



**Australian Government**  
**Anti-Dumping Commission**

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## **INVESTIGATION INTO THE ALLEGED DUMPING OF POWER TRANSFORMERS EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF  
INDONESIA, THE REPUBLIC OF KOREA, TAIWAN,  
THAILAND AND THE SOCIALIST REPUBLIC OF VIETNAM**

### **EXPORTER VISIT REPORT**

**FORTUNE ELECTRIC 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 the Anti-Dumping Commission**

**August 2014**

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## **2 BACKGROUND**

### **2.1 Background to the current investigation**

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of power transformers exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), the Republic of Korea (Korea), Taiwan, Thailand and the Socialist Republic of Vietnam (Vietnam). A full description of the goods under consideration is included in section 4 of this report.

On 29 July 2013, the Commissioner of the Anti-Dumping Commission (the Commission) decided not to reject the application and initiated an investigation into the alleged dumping of power transformers from the nominated countries. Public notification of the initiation of the investigation was made in *The Australian* newspaper on 29 July 2013. Anti-Dumping Notice No. 2013/64 provided further details of the investigation and is available on the Commission's website at [www.adcommission.gov.au](http://www.adcommission.gov.au).

Since the investigation was initiated there have been changes to the administration of Australia's anti-dumping system. The Parliamentary Secretary to the Minister for Industry (Parliamentary Secretary) is now responsible for making decisions concerning the publication of dumping and countervailing duty notices.

Wilson Transformers alleged that the Australian industry has suffered material injury caused by power transformers being exported to Australia from the nominated countries at dumped prices. It claimed that injury commenced with the significant increase in imports in 2007-08.

The application identified Fortune Electric Co. Ltd. (Fortune) as an exporter of power transformers from Taiwan. A search of the Australian Customs and Border Protection Service's import database indicated that Fortune exported power transformers from Taiwan to Australia during the investigation period. The Commission wrote to Fortune advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of an exporter questionnaire for it to complete. Fortune completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) power transformers.

### **2.2 Purpose of the visit**

The purpose of the visit was to verify information submitted by Fortune in its exporter questionnaire response (EQR). The EQR was supported by confidential appendices and attachments, including confidential spread sheets containing sales and cost data requested in the exporter questionnaire. A non-confidential version of the EQR was placed on the public record. The visit team used verified information gathered at the visit to make preliminary assessments of:

- like goods;

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

### 2.3 Meeting dates and attendees

Verification meetings were held at the office of Fortune in Taipei, Taiwan from 21 to 23 May 2014 and 26 May 2014.

The following people were present at various stages of the meeting:

<b>Fortune</b>	
Jean Hsu	Managing Director of International Dept.
Rafe Ho	Project manager – International Business Division
Cassia Fan	Assistant
Fion Chiu	Manager – Accounting Department
Mary Wang	Supervisor of Cost Accounting
Tsai Hut Chen	Accountant
Chen Kuo Chi	Sales Engineer – Chung Li Plant
Wan Lu Li	Sales Engineer - KaoHsiung Office
Frank Lan	Sales Engineer – Taipei Office
Tracy Lin	Sales Assistant
<b>Mobile Business Consultants</b>	
Troy Morrow	Principle
<b>Michael K. Chia &amp; Associates CPA</b>	
Michael K. Chia	CPA
Helen Cao	Assistant
<b>Anti Dumping Commission</b>	
Mick Kenna	Manager, Operations 4
Bora Akdeniz	Supervisor, Operations 4

At the commencement of the meeting Fortune explained that it would make a submission on the method of calculation of domestic profitability. Fortune explained that it believed that when calculating the profit on domestic sales, to achieve a better and more meaningful comparison, only the power transformers having a power rating of 100 mega volt ampere (MVA) and below should be taken into account.

### 2.4 Meeting and preliminary issues

The visit team advised Fortune of the following:

- the investigation period is July 2010 to June 2013;
- the Commission will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry;

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- the Commission published a preliminary affirmative determination (PAD) on 20 November 2013. Securities apply in respect of imports of power transformers from China, Korea, Indonesia, Taiwan and Vietnam and entered for home consumption on or after 27 November 2013. In October 2013, the Parliamentary Secretary granted an extension to the publication date for the statement of essential facts (SEF). In July 2014, the Parliamentary Secretary approved a further extension. The revised date for the SEF is now 8 September 2014;
- the SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary. The SEF will invite interested parties to respond, within 20 days, to the issues raised;
- submissions received in response to the SEF will be considered when compiling the report and recommendations to the Parliamentary Secretary;
- the Commission's report to the Parliamentary Secretary is now due no later than 23 October 2014;
- the Parliamentary Secretary's decision is due within 30 days from the date of receipt of the final report.

The visit team advised Fortune that following the visit, it would prepare a report of our visit and would provide the company with the draft report to review its factual accuracy and to identify those parts of the report it considered confidential. The visit team further advised Fortune that, following consultation about confidentiality, the team would prepare a non-confidential version of the report for the public record.

**3 COMPANY INFORMATION**

**3.1 Company background**

Fortune was founded in 1969 in Taiwan to manufacture distribution transformers. In 1980, with the commencement of manufacturing at its new Chung Li Plant, Fortune expanded its product range and started manufacturing various types of power transformers. During the 1980's Fortune signed various licence agreements with prominent Japanese manufacturers and further expanded its product range and manufacturing capability.

During the 1990's, Fortune continued to develop its production capabilities and know-how by means of licence agreements with United States and European companies and constructed two new factories in Kuan Yin in 1992 and then in 1999.

Fortune became a publicly traded company in 1997. Its main shareholders are:

- Mr. Shou-Hsiung Hsu: 9.28% (Vice President)
- Fortune Investment Co., Ltd.: 8.36%
- Mr. Bang-Fu Hsu: 7.95% (President)
- Mrs. Yao-Lan Kuan: 7.02%
- Mrs. Yen-Fen Chen: 5.55%

**3.2 Commercial operations**

**3.2.1 General**

Fortune has its headquarters at its Chung Li Plant where it manufactures smaller size power transformers with power ratings up to XXMVA. Fortune has two other manufacturing plants in Taiwan. Kuan Yin Plant II manufactures larger size power transformers with power ratings above XXMVA and Kuan Yin Plant III manufactures switchgears which are not the goods under consideration for this investigation. Fortune explained that during the period of investigation, there were XXX transformer sales to Australia that were manufactured in Kuan Yin Plant II. The rest of the transformers that were sold to Australia were manufactured at the Chung Li Plant.

Fortune has a registered company in Australia (Fortune Australia). Fortune stated that the Australian company did not have any employees and its sole purpose is to facilitate customs clearance and collect and pay GST in Fortune's delivered duty paid (DDP) sales.

Fortune also has a North American sales division in Pennsylvania and a fully owned subsidiary company called Fortune Electric America Inc. in Los Angeles, California.

Fortune has another fully owned subsidiary company called XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX. Fortune fully owns a power transformer manufacturing plant, XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX. Fortune explained that XXXXXXXXXX started its operations in 2003 and its main purpose was to manufacture and sell

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power transformers to XXXXXXXXXXXXXXXX. During the years, XXXXXXXXXXXXX started to sell power transformers in the XXXXXXXX domestic market as well as exporting to neighbouring countries like XXXXXXXX. Fortune stated that there were no sales to Australia from XXXXXXXXXXXXXXXX factory.

Fortune also has a XX% interest in XXXXXXXXXXXXXXXXXXXXXXXd which is based in XXXXXXXX.

In addition to the goods under consideration, Fortune produces and sells the following goods:

- power transformers with a capacity less than 10 MVA;
- gas insulated transformers;
- cast resin transformers;
- amorphous metal core transformers;
- air insulated switchgears;
- gas insulated switchgears; and
- mini substations.

The EQR stated that Fortune's headquarters did not charge any management fees or corporate allocations to other manufacturing plants of Fortune during the investigation period.

Fortune provided a presentation giving a company overview (**confidential attachment GEN1**). Fortune's product brochure is available at **confidential attachment GEN2**.

### 3.2.2 Relationship with suppliers and customers

Fortune explained that it did not source any of its production inputs from affiliated companies and provided a list of major input suppliers (**confidential attachment GEN3**). Fortune also explained that it paid market prices for all of its major manufacturing inputs.

Fortune stated that it did not have any relationship with any of its domestic or export customers and all sales transactions were at arms' length.

Fortune explained that domestic sales to utility companies (Taiwan Power Company (TPC) in particular) are always via a tender process but smaller companies often requested quotations and contracts are awarded if the quotation is found to be reasonable by the customer. The details of domestic sales processes are discussed in Section 8 of this report.

Fortune stated that all export sales to Australia are through tenders and to unrelated customers. The details of the export sales process is discussed in Section 6 of this report.

