES TO AUSTRALIA

4.1 General

Primy has indicated in its EQR that it has nine customers in Australia, all of which are [redacted] [level of trade].

In its EQR, Primy provided a detailed export sales spreadsheet titled *Exhibit B-4 Export Sales Summary* listing sales to Australian customers. Primy advised that it completed the export sales spreadsheet by manually entering each individual sales invoice for the entire investigation period. It explained that it does not have the ability to download a detailed sales transaction listing from its system so it was required to print off all the relevant sales invoices then manually enter the details into a spreadsheet.

At the visit, we also noticed that Primy exported [redacted] [product] to Australia during the investigation period. We advised Primy that [redacted] [product] are outside the scope of the goods. Primy provided us with the product codes that identify [redacted] [product] and we were able to exclude those from the spreadsheet.

4.1.1 Export sales process

In its EQR, Primy described the export sales process as follows:

[redacted]

All sales of Primy to Australian customers during the investigation period are [redacted]

[redacted]

[confidential information regarding the process and terms of export sales]

Primy indicated that the precise requirements of products sold to Australia are specific to each respective customer. That is, the configuration in terms of [redacted], [redacted], [redacted] and [redacted] varies between products ordered by customers and between different customers. As such, Primy prepares a price and delivery quotation based on these requirements. Primy indicated at the verification visit that despite these particular and varied requirements, [redacted]

[redacted] [Export price determination]. Where an order is accepted, Primy manufactures the goods according to the purchase order that is placed.

4.2 Verification of export sales to audited financial statements

We sought to verify the completeness and relevance of Primy's export sales spreadsheet by reconciling it to audited accounts.

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Primy provided us with its export sales ledger for 2013 (**confidential attachment EXP 1**) which shows monthly sales revenue and the cumulative total for 2013. We were able to match the total export sales revenue amount from the export sales ledger to its 2013 detailed income statement (**confidential attachment EXP 2**) then to the audited financial statements.

We then sought to reconcile the export sales amounts from the export sales ledger to the detailed sales spreadsheet. However, unlike domestic sales (see 6.6 below), Primy stated that it did not prepare a detailed sales listing of all export sales during the investigation period and the export sales revenue amounts shown in the ledger includes all export sales. It advised that its accounts do not further classify the export sales revenue into markets.

We recognised that to require Primy to provide us with a detailed listing of all export sales during the investigation period in order to reconcile the export sales spreadsheet to the sales ledger would be overly onerous. Therefore, we selected October 2013 and requested that Primy provide us with a complete listing of all export sales during the month. Primy printed off copies of all export sales invoices for October 2013 (**confidential attachment EXP 3**) and entered the details into a spreadsheet (**confidential attachment EXP 4**), which we were then able to reconcile up to the export sales ledger. By applying the appropriate filters for Australian sales of the goods, we were also able to reconcile down to the Australian export sales spreadsheet.

Having reconciled the export sales spreadsheet to audited financial accounts, we are satisfied that it represents a complete and relevant listing of all export sales of deep drawn stainless steel sinks export to Australia by Primy.

4.3 Verification of export sales to source documents

Prior to the visit, we selected 12 sales from the export sales summary spreadsheet and Primy was requested to provide source documents in relation to each invoice. For each selected invoice, Primy provided copies of the following documents at **confidential attachment EXP 5**:

- purchase order;
- order confirmation by *pro forma* invoice;
- commercial invoices;
- packing list;
- inland transport invoices;
- proof of payment of inland transport invoices;
- invoice for port documentation, container sealing, telex release and terminal handling costs;
- proof of payment of port documentation, container sealing, telex release and terminal handling costs;
- invoice for Customs declaration fees;
- proof of payment of Customs declaration fees;
- bill of lading; and
- proof of payment from the Australian customer to Primy.

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As discussed in section 4.1 above, we noted that Primy included export sales of [REDACTED] in its export sales spreadsheet, which are not the goods, and a number of selected invoices are sales of these products.

In addition, as Primy manually entered each transaction line-by-line we were cognisant that the spreadsheet is prone to typographical errors. In the process of comparing the figures in the spreadsheet to the source documents, we identified a number of such errors. Some were insignificant, such as mistyping the order number, while others related to prices or quantity. Accordingly we undertook a close analysis of the export sales spreadsheet and identified outliers and requested that Primy provide invoices for these sales. Some outliers found were errors while others were sales of accessories and not the goods, which were removed from the spreadsheet. After fixing those errors, and to obtain confidence in the accuracy of the export sales spreadsheet, we randomly selected a further 6 invoices and were able to match the details to the spreadsheet.

We also undertook a comparison between the export sales spreadsheet and the ACBPS import database and noticed one importer that was missing from the export sales spreadsheet. Primy advised that one transaction was inadvertently left out of the sales spreadsheet because that customer is an [REDACTED] based customer and sales to that customer are usually [REDACTED]. However, there was one sale to that customer which was exported to Australia and was inadvertently missed by Primy. Primy provided us with a copy of the relevant invoice and a spreadsheet with the relevant details to add to the export sales spreadsheet.

