



## Exporter Verification Report

### Verification & Case Details

<b>Initiation Date</b>	23 August 2019	<b>ADN:</b>	ADN No. 2019/100
<b>Case</b>	Review of Measures – Aluminium zinc coated steel - The People’s Republic of China		
<b>Case Number</b>	522		
<b>Exporter</b>	Zhejiang Huada New Materials Co Ltd		
<b>Review Period</b>	1 July 2018 to 30 June 2019		

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

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## 1 COMPANY BACKGROUND

### 1.1 Corporate Structure and Ownership

Zhejiang Huada New Materials Co., Ltd (Huada) is a subsidiary of Zhejiang Huada Group Co., Ltd whose shareholders are natural persons. Huada performs all functions of manufacturing and selling aluminium zinc coated steel (the goods) in the domestic market and to third countries.

### 1.2 Related Parties

The verification team examined the relationships between Huada and parties involved in the manufacture and sale of the goods.

#### 1.2.1 Related suppliers customers

Huada did not source raw materials from any related parties.

#### 1.2.2 Related customers

Huada sold the goods to a related party in the domestic market during the review period. Further analysis is provided in section 5.1 of this report.

### 1.3 Accounting records

Huada's audited financial statement was audited by Pan-China Certified Public Accountants and includes a statement that the financial accounts comply with Enterprise Accounting Criteria.<sup>1</sup>

Therefore, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of The People's Republic of China (China).

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<sup>1</sup> Refer to Auditor's Report-2018 (translated).

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

Huada utilises the same process for aluminium zinc coated steel produced for domestic and export consumption. The goods are produced from hot-rolled coil (HRC) input that is acid-pickled and cold rolled, then hot-dip galvanised with zinc/aluminium coating.

### 2.2 MCCs

Huada provided sales and cost data in its response to the exporter questionnaire in accordance with the model control code (MCC) structure detailed in Consideration Report No. 521 and Anti-Dumping Notice (ADN) 2019/100.<sup>2</sup>

### 2.3 Verification of MCCs

Table 1 provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Prime	The company was able to identify prime or non-prime from its sales and accounting systems.
Coating mass	Based on the coating mass on the commercial invoices and sales order.
Steel grade	Based on the steel grade on the commercial invoices and sales order.
Base metal thickness	Based on the base metal thickness listed on the commercial invoices and sales order and as recorded by the company in its accounting system.
Width	Based on the nominal width shown listed on the commercial invoices and sales order and as recorded by the company in its accounting system.
Form	Based on the form on the commercial invoices and sales order.

Table 1 MCC sub-category determination

### 2.4 The goods exported to Australia

The verification team has examined the information provided by Huada in their response to the exporter questionnaire (REQ) and relevant Australian Border Force (ABF) data and is satisfied that based on the information available, Huada is a new exporter of the goods and did not export the goods to Australia during the review period.

### 2.5 Like goods sold on the domestic market

The verification team was satisfied that Huada sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods under consideration, as they:

- have a physical likeness and can be manufactured to Australian and International Standards;

<sup>2</sup> EPR 521 Document #2 [www.adcommission.gov.au](http://www.adcommission.gov.au)

## PUBLIC RECORD

- are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- the goods compete in the same market sector,; and
- can be considered functionally alike, as they have similar end uses.

Huada sold like goods on the domestic market with the following MCCs during the period:

- P-1-G-1-2-C;
- P-1-G-2-2-C;
- P-1-G-3-2-C; and
- P-1-G-4-2-C.

### 2.6 Like goods – assessment

The verification team considers that the goods produced by Huada for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore 'like goods' in accordance with section 269T(1) of the *Customs Act 1901* (the Act).<sup>3</sup>

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<sup>3</sup> References to any section or section in this report relate to provisions of the Act, unless specifically stated otherwise.

## **3 VERIFICATION**

### **3.1 Benchmark verification**

The verification team verified the reliability of Huada’s domestic sales and cost data provided in the REQ by benchmarking the data against other verified data. This involved comparing the data from Jiangyin Zongcheng Steel Co., Ltd. which is another exporter from China who was subject to a desktop verification for the same goods during the current review period.<sup>4</sup> The verification team also benchmarked Huada’s data to a previous verification of Huada for the same goods in accelerated review no. 500 and accelerated review no. 519.<sup>5</sup>

Additionally, the verification team verified the reliability of the export and domestic sales listings submitted in the REQ by reconciling to the source documentation provided as part of Huada’s REQ.

