

2. By a letter dated 8 September 2017 to the Council of the Institute (“**the Complaint**”), the Registrar (“**the Complainant**”) complained that the Respondents failed or neglected to observe, maintain or otherwise apply professional standards under sections 34(1AA) and 34(1)(a)(vi) of the Professional Accountants Ordinance (“**PAO**”).
3. On 17 October 2017, the Respondents confirmed their admission of the complaints against them and they did not dispute the facts as set out in the Complaint. The parties jointly proposed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules (the “**Rules**”) be dispensed with and the parties were to make written submission on sanctions and costs.
4. In view of the Respondents’ admission, the Committee acceded to the parties’ joint application to dispense with the steps set out in paragraphs 17 to 30 of the Rules and directed the parties to make written submissions on sanctions and costs.
5. On 7 February 2018, the Complainant made his submissions on sanctions and costs.
6. On 30 January 2018, the 2nd Respondent made its submissions on sanctions.

Background

7. The 2nd Respondent carried out the audit and review, respectively, of the financial statements of GT Group Holdings Limited (formerly China Yunnan Tin Minerals Group Company Limited) (stock code: 263) (the “**Company**”) for:
 - (a) the year ended 31 December 2014 (“**2014 Financial Statements**”); and
 - (b) the six months ended 30 June 2015 (“**2015 Interim Results**”).
8. The 1st Respondent was the engagement quality control reviewer (“**EQCR**”) of the audit and review engagements.
9. The 2014 Financial Statements and 2015 Interim Results were prepared

in accordance with Hong Kong Financial Reporting Standards. Both sets of financial information contained misstatements of earnings per share ("EPS"), contrary to Hong Kong Accounting Standard 33 *Earnings Per Share* ("HKAS 33"). The misstatements resulted from errors in calculating the weighted average number of shares in the EPS calculation, which took account of the Company's share consolidation and rights issue exercises in February and March 2015.

10. The 2nd Respondent issued:
 - (a) an unmodified audit report on the 2014 financial statements according to Hong Kong Standards on Auditing ("HKSAAs"); and
 - (b) an unqualified conclusion on their review of the 2015 Interim Results according to Hong Kong Standard on Review Engagements ("HKSRE") 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity*.
11. In August 2015 and December 2015, the Company issued announcements referring to the incorrect calculation of EPS in the audited 2014 Financial Statements and 2015 Interim Results.
12. In March 2016, the Financial Reporting Council ("FRC") referred a complaint assessment report on the matter to the Institute pursuant to section 9(f) of the Financial Reporting Council Ordinance, Cap 588.

The Complaints

Complaint 1

13. Section 34(1AA) and section 34(1)(a)(vi) of the Professional Accountants Ordinance ("PAO") apply to the 2nd Respondent in that it failed to perform the engagements according to sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants as a result of its failure to adequately evaluate the conclusion of EPS calculation in the audit of the 2014 Financial Statements and review of the 2015 Interim Results.

Complaint 2

14. Section 34(1)(a)(vi) of the PAO applies to the 1st Respondent in that he failed to conduct his engagement quality control reviews with due care according to sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants as a result of his failure to adequately evaluate the conclusion of EPS calculation in the audit of the 2014 Financial Statements and review of the 2015 Interim Results.

Facts and Circumstances leading to the Complaints 1 and 2

The audited 2014 Financial Statements

15. Note 13 to the 2014 audited financial statements disclosed that:

"The effects of the share consolidation on 6 February 2015 and the rights issue on 16 March 2015 have been included in the calculation of the weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share for the years ended 31 December 2014 and 2013."

16. However, in calculating the weighted number of shares for the purposes of EPS, the adjustment factor set out in paragraph A2 of Appendix A in HKAS 33 ("**Adjustment Factor**", see paragraph below) was ignored. The Company used the number of shares after the share consolidation and rights issues (without applying any adjustment) to calculate the EPS.

17. Paragraph A2 of Appendix A to HKAS 33 states:

"Rights issue

A2 ... If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

*Fair value per share immediately before the exercise of rights
Theoretical ex-rights fair value per share*

The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. ..."

18. During the audit of the 2014 Financial Statements, the 2nd Respondent concurred with the incorrect calculation of the weighted number of shares from rights issues for the purposes of EPS calculations, contrary to the requirements of HKAS 33.

