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Public Company Accounting Oversight Board

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Report on

2013 Inspection of
Goldman Kurland and Mohidin, LLP
(Headquartered in Encino, California)

Issued by the

Public Company Accounting Oversight Board

December 18, 2014

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. 104-2015-051A
(Includes portions of Parts II and IV of the full report that were not included in PCAOB Release No. 104-2015-051)

PCAOB Release No. 104-2015-051A

2013 INSPECTION OF GOLDMAN KURLAND AND MOHIDIN, LLP

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Goldman Kurland and Mohidin, LLP[1] ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included review of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit practice.

The Board is making portions of the report publicly available. Specifically, 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.[2]

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[1] The Firm has issued audit reports under the name of Goldman Kurland and Mohidin LLP.

[2] In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 26, 2013 to August 30, 2013. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	2 (Encino, California; and Houston, Texas)
Ownership structure	Limited liability partnership
Number of partners	5
Number of professional staff[3]	10
Number of issuer audit clients[4]	20

[3] "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. 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 or are "associated persons" (as defined in the Act) of the Firm.

[4] The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of four issuers. The inspection team identified what it considered to be audit deficiencies. The deficiencies identified in three of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued each audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. Those deficiencies were –

Issuer A

(1) the failure to perform sufficient procedures to evaluate known errors in the financial statements; and

(2) the Firm's failure to identify, or to address appropriately, a departure from Generally Accepted Accounting Principles ("GAAP") that related to a potentially material omission from the audited financial statements of certain required disclosures related to accounting changes.

Issuer B

(1) the failure to perform sufficient procedures to test the occurrence, completeness, and valuation of revenue; and

(2) the failure to perform sufficient procedures to test the existence, completeness, and valuation of inventory.

Issuer C

(1) the failure to perform sufficient procedures to evaluate whether goodwill was impaired; and

(2) the failure to perform sufficient procedures to evaluate the effect on the financial statements of subsequent events.

B. Auditing Standards

Each deficiency relates to several applicable standards that govern the conduct of audits.

AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), specify that due professional care requires the exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), 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 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 support of the related conclusions.

Each deficiency described in Part I.A of this report involves, in the inspection team's view, a failure to comply with one or more of the provisions cited above and also a failure to perform, or perform sufficiently, certain specific audit procedures that are required by other applicable auditing standards. The table below lists the other specific auditing standards that are primarily implicated by the deficiencies identified in Part I.A of this report.[5]

PCAOB Auditing Standards	Issuers
AS No. 14, *Evaluating Audit Results*	A, B

5 This table does not necessarily include reference to every auditing standard that may have been implicated by the deficiencies included in Part I.A.

PCAOB Auditing Standards	Issuers
AU 328, *Auditing Fair Value Measurements and Disclosures*	C
AU 331, *Inventories*	B
AU 342, *Auditing Accounting Estimates*	B
AU 350, *Audit Sampling*	B
AU 560, *Subsequent Events*	C

C. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

D. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and addresses any such weaknesses and deficiencies. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies 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 and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[6] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), 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. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

[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 applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "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.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[7] Depending upon the circumstances, compliance with these standards may require the firm to perform additional 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 previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

END OF PART I

[7] See AU 390, *Consideration of Omitted Procedures After the Report Date* ("AU 390"), and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* ("AU 561") (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T).

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART II

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B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control.[8] 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 clients and engagements; (4) engagement performance; and (5) monitoring.

Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from identified deficiencies in audit performance. These 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 an insufficiently supported audit opinion may indicate a defect in a firm's quality control system.[9] Defects in a firm's quality control system may also be identified through inspection procedures that are specifically focused on aspects of the firm's system of quality control.

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[8] This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

[9] Not every audit deficiency suggests a possible defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

Uncorrected Misstatements

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure perform sufficient procedures to evaluate known errors in the financial statements. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's evaluation of uncorrected misstatements. [Issuer A]

Revenue

As discussed above, in one of the audits reviewed, the inspection team identified significant deficiency related to the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the audited financial statements of certain required disclosures related to revenue. [Issuer A] In another audit reviewed, the inspection team identified a significant deficiency related to the Firm's testing of the occurrence, completeness, and valuation of revenue. [Issuer B] This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of revenue.