### 3.2.3 Summary of power transformer production process

Fortune explained that power transformers are designed and manufactured to satisfy the specifications of the customer. The manufacturing lead time usually depends on the size and capacity of the power transformer and while for smaller transformers it



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is usually two to four months, for larger ones it can take up to XX to XX months. The time between design and the completion of production may span more than one accounting period. Fortune provided a flowchart showing the production process (**confidential attachment GEN4**).

Fortune explained that there are four main steps in the manufacturing process:

1. Manufacturing of Core
2. Winding of conductor
3. Assembling core and conductor
4. Manufacturing of Tank.

Fortune stated that the manufacturing of the core, the winding of the conductor and assembling of the core and conductor is done in house but manufacturing of the tank is outsourced.

Fortune explained that, during active part assembly the core and coil are assembled together with various types of insulation materials. The core is manufactured from silicon steel that is cut and slit, laminated and tightened. The coils consist of insulated copper cable and insulation materials. Fortune uses several types of conductors depending on the magnitude of the voltage and current - single, twin, triple and continuously transposed conductors. The coils are connected to the tap changer and high/low voltage bushings and the assembled active part is placed into a drying oven to remove moisture.

While the core and coils are being assembled, the outsourced tank is received, shot blasted and painted. The cooling equipment such as radiator, cooler and protective equipment is also attached to the tank.

After the final assembly process, the tank is sealed and filled with transformer oil and tested. Once the test is successful, depending of the size of the transformer and the shipping destination, transformer oil may be drained and external fittings disassembled before the power transformer is packed for shipping.

### **3.2.4 Production capacities and actual rates of production**

Fortune stated in its EQR that its annual production capacity was XXXXMVA per shift per month for its Kuan Yin power transformer plant and XXXMVA per shift per month for its Chung Li power transformer plant. Fortune estimated that the efficiency for second and third shifts is XX% of the day shift. Fortune calculated that its capacity utilisation during the investigation period was XXX%.

### **3.3 Accounting**

Fortune explained that it uses its own management information system and accounting software. Fortune explained that before 1 January 2013, it prepared its financial statements according to Taiwanese Generally Accepted Accounting Principles (GAAP). From the beginning of 2013, Fortune prepared its statements according to International Financial Reporting Standards (IFRS). Fortune explained that since it uses actual cost accounting rather than standard cost accounting, there

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were no significant differences between the two accounting standards in terms of the treatment of costs or revenues.

Fortune stated that revenue and costs are recognised when the ownership of the power transformer is passed to the customer. Therefore, the recognition of costs and revenues depend on sales terms on the contracts with the customers. Fortune also explained that prepayments, progress payments and costs incurred are accumulated in the work-in-progress (WIP) ledger until ownership is passed to the customer.

As part of its EQR, Fortune provided:

- chart of accounts;
- 2012 Annual Report;
- unconsolidated audited financial statement for January to June 2013;
- audited consolidated and unconsolidated financial statement for financial years 2011 and 2012.

Both Fortune's consolidated and unconsolidated accounts are audited. Fortune's independent auditor (Deloitte & Touche) provided the following audit opinion in the audit report for the 2012 unconsolidated financial statements:

*"In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fortune Electric Co., Ltd. as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China."*

The audit opinion for the 2012 consolidated financial statements and both statements for 2011 were similarly worded.

## **4 THE GOODS UNDER CONSIDERATION**

### **4.1 The goods**

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

*liquid dielectric power transformers with power ratings of equal to or greater than 10 MVA (mega volt amperes) and a voltage rating of less than 500kV (kilo volts) whether assembled or unassembled, complete or incomplete*

The goods are referred to as power transformers in this report.

Incomplete power transformers are subassemblies consisting of the active part and any other parts attached to, imported with or invoiced with the active parts of power transformers. The active part of a power transformer consists of one or more of the following when attached to or otherwise assembled with one other:

- the steel core;
- the windings;
- electrical insulation between the windings; and
- the mechanical frame.

The following are excluded from the scope of the goods:

- Distribution transformers; and
- Gas filled and dry type power transformers.

The application stated that distribution power transformers are not the subject of this application. The applicant considers that distribution power transformers are smaller transformers that have design and manufacturing technology which is different from power transformers. The visit team notes that some interested parties have a different definition of distribution power transformers. However, the Commission considers that all power transformers with a capacity of greater than or equal to 10 MVA are the goods under consideration.

#### **4.1.1 Tariff classification**

The goods are classified to the following tariff subheadings in Schedule 3 to the Customs Tariff Act 1995:

- 8504.22.00 (statistical code 40); and
- 8504.23.00 (statistical codes 26 and 41).

The general rate of duty is 5% and applies to power transformers imported from China, Korea and Taiwan.

Indonesia, Thailand and Vietnam are subject to the ASEAN-Australia-New Zealand free trade agreement and the rate for power transformers from these countries is duty free.

## **4.2 Goods exported to Australia**

Fortune exported a range of custom-designed power transformers to Australia in the investigation period. Fortune explained that it regarded the term 'distribution transformer' as an imprecise one that relied largely on the end-use of the transformer rather than specification differences. Fortune took the approach of treating all transformers with an MVA of 10 or above as the goods subject to the investigation.

## **4.3 Like goods**

Fortune sells transformers on the domestic market of Taiwan that are also custom-designed. While each transformer is unique, the visit team considers that power transformers that Fortune sells on the domestic market have characteristics closely resembling those of the goods under consideration. The visit team considers them to be physically, commercially, functionally alike and they are produced using similar processes at one of Fortune's two power transformer plants.

## **4.4 Like goods – preliminary assessment**

The visit team considers that power transformers sold by Fortune on the domestic market are like goods to power transformers it exported to Australia in the investigation period.

<b>5 VERIFICATION OF SALES TO FINANCIAL STATEMENTS</b>
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Prior to the visit, the visit team asked that Fortune be able to demonstrate how its Australian and domestic sales listing reconciled to management accounts and audited financial statements for 2012.

Fortune provided a worksheet (**confidential attachment REC1**) summarising how power transformer sales revenue, with the addition of revenue from other sources, agrees with the total revenue shown in Fortune's audited financial statements for 2012 (**confidential attachment REC2**).

The summary shows how revenue of XXXXXXXXXXXX from the sale of power transformers as shown in Fortune's accounting ledgers is divided between domestic sales, exports to Australia and exports to other countries. The visit team first looked at domestic sales. The reconciliation summary shows a small discrepancy between the amount recorded for sales of domestic transformers in 2012 and the value shown in the domestic sales listing.

Fortune provided a schedule based on its domestic sales listing showing the year in which the revenue for each power transformer was recognised (**confidential attachment REC3**). Fortune explained that the difference between the amount recorded as revenue in its accounting ledger and the sales listing related to two transformers that were delivered in the 2012 financial year but invoiced shortly after the end of the financial year. Fortune provided invoices for the relevant sales (**confidential attachment REC4**). When taken into account, the value of domestic sales in the A-6 Sales Summary provided in Fortune's EQR reconciles to the domestic sales listing.

The visit team sought from Fortune some further support for its division of revenue between power transformers and other products sold. The visit team observed as Fortune interrogated its accounting system in the meeting room and produced a report showing each revenue item for the 2012 financial year. The report was exported to Excel format and provided to us in electronic form (see excel file '2012 sales revenue'). The visit team was able to see that the total of the report agreed with the revenue amount in Fortune's audited financial statements.

The transactions in the revenue report have certain prefixes that indicate the type of transaction. Fortune provided a list of the prefixes to allow us to identify revenue from power transformers as opposed to other items such as switchgear (prefix PN). The visit team selected a number of transformer sales from the domestic and Australian sales spreadsheets and traced them to their transaction numbers to the total revenue file. In some cases more than one transaction line related to the sale of a transformer (eg revenue for installation and the transformer itself were recorded separately). The visit team was able to confirm that the invoice amounts shown in the total revenue file (which reconciles to the audited financial statements) agreed with the amounts shown in Fortune's domestic sales and Australian sales spreadsheets.

The visit team is satisfied that the sales data provided in the EQR is complete and accurate.



### **6.3 Preparation to tender**

Fortune explained that the Australian power transformer market is divided into three main segments. These are:

- the mining and manufacturing industries;
- power utility and distribution; and
- EPC (engineering, procurement and construction contracts).

All sales are through a tender process organised in different states and territories. Fortune either downloads tender documents from websites or receives an invitation to bid for tender. Tender documents usually contain the required technical specifications of the power transformer as well as details about the customer's selection criteria. Some of the main aspects for the tender evaluation process include:

- delivery time;
- tap changer and other major component supply;
- load loss and no-load loss;
- total life cycle cost;
- compliance to specifications;
- safety, quality and environmental performance;
- supplier's ability to deliver and factory capacity;
- previous references;
- local support;
- spares management;
- price.