After Primy corrected the errors, it was possible to complete reviewing and verify the information and match it to data in the export sales summary spreadsheet.

4.3.1 Shipping terms

We confirmed by examining purchase orders, order confirmations, commercial invoices, invoices for Customs declaration fees and invoices for port documentation, container sealing, telex release and terminal handling costs that all sales by Primy to Australian customers during the investigation period are at [REDACTED] level.

4.3.2 Payment terms

We confirmed by examining purchase orders, order confirmations, commercial invoices and proof of payment from the Australian customer to Primy that all sales by Primy to Australian customers during the investigation period were on terms that require payment at [REDACTED] level within [REDACTED] days of the [REDACTED]. [Confidential information regarding terms of export sales]

We calculated an interest rate based on the weighted average short-term borrowing costs (**confidential attachment EXP 6**) as reported in Primy's annual report.

4.3.3 Currency

We confirmed by examining export documentation and relevant company records that all sales by Primy to Australian customers during the investigation period were in US dollars. Accounting practices in China require accounting records to be kept in RMB.

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Primy indicated that the rate at the start of the month was used to in the export sales summary spreadsheet to convert its sales amounts from US dollars into RMB in the respective month. It was found that the respective rates were not applied consistently across months of 2013. Some sales in some months, for example, had exchange rates from previous or subsequent months applied. It was indicated to Primy that this, and the details in the *Net Invoice Value in RMB* column, would be corrected in the export sales summary spreadsheet.

A copy of historical exchange rates at the start of each month of 2013 from the Bank of China was provided by Primy.

4.3.4 Inland transport

We checked inland transport costs as indicated in the export sales summary spreadsheet and found them to match the relevant amounts in purchase orders, order confirmations, commercial invoices, inland transport invoices and proof of payment of inland transport invoices. We found that in all cases, the amount of inland transport costs was recorded in the export sales summary spreadsheet with the inclusion of 11 per cent tax. Therefore, we amended the spreadsheet to reflect VAT exclusive expenses.

4.3.5 Port charges

We found that in all cases, the amount of port documentation, container sealing, telex release and terminal handling costs listed under *Handling and other costs* was recorded in the export sales summary spreadsheet inclusive of the 6 per cent VAT. However, other port charges that are included in the calculation were VAT exclusive. Primy stated that it accepted the consequence of having some VAT included in the calculation of port charges and considered the effect to be negligible. We accepted Primy's position.

4.3.6 Conclusion

After Primy corrected the errors in its initial data and those found during the verification visit, and having been able to reconcile Primy's export sales spreadsheets down to source documents, we consider that the information in the export sales summary spreadsheet is accurate.

4.4 The exporter

The Commission will generally identify the exporter as:

- a principal in the transaction located in the country of export from where the goods were shipped who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export the Commission will normally consider the exporter to be the person who gave up responsibility for the good as described above.

All documents that were provided and examined confirm that Primy was the exporter of the goods during the investigation period as Primy:

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- is the manufacturer of the goods;
- owned the goods at the time of export;
- 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; and
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods.

4.5 The importer

Having reviewed relevant information gathered at this verification, we consider that for Primy's export sales of deep drawn stainless steel sinks, the various companies listed in the Australian sales summary spreadsheet respectively should be considered the importers of the goods. Those companies respectively:

- are listed as the importers on the customs entry;
- are listed as the consignees on the Bill of Lading;
- are invoiced by Primy for the goods; and
- pay Primy directly (via telegraphic transfer) for the goods.

Consequently, we consider that Primy's customers to be the beneficial owners of the goods at the time of importation, and therefore the importers.

4.6 Arm's length

In respect of export sales to Australia during the investigation period, no evidence was found to indicate 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.

Having regard to all the circumstances of the sales in question the export sales can be treated as arm's length transactions section 269TAA(1A) of the Act.

4.7 Export price – preliminary assessment

In respect of export sales to Australia during the investigation period:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter; and
- the purchases of the goods by the importer were arm's length transactions.

We recommend that the export price be determined under subsection 269TAB(1)(a) as the price paid by the importer less any charges incurred after exportation.

Details of the export price calculations are at **confidential appendix 1**.

5 COST TO MAKE & SELL

5.1 General

In its EQR, Primy provided two spreadsheets detailing monthly cost to make and sell (CTMS) sinks by product code over the investigation period. One spreadsheet contained the CTMS of domestic sink models and the other spreadsheet contained the CTMS of sink models exported to Australia. Both spreadsheets have costs broken down into the following items:



At the start of the visit, Primy provided us with an updated domestic sales CTMS spreadsheet (**Confidential Attachment CTMS 1**). It explained that during the preparation for the visit, it discovered that the costs of [REDACTED] were inadvertently excluded. Primy advised that as it does not export [REDACTED] to Australia, the Australian CTMS spreadsheet was not affected.

