

**Verification report – Overseas Exporter**

**Case AD0012: Aluminium Extrusions from the People’s Republic of China**

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| **Period of Investigation (POI):** | 1 June 2020 – 31 May 2021 |
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| **Injury Period:** | 1 June 2017 – 31 May 2021 |
|  |  |
| **Date of report:** | 17 March 2022 |
|  |  |
| **Case team contact details:** | AD0012@traderemedies.gov.uk |
|  |  |
| **Company verified:** | Guangdong Haomei New Materials Co., Ltd. |

For further details, please see the [Notice of initiation](https://www.trade-remedies.service.gov.uk/public/case/AD0012/submission/58db49f3-2ec8-4b8d-9acc-82d85bb69037/) on the public file.

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# Executive Summary

On 21 June 2021, the Trade Remedies Authority (TRA) initiated an investigation into alleged dumping of aluminium extrusions imported into the United Kingdom from the People’s Republic of China. Guangdong Haomei New Materials Co., Ltd. (Haomei), one of the exporters of the goods concerned and its wholly owned subsidiary, Guangdong King Metal Light Alloy Technology Co., Ltd (King Metal), responded with completed questionnaires to the investigation. As part of the investigation, the TRA sought to verify the questionnaire responses including the data annexed to the questionnaires (questionnaire annex). This report details the evidence provided, how it was verified and the key findings from the verification of the data relating to Haomei and King Metal.

During the verification process we:

* Researched and verified the company information, such as establishment, function and associated parties from open sources, audited financial statements and Haomei’s website.
* Reviewed the PCN allocation based on information from their sales database and technical drawings.
* Conducted an accounting walkthrough of their accounting systems and completed an upwards verification of both sales and costs using their audited financial statements and internal management accounts.
* Conducted downwards verification on sales and purchases using source documents provided.
* Reviewed the cost allocation assigned to PCNs for reasonableness.
* Reviewed other data such as the transport costs and import duties relevant to the investigation.

We conducted a remote verification of both Haomei and King Metal.

The followings findings were made:

* Haomei and King Metal are both producers of the goods under investigation. They import into the UK via an associated party Haomei Aluminium Products Co. Ltd based in Hong Kong.
* Adjustments for transport, credit and packing had not been initially provided. Revisions to the relevant sales data was subsequently provided.
* CIF values for UK exports had not been included in the original data set due to the fact that the goods are exported FOB but the relevant sales to UK data was updated with estimates on request and subsequently verified.

Once the above adjustments had been completed the TRA had a reasonable level of assurance that the information could be treated as complete, relevant, and accurate and could therefore be used by the TRA for the injury assessment and margin calculation in this investigation and for any other purpose within the investigation.

# Purpose of verification

The purpose of the TRA’s verification activity is to provide the assurance that the information provided by the Haomei Group is verifiable and can be used in the investigation. We drew reasonable levels of assurance on the completeness, accuracy and relevance of information deemed verifiable. Such data can then be considered in our assessments and analysis to determine whether injury is caused or likely to be caused to the UK industry by dumped aluminium extrusions. The data will also be used in the dumping and injury margin calculations. This will form the basis for establishing appropriate measures where necessary, and to assess whether these are in the UK’s economic interest.

We carried out verification activities using desk and remote analysis. The activity undertaken did not seek to verify all information provided but to undertake the work considered appropriate and possible within the time constraints of the investigation to obtain assurance on which to base a decision.

This verification report documents the work we have completed, the checks the case team has carried out and conclusions we have reached about the reliability of information provided by Haomei.

# Confidential information

Haomei must indicate whether any information contained in the confidential version of the verification report is considered confidential. It must specify such information, provide reasons as to why the TRA should treat the particular information as confidential, and create a non-confidential version of it (see also [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)). The non-confidential version of the verification report will be placed on the public file.

# Verification

Please find below a summary of work that has been completed and the checks that have been carried out by the case team to determine whether the information provided by the interested party in their questionnaire response is verifiable.