Existence, Completeness, and Valuation of Inventory

As discussed above, in one the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of the existence, completeness, and valuation of inventory. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of the existence, completeness, and valuation of inventory. [Issuer B]

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Subsequent Events

As discussed above, in one the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to perform sufficient procedures to evaluate the effect on the financial statements of a subsequent event. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the evaluation of subsequent events. [Issuer C]

Required Communications

Audit Committee Communications

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with applicable standards.[10] Specifically, the Firm failed to communicate changes in a significant accounting policy [Issuer A] and failed to communicate uncorrected misstatements identified during the audit that were determined by the issuer's management to be immaterial. [Issuers A and C]

Independence Communications

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will provide to the audit committee, or equivalent, required independence

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[10] The applicable standard at the time of the audit was AU 380, *Communication With Audit Committees,* which has since been superseded by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*.

confirmations in accordance with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*. [Issuers A and B]

* * * *

Engagement Quality Review

Questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"). An engagement quality review performed with due care in compliance with AS No. 7 should have detected, and resulted in the Firm addressing, the Firm's failure to perform sufficient procedures to test revenue and goodwill impairment described in Part II.A. [Issuers A, B, and C] In addition, an engagement quality review should have detected, and resulted in the Firm addressing, the Firm's failure to perform sufficient procedures to evaluate the audit results from the Firm's raw materials testing. [Issuer B] Further, in one of the audits reviewed, the engagement quality review was performed by the person who had served as the engagement manager, which is contrary to the requirements of AS No. 7. [Issuer C]

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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. 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.[11]

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[11] 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.

GKM
GOLDMAN
KURLAND
MOHIDIN

December 1, 2014

Helen A. Munter
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Goldman Kurland and Mohidin LLP's ("GKM") response to the PCAOB's Draft Inspection Report dated November 6, 2014

Dear Ms. Munter:

On behalf of Goldman Kurland and Mohidin LLP (the "Firm"), we are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on its 2013 Inspection of our Firm's audits (the "Report").

This response to the PCAOB's Report of Inspection may be publicly available with the issuance of the final report if the PCAOB's comments are going to be publicly available. We request PCAOB not to make our exhibits publicly available.

A. Insufficiently Supported Audit Opinions

1. Issuer A

(i) Uncorrected misstatements and (ii) Revenue recognition policy:

We agree with the facts of the issues raised by the PCAOB inspection team. However, the difference lies in considering if they were material issues. In percentage terms, the amounts look material. However, the absolute amounts of errors looked at in isolation are not material.

Our assessment was based on the pro forma financial information of Issuer A for the year ended June 30, 2012 following the acquisition of a subsidiary on August 24, 2012 as discussed in Note 16 to the financial statements (Exhibit J). We believe, since the acquisition already took place, a reasonable investor would look at these errors in view of the expected future financial statements of the issuer. Based on the 12 months ended June 30, 2012 pro forma income statement, the error described above based on the rollover method of $121,000 was only 1.3% of the pro forma pre-tax income for 2012 of $9.3 million and 0.6% of the total pro forma assets of $20.1 million as of June 30, 2012. The Firm believes the subsequent acquisition of a significant entity is a quantitative and qualitative factor to be considered in evaluating financial statement materiality. This is similar to the SEC rule (S-X 3-05(b)(3) which allows the use of pro forma information to measure significance.

The Firm's Remedial Action(s) (if applicable, consider the requirements of AU 390 and/or AU 561):

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
16133 Ventura Blvd., Suite 880 Encino, CA 91436
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GKM does not believe AU 390 or AU 561 applies as no audit procedure was omitted or an important fact discovered. The issue described above will have little or no impact in a decision making process of an investor relying on the Issuer's financial statements.

