



Australian Government
**Australian Customs and
Border Protection Service**

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FOLIO 160

**INVESTIGATION INTO THE ALLEGED DUMPING OF
HOLLOW STRUCTURAL SECTIONS**

EXPORTED FROM

**KOREA, MALAYSIA, TAIWAN, THAILAND AND THE
PEOPLE'S REPUBLIC OF CHINA**

EXPORTER VISIT REPORT

**ZHEJIANG KINGLAND PIPELINE AND TECHNOLOGIES CO.
LTD.**

February 2012

**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 CUSTOMS AND BORDER
PROTECTION**

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2 BACKGROUND

2.1 Background to the current investigation

On 12 August 2011, OneSteel Australian Tube Mills Pty Ltd on behalf of the Australian industry manufacturing certain hollow structural sections¹ (HSS), lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice² in respect of HSS exported to Australia from the People's Republic of China (China), Korea, Malaysia, Taiwan and Thailand and a countervailing duty notice in respect of HSS exported to Australia from China.

The application alleges that exports of HSS from the above nominated countries has been exported to Australia at prices less than its normal value and that this dumping has caused material injury to the Australian industry.

Following consideration of the application, an investigation was initiated by Customs and Border Protection on 19 September 2011. Public notification of initiation of the investigation was made in *The Australian* newspaper on 19 September 2011. Australian Customs Dumping Notice (ACDN) No. 2011/43 provides further details of this investigation and is available at www.customs.gov.au.

At initiation, Zhejiang Kingland Pipeline and Technologies Co. Ltd. (Kingland) was identified as an exporter of HSS from China. Customs and Border Protection wrote to Kingland seeking cooperation with the investigation and provided Kingland with an exporter questionnaire.

Kingland completed and lodged a response to the exporter questionnaire, which was supported by non-confidential and confidential appendices and attachments. Customs and Border Protection reviewed the exporter questionnaire response and placed the non-confidential version of Kingland's response on the Public Record.

Kingland's exporter questionnaire response were assessed and found to be sufficient to warrant a verification visit. Subsequently, Customs and Border Protection undertook a verification visit at Kingland's premises.

This report details the discussion and verification undertaken during meetings with Kingland, and makes recommendations for relevant determinations regarding the company within this investigation.

¹ Refer to the full description of the goods in section 4 of this report.

² under s. 269TAB(1)(a) of the *Customs Act 1901*. A reference to a section or subsection in this report is a reference to a provision of the Act, unless otherwise specified.

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2.2 Purpose of visit

The purpose of the visit was to verify information submitted by Kingland in its exporter questionnaire response. Information verified during the visit has been used to make preliminary assessments regarding:

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

2.3 Meeting dates and attendees

Location	57 Erlqiao Road Huzhou City Zhejiang China
Dates	6 February 2012 – 9 February 2012
Kingland	Mr. SHEN Ganrong, General Manager Mr. WU Weiping, Board Secretary Mr. [REDACTED], Vice general manager (Supply & Sales) Ms. [REDACTED], Accountant Ms. [REDACTED], Accountant Ms. [REDACTED], Accountant Ms. [REDACTED], Export Sales Ms. [REDACTED], Administrative Dept. Director Mr. [REDACTED], Production management Dept. Director
Consultants	Mr. LAN Xiong, Partner, B&H Associates Mr. WANG Peng, B&H Associates Ms. MAO Zhihui, B&H Associates
Customs and Border Protection	Arthur VLAHONASIOS, Manager, Operations 2 An CHEW, Supervisor, Operations 2 Jason FARR, Supervisor, Operations 1

2.4 Preliminary issues

Prior to the meeting, we forwarded Kingland an agenda that included a list of sales transactions selected for detailed verification.

As Kingland had been involved with previous Australian anti-dumping and countervailing investigations, and is familiar with the key dates of the current investigation, we only briefly discussed the background and timeframes of the investigation.

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However, for the purpose of this report, the details are as follows:

- The investigation period to determine whether dumping and/or subsidisation has occurred is 1 July 2010 to 30 June 2011;
- The injury analysis period to examine the Australian market and the economic condition of the industry is 1 July 2007 to 30 June 2011;
- A preliminary affirmative determination was made on 23 December 2012 and provisional measures, in the form of securities, were imposed on HSS entered for home consumption on or after 10 January 2012. However, no securities were required from Kingland as the preliminary assessment of Kingland's dumping margins were de minimus.
- A statement of essential facts was due to be placed on the public record by 9 January 2012. Due to the complexity of the issues surrounding the investigation, as well as extensions of time allowed for various interested parties to supply information, Customs and Border Protection requested an extension of the deadline for the publication of the statement of essential facts. The Minister, under section 269ZHI, extended the deadline for the publication of the SEF. The statement of essential facts will now be placed on the public record no later than 23 April 2012.
- The statement of essential facts will invite interested parties to respond, within 20 days, to the issues raised. Submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's report to the Minister is now due no later than 7 June 2012.

Kingland cooperated with the verification of the exporter questionnaire response and provided further information when requested.

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3 COMPANY INFORMATION**3.1 General**

Kingland is a manufacturer of steel pipes, with over [REDACTED]% of its sales turnover in the domestic market. It explained that it generally manufactures three types of pipes:

- mill finish or black pipes;
- galvanised pipes; and
- plastic lined pipes.

Kingland explained that the plastic lined pipes has a plastic lining on the inside of the pipes and is used for transporting water.

Kingland stated that it only produces circular HSS and it does not manufacture square or rectangular HSS.

Kingland advised that since July 2010, it has become a publicly listed company listed on the Shenzhen Stock Exchange. In its exporter questionnaire response, it provided a copy of its corporate structure diagram, which shows its major shareholders, related companies, and its subsidiaries. During the verification visit, Kingland explained that there was a minor error in the diagram where one of its subsidiary is shown as being 75% owned by Kingland where it should show 100% (**Confidential attachment GEN 1**).

Kingland also provided us with its paid-in capital ledger showing its major share holders (**confidential attachment GEN 1**) and its long-term investment ledger showing its subsidiaries (**confidential attachment GEN 1**).

Kingland advised that none of the parent companies are state owned enterprises. The company also advised that no member of the board of directors or the board of shareholders is a representative or employee of the Government of China or the State Assets Supervision and Administrative Commission.

However, Kingland noted that one of its subsidiaries, [REDACTED] is [REDACTED]% owned by the Government of China.

Kingland stated that it has [REDACTED] pipe production lines with a capacity of [REDACTED] tonnes per annum of black pipe running [REDACTED] shifts per day over [REDACTED] days per week. It also stated that it has [REDACTED] galvanising baths capable of galvanising [REDACTED] tonnes of pipe per annum running [REDACTED] shifts [REDACTED] days a week. Kingland advised that this production capacity is only theoretical, assuming that the lines are running at maximum efficiency with no downtime for maintenance.

Kingland's actual production of the HSS during the investigation period was [REDACTED] tonnes representing approximately [REDACTED] of its black HSS production capacity.

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3.2 Related parties

In the exporter questionnaire response, Kingland outlined the main business of all its major shareholders, its subsidiaries and affiliate companies owned by Kingland Group Co Ltd (**confidential attachment GEN 2**). Nonetheless, during the visit, we undertook further discussions on the functions of each of these companies and established that none of its related companies are either suppliers or customers of Kingland.

We did not find evidence that any of Kingland's suppliers were related to Kingland. However, Kingland advised that there were some sales of pipes to related companies, including sales to it for use internally. Kingland explained that under Chinese accounting regulations, as a publicly listed company, it was required to treat internally consumed pipes as a sale at market prices rather than as an expense. In addition, Kingland explained, the regulations also require it to list all related party transactions in its annual report (**Confidential Attachment GEN 3**).

Analysis of sales to related parties are discussed in section 7.5 below.

3.3 Accounting

Kingland advised that its accounting period for is 1 January to 31 December. It states that its accounts are in accordance with the generally accepted accounting principles of China.

In its exporter questionnaire response, Kingland provided the following documents as required:

- Chart of accounts;
- 2009 & 2010 annual reports; and
- Quarterly financial reports for the investigation period.

Kingland's annual reports show that its financial statements are audited by Pan-China Certified Public Accountants Ltd.

Kingland states that it uses a financial accounting system called Wei Ke, which is a system designed by the Zhejiang University for Kingland.

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4 GOODS UNDER CONSIDERATION AND LIKE GOODS**4.1 The goods**

The goods the subject of the application are:

Certain electric resistance welded pipe and tube made of carbon steel, comprising circular and non-circular hollow sections in galvanised and non-galvanised finishes. The goods are normally referred to as either CHS (circular hollow sections) or RHS (rectangular or square hollow sections). The goods are collectively referred to as HSS (hollow structural sections). Finish types for the goods include in-line galvanised (ILG), pre-galvanised, hot-dipped galvanised (HDG) and non-galvanised HSS.

Sizes of the goods are, for circular products, those exceeding 21 mm up to and including 165.1 mm in outside diameter and, for oval, square and rectangular products those with a perimeter up to and including 1277.3mm. Categories of HSS excluded from the goods are conveyor tube; precision RHS with a nominal thickness of less than 1.6mm and air heater tubes to Australian Standard (AS) 2556.

The application includes the following information to clarify the nature of the goods.

Finishes

All HSS regardless of finish is included in the application. Finish types for the goods include in-line galvanised (ILG), pre-galvanised, hot-dipped galvanised (HDG) and non-galvanised HSS. Non-galvanised HSS is typically of painted, black, lacquered or oiled finished coatings.

CHS with other than plain ends (such as threaded, swaged and shouldered) are also included in the application.

Standards

HSS is generally produced to either the British Standard BS 1387 or the Australian Standard AS 1163 or international equivalent standards (including ASTM/JIS and KS). HSS can also be categorised according to minimum yield strength. The most common classifications are 250 and 350 mega Pascals (MPa).

HSS may also be referred to as extra-light, light, medium or extra heavy according to its wall thickness.

Excluded goods

The following categories are excluded from the goods subject of the application:

- conveyor tube (made for high speed idler rolls on conveyor systems, with inner and outer fin protrusions removed by scarfing (not exceeding 0.1 mm on outer surface and 0.25 mm on inner surface), and out of round standards (i.e.

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ovality) which do not exceed 0.6 mm in order to maintain vibration free rotation and minimum wind noise during operation);

- precision RHS with a nominal thickness of less than 1.6mm (is not used in structural applications); and
- air heater tubes to AS 2556.

4.1.1 Tariff classification

The application stated that the goods are classified to the following tariff subheadings:

- 7306.30.00 (statistical codes 31, 32, 33, 34, 35, 36 and 37);
- 7306.61.00 (statistical codes 21, 22 and 23); and
- 7306.69.00 (statistical codes 26, 27 and 28).