5.1.1 Reallocation of costs

During the verification visit, Primy stated that it allocated monthly costs to each sink model based on [REDACTED]. Primy advised that this is its usual cost allocation method in its business.

We expressed concerns with this allocation method of [REDACTED]. Specifically, we discussed the merits of allocating the cost of [REDACTED] across both domestic and export sales of sinks considering that [REDACTED] are sold on the domestic market, which has the effect of under allocating costs to domestic sales and over allocating costs to export sales. We also noted that [REDACTED] cost has a similar over/under allocation issue as domestic sinks are usually [REDACTED] while export sinks [REDACTED].

Primy agreed that its existing cost allocation methodology has the effect of understating the cost of domestic sinks and overstating the cost of export sinks. We provided Primy with an opportunity to present us with more accurate CTMS spreadsheets, backed by evidence. Specifically, Primy made changes to the calculation of the [REDACTED] used for each model to include the [REDACTED] for each model (see 5.3.1 below). It also split the [REDACTED] costs into those destined by to domestic market and those destined for export (see 5.3.2 below).

The updated spreadsheets are at **Confidential Attachment CTMS 2**.

5.2 Verification of production costs to audited financial statements

We sought to verify the completeness and relevance of the CTM data provided by Primy in its EQR by reconciling it to its audited financial accounts.

Primy provided us with a copy of its cost of goods sold (COGS) ledger for the 2013 (**confidential attachment CTMS 3**) and we were able to match the total cost of goods sold for 2013 to the audited financial statements. We then selected the COGS for March 2013 for further verification and Primy provided us with the March 2013 COGS ledger (**confidential attachment CTMS 4**) which reconciled to the 2013 COGS ledger. Primy explained that the COGS figure includes an amount for non-refundable VAT with the balance being the cost of finished sinks and taps. It provided us the March 2013 inventory ledgers for sinks and taps (**confidential attachment CTMS 5**), which reconciled to the March 2013 COGS ledger. Primy then provided us with a sinks production cost report for March 2013 (**confidential attachment CTMS 6**) which shows the CTM all sinks manufactured by Primy in March 2013 by product code. We were able to reconcile the total CTM from the production report to the sinks finished goods ledger.

Primy advised that it used data directly from the production report to complete the CTMS spreadsheet and we were able match the CTM figures in its production report for each product code to the CTMS spreadsheet, excluding the scrap steel offset. Primy noted that scrap steel is reported as revenue in its financial accounts.

As we were able to reconcile the CTMS spreadsheet to audited financial statements, we are satisfied that it is complete and relevant.

5.3 Verification of production costs to source documents

We sought to verify the accuracy of the CTM data by reconciling it down to source documents. As discussed in section 5.1.1 above, Primy allocated all its costs to manufacture sinks to specific models based on [REDACTED], and after discussing the merits of this allocation, Primy presented an updated cost spreadsheet with a more accurate allocation of accessories

We requested Primy use March 2013 to demonstrate the calculation of costs. Primy provided us a copy of its sinks cost of production ledger for March 2013 which showed costs broken down into [REDACTED] (**confidential attachment CTMS 7**). We noted that the total costs matches the costs shown in the March 2013 sinks inventory ledger (**confidential attachment CTMS 5**) and reconciles to the audited financial accounts. We selected four models for further verification and using these models, Primy demonstrated its allocation methodology (**confidential attachment CTMS 8**) and we confirmed that Primy allocated costs by [REDACTED].

We then selected stainless steel, accessories and manufacturing overheads for further verification down to source documents.

5.3.1 Stainless steel

As raw stainless steel weight forms the basis of Primy's cost allocation, we asked Primy how this was determined. It advised that as part of its cost reallocation, it updated the [REDACTED] to include the [REDACTED]

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██████████ that are manufactured by Primy for that model. To demonstrate this, Primy provided the bill of materials, standard sink steel weight and standard self-produced accessory steel weight for two selected models (**confidential attachment CTMS 9**) which we were able to reconcile cost allocation methodology worksheet (confidential attachment CTMS 8). We consider this reasonable as it would result in a more accurate allocation of costs.

We then sought to drill down into the stainless steel costs. Primy provided a copy of its detailed stainless steel inventory ledger for 2013 (**confidential attachment CTMS 10**). We were able to reconcile the March stainless steel consumption from the inventory ledger to the March 2013 cost of production ledger (confidential attachment CTMS 7).

Primy stated that it only ██████████. In part I of its the EQR, Primy provided a list of stainless steel purchases and we were able to reconcile the total purchases of stainless steel in 2013 from that spreadsheet to the inventory ledger. We then selected 9 transactions in the stainless steel purchase spreadsheet and Primy provided the corresponding invoices (**confidential attachment CTMS 11**), which we were able to reconcile to the spreadsheet. We also requested for, and Primy provided, a copy of the purchase order/contract for a selected invoice (**confidential attachment CTMS 12**).