2. Issuer B

   a. Occurrence, completeness and valuation of revenue

It appears there is some confusion in understanding the adjustments made to the clients recorded revenue. For revenue recognition of sales to this distributor in question, which resulted in a restatement as noted in the financial statements, the completeness of internally generated documents such as invoices and shipping documents was irrelevant because the client's revenue recognition policy upon shipment to this customer was incorrect for reasons noted below. We tested revenue initially based on those internally generated documents as part of our sales transaction testing. Upon reading the contract with the distributor, we noted the client's revenue recognition policy to record revenue upon shipment to this distributor was incorrect as the sales terms were such that the Company would receive payment only after the distributor is paid by its customer(s). The Client discussed this issue with the SEC and the SEC also concluded revenue should not be recognized upon shipment. Therefore, the evaluation of the two transactions mentioned in the PCAOB inspection team's comment has no impact on revenue recognition.

One of the transactions of RMB749,783 which was included in RMB5,569,767 was correctly identified in the cut off test on working paper F2.3 rows 69-74 of the worksheet (Exhibit A). These two revenue transactions do not result in misstatement due to change in revenue recognition policy.

The working papers F2.1 to F2.3 (Exhibit A) were prepared based on the Issuer's previous revenue recognition policy and had no impact on the Issuer's financial statements. Therefore, these working papers should be disregarded.

The Firm's Remedial Action(s) (if applicable, consider the requirements of AU 390 and/or AU 561):

We do not believe AU 390 or AU 561 applies. Issuer B has stopped filing periodic reports with the SEC. The last report filed was Form 10-K for the year ended December 31, 2011.

   b. Existence, completeness, and valuation of inventory:

Existence of work-in-process and completeness of raw materials

Work-in Process ("WIP") of subsidiary 1 comprised of approximately 70% of raw material (cell I2942, working paper A9.1.4, Exhibit B). Various tests were performed to audit raw material for the years 2011 and 2010 which include roll back on working paper A9.1.3 (Exhibit B), physical observation on working paper A9.1.7a (Exhibit B) and A9.1.7b (Exhibit B), cut off test on working paper A9.1.11 (Exhibit B) and test of details on working paper A9.1.5 (Exhibit B). We also performed production cost analysis and testing on working paper A9.1.13 (Exhibit B) and A9.1.14 (Exhibit B) respectively to substantiate the accuracy of WIP and Finished Goods as part of substantive analytical procedures.

Under AS 15, item 21:

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass the investigation of significant differences from expected amounts.

Our substantive analytical procedures on working paper A9.1.4 (Exhibit B) encompass the relationship between various WIP components and investigating significant differences (AU sec. 329).

We performed rollback of raw material inventory on working paper A9.1.3 (Exhibit C) in subsidiary 2. This working paper illustrates stock in and stock out documents were obtained from January 2010 up to the date of stock count. The stock count date was March 31, 2012 which was rolled back to December 31, 2011 and 2010. The roll back is evidenced by and corroborated with the documentary evidence obtained to verify inventory movement such as stock in and stock out reports. Test of documentary evidence was part of the roll back procedure and not a separate exercise to obtain sufficient appropriate evidence (AS 15). Alternatively we also performed purchase transaction testing of raw material for the period January 1, 2010 to December 31, 2011, on working paper A9.1.10 (Exhibit C) in subsidiary 2 to further substantiate the validity of the purchase transactions.

Valuation of raw materials: We performed raw material price testing in working paper A9.1.9 (Exhibit B) and A9.1.6 (Exhibit C) of subsidiary 1 and 2 respectively, which required raw material receiving and shipping information to calculate weighted average price of raw materials. We selected samples and obtained receiving and shipping documents to complete this test. The accuracy and completeness of data and/or documents was part of the test and not a separate exercise.

Under AS 15, item 10:

When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:

Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and

Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.

We performed walkthrough tests to obtain an understanding of the Issuer's control on sale and purchase transactions. The information provided by the Issuer was sufficiently precise and detailed for purposes of the audit to complete raw material price testing.

