



**Verification report – Overseas Exporter**

**Case AS0046: Certain excavators from China**

<b>Period of Investigation (POI):</b>	1 July 2022 to 30 June 2023
<b>Injury Period:</b>	1 July 2019 to 30 June 2023
<b>Date of report:</b>	19 August 2024
<b>Case team contact details:</b>	<a href="mailto:AS0046@traderemedies.gov.uk">AS0046@traderemedies.gov.uk</a>
<b>Interested Party verified:</b>	Liuzhou Liugong Excavator Co., Limited. (LZLG)

For further details, please see the [Notice of initiation](#) on the public file.



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## Executive Summary

The Trade Remedies Authority (TRA) is conducting an anti-subsidy investigation to determine whether injury is being caused to the UK excavator industry due to subsidisation of certain excavators imported into the United Kingdom (UK) from the People's Republic of China (PRC).

More information about the case can be found on the public files:

[AS0046 – Certain excavators from PRC](#)

Liuzhou Liugong Excavator Co., Limited (LZLG), an exporter of the goods concerned, returned a completed exporter questionnaire ('questionnaire response'). LZLG is a producer of excavators, it sells its products at transfer prices to associated companies in the PRC, Guangxi Liugong Machinery Co., Limited (LGHQ) and Liugong Machinery Hong Kong Co., Limited (LGHK). These associates are responsible for fulfilling exports of excavators to the UK and other countries. We carried out verification work on information provided by these associated companies to ascertain the completeness, relevance and accuracy of the information submitted in questionnaire responses.

- We conducted an on-site verification to evaluate the completeness, relevance and accuracy of information provided in the questionnaire response.
- We conducted a walkthrough of the accounting systems to gain an appreciation of the system and to assess the level of reliance to place on the data provided.
- We conducted a tour of the factory to gain an understanding of production facilities and processes.
- We compared information provided in the questionnaire response regarding general company setup and associates against information on



the company's website and audited in its financial statements, checking for consistency.

- We reconciled questionnaire responses with information held in LZLG's Accounting System and its financial statements to ensure completeness, relevance, and accuracy.

Based on the verification activity undertaken the TRA have a reasonable level of assurance on the completeness, relevance and accuracy of the information provided by LZLG and its associated companies and we can rely on it for the purpose of this investigation.



## Purpose of verification

The purpose of the TRA's verification activity is to determine whether the information provided by interested parties is complete, relevant, and accurate and can be used in our investigation. This verification report sets out the conclusions reached for each component that covers the scope of our work. It also provides an overall conclusion stating the level of assurance reached.

The information verified may then be considered in our assessments and analysis to determine whether subsidisation has occurred and if this subsidisation is causing injury to the UK industry. 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 most of our verification activities onsite. The TRA did not seek to verify all information provided, but undertook the work considered appropriate and possible within the time constraints of the investigation to obtain assurance upon which to base our case decision.

This verification report documents the work completed, providing an overview of the range and scope of verification procedures performed, for each component that covers the scope of our work, on the information submitted by LZLG. It details the conclusions reached regarding completeness, relevance, accuracy and provides an overall conclusion stating the level of assurance reached.



## Confidential information

LZLG must provide a non-confidential version of the verification report marked as 'non-confidential' in the header.

If any information contained in the verification report is considered confidential, LZLG should delete or redact those sections and provide a non-confidential summary of the information removed. It must provide reasons as to why the particular information is considered confidential (see also [public guidance](#)).

The non-confidential version of the verification report will be placed on the public file.



## Verification

Please find below a summary of work completed by the TRA to determine whether the information provided by LZLG and its associated companies in its questionnaire responses is complete, relevant, and accurate.