Where the examination of the data in Huada’s REQ produced results that were inconsistent with those observed in relation to the verified exporter’s data or other relevant information, the verification team has then escalated the level of verification where necessary for those targeted areas.

During this process, the following issues were identified.

No.	Exception	Resolution	Evidence Relied On
1	The company included sales of scrap in its domestic sales. Scrap are not the goods under consideration.	The verification team removed the sale of scrap from the domestic sales listing.	Data provided by the company in relation to domestic sales models and source documentation of a domestic sale of scrap.
2	The company did not provide CTM data on a quarterly basis.	The company provided CTM data on a quarterly basis.	The quarterly CTM was verified against monthly production data over the review period.
3	The company allocated costs to prime and non-prime goods in a manner that under-allocated the associated costs, thereby artificially increasing the allocated costs for prime goods.	The verification team allocated costs to scrap and non-prime goods using the same method of allocation for the prime goods, but amended the allocation basis value using a monthly weighted average of the allocation basis values for the prime goods. The overall impact was to marginally decrease the CTM of prime goods.	Verified cost and production data provided by the company.

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<sup>4</sup> EPR 522 Document #14 [www.adcommission.gov.au](http://www.adcommission.gov.au)

<sup>5</sup> EPR 500 Document #3 [www.adcommission.gov.au](http://www.adcommission.gov.au) and EPR 519 Document #4 [www.adcommission.gov.au](http://www.adcommission.gov.au)

## PUBLIC RECORD

No.	Exception	Resolution	Evidence Relied On
4	The company had assigned all its sales expenses as direct selling expenses. The verification team assessed the sales expenses and consider that only two of the sales expenses should be deducted from SG&A as direct selling expenses.	The verification team added the sales expenses which it considers are not direct selling expenses back into the total SG&A.	Information provided by the company in relation to its sales expenses.

**Table 2 Exceptions during benchmark verification of the data**

Details of the benchmark verification assessment and its relevant attachments are contained in **Confidential Attachment 1**.

### **3.2 Benchmark verification finding**

The verification team is satisfied that the domestic sales and cost data provided by Huada, including any required amendments as outlined in the exception table above, are reasonable and can be considered reliable for the purpose of ascertaining variable factors for Huada.

Huada's cost data is available at **Confidential Appendix 2**.

## **4 EXPORT PRICE**

### **4.1 Export Price – preliminary assessment**

The verification team has found that Huada did not export the goods to Australia during the review period. As such, the verification team considers that there is insufficient information to ascertain the export price of the goods under section 269TAB(1) due to an absence in volume of exports during the review period.

Subject to further enquiries by the case management team, the verification team recommends that the export price be determined under section 269TAB(3), having regard to all relevant information. The verification team considers it appropriate to determine the ascertained export price to be the same amount as that determined to be the normal value.



## 5 DOMESTIC SALES SUITABILITY

The verification team has assessed the domestic sales to determine if the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under section 269TAC(1).

### 5.1 Arms length

#### 5.1.1 Related party customers

In respect of Huada's domestic sales of like goods to its related customer during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was 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, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>6</sup>

The verification team tested the arms length nature of sales by Huada to its related party by comparing selling prices with sales of comparable models to unrelated parties in the review period. The verification team is satisfied that all domestic sales made by Huada to its related customer during the period were arms length transactions.

#### 5.1.2 Unrelated customers

In respect of Huada's domestic sales of like goods to its unrelated customers during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was 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, was not directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by Huada to its unrelated domestic customers during the period were arms length transactions.

### 5.2 Ordinary course of trade

Section 269TAA states that domestic transactions are not in the ordinary course of trade (OCOT) if arms length transactions are:

- unprofitable in substantial quantities over the investigation period; and
- unlikely to be recoverable within the period.

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<sup>6</sup> Section 269TAA of the Act refers.

## PUBLIC RECORD

The verification team tested profitability by comparing the price at ex-works (EXW) against the relevant cost for each domestic sales transaction.

The verification team then tested whether the unprofitable sales were in substantial quantities (not less than 20%) by comparing the volume of unprofitable sales to the total sales volume, for each MCC over the period.

The team tested recoverability by comparing the price at EXW against the relevant weighted average cost over the period for each domestic sales transaction.