The goods exported to Australia from Korea and Taiwan are subject to a 5% rate of duty. For China and Malaysia the goods exported to Australia are subject to a 4% rate of duty. The goods exported to Australia from Thailand, using Thailand Free Trade Agreement, are free from duty as of 1 January 2010.

4.2 Production process

Kingland explained that it uses hot rolled strip (HRS), rather than hot rolled coil, as the main raw input into the production of HSS.

During the verification visit, we were given a tour of Kingland's HSS production facility. We viewed two of Kingland's ■■■ production lines and its galvanising facility. We also observed:

- Kingland's HRS storage area;
- HSS bundles being weighed with an overhead crane at the end of a production line;
- a weighbridge where trucks are weighed for domestic sales of HSS;
- the barge that transports HSS from Kingland's production facility to the port of Shanghai; and
- testing centre where HSS samples are tested for tensile and yield strength.

At the visit, we did not engage in a detailed discussion of the production process of HSS as Kingland has been visited on a number of previous visits by Customs and Border Protection officers, and the officers on this visit were familiar with the HSS production process.

Nonetheless, the 2006 Kingland visit report describes the HSS production process as follows:

The process involves either uncoiling the HRS and trimming the tapered ends to create a straight edge that is then welded to the next HRS to form a continuous flat strip or simply uncoiling the HRS. The strip is fed into the 'slitter' that trims the sides of the strip. The 'slit' strip then enters the 'former' that shapes the strip into circular pipe specifications by rollers. The long edges of the strip are joined

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together by high-frequency electric resistance welding. Any burrs from the weld are removed and eddy current detection testing then follows to ensure that the pipe is properly formed. Straightening and length cutting is then performed before the ends and edges are bevelled. All pipe is subjected to hydraulic pressure testing and then the finish is inspected prior to bundling and storage.

The 2006 report also describes the galvanising process, which:

comprises of the bundled black pipe being unbundled, degreased, washed, pickled, rinsed, cleansed of surface impurities, dried and then immersed in a hot-dip galvanising bath. The galvanised pipe then has a stream of air blown across it externally and internally and then air and water, set in a neutralising bath, inspected, bundled and stored.

4.3 Export sales of the goods

Kingland exports to Australia black (i.e. mill finish) and galvanised HSS to Australia in various diameters and thicknesses. According to the detailed export sales spreadsheet, during the investigation period, Kingland exported HSS within the following ranges:

Finish	Diameter	Thickness
Black	██████████	██████████
Galvanised	██████████	██████████

Kingland explained that it exports HSS with various lengths, according to the requirements of its Australian customers when the order is placed. It also explained that the HSS exported to Australia complies with the BS1387-1985 standard and it provides a mill certificate to its Australian customers. Kingland provided a copy of the BS1387-1985 standard at **Attachment GOODS 1**.

4.4 Domestic sales of like goods

Kingland claimed that the HSS sold domestically are identical to the goods exported to Australia, with the exception of length. It stated that it only manufactures 6 metre pipes for the domestic market, whereas the goods exported to Australia are of various lengths. Therefore, Kingland explained, due to the length requirements of its Australian customers, the export sales of HSS to Australia are usually made to order.

Kingland advised that the HSS sold domestically are manufactured on the same production lines and uses the same HRS as the HSS exported to Australia. It explained that when it manufactures HSS for an Australian customer, the saw is simply adjusted to the desired length for cutting.

We enquired about the standard of HSS sold into the domestic market. Kingland advised that the HSS sold domestically are manufactured to the Chinese GB/T 3091-2008 standard (**Attachment GOODS 2**). As with its export sales, Kingland advised that it also provides mill certificates for its domestic sales of HSS. Kingland claimed that the GB/T 3091-2008 standard is equal to or higher than the BS1387-1985

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standard. It further added that while the GB/T 3091-2008 standard can be substituted for the BS1387-1985 standard, the reverse does not necessary apply. It claimed that the BS1387-1985 does not necessary comply with the GB/T 3091-2008 standard. Kingland explained that the BS1387-1985 standard requires a minimum yield strength of 195N/mm², whereas the GB/T 3091-2008 standard has 5 different levels within the standard requiring minimum yield strengths of between 195N/mm² to 345N/mm².

We further enquired about whether Kingland undergoes an independent audit of its standards testing process. Kingland advised that the company is certified to ISO 9001:2008 and provided a copy of the certificate at **Confidential Attachment GOODS 3**. It explained that part of the ISO certification process involves an audit of its testing facilities.

We noted that in the exporter questionnaire response, Kingland has stated that it does not consider downgrade pipes as the goods. Kingland advised that downgrade products are usually defective pipes with welding problems rendering them unsuitable for structural applications. It explained that downgrade pipes are sold into the domestic market only and is treated as a byproduct.

4.5 Conclusion – like goods

We consider that HSS, excluding downgrade pipes, sold by Kingland domestically in China has characteristics that closely resemble the HSS exported to Australia and are therefore like goods.

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5 SALES TO AUSTRALIA**5.1 General**

In the exporter questionnaire response, Kingland provided a detailed export sales spreadsheet (**confidential attachment EXP 1**) which showed that it sold directly to [REDACTED] Australian Customers consisting of [REDACTED]. Kingland's customers during the period of investigation were [REDACTED].

[REDACTED] [customer names] is identified as a distributor and [REDACTED] [customer names] are identified as end users in Kingland's Australian sales listing.

At our visit, Kingland identified that it was introduced to its Australian customers through [REDACTED] and that a contract was entered into with [REDACTED]. While orders are still placed with Kingland directly by the Australian customer, [REDACTED] on a per tonne basis. A sample of the contract and proof of payment can be found at **confidential attachment EXP 2**. Further detail [REDACTED] can be found in sections 5.4.1 below and 9.2 below.

The exporter questionnaire also identified that Kingland made a number of domestic sales to Shanghai Minmentals for export during the [REDACTED]. Kingland provided a separate worksheet named "domestic sales for export" listing all sales to Shanghai Minmetals, which Kingland claimed were for export to Australia (**confidential attachment EXP 3**). No agent was involved in sales to Shanghai Minmetals.

In aggregate, Kingland exported [REDACTED] tonnes of HSS directly to Australia and it exported [REDACTED] tonnes indirectly through Shanghai Minmetals. Therefore, the total export sales by Kingland to Australia during the investigation period were [REDACTED] tonnes.

Kingland advised that export sales represent only a small volume of Kingland's total sales volume and we calculated export sales as representing approximately [REDACTED]% of Kingland's total sales volume.

5.2 Export sales process

The export sales process was described by Kingland at our visit and in its exporter questionnaire as follows:

- The Australian customers collect orders from the Australian market and forward a summary offer to Kingland;
- Kingland negotiates prices with the customers directly on a transaction by transaction basis;

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- upon finalisation of the price the company will prepare and send a completed purchase order, including the contractual terms, to the customer. Kingland advised that the purchase order/contract is generally based on a template provided by the customer;
- upon completion of production of the HSS Kingland transports the goods to the designated loading point in Shanghai on a barge and sends the original shipping documents together with a commercial invoice for the sale of the goods to its Australian customers. Insurance for inland freight to the port forms part of the contract price for the subcontracted transportation company;
- the commercial invoice is generated following production of the goods and shortly before delivery of the goods to port.

Kingland stated that it took approximately [REDACTED] days from the placement of the order to delivery of the goods to the port in Shanghai. It advised that all sales to its Australian customers are made on an [REDACTED] [terms of trade] basis, with ownership transferring to the customer once the goods are delivered on the ship and payment is by a [REDACTED] [payment terms]

Kingland states that it does not have price lists. It explained that prices are negotiated on a transaction by transaction basis and the price is set by management in consideration of the costs and domestic market prices (see 7.2 below). Kingland advised that the export manager is responsible for negotiating prices in consultation with Kingland's General Manager.

Kingland's export sales are invoiced in US dollars (USD) and Kingland provided an exchanged rate in the detailed exporter questionnaire spreadsheet for conversion to Chinese Yuan (RMB).

5.2.1 Discounts, rebates and allowances

Kingland does not offer any rebates, discounts or credit notes to any of its Australian customers.

5.2.2 Date of sale

Kingland's Australian sales listing identified the commercial invoice date as the date of sale. Kingland advised that the commercial invoice is generated following production of the HSS and shortly before shipment and therefore we have accepted that the commercial invoice date represents the date of sale.

5.2.3 Sales process for sales to Shanghai Minmetals

Kingland advised that it made sales to Shanghai Minmetals, a trading company located in China, during the investigation period and understood that all HSS sold to Shanghai Minmetals were exported to Australia.

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Kingland explained that such transactions begin with Shanghai Minmetals placing a telephone sales inquiry with Kingland, then specifications and sales conditions are discussed, and once final agreement is reached, a sales agreement is exchanged.

Kingland provided us with copies of the sales agreement between Kingland and Shanghai Minmetals (**confidential attachment EXP 4**).

Payment terms are cash (direct bank deposit) following settlement of the sales agreement. Kingland then produces the goods to the specifications detailed in the sales agreement and advises Shanghai Minmetals when the goods are available for delivery.

Shanghai Minmetals then advises Kingland of the details of the vessel date as advised in turn by the importer, and Kingland arranges and pays for the delivery of the goods free-alongside-ship (FAS) in Shanghai. Kingland advised that the goods are usually delivered by barge to the port.

We note that there were only ■ sales of HSS to Shanghai Minmetals during the investigation period which all occurred during the ■ [time period].

5.3 Verification of sales up to audited financial statements

We sought to verify the completeness and relevance of Kingland's detailed export sales spreadsheet up to audited financial statements. Note that as Kingland records sales to Shanghai Minmetals as domestic sales in its accounts, the upwards verification of sales to Shanghai Minmetals is included in section 7.3 below.

Kingland provided us with the following documents for this purpose:

- sales summary ledgers for Jan-Jun 2011, Jan-Dec 2010 and Jan-Jun 2010 downloaded from Kingland's financial management system, Wei Ke (**confidential attachment EXP 5**)
- turnover reconciliation worksheet (**confidential attachment EXP 6**);
- other operating income ledgers for Jan-Jun 2011, Jan-Dec 2010 and Jan-Jun 2010 (**confidential attachment EXP 7**);
- 2010 unaudited Income Statement (**confidential attachment EXP 8**);
- 2010 auditors adjustment report (**confidential attachments EXP 9**); and
- 2010 audited financial report (**confidential attachment EXP 10**).

We first sought to reconcile the 2010 sales summary ledger (**confidential attachment EXP 5**) to the audited financial statements (**confidential attachment EXP 10**). Using the turnover reconciliation worksheet (**confidential attachment EXP 6**) prepared by Kingland, we were able to observe that the sum of the total sales value (Total Main Operation Income) on the 2010 sales summary ledger (**confidential attachment EXP**

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5) plus the total value (Total Other Operation Income) on the 2010 other operating income ledger (confidential attachment EXP 7) equates to the total operating income on the 2010 unaudited income statement (confidential attachment EXP 8).

