

IN THE MATTER OF

A Complaint made under Section 34(1)(a) and 34(1A) of the Professional Accountants Ordinance (Cap.50) ("the PAO") and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong Institute of
Certified Public Accountants COMPLAINANT

AND

Mr. Wong Wing Hong
Membership No. F06719 RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants

Members: Ms. Julia Frances Charlton (Chairman)

Mr. Vincent Chin

Mr. Lam Yin Shing Donald

Ms. Li Yin Fan Fanny

Mr. Yeung Chi Wai Edwin

ORDER & REASONS FOR DECISION

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants (the "**Institute**") against Mr. Wong Wing Hong, a certified public accountant (the "**Respondent**"). Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("**PAO**") applied to the Respondent.
2. The Complaints as set out in a letter dated 25 May 2016 (the "**Complaint**") from the Registrar to the Council of the Institute are as follows:-

BACKGROUND

- (1) China Post E-Commerce (Holdings) Limited (now known as Luxey International (Holdings) Limited) ("Company") was incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong (Stock code: 8041).

- (2) The financial statements of the Company and its subsidiaries ("Group") for the year ended 31 December 2009 ("2009 Financial Statements") were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants .
- (3) Leslie Cheng & Co. ("LCC") was appointed as auditor of the Company and issued an unmodified auditor's report on the 2009 Financial Statements on 19 March 2010. The auditor's report stated that the audit was conducted in accordance with the Hong Kong Standards on Auditing ("HKSA").
- (4) The Respondent was formerly a partner of LCC who acted as the engagement partner for this audit.
- (5) During 2009, the Group acquired 53% in equity interest of iKanTV Limited ("iKanTV") and 20% in equity interest of Info-Source Media Limited ("Info-Source"). The acquisitions of iKanTV and Info-Source were partly settled by issuance of a total of 970 million shares and 395,820,895 shares of the Company respectively.
- (6) The Financial Reporting Council ("FRC") received a complaint of possible non-compliance and auditing irregularity in relation to the 2009 Financial Statements.
- (7) In carrying out its investigation, the FRC found non-compliances with accounting standards regarding (i) recognition of depreciation and disclosure of the carrying amount of the plant and machinery; (ii) fair value measurements of the shares issued as consideration for the acquisitions of iKanTV and Info-Source; and (iii) determination of weighted average number of ordinary shares for the purpose of calculating the loss per share in the 2009 Financial Statements. These non-compliances were subsequently corrected by retrospective restatements in the Group's financial statements for the year ended 31 December 2010.
- (8) In his representations to the FRC, the Respondent admitted that he had misinterpreted HKAS 16 and consequently omitted to recognize the depreciation and disclose the carrying amount of the plant and machinery under the cost model. He also admitted that he had failed to advise the engagement team to perform necessary audit procedures and document their judgment regarding the use of the valuation report as audit evidence.
- (9) In addition, he agreed that he should have performed additional audit work to justify the Company's accounting treatment and document the work done in relation to the fair value measurements of shares. The Respondent also admitted to have failed to ensure the accuracy of the calculation of the weighted average number of the Company's shares and the loss per share .

- (10) On 17 September 2013, the FRC referred to the Institute a report of the Audit Investigation Board ("AIB") dated 8 August 2013 to the Institute pursuant to section 9(f) of the FRC Ordinance, Cap.588 (Appendix 1).
- (11) The complaint against LCC and the engagement quality control reviewer in respect of the audit of 2009 Financial Statements was concluded by a Disciplinary Committee on 18 December 2015. The Disciplinary Committee found that LCC failed or neglected to observe, maintain or otherwise apply professional standards (as set out under paragraphs 14 and 15 below) under section 34(1)(a)(vi) of the PAO. The Respondent was not a party in that disciplinary proceeding since he had been removed from the Institute's register of certified public accountants. He was aware that he would be subject to this complaint upon his re-admission.