The following table sets out further detail:

OCOT particulars	Details
Price	Net invoice price, excluding direct selling expenses
Cost	Quarterly cost to make and sell, excluding direct selling expenses
Weighted average cost	Weighted average cost to make and sell, excluding direct selling expenses, over the review period.

**Table 3 OCOT details**

### 5.3 Suitability of domestic sales – particular market situation

Section 269TAC(2)(a)(ii) provides that the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1) where the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price.

The market situation finding in the original investigation (Investigation 190), previous continuation inquiry (Continuation 450) and the most recent review of measures (Review 456) in relation to aluminium zinc coated steel exported to Australia from China, rendered domestic prices of those goods unsuitable in determining a normal value under section 269TAC(1). Further analysis of the market situation finding will be included in the statement of essential facts for review of measures no. 522. In the event that a market situation is found, then such sales in that market will not be suitable for use in determining a normal value and therefore the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1). Accordingly, the normal value has preliminarily been ascertained under section 269TAC(2)(c).

### 5.4 Profit

Where the Commission is required to calculate a normal value under section 269TAC(2)(c), an amount of profit must be worked out under Regulation 45 of the Customs (International Obligations) Regulation 2015 (the Regulation).

The verification team has calculated an amount of profit based on the profit achieved on domestic sales of like goods in the OCOT in accordance with section 45(2) of the Regulation.

The verification team's preliminary calculation of domestic profit is at **Confidential Appendix 3**.

## **6 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with section 269TAC(9).

While Huada has not exported the goods under consideration to Australia, these adjustments are considered appropriate to establish a normal value, as if those goods were exported to Australia in the review period.

### **6.1 Rationale and Method**

TAC(9) adjustment type	Assessment for adjustment	Claimed in REQ?	Adjustment required?
Export inland transport, port handling charges and other export costs (banking and financing)	An upwards adjustment was made to account for the difference between goods exported to Australia at FOB terms and Huada's domestic sales at EXW. In the absence of export sales to Australia in this and prior periods, export costs have been calculated based on the weighted average of export costs from verified exporters from China during the review period. <sup>7</sup>	N	Y
Non-refundable VAT	Non-refundable VAT expenses were incurred for all export sales (to third countries).	Y	Y

**Table 4 Assessment of adjustments to the normal value**

### **6.2 Adjustments to the normal value**

The verification team considers the following adjustments under section 269TAC(9) are necessary to ensure that the normal value so ascertained is properly compared with the export price of those goods.

Adjustment Type	Deduction/addition
Export inland transport	Add an amount for export inland transport
Export port handling charges	Add an amount for port handling and other charges
Export other costs	Add an amount for other export costs (i.e. bank and finance costs)
Non-refundable VAT	Add an amount for non-refundable VAT

**Table 5 Summary of adjustments to the normal value**

Huada's adjustments are included in the normal value calculations at **Confidential Appendix 4**.

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<sup>7</sup> This also includes verified exporters from China from the review of measures no. 521 for similar goods, zinc coated (galvanised) steel, during the same review period.

## 7 NORMAL VALUE

The market situation finding in the original investigation, previous continuation inquiry and most recent review of measures in relation to aluminium zinc coated steel exported to Australia from China, rendered domestic prices of those goods to be unsuitable in determining a normal value under section 269TAC(1). The verification team has not determined whether there is a particular market situation and further analysis of the market situation finding will be included in the SEF for Review 522.

In the event that a market situation is found, normal values can be constructed under 269TAC(2)(c) and as required by sections 269TAC(5A) and 269TAC(5B), in accordance with sections 43, 44 and 45 of the Regulation using:

- the cost to make that reasonably reflect competitive market costs; plus
- SG&A on the assumption that the goods, instead of being exported, were sold for home consumption in the OCOT in the country of export based on the company's records in accordance with section 44(2) of the Regulation; and
- an amount for profit based on data relating to the production and sale of like goods on the domestic market in the OCOT in accordance with section 45(2) of the Regulation.

### 7.1 Cost of Production

As required by section 269TAC(5A)(a), in ascertaining the normal value of the goods under section 269TAC(2)(c), the cost of production of the goods was established in accordance with section 43 of the *Customs (International Obligations) Regulation 2015* (the Regulation).

