



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Hong Kong Institute of Certified Public Accountants takes disciplinary action against a corporate practice, a certified public accountant (practising) and a certified public accountant

(HONG KONG, 2 February 2021) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Zenith CPA Limited (M0399) and Mr. Cheng Po Yuen, certified public accountant (practising) (F06724) on 22 December 2020 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, the Committee ordered Zenith, Cheng and Ms. Keung Yee Man, certified public account (A32928) (collectively “Respondents”) to pay a penalty of HK\$150,000, HK\$150,000 and HK\$10,000 respectively, and to pay costs of the Institute and the Financial Reporting Council (“FRC”) totalling HK\$225,000 to be shared equally among them.

Zenith expressed an unmodified auditor’s opinion on the consolidated financial statements of **China Healthcare Holdings Limited (now known as China Health Group Limited), a Hong Kong listed company (“Company”)**, and its subsidiaries (collectively “Group”) for the year ended 31 March 2011. Cheng was the engagement director and Keung was the engagement quality control reviewer.

The Institute received referrals from the FRC about deficiencies in the audit. The audit team failed to perform sufficient audit procedures and prepare adequate documentation in relation to the classification, recognition and measurement of certain convertible bonds and notes, convertible cumulative preference shares and share options. There were also deficiencies in audit procedures and documentation regarding the accounting treatment of a subsidiary in which the Company’s equity interest was below 50%, the preferred shares issued by the subsidiary and the related cumulative dividends. In addition, the audit procedures and documentation on assessing the Group’s ability to continue as a going concern were inadequate.

After considering the information available, the Institute lodged complaints under section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50).

The Respondents admitted the complaints against them. The Disciplinary Committee found as follows:

- (i) Zenith failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - Hong Kong Standard on Auditing (“HKSA”) 230 *Audit Documentation*;
 - HKSA 500 *Audit Evidence*;
 - HKSA 510 *Initial Audit Engagements-Opening Balances*;
 - HKSA 570 *Going Concern*; and

- HKSA 710 *Comparative Information-Corresponding Figures and Comparative Financial Statements*.
- (ii) Cheng failed or neglected to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants (“Code of Ethics”) in conducting his duties as engagement director.
- (iii) Keung failed carry out an adequate engagement quality control review in accordance with HKSA 220 *Quality Control for an Audit of Financial Statements*, and as a result she neglected to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics.

Having taken into account the circumstances of the case and regulatory records of Zenith and Cheng, the Disciplinary Committee made the above order against the Respondents under section 35(1) of the ordinance.

About HKICPA Disciplinary Process

The Hong Kong Institute of Certified Public Accountants ("HKICPA") enforces the highest professional and ethical standards in the accounting profession. Governed by the Professional Accountants Ordinance (Cap. 50) and the Disciplinary Committee Proceedings Rules, an independent Disciplinary Committee is convened to deal with a complaint referred by Council. If the charges against a member, member practice or registered student are proven, the Committee will make disciplinary orders setting out the sanctions it considers appropriate. Subject to any appeal by the respondent, the order and findings of the Disciplinary Committee will be published.

For more information, please see:

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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About HKICPA

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has over 46,000 members and 18,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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香港會計師公會對一間執業法團、一名執業會計師及一名會計師作出紀律處分

(香港，二零二一年二月二日) 香港會計師公會轄下一紀律委員會，於二零二零年十二月二十二日就誠豐會計師事務所有限公司（執業法團編號：M0399）及執業會計師鄭保元先生（會員編號：F06724）沒有或忽略遵守、維持或以其他方式應用公會頒佈的專業準則，對他們予以譴責。紀律委員會同時命令誠豐、鄭先生及會計師姜綺雯小姐（會員編號：A32928）（統稱「答辯人」）須分別繳付罰款 150,000 港元、150,000 港元及 10,000 港元，以及共同平均分擔公會及財務匯報局（「財匯局」）的費用合共 225,000 港元。

誠豐曾就香港上市公司中國衛生控股有限公司（「該公司」，現稱中國衛生集團有限公司）及其附屬公司（統稱「該集團」）截至二零一一年三月三十一日止年度的綜合財務報表發表無保留的核數師意見。鄭先生是審計項目的執業董事，而姜小姐是審計項目的質量控制覆核人。

公會收到財匯局的轉介，指有關審計項目有違規情況。審計團隊沒有就若干可換股債券與票據、可換股累積優先股及購股權的分類、確認及計量，執行充分的審計程序及編備完備的紀錄。同時，審計團隊對該公司持股低於 50% 的附屬公司所採納的會計處理方法，以及該附屬公司發行的優先股和相關累計股息所執行的審計程序及編備的紀錄均有缺失。此外，評估該集團可持續經營能力的審計程序及紀錄亦有不足之處。

公會經考慮所得資料後，根據香港法例第 50 章《專業會計師條例》第 34(1)(a)(vi) 條作出投訴。

答辯人承認投訴屬實。紀律委員會裁定：

- (i) 誠豐沒有或忽略遵守、維持或以其他方式應用以下的專業準則：
- Hong Kong Standard on Auditing（「HKSA」）230「Audit Documentation」；
 - HKSA 500「Audit Evidence」；
 - HKSA 510「Initial Audit Engagements-Opening Balances」；
 - HKSA 570「Going Concern」；及
 - HKSA 710「Comparative Information-Corresponding Figures and Comparative Financial Statements」。