After receiving the technical specifications, Fortune's design engineers develop a design for the power transformer that conforms to the required performance criteria and product standards using specialised software. The total cost of manufacturing is estimated using the model and the bid for tender is prepared.

Fortune explained that a number of different designs can satisfy the technical specifications of the customer and each manufacturer's design can be slightly different from the other as there is more than one way to achieve a given performance and each manufacturer will design according to its own strengths.

A tender might be for one transformer or a number of transformers and the scope of work may or may not include installation of the transformers. When a tender is won, a contract is signed with the customer but a formal purchase is only made via a purchase order sent from the customer, sometimes years after the tender win. Manufacturing does not start before the purchase order and contracts are normally drafted to offer some flexibility for the customer and allow them to make slight changes to their requirements.

To accommodate changes in the design and/or accessories, variation in price is allowed but any price variation is negotiable and subject to customer approval.

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Fortune stated that it did not hedge for material cost risks or foreign exchange risks and bought all the materials at the spot rate only when it needed them.

Progress payments are usual practice and terms and percentages of payments are usually agreed upon in the contract. Sales contracts for power transformers usually include liquidated damages clauses to punish delays in delivery times. Fortune advised that it recorded liquidated damages under 'other costs' in its records.

### **6.4 Australian office**

Fortune stated that during calendar year 2010, it had contracted a sales agent in Australia and paid sales commissions to its agent for the sales that were contracted within 2010. However there are a number of sales that were agreed to be contracted within 2010 but the actual contracts were signed sometime in 2011 and due to the agent's involvement in these sales, Fortune still paid a sales commission.

Fortune explained that it maintained a liaison office in Australia which was established as a separate company mainly for facilitating customs clearance operations and deal with collection and payment of GST. Fortune stated that all the operations of this liaison office are managed from Taiwan and the company did not have employees in Australia. Fortune outsources accounting services locally from an Australian firm to comply with Australian company laws but all the sales, accounts payable and accounts receivable records are kept in Taiwan.

### **6.5 Export sales terms**

Fortune stated that it generally exported power transformers to Australia on DDP terms. There were only XXXX transformers exported with FCA terms during period of investigation. When a transformer is exported at DDP terms, Fortune retains ownership of the transformer till delivery to site. With the FCA sales, ownership passed to the customer when the goods were picked up from Fortune's facilities by the customer's carriers.

Fortune explained that in a DDP sale, Fortune's Australian company issues a DDP invoice to the customer while Fortune issues a CIF invoice to its Australian entity. Therefore GST is collected from the customer and paid to Australian authorities by Fortune's Australian company. Fortune explained that all local expenses in Australia are paid from the Australian company's bank account which is controlled by Fortune from Taiwan. In terms of accounting, Fortune does not consider its Australian company as a separate entity and registers all the expenses as selling costs or handling and other costs in its records.

### **6.6 Calculation of credit costs**

Fortune stated that it calculated the credit cost for its Australian exports using the average interest rate it was charged by Hua Nan Bank for short term (XX days to XXX days) loans in Australian dollars which it calculated as XXX% during the period of investigation. Fortune showed us Hua Nan Bank's monthly short term interest rates for credits drawn in Australian dollars. The visit team verified Fortune's calculation and was satisfied that short term credit rate for the period of investigation was on average XXX%.



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Fortune explained that it calculated the value of the credit cost by multiplying the credit terms in the contract with the total invoice value of the sale with the daily short term interest rate mentioned above. The Commission noted that the cost of credit was calculated consistently for all Australian exports in Fortune's exporter questionnaire response.

### **6.7 Sales, delivery and installation process**

A typical DDP sale to Australia had the following sequence of events:

- Fortune receives the tender documents;
- a bid for tender is prepared;
- if the tender is won a contract is signed outlining the technical, delivery and payment details;
- manufacturing starts when the purchase order (and usually a down payment depending on the contract) is received;
- generally another progress payment is received when the production is finished and the transformer passes the relevant tests;
- if a transformer fails any of the tests, the problem is analysed and it is re-worked until the transformer passes the test;
- the successfully tested transformer is decommissioned and the transformer and the accessories are packed in wooden crates;
- packed transformers are shipped to Australia either as a break bulk load or in containers depending on the size of the transformer;
- Fortune's customs agents clear customs. All expenses, duties and taxes are paid by Fortune;
- if the customer's site is ready, the transformer is delivered to site by a specialised carrier hired by Fortune. If the customer's site is not ready, the transformer and the accessories are stored in a warehouse;
- if installation of the transformer is included in the sales contract, Fortune subcontracts the installation works to a local company but usually sends a technician/engineer to oversee the installation process.

### **6.8 Verification to source documents**

Prior to the visit, the visit team selected the following contract numbers from Fortune's Australian sales listing in its response to the exporter questionnaire:

- **XXXXXXXXXXXXXXXXXX**: Sale of X power transformers to XXXXXXXXXXXX
- **XXXXXXXXXX** (sales with invoice numbers XXXXXXXXXXXXXXXXXXXX): Sales of XXX power transformers to XXXXXXXXXXXX
- **XXXXXXXX**: Sale of X power transformers to XXXXXXXXXXXX.

In the visit agenda and during the visit, the visit team asked Fortune to provide all the source documents listed below related to each of the above contracts:

- purchase orders and order confirmations;
- commercial invoices;
- proof of payment of invoice (bank statements or remittance advices);

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- invoices related to packing costs;
- invoices related to inland freight and insurance costs;
- packing lists;
- bills of lading;
- associated port, handling, FOB and clearance charge invoice(s);
- evidence of additional costs for DDP shipments (ocean freight, marine insurance, Australian port charges, Australian cartage, Australian duties and into store costs);
- evidence of amounts paid for overseas freight;
- all invoices related to installation of power transformers;
- proofs of warranty expenses and/or technical support costs;
- application documents, calculation sheets and lists of imported materials that are subject of duty drawback applications;
- proofs of bank charges.

### **6.8.1 Contract number XXXXXXXXXXXXX**

Fortune explained that this contract was signed with XXXXXXXXXXXXXXXX. on XXXXXXXX. The contract is for supply of XXXXXXXXXXX power transformers as well as a number of smaller size distribution transformers and other products such as switchgears (which are not the goods) for XXXXXXXXXXXXXXXXXXXXXXXX.

As the contract was for XXXX power transformers, the visit team asked to see the source documents associated with the power transformer with invoice number XXXXX.

Fortune showed the visit team the contract and the purchase order from XXXXXX and provided a list of products that were ordered with the contract. The visit team verified that the date of sale, power ratings and voltage ratios, delivery and payment terms on the contract and variations of the contract with the Australian sales listing in Fortune's exporter questionnaire response and satisfied that these details on the Australian sales listing were correct.

### **Contract amount, invoice amounts and proof of payment**

Fortune provided the visit team all of the eight invoices associated with this contract. The visit team noted however that the total of the original contract amount was different from the sum of invoice amounts. Fortune explained that after signing the contract, the customer asked for a number of variations to the contract and provided us a final version of goods ordered with all the prices. The visit team noted that the total of X invoices provided was \$XXXXXXX but the total on the final version of the contract was entered as \$XXXXXXXXX. When the visit team added up all the costs on the contract one by one, the team was able to reconcile the contract amount with the total of invoices issued and concluded that the total on Fortune's list had a transposition error.

Fortune showed the visit team its bank statements and highlighted the progress payments received from its customer for the invoices raised. The visit team was satisfied that the invoice amounts were fully paid by the customer.

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### **Verification to source documents**

As this contract was for multiple items including XX power transformers that fall within the goods description, it was not always possible to match a source document with a power transformer. However, Fortune provided a calculation sheet where it calculated the allocation of costs for each of the power transformers listed.

The visit team noted that despite being having same power rating and voltage ratio as the others, the power transformer listed with a product code/job number XXXXXXXXXXXXXXXXXXXX was more expensive than the other three. Fortune explained that the gross invoice value for this power transformer was the sum of:

- contract value of the power transformer;
- contract value of the spacer;
- contract value of painting of the control cubicle;
- contract value of painting of tank;
- allocation of agreed bank guarantee costs;
- allocation of agreed temperature testing expenses;
- site supervision of installation costs.

Fortune explained that only this particular unit had site supervision charges allocated in its gross invoice price. The visit team verified the amounts on the calculation sheet with the source documents and was satisfied that the listed gross invoice values associated with each power transformer reconciled with the total of the allocated costs.

Fortune explained that it outsourced packing services from a third party provider and showed the visit team the invoice for packing of four power transformers in wooden crates. The visit team verified that the total packing invoice amount was NTD XXXXXX and verified that the packing cost was NTD XXXXXX per power transformer as listed. The visit team also verified this cost with Fortune's accounting ledgers and noted that the packing cost associated with job number XXXXXX was recorded as NTD XXXXXX.