We were then able to reconcile the 2010 unaudited income statement (confidential attachment EXP 8) to the 2010 audited income statement (confidential attachment EXP 10 – page 155), with the difference being the auditor's adjustment (confidential attachment EXP 9).

Having verified the sales summary ledgers (confidential attachment EXP 5) to the audited financial statement (confidential attachment EXP 10), we then sought to reconcile the detailed export sales spreadsheet to the sales summary ledger.

We note that the sales summary ledger (confidential attachment EXP 5) has one line for all of Kingland's export sales, including sales to third countries. Using the turnover reconciliation worksheet (confidential attachment EXP 6), we were able to calculate the reported total export sales value for the investigation period (i.e. Jan-Jun 2011 plus Jan-Dec 2010 minus Jan-Jun 2010). We were then able to reconcile the total export sales value calculated from the sales summary ledgers (confidential attachment EXP 5) to the total sales value shown on the detailed export sales spreadsheet (confidential attachment EXP 1), with the difference being the value of Kingland's third country sales (see section 8 below).

Having reconciled Kingland's detailed export sales spreadsheet to audited financial accounts, we are satisfied that Kingland has provided a complete and relevant list of export sales for the investigation period.

5.4 Verification of export sales down to source documents

The export sales spreadsheet provided by Kingland included line by line information relating to:

- customer;
- level of trade;
- product specifications;
- invoice date and number;
- date of sale;
- order number and proforma number;
- shipping and payment terms;
- sales quantity (tonnes);
- revenue;
- exchange rate;
- inland transport;
- other costs; and
- VAT rebate.

The sales to Shanghai Minmetals provided by Kingland included line by line information relating to:

- customer;
- level of trade;

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- product specifications;
- model and finish;
- invoice date and number;
- shipping and payment terms;
- sales quantity (tonnes);
- inland transport.

Prior to the visit, we selected 8 invoices from the Australian sales spreadsheet and 2 invoices from the Shanghai Minmetals sales spreadsheet and requested that Kingland provide source documentation in relation to each sale.

In relation to the direct export sales to Australia, Kingland provided us with the following documentation for each of the selected sales invoices:

- purchase order/contract;
- commercial invoice;
- mill certificate;
- bill of lading; and
- proof of payment.

The bundle of documents for the selected transactions is at **confidential attachment EXP 11**.

We were advised that the size column in the Australian sales listing recorded the outside diameter and thickness of the goods. However, we noted that the purchase orders shows nominal size (NB) rather than outside diameter. Kingland provided us with a table showing the outside diameter of each nominal size (NB) (**confidential attachment EXP 12**).

We matched the details for each selected transaction to the details in the Australian sales spreadsheet and did not identify any discrepancies. Based on the documentation provided, we are satisfied that the export sales volume and values in the Australian sales spreadsheet are accurate.

In relation to the sales to Shanghai Minmetals, Kingland provided us with the following documentation for each of the selected sales invoices:

- sales contract;
- VAT invoice;
- accounting voucher; and
- proof of payment.

These documents are at confidential attachment EXP 4.

We matched the details from these source documents to the Shanghai Minmetals sales spreadsheet. Based on the information provided we are satisfied that the sales volumes and values in the Shanghai Minmetals spreadsheet are accurate.

5.4.1 Other costs

In its Australian sales spreadsheet, Kingland included a column for other costs at a rate of RMB [REDACTED] per tonne, which Kingland's exporter questionnaire identified as

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related export expenses. Kingland advised that this included [REDACTED]
[REDACTED]

Kingland provided a summary of port charges and a commercial invoice from its freight forwarding company that details these costs (**confidential attachment EXP 13**).

[REDACTED] [Other third party cost] (**confidential attachment EXP 2**).

The sum of the weighted average port charges and [REDACTED] reconciled to the other cost amount in the spreadsheet.

5.4.2 Un-refundable VAT

As part of its Australian sales spreadsheet, Kingland included a column named "un refundable VAT". In its exporter questionnaire, Kingland advised that it received a 9% refund on the 17% VAT for the exported HSS and therefore the difference of 8% is the 'un-refundable' VAT costs incurred by Kingland. The treatment of the un-refundable VAT amount is discussed in section 9.7 below.

5.4.3 Inland Freight Costs

Kingland allocated inland freight expenses for each transaction based on the average costs of freight for sales throughout the investigation period. The company calculated the average cost of freight for the investigation period at RMB [REDACTED] per tonne. We noted that this the same figure used for calculating the total inland freight for domestic sales and domestic sales for export.

At the visit, we requested details on inland freight costs (i.e barge to the port of Shanghai) for direct export sales. Kingland provided us with its inland freight contract and a sample invoice (**confidential attachment EXP 14**). The documentation shows that inland transport to the port of Shanghai was actually [REDACTED] per tonne. Therefore, we revised the inland freight cost for export sales to [REDACTED] per tonne.

5.5 Forward Orders

Kingland provided us with documentation for two forward orders at the time of the visit. See **confidential attachment EXP 15**.

5.6 The exporter

5.6.1 Direct sales to Australia

We consider that Kingland is the exporter for direct export sales to Australia as Kingland:

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- manufactured the goods to the specific order of the Australian customer;
- is listed as the supplier on the bill of lading;
- invoices the Australian customer for the goods;
- arranges and pays the inland freight;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

5.6.2 Sales to Australia through Shanghai Minmetals

At the visit, Kingland identified that all sales to Shanghai Minmetals were for export to CMC, an Australian importer. Kingland provided copies of its sales agreement and invoices of all sales to Shanghai Minmetals (confidential attachment EXP 4).

The sales agreements identify:

- the name of Shanghai Minmetals' Australian customer, [REDACTED]
- the Australian port of discharge; and
- the required production of the goods to an international standard, namely British Standard BS-1387.

Therefore, Kingland manufactures and sells HSS to Shanghai Minmetals knowingly that the HSS will be exported to Australia. In addition, Kingland arranges the inland transport to the port of Shanghai.

Given the above, we consider that Kingland is the exporter of the goods to Australia in relation to sales made to Shanghai Minmetals for export to Australia.

5.7 The importer

We noted for direct sales to Australia that Kingland's Australian customers:

- negotiate directly with Kingland for the purchase of the HSS;
- are named as the consignee on the bills of lading;
- organise inland freight and insurance from the port of discharge; and
- arrange customs clearance, logistics, and delivery of the goods after they have been delivered to the Australian port.

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We consider that the Australian customer is the importer of HSS exported by Kingland and consider the customers to be the beneficial owner of the HSS at the time of exportation from China.

5.8 Arms length

In respect of the Kingland's direct and indirect exports sales of HSS to Australia during the investigation period, we found no evidence that:

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

We therefore consider all of Kingland's direct and indirect export sales to Australia during the investigation period were arms length transactions.

5.9 Export price – preliminary assessment

We consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter for direct sales;
- Kingland should be consider the exporter for indirect export sales; and
- the purchase of all the goods were arms length transactions.

Therefore, we are satisfied that export prices for direct and indirect export sales can be established under s. 269TAB(1)(a) of the *Customs Act 1901*³, being the price paid or payable by the importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

A summary of export prices is at **confidential appendix 1**.

³ A reference to a section or subsection in this report is a reference to a provision of the Act, unless otherwise specified.

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6 COST TO MAKE & SELL

6.1 Approach to verification

In its submission, the company provided unit cost calculations for both black circular (BC) and galvanised circular (GC) pipe sold in both the domestic and Australian export markets. The data was divided into the following cost categories:

- material costs;
- direct labour;
- manufacturing overheads;
- other costs - energy
- selling costs;
- inland freight;
- export expenses
- administration cost; and
- financial cost.

We explained to the company that we would choose samples from this costing data for the basis of our verification. We explained our requirement to trace the data submitted through management reports to audited financial statements, and also down to source documents.

At the outset the company explained that its cost to make and sell (CTMS) data contained some minor errors. The company *submitted revised CTMS spreadsheets* for domestic and Australian export sales, together with an explanation of the errors and corrections (**confidential attachment CTMS 1**).

In the CTMS data submitted, costs were shown quarterly across the investigation period (IP). A monthly summary of cost to make (CTM) data was also presented across the IP (**confidential attachment CTMS 2**).

6.2 Verification of manufacturing costs to audited financial statements

We asked the company to demonstrate that the unit costs submitted in its response to the exporter questionnaire could be reconciled to its audited financial statements. We advised that the purpose of this was to gain confidence that the data submitted contains all, and only, the relevant cost to make and sell data.

The company explained that it would verify the completeness of its cost to make calculations contained in its *corrected cost to make and sell (CTMS) spreadsheets* (**confidential attachment CTMS 1**), to its *audited statements* (**confidential attachment EXP 10**) via its *cost of production worksheets* for black circular (BC) (**confidential attachment CTMS 3**) and galvanised circular (GC) (**confidential attachment CTMS 4**) pipe.

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For the verification exercise, we explained to the company that we wished to focus on accounts and transactions generated in the month of May 2011. The company accordingly produced its *cost of production worksheets* for that month for both BC and GC pipe (confidential attachments CTMS 3 and CTMS 4). To help reconcile the monthly *cost of production worksheets* to the quarterly *corrected CTMS spreadsheets* (confidential attachment CTMS 1), the company produced a *monthly cost to make (CTM) summary* (confidential attachment CTMS 2). We were able to agree the quarterly *corrected CTMS spreadsheet* (confidential attachment CTMS 1) to the monthly *CTM summary* (confidential attachment CTMS 2). In turn, we were able to agree the total CTM for BC and GC pipe calculated in their respective *cost of production worksheets* (confidential attachments CTMS 3 and CTMS 4) to the monthly *CTM summary* for May 2011 (confidential attachments CTMS 2).

To establish the nexus between its *corrected CTMS summary* (confidential attachment CTMS 1) and its *audited statements*, the company explained that it needed to translate its actual costs of production (CTM) to the cost of goods sold (COGS) for the purpose of statutory reporting. To do so, the company produced its *sales and costs summary* for all products for May 2011 (**confidential attachment CTMS 5**). The *sales & costs summary* reported on the volume, value and unit sales value of all sales, together with the unit cost of finished goods. The sales and costs summary then calculated the total COGS for each product type. We were able to agree the sum of the total COGS to the COGS reported in the company's *income statement for May 2011* (**confidential attachment CTMS 6**). The company was then able to link the cost of production worksheet for GC pipe (confidential attachment CTMS 4) to the sales and costs summary via the finished goods ledger for a specific product type identified (**confidential attachment CTMS 7**).