## A-1. Company structure and associations

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| What information was considered |
| * General set-up, ownership, locations and management
* Product range
* Associations
* Accounting practices and systems
 |
| *Please indicate the confidentiality status of the information summarised above:* |
| [x]  non-confidential | [ ]  confidential |
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| How the information was checked |
| *General set-up, ownership, locations and management.* Haomei is a producer of the goods under investigation along with its wholly owned subsidiary King Metal. Both organisations sell into the UK via Haomei Aluminium Products Co. Ltd based in Hong Kong. The latter acts as an intermediary, invoicing the overseas entity and transferring funds to either Haomei or King Metal. The title of goods passes directly from the producer to the end customer.We verified Haomei’s company details, function, and financial year end using the audited accounts, Haomei’s website and the Shenzhen Stock Exchange website. We found the information from these sources consistent with the questionnaire response.We also checked Haomei’s website, its audited accounts, and the National Enterprise Credit Information Publicity System to verify Haomei’s related parties and most significantly King Metal. No inconsistencies with King Metal’s questionnaire response were identified.*Accounting Practices*To assess the reliability of the audited financial statements, we reviewed the auditor’s opinion for the 2020 financial statements. No concerns were identified and the audit report confirmed that the accounts had been prepared in accordance with the Accounting Standards for Business Enterprises and its application guidance interpretations issued by the Ministry of Finance and other relevant regulations. We carried out a walkthrough of Haomei’s accounting system to determine the level of reliance to place on data obtained from the system. Haomei walked us through how cost and sales are recorded on its Kingdee financial software system and the different controls in place for authorising transactions. They provided sufficient evidence to allow us to be able to place reliance on their systems data. |
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| Exceptions/Findings/Adjustments |
| None |
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| Conclusions |
| The information relating to company structure and associations that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for dumping and injury margin calculations and for any other purpose within the investigation. |
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## A-II. Goods

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| What information was considered |
| * PCN allocation
* Description and features of the goods
* Invoices showing the specification of the goods.
* Technical drawings
 |
| *Please indicate the confidentiality status of the information summarised above:* |
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| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* |
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| How the information was checked |
| *PCN allocation*Haomei provided a workbook detailing the weight, shape, and cross-sectional diameter for each model sold by Haomei and King Metal into the UK. Using these specifications, we checked that each PCN field had been correctly allocated as explained in the PCN guidance of the questionnaire. No issues were found.*Sales listing*We also crosschecked the PCN assigned to the models sold during the POI using the details provided in the Sales transaction listing of the questionnaire annex to ensure that the correct PCNs had been allocated to the sales. No issues were found.*Website products centre*We reviewed the description of the goods published on the Haomei’s website to check it matched the goods under investigation. We found the information published on this website to be the same as described in the questionnaire response.*Technical Drawings*We obtained the technical drawings of a selection of PCNs and confirmed the features matched the description of the goods. We confirmed that the cross sectional dimension, the shape, weight per metre and finish were consistent with the description provided. |
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| Exceptions/Findings/Adjustments |
| None |
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|       |
| Conclusions |
| The information relating to the group company’s goods that we have been provided by the interested parties is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for dumping and injury margin calculations and for any other purpose within the investigation.  |
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## B. Sales

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| What information was considered |
| **Upwards Verification**Through the upwards verification process, we confirmed the accuracy of the data submitted against the audited financial accounts and management accounts. This was completed separately for Haomei and King Metal. It was not completed for Haomei HK since sales to UK were reported under the main exporters’ questionnaire response and not the additional questionnaire Annex I and so the information was not available.The following information was reviewed. * Sales figure provided for in questionnaire annexes B1 Upward Sales, B3 UK Sales and B4 Domestic Sales.
* Income Statements covering 1 January 2020 to 31 December 2020 and 1 January to 31 May 2021
* Audited financial statements for 2020
* Income tax statements for 2020
* Sales ledger covering the POI
* Haomei Domestic PCN Manuscript (detailing sales by product type)