Fortune also provided source documents for handling and other charges in Taiwan as well as proof of technical support costs incurred in Australia. The visit team verified that the total costs on Fortune's accounting ledgers agreed with the source documents and these costs were listed correctly in Fortune's Australian sales listing.

To verify the duty drawback amount on Fortune's Australian sales listing spreadsheet, the visit team asked for the original application of duty drawback Fortune submitted to Taiwanese Customs together with a list of imported materials complete with the quantities and values. The team noted that the total amount of duty drawback on the application was NTD XXXXXX. This amount was then divided by XX, which is the total number of transformers manufactured for the contract and a NTD XXXXXX duty drawback adjustment was allocated to each power transformer. The visit team compared this value with Fortune's accounting ledgers and verified that the total amount of duty drawback for the entire contract was recorded as NTD XXXXXX. The visit team was satisfied with Fortune's approach in calculating the

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duty drawback amount for each power transformer exported to Australia for this contract.

Sales contract, variations of contract, invoices issued and copies of all source documents associated with this export sale is available in **confidential attachment EXP1**.

### **6.8.2 Contract number XXXXXXXXXXXXX**

This contract was signed with XXXXXXXXX for the supply and installation of power transformers. Fortune explained that the contract was signed on XXXXXXXXX and by winning the tender and signing the contract; Fortune had been included in the panel for supply of medium powered power transformers for three years where XXXXXXXX reserved the right to extend the duration for two one year periods at its discretion.

The visit team verified the contract number and the contract date on the documents and noted that XXXXXXXX issued a letter of acceptance for supply and installation of power transformers which serves as a purchase order during the contract period for each sale.

The visit team decided to verify Fortune's sales with job numbers XXXXXXXX.

### **Contract amount, invoice amounts and proof of payment**

The visit team asked for the purchase order for Fortune's job numbers XXXXXXXX and XXXXXXXX and confirmed that the purchase order was sent by XXXXXXXX on XXXXXXXXXXXXXXXX for the transformers listed in the Australian sales listing.

The team noted that Fortune issued two invoices for the XXX chosen transformers that are sold to XXXXXXXX. The first of the invoices was for the 100% of the value of the transformers and was issued after the successful delivery of the transformers to customer's site. The second of the invoices was for the installation component and was issued after installation was completed.

The visit team noted that the invoice dates and numbers and the total of the two invoices reconciled with the total value of the invoice that was listed on Australian sales spread sheet.

The team asked Fortune to provide evidence that the payment terms were XX days on each of the invoices as payment terms were not identified on the contract or on the invoices. Fortune provided a printout of their email correspondence with the customer proving that the agreed payment terms work out to be XX days after the invoice date.

The visit team was able to identify XXXXXXXXXXXXX payments on Fortune's Australian bank account statements and was satisfied that Fortune was paid the full invoice amounts.

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### **Verification costs incurred in Taiwan to source documents**

On its Australian sales listing, Fortune provided costs that are incurred in Taiwan for packing, inland transport, inland insurance and handling & other. The visit team verified these costs on the Australian sales listing to source documents and Fortune's accounting ledgers.

For packing costs, Fortune provided the packing subcontractor's invoice for packing of the two transformers. The visit team noted that the figures reconciled with the Australian sales listing and Fortune's accounting ledgers.

To verify inland transport costs, Fortune provided its transportation company's invoices. The visit team noted that there was an extra charge of NTD XXXXXX on the transportation bill. Fortune explained that the extra charge was for the low-bed trailer used. The visit team noted that the figures reconciled with the Australian sales listing and Fortune's accounting ledgers.

Inland insurance costs were traceable with respect to job number of the transformers. Fortune provided detailed policies and monthly declaration lists from their insurance provider XXXXXXXXXX. The visit team verified that the total amount of invoice premiums paid for the insurance of inland transportation of the transformers reconciled with the Australian sales listing and Fortune's accounting ledgers.

Handling and other costs in Taiwan are also verified to source documents in a similar manner.

### **Verification costs incurred in Australia to source documents**

In its Australian sales listing, Fortune identified all sales transactions under this contract with DDP terms. To verify the amounts provided by Fortune, the visit team asked Fortune to provide the source documents as well as its accounting ledgers and any other supporting documents related to each transaction line.

Fortune provided the packing list, B/L and ocean freight invoices for the XXX transformers XXXXXXXXXXXXXXXX exported to Australia. The visit team verified the dates, item definitions, quantities and weights of items on the packing list with the invoices issued and was satisfied that the source documents provided belonged to the export sales of XXXXXXXXXXXXXXXX power transformers.

The visit team noted that the ocean freight invoices provided had the matching vessel name and B/L number as the other source documents. The visit team verified the total on the invoices and was satisfied that the ocean freight cost amount on the Australian sales listing was correct.

Verification of the marine insurance cost was carried out by using the marine cargo insurance policy and the insurance premium receipt as well as Fortune's own accounting ledgers. The visit team noted that the vessel name, B/L number, dates and item descriptions matched and was satisfied that the marine insurance amount on the Australian sales listing reflected the true value of the cost.

Fortune explained that the handling and other charges provided in Australian sales listing included port charges, delivery order fees, customs duty, ICS fee and entry

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process charges incurred in Australia. Fortune provided two invoices from its customs broker, XXXXXXXXXXXXXXXXXXXX, in Australia regarding the customs clearance of the XXX power transformers XXXXXXXXXXXXXXXXXXXX. The visit team noted that the vessel names, item numbers and descriptions all match the consignment details verified. Fortune explained that the total cost per transformer is calculated by adding all costs incurred in Australian port and dividing it by XXX as the costs are incurred for XXX transformers. Fortune also stated that it excluded GST as all reported costs are expenses are reported ex-GST. Fortune explained that the costs in Australian Dollars are converted to NTD using the daily spot rate of Han Nan Bank and both the Australian Dollar figure and the exchange rates are also recorded in their accounting ledgers in the description section. The visit team was satisfied that Fortune's calculation was accurate and the handling & other amount on the Australian sales listing reflected the true cost incurred.

Inland transport costs in Australia are verified to Fortune's transportation company's invoice for the delivery of XXX power transformers from XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX. The visit team observed that the job numbers, vessel name and the destination on the invoice matched the details of this consignment and was satisfied that the Australian inland transport figure on the Australian sales listing was correct.

Fortune advised the visit team that when it needed to carry out installation works due to its contractual obligations, it subcontracted the installation works to a local company in Australia. For the installation of power transformer XXXXXXXX in XXXXXXXXXXXXXXXXXXXX, Fortune provided an invoice from their subcontractor, XXX XXXXXXXX, for the site erection and commissioning. The visit team verified the amount on Fortune's accounting ledger and Australian sales listing entry to the subcontractor's invoice.

Banking charges are verified to Fortune's bank statements and technical support cost was verified to source documents and accounting ledgers in the same manner.

To verify the duty drawback amount on Fortune's sales listing, the visit team asked to see the documents used in the application for duty drawback from Taiwanese Customs. Fortune provided the application documents and the list of imported materials together with the amounts of duty paid and amounts of duty drawback claimed. The visit team calculated that the duty drawback amount per power transformer in Fortune's Australian sales listing was correct.

Sales contract, variations of contract, invoices issued and copies of all source documents associated with this export sale is in **confidential attachment EXP2**

### **6-8.3 Contract number XXXXXXXX**

This contract is between Fortune and XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXX [name of customer]. Fortune exported X power transformers during the period of investigation under this contract.

Fortune provided the contracts, invoices, proofs of payment and other relevant source documents for the sale of power transformer designated with the job number XXXXXXXX. The visit team verified all the entries belonging to the sales transaction of

this power transformer on Fortune's Australian sales listing one by one to the source documents and was satisfied that the listing entries reflected true values of the costs incurred by Fortune in Taiwan and in Australia.

Sales contact, official purchase order, invoices issued, proofs of payments and copies of all source documents associated with this export sale is in **confidential attachment EXP3**

## **6.9 The exporter**

For export sales during the investigation period, the visit team considers Fortune to be the exporter as it:

- is the manufacturer of the goods;
- arranges and pays inland transport costs from the place of manufacture to port of export;
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the FOB point at the port of export; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

## **6.10 The importer**

The visit team notes that for exports to Australia the customer:

- negotiates directly with Fortune for the supply of goods and enters into binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the B/L; and
- is the beneficial owner of the goods at the time of importation.

The visit team considers that the entity listed as the customer in Fortune's Australian sale listing is the importer of the goods.

## **6.11 Arms' length**

In determining export prices, the legislation requires that the relevant sales are arms' length transactions. Section 269TAA<sup>1</sup> outlines the circumstances in which the price paid or payable shall not be treated as arms' length. These are where:

- there is any consideration payable for in respect of the goods other than price;
- 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

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<sup>1</sup> All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

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- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

The visit team found no evidence to suggest that there was any consideration payable for other than the price of the goods. The visit team notes that Fortune and its customers operate and negotiate as buyer and seller parties would. Accordingly, the visit team considers that the exports to Australia by Fortune were arms' length transactions.