## A. Company structure and associations

What information was considered
<ul style="list-style-type: none"> <li>• Company details</li> <li>• Owners and shareholders</li> <li>• Associated companies</li> <li>• Accounting practices</li> </ul>
<i>If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see <a href="#">Confidential information</a>):</i>
How the information was checked
<ul style="list-style-type: none"> <li>• We reviewed the company details provided by LZLG by comparing it with information on the company's website.</li> <li>• We reviewed the information on products sold by LZLG and its associated companies by comparing it with information on company's website.</li> <li>• We examined the audited accounts for the financial year ending December 2022 provided by LZLG, LGHQ and LGHK to confirm consistency with information regarding ownership, shareholders, associated companies, and accounting policies and practices.</li> <li>• We confirmed that LZLG, LGHQ and LGHK are associated companies as stated in the questionnaire response through discussions with management and observations made during onsite verification visit.</li> </ul> <p>We found that the information from audited accounts and the company's website aligns with what the companies provided in the questionnaire response.</p>
<i>If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see <a href="#">Confidential information</a>):</i>



Exceptions/Findings/Adjustments

None.

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

Conclusions

The information relating to company structure and associations provided by LZLG and its associated companies is verifiable. Based on the work performed, 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 injury assessments and for any other purpose within the investigation.

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## B. Accounting Systems and Procedures

### What information was considered

- Information Technology Systems and Applications
- Accounting policies, significant risks, and chart of accounts
- Sales and customer order process and procedures
- Purchase order and invoice approval process and procedures

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### How the information was checked

We conducted a walkthrough of the company's accounting systems to gain an appreciation of applications used and to assess the level of reliance to place on the data provided. LZLG and its associated companies use SAP for its accounting processes; their accounting systems are integrated.

- We conducted a sale and purchase order process walkthrough. LZLG showed us how each selected transaction was processed, step by step through the accounting system from inception to being recorded posted on the relevant ledger.
- We reviewed and discussed accounting policies listed in the notes to the audited financial statements. The financial statements are in accordance with Accounting Standards for Business Enterprises. These align quite closely to IFRS.
- LZLG demonstrated how information provided in the questionnaire response was extracted from SAP, and explained methodologies used when allocating costs to PCNs.

We found no material risk factors when reviewing the accounting system.



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Exceptions/Findings/Adjustments

None.

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Conclusions

Based on the work performed, we have obtained a basic understanding of the relevant accounting and associated business systems of LZLG and its associated companies. This enabled us to plan and execute appropriate verification procedures.

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**C. Goods**



#### What information was considered

- Goods description of the goods concerned assigned to PCN's
- Goods description of the like goods assigned to PCN's
- Internal coding systems
- Products sold

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

#### How the information was checked

The TRA reviewed sales and export documentation provided by LZLG to ascertain whether PCNs were accurately allocated to the goods in scope.

During verification we:

- Reviewed weight and description of goods provided in the questionnaire response against the allocated PCN to check goods in scope were declared correctly.
- Examined sales and export documentation to check goods in scope were declared correctly.
- Examined LZLG's internal coding system to check it corresponds to the correct PCN.
- Reviewed and confirmed that goods listed as 'other company products' were outside the scope of the investigation.
- Conducted a physical inspection of LZLG's factory to gain an understanding of its production facilities and processes and to check that goods declared are consistent with goods it produces.

Our findings indicate that the PCN structure has been consistently applied across submitted information.

#### Exceptions/Findings/Adjustments



None.

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

### Conclusions

The information relating to the company's goods provided by LZLG is verifiable. Based on the work performed, 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 injury assessments and for any other purpose within the investigation.

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## D. Costs

### What information was considered

- Direct and indirect cost components
- Sample of raw material purchases



- Direct labour, Administration Sells and General (AS&G) costs
- Associated party transaction and arm's length prices

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How the information was checked

### Upwards Verification

The TRA carried out upwards verification to check whether the total costs reported in the questionnaire responses were consistent with what is reported in LZLG's published financial statements. The POI spans the two financial years ending December 2022 and 2023. We were able to reconcile the cost of goods sold figure provided in the questionnaire response to the aligned audited financial statements provided.