Having gained confidence in the company's calculation of its COGS, we asked the company to produce a sales and costs summary for December 2010 (**confidential attachment CTMS 8**), which in turn would allow us to agree the accumulated YTD COGS to the audited financial period (FY 2010). The company produced its income statement for December 2010 (**confidential attachment CTMS 9**). We were able to agree total COGS to the income statement. In turn the YTD accumulated COGS for FY 2010 agreed with the COGS reported in the audited statements (confidential attachment GEN-11).

6.3 Verification of manufacturing costs to source documents

6.3.1 Verification of production quantity

To determine that the correct unit CTMS value has been allocated, we explained to the company that it was necessary to verify the company's production volumes.

Kingland stated that although its exports sales are based on theoretical weight (9.5 below), actual weights of HSS production are recorded in Wei Ke. This was validated during our tour of the manufacturing facility where we observed finished HSS being weighted at the end of the production line. Kingland advised that as a result, there is a small discrepancy between the production volume and sales volume

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of its export sales to Australia. Therefore, it explained, an adjustment is made in periodically in Wei Ke to balance the discrepancy.

In relation to its domestic sales, Kingland advised that sales are based on actual weight and therefore, adjustments are not necessary.

6.3.2 Black circular (BC) pipe

To verify its production quantity, the company produced its *cost of production worksheet* (confidential attachment CTMS 3). The cost of production worksheet provided production quantities for each dimension (*diameter x thickness*) of welded pipe. We were able to agree the production volume contained in the *cost of production worksheet* to the corrected CTMS worksheet for the investigation period (confidential attachment CTMS 1) via the monthly CTMS worksheet (confidential attachment CTMS 2).

We asked the company to verify the accuracy of the production volumes. We identified one entry (42.4 x 2.8 mm). The company referred us to its *monthly warehouse stock report* and identified the specific product and mill line on which it was created (**confidential attachment CTMS 10**). The company explained that production volumes were based on data entered into the system at the point of production. We asked to see a live demonstration from the system. **Confidential attachment PROD 9** contains an extract from that demonstration and the company further produced the production voucher supporting that entry (**confidential attachment PROD 10**). We identified an individual entry on 31 May 2011, which contributed to the calculation of the monthly total. We asked the company to reconcile the *monthly warehouse stock report* (confidential attachment CTMS 10) to the *cost of production worksheet* (confidential attachment CTMS 3). The company explained that the *monthly warehouse stock report* was inclusive of downgrade pipe. The company was able to verify the volume of downgrade pipe by reference to its downgrade pipe inventory ledger (**confidential attachment CTMS 11**). We were able to agree the volume of pipe to the *monthly warehouse stock report* (confidential attachment CTMS 10).

6.3.3 Galvanised circular (GC) pipe

To verify its production quantity, the company produced its *cost of production worksheet* for GC pipe (**confidential attachment CTMS 4**). The *cost of production worksheet* again provided production quantities for each dimension (*diameter x thickness*) of GC pipe. We were again able to agree the production volume contained in the *cost of production worksheet* to the corrected CTMS worksheet for the investigation period (**confidential attachment CTMS 1**) via the monthly CTMS worksheet (**confidential attachment CTMS 2**).

We asked the company to verify the accuracy of the production volumes. We again identified 42.4 x 2.8 mm pipe. The company referred us to its *monthly warehouse stock report* for GC pipe and identified the specific product and mill line on which it was created (**confidential attachment CTMS 12**). Having become satisfied of the

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accuracy of the company's stock accounting systems, in the course of verifying volumes of BC pipe produced (see above), we did not interrogate this entry further.

6.3.4 Material costs

The company explained that BC pipe was the major cost input into the production of galvanised pipe. Therefore, the company began with the verification of the cost of production for BC pipe, which it then treated as a cost input to the production of GC pipe.

6.3.5 Material Costs – BC pipe - Narrow steel strip

The company produced its *Raw Materials' Ledger* for narrow strip (2.75 x 325 mm) (**confidential attachment CTMS 13**). Using a series of inventory in-tickets (**confidential attachment CTMS 14**), the company was able to agree the volume of narrow strip received (reference A). The *Raw Materials' Ledger* indicated the value of narrow strip received into production (reference B).

The company verified the accuracy of the volume of narrow strip received into production (reference A) by reference to a summary of the individual inventory-out vouchers (**confidential attachment PROD 8**).

We asked the company to verify the value of narrow strip received into inventory. The company explained that the volume (reference A) of narrow strip received into inventory was across numerous invoices. Using an *accounting voucher* (**confidential attachment CTMS 15**) to quantify the value of narrow strip received into inventory, the company identified the individual invoices for this receipt into inventory. We sighted the invoices and were able to agree the volume (reference A) and value (reference B) of narrow strip receipts. We requested and received a copy of one of the invoices identified from the *accounting voucher* (**confidential attachment CTMS 16**). We requested proof of payment of the narrow strip invoice. The company explained that it prepaid its narrow strip suppliers based on estimates of the value of the material supplied. To verify this, the company again referred us to the accounting voucher (**confidential attachment CTMS 15**) and identified a credit (CR) entry to its supplier accounts payable ledger (reference C) in anticipation of delivery of a purchase. The company then produced its accounts payable ledger for the narrow strip supplier it purchased the narrow strip from (**confidential attachment CTMS 17**) and identified the CR entry (reference C). In its response to the Exporter Questionnaire the company provided a complete listing of all narrow strip purchases. We identified the purchase (reference C). To establish payment, the company referred us back to the *accounts payable ledger* (**confidential attachment CTMS 17**), and to a DR entry (reference D) indicating payment, proof of which forms **confidential attachment CTMS 18**.

Having satisfied ourselves of the accuracy of the volume and value of narrow strip entered into inventory, we then asked the company to demonstrate the movement of narrow strip from inventory into production via the slitting mill. The company began by referring us to its *slitting production summary worksheet*. The company reconciled the volume (reference A1) and value (reference B1) movement entries out

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of inventory in the *raw material ledger* (confidential attachment CTMS 13) to the *slitting production summary worksheet* (**confidential attachment PROD 1**). The company was able to demonstrate the various slitting patterns (in terms of widths) of the master coil, together with the volume and value of scrap recovered, and scrap lost. We asked the company to verify the accuracy of the volumes of slit coil. The company generated a *production summary* report from its accounting system's (WEIKE) warehouse module (**confidential attachment PROD 2**). We were able to agree the volumes between the *slitting production summary worksheet* (confidential attachment PROD 1) and the *production summary report for slitting* (confidential attachment PROD 2) (see references Z, X and Z1). We explained to the company that we required some verification of the accuracy of the volumes claimed. The company explained that the *production summary report for slitting* was a summary of numerous data entries at the point of production. We asked the company to provide a live demonstration of the data. We sighted the individual entries on the system which agreed with the May 2011 month-end values. We obtained a screen-shot of the entries, a copy of which forms **confidential attachment PROD 3**. We reviewed the individual entries and identified one for further verification. The company produced the slitting weigh-in voucher (**confidential attachment PROD 4**), which it explained is a contemporaneous record of the recording of the volumes. We were able to agree the volumes to the data extracted from WEIKE (**confidential attachment PROD 3**).

Being satisfied with the accuracy of the volumes of slit coil recorded in the company's accounting system, we asked the company to verify the volume of scrap recovery. The company explained that the volume of scrap allocated to a particular profile of master-coil was based on a ratio of total actual recovered scrap in the month. The company explained that this was necessary, as it was inefficient and impossible to physically weigh in the individual volumes of scrap generated from a particular master-coil. We asked the company to verify the accuracy of the ratio applied. The company produced a worksheet demonstrating its calculations (**confidential attachment PROD 5**). We were able to agree the ratio applied to the master coils examined. The company compared the total material input (master coil) to the total output (slit coil). We were able to agree the volumes to the volumes sighted in **confidential attachment PROD 3**. We also asked the company to reconcile the total scrap volume. The company produced its scrap calculation worksheet (**confidential attachment PROD 6**). The company explained that this was a daily account for scrap arising from slitting loss across the two slitting lines. We identified the total slitting loss on 31 May 2011, and asked the company to verify the accuracy of this entry. The company produced the actual weigh-in of scrap voucher for that date (**confidential attachment PROD 7**). We were able to reconcile all scrap entries across the period to the scrap calculation worksheet **confidential attachment PROD 5**.

We also identified a total scrap lost item. We asked the company to verify this volume. The company explained that this was a reconciling item between the total volumes of output and scrap recovery. We noted that "scrap lost" accounted for an insignificant proportion of total master coil entered into production (<1%).

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We then asked the company to explain its valuation of the slit coil and scrap recovered.

The company began by reference to the *slitting production summary* (confidential attachment PROD 1). Looking at the valuation of 128 x 2.75 mm slit coil, we were able to reconcile the value to the accounting voucher (**confidential attachment CTMS 19**) (reference X).

Having gained confidence in the accuracy of the company's inventory movement records, we asked the company to explain to us the actual yielded net cost of narrow steel strip. Focusing on 2.75 x 128 mm slit steel strip, the company began by producing its *raw material ledger* (**confidential attachment CTMS 20**). We were able to agree the volume, value and unit value of receipts slit steel strip received to the slitting production summary (**confidential attachment PROD 1**), the volume and value reflected the yielded cost of slit coil. To demonstrate that the slit coil was applied to production on a weighted average cost basis, the company identified an inventory-out entry on its raw material ledger (confidential attachment CTMS 20). We identified that the unit cost value had adjusted to reflect the weighted average cost of 2.75 x 128 mm slit steel strip. To determine that the value of this steel strip was recorded in production, the company demonstrated how it built up its cost of production worksheet. The company began by producing its slit narrow strip withdrawal summary (**confidential attachment CTMS 21**). We were able to identify the entry into production of the quantity of slit narrow strip, at the value identified in the raw material ledger (confidential attachment CTMS 20). The company explained that it calculated the sum of its value of slit narrow strip withdrawn from inventory and transferred into production as its total cost of steel strip in the period. To indicate the adjusted cost of slit narrow strip, the company produced its *cost of production ledger* for narrow strip used in the production of welded pipe (**confidential attachment CTMS 22**). We asked the company to explain the adjustments to the value of narrow strip. The company advised that the adjustments related to prepayments for narrow strip purchases. The adjustments were necessary following receipt of invoices which may have adjusted the prepaid amount. We were able to trace the adjusted cost of slit narrow strip transferred into production to the company's *cost of production worksheet* (**confidential attachment CTMS 3**).

We observed that the adjusted value of slit narrow strip transferred into production was net of scrap value (refer confidential attachment CTMS 22). On the other hand the cost of production (refer confidential attachment CTMS 3) incorporated the value of scrap in the cost of narrow strip. The cost of production worksheet then isolated the value of scrap.