### **6.12 Exchange rates**

Fortune proposed that its Australian dollar export prices should be converted to NTD at the exchange rate applying at the date that ownership is transferred to the Australian customer (ie the delivery date to the Australian customer for DDP transactions and the exportation date for the FCA transactions).

Section 269TAF relevantly states that, if the comparison of export prices of goods exported to Australia and corresponding normal values of like goods requires a conversion of currencies, that conversion is to be made using the rate of exchange on the date of the transaction or agreement that, in the opinion of the Minister, best establishes the material terms of the sale of the exported goods.

The visit team considers that, in most cases, the contract date is the date that best establishes the material terms of the sale of the power transformers exported to Australia by Fortune, not the date upon which ownership changes. Fortune explained that in some cases, a contract could be awarded but a purchase order is not raised until some years later. In such cases the visit team has used the purchase order date as the date that best establishes the material terms of the sale.

### **6.13 Export price preliminary assessment**

The visit team considers that:

- 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 were arms' length transactions.

Therefore, the visit team considers that export prices can be established under section 269TAB(1)(a) having regard to the invoice price less any post-exportation expenses.

The FOB export prices have been calculated as follows:

Invoice price less (as appropriate):

- ocean freight costs;
- marine insurance costs;
- inland transport expenses in Australia;
- handling and other expenses in Australia;
- installation expenses;



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- technical support expenses.

FOB export price calculations are at **confidential appendix 1**.

**7 COST TO MAKE & SELL**

**7.1 Approach to verification**

In its EQR, Fortune provided CTMS data for each transformer included in its domestic sales and Australian sales listings. For each transformer, Fortune provided costs in the format requested in the exporter questionnaire. For cost items that Fortune listed in its sales transaction listing, it either excluded these amounts from the CTMS data or deducted these to reach a CTMS that was essentially an ex-factory CTMS, exclusive of items such as packaging costs, inland freight and insurance and installation and technical support costs.

Prior to the visit, the visit team selected one transformer sold domestically and one sold to Australia for detailed verification. The visit team sought to verify a selection of major cost items to accounting records and source documents, as well as reconciling the reported cost to the audited financial statements. Where Fortune provided photocopies of documents the visit team regularly asked to see the original documents and found no discrepancies between the originals and the copies presented.

Fortune employs a job order cost accounting system. Fortune records costs against job numbers. The prefix for the number (eg XXXXXXXX) denotes the type of product. The job number is common for the transformer or other item sold. For example XXXXXX is the product code for the transformer itself, XXXXXXXX relates to the painting of the same transformer and XXXXXXXX relates to the installation revenue and costs. Fortune accumulated all the job cost components to calculate the CTMS of each transformer. The domestic transformer selected for verification was contract XXXXXXXX with XXXXXXXXXXXXXXXXXXXXXXXX, a delivered and installed transformer with the cost components XXXXXXXXXXXXXXXXXXXXXXXX. The transformer exported to Australia selected for verification was sold to XXXXXXXX under contract XXXXXXXX and recorded in Fortune's accounts as XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

Fortune recognises both revenue and costs when ownership for the item is transferred to the customer. This is generally upon delivery.

**7.2 Cost Verification – reconciliation to financial statements**

To check the completeness and relevance of Fortune's CTMS data, the visit team sought to verify the information contained in the EQR upwards to the audited financial statements for 2012 (**confidential attachment REC2**).

Fortune provided a worksheet showing the reconciliation of costs per its CTMS attachments G4 and G5 and the amounts recorded in its financial statements (**confidential attachment CTMS1**). The reconciliation was supported by a printout of the CTMS worksheet provided in Fortune's EQR with additional rows showing the amount of revenue recognised in 2012, the amount of cost incurred in the 2012 financial year and the amount of cost incurred in the POI but outside the 2012 financial year (**confidential attachment CTMS2**). Fortune provided the same worksheet for sales to Australia (**confidential attachment CTMS3**).

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For domestic sales, the difference between amounts in the CTMS spreadsheet and the amounts recorded in Fortune's accounts relates to XXX transformers that were delivered late in 2012 (and therefore their costs and revenue were recognised in the accounts of Fortune) but the invoices were not issued until 2013 so their costs in the CTMS spreadsheets are not attributed to 2012.

For sales to Australia, the difference between the CTMS amount and the financial accounts relates to two factors:

1. costs (primarily for installation) that related to transformers delivered in 2011, which were recognised in 2012; and
2. an amount of costs recognised by Fortune when ownership changed after the end of the POI but which related to a delivery in 2012.

*Fortune provided a report from its accounting system showing the total cost of goods sold for the 2012 financial year for the goods under consideration. The total cost reconciles to the amount included in the worksheet at **confidential attachment CTMS1**. Fortune also provided reports from its accounting system evidencing the small auditor's adjustment for 2012 (**confidential attachment CTMS4**) and reports showing the monthly accumulation of costs for transformers exported to Australia and sold domestically to support the differences as described in the two points above (**confidential attachment CTMS5**).*

The reconciliation provided by Fortune includes large amounts for the cost of sales of goods under consideration to third countries and for sales of goods not under consideration in various markets. As explained above, the visit team observed in real time Fortune producing an electronic report ('revenue/cost report 2012') showing revenue and costs for all items in the 2012 financial year. The revenue/cost report 2012 lists the cost of goods sold according to job product codes and provides detail as to the size of each transformer produced, which was useful in identifying the goods under consideration. The visit team was able to reconcile the total cost of goods sold amount in the revenue/cost report 2012 to Fortune's audited financial statements for 2012. The visit team used the revenue/cost report 2012 to obtain additional comfort that the CTMS spreadsheets provided by Fortune contained an accurate record of costs. The visit team performed the following checks:

1. the visit team selected a domestic and an Australian sale transaction from the CTMS spreadsheets where the goods were delivered in 2012 (and therefore where revenue and costs were recognised by Fortune in 2012). The visit team compared the costs from the respective CTMS spreadsheets with the accumulation of costs contained in revenue/cost report 2012 and ensured that the amounts agreed.
2. The visit team selected a number of job product codes from within the revenue/cost report 2012 which were indicated in the report as being sales of transformers in Taiwan that exceeded 10 MVA. The visit team ensured that these transactions appeared in the CTMS spreadsheet and that the correct cost of manufacture had been recorded.
3. the visit team gained an understanding of the job product codes appearing in the revenue/cost report 2012 and ensured that no cost items appeared to have been omitted from the CTMS calculations.

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The visit team is satisfied that the CTMS spreadsheets provided by Fortune for Australian and domestic sales are complete and relevant.

### 7.3 Manufacturing costs

The visit team selected one domestic sale (job product code XXXXXXXXXXXXXXXXX) and one Australian export sale (job product code XXXXXXXXXXXXXXXXX) and asked Fortune to demonstrate how the costs for these transactions had been calculated. The visit team also selected the following major cost items and asked Fortune to demonstrate that the cost for each item was accurately recorded:

- raw materials – core steel;
- raw materials – conductor;
- raw materials – mild steel;
- raw materials – tap changer;
- raw materials – oil;
- Instalment cost;
- direct labour – manufacturing;
- indirect labour;
- depreciation.

#### 7.3.1 Domestic model XXXXXXXXXXXXXXXX

The transformer selected for verification is a XXXXXXXXX MVA unit manufactured at its number two factory (Kuan Yin). Fortune provided a worksheet showing the purchase of selected raw materials (core steel, conductor, mild steel, tap changer and oil) for the unit (**confidential attachment CTMS6**).

##### Core steel – total cost XXXXXXXXXXXXXXXX

The raw materials worksheet shows that Fortune purchased XXXXX kilograms (kg) of core steel at XXXXX per kg to manufacture the selected domestic transformer. Fortune also incurred a small processing fee representing XXX % of the total core steel cost. The core steel was purchased from XXXXXXXXXXXXXXXXX, which sources the steel from XXXXXX.

Fortune provided the accounting voucher allocating the core steel to the XXXXXXXX cost centre (**confidential attachment CTMS7**), the accounting voucher for the purchase of the steel (**confidential attachment CTMS8**) and XXX invoices issued by XXXXXXXXXXXXXXXXX for the purchase of the steel (**confidential attachment CTMS9**). On the basis of the documents provided, the visit team is satisfied that the complete and accurate core steel cost has been recorded in Fortune's CTMS spreadsheet for the selected model.