5.3.2 Accessories

As discussed in section 5.1.1 above, Primy reallocated its accessory costs during the verification visit to better reflect the cost of accessories attributable to domestic and export sink models. Primy advised that instead of allocating the total accessory costs by ██████████ across all models, which is the original methodology, it reallocated accessory costs by first ██████████, then allocating it to each domestic and export model accordingly. It explained that it was able to determine whether an accessory is destined for the domestic or export market by the product code. Primy provided us with a worksheet that demonstrated how it ██████████, using March 2013 as the example (**confidential attachment CTMS 13**).

We agreed that this allocation methodology is more accurate, however noted that this still results in an over allocation of accessory costs to sinks exported to Australia as those models have ██████████ whereas sinks to other markets ██████████. We discussed the consequences of this to Primy's dumping margin. Primy stated that it considers the effect would be minor and accepted the potential consequence of the over allocation of costs to the Australian sink models.

We selected purchases of wire baskets in March 2013 for further verification down to invoices. Primy provided the March 2013 accessory inventory ledger (**confidential attachment CTMS 14**) which reconciled to the cost of production ledger (confidential attachment CTMS 7). It then identified a purchase of wire basket from the accessory inventory ledger and provided us with the corresponding invoice (**confidential attachment CTMS 15**). Primy advised that that model of wire basket is destined for the domestic market. We asked whether there was a purchase of wire basket for the export market in March 2013 and Primy stated that there was not. It advised that there was such purchases in April and provided us with the April 2013 accessory inventory ledger and relevant invoices (**confidential attachment CTMS 16**).

5.3.3 Manufacturing overheads

Similar to stainless steel, Primy allocates manufacturing overheads based on [REDACTED], which we were able to follow (confidential attachment CTMS 8). We then selected depreciation in March 2013 for further verification. Primy provided us with its March 2013 manufacturing overheads ledger (**confidential attachment 17**). It also provided us with the March 2013 taps cost of production ledger (**confidential attachment 18**) to demonstrate that the sum of the manufacturing costs in the sinks and taps cost of production ledgers equated to the total in the manufacturing overheads ledger. Primy provided us with a report showing the depreciation by departments for 2013 (**confidential attachment CTMS 19**) and we were able to reconcile the depreciation expenses booked to manufacturing overheads to the manufacturing overheads ledger. It then provided us with its 2013 accumulative depreciation ledger (**confidential attachment CTMS 20**) showing monthly depreciation expenses and we saw that the March 2013 depreciation amount matched total depreciation shown in the depreciation by department report. Finally, Primy provided us with its depreciation schedule for 2013 (**confidential attachment CTMS 21**) and we were able to match the total depreciation shown on the schedule to the depreciation ledger.

5.3.4 Packing materials

Primy's allocation of packing costs [REDACTED], by allocating the total packing costs [REDACTED], which we were able to follow (confidential attachment CTMS 8). However, similar to accessories, we consider that this allocation methodology results in an over allocation of packing costs to export sales and an under allocation of packing costs to domestic sales. This is because sales of domestic sinks are usually [REDACTED] packed while export sinks are [REDACTED].

We discussed the consequences of this packing cost allocation methodology, which may result in an inflated dumping margin. Primy stated that it considers the effect is minor and accepted the potential consequences rather than attempting any reallocation.

5.3.5 Taps

As discussed in section 6.3 below, Primy sells taps and other accessories on top of the standard accessories on the domestic market, and invoices its customers an all-inclusive price. Therefore, when comparing domestic selling prices to CTMS, the cost of any add-on accessories should be included. In its domestic CTMS spreadsheet, Primy included the cost of taps and other accessories in order to undertake this exercise to accurately calculate the cost of a sale.

Accordingly, we sought to verify the cost of taps reported in its cost spreadsheet and selected the cost of a specific model of tap in October 2013 for further verification. Primy stated that it has a separate cost centre for taps and explained that, similar to sinks, the costs for each model of taps are allocated based on [REDACTED]. It provided us with a calculation worksheet (**confidential attachment CTMS 22**) and we were able to follow the cost allocation methodology. It also provided us with an inventory report showing the quantity produced (**confidential attachment CTMS 23**) and the taps cost of production ledger (**confidential attachment CTMS 24**) to support the calculations

in the worksheet. Primy also demonstrated the reconciliation of the taps cost production ledger to the audited financial accounts (**confidential attachment CTMS 25**).

5.3.6 Stainless steel scrap offset

In its cost spreadsheets, Primy included an amount for stainless steel scrap offsetting the cost of sinks. Primy provided us with a worksheet detailing the scrap offset calculation for two models of sinks in March 2013 (**confidential attachment CTMS 26**). The worksheet showed that it allocated the total sales revenue of scrap in 2013 across all sinks by stainless steel weight. Specifically, it divided the total value of scrap sales during 2013 by the total standard raw steel weight of all sinks over 2013 to generate a unit scrap offset rate per kg of steel, then applied this rate across reach product. We considered this approach reasonable.

To support its calculations, Primy provided us with total standard steel consumption calculation (**confidential attachment CTMS 27**) and the 2013 other business income ledger which shows the total revenue received from scrap sales (**confidential attachment CTMS 28**). We then selected one sales transaction of scrap steel and Primy provided us with the corresponding invoice (**confidential attachment CTMS 29**).