**Downwards Verification**In the downwards verification, we confirmed the accuracy of the data submitted against the source documents.* Source documents provided by Haomei, King Metal and Haomei HK
* General Ledger screenshots of the selected transactions to show their inclusion in the accounts.
 |
| *Please indicate the confidentiality status of the information summarised above:* |
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| How the information was checked |
| **Upwards Verification**The following process was used to verify both Haomei and King Metal. *Calculation and Reconciliation of the POI Sales figures*We calculated the POI total sales figures using the income statements and the trial balances. This was compared to the equivalent figure in the questionnaire annex B1 Upwards Sales Reconciliation and found to agree. *Reconciliation of the 2020 figures to the audited financial statements*The 2020 audited financial statements were reconciled with income statements and the trial balances for 2020 as well as the tax statements for the same period. No issues were found.A reasonableness test was conducted on the growth between Jan – May 2020 and the equivalent 2021 unaudited data to assess the accuracy of the latter. Significant growth was found between the two periods: for Haomei this was assessed to be due to the lower sales in 2020 as a result of the COVID-19 pandemic and also the increasing prices throughout the latter part of 2020 and into 2021. King Metal showed a much higher growth but this was similar to the growth between 2019 and 2020 suggesting it was part of a growth strategy. Significant injections of capital in 2018 and again in 2020 seem to support this.*Reconciliation of the Sales for Goods Under Investigation* The split between domestic, foreign and other sales in the general ledgers were compared with both the questionnaire annex B1 Upwards Sales Reconciliation and also the questionnaire annexes B4 Domestic Sales and B3 UK Sales. Domestic Sales agreed within 0.01%. The total foreign sales matched the general ledger but the split shown between UK and 3rd country sales differed by 9% between B3 UK Sales and B1 Upwards Sales Reconciliation. Haomei provided a detailed listing of all sales and this confirmed that B3 UK Sales was correct.**Downwards Verification** The domestic sales listing was reviewed to confirm that associated parties had been correctly allocated under the detailed transaction listing for both Haomei and King Metal. This was determined to be the case.A total of 37 transactions were selected for Haomei and 28 were selected for King Metal.*UK Sales*We requested and received the following source documents which we used to verify all the selected transactions relating to UK sales: * Proforma invoice (to Haomei HK) which substituted for a sales order
* Commercial invoices (to UK customer by Haomei HK)
* Packing List
* Bill of lading
* Credit Advice Note

The source documents were found to be consistent with the questionnaire response as well as providing evidence of the transaction from order through to payment. The only difference identified was that, occasionally, the proforma invoice did not match in terms of value and volume to the product shipped but this is to be expected as multiple shipments and price adjustments are common within a sales order. It was not considered to be material since the commercial invoice is to be used in the calculations. The proforma invoice was in effect an internal document.*Domestic Sales*We requested and received the following source documents which we used to verify the selected domestic transactions for both Haomei and King Metal: * Invoices
* Bank slips showing proof of payment
* Purchase contract
* Accounting voucher (Haomei only)

Transactions often had multiple invoices associated with them and in these cases all invoices were provided along with the corresponding bank slips. The verification process then included the review of all relevant transactions relating to those invoices against the source documents to confirm they were consistent. No issues were found with Haomei’s data. For King Metal, source documents were not always reconcilable to the transaction listing due to the nature of the business. Revenue recognition was at the point of despatch, and it was this information that the questionnaire data was based on. The invoice was raised up to several months later and reflected multiple shipments over time. This then created differences between the data provided and the source documents. Haomei provided an additional reconciliation between the annex data and the source documents as well as additional information on the shipping dates for the relevant invoices which confirmed that elements of the invoices had been correctly excluded from the data as being outside the POI. Whilst it was not possible to reconcile this completely due to time constraints on verification, this additional information provided sufficient level of assurance that the data set is verifiable: especially since King Metal only accounted for approximately 25% of total sales and the upwards verification has confirmed the completeness of the data. No other issues were identified. |
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| Exceptions/Findings/Adjustments |
| None |
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|       |
| Conclusions |
| The information relating to sales that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for dumping and injury margin calculations and for any other purpose within the investigation.  |
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C. Fair Comparison

