1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Report on

2017 Inspection of KSP Group, Inc.
(Headquartered in Los Angeles, California)

Issued by the

Public Company Accounting Oversight Board

September 20, 2018

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2018-150

PCAOB Release No. 104-2018-150

PCAOB

Public Company Accounting Oversight Board

2017 INSPECTION OF KSP GROUP, INC.

Preface

In 2017, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm KSP Group, Inc. ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.C of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed audit work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix A presents the text of the paragraphs of the auditing standards that are referenced in Part I.A. in relation to the description of auditing deficiencies there.

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization became effective December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

PROFILE OF THE FIRM[1]

Offices	1 (Los Angeles, California)
Ownership structure	Corporation
Partners / professional staff[2]	1 / 6
Issuer audit clients	7
Lead partners on issuer audit work[3]	1

1 The information presented here is as understood by the inspection team, generally as of the outset of the inspection, based on the Firm's self-reporting and the inspection team's review of certain information. Additional information, including additional detail on audit reports issued by the Firm, is available in the Firm's filings with the Board, available at http://pcaobus.org/Registration/rasr/Pages/RASR_Search.aspx.

2 The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers. The number of partners cited above represents the number of individuals with an ownership interest in the Firm.

3 The number of lead partners on issuer audit work represents the total number of Firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from December 4, 2017 to December 7, 2017.[4]

A. Review of Audit Engagements

The inspection procedures included reviews of portions of two issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. One of the deficiencies relates to auditing an aspect of an issuer's financial statements that the issuer restated after the primary inspection procedures.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only the standards that most directly relate to the deficiencies and do not include all standards that apply to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in conformity with the applicable financial reporting framework. In other words, in these audits, the auditor issued an opinion

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[4] For this purpose, "primary procedures" include field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. Primary procedures do not include (1) inspection planning, which is performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which extend beyond the primary procedures.

without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are materially misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[5]

The audit deficiencies that reached this level of significance are described below–

A.1. Issuer A

(1) the Firm's failure to identify, or to address appropriately, a departure from generally accepted accounting principles ("GAAP") that appeared to the inspection team to be material, which related to the presentation of cash flows in the issuer's financial statements (AS 2810.30-.31); and

(2) the failure to perform sufficient procedures to test the allowance for doubtful accounts ("AFDA") (AS 2301.11; AS 2501.11).

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[5] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

A.2. Issuer B

the failure to perform sufficient procedures to evaluate whether property, plant, and equipment ("PP&E") was impaired (AS 2301.11; AS 2501.04 and .11).

B. Auditing Standards

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. Paragraphs .02, .05, and .06 of AS 1015, *Due Professional Care in the Performance of Work*, require the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AS 1015.07-.09 and paragraph .07 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS 2301.03, .05, and .08 require the auditor to design and implement audit responses that address the risks of material misstatement. Paragraph .04 of AS 1105, *Audit Evidence*, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A.

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.

PCAOB Auditing Standards	Issuers
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	A and B
AS 2501, *Auditing Accounting Estimates*	A and B
AS 2810, *Evaluating Audit Results*	A

C. Information Concerning PCAOB Inspections that is Generally Applicable to Triennially Inspected Firms

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

C.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of internal control over financial reporting ("ICFR"). For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[6] as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS 1215, *Audit Documentation*, provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, an inspection team considers whether audit documentation or other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work,

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[6] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.[7]

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

C.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in

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7 The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

an insufficiently supported audit opinion may indicate a defect or potential defect in a firm's quality control system.[8] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;[9] related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. This review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

END OF PART I

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[8] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report may not discuss every audit deficiency the inspection team identified.

[9] An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report and that response has received careful consideration. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[10]

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[10] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

August 2, 2018

Re: Inspection of KSP Group, Inc December 2017

Dear Botic:

Please see below for our responses to draft report of inspection dated July 2, 2018.