6.3.6 Material Costs – BC pipe - Downgrade pipe sales

The company explained that it treated sales of downgrade pipe as an off-setting item. Focusing on the May 2011 *cost of production worksheet* (confidential attachment CTMS 3), we asked the company to verify the value of downgrade pipe sales.

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In the course of verifying the volume of downgrade pipe, we were also able to verify the value of downgrade pipe. The company produced a copy of its downgrade pipe sales ledger for May 2011 (**confidential attachment CTMS 23**). We were able to agree the weighted average downgrade pipe selling price across the month to the inventory ledger value for May 2011 (**confidential attachment CTMS 11**). To test the accuracy of the selling value, we identified an individual transaction for further verification, proof of the accuracy of that transaction forms **confidential attachment CTMS 24**.

6.3.7 Material Costs – BC pipe - scrap (pipe) offset

The company explained that it treated sales of scrap pipe as an off-setting item. Focusing on the May 2011 *cost of production worksheet* (**confidential attachment CTMS 3**), asked the company to verify the value of scrap sales.

Having previously verified the volume of scrap, we asked the company to verify the value of scrap. The company began by producing its accounting voucher (**confidential attachment CTMS 19**), indicating the monthly volume and value of scrap for May 2011. We explained to the company that we observed in its worksheet the unit value of scrap applied, however, we required some verification of its accuracy to ensure that we were confident that this was based on relevant information. The company produced its steel scrap movement ledger (**confidential attachment CTMS 25**). The value agreed with that applied in the cost of production worksheet. We requested verification of the unit value of the scrap selling price. The company produced its sale of scrap ledger (**confidential attachment CTMS 26**) which appeared as an 'other operation income item'. We were able to agree the unit value to the cost of production worksheet. To verify the accuracy of the unit value we identified a single scrap sale transaction, and requested source documents. Copies of source documents verifying the accuracy of the scrap sale form **confidential attachment CTMS 27**.

6.3.8 Energy Costs

The company explained that its energy costs comprised electricity and its diesel fuel expense. Focusing on its electricity expense, we asked the company to verify the accuracy of its energy costs.

Commencing with its cost of production worksheet, the company, sought to verify its total electricity expense for May 2011. The company produced its *electricity consumption calculation worksheet* (**confidential attachment CTMS 28**). The worksheet demonstrated the allocation of total electricity expense different cost centres within the company. We identified the "welded-pipe" cost centre and agreed it to the *cost of production worksheet* for May 2011 (**confidential attachment CTMS 3**). We sought to verify the accuracy of the electricity charge. The company provided its electricity meter reading summary across the three tariffs relevant to welded pipe production (**confidential attachment CTMS 29**). The company then produced its *electricity expense accounts payable ledger* (**confidential attachment CTMS 30**). We were able to agree it to total electricity expense across the period.

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As this electricity expense value was calculated at standard rates, the *ledger* also indicated the variance to the actual electricity charge. The company explained that it would not be able to agree the actual electricity charges to the *electricity consumption calculation worksheet* (confidential attachment CTMS 28). However, it did advise that it was able to provide an actual *electricity invoice* that established the reasonableness of the tariffs applied (**confidential attachment CTMS 31**). We were satisfied of the reasonableness of the tariffs.

6.3.9 Labour Costs

The company explained that its labour costs comprised direct labour and welfare expense. Focusing on its direct labour expense, we asked the company to verify the accuracy of its costs. The company explained that it calculated its labour costs for the purpose of its cost of production worksheet at "standard costs". We advised the company that subject to the degree of any variances in its labour cost calculation, we would require some attempt at capturing its actual labour costs.

The company produced its *standard labour cost worksheet* (**confidential attachment CTMS 32**). The worksheet demonstrated the labour cost across models and finishes (galvanised and 'black' pipe) for May 2011. We were able to agree the volume of pipe produced across the period to the cost of production worksheet (confidential attachment CTMS 3). The company explained that it was able to allocate its total labour expense across its cost centres (refer **confidential attachment CTMS 33**). The company identified the direct labour expense for welded pipe, which agreed with the *cost of production worksheet*. We asked the company to establish the accuracy of its labour expense. Using its total standard labour expense worksheet for May 2011 (refer confidential attachment CTMS 33), the company able to agree it to its labour expense ledger. To demonstrate the reasonableness of its calculation of labour expense, the company was able to demonstrate an immaterial expense variance as at 30 June 2011. The company explained that the relevance of the expense variance amount as at 30 June 2011, was that May 2011 labour expenses were paid in June 2011. We were satisfied with the accuracy of the company's labour costs.

6.3.10 Depreciation charge

Focusing on the depreciation charge for May 2011 allocated to the cost of production worksheet (confidential attachment CTMS 3), we asked the company to establish the completeness, relevance and accuracy of the depreciation expense.

The company produced its depreciation ledger for May 2011 (**confidential attachment CTMS 34**). We asked the company to demonstrate the completeness of the depreciation charge. The company produced its Balance Sheet for May 2011 (**confidential attachment CTMS 35**), which agreed with the accumulated total in the depreciation ledger. To demonstrate the relevance and accuracy of the depreciation charge, the company produced an accounting voucher which agreed the total depreciation charge contained in the ledger (confidential attachment CTMS 34). The

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voucher divided the total depreciation charge across administration and manufacturing costs (**confidential attachment CTMS 36**). The depreciation charges allocated to manufacturing overheads were then further divided across the following cost-centres:

- Galvanising workshop;
- Welded pipe (black-circular);
- Plastic coated steel pipe;
- Plastic lined steel pipe;
- Plastic coating workshop;
- Research & Development; and
- Other administration.

We were able to agree the "welded pipe (black-circular)" cost centre to the cost of production worksheet (**confidential attachment CTMS 3**).

6.3.11 Material Costs – Galvanised circular (GC) pipe

In support of its calculation of the CTM of GC pipe, the company produced its *cost of production worksheet* (**confidential attachment CTMS 4**).

The *cost of production worksheet* took as its opening cost position the cost of BC (welded) pipe. To confirm this the company took the May 2011 *cost of production ledger for galvanised pipe*, showing the value of BC pipe transferred into the production of GC pipe (**confidential attachment CTMS 37**). To verify the accuracy of this value, the company produced a BC pipe withdrawal worksheet, indicating the various BC transferred from inventory into GC pipe production (**confidential attachment CTMS 2**). Identifying one product code (A0600PD049), we asked the company to establish that the value at which BC pipe is transferred into the production of GC pipe is in fact at the full CTM that specific dimension of BC pipe (32 x 2.75 mm). The company produced its stock ledger for that product code and accurately demonstrated the transfer into production at its WAC (**confidential attachment CTMS 38**). We were able to agree the total CTM that pipe to the cost of production worksheet for BC pipe (**confidential attachment CTMS 3**).

The elements applicable to GC pipe were then identified:

- Zinc;
- Zinc dross (scrap) off-set;
- Chemicals;
- Auxiliary materials;
- Packing;
- Downgrade pipe;
- Diesel;
- Coal;
- Energy;
- Salary;
- Welfare; and

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- Overheads.

Having verified the CTM of BC (welded) pipe, we explained to the company that we would seek to verify the major additional cost inputs into the manufacture of GC pipe.

6.3.12 Material Costs – GC pipe – Zinc

We asked the company to verify the relevance and accuracy of its zinc costs of production. The company produced its zinc inventory ledger (**confidential attachment CTMS 39**). We were able to agree the WAC of zinc transferred into production in May 2011 to the cost of production worksheet (**confidential attachment CTMS 4**). To test the accuracy of zinc purchases in May 2011, we identified one transaction and requested source documents.

The company explained that as it paid for zinc prior to delivery, it estimated the cost of zinc. In support of this explanation the company produced its accounting voucher demonstrating the allocation of the cost of zinc to the purchase transaction (**confidential attachment CTMS 40**). The accounting voucher indicated the cost of zinc and the estimated cost of freight (as zinc purchases were on an EXW basis). The company then explained that upon receiving an invoice for the zinc purchase, the original estimate was cancelled. It demonstrated this action via its estimated accounts payable ledger (refer **confidential attachment CTMS 41**). The company then produced the invoices supporting the delivery of the zinc together with an accounting voucher (**confidential attachment CTMS 42**) reconciling to the accounts payable ledger for the supplier of zinc (**confidential attachment CTMS 43**). The company also produced proof of payment documents which set off liabilities against the accounts payable ledger (**confidential attachment CTMS 44**).

6.3.13 Material Costs – GC pipe – Zinc dross (scrap) offset

The company explained that it treated sales of zinc dross (or scrap) as an off-setting (or contra-expense) item. Focusing on the May 2011 *cost of production worksheet* (**confidential attachment CTMS 4**), we asked the company to verify the value of zinc dross sales.

The company began by explaining that it recognised four different types of zinc scrap (refer **confidential attachment CTMS 45**). The company then produced a sales ledger for each type of scrap (**confidential attachment CTMS 46**). To establish that the value of zinc scrap sales is reflected in the cost of production worksheet, the company was able to demonstrate that the single sale of zinc scrap in May 2011, was the unit price used to value entries of scrap into inventory in that month. We were able to agree the sum of sales of zinc scrap to the cost of production worksheet (**confidential attachment CTMS 4**).

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6.3.14 Material Costs – GC pipe – Downgrade pipe offset

The company explained that it also treated sales of downgrade GC pipe as an off-setting (contra-expense) item. Focusing on the May 2011 *cost of production worksheet* (confidential attachment CTMS 4), we asked the company to verify the value of downgrade GC pipe sales.

We were able to agree the monthly sales ledger for downgrade GC pipe (confidential attachment CTMS 47) to the inventory ledger for May 2011 (confidential attachment CTMS 48), which agreed with the value allocated in the cost of production worksheet (confidential attachment CTMS 4).

6.4 Selling, general and administrative expenses and non-operating items

The company provided calculations of its selling, administrative, finance and delivery expenses at appendices G-7(2) and G-7(3) of its response to the exporter questionnaire.

6.4.1 Verification of selling, general and administration expenses to audited financial statements

To calculate selling, general and administration (SG&A) expenses, the company used the expenses shown in the audited income statement for 2010 (confidential attachment EXP 8), and the Income Statement for January to June 2011. In relation to 2010, the company deduced the half-year expenses from the full year figures via management reports (SG&A Summary, confidential attachment SGA 6). A summary of the company's SG&A expenses is contained in confidential attachment SGA 1. We were able to reconcile the management report for 2010 to the audited Income Statement via the auditor's notes to the audited accounts (confidential attachment EXP 9). We were able to apply the post-audit adjustments to the selling expense in the management reports (SG&A Summary) for 2010. Our reconciliation of the management report to the audited income statement via the auditor's notes forms the worksheet at (confidential attachment GEN 7).