Out of the proposed adjustment amount of allowance for raw materials of RMB14,513,386, RMB5,470,498 belonged to 2010 and was adjusted in 2010. Please refer to working paper A9.1.7 (Exhibit C) in subsidiary 2 rows 99 to 104 of the worksheet for adjustment breakdown. Adjustment for 2011 was 126% of net income.

In addition, for raw materials lower of cost or market reserve was made because the replacement cost of those items in the raw material inventory were lower than the carrying value. Therefore, it was prudent accounting practice to provide a reserve for such items regardless of the price of the finished product. We believe not providing a reserve would amount to offsetting potential losses against unrealized gains.

The Firm's Remedial Action(s) (if applicable, consider the requirements of AU 390 and/or AU 561):

AU 390 and AU 561 are not applicable. Issuer B has stopped filing periodic reports with the SEC. The last report filed was Form 10-K for the year ended December 31, 2011.

3. Issuer C

   a. Evaluation of whether goodwill was impaired

The firm evaluated the reasonableness of the assumptions used and documented in working paper 'Methodology' (Exhibit D) as follows:

The issuer projected increase in revenue by 5% each year. This increase is due to increase in price and not volume. The firm obtained an understanding of the increase in price and consistency in production volume which were documented on the above mentioned working paper, as per discussion with the Issuer's CFO and reproduced as follows:

Management expects business will pick up in 2013. However, since Mine 1 is in its late lifecycle, tons extracted may go down in the future due to geological condition, revenue from brokerage coal depends on the market conditions. Therefore, Management projected lower production and sale volume, but expects the price to go up by 5% per year

Issuer's G&A expenses did not change due to coal extraction work having been contracted to an outside third party since October 2009. The Issuer pays a service fee to the outside contractor which is included in the cost of inventory and had very few management and administrative personnel to whom it paid salaries. This information was documented on working paper G-7 Payroll (Exhibit E).

Issuer's gross margin changed due to increase in price per ton of coal. Outside third party contractor charges service fees on coal extraction which varies with the coal price per ton and results in matching revenue with cost of revenue. Therefore fluctuation in gross margin year over year is within the average range documented on the working paper 'Methodology' (Exhibit D).

Issuer's depreciation and amortization ("D&A") consisted of fixed and variable rates. Mine 1 applied $4.3 per ton, as the capitalized assets were depreciated or depleted by the period's production volume per SEC Guide 7; and $220,000 was an estimate, which was close to the actual quarterly number, that the fixed assets were depreciated on straight-line method.

Assumption used for production volume and relevant reason was documented on the working paper 'Methodology' (Exhibit D) and further elaborated as follows:

Mine 1 production volume was 402,314 tons for 2011, 219,655 tons for 2012 and 48,180 tons for 2013. Mine 1 projected 140,000 tons for 2013 and for future years which was high compared to actual production of 48,180 for 2013 but this does not undermine Issuer's impairment testing and resulting impairment.

Increase in growth rate by 5% year over year is consistent with the increase in price documented on working paper 'Methodology' (Exhibit D) which was within the acceptable range.

Discount rate used by the issuer was broken down into various categories i.e., Return on Investment ("ROI") tested on working paper 'Projections from Issuer' (cell AZ41, Exhibit D), annual growth rate and inflation rate on working paper 'Methodology' (Exhibit D). Our discussion with Issuer's CFO on goodwill impairment testing through various emails was provided to PCAOB staff during the inspection.

The carrying values of the reporting unit's assets and liabilities approximated their fair values as follows – working paper 'US Parent Mine 1 BS 2012' (Exhibit D):

	Amount	Explanation
Assets		
Cash & cash equivalents	$27,927,337	There won't be any impairment in cash, no fair valuation required.
Receivable- Hongyuan	$6,000,000	Intercompany receivable eliminated in consolidation, no fair valuation required.
Other receivables	$242,408	Immaterial, no impact on fair valuation.
Prepaid expenses/other deposit	$500	Immaterial.
Advance deposit-coal trading	$2,085,585	This is a refundable deposit guaranteed by the CEO of the Company who also pledged 1 million shares as a security.