The 2015 Interim Results

19. The Respondents' working papers show that in the calculation of the Adjustment Factor, the Company wrongly adopted the fair value per share immediately before the exercise of right on an ex-rights basis (HK\$0.642) instead of a cum-rights basis (HK\$1.02). This is contrary to paragraph A2 of Appendix A to HKAS 33.
20. The Respondents agreed that there were errors in the calculations, *"instead of using the unadjusted closing price [HK\$1.02] of the share of the Company immediately before the commencement of dealings in the shares on an ex-rights basis, i.e. 10 February 2015, there was an erroneously use of the adjusted closing price [HK\$0.642] of the share of the Company on the said date."* as stated in the 2nd Respondent's letter to the FRC dated 22 January 2016.
21. The Company's rights issue required EPS shown in the Interim Results to be calculated by taking account of material adjustments made in accordance with the applicable financial reporting framework. i.e. HKAS 33.
22. On 10 August 2015, the Company issued an announcement which referred to the incorrect weighted average number of shares was used in calculating EPS in the audited 2014 Financial Statements, and stated the corrected weighted average number of shares had been "confirmed" by the auditors.
23. On 22 December 2015, the Company issued another announcement stating that a wrong closing share price was used in determining the weighted average number of shares in the EPS calculations in the audited 2014 Financial Statements and 2015 Interim Results (and the corresponding comparatives).
24. The relevant information relating to result announcements is summarized below:

(HK\$ cents)	30.6.2015	30.6.2014	31.12.2014	31.12.2013
Basic and diluted EPS (original) – per 2014 annual report	-	-	23.22	(0.02)
Basic and diluted EPS – per 10 Aug 2015 announcement	-	-	218.53	(0.21)
Basic and diluted EPS – per 2015 interim report	217	36	-	-
Basic and diluted EPS – per 22 Dec 2015 announcement	210	24.2	146.16	(0.14)

25. EPS calculations are fundamental in the audit of listed companies. The 2nd Respondent was in breach of sections 100.5 and 130 of the Code of Ethics for Professional Accountants concerning professional competence and due care because the audit staff failed to properly evaluate the Company's EPS calculation on two occasions in the 2014 audit and 2015 interim review in accordance with the corporate practice audit manual; and this could not be picked up by the audit team and the EQCR.

Facts and Circumstances leading to Complaint 2

26. As the EQCR, the 1st Respondent reviewed the EPS calculations in the 2014 Financial Statements and 2015 Interim Results but he failed to identify the above errors committed by the audit team.

27. Responding to the involvement of the 1st Respondent as the EQCR in the audit and interim review, the 2nd Respondent represented in its letter to the Institute dated 19 September 2016 the following,

"The errors in the EPS calculations were identified by the engagement team during the course of the review of the 2015 interim financial statements and planning for the 2015 annual audit. The two announcements were made in coordination with the Company as soon as the errors were identified.

The EQCR, Mr. Tsang Chiu Keung, was notified and involved in the evaluation of any significant issues identified by the audit engagement team during the course of the audit and the review as well as in arriving in the necessary decisions and/or conclusions with respect to such issues and their effects to the reporting opinions.

In the circumstances of this case, Mr. Tsang had made enquiries during his reviews focusing on the appropriateness of the formula and figures adopted with reviewing the details of the work done by the audit engagement team. To this respect, Mr. Tsang admitted that he had inadvertently omitted to identify the errors made in the original EPS calculations."

28. Based on the above, the audit team had drawn to the attention of the 1st Respondent, the EQCR, regarding the EPS calculations. However, the 1st Respondent failed to evaluate the EPS assessment of the audit team on two occasions in the 2014 audit and review of the 2015 Interim Results, with adequate level of professional competence and due care required under section 100.5 and 130 of the Code of Ethics for Professional Accountants.

29. The Respondents have faced disciplinary proceedings previously of which they have been reprimanded and fined. It is noted that in D-12-0733P (order made in Dec 2015), the 2nd Respondent (inter alia) was reprimanded, and fined HK\$50,000 and in D-15-1095F (order made in May 2017), both the 1st and 2nd Respondents (inter alia) were reprimanded, and fined HK\$50,000 and HK\$80,000 respectively. The repeated errors in EPS calculation seen in this case and the earlier disciplinary cases point to

a persistent failure by the Respondents to ensure that their professional services were those expected from competent professional accountants.