6.4.2 Selling, general and administration expenses

The company explained that it allocated its total SG&A expenses across the investigation period to its calculation of the cost to make and sell (CTMS) the like goods, and the goods under consideration (GUC) on a turnover basis. We explained to the company that its cost to sell (CTS) calculation for the like goods should reflect, as accurately as possible, only expenses incurred in the sale of like goods. We reviewed the selling and administration expenses to determine their completeness and relevance, in particular, we reviewed detailed ledgers for the following selling and administration expense accounts and reached the following conclusions concerning their allocation to domestic or export sales:

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6.4.2.1.1 Quality claim

The quality claim selling expense relates to warranty claims. The company advises that there have been no warranty claims arising from export sales. We verified this claim by reference to the Quality claim ledgers for 2010 and 2011 and found that claims were only made by domestic customers (**confidential attachment SGA 2**). We advised the company that it was therefore appropriate to allocate this expense to the CTS like goods only.

6.4.2.1.2 Salary (sales)

The company advised that the salary expense under the selling expense account, related to the domestic sales team. As indicated in section 5.2 above, the domestic sales team is not responsible for export sales, which in the investigation period was conducted by the General Manager and his assistant, whose salaries are recorded under administration expenses. We advised the company that it was therefore appropriate to allocate this expense to the CTS like goods only.

6.4.2.1.3 Promotion expenses

The promotion expenses account relates to the printing, advertising and exhibition expenses of the company in the course of its domestic sales activities. This was confirmed by reference to this expense ledger (**confidential attachment SGA 3**). Accordingly, we advised the company that it was therefore appropriate to allocate this expense to the CTS of like goods only.

6.4.2.1.4 Export expenses

The company produced the export expenses ledger for the second half of the investigation period (**confidential attachment SGA 5**). We were able to find the following expenses posted to it:

- Issuing bank notification fee;
- [REDACTED]; and
- Terminal Handling Charges.

In the course of verifying the company's export sales to Australia, we requested and received source documents supporting the calculation of commission and freight forwarding expenses (see section 5.4.1 above and 5.4.3 above). The company acknowledged that as these expenses were unrelated to the selling costs associated with the sale of like goods, it was therefore appropriate to allocate this expense to the CTS of like goods only.

6.4.2.1.5 Tender offer expenses

The company advised that this sales expense account related to sales of plastic lined water pipe, being goods outside the scope of our enquiries. We exclude this selling expense from the CTS of the like goods and GUC.

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6.4.2.1.6 Administration depreciation expense

We identified a depreciation charge under the administration expenses account of the company. We asked the company to verify this charge. The company explained that the quantum of this charge had been quantified in the context of verifying the allocation of a depreciation charge to the CTM the goods (refer **Cost to Make and Sell, section 6.3.10**).

6.4.2.1.7 Rental expense and property tax and stamp duty

We observed a negative balance in the rental expense account. We asked the company to explain. The company explained that as Kingland owned the property on which its parent company and subsidiaries also operated, it did not pay rent, but instead earned rental income. We asked the company to verify its ownership of the property. The company produced copies of its property taxes ledger indicating payment of property tax for 2010, and rental stamp duty. The company also produced its property tax statement and proof of payment. These documents form **confidential attachments SGA 4**.

6.4.3 Corporate charges and charge-back

We identified that as a subsidiary of Kingland Group Co., Ltd, we would have expected the company to incur some corporate charges, including a share of statutory and corporate and business registration expenses incurred by its parent company on behalf of the group. The company explained that that was not the case.

Since the company listed on the Shenzhen Stock Exchange in July 2010, we explained that we expected to find ongoing listing charges and expenses incurred with public listing. The company explained that the ongoing listing expense was nominal, and was accounted for in the other administration expenses. We asked the company to identify which account, but it was unable to do so. Instead the company provided a copy of its annual listing fees for 2011, we confirmed that the amounts were in fact nominal (see **confidential attachment SGA 8**).

In calculating the SG&A expenses, Kingland excluded the transportation expense. The rationale being that this item can be broken down into domestic and export transport expense and attributed directly to the expense calculations of domestic and exported goods as appropriate.

The company excluded its financial expenses from its calculation of SG&A, however, it was included in its final CTS calculation.

6.4.4 Delivery expenses

In its response to exporter questionnaire, the company estimated the same rate for the delivery of the like goods, FIS, to its Chinese domestic customers and, FAS, to the Port of Shanghai for its Australian export customers. We explained to the company that this was not an appropriate method of calculating potentially, extreme

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differences in the delivery rate between customers in different locations. The company agreed to review its approach. The company explained that it did not allocate actual delivery expenses to individual transactions of sales of the like goods. The company explained that its carriers invoiced it monthly for freight expenses without reference to particular shipments. We asked the company how it was able to reconcile the invoices to the actual expenses incurred. The company explained that although it records delivery expenses as they are incurred for reconciliation against its carriers' monthly invoice, it does not identify the transaction against which it is applied.

We asked the company to establish that the standard delivery rate applied for all domestic and export customers was reasonable. We identified the company's top-10 domestic customers by volume, and sought to see invoices to these customers across the investigation period. We calculated that these customers accounted for >40% of domestic sales of the like goods by volume. We applied the inland delivery rate (RMB/Tonne) for these customers to the domestic sales spreadsheet. The verification of these expenses is discussed at the domestic sales section of this report.

It is important to note that for the purpose of conducting ordinary course of trade tests, we relied on the total delivery expense verified to audited accounts and allocated on the basis of the volume of the sales of like goods and the GUC. This total value was then adjusted for the total amount of export inland freight expense to the Port of Shanghai verified to source documents. Please also refer to the ordinary course of trade section of this report for further discussion of the treatment of delivery expenses.

Copies of the inland freight documents for the company's top-10 domestic customers form **confidential attachment DOM 4**.

6.5 Conclusion

We were able to reconcile the data provided to audited accounts and source documents. In doing so, we formed the view that the costs to make calculations in the company's response to the exporter questionnaire are reasonable reflections of the actual costs incurred in manufacturing BC and GC pipe. We also considered the calculations, for selling, administrative and delivery expenses were a reasonable reflection of the actual costs incurred in selling BC and GC pipe. Further, we consider the calculation of non-operating expenses, are a reasonable assessment of such items that can be reasonably attributed to the manufacture and sale of BC and GC pipe.

In summary, sufficient CTMS information was obtained and verified to:

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

PUBLIC RECORD**7 DOMESTIC SALES****7.1 Domestic sales general**

Kingland provided a listing of all domestic sales of the goods under consideration showing the month of sale, the model (galvanised or black), the product code (the outside diameter and wall thickness of the pipe sold), the quantity and the gross invoice value as part of its response to the exporter questionnaire. This information was contained in a spreadsheet titled, "actual domestic sales" which forms **confidential attachment DOM 1**.

Kingland advised that it sells black, galvanised and some downgrade and scrap on the domestic market. It claims that only sales of black and galvanised products are directly comparable to the export sales, see like goods section above. The company advised that it generally only sells 6m length pipe on the domestic market and therefore is able to generally sell from stock. The company advised that its customers on the domestic market consist of distributors and some end users.

Kingland stated that its biggest competitors in the domestic market were Tianjin Youfa, Henda Zhenda, Tianjin Lida, Hengzhui Huaqi, and Tianjin Jingcheng.

7.2 Domestic sales process

Kingland advised that they do not use price lists in the ordinary course of business and prices offered to its customers vary according to the volume of the goods purchased. Accordingly, the prices offered to distributors are generally lower than those offered to end users, as distributors generally purchase a greater quantity of the goods.

A benchmark price is set by a management team in consideration to 3 major factors:

- 1) Cost of raw materials;
- 2) Prices offered by Kingland's major competitors; and
- 3) Inland freight costs.

Kingland gathers intelligence on the domestic market through its own sales staff. The benchmark price is conveyed to sales staff in a meeting. The sales staff will then have consideration to this benchmark price in negotiations and will work to their own incentives in consideration of the benchmark price. The actual sales price is calculated based on the actual weight of the HSS.

Kingland outlined the typical domestic sales process as follows:

- receive an order by fax or telephone;
- negotiate the price in consideration to the benchmark price. This may require some ongoing negotiation;

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- make an offer to the customer in the course of negotiation;
- check stock and negotiate the detailed conditions of sale, concluding the contract and settling the price;
- the HSS is taken out of stock, or if not in stock, manufactured then delivered to the customer. The domestic customer will generally receive the product within 15 days from the time of order if the product is in stock; and
- payment terms are cash on delivery and payment is generally received within 3 days.

7.2.1 Discounts, rebates and allowances

Kingland advised that there are no agency, distributor agreements, or commissions applicable to the domestic sales and Kingland stated that it does not provide discounts or rebates to its customers. Kingland advised that it does not provide any other form of financial assistance to its customers for promotional purposes.

7.2.2 Date of sale

We identified from the domestic sales source documents provided (outlined below) that the date of sale listed was different to the date of the invoice for some of the selected transactions. Kingland advised that the date of sale and date of invoice (VAT invoice) listed in its domestic sales spreadsheet was in fact based on the date of Kingland's internal accounting voucher. Where there was a discrepancy between the date of the invoice and the date of the voucher, we identified that the maximum amount of days difference was 5 days. In addition, Kingland advised that under Chinese accounting regulations, each VAT sales invoice must be recorded in the same month therefore, even if there is a discrepancy, the sales will still be recorded in the same month. As the dumping margin is calculated by comparing quarterly export prices and normal values, we are satisfied that this discrepancy will have no effect on the dumping margin calculations.

7.3 Verification of domestic sales up to financial statements

Having verified the sales summary ledgers (confidential attachment EXP 5) to Kingland's 2010 audited financial statements (confidential attachment EXP 10) in section 5.3 above, we sought to verify the completeness and relevance of the detailed domestic sales spreadsheet and its detailed Shanghai Minmetals sales spreadsheet (confidential attachment EXP 4) by reconciling them to the sales summary ledgers (confidential attachment EXP 5).

We first note that the sales summary ledgers (confidential attachment EXP 5) is broken down into product codes for domestic sales, as opposed to export sales which is a single line (section 5.3 above), and shows subtotals for each general product category, including galvanised pipe and black pipe. The other products on its sales summary ledger refer to its plastic lined water pipes. Kingland was able to identify the downgrade pipes and pipes that were greater than 165.1mm in outside

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diameter and provided a spreadsheet summing its values (**confidential attachment DOM 2**).

We were then able to calculate the total value of domestically sold like goods as reported in the sales summary ledgers (confidential attachment EXP 5) by summing the total sales of galvanised pipe and black pipe, then subtracting the downgrade and out-of-scope pipes. We were able to reconcile this value to the total sales value shown in the detailed domestic sales spreadsheet, (confidential attachment DOM 1) with the difference matching the sales value to Shangahi Minmetals (confidential attachment EXP 4).