5.3.7 Production quantity

In the cost spreadsheet, Primy included the monthly quantity of sinks produced in units for each model. We sought to verify this figure by selecting two models of sinks and requested that Primy provide source documents to support the quantity produced for those models in March 2013. Primy provided us with copies of production slips that are produced by its production managers detailing the number and type of sink manufactured for each day (**confidential attachment CTMS 30**). We were able to match the production quantity from the cost spreadsheet to the production slips.

5.4 Selling, general and administrative expenses

Primy stated that it calculated selling, general and administrative (SG&A) expenses as a percentage of cost of goods sold based on figures in its profit and loss statement (**confidential Attachment SG&A 1**). We informed Primy that it is the Commission's preference to calculate SG&A as a percentage of revenue. Primy stated that it did not have issues with this approach.

To verify the SG&A calculation worksheet, Primy provided us with the relevant accounts ledgers that reconciles to the profit and loss statements (**confidential attachment SG&A 2**). To avoid double count, Primy excluded ocean freight, trucking fees, broker & handling fees, inland freight and customs fees from its SG&A calculation as these costs are included in the domestic and export sales spreadsheets (**confidential attachment SG&A 3**). We consider that this deduction from the SG&A reasonable.

However, we noticed that advertising and marketing expenses were included in the SG&A. As outlined in section 3.2 above, export sales to Australia and [REDACTED] incur few selling expenses. Specifically, we consider that advertising and marketing expenses should not be attributable to export sales to Australia and [REDACTED]. Therefore, we determine that the SG&A calculation for these sales channels should exclude such expenses.

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We then selected the annual watermark certification fee for further verification. Primy stated that as it manufactures the stainless steel part of the strainer, it requires an annual watermark certification for the strainers exported to Australia and provided us with a copy of the certificate (**confidential attachment CTMS 4**). Primy was able to demonstrate the reconciliation down to source documents by providing us with its other selling expenses ledger which showed entry for the watermark certification fee, the relevant journal entries, commercial invoice and proof of payment (**confidential attachment SG&A 5**).

5.5 Costs to make and sell – conclusion

Having verified the Primy's CTMS deep drawn stainless steel sinks up to audited financial accounts and down to source documents, we are satisfied that it is complete, relevant and accurate.

Primy's verified CTMS deep drawn stainless steel sinks spreadsheet is at **Confidential Appendix 2**.

6 DOMESTIC SALES

6.1 General

As noted above at 3.2, Primy has described four marketing channels for its products in D-1 in the EQR. This description by Primy is:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Confidential information regarding distribution channels of domestic sales]

At the verification visit Primy provided further clarification of the processes specific to these channels.

[REDACTED]

[REDACTED]. The products are described in Primy's catalogue and prices are maintained in a list. Prices may be negotiated with customers.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Confidential information regarding distribution channels of domestic sales]

Sales staff at Primy generally specialise in either export or domestic sales.

Primy generally conducts its sales [REDACTED]

[Confidential information regarding sale and marketing strategies]

6.2 Domestic sales process

The domestic sales process conducted by Primy can be described as follows:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]

6.3 Accessories

Primy explained that sinks are sold with a standard list of accessories, such as a strainer or inbuilt knife block. However, it offers additional accessories, such as taps, soap dispensers and chopping boards, which are itemised individually on the sales invoice but sold as an all-inclusive price. These additional accessories were identified in the sales spreadsheet which enables a proper comparison to the CTMS.

6.4 Price negotiation (including discounts and rebates)

Primy indicated at the verification visit that despite maintaining a price list, it [REDACTED]. However, as a general rule, its [REDACTED].

[Confidential information regarding price]

6.5 Domestic sales data submitted by Primy

In its EQR, Primy provided a detailed export sales spreadsheet titled *Exhibit D-4 Domestic Sales Summary* listing sales. At the meeting Primy advised that during the preparation for the verification visit, it realised that it inadvertently excluded double bowl sinks from the detailed domestic sales spreadsheet and an updated version was provided.

6.6 Verification of domestic sales to audited financial statements

We sought to verify the completeness and relevance of Primy's domestic sales spreadsheet by reconciling it to audited accounts.

Similar to the export sales upwards reconciliation, Primy provided us with its domestic sales ledger for 2013 (**confidential attachment DOM 1**) which reconciled to its 2013 detailed income statement (**confidential attachment DOM 2**) and the audited financial statements.

But unlike export sales, Primy had prepared a detailed sales listing of all domestic sales of all products during the investigation period (**confidential attachment DOM 3**) and we were able to reconcile it up to the domestic sales ledger and down to the Domestic sales spreadsheet by applying the appropriate filters for the goods.

Having reconciled the domestic sales spreadsheet to audited financial accounts, we are satisfied that it represents a complete and relevant listing of all domestic sales of deep drawn stainless steel sinks by Primy.