Deposit for mine restoration	$404,627	This is a deposit for land subsidence, restoration and rehabilitation with local Environment Protection Bureau, no fair valuation required.
Investment-Hongyuan coal mine	$26,898,801	Eliminated on consolidation, no fair valuation required.
Prepaid mining right, net	$23,373	Immaterial.
Asset retirement cost, net	$229,718	Based on estimate and represents fair value. Refer to working paper W-1 on Exhibit F
Property and equipment, net	$2,843,758	There was no impairment in long lived assets on a going concern basis and even if considered 100% impaired does not change impairment result.
Deferred tax asset	$1,305,525	Represents fair value due to difference between the tax and book depreciation of mining shafts using unit-of-production method, amortization of mining rights for reserves under SEC Industry Guide 7, and amortization of asset retirement cost.
Total assets	$94,142,556	
Liabilities		
Unearned revenue	$82,479	Immaterial.
Other payables and accrued liabilities	$610,763	Represents fair value, please refer to foot note 9 of consolidated financial statements on Form 10-K.
Tax payable	$(96,887)	Immaterial.
Due to subsidiary	$13,855,795	Intercompany payable eliminated in consolidation, no fair valuation required.
Warrants derivative liabilities	$750,035	Represents fair value, please refer to working paper file 'warrant related with CS' on Exhibit G.
Advance from shareholder / officers	$2,000	Immaterial.
Asset retirement obligation	$1,095,050	Based on estimate and represents fair value. Refer to working paper W-1 (cell D125) on Exhibit F.
Deferred tax liability	$837,334	Represents fair value due to tax-deductible safety and maintenance expenses to be incurred in the future for coal produced.
Total liabilities	$17,136,569	

The firm did not come across any change in carrying value of reporting unit's assets and liabilities compared to its fair value based on the above evaluation.

The Firm's Remedial Action(s) (if applicable, consider the requirements of AU 390 and/or AU 561):

We do not believe AU 390 or AU 561 applies. Issuer C has stopped filing periodic reports with the SEC. The last report filed was Form 10-Q for the quarter ended March 31, 2014.

b. Subsequent events

The draft inspection report assumes the Firm was aware of the local mining authority's order to cease mining operations. Below is the timeline of events:

No.	Event	Date
1.	Goodwill impairment analysis 2012	March 25, 2013
2.	Audit report 2012	April 10, 2013

3.	Management rep letter – 10-K 2012	April 10, 2013
4.	Form 10-K 2012 filing	April 16, 2013
5.	Management rep letter – 10Q 2013 (first quarter)	May 19, 2013
6.	Form 10Q 2013 filing (first quarter)	May 20, 2013

The provincial government announced its new policy for the mines to cease production and to complete safety review as part of annual re-inspection in May 2013, as disclosed in first quarter Form 10Q 2013 and related management rep letter. This announcement took place after the Company's 10-K filing on April 16, 2013.

At the time of goodwill impairment analysis in March 2013, neither Company nor the firm were aware of the above policy and in fact all events which were analyzed as part of subsequent event analysis covers up to the audit report date of April 10, 2013 and Issuer's 2012 Form 10-K filing date April 16, 2013, which were prior to May 2013 provincial government announcement.

To clarify, goodwill impairment was not a result of closure of Mine 1 but due to the Issuer C's practice to test goodwill for impairment annually. Mine 1 was not closed until the second quarter (May 2013).

Our review of the Company's 2013 first quarter interim financials began after Issuer C filed its 2012 Form 10-K on April 16, 2013. Provincial government's mine closure announcement took place in May 2013 which was subsequent to both Form 10-K filing and the end of first quarter of 2013. Therefore to be aware of this announcement at the time of filing Form 10-K, was a remote possibility. We inquired and obtained subsequent event representation from management which was included in management rep letter for the year ended December 31, 2012, dated April 10, 2013, which reads as follows: "No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements."