During our on-site verification visit:

- LZLG demonstrated how financial information was extracted to generate questionnaire responses.
- LZLG demonstrated how total cost and other key cost categories provided in the questionnaire response reconciled to information retrieved live from SAP.
- We were shown how direct materials costs provided in the questionnaire response were derived from its SAP system and updated to reflect the company's understanding of components used for each model of excavator.
- We discussed in detail the methodology used to allocate costs to PCNs. A complex code-based method was used. Although we were unable to replicate or test this method, independent analysis of significant material costs was performed. Results from these checks and explanations provided



my management gave us assurance over the reasonableness of approach and overall outcomes.

### **Downwards Verification**

The TRA carried out downwards verification to check the accuracy and relevance of cost transactions listed in questionnaire responses. Prior to the verification visit, the TRA requested and were provided source documents for a sample of cost transactions by LZLG and its associated companies.

During our on-site verification visit:

- We matched sampled transaction information to source documents such as purchase orders, invoices, and payment confirmation documentation.
- We observed how cost transactions for some of the sampled transactions flowed through the SAP system from the start of a purchase to the delivery of the goods.
- We reviewed AS&G costs submitted in the questionnaire response; we also observed management reperform extraction of this information from SAP with no issues. The AS&G costs provided appeared relevant and proportionate to our understanding of the business.
- LZLG provided reasonable explanations to all queries raised on payroll information provided in the questionnaire response. Detailed employee by employee information was provided and discussed with no issues found.
- LZLG and its associated companies provided updated questionnaire responses that addressed minor errors identified in the original submission. Changes made were immaterial, these included updates to domestic freight costs and cost to make figures,

Overall, we were able to reconcile cost information provided by LZLG and its associated companies to aligned financial statements with minor, satisfactorily



explained variances. Sampled transactions were traced to source documents with no material issues.

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Exceptions/Findings/Adjustments

None.

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

Conclusions

The information relating to costs provided by LZLG and its associated companies is verifiable. Based on the work performed, 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 injury assessments and for any other purpose within the investigation.

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## E. Sales

What information was considered

- Domestic and export sales reconciliations
- Sample of relevant sales transaction
- Price reductions



- Associated party sales

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

How the information was checked

### Upwards Verification

The TRA carried upwards verification to ascertain the completeness of sales figures provided by LZLG in its questionnaire response. We reconciled the total sales of all goods sold during the POI reported in the questionnaire responses to the aligned sales figures from financial statements for the financial years ending December 2022 and 2023 with a variance of less than 3%. This was due to an accounting adjustment. The TRA reviewed the underlying information and was satisfied that the variance had no effect on the sales figures of goods in scope reported during the POI.

The TRA also reconciles totals sales information provided by LGHQ and LGHK to audited financial statements with immaterial explained variances.

During our on-site verification visit, for all three companies we:

- We traced back sales information submitted in questionnaire responses to source ledgers in SAP.
- We reconciled total sales figures of goods in scope provided in the questionnaire responses with relevant figures extracted from the sales ledger with no issues.
- We observed LZLG reperform extraction and generation of sales information provided in the questionnaire response from SAP with no issues.



**Downwards Verification**

The TRA selected a sample of domestic and exports sales transactions for verification. Source documentation such as sales order, sales invoice, bank receipts and various export documentation were provided ahead of the verification visit.

During our on-site verification visit we:

- Examined sampled sales documents. Transactions were traced back to source documents, from order inception through to payment evidence.
- Compared transaction by transaction data with data retrieved live from the sales ledger.
- LZLG evidenced how rebates on domestic sales were calculated and allocated to PCNs.
- We discussed domestic freight charges and were satisfied that these were appropriately accounted for in the questionnaire response.
- We discussed and gained an understanding of how sales were processed between LZLG and its associated companies LZHQ and LZHK, including responsibility for fulfilling exports the UK.