The Parties' Submissions on Sanctions and Costs

30. Both the Complainant and the 2nd Respondent have made their respective submissions on sanctions and costs.
31. The Complainant submitted that both Respondents have prior disciplinary records and in both prior cases in their records concern listed audits. The fact of miscalculation of EPS of a listed entity on more than one occasion appears to suggest that there was a persistent failure by the Respondents to adhere to professional standards in their work concerning listed audits. Such failures are rather troubling as EPS calculations are one of the most basic information which the public expects from the financial statements of listed entities.
32. In view of the severe nature of the failure and the prior disciplinary records of the Respondents, the Complainant suggested to this Committee to consider a substantial financial penalty of not less than HK\$60,000.00 as sanction against the 1st Respondent and a substantial financial penalty of not less than HK\$90,000.00 as sanction against the 2nd Respondent.
33. The Complainant also submitted that the Respondents should pay the costs and expenses of and incidental to the proceedings of the Institute (including the costs and expenses of this Committee). The Complainant provided a Statement of Costs dated 7 February 2018 which stated a total of HK\$70,656.
34. The 2nd Respondent, on the other hand, invited this Committee to consider the following circumstances:-
 - a) Mr. Lee Ping Kai, who was the engagement director of the relevant engagements, had already been sanctioned under a separate complaint.
 - b) The subject matter of the error was the same in the case against Mr. Lee Ping Kai and the current case against the Respondents.
 - c) The 2nd Respondent has since taken remedial actions in strengthening its quality control procedures and there has been

remarkable improvement in the ability of the directors and senior staff of the 2nd Respondent in handling listing (sic) company audits.

35. The Committee did not receive any further submissions or statements from the parties.

Decision and Order

36. The Committee notes that it has a wide discretion on the sanctions it might impose. Each case is fact sensitive and the Committee is not bound by the decision of the previous committees.
37. The Committee takes consideration to the various cases referred by the Complainant. The Committee considers that the nature of the Respondents' failures in this case involved a possible misleading of the investing public in the Company. The Committee further considers that the public are entitled to expect that practising accountants and corporate practices discharge their duties and carry out their work to the highest standards of probity, independence and competence. If public confidence is shaken then the price to be paid by the entire accountancy profession is very high.
38. Therefore, the Committee believes that it is important that public confidence in the accountancy profession is maintained and that any sanctions imposed by the Committee should also act as deterrence to others that non-compliance by accountancy professionals to the high standards expected of them would be viewed seriously and would exact suitably severe sanctions.
39. The Committee also takes consideration to the Respondents' submissions but noted that the history of non-compliance by both Respondents should not be ignored. The repeated non-compliance of the Respondents on more than one occasion appears to suggest that there was a persistent failure by the Respondents to adhere to professional standards in their work.
40. Having considered all relevant facts of the Complaint, the parties' submissions, the Respondents' conduct throughout the proceedings and their personal circumstances, the Committee considers that a financial

penalty of HK\$60,000 as sanction against the 1st Respondent and HK\$90,000 as sanction against the 2nd Respondent are appropriate.

41. It is also considered that reprimand against both Respondents will be a proper sanction to signify the Committee's disapproval of their conduct.
42. As for costs, the Committee considers that the sum of HK\$70,656 was incurred reasonably and should be borne by the Respondents.
43. The Committee makes the following order:
 - i) The Respondents be reprimanded under section 35(1)(b) of the PAO;
 - ii) The 1st Respondent do pay a penalty of HK\$60,000 pursuant to section 35 (1)(c) of the PAO;
 - iii) The 2nd Respondent do pay a penalty of HK\$90,000 pursuant to section 35 (1)(c) of the PAO;
 - iv) The Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant (including the costs of this Committee) in total sum of HK\$70,656 under section 35(1)(iii) of the PAO.

Dated the 13th day of September 2018

Mr. CHAN Raymond
Chairman

Mr. CHAN Chak Ming
Member

Ms. CHUA Suk Lin, Ivy
Member

Mr. CHAN Kam Hon
Member

Mr. PHENIX Paul Anthony
Member