Mine 1 is usually subjected to annual inspection by the local mining authority soon after the Chinese New Year but for 2013, the provincial government mining authority delayed the inspection and later in May 2013, ordered all local mines to cease production. Based on the information received from the Company in the first quarter of 2013, the mining inspection was completed in the second quarter of 2013 and thereafter Mine 1 resumed production. This closure was a temporary one and had no long term consequences.

Based on our evaluation, the Company's goodwill impairment was a result of its annual impairment policy and not because of temporary cessation of Mine 1 which later resumed production in June 2013.

The following is our response to your non-public comments about our quality control. Similarly it should not be public.

B. Issues Related to Quality Controls

1. Audit Performance

a. Testing Appropriate to the Audit

(i) Uncorrected Misstatements

As noted in section A.1. (i), with respect to the inspection team's findings related to Issuer A, we concur with the findings. However, we believe our Firm's quality control policies and procedures, specifically as they relate to the evaluation of uncorrected misstatements are properly designed and followed as they relate to audit documentation and disclosure of changes in accounting policies, if any.

(ii) Revenue

Please see our response in section A. 1. (i) related to Issuer A, and our procedures to evaluate known errors in the financial statements, specifically with respect to materiality and its effect in the decision making process of an investor relying on the Issuer's financial statements.

For Issuer B, please see our response number 2. (a).

(iii) Existence, Completeness, and Valuation of Inventory

For Issuer B, please see our response number 2. (b).

REDACTED. Comments on Non-public Aspects of Report

(v) Subsequent Events

For Issuer C, please see our response number 3. (b).

b. Required Communications

(i) Audit Committee Communications

We concur with the inspection team's findings as they related to Issuer A. We did however discuss the issues raised with client management and its attorney at various times during the audit. Also please note Issuer A had no audit committee.

We communicated with the audit committee of Issuer C about the uncorrected immaterial misstatements. Please refer 'Adjustments' in the 'Letter to Audit Committee' (Exhibit K).

(ii) Independence Communications

We concur with the inspection team's finding regarding communication with the audit committee, or equivalent, regarding independence. We failed to properly document our verbal discussions on this matter with client management, including its attorney. Please note Issuer A had no audit committee.

We communicated with Issuer B about our independence at the inception of the audit. Please refer to page 2, first paragraph of our 'Engagement Letter' (Exhibit L). We also communicated to Issuer B's Board of Directors ("BODs") about our independence at the completion of the audit. Please refer to page 3, third to last paragraph of 'Letter to the BODs' (Exhibit M). Also please note Issuer B had no audit committee.

REDACTED. Comments on Non-public Aspects of Report

REDACTED. Comments on Non-public Aspects of Report

d. Engagement Quality Review

The PCAOB's comment regarding engagement quality review was discussed with the inspection staff. The EQR was promoted to partner at the beginning of 2013. We provided letter of promotion to the inspection team leader at the time of inspection. There was a firm wide announcement about promoting two of our managers to partners (non equity partners).

In accordance with AS 7, item 3:

The engagement quality reviewer must be an associated person of a registered public accounting firm. An engagement quality reviewer from the firm that issues the engagement report (or communicates an engagement conclusion, if no report is issued) must be a partner or another individual in an equivalent position. The engagement quality reviewer may also be an individual from outside the firm.

Considering above item 3, after becoming a partner, the individual who reviewed Issuer C as EQR does not violate AS No. 7.

REDACTED. Comments on Non-public Aspects of Report

The Firm has scheduled training in the following areas to address the quality control issues:

- SAB 108 and As 14, Evaluation of Audit Results

REDACTED. Comments on Non-public Aspects of Report

- Annual inspection and monitoring
- Inventory observation and roll forward testing
- For required audit committee communication: In addition to the information provided specific to each issuers as mentioned above in 'Required Communications', the firm has added a paragraph to its engagement letter to take care of the required independence communication per PCAOB Rule 3526.

REDACTED. Comments on Non-public Aspects of Report

The firm is in the process of preparing audit programs for asset valuation for use in all audits (Please see Exhibit H).

Sincerely,

Ahmed Mohidin
Partner