##### Conductor – total cost XXXXXXXXXXXXXXXX

The raw materials worksheet shows that Fortune incurred a total cost of XXXXXXXXXXXXXXXX for the conductor used in the selected transformer. Three components represent the majority of the conductor cost (XX %) and these were imported by Fortune from XXXXXXXXXXXXXXXXX. Being an imported material, the total cost includes the following components:

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- expenses associated with establishing a bank loan to finance the importation;
- the cost and freight (CFR) invoice price;
- insurance expenses;
- importation charges including customs duty.

Fortune provided the following documents to support the conductor costs:

- accounting voucher showing the allocation of the three conductor components to the construction of XXXXXX (**confidential attachment CTMS10**);
- accounting voucher for the purchase of the conductor wire (**confidential attachment CTMS11**);
- a report showing details of all costs for the importation of conductor (**confidential attachment CTMS12**);
- document showing bank loan establishment fees (**confidential attachment CTMS13**);
- commercial invoice issued by XXXXXXXXXXXX for the purchase of insulated winding wire (**confidential attachment CTMS14**) – typical cost is XXXXXX per kg;
- accounting voucher showing insurance costs (**confidential attachment CTMS15**);
- documents evidencing the amount of importation expenses associated with the purchase (**confidential attachment CTMS16**).
- documents evidencing payment to the overseas supplier (**confidential attachment CTMS17**).

Mild steel – total cost XXXXXXXXXXX

Fortune provides its tank design to an independent party to fabricate the steel components. Customer requirements can dictate the type of steel used. The visit team selected two components from the list for verification purposes. One was a stainless steel bracket which had a higher material cost than the other selected item.

Fortune provided:

- accounting voucher allocating the mild steel items to production (**confidential attachment CTMS18**);
- accounting voucher for the purchase of the steel items (**confidential attachment CTMS19**);
- the invoice for the purchase of the mild steel items from XXXXXXXXXXXX XXXXXXXXXXXX (**confidential attachment CTMS20**);
- documents tracing the payment for the selected mild steel items through Fortune's accounts payable to bank statements (**confidential attachment CTMS21**).

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### Tap changer – total cost XXXXXXXXXXXXX

The tap changer used in the selected domestic model was imported from XXXXXXXX. In respect to the purchase of the tap changer Fortune provided:

- accounting voucher for allocation to production (**confidential attachment CTMS22**);
- accounting voucher for the purchase of the tap changer – including all expenses associated with its importation (**confidential attachment CTMS23**);
- a schedule of the total cost of the component showing bank loan establishment fees, tap changer cost, insurance fees and importation expenses (**confidential attachment CTMS24**);
- documents evidencing bank loan fees (**confidential attachment CTMS25**);
- invoice for the purchase of the tap changer on an FOB basis (**confidential attachment CTMS26**);
- evidence of insurance expenses (**confidential attachment 27**);
- evidence of importation expenses including ocean freight (**confidential attachment CTMS28**).

### Oil – total cost XXXXXXXXXXXXX

Fortune used a total of XXXXX litres of oil for the selected domestic transformer. Fortune provided:

- accounting voucher for allocation of oil cost to production (**confidential attachment CTMS29**);
- accounting voucher for the purchase of the oil (**confidential attachment CTMS30**);
- invoice for the purchase of the oil from XXXXXXXXXXXXXXXXXXXX (**confidential attachment CTMS31**);
- a credit note from the supplier correcting a small error in the invoice price (**confidential attachment CTMS32**).

### Installation expenses – total cost XXXXXXXXX

Fortune paid an amount to a company called XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX for the on-site installation of the transformer. Fortune provided:

- accounting voucher for installation expense (**confidential attachment CTMS33**);
- invoice for installation expenses (**confidential attachment CTMS34**).

### Direct labour

Direct labour expenses recorded by Fortune include labour expenses incurred in the construction of the transformer, painting of the transformer and installation (on top of the installation expenses paid to a contractor). Teams of workers are allocated to

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particular transformer projects. The cost of team leaders who work across a number of projects are allocated across the relevant projects.

Fortune provided a report for the construction of transformer XXXXXXXX showing the number of normal and overtime working hours incurred for the project in each month (**confidential attachment CTMS35**). Fortune also provided an allocation cost sheet for the project (**confidential attachment CTMS36**), which shows the monthly allocation of labour and manufacturing overhead costs to the project according to the labour hours.

Fortune provided a report from its computer system showing total monthly labour hours and total direct labour costs for the relevant factory for the period XXXXXXXX XXXXXXXXXXXXXXXXXXXX (the period within which XXXXXXXX was manufactured) (**confidential attachment CTMS37**). The report shows how the average costs of labour per hour is calculated and is consistent with the amount allocated to XXXXX based on the actual hours spent on the project. The report was supported by reports from each of the three departments in the relevant factory showing total direct labour expenses for XXXXXXXXXXXX (**confidential attachment CTMS38**).

### Manufacturing overheads

**Confidential attachment CTMS39** shows how manufacturing overheads have been allocated to various cost labels as set out in the questionnaire. Fortune calculated ratios of various overhead expenses (such as indirect wages, depreciation and consumables) to total overhead expenses for the investigation period. Fortune used these ratios to allocate manufacturing overhead expenses for the project to the particular labels. An item 'other costs' is used to cover the balance of costs not allocated to particular headings.

Fortune provided a report from its computer system listing overhead expenses incurred by the relevant factory for XXXXXXXXXXXX (**confidential attachment CTMS40**). A number of expenses identified in the report were specific to certain projects and not allocated to project XXXXXXXX. The visit team could see how the non-specific manufacturing overhead expenses were allocated through the calculation of an hourly rate and applied to specific projects, including XXXXX, based on direct labour hours.

### Depreciation

Fortune provided a schedule showing the asset values, accumulated depreciation and depreciation expense for each type of asset for XXXXXXXX (**confidential attachment CTMS41**). Fortune also provided accounting vouchers showing the recording of the depreciation amount and reports showing the accumulation of the depreciation amounts for the various asset categories.

### **7.3.2 Export models XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**

Fortune provided a package of documents in the same format as those provided for the selected domestic model, to support costs recorded for the selected transformers exported to Australia.

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The documents provided are follows:

- raw materials summary;
- documents relating to purchase of core steel;
- documents relating to purchase of conductor;
- documents relating to purchase of mild steel;
- documents relating to purchase of tap changer;
- documents relating to purchase of oil;
- documents relating to installation expenses;
- documents relating to labour and manufacturing overhead expenses.

As with the selected domestic power transformer costs, the visit team found that the documents provided (**confidential attachment CTMS42**) for the selected export models supported that the costs provided by Fortune in its CTMS spreadsheets were reasonable and accurate.

### 7.4 Selling, general and administration (SG&A) expenses

Fortune explained that certain selling expense amounts had been provided in respect of each power transformer sold to Australia and sold domestically in its transaction by transaction sales listings. Fortune deducted these amounts from its total selling expenses and then allocated the remaining costs to export or domestic sales. With the exception of some very small cost amounts allocated to domestic sales only, all other cost items were allocated according to sales revenue. Fortune advised that its sales efforts were very similar for export and domestic sales.

Fortune calculated percentages that export and domestic selling costs represented of export and sales revenue respectively and allocated selling expenses to each transformer accordingly. A schedule showing the calculation of the selling expense ratios is at **confidential attachment CTMS43**.

Fortune calculated the amounts that administrative, research and development and financial expenses represented of total revenue over the investigation period and allocated costs to each transformer based on these percentages. The percentage of revenue is the same for domestic and export sales. The visit team ensured that the calculation of the percentages was consistent with information shown in Fortune's audited financial statements. Worksheets showing the calculation of the percentages are at **confidential attachment CTMS44** (administrative and research and development), **confidential attachment CTMS45** (financial expenses) and **confidential attachment CTMS46** (extraordinary gains).

### 7.5 Costs to make and sell - conclusion

The visit team considers that Fortune's CTMS data are a complete, relevant and accurate reflection of the actual costs to make and sell power transformers in the investigation period.

The visit team considers sufficient cost to make and sell information was obtained and verified to conduct ordinary course or trade assessments and/or determine normal values under section 269TAC(2)(c) of the Act.



**8 DOMESTIC SALES**

**8.1 Domestic market**

Fortune explained that it had XXXX competitors in the Taiwan domestic market that are capable of manufacturing larger size power transformers that have the power rating of 100MVA or above. However, there are more than XX manufacturers that compete for the market of power transformers under 100MVA.

Fortune supplies power transformers to utility companies, power plants and manufacturing plants. Sales to utility and power plants as well as to some of the larger manufacturers are through tenders. Other customers contact Fortune directly and ask for a quotation for the power transformer they require.

Fortune stated that it is well placed in the Taiwanese domestic market due to being an experienced manufacturer having a large manufacturing capacity and capability to manufacture larger size power transformers. Fortune further explained that the utility and power companies generally purchase large power transformer units and require strict delivery times in their tenders. This works in Fortune's favour, as it has enough capacity to manufacture large units in shorter periods of time.