Overall, we were able to reconcile sales information provided by LZLG and its associated companies to aligned financial statements. We were also able to trace sampled transactions to source documents with no material issues.

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**Exceptions/Findings/Adjustments**

None.



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Conclusions

The information relating to sales provided by LZLG and its associated companies is verifiable. Based on the work performed, 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 injury assessments and for any other purpose within the investigation.

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## F. Fair Comparison

What information was considered

- Credit
- Physical characteristics
- Discounts and rebates
- Transportation costs
- Packaging costs



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#### How the information was checked

##### **Credit terms**

Credit terms were calculated using short-term interest rates from the bank of China. Calculations were checked in the annex.

##### **Physical characteristics**

We have identified there is no material difference in the goods concerned sold on the domestic market and exported goods.

##### **Discounts and rebates**

LZLG and its associated companies evidenced how rebates on domestic sales were calculated and allocated to PCNs. We are satisfied that adjustment of these were reasonably allocated to PCNs.

##### **Transportation and packaging costs**

Invoices were checked during verification for potential freight costs and delivery charges. Following verification work, LZLG provided an updated questionnaire response which included details of protecting charges incurred during the POI.

We traced back a sample of adjustment transactions provided in the questionnaire response to ledgers in the accounting system. Transactions such as insurance,



handling costs, loading costs and packaging costs were also traced to source documentation, we were satisfied these were correctly and accurately recorded.

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Exceptions/Findings/Adjustments

None.

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Conclusions

The information relating to fair comparison provided by LZLG is verifiable. Based on the work performed, 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 injury assessments.

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## G. Subsidies

What information was considered

We examined the following information provided in the questionnaire response:

- Subsidies received by LZLG
- The apportionment of the subsidy in the exported goods
- Pass-through subsidies



- Source documents

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How the information was checked

### **Subsidies received by LZLG**

A sample of subsidies have been confirmed and quantified to LZLG's SAP system and original documentation.

During verification, grants information provided in the questionnaire response was revised, duplicated preferential tax programmes listings were removed, and an updated annex was provided. We also examined relevant documentation to assess whether any subsidies had not been declared. No other subsidies were identified.

### **The apportionment of the subsidy in the exported goods**

By examining annex data, we observed LZLG has apportioned subsidies to reflect UK sales of the goods concerned as a percentage of all sales during the POI.

### **Pass-through subsidies**

No subsidies recorded as pass-through were identified in LZLG questionnaire response or during verification. However, the subsidy assessment post verification will continue to assess the areas of alleged subsidisation to consider whether a subsidy exists.

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Exceptions/Findings/Adjustments

LZLG provided an updated questionnaire response:

- Information on grants was updated
- Duplicated preferential tax programmes transactions were removed.

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

Conclusions

The information relating to subsidies provided by LZLG is verifiable. Based on the work 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 subsequent subsidy and injury assessments and for any other purpose within the investigation.

*If you have redacted or removed any information, please provide reasons as to why the information is considered confidential (see [Confidential information](#)):*

## Conclusion

We reviewed company details and ownership information provided by LZLG and its associated companies by comparing it with information in audited financial statements and company websites. We gained an understanding of LZLG’s goods concerned and like goods, and reviewed accuracy of PCN allocation. During onsite verification visit, we were able to reconcile information provided in questionnaire responses to audited financial statements and SAP ledgers. LZLG also demonstrated how it generated data for annexes using its SAP systems for both



costs and sales. A sampled of cost and sales transactions were also traced back to source documents with no issues.

LZLG provided sufficient and appropriate evidence, which enabled us to conduct verification work on a sample basis as detailed in the above sections. Based on the work performed, we have a reasonable level of assurance that the information provided in its questionnaire response 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
17 June – 21 June 35 hours	<input type="checkbox"/> remote <input checked="" type="checkbox"/> on-site	[redacted – contains personal information]	[redacted – contains personal information]