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| What information was considered |
| * Discounts and rebates
* Transportation, insurance, handling, loading and ancillary costs
* Packing costs
* Credit
* Mold Charges
 |
| *Please indicate the confidentiality status of the information summarised above:* |
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| How the information was checked |
| *Discounts and Rebates*Neither Haomei nor King Metal provided information on discounts or rebates. Review of the source documents and the chart of accounts showed nothing to contradict this. *Transportation, insurance, handling, loading and ancillary costs*A basic reasonableness test was conducted on the domestic transport costs including a review of costs allocated against delivery terms and against the transport costs reported in the accounts. Whilst differences were found in both areas, neither were material. UK sales were made on a FOB basis and it was verified that only handling costs had been included in the adjustments accounting for less than 0.4% of net invoice value. Approximately 5% of transactions had a significantly higher charge in both absolute terms and as a percentage of net invoice value, this was not considered to be an issue since these transactions related to one customer with fewer transactions per shipment and so a higher charge would have been expected. The handling charge did show consistency when allocated on a container basis.Haomei also provided an estimate of the CIF value. They provided a detailed calculation and also quotes for the shipping costs. The methodology was considered to be reasonable and was applied consistently across all UK sales.*Packing Costs*A cost per tonne had been consistently applied across all sales. No further action was taken to verify the data.*Credit*Credit terms were given and varied widely between customers. As such it was not possible to determine the consistency of the allocation. However, the total credit adjustment for Haomei was 2.1% of total net invoice value and this was considered reasonable based on interest rates of around 4% and the types of credit given.*Mold Costs*An adjustment to the domestic sales was made for mold costs. Representing 1% of net invoice value it was not considered sufficiently material for further verification. |
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| Exceptions/Findings/Adjustments |
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| Conclusions |
| The information relating to fair comparison that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for dumping and injury margin calculations and for any other purpose within the investigation.  |
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## D-I. Costs

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| What information was considered |
| **Upwards Verification**Through the upwards verification, we confirm the accuracy of the data submitted by an interested party against the audited financial accounts and management account. This was completed separately for Haomei and King Metal. It was not completed for Haomei HK since sufficient information was not requested. * Cost to Make (CTM) figures provided for in the questionnaire annexes D4 Upwards Cost Reconciliation, D12.1 Domestic CTM and D12.2 UK Sales CTM.
* Income Statements covering 1 January 2020 to 31 December 2020 and 1 January to 31 May 2021
* Audited accounts for 2020.
* Income tax statements for 2020
* Cost ledgers covering the POI
* Haomei’s Domestic PCN Manuscript (detailing cost by product type)

**Downwards Verification**In the downwards verification, we confirm the accuracy of the data submitted by the interested party against the source documents.* Source documents provided by Haomei and King Metal
* General Ledger screenshots of the selected transactions to show their inclusion in the accounts.
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| How the information was checked |
| **Upwards Verification**The following process was used to verify both Haomei and King Metal. *Calculation and Reconciliation of the POI Cost of Sales figures*We calculated the POI cost of sales figures using the income statements and the cost ledger accounts. This was compared to the equivalent figure in questionnaire annex D.4 Upwards Cost Reconciliation and found to agree. *Reconciliation of the 2020 figures to the audited financial statements*The 2020 audited financial statements were reconciled with income statements and the trial balances for 2020 as well as the tax statements for the same period. No issues were found.A reasonableness test was conducted on the growth between Jan – May 2020 and the equivalent 2021 unaudited data to assess the accuracy of the latter. Significant growth was found between the two periods: this is in line with the growth explained in the sales section and so raised no additional queries.*Reconciliation of the Cost of Sales for Goods Under Investigation* The split between domestic, foreign and other cost of sales in the trial balances were compared with both questionnaire annex D4 Upwards Cost Reconciliation and also questionnaires annexes D12.1 Domestic Cost to Make and D12.2 UK Sales Cost to Make. Whilst differences were identified they were not considered sufficiently material for further investigation: mainly around the differing methodology in the calculation between D4 and D12 where the former was an estimate based on total cost of sales divided by volume and the latter was based on actual cost of sales of the products sold.**Downwards Verification***Raw Materials*We requested and received the following documents for the 11 selected transactions relating to aluminium ingot (6 from Haomei and 5 from King Metal):* Contract
* Purchase Invoice
* Proof of Payment