Having reconciled Kingland's detailed domestic sales spreadsheet to audited financial accounts, we are satisfied that Kingland has provided a complete and relevant list of domestic sales for the investigation period.

7.4 Verification of domestic sales down to source documents

The domestic sales listing provided by Kingland included line by line information relating to:

- customer;
- level of trade;
- product specifications;
- model and finish;
- invoice date and number;
- shipping and payment terms;
- sales quantity (tonnes); and
- inland transport.

Prior to the visit, we selected 10 domestic transactions from the domestic sales spreadsheet and requested that Kingland provide source documents in relation to each sale.

For each selected transaction, Kingland provided a copy of the:

- Accounting voucher;
- VAT Invoice;
- finished goods outgoing list;
- account receivable ledger print out;
- payment voucher; and
- proof of payment.

These documents are at **confidential attachment DOM 3**.

We matched the quantity and prices with the amounts provided in the domestic sales spreadsheet for the selected transactions. Kingland identified a minor input error in respect to a listed invoice number and we considered that this did not materially affect the integrity of the domestic sales spreadsheet. One of the selected transactions was a negative transaction. Kingland advised that this transaction was in relation to an accounting error and was able to identify the original transaction.

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We were also able to match the proof of payment documents and are overall satisfied that the domestic sales volume and values in the domestic sales listing are accurate.

7.4.1 Inland Freight Costs

Kingland's domestic sales spreadsheet included a column for inland freight costs. Kingland advised that inland freight for each transaction was based on the average costs of freight throughout the investigation period. As discussed in section 5.4.3 above, Kingland indicated that the average cost of freight throughout the period was RMB [REDACTED] per tonne.

Kingland advised that it delivers to all areas of China, which for some distances may be substantially more expensive than transporting the goods locally or to the Shanghai port. Therefore, we considered that this method of allocating inland freight unreasonable. Consequently, we requested details on inland freight costs for the top 10 customers based on volume (**confidential attachment DOM 4**) and revised the inland freight costs for those customers. Further details on inland freight costs can be found in section 9.1 below.

7.5 Level of trade

Kingland's domestic sales spreadsheet indicated whether each of its domestic customers were either an end-user or a distributor. An analysis of the weighted average unit domestic price, we found that there was a distinct price difference between end-users and distributors (**confidential attachment DOM 5**). Therefore, we consider it necessary to match levels of trade in calculating dumping margins.

7.6 Related Parties Sales

As discussed in section 3.2 above, Kingland made sales of HSS to related companies. We note that during the investigation period, Kingland made sales to the following related parties:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Kingland also made some small sales to itself, for which Kingland advised they had to raise a sales invoice due to its financial management commitments as a public company. Kingland advised that sales made to itself were for internal use at its manufacturing facility.

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We note that the sales to these related parties and itself made up less than 1.0% of Kingland's domestic sales during the investigation period. We also compared the prices of the related party sales to the prices of the external end-user sales and found that the prices were relatively similar (confidential attachment DOM 5).

We also identified that a number of other customers had the Chinese word for Kingland, "Jinzhou" in its title. Kingland advised that these customers were not related parties but included Kingland in its title to represent that they sold Kingland manufactured products. Kingland further advised that these customers do not receive any form of assistance for including the Kingland name in its title. We found no evidence that these customers were related to Kingland, nor did we find evidence of payments, rebates or any other considerations made to these customers.

Kingland advised that other related parties identified in previous visit reports, [REDACTED] no longer existed.

7.7 Arms Length Transactions

For domestic sales we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- Kingland's customers (or any customers' associates) 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.

Therefore, we are satisfied that Kingland's domestic sales of like goods are arms length transactions in accordance with section 269TAA of the Act.

7.8 Ordinary Course of Trade (OCOT)

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods and are unrecoverable within a reasonable period, they are taken not to have been paid in the ordinary course of trade.

In order to test whether the sales are in the ordinary course of trade, we first tested the profitability of each transaction individually by comparing the unit selling price to the corresponding quarterly weighted average CTMS for each finish (i.e. black or galvanised). For those sales found to be sold at a loss, we then tested its recoverability by comparing the unit selling price to the weighted average CTMS of the relevant finish over the whole of the investigation period.

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The table below shows the results of the OCOT test.

Level of trade	Model	Unprofitable sales	Unrecoverable sales
Distributor	black	████	████
	galvanised	████	████
End user	black	████	████
	galvanised	████	████

We found that the volume of unrecoverable sales of black and galvanised HSS to end users were less than 20%. However, we found that the volume of unrecoverable sales of black and galvanised HSS to distributors were greater than 20%.

Where the volume of non-recoverable sales exceeds 20% of the total volume sold, those sales are rejected. The remaining profitable and recoverable sales are treated as sold in the ordinary course of trade.

Accordingly, sales of unrecoverable black and galvanised HSS to distributors were excluded and considered not to be sold in the ordinary course of trade.

Therefore, all domestic sales to end users and only recoverable sales to distributors were treated as being made in the ordinary course of trade.

7.9 Suitability of domestic sales

Section 269TAC(2) provides that certain domestic sales may be unsuitable for use in determining normal values because of a factor in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market.

Low volume is defined in section 269TAC(14) as less than 5% of the total volume of the goods that are exported to Australia by the exporter.

In assessing whether there are sufficient domestic sales made in the ordinary course of trade, we compared the volume of domestic OCOT sales to the volume of export sales, individually by finish and by level of trade.

The table below shows the results of this test.

Level of trade	Model	Domestic OCOT sales/export sales
Distributor	black	████
	galvanised	████
End user	black	████
	galvanised	████

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We found that the volume of domestic OCOT sales represent more than 5% of the volume of export sales, individually for each finish and level of trade combination.

Therefore, we consider that domestic OCOT sales are suitable for determining normal values.

7.10 Domestic sales – summary

We found a sufficient volume of pipe sales in the domestic market that were arms length transactions and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Based on the information provided and the verification processes conducted on site, we are satisfied that prices paid in respect of Kingland's domestic sales of pipe may be suitable for assessing normal value under section 269TAC(1).

However, the use of domestic selling prices under section 269TAC(1) is subject to the outcome of Customs and Border Protection's assessment under subsection 269TAC(2)(a)(ii) of whether or not the situation in the Chinese market is such that sales in that market are not suitable for use in determining a price under section 269TAC(1). This assessment has not been made at the time of writing this report.

A summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

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8 THIRD COUNTRY SALES

In its exporter questionnaire response, Kingland provided a summary of its HSS export sales to third countries (**Confidential Attachment THI 1**).

Kingland explained that it only exported three sales of HSS to third countries during the investigation period. As the number of transactions was small, we asked for, and Kingland provided us with source documents of all third countries sales (**Confidential Attachment THI 2**). For each sale, Kingland provided the following documents:

- Accounting voucher;
- Commercial invoice; and
- Warehouse out slip

We were able to reconcile the source documents to the third country sales summary.

As it seemed we were in possession of enough verified information from the submission and our visit to calculate normal values using domestic sales or a constructed method, we did not pursue further verification of third country export data.

PUBLIC RECORD**9 ADJUSTMENTS**

The purpose of adjustments is to ensure a fair comparison at the same point as the export sales price. The export sale price used in our analysis is the FOB level.

Kingland provided information in relation to the following factors for consideration in the comparison of export and domestic sales:

- inland transportation including handling, loading & ancillary expenses;
- port charges and commissions;
- domestic sales related expenses, including advertising expenses, promotion expenses, quality claim expenses
- average credit terms;
- actual versus theoretical weight by export sales;
- inventory carrying costs.

Confidential attachment ADJ 1 forms a summary of Kingland's adjustment claims and calculations.

To ensure parity in any comparison between export prices and domestic prices a number of possible adjustments were considered for differences between the sales. The following addresses our consideration of each of the matters.

9.1 Inland Transportation

Kingland incurs road freight expenses in delivering pipe to domestic customers. In export sales its inland freight expense comprises barge and road to deliver the goods port for export. For domestic sales we calculated a downward adjustment based on the actual inland transport expenses of Kingland's top-10 domestic customers and an average RMB [REDACTED]/tonne for others (see section 7.4.1 above), and for export sales an upward adjustment of RMB [REDACTED]/tonne having regard to the costs of barges and trucks used in the delivery of these sales to the export port (see section 5.4.3 above). This adjustment was incorporated in the normal value calculation. The documents relating to inland transportation costs are at confidential attachments EXP 14 and DOM 4.

9.2 Port charges and commissions

Kingland incurs port charges and sales commissions in relation to its export sales to Australia. For Australian sales we calculated a downward adjustment based on the total freight forwarders fees and sales commissions incurred of RMB [REDACTED]/tonne for direct export sales to Australia. The documents relating to port charges and commissions are at confidential attachments EXP 13, EXP 2 and SGA 5.

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9.3 Domestic sales related expenses

Advertising expenses, quality claim and promotion expenses were not incorporated because information about the nature of the expenses was unavailable.

9.4 Average credit terms

Average credit terms were calculated for Kingland's Australian and domestic customers. However, we did not adjust for credit terms as domestic sales are [REDACTED] and export sales are by [REDACTED], and therefore are both considered as cash terms.

9.5 Actual versus theoretical weight

Kingland stated that sales to Australia were invoiced based on the theoretical weight⁴ of the goods whereas its domestic sales are based on actual weight. It explained that the exported HSS complies with the BS 1387 standard which allows for a tolerance to the thickness, and thus the invoiced theoretical weights are higher than the actual weight. Therefore, Kingland has claimed an adjustment for the difference between actual and theoretical weights.

Kingland advised that it makes regular adjustments to its financial management system to take into account the difference between invoiced volumes (theoretical weight) and production volumes (actual weight) and provided us with the relevant accounting entries at **confidential attachment ADJ 2**, which was used to calculate the adjustment. Kingland also provided us with a recent worksheet showing us how the difference between actual and theoretical weights were calculated and provided source documentation in the form of a commercial invoice (showing theoretical weights) and production record (showing actual weights) to support the spreadsheet (**confidential attachment ADJ 3**).

Kingland claimed that the normal value should be adjusted downwards by the percentage difference between the calculated theoretical and actual weights (as calculated in confidential attachment ADJ 1). However, we consider it more appropriate to adjust the weight in the normal value spreadsheet for each domestic sales transaction upwards by the percentage difference, and using this adjusted weight as the denominator in calculating weighted average normal values.

9.6 Domestic inventory carrying cost

Kingland claimed that domestic sales are made from inventory held in its warehouses and storage yards, whereas export sales to Australia are made to order and shipped directly from factory to port as soon as possible after production.