6.7 Verification of sales to source documents

Prior to the visit, 12 domestic sales transactions were selected for detailed verification from the detailed domestic sales spreadsheet that Primy submitted as part of its EQR. Primy was asked to prepare evidence to support the spreadsheet data for the selected domestic transactions. At the visit, Primy supplied 12 sets of documents (**confidential attachment DOM 4**), each containing the following:

- purchase order confirmation;
- invoice; and
- proof of payment of invoice.

Similar to export sales, we were cognisant that the domestic sales spreadsheet is vulnerable to typos due to the sales spreadsheet having to be entered manually. Therefore we undertook an analysis of outliers and found one instance where the quantity was entered as ten instead of one. We also found some minor errors, however overall, we were largely satisfied with the accuracy of the data. To obtain a greater confidence in the accuracy of the domestic sales spreadsheet, we randomly selected a further 6 invoices and were able to match the details to the spreadsheet.

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During a process of comparing product codes in the domestic sales spreadsheet and the CMTS spreadsheet, we noticed several product codes that did not have any costs. Primy explained that some products were sold during the investigation period but manufactured prior to the investigation period, therefore was not included in the CTMS spreadsheet. Therefore, Primy provided a list of suggested surrogate models that had inconsequential differences, such as different logos. However, there was one model that Primy identified that was not manufactured by Primy but was in fact [REDACTED]. Primy stated that the sale was inadvertently included in the spreadsheet and should be excluded.

After Primy corrected the errors in its initial data and provided clarification of details during the visit, we were able to complete verification of the data.

6.7.1 Delivery and payment terms

Primy's delivery and payment terms are dependent upon the distribution channel in which the goods are sold.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Items that were sold on an ex-works basis correctly showed zero transport costs in the domestic sales summary spreadsheet except for [REDACTED]. We found that in the domestic sales summary spreadsheet, sales categorised as [REDACTED] indicated delivery terms as ex-works and consequently showed zero transport costs. The description of this distribution channel indicates the goods are delivered. Primy provided a corrected spreadsheet that included transport costs.

6.7.2 Inland transport

Primy indicated that during investigation period, it calculated domestic delivery costs to customers by dividing the total value of cost of delivery to individual customers by the number of units sold to derive an inland freight amount per unit.

Primy provided a statement from a freight company that included all deliveries to a single customer in February 2013. The total amount of freight to that customer for that month matched the amount in a report that Primy had also provided that listed freight costs per month for 2013 to that customer. That report also included the total purchases by that customer for 2013. This amount matched the total amount of purchases by that customer in a report that showed total purchases by month by that customer. Primy derived a freight allocation by value for that customer by dividing its total freight cost for 2013 by its

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total purchases for 2013. This allocation was checked against entries for that customer in the domestic sales summary spreadsheet and was found to be applied consistently.

Primy provided three invoices with amounts that matched entries in the sales expenses sub-ledger for freight after 7 per cent tax was deducted. The balance of entries in the June 2013 sales expenses sub-ledger for freight matched the corresponding entry in the June 2013 general sales expenses ledger. The balance of entries in the June 2013 general sales expenses ledger matched the corresponding entry in the sales expenses ledger for 2013. The balance of entries in the sales expenses ledger for 2013 matched the corresponding entry in the 2013 Profit/Loss Statement.

6.7.3 Domestic sales - conclusion

All the documentation provided by Primy in respect of domestic sales has been examined and checked against the information in the domestic sales summary spreadsheet.

On the basis of downwards verification to source documents, the data in the amended domestic sales summary spreadsheet is accurate. On the basis of upwards verification to audited financial statements, the data in the domestic sales summary spreadsheet is complete and relevant.

6.8 Arm's length

As discussed in section 2.4 above, one customer, [REDACTED], is related to Primy. We checked the prices paid by [REDACTED] against the Primy domestic price list and found that [REDACTED] paid the full price as listed for all sales. We also verified the proof of payment of selected sales to [REDACTED] and found no evidence of rebates or other favourable treatment. Therefore, we are satisfied that sales to [REDACTED] are arms length transactions.

In respect of domestic sales during the investigation period, no evidence was found to indicate 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.

As such, domestic sales can be treated as arm's length transactions under section 269TAA of the Act.

6.9 Ordinary course of trade and sufficiency of volume tests

As discussed in section 3.2.1 above, we do not consider that domestic sales of deep drawn stainless steel sinks are suitable for determining normal values under section 269TAC(1). Instead, we consider that normal values should be based on constructed costs and an amount for profit. However, we have undertaken an ordinary course of trade (OCOT) test for the purpose of calculating a profit.

In order to test whether the domestic sales are in the OCOT, we first tested the profitability of each transaction individually by comparing the unit selling price to the

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corresponding quarterly weighted average CTMS for each model based on the product code. Where the volume of unprofitable sales exceeds 20% for the product code, we then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS over the whole of the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.