The above documents were compared with each other for consistency and also to the questionnaire annex D14 Raw Material and Inputs. It was identified that the volume data had been converted from kgs to tonnes but in fact the original figures were in tonnes and so this created differences in the unit price. In addition, during verification it was confirmed that the imported purchases had been omitted from the questionnaire annex D14 Raw Materials and Inputs. Haomei provided us with an updated version of the annex correcting both these areas. No other issues were found.Proof of delivery was not provided but instead we were shown the bookings of each of the transactions on the general ledger and this was considered sufficient. *Inventory Valuation*We reviewed the methodology for valuing stock. This is based on prices obtained from the local metal markets and revalued every month based on the weighted average for the previous month. Source documents were reviewed against the Shanghai Futures Market to see whether stock was booked at these prices and although small differences were found, this was not considered to be of material significance due to the rapidly changing aluminium prices throughout the POI. No other issues were identified.*Direct Labour*We requested and were provided with the payroll for one month within the POI. This was annualised by multiplying by twelve and compared to the total annual labour cost as provided in the questionnaire annexes D12 CTM. Approx. 13% difference was found between the figures. However, this was not considered to be material since:* Labour accounted for only about 3% of the total cost
* The POI was affected by lockdowns due to the COVID-19 pandemic. Adjustments due to this could not be estimated into the calculation.
* The comparison was made based on the figures provided for domestic and UK related cost to make. This does not take into account the 3rd country exports whose data was not requested.

The allocation of direct labour could be seen to be consistent across PCNs.*Manufacturing Overheads*Energy and depreciation were seen to be the largest costs within manufacturing overheads. We were shown the breakdown of the costs within “other overheads” as this seemed high but there were no obvious large costs within this category.Haomei provided source documentation (invoices) for two months of energy bills, including both gas and electricity. This was from the beginning and end of the POI. These were annualised and compared to the figures provided in the questionnaire annexes. A similar difference was found to the labour difference which could be attributed to the lack of information on third party sales and the effect of the COVID-19 pandemic on the validity of annualising the data. The difference was not considered sufficiently material to investigate further.The general ledger figures were provided for depreciation for one month. This showed the monthly movement but also the annual costs booked for 2020. Again this data was annualised to confirm that the questionnaire annexes reflected this amount. No material difference was found.*AS&G Costs*AS&G costs comprised less than 10% of the total cost to make and sell and as such were not considered material since no one cost exceeded 5%. The two largest costs were R&D and Finance costs and the breakdown of these were shown in the accounting system. No other verification was completed as not considered necessary due to the low materiality of AS&G. |
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| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* |
|       |
| Exceptions/Findings/Adjustments |
| None  |
| *Please indicate the confidentiality status of the information summarised above:* |
| [x]  non-confidential | [ ]  confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* |
|       |
| Conclusions |
| The information relating to costs that we have been provided by the interested party is verifiable. Based on the work we have done, we have a reasonable level of assurance that the information can be treated as complete, relevant and accurate and can therefore be used by the TRA for dumping and injury margin calculations and for any other purpose within the investigation.  |
| *Please indicate the confidentiality status of the information summarised above:* |
| [x]  non-confidential | [ ]  confidential |
| *If applicable, please specify what particular information you consider to be confidential, provide reasons as to why we should treat it as such, and create a non-confidential version of it (see also* [*public guidance*](https://www.gov.uk/government/publications/the-uk-trade-remedies-investigations-process/an-introduction-to-our-investigations-process#how-we-handle-confidential-information)*):* |
|       |

# Conclusions

 We have obtained sufficient and appropriate evidence in order to conclude that the information provided by the company under all of the sections above is verifiable. Therefore, we have a reasonable level of assurance that the information is complete, relevant and accurate for the purpose of this investigation.

# Annexes

## Annex 1: Meetings

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date and duration | Type of authentication | Company representatives | TRA representatives | Summary of items discussed |
| 18th January 2022 3.5hrs | [x]  remote[ ]  on-site | [Confidential] Representatives from Haomei, King Metal and Haomei HK | [Confidential] Members of TRA case team | General IntroductionAccounting System WalkthroughUpwards Verification of data |
| 19th January 20223.5hrs | [x]  remote[ ]  on-site | [Confidential] Representatives from Haomei, King Metal and Haomei HK | [Confidential] Members of TRA case team | PCN allocation – methodology of how models were assigned PCN codeCost allocation to PCNsSpecific queries relating to the CTM annex provided. |
| 20th January 20222.5hrs | [x]  remote[ ]  on-site | [Confidential] Representatives from Haomei, King Metal and Haomei HK | [Confidential] Members of TRA case team | Understanding sales relationship between Haomei, King Metal and Haomei HKQuestions relating to selected sales transactionsAdjustments for Fair Comparison |