Public Part

A. **Insufficiently Supported Audit Opinions**

1) **Issuer A-Statement of Cash flows.** With respect to the audit deficiencies portion that the Firm failed to identify and address appropriately a departure from GAAP which related to the presentation of cash flows in the Issuer's financial statements.

   The financial statements of the issuer A were rectified, for the reclassification from the operating activities to the investing activities in the cash flow, and the corrected financial statements were included with the amended 10K filed by the issuer on March 16, 2018. This correction was not identified by the PCAOB inspection team when it inspected the firm, rather, was identified by the firm and reported to the issuer for correction. The PCAOB inspection team, based upon the correction made to the financial statements in the filings on March 16, 2018, issued the comment on May 2, 2018. Therefore, once the correction was made before the comment was issued, and the Issuer was able to rectify the reclassification required in the cash flow statement, the deficiency stated, "The Firm should have identified and addressed this departure from GAAP in the issuer's audited financial statements", would not be applicable since the firm did identify and address the issue.

   Due to reclassification of certain items in the cash flow statement, the presentation of the cash flow statement changed. Although there was a reclassification of certain item under the Consolidated Statements of Cash Flows, from the cash flows from operating to the cash flows from investing activities, there was no impact to the Consolidated Balance Sheets, the Consolidated Statements of Income and Comprehensive Income especially net income and EPS, as well as the rest of footnote disclosure since the amount was properly accrued and disclosed as "Acquisitions payable" as of June 30, 2016. There was basically no error in the financial statements which could have caused any impact to the judgement of the reader of financial statements. In other words, this was a reclassification of an amount in the cash flow and would not be termed as a correction of error, since the qualitative impact of the reclassification is not significant

2) **Issuer A-Allowance for doubtful accounts (AFDA).** With respect to the audit deficiencies portion that the Firm failed to perform sufficient procedures to test the issuer's AFDA and failed to provide any evidence regarding the collectability for those balances not yet collected in testing of the collection of accounts receivable balances after year end.

With the down turn of the economy in the recent years in the country where the operations of the issuer are carried out, prepayments from customers for Issuer A's products have reduced significantly from approximately $19 million in 2015 to $8.5 million in 2016. Furthermore, payments from account receivable have also been slow as compared to the prior years. To scope and to market its newly developed and produced fertilizer products, two of Issuer A's subsidiaries have extended credit sales to its. As a result, more account receivable balances aged over 180 days as of June 30, 2017. Moreover, the contract between the issuer and its customers allowed the customer to carry the balances up to 180 days. Any balance carried after 180 days became doubtful due to non-compliance with the contract agreement with the customers.

Issuer A had not experienced any significant bad debt prior to June 30, 2016. Most of Issuer A's customers are long-term customers with superior payment records. Per sale contract with customers, the total invoice amount is due within 6 months without any discounts. Based on Issuer A's nature of business and general local practice, it's reasonable for Issuer A to fully reserve for balances aged over 180 days. This policy is applied to all customers, and it reflects the local practices in China. Also, this policy is consistent with past practice of the issuer in relation to its Accounts receivable balances in the issuer's financial statements. Moreover, the policy to fully reserve account receivable balances aged over 180 days is complied with the payment terms which Issuer A has with its customers. To ascertain and evaluate Issuer 'A assumption related to allowance for doubtful accounts, the Firm have examined Issuer A's sale contracts and noted that 30% of the invoice amount is due within 2 months, another 40% is due within the 4th month, and the rest 30% of the invoice amount is due within the 6th month. Evidently, Issuer A provided allowance for doubtful accounts relying on its payment terms with customers, and it has adequately provided.