6.10 Profit on sales made in the ordinary course of trade

We calculated the profitability of domestic sales of deep drawn stainless steel sinks by comparing the selling price with the corresponding quarterly CTMS. In calculating the profit, we have only included domestic sales made in the ordinary course of trade².

The profitability of domestic sales of like goods made in the ordinary course of trade during the investigation period, as a percentage of CTMS, was [REDACTED] %.

The profit calculation is at **confidential appendix 3**.

² Regulation 181A(2)

7 THIRD COUNTRY SALES

In its EQR, Primy provided a summary its deep drawn sink export sales to third countries.

As we considered that we were in possession of enough verified information from the submission and our visit to calculate normal values for deep drawn stainless steel sinks using domestic sales or a construction method, we did not undertake detailed verification of the third country data.

In addition, as discussed in section 3.2.1 above, we consider that normal value should not be established under section 269TAC(1) with reference to domestic sales. We considered the reasonableness of comparing Primy's export sales to Australia to its sales to third countries in accordance with section 269TAC(2)(d).

We consider that, similar to the reasons that domestic sales are not suitable for determining normal values, due to differences in physical characteristics, we also consider that third country sales to be unsuitable for the purposes of establishing normal values.

8	ADJUSTMENTS
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8.1 General

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

8.2 Level of trade

As discussed in section 3.2 above, Primy states that only domestic sales of [REDACTED] are comparable to its export sales to Australia. This is because sales to Australia are also [REDACTED]. Therefore, Primy argues that due to distinct differences in prices between the different distribution channels, an adjustment to the normal value is required.

Having regard to the different levels of trade and distribution channels, we also consider that an adjustment is necessary for a fair comparison. Therefore, we made a downwards adjustment based on the difference between the profit margin of all domestic sales of like goods and the profit margin of [REDACTED] of like goods to [REDACTED].

8.3 Export inland freight, handling and port charges

As discussed in section 5.4 above, the SG&A expense excluded inland transport, handling and port charges. Therefore, we made an upwards adjustment for export inland freight, handling and port costs using the actual costs for each export sales transaction.

8.4 Non-refundable value-added tax

Primy incurs a non-refundable value-added tax (VAT) expense on export sales to Australia of 8%, being the difference between the VAT amount of 17% less 9% VAT refund on export sales of deep drawn stainless steel sinks. Therefore, we applied an upwards adjustment of 8% to the normal value.

8.5 Export credit terms

We made an upwards adjustments for export credit terms based on the number of days provided by Primy to its customers and interest rate as discussed in section 4.3.2 above.

8.6 Adjustments – Conclusion

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

Level of trade	Deducted an amount for the level of trade difference.
Export inland freight, handling and port charges	Add a cost of export inland freight, handling and port charges.
Non-refundable VAT	Add the non-refundable VAT amount of 8%.

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Export credit terms	Add a cost for export credit terms
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9 NORMAL VALUE

As stated in section 3.2.1 above, we consider it would be unsuitable to use domestic sales data to determine the normal value of the goods under section 269TAC(1) of the Act. Instead, we consider that normal values should be based on constructed costs and an amount for profit.

Following the verification visit, on 13 August 2014, the Commissioner of the Anti-Dumping Commission (the Commissioner) released a 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 costs 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 Primy 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
- determine a delivered MEPS composite price using the verified average incurred delivery costs incurred by Chinese 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).

Normal values have been constructed using the uplifted cost to make deep drawn stainless steel sinks exported to Australia plus SG&A on the assumption that the goods, instead of being exported, were sold domestically³. A rate of profit, as discussed in section 6.10 above, has been added using data related to the production and arm's length sales of like goods in the ordinary course of trade⁴.

³ s. 269TAC(2)(c)

⁴ Regulation 181A(2) of the *Customs Regulations 1926*

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For certain export models that did not have CTMS data due to the goods being exported during the investigation period but manufactured outside the investigation period, Primy provided a list of surrogate models with inconsequential differences.

In using costs to make and sell as the basis for normal values, we consider that certain adjustments, in accordance with s. 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in chapter 8 above.

The normal value calculations are at **confidential appendix 4**.

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin, we compared each export transaction with the corresponding quarterly normal value for the corresponding model of deep drawn stainless steel sinks. The weighted average product dumping margin for deep drawn stainless steel sinks is 4.9%.

The dumping margin calculation is at **confidential appendix 5**.

11 SUBSIDIES

11.1 Grants

In its EQR, Primy declared that it did not receive any grants under Programs 2 to 6, however, Primy declared in the EQR that it received the following grants:

[Redacted]

[Confidential information regarding subsidies received by Primy during the investigation period]

In its EQR, Primy provided bank slips as proof of payment for each of the grants. It also outlined the eligibility criteria for each of the grants as detailed below:

[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

During the visit, Primy provided us with its subsidies income ledger (**confidential attachment SUB 1**) and we were able to reconcile the total subsidies recorded against its ledger and the grants declared in the exporter questionnaire. We were also able to reconcile the subsidies income ledger to its audited accounts (**confidential attachment SUB 2**).