⁴ $\text{KG per m} = (\text{Outside Diameter} - \text{Thickness}) \times \text{Thickness} \times 0.02466$.

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Kingland has claimed therefore that the cost of carrying inventory in relation to domestic sales differs to that in relation to export sales to Australia.

Kingland provided information about the average inventory levels during the investigation period. Total domestic sales/average inventory gave the inventory turnover period which divided into 365 yields the average days of sales held in inventory (████ days) We calculated an inventory carrying cost for domestic sales based on the average days in stock, the bank overdraft rate during 2010/2011 (████%) and the average unit cost of the finished goods.

We did not consider that sufficient information about the nature of the claim was available.

The documents relating to inventory carrying costs are at **confidential attachments ADJ 4**.

9.7 Unrefundable VAT

As discussed in section 5.4.2 above, Kingland advised that it incurs an un-refundable VAT expense on export sales to Australia of 8%, being the difference between the VAT amount of 17% less 9% VAT refund on export sales. Therefore, we applied an upwards adjustment of 8% to the normal value for direct export sales to Australia.

9.8 Conclusion - Adjustments

To ensure a fair comparison of normal values (at ex-works, cash terms) and export prices (at FOB, cash terms), we consider that adjustments to domestic selling prices in accordance with s. 269TAC(8) of the Act should be made for:

- inland freight – deduct from domestic inland freight and add export inland freight for all sales;
- Port Charges and commissions – add export port charges and commissions for direct sales to Australia
- VAT – add 8% un-refundable VAT amount for direct sales to Australia; and
- theoretical/actual weight adjustment – adjust quantity of domestic sales upwards for all sales.

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10 NORMAL VALUE

We found sufficient volumes of domestic sales of HSS by Kingland that were arms length transactions and at prices that were in OCOT for both black and galvanised HSS. Therefore, we are satisfied that prices paid in respect of domestic sales are suitable for assessing normal values under s. 269TAC(1) of the Act.

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

We calculated weighted average normal values separately by quarter, by finish and by level of trade.

Detailed normal value calculations, and summary normal values, are contained in **Confidential Appendix 4**.

PUBLIC RECORD**11 DUMPING MARGIN**

We compared the monthly weighted average export prices with corresponding monthly constructed normal values, for the whole of the investigation period, in accordance with section 269TACB(2)(a).

The weighted average product margin for HSS exported to Australia by Kingland during the investigation period was -6.6%. Details of this calculation are at **confidential appendix 5**.

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12 MARKET SITUATION – HRS PURCHASES

12.1 General

In its exporter questionnaire response, Kingland provided a detailed HRS purchases spreadsheet during the investigation period (**Confidential Attachment MKT 1**). The spreadsheet shows that Kingland purchased HRS from [REDACTED] different suppliers. Kingland identified one supplier as a State Owned Enterprise (SOE) and the remaining [REDACTED] suppliers as not SOEs.

We also enquired about the provincial 5 year plan. Kingland advised that although it understands that there is a 5 year plan, it claims that it has not seen and does not have a copy of the 5 year plan in its possession.

12.2 Verification of HRS purchases up to financial statements

We sought to verify the completeness and relevance of Kingland's detailed HRS purchases spreadsheet up to audited financial statements. We asked Kingland to provide us with its HRS inventory movement ledger, seeking to reconcile the volume in the ledger to the spreadsheet. However, Kingland informed that we would not be able to conduct such reconciliation as the ledger also includes the volume of HRS that is put back into inventory after slitting. It explained that we would not be able to separately identify the volume of HRS that enters inventory after being purchased or slit from the ledger.

We then suggested that Kingland provide us with list of all its supplies and identify which supplies were HRS suppliers. Kingland provided us with a copy of its accounts prepaid ledger as at 30 June 2011 (**confidential attachment MKT 2**) with HRS suppliers identified. Kingland then provided us with its accounts payable ledger as at 30 June 2011 (**confidential attachment MKT 3**) and we were able to reconcile sum of the debits and credits up to the June 2011 balance sheet (**confidential attachment MKT 1**) (see section 5.3 above for reconciliation of the balance sheet to audited financial statements).

We enquired about the difference between the accounts prepaid and accounts payable ledgers and Kingland explained that the accounts prepaid ledger generally contain large suppliers, such as HRS suppliers, whereas the accounts prepaid ledger has smaller suppliers.

We then noticed that the accounts prepaid ledger only identified [REDACTED] HRS suppliers whereas the detailed HRS purchases spreadsheet contains 37 HRS suppliers. Kingland explained that the accounts prepaid ledger only contains suppliers with active balances. Kingland then provided us with its accounts prepaid/payable chart of accounts that shows a complete list of its suppliers (**confidential attachment MKT 5**). Kingland then went through this list and identified all HRS suppliers. However, the list identified [REDACTED] HRS suppliers, while the spreadsheet showed 37. After further investigation, Kingland advised that there was a data entry error when the spreadsheet was being compiled. It explained that HRS purchases from

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██████████ were entered into the spreadsheet as ██████████ which was another supplier of HRS. We considered that this explanation was reasonable.

We then selected 6 other suppliers and Kingland provide us with source documents showing that these suppliers were not suppliers of HRS during the investigation period (**confidential attachment MKT 6**).

Kingland then provided us with the ledgers for all HRS suppliers for transactions occurring during the investigation period (**confidential attachment MKT 7**). Kingland explained that this was used to complete the detailed HRS purchases spreadsheet. We were then able match the entries in the ledger to the spreadsheet.

Therefore, we are satisfied of the completeness and relevance of the detailed HRS purchases spreadsheet.

12.3 Verification of HRS purchases down to source documents

To verify the accuracy of Kingland's HRS purchases data, we sought to reconcile the 3 HRS purchase invoices previously provided during the cost verification (see costs section) to the detailed HRS purchases spreadsheet.

We were able to match the volumes and values from the invoices to the supplier's accounts payable ledgers (**confidential attachment MKT 6**) and to the detailed HRS purchases spreadsheet.

We then asked Kingland to explain how it determined whether or not a HRS supplier was an SOE. Kingland explained that it declared a supplier as an SOE if it was majority owned by the State as shown on the supplier's paid in capital verification report or company registration documents. Kingland provided copies of these documents of four HRC suppliers and/or manufacturers at **confidential attachment MKT 8**.

12.4 Conclusion

We are satisfied that Kingland's detailed HRS purchases spreadsheet is a reasonably complete, relevant and accurate reflection of its actual HRS purchases during the investigation period.

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13 SUBSIDIES

13.1 General

In its exporter questionnaire response, Kingland declared that it has received preferential income tax treatment as a high tech enterprise and several research & development (R&D) assistance grants.

However, Kingland claimed that it did not import any raw material or equipment during the investigation period. In addition, Kingland claimed that although it has purchased HRS from SOEs, the purchase prices were at competitive market prices comparable to the prices purchased from non-SOE suppliers.

13.2 Preferential Income Tax Programs

Kingland stated that as a high tech enterprise, it was entitled to a preferential tax rate of 15% rather than the general rate of 25%. We asked Kingland for further details on this program and how Kingland became eligible for the preferential tax treatment. Kingland explained that to benefit from the reduced tax rate of 15%, it must be certified as a high tech enterprise and provided us with a copy of the certification (**Confidential Attachment SUB 1**). Kingland also provided us with a copy of the application form for the certification as a high tech enterprise (**Attachment SUB 2**), and a copy of the Enterprise Income Tax Law articles (**Attachment SUB 3**) which provides details of the general rate (article 4) and the preferential rate (article 28).

13.2.1 Verification of tax payments up to financial statements

We sought to verify Kingland's tax payment up to financial statements to verify its completeness and relevance. In its exporter questionnaire response, Kingland provided copies of its 2008-2010 income tax returns (**confidential attachment SUB 4**). On the income tax returns, we were able to identify the exempted income tax amount (line 28) which amounted to 10% of its taxable income amount (line 25). We were then able to identify the final tax payable amount (line 30) which is the income tax payable amount (line 27) less exempted income tax amount (line 28) and equates to 15% of the taxable income amount.

We then attempted to match the final tax payable amount on its 2010 income tax return (confidential attachment SUB 4) to the 2010 income statement (confidential attachment EXP 8), however there was a variance of approximately 2%. Kingland explained that while the tax payable amount shown on its tax return is based on tax regulations, the tax amount on the income statement shows the accrued tax expense for 2010 based on the Chinese GAAP, which may include potential or deferred income tax expenses. We consider this explanation reasonable.

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13.2.2 Verification of tax payments down to source documents

We sought to verify Kingland's tax payment down to source documents to verify its accuracy. In its exporter questionnaire response, Kingland provided proof of payment of its income tax amount. We were able to match the sum of the income tax payment receipts to the final income tax payable amount shown on the income tax returns for 2008 to 2010 (confidential attachment SUB 4).

13.3 Grants

In the exporter questionnaire response, Kingland stated that it received four R&D assistance grants during the investigation period and none related specifically to HSS. Kingland claimed that two of the grants were in relation to patents of pipes that are not HSS, one was R&D assistance for its plastic lined pipe, and one was an award for leadership in high tech enterprises. Kingland provided documentation for each of these grants at **confidential attachment SUB 5** and we note that these source documents substantiate the claims that the grants were not related specifically to the production of HSS.

We asked that Kingland whether it received other government assistance payments and it responded that although it may have received other grants from the government, it is only able to respond to specific identified programs consistent with the WTO Agreement on Subsidies and Countervailing Measures.

13.3.1 Verification of grants up to financial statements

We sought to verify Kingland's grants up to financial statements to verify its completeness and relevance. Kingland provided us with a copy of its Non-Operating Income Ledger – Government Grants for 2010 (**confidential attachment SUB 6**) and Jan-Jun 2011 (**confidential attachment SUB 7**) and we were able to identify the R&D grants declared by Kingland. It then provided us with a copy of its Non-Operating Income Ledger – Other for 2010 (**confidential attachment SUB 8**) and we were able to match the sum of the two Non-Operating Income ledgers for 2010 to the 2010 Income Statement (confidential attachment EXP 8).

We noticed that Kingland's Non-Operating Income Ledger – Government Grants shows other assistance payment apart from the identified R&D grant. We asked, and Kingland to provided, details and documents of the other payments shown on the ledger (**confidential attachment SUB 9**) and refer the assessment of these grants to the case team.

13.3.2 Verification of grants down to source documents

We sought to verify Kingland's grants down to source documents to verify its accuracy. For each of the R&D grants declared in the exporter questionnaire response and the other grants identified during the visit, Kingland provided us with copies of source documents (confidential attachment SUB 5 and SUB 9) including:

- the accounting voucher;

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- the Bank payment advice; and
- the Remittance advice.

We were able to match the values of the grants to the source documents and note that two of the R&D grants were paid in one transaction.

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