Fortune stated that the Taiwan Power Company (TPC) is one of its major customers and its Taipei sales office is dedicated to TPC sales only. Fortune explained that prior to 2013, TPC was legally not allowed to purchase imported power transformers. In 2013, TPC was allowed to purchase certain imported power transformers through its tenders. Since then, the international supplier XXXXX has positioned itself to supply TPC's power transformer tenders of large size power transformers.

Fortune commented that for the rest of the market, there are a number of companies with imported power transformers currently competing in the market. Some of the well-known brands that are available in the Taiwanese power transformer market are XXXXXXXXXXXXXXXXXXXX.

**8.2 Sales process**

The domestic sales process begins when Fortune receives a request for a quote from a customer. Sales to TPC and other power distribution companies begin when Fortune obtains a tender notice from the customer. The customer's request for quote or tender notice will include specifications for the power transformer unit requested and outline delivery terms.

Based on the requested specifications, Fortune's engineers develop an initial product design. Fortune's sales department will then submit a sales price based on the initial product design and expected costs. For sales to TPC and other power companies, Fortune will calculate the manufacturing costs with respect to the technical specifications announced and submit a tender.

Upon receipt of Fortune's proposed price quote, the customer may request changes to the design or specifications. Fortune's engineers and the customer will discuss changes and the corresponding impact on the sale price, if any. When both the customer and Fortune agree on the final design, specifications, price and delivery

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terms, the customer will either execute a sales contract with Fortune or issue a purchase order.

For sales to TPC and power plants, there is no design evaluation as the power transformers the subject of the tender are already specified. Therefore a sale is established once TPC or the power plant accept Fortune's bid price and issue a product purchase contract. This contract lists the material terms of sale, including price, quantity and delivery terms.

Once the order is put into the system by the sales department, Fortune's engineers begin a detailed engineering process to develop more in-depth designs and specifications for the power transformer unit. Fortune then submits the completed design blueprint and specifications to the customer for review. If modifications to the design and/or specifications are required, additional technical exchanges will occur between the customer and Fortune's engineers.

Once the final design and specifications are approved by the customer, the engineering department issues the production notice. The materials department of Fortune identifies the bill of materials and issues purchase requests for raw materials and components. The time it takes for raw materials and components to be delivered will determine the manufacturing schedule and the lead times. The manufacturing time will also vary significantly depending on the size and complexity of the transformer.

Once production and testing is complete and the unit meets the customer's specifications, Fortune disassembles the unit, removes the oil from unit and prepares the unit for shipment to the customer's designated location.

Fortune advised that the payment terms depend on the contract but generally all contracts are drafted to allow for progress payments.

For sales made on a delivered and installed basis, Fortune assembles and installs the unit at the customer's site. Installation is performed by unaffiliated subcontractors under Fortune's supervision.

### **8.3 Verification to source documents**

Prior to the visit, the visit team requested Fortune to prepare the following supporting documents for four selected domestic sales transactions:

- sales contracts;
- purchase orders;
- agreed progress payment schedules;
- tax invoices;
- evidences of payment; and
- invoices and other related source documents for the inland transport, packaging, handling & other, installation, technical support and insurance costs incurred.

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These documents are at **confidential attachment DOM1**. The visit team verified that the sales volume and value in the domestic sales spreadsheet reflected the volume and value in the source documents provided.

Based on the transactions examined, the visit team is satisfied that the invoice price shown in the domestic sales spread sheet accurately reflected the price paid by domestic customers and that payments were made pursuant to the terms of sale.

The visit team noted the following points:

**Delivery terms:** During the period of investigation, Fortune's domestic sales were either ex-works, delivered to site or delivered and installed.

**Credit terms:** It is noted that a XX days payment period is allowed for all domestic sales in Fortune's domestic sales listing. Fortune explained that it had calculated the XX day payment period using the following formula:

- firstly, Fortune calculated its average accounts receivable outstanding rate by taking the simple arithmetic average of its accounts receivable on books by 1 July 2010 and 30 June 2013;
- then, divides its total domestic sales turnover by the average of accounts receivable outstanding rate which gives the accounts receivable turnover rate;
- finally, by dividing 365 by the accounts receivable turnover rate to find the average domestic outstanding accounts receivable days within the period of investigation.

The visit team re-calculated Fortune's average domestic outstanding accounts receivable days and confirmed Fortune's calculation of XX days.

**Domestic interest rate:** Fortune explained that since it maintained various types of loans in its portfolio, it used a simple arithmetic average of Hua Nan Bank's domestic interest rates for long term commercial loans, short term commercial loans and mortgage loans to approximate its domestic interest rate. After reviewing its calculation, the visit team revealed a calculation error. After correcting the error, Fortune's domestic interest rate was re-calculated as XXX% as opposed to XXX% initially used by Fortune for its domestic credit cost calculations.

**Inland Freight:** The visit team asked Fortune about the inland freight costs of power transformers that are sold with delivered and installed terms but did not have an inland freight cost on the domestic sales listing. Fortune explained that it used unaffiliated subcontractors for erection and installation of power transformers in its domestic market and installation costs also included the inland transportation of power transformers. The visit team verified Fortune's claims to source documents and was satisfied about the explanation.

### 8.4 Arms' length

Fortune submitted that it sold its transformers directly to domestic customers and that no third party, wholesaler or other intermediary was involved. During the visit, no evidence was identified which would suggest that;

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- 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, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

The visit team therefore, considers Fortune's domestic sales of power transformers to its customers were arms' length transactions.

### **8.5 Ordinary course of trade**

As the visit team has recommended using constructed normal values, we have not assessed whether domestic sales were made in the ordinary course of trade. All domestic sales in the investigation period were used in calculating the profitability of domestic sales.

### **8.6 Volume and suitability of sales**

The visit team has constructed normal values rather than using domestic sales.

### **8.7 Sales by other sellers**

There are other sellers of power transformers in Taiwan and one other producer that exported power transformers to Australia has been visited by the Commission recently.

### **8.8 Domestic sales – summary**

The visit team found the price paid for the goods in those domestic sales was established satisfactorily. Based on the information provided by Fortune, and the verification processes conducted on site, the visit team is satisfied that domestic sales were arms' length transactions in the ordinary course of trade. However, the team does not consider they are suitable or relevant for the purpose of s. 269TAC(1) because of the significant physical differences between power transformers as explained in section 4.3 of this report.

**9 THIRD COUNTRY SALES**

It is the view of the Commission that, given the nature of the goods under consideration, it may not be appropriate to determine normal values on the basis of domestic sales (pursuant to section TAC(1)), or sales to third countries (pursuant to section 269TAC(2)(d)).

As part of the instructions for completing the EQR companies were requested to complete section F only if it would submit that it is appropriate to determine normal values pursuant to section 269TAC(2)(d). Fortune advised that it was of the view that third country sales were not an appropriate basis of normal value and did not respond to section F.

## **10 ADJUSTMENTS**

The visit team has constructed FOB normal values using the profit achieved on domestic sales. The visit team has adjusted the normal values for the following amounts (as verified and discussed in other sections of this report):

### Warranty costs

Warranty costs were incurred on some power transformers exported to Australia. We have added warranty costs to the CTMS in constructing the normal values.

### Duty drawback

The visit team verified that Fortune is able to claim duty drawback on duty paid on some imported components used in the manufacture of power transformers exported to Australia. We deducted the duty drawback amounts from the CTMS in constructing the normal values.

### Packing costs

The visit team added the verified cost of packing for power transformers exported to Australia.

### Inland transportation expenses in Taiwan

The visit team added verified inland transport expenses incurred by Fortune in moving the power transformers to the port for shipment to Australia.

### Inland insurance expenses

The visit team added verified inland transport expenses incurred by Fortune in moving the power transformers to the port for shipment to Australia.

### Handling and other expenses in Taiwan

The visit team added verified handling and other expenses incurred by Fortune in moving the power transformers to the FOB point in Taiwan.

### Commission expenses

As discussed, Fortune incurred commission expenses in relation to some power transformers exported to Australia in the investigation period. We have added these commission expenses to the constructed normal values.

### Banking charges

The visit team added bank charges incurred by Fortune in relation to its sales to Australia.

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### Domestic credit costs

As discussed above, Fortune used the turnover ratio method to calculate average credit terms of XX days on domestic sales in the investigation period. We deducted domestic credit costs calculated based on Fortune's average cost of credit over the investigation period at XXXX%.

### Export credit costs

The visit team have calculated export credit costs using Fortune's short term interest rate of XXX%. Fortune calculated a higher interest rate on Australian dollar borrowings however the visit team considers that Fortune's average cost of credit on all borrowings is a more appropriate rate of interest to apply to the export credit cost adjustment. The visit team added Fortune's export credit costs to the constructed normal values.