Section 43 of the Regulation provides that the cost of production must be worked out by using the information set out in Huada's records if the records are in accordance with generally accepted accounting principles (GAAP) in China and reasonably reflect competitive market costs associated with the production or manufacture of like goods. The verification team is satisfied that Huada's records are in accordance with GAAP in China.

The verification team performed a comparative analysis of Huada's actual purchases of the key raw material input, being HRC steel, with that of HRC bought competitively from the international market.<sup>8</sup> In the Commission's experience, HRC accounts for in excess of 80 per cent of the CTM of aluminium zinc coated steel, and a similar approach was taken in the Accelerated Review No. 500. Noting the significant distortions in the steel market in China outlined above in the section concerning particular market situation, the verification team considers that Huada's recorded costs of HRC therefore do not reflect competitive market costs.

The verification team has therefore adjusted Huada's recorded cost of HRC to reflect a weighted average of verified domestic HRC prices obtained by cooperating exporters of HRC from Korea and Taiwan in the review period for review of measures no. 521 for similar good, zinc coated (galvanised) steel. This data covers all four quarters of the review period.

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<sup>8</sup> Based on the SBB HRC Prices index.

The weighted average benchmark prices used for the purpose of this review are at **Confidential Attachment 2**.

## **7.2 Selling, general and administrative costs**

As required by section 269TAC(5A)(b), in ascertaining the normal value of the goods under section 269TAC(2)(c), the SG&A costs were established in accordance with section 44 of the Regulation.

Huada provided information on SG&A costs associated with its domestic sales of aluminium zinc coated steel. Consistent with the requirements of section 44(2) of the Regulation, the verification team is satisfied that Huada's records are in accordance with the GAAP in China, and the records reasonably reflect the SG&A costs associated with the sale of like goods. As such, the verification team has used Huada's SG&A information to construct Huada's normal value.

## **7.3 Profit**

As required by section 269TAC(5B), when ascertaining the normal value of the goods under section 269TAC(2)(c), the amount of profit included in the normal value was determined having regard to section 45 of the Regulation.

Section 45(2) of the Regulation provides that, if reasonably practicable, profit is to be determined by using data relating to the production and sale of like goods by the exporter of the goods in the OCOT.

The verification team calculated a weighted average profit margin for aluminium zinc coated steel based on like goods sold domestically. The calculation of this profit margin was based on domestic sales of like goods made in the OCOT, the selling prices of which were compared to the company's domestic cost to make and sell (CTMS) for those goods as reported in the company's REQ (prior to the adjustments made to the cost of HRC discussed above). Profit applicable in the OCOT was applied to the CTMS (refer to **Confidential Appendix 4**).

The verification team recommends that in the event that the case management team finds a particular market situation then constructs the normal values under section 269TAC(2)(c), certain adjustments in accordance with section 269TAC(9), are necessary to ensure fair comparison of normal values with export prices as outlined in section 6 above.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

## 8 DUMPING MARGIN

As detailed in section 4 above, noting that Huada did not export the goods under consideration during the review period, the ascertained export price has been determined under section 269TAB(3) having regard to all relevant information, being equal to the normal value.

Subject to further enquiries by the case management team, the verification team therefore recommends that any interim dumping duty (IDD) be calculated in accordance with the floor price duty method. For this review, as Huada's ascertained export price is taken to be equal to the ascertained normal value, the dumping margin is not applicable, being zero per cent. A variable component of IDD may be applicable where the actual export price is below the ascertained normal value.

The verification team's preliminary export price and dumping margin calculation is at **Confidential Appendix 5**.

## 9 SUBSIDIES

### 9.1 Less than adequate remuneration

The verification team assessed Huada raw materials listing for HRC and compared its HRC prices between state-invested enterprises and non-state-invested enterprise suppliers. The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### 9.2 Tax benefits

The verification team verified the income tax information provided in the REQ by reconciling the information to the tax returns and proof of payment documents.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### 9.3 Financial Grants

The verification team verified the reliability of the financial grants listing provided in the REQ by reconciling the listing to source documents.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### 9.4 Preferential interest rate/loans

The verification team verified the reliability of the financial loans listing provided in the REQ by reconciling the listing up to the trial balance and down to source documents.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

### 9.5 Subsidy margin

The verification team found that Huada received a benefit in relation to the following programs:

Huada Program number (ADC program numbers provided where relevant)	Program name	Program Type
(ADC Program 7)	Preferential Tax Policies for High and New Technology Enterprises	Tax
1 (ADC Program 39)	Special Funds for Promoting Employment of Employment Management Service Office in Fuyang District of Hangzhou City	Grant

**PUBLIC RECORD**

Huada Program number (ADC program numbers provided where relevant)	Program name	Program Type
2	Special Fund for the Creation, Protection and Management of Intellectual Property Rights in Zhejiang Province, 2018, Science and Technology Bureau of Fuyang District, Hangzhou City	Grant
3	Business Bureau of Fuyang District, Hangzhou (Special Fund for the Development of Foreign Trade and Economic Cooperation of the Central Government in 2018)	Grant
4	Water-saving Subsidies of Finance Bureau of Fuyang District, Hangzhou City	Grant
5	Secondary National Standardization Subsidy of Safety Production Supervision and Administration of Fuyang District, Hangzhou City	Grant
6	Patent Funding of Science and Technology Bureau of Fuyang District, Hangzhou City	Grant
7	The People's Government of Dayuan Town, Fuyang District, Hangzhou commends advanced taxation enterprises/key investment advanced enterprises/self-operated export winning enterprises/100 million yuan enterprises/first-time scale enterprises in 2017.	Grant
8	The People's Government of Dayuan Town, Fuyang District, Hangzhou commends advanced taxation enterprises/key investment advanced enterprises/self-operated export winning enterprises/100 million yuan enterprises/first-time scale enterprises in 2017.	Grant
9	The People's Government of Dayuan Town, Fuyang District, Hangzhou commends advanced taxation enterprises/key investment advanced enterprises/self-operated export winning enterprises/100 million yuan enterprises/first-time scale enterprises in 2017.	Grant
10	Fuyang District Business Bureau of Hangzhou Special Subsidy Fund for Open Economy and Finance in 2018	Grant
11	Economic and Information Administration of Fuyang District, Hangzhou (Financial Support Funds for Key Industrial Inputs and Machine Replacement Projects)	Grant
12	Economic and Information Administration of Fuyang District, Hangzhou (Financial Support Funds for Key Industrial Inputs and Machine Replacement Projects)	Grant
13	Employee Unemployment Insurance Fund of Employment Management Service Department in Fuyang District of Hangzhou City	Grant
14	Tax Bureau of Fuyang District of Hangzhou City, State Administration of Taxation, withholding and withholding VAT fees	Grant
15 (ADC Program 39)	Special Funds for Promoting Employment of Employment Management Service Office in Fuyang District of Hangzhou City	Grant
16 (ADC Program 48)	Project subsidy of 1 million tons precision cold-rolled steel plate production line of Dayuan Town People's Government of Fuyang District, Hangzhou	Grant



**PUBLIC RECORD**

Huada Program number (ADC program numbers provided where relevant)	Program name	Program Type
17	Economic and Information Administration of Fuyang District, Hangzhou City - Financial Support Funds for Key Industrial Inputs and Machine Replacement Projects - Annual Production of 300,000 tons of Precision Cold Hard Sheet, 220,000 tons of Color Coated Sheet, 300,000 tons of Hot Galvanized (Aluminium Magnesium) Sheet Production Capacity	Grant
18	Hangzhou Fuyang District Economic and Information Administration, Finance Bureau, Environmental Protection Bureau and Market Supervision Bureau - The first batch of financial subsidies for coal-fired boilers under 10 steam tons in 2016	Grant
19	Finance Subsidy Fund of Hangzhou Fuyang District Finance Bureau for the Pilot Project of Factory Internet of Things and Industrial Internet in 2017	Grant

**Table 6 Summary of subsidy programs during the review period**

On the basis that the case management team finds these programs to be countervailable subsidies, the verification team has calculated a preliminary subsidy margin for Huada during the review period to be **0.5 per cent**.

Details of the preliminary subsidy margin calculation are at **Confidential Appendix 6**.

**APPENDICES AND ATTACHMENTS**

<b>Confidential Attachment 1</b>	Benchmark work program
<b>Confidential Attachment 2</b>	Replacement costs benchmark
<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	Cost to make and sell
<b>Confidential Appendix 3</b>	Domestic sales, OCOT and profitability
<b>Confidential Appendix 4</b>	Normal Value
<b>Confidential Appendix 5</b>	Export price and dumping margin
<b>Confidential Appendix 6</b>	Subsidy Margin