The Firm has performed procedures to test the account receivable aging for both balances less and more than 180-day buckets. There was no exception noted whether the Issuer's account receivable balances were appropriately aged. All balances aged over 180 days are fully reserved due to slow payments and extended sale credits during June 30, 2017. There was no allowance provided for account receivable balances aged less than 180 days. To assess whether AFDA for balances aged less than 180 days was required, the Firm has examined the Issuer historical and the currently year (June 30, 2017) subsequent collection of account receivable. Based on the procedures performed, the Firm noted that the prior year account receivable was substantively collected, and the Issuer collected approximately 20% to 80% (per subsidiary) of its current year account receivable balances within two months after the year ended. Thus, it deemed no additional AFDA is needed for other than the provision provided for balances aged over 180 days. The Firm believed it has adequately performed procedures to assess the AFDA for balances aged less than 180 days. The deficiency stated, "The Firm failed to provide any evidence regarding the collectability for those balances not yet collected in testing subsequent collection of accounts receivable balances after year end", would not would not be applicable since the Firm has work papers of historical and current year (June 30, 2017) subsequent collection of account receivable. Yet, it's not required to perform testing collection of account receivable after year ended for all account balances aged less than 180 days.

3) **Issuer B-Evaluating PP&E for impairment.** With respect to the audit deficiencies portion that the Firm failed to perform sufficient procedures to evaluate whether PP&E was impaired and failed to performed procedures to evaluate the reasonableness of the significant assumptions and inputs used by the specialist in its determination of the appraisal values.

   The Firm believes that the long-lived assets shall be grouped together, and the impairment loss should be evaluated based on that basis. The land allocated to the Issuer in China is for a specific purpose, as per the rules and regulations of the Chinese Government. Therefore, the holder of the land use right cannot utilize the land for any other purposes. If a holder of a land use right does not utilize the land in accordance with the its specified purpose, the land is subject to confiscation of the local government. In other words, the land has to be used for the specific manufacturing purpose for which it was allotted and therefore, has to be grouped with the plant and machinery. Pursuant to ASC 360-10-55-35, varying facts and circumstances will inevitably justify different groupings of assets for impairment review. While grouping at the lowest level for which there are identifiable cash flows for recognition and measurement of an impairment loss is considered, determining that lowest level requires considerable judgments. In general, assets should be grouped when they are used together, that is, when they are part of the same group of assets and are used together to generate joint cash flows. The flexibility accorded by ASC 360-10 in determining long-lived asset groupings will require management to carefully consider the individual facts and circumstances surrounding its operating environment and production processes and to exercise significant judgments. The main purpose for acquiring the land use right (for 50 years) by Issuer B was to secure a facility for the production lines; thus, Issuer B considered and valued the land use right and the plant as one group of assets. In addition, the issuer also has pledged this asset group as collateral for credit limit in bank. The two production lines are built on the land which forms one single piece of production plant as all components are necessary to enable Issuer B's production lines function as they cannot work separately without the link up of each piece of assets including the related production line, its related equipment and buildings, as well as the land all these assets are located. As the whole production process is streamlined, and the independent operation component cannot produce the products required by the customer. Hence, it cannot generate operating cash flow unless all these pieces work together. The Company's water and electricity supply, staffing, and process parameters are shared between all production lines, taking into account the overall nature of all fixed assets and land as a whole.

The breakup of these assets cannot generate a continuous operating cash flow for Issuer B. Moreover, due to the limitation of the operations per the business license, the Issuer is approved to engage in the business of plastic film and related production manufacturing, R&D, and sales. The issuer is not allowed to engage in other businesses like leasing of the Issuer's assets such as the issuer's production lines or land. Hence, the land can only be used for manufacturing purpose by holding the production lines other than any other commercial use per the regulation. Besides, the Issuer does not have intention to do so neither, and the Issuer's business plan is to continue to research, develop, manufacture, and sell film products. Due to the production methodology, the Issuer's business plan intention, and limitation of the business, Issuer B is approved to engage in film production with all the production lines and lands working together inseparable. This is the Issuer's core business, the most basic level and source of generating cash flow. Therefore, all of three long lived assets are considered altogether and form the lowest level of asset group when the Company performs impairment testing and analysis. See below for a copy of the Company's business license which runs until 2035.