**11 NORMAL VALUE**

The visit team considers that information gathered and detailed in this report and its attachments can be relied upon to establish constructed normal values for comparison with export prices for power transformers exported to Australia during the investigation period under s. 269TAC(2)(c). The visit team made adjustments to the normal values under s. 269TAC(9) to make them fairly comparable with export prices by adding export credit costs (net of domestic credit terms). The visit team's calculation of domestic profitability is at **confidential appendix 2**. Our Normal value calculations are at **confidential appendix 3**.



## **12 DUMPING MARGIN**

### **12.1 Submission by Fortune**

During the visit, Fortune presented a submission (**confidential attachment DM1**) including a non-confidential version (**attachment DM2**) providing information requesting that certain information be considered in the calculation of the dumping margin. Issues raised in the submission and our views are as follows:

#### 1. Domestic profit calculation

Fortune considers that the profit on domestic sales should be calculated using a denominator including all items (other than calculated credit costs). Calculations of the profit rate for the PAD did not include such items.

#### Visit team's recommendation

The visit team agrees that it is appropriate to include all cost items when calculating profitability of domestic sales.

#### 2. Profitability should be calculated on power transformers of 100 MVA or less

Fortune exported only power transformers up to 100 MVA to Australia during the investigation period. Fortune proposed that domestic profitability be calculated only on power transformers of 100 MVA or less. It claimed that domestic competition on medium power transformers is far greater due to the number of domestic producers capable of producing medium power transformers compared to large transformers.

Fortune claimed that there were logistical barriers to importing large transformers, reducing competition in that section of the market. It claimed that international power transformer standards such as IEC:2005 – 60076 recognised a distinction between medium power transformers (equal to or less than 100 MVA ) and large power transformers (greater than 100 MVA).

#### Visit team's recommendation

Having considered the arguments presented by Fortune, the visit team does not support excluding power transformers above 100 MVA from the calculation of normal values. The domestic sales information provided by Fortune does not indicate any clear pattern in profitability according to high or low MVA. It is expected that profit levels will vary between customers because of a range of factors. There does not appear to be grounds to support excluding power transformers above 100 MVA.

#### 3. Profitability should be calculated excluding sales to TPC

Fortune submitted that sales to TPC should be excluded from the calculation of domestic profitability as TPC is a government owned utility with local content purchase criteria. Fortune explained that until the beginning of 2013, TPC was not permitted to purchase imported power transformers. After 2013, TPC was allowed to consider purchasing only imported power transformers with defined capabilities.

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Fortune also advised that TPC mainly purchase large power transformers. TPC imposes quality assurance criteria on approved suppliers. According to Fortune, many domestic manufacturers that sell medium power transformers do not apply for approval as a supplier form TPC

### Visit team's recommendation

Having considered the arguments presented by Fortune, the visit team does not support excluding sales to TPC from the calculation of normal values. As stated above, the domestic sales information provided by Fortune does not indicate any clear pattern in profitability according to high or low MVA.

#### 4. Sales during the investigation period

Fortune submitted that sales should be recognised as being in the investigation period based on the terms of the sale eg DDP = date of delivery, FAS = date of arrival at dispatch port.

### Visit team's recommendation

On advice from the case team, the visit team considered sales to be in the investigation period if they were exported (in the case of export sales) or delivered (in the case of domestic sales).

#### 5. Foreign exchange conversion of export sales

Fortune submitted that the rate of exchange for conversion of export sales from Australian dollars to NTD should be the spot rate at the date of revenue recognition as per the accounting standards, being the date based on the terms of sale. Fortune also submitted that the spot rate should be the daily rate published by the Central Bank of Taiwan.

### Visit team's recommendation

As discussed at 6.12 above, the visit team considers that the contract date (or in some cases the purchase order raised under the contract) is the appropriate date for the conversion of Australian dollar export prices to NTD. The visit team has used Reserve Bank of Australia exchange rates on the relevant day as the exchange rate.

## 12.2 Normal values

In calculating the dumping margin the visit team compared each export transaction with the corresponding normal value. In calculating the dumping margin the visit team used export prices and normal values for power transformers exported during the investigation period and have not included projects that were not completed during the investigation period. The weighted average product dumping margin is 17.21%. The dumping margin calculations are at **confidential appendix 4**.

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**13 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price calculations
<b>Confidential Appendix 2</b>	Domestic profitability calculations
<b>Confidential Appendix 3</b>	Normal value calculations
<b>Confidential Appendix 4</b>	Dumping margin calculations
<b>Confidential Attachment GEN1</b>	Company overview
<b>Confidential Attachment GEN2</b>	Fortune product brochure
<b>Confidential Attachment GEN3</b>	List of major input suppliers
<b>Confidential Attachment GEN4</b>	Product process flowchart
<b>Confidential Attachment REC1</b>	Reconciliation worksheet
<b>Confidential Attachment REC2</b>	2012 audited financial statements
<b>Confidential Attachment REC3</b>	Domestic sales schedule
<b>Confidential Attachment REC4</b>	Invoices for reconciliation
<b>Confidential Attachment CTMS1</b>	Cost reconciliation worksheet
<b>Confidential Attachment CTMS2</b>	Domestic cost worksheet showing revenue for 2012
<b>Confidential Attachment CTMS3</b>	Australian sales cost worksheet
<b>Confidential Attachment CTMS4</b>	Auditor's adjustment worksheet
<b>Confidential Attachment CTMS5</b>	Reports showing monthly accumulations
<b>Confidential Attachment CTMS6</b>	Worksheet for domestic model costs
<b>Confidential Attachment CTMS7</b>	Core steel cost allocation accounting voucher
<b>Confidential Attachment CTMS8</b>	Accounting voucher for steel purchase
<b>Confidential Attachment CTMS9</b>	Core steel purchase invoices
<b>Confidential Attachment CTMS10</b>	Conductor cost allocation accounting voucher
<b>Confidential Attachment CTMS11</b>	Accounting voucher for conductor purchase

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<b>Confidential Attachment CTMS12</b>	Report on conductor importation costs
<b>Confidential Attachment CTMS13</b>	Bank loan establishment fees
<b>Confidential Attachment CTMS14</b>	Invoice for conductor purchase
<b>Confidential Attachment CTMS15</b>	Conductor insurance costs
<b>Confidential Attachment CTMS16</b>	Conductor importation expenses
<b>Confidential Attachment CTMS17</b>	Supplier payment documents
<b>Confidential Attachment CTMS18</b>	Mild steel cost allocation accounting voucher
<b>Confidential Attachment CTMS19</b>	Accounting voucher for mild steel purchase
<b>Confidential Attachment CTMS20</b>	Mild steel purchase invoices
<b>Confidential Attachment CTMS21</b>	Payment evidence for mild steel
<b>Confidential Attachment CTMS22</b>	Tap changer cost allocation accounting voucher
<b>Confidential Attachment CTMS23</b>	Accounting voucher for tap changer purchase
<b>Confidential Attachment CTMS24</b>	Schedule of purchase costs for tap changer
<b>Confidential Attachment CTMS25</b>	Bank loan fees for tap changer
<b>Confidential Attachment CTMS26</b>	Invoice for purchase of tap changer
<b>Confidential Attachment CTMS27</b>	Insurance expenses for tap changer
<b>Confidential Attachment CTMS28</b>	Importation expenses for tap changer
<b>Confidential Attachment CTMS29</b>	Oil cost allocation accounting voucher
<b>Confidential Attachment CTMS30</b>	Accounting voucher for oil purchase
<b>Confidential Attachment CTMS31</b>	Oil purchase invoices
<b>Confidential Attachment CTMS32</b>	Credit note for oil purchase
<b>Confidential Attachment CTMS33</b>	Installation cost allocation accounting voucher
<b>Confidential Attachment CTMS34</b>	Installation invoice
<b>Confidential Attachment CTMS35</b>	Working hours report

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<b>Confidential Attachment CTMS36</b>	Project allocation cost sheet
<b>Confidential Attachment CTMS37</b>	Labour cost report
<b>Confidential Attachment CTMS38</b>	Department labour cost reports
<b>Confidential Attachment CTMS39</b>	Overhead allocation report
<b>Confidential Attachment CTMS40</b>	Overhead expense report
<b>Confidential Attachment CTMS41</b>	Depreciation report
<b>Confidential Attachment CTMS42</b>	Export model cost documents
<b>Confidential Attachment CTMS43</b>	Schedule of selling expense ratios
<b>Confidential Attachment CTMS44</b>	Admin and R&D worksheet
<b>Confidential Attachment CTMS45</b>	Financial expense worksheet
<b>Confidential Attachment CTMS38</b>	Extraordinary gain worksheet
<b>Confidential Attachment DOM1</b>	Domestic sales documents
<b>Confidential Attachment DM1</b>	Fortune submission – confidential
<b>Attachment DM2</b>	Fortune submission – public record