SUMMARY OF PRINCIPAL ISSUES

- (12) In the 2009 Financial Statements, the Company failed to:
- (a) recognize depreciation and disclose the carrying amount of the plant and machinery measured under the cost model, in accordance with paragraphs 31 and 77 of the Hong Kong Accounting Standard ("HKAS") 16 "Property, Plant and Equipment";
 - (b) use the published price of the Company's shares to measure the fair value of the shares issued as consideration for the acquisition of iKanTV, in accordance with paragraphs 24 and 27 of HKFRS 3 "Business Combinations";
 - (c) use the published price of the Company's shares in the initial measurement of the fair value of the shares issued as consideration for the acquisition of Info-Source, in accordance with paragraphs 43, 48A and Application Guidance 64 of HKAS 39 "Financial Instruments: Recognition and Measurement"; and
 - (d) determine the weighted average number of the Company's ordinary shares for the purpose of calculating the loss per share, in accordance with paragraphs 19 and 20 of HKAS 33 "Earnings per Share".
- (13) The associated financial effects of the above non-compliances were considered material to the 2009 Financial Statements.
- (14) LCC failed to express a modified auditor's opinion on the 2009 Financial Statements in respect of the above non-compliances with HKAS 16, HKFRS 3, HKAS 39 and HKAS 33, in accordance with paragraphs 11 and 13 of the HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements".

- (15) In addition, in carrying out the audit of the 2009 Financial Statements, LCC was found to have failed to comply with the following HKSAs:
- (a) Paragraphs 2 and 9 of HKSA 230 "Audit Documentation";
 - (b) Paragraphs 2 and 11 of HKSA 500 "Audit Evidence";
 - (c) Paragraphs 3 and 63 of HKSA 545 "Auditing Fair Value Measurements and Disclosures"; and
 - (d) Paragraphs 2, 8, 9, 11 and 12 of HKSA 620 "Using the Work of an Expert".
- (16) The principal issues are explained in the AIB report, which should be referred to for details. The issues and evidence may be further addressed in the Complainant's Case to be filed pursuant to the Disciplinary Committee Proceedings Rules.
- (17) As the engagement partner for the audit of the 2009 Financial Statements, the Respondent is accountable for LCC's multiple breaches of the above auditing standards.
- (18) In responding to the Institute's enquiry, the Respondent submitted that he had exercised his best knowledge in reviewing the audit work carried out on revalued plant and machinery by his audit team in which all members were certified public accountants. He considered that the Institute's support to small and medium practice auditors was insufficient. As regards the fair value measurement of the consideration shares concerned, the Respondent agreed that there was insufficient audit documentation to support his judgment why the market value of the shares could not be adopted as fair value .

THE COMPLAINT

- (19) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that, as the engagement partner responsible for the audit of the 2009 Financial Statements, he failed to act diligently in accordance with section 100.4 (c) as elaborated in section 130.1 of the then applicable Code of Ethics for Professional Accountants because Leslie Cheng & Co. failed or neglected to observe, maintain or otherwise apply the following professional standards in the audit:
- (i) Paragraphs 2 and 9 of HKSA 230;
 - (ii) Paragraphs 2 and 11 of HKSA 500;
 - (iii) Paragraphs 3 and 63 of HKSA 545;
 - (iv) Paragraphs 2, 8, 9, 11 and 12 of HKSA 620;
 - (v) Paragraphs 11 and 13 of HKSA 700.
3. The Respondent admitted the complaints against him. He did not dispute the facts as set out in the complaints. On 25 July 2016, the parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("**DCPR**") be dispensed with.

4. The Disciplinary Committee agreed to the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondent and directed the parties to make written submissions on sanctions and costs.
5. The Complainant provided his submissions on sanctions and costs on 25 August 2016. The Respondent provided his submissions on sanctions on 23 August and he provided clarifications on 29 August 2016. The complaints were all found proved on the basis of the admission by the Respondent.
6. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaints, the Respondent's personal circumstances, and the conduct of the Respondent throughout the proceedings.
7. The Disciplinary Committee orders that:-
 - (a) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
 - (b) the Respondent pay a penalty of HK\$60,000 under Section 35(1)(c) of the PAO;
 - (c) a practising certificate shall not be issued to the Respondent for the year 2016 and 2017 under section 35(1)(db) of the PAO;
 - (d) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$24,730 under Section 35(1)(iii) of the PAO.

Dated the 12th day of October 2016

IN THE MATTER OF

A Complaint made under Section 34(1)(a) and 34(1A) of the Professional Accountants Ordinance (Cap.50) (“the PAO”) and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong Institute of
Certified Public Accountants COMPLAINANT

AND

Mr. Wong Wing Hong
Membership No. F06719 RESPONDENT

ORDER & REASONS FOR DECISION

Dated the 12th day of October 2016