营 业 执 照

(副 本)

统一社会信用代码 91370700745673541E1-1

名　　称	富维薄膜（山东）有限公司
类　　型	有限责任公司(外国法人独资)
住　　所	潍坊高新开发区东明路以东、卧龙东街以南
法定代表人	王增永
注 册 资 本	美元 伍仟零伍拾万元整
成 立 日 期	2005年01月05日
营 业 期 限	2005年01月05日至2035年01月04日
经 营 范 围	生产塑料薄膜、农膜及其制品，开展特种膜及农膜新技术的研究与开发；销售本公司生产的产品。（依法须经批准的项目，经相关部门批准后方可开展经营活动）

With respect to the audit deficiencies portion that the Firm failed to perform procedures to evaluate the reasonableness of the significant assumptions and inputs used by the specialist its determination of the appraised values. One of the Firm's key procedures performed are to understand the assumption and calculation utilized in the replacement cost method for the production lines and building, and replacement cost method plus benchmark land price factor correction (market value method) for the land. The Firm's staff went through the assessment basis, work-steps, and formula utilized in the valuation process with the appraiser during the audit fieldwork, to fully understand and agree with the basis and formula used by the appraiser. The Firm did not note any exception or unreasonable work-steps done by the appraiser.

Since the appraisers adopted the data input from the third-party source (including those from the government regulators and market), in order to verify the existence and terms of the support documents (in form of the published materials and books) referenced in the appraisal report, auditor checked with the appraiser and reviewed the published materials and books during the personal interview. The Firm also went through the notes and observation process done by the appraiser. See the list of items we selected and went through with the appraisers. No exception or discrepancies were noted.

(1) The law, regulation and other governmental documents referenced in the appraisal

①《中华人民共和国土地管理法》；

②《中华人民共和国房地产管理法》；

③《中华人民共和国土地管理法实施条例》；

④《中华人民共和国城镇国有土地使用权出让和转让暂行条例》；

⑤《关于发布实施<全国工业用地出让最低价标准>的通知》[国土资发(2006) 307号）；

⑥山东省人民政府关于贯彻执行《中华人民共和国耕地占用税暂行条例》有关问题的通知[鲁政字（2008）137号];

⑦山东省物价局、财政厅转发国家计委、财政部《关于全面整顿住房建设收费取消部分收费项目的通知》的通知（鲁价费发[2001]301号）；

⑧潍坊市公布的最新基准地价;

⑨其他相关资料。

(2) The technical specification adopted in the appraisal

①《城镇土地估价规程》（GB/T18508－2014）；

②《房地产估价规范》（GB/T50291－2015）；

http://www.zzguifan.com/webarbs/book/20683/1702972.shtml

③《城市地价动态监测技术规范》（TD/T1009-2007）；

④《城镇土地分等定级规程》（GB／T18507-2014）；

http://www.zzguifan.com/webarbs/book/74045/1637747.shtml

潍坊市城区土地级别与基准地价更新报告 2016

城镇土地估价规程

Regards,
Jaslyn Huynh

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.[11]

AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
Responses to Significant Risks		
AS 2301.11	For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks. Note: AS 2110 discusses identification of significant risks[10] and states that fraud risks are significant risks.	Issuers A and B
Footnote to AS 2301.11 [10] *See* AS 2110.71 for factors that the auditor should evaluate in determining which risks are significant risks.		

[11] The text presented in this appendix represents the standards as in effect during the applicable audit period.

AS 2501, *Auditing Accounting Estimates*		
AS 2501.04	The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.	Issuer B
EVALUATING REASONABLENESS		
AS 2501.11	Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach: a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose. f. Consider whether changes in the business or industry may cause other factors to become	Issuers A and B

AS 2501, *Auditing Accounting Estimates*		
	significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (AS 1210, *Using the Work of a Specialist*). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	

AS 2810, *Evaluating Audit Results*		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS 2810.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AS 2815, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"* establishes requirements for evaluating the presentation of the financial statements. AS 2820, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuer A

AS 2810, *Evaluating Audit Results*		
AS 2810.31	As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. Note: According to AS 3101, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.[18]	Issuer A
Footnote to AS 2810.31 18 AS 3101.41-.44.		