11.2 Preferential income tax

In its EQR, Primy declared that it received a preferential tax treatment of [Redacted] % for being [Redacted] in accordance with Article [Redacted].

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It attached tax return statements and quarterly income tax returns in its EQR, which showed that it received a discount of █% from the general rate of 25% and therefore paid █% in taxes.

11.3 Provision of cold-rolled stainless steel

In its EQR, Primy provided a spreadsheet listing all its purchases of stainless steel during in 2013. As discussed in section 5.3.1 above, we were able to verify the spreadsheet up to audited accounts and down to source documents.

The spreadsheet shows that Primy purchased stainless steel from █. Primy declared that █ its suppliers were not state invested enterprises. We selected █ and asked Primy to evidence that the company was not a state invested enterprise. Primy provided us with a copy of the ownership register of the company from the Industry and Commerce Administration Bureau which showed that the company was owned by two individuals (**Confidential Attachment SUB 3**).

11.4 Subsidy margin

We have calculated the subsidy margin based on the assumption that all programs are all countervailable. In calculating a subsidy margin, we attributed the Gaolan Port Subsidy and the Foreign Trade Exhibition Activity Fund to Primy's export sales of all products to Australia and third countries. We attributed the remaining subsidy programs and the preferential income tax program to Primy's total turnover.

The weighted average subsidy margin for deep drawn stainless steel sinks is 0.3%

The subsidy margin calculation is at **confidential appendix 6**.

12 APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export price
Confidential appendix 2	Cost to make and sell data
Confidential appendix 3	Domestic sales
Confidential appendix 4	Normal value
Confidential appendix 5	Dumping margin
Confidential appendix 6	Subsidy margin
Confidential attachment GEN 1	2013 audited financial statements
Confidential attachment GEN 2	2013 general ledger
Confidential attachment EXP 1	Export sales ledger for 2013
Confidential attachment EXP 2	2013 detailed income statement
Confidential attachment EXP 3	All export sales invoices for October 2013
Confidential attachment EXP 4	All export sales for October 2013 spreadsheet
Confidential attachment EXP 5	Export sales source documents
Confidential attachment EXP 6	Short-term borrowing costs calculation
Confidential attachment CTMS 1	Updated domestic sales CTMS spreadsheet
Confidential attachment CTMS 2	Updated CTMS spreadsheets with reallocation
Confidential attachment CTMS 3	Cost of goods sold ledger for the 2013
Confidential attachment CTMS 4	March 2013 COGS ledger
Confidential attachment CTMS 5	March 2013 inventory ledgers for sinks and taps
Confidential attachment CTMS 6	Sinks production cost report for March 2013
Confidential attachment CTMS 7	Cost of production ledger for March 2013
Confidential attachment CTMS 8	Cost allocation methodology
Confidential attachment CTMS 9	Bill of materials and reconciliation
Confidential attachment CTMS 10	Stainless steel inventory ledger for 2013
Confidential attachment CTMS 11	Selected stainless steel purchases invoices
Confidential attachment CTMS 12	Selected stainless steel purchase order/contract
Confidential attachment CTMS 13	Accessory allocation worksheet
Confidential attachment CTMS 14	March 2013 accessory inventory ledger
Confidential attachment CTMS 15	Wire basket purchase invoice
Confidential attachment CTMS 16	April 2013 accessory inventory ledger and wire basket invoices
Confidential attachment CTMS 17	March 2013 manufacturing overheads ledger
Confidential attachment CTMS 18	March 2013 taps cost of production ledger

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Confidential attachment CTMS 19	Depreciation by departments for 2013
Confidential attachment CTMS 20	2013 accumulative depreciation ledger
Confidential attachment CTMS 21	Depreciation schedule for 2013
Confidential attachment CTMS 22	Taps calculation worksheet
Confidential attachment CTMS 23	Taps inventory report for October 2013
Confidential attachment CTMS 24	October 2013 cost of production ledger
Confidential attachment CTMS 25	Reconciliation of the taps cost production ledger to the audited financial accounts
Confidential attachment CTMS 26	Scrap offset calculation
Confidential attachment CTMS 27	Total standard steel consumption
Confidential attachment CTMS 28	2013 other business income ledger
Confidential attachment CTMS 29	Steel scrap sales invoice
Confidential attachment CTMS 30	Production slips
Confidential attachment SG&A 1	2013 profit and loss statement
Confidential attachment SG&A 2	SG&A account ledgers
Confidential attachment SG&A 3	SG&A calculation
Confidential attachment SG&A 4	Watermark certificate
Confidential attachment SG&A 5	Watermark fee source documents
Confidential attachment DOM 1	Domestic sales ledger for 2013
Confidential attachment DOM 2	2013 detailed income statement
Confidential attachment DOM 3	All domestic sales spreadsheet
Confidential attachment DOM 4	Domestic sales source documents
Confidential attachment SUB 1	Subsidies income ledger
Confidential attachment SUB 2	Reconciliation of subsidies income ledger to audited accounts
Confidential attachment SUB 3	Ownership registers