- (ii) 鄭先生履行執業董事的職責時沒有或忽略遵守、維持或以其他方式應用 **Code of Ethics for Professional Accountants** (「**Code of Ethics**」) 內第 100.5(c)及 130.1 條有關「**Professional Competence and Due Care**」的基本原則。
- (iii) 姜小姐未有按照 HKSA 220「**Quality Control for an Audit of Financial Statements**」進行充分的質量控制覆核，因此她忽略遵守、維持或以其他方式應用 **Code of Ethics** 內第 100.5(c)及 130.1 條有關「**Professional Competence and Due Care**」的基本原則。

經考慮有關情況及誠豐和鄭先生以往的監管記錄後，紀律委員會根據《專業會計師條例》第 35(1)條向答辯人作出上述命令。

香港會計師公會的紀律處分程序

香港會計師公會致力維持會計界的最高專業和道德標準。公會根據香港法例第 50 章《專業會計師條例》及紀律委員會訴訟程序規則，成立獨立的紀律委員會，處理理事會轉介的投訴個案。委員會一旦證明對公會會員、執業會計師事務所會員或註冊學生的檢控屬實，將會作出適當懲處。若答辯人未有提出上訴，紀律委員會的裁判將會向外公佈。

詳情請參閱：

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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關於香港會計師公會

香港會計師公會是根據《專業會計師條例》成立的法定機構，負責培訓、發展和監管本港的會計專業。公會會員逾 46,000 名，學生人數逾 18,000。

公會開辦專業資格課程，確保會計師的入職質素，同時頒佈財務報告、審計及專業操守的準則，以鞏固香港作為國際金融中心的領導地位。

CPA 會計師是一個獲國際認可的頂尖專業資格。公會是全球會計聯盟及國際會計師聯合會的成員之一，積極推動國際專業發展。

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IN THE MATTER OF

A Complaint made under Section 34 (1A) and 34(1AA) 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

(1) Zenith CPA Limited (corporate practice no. M0399) 1ST RESPONDENT

(2) Mr. Cheng Po Yuen, a CPA (practising) (membership no. F06724) 2ND RESPONDENT

(3) Ms. Keung Yee Man, a CPA (membership no. A32928) 3RD RESPONDENT

(collectively the “**Respondents**”)

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

Members: Mr. NG Wai Yan (Chairman)
Ms. CHUI Hoi Yee
Mr. TSAI Wing Chung, Philip
Mr. SHEN Ka Yip, Timothy

REASONS FOR DECISION

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants (the “**Institute**”) against the Respondents. Sections 34(1)(a)(vi) of the Professional Accountants Ordinance, Cap. 50, Laws of Hong Kong, applied to the Respondents.

2. The particulars of the Complaint as set out in a letter dated 17 May 2018 (the “**Complaint**”) are as follows:-

BACKGROUND

3. China Healthcare Holdings Limited (now known as China Health Group Limited) (the “**Company**”) was incorporated in Bermuda and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 00673).
4. The 1st Respondent, Zenith CPA Limited (“**Zenith**”) audited the financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2011 (the “**2011 Financial Statements**”) and issued an unqualified opinion which included statements relating to the material uncertainty on the Group's ability to continue as a going concern.
5. The 2nd Respondent, Mr. Cheng Po Yuen (“**Cheng**”) was the engagement director who signed the auditor's report of the 2011 Financial Statements. The 3rd Respondent, Ms. Keung Yee Man (“**Keung**”) was the engagement quality control reviewer (the “**EQCR**”).
6. The 2011 Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Institute. The auditor's report issued by Zenith stated that the audit was conducted in accordance with the Hong Kong Standards on Auditing (“**HKSA**”) issued by the Institute.
7. The Institute received two Audit Investigation Board (“**AIB**”) reports from the Financial Reporting Council (the “**FRC**”).
 - (a) The 1st AIB report dated 16 March 2017 concerns deficiencies in respect of the following audit areas of the 2011 Financial Statements:
 - (i) classification of convertible bonds;
 - (ii) recognition and classification of subordinated convertible notes;
 - (iii) measurements of convertible bonds, redeemable convertible cumulative preference shares, and share options; and

- (iv) assessment of the Group's ability to continue as a going concern for the purpose of the preparation of the 2011 Financial Statements.

- (b) **The 2nd AIB report dated 1 February 2018** concerns deficiencies in respect of the Company's accounting treatments, in the 2011 and 2012 Financial Statements, of:
 - (i) a subsidiary group (i.e. Harvest Network Limited (“**Harvest Network**”)) when its equity interest was less than 50%; and
 - (ii) the preferred shares issued by Harvest Network (“**Preferred Shares**”) and the related cumulative dividends.

THE COMPLAINT

Complaint 1: Against Zenith

- 8. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to: (a) classification of convertible bonds; and/or (b) measurements of convertible bonds, cumulative preference shares, and share options; and/or (c) accounting treatment of the Group's interest in Harvest Network; and/or (d) accounting treatment of Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply HKSA 230 “Audit Documentation”.

Complaint 2: Against Zenith

- 9. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to: (a) classification of convertible bonds; and/or (b) recognition and classification of subordinated convertible notes; and/or (c) measurements of convertible bonds; and/or (d) accounting treatment of the Group's interest in Harvest Network; and/or (e) accounting treatment of Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 6 of HKSA 500 “Audit Evidence”.

Complaint 3: Against Zenith

10. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the assessment of the Group's ability to continue as a going concern, Zenith failed or neglected to observe, maintain or otherwise apply paragraphs 12, 14 and 16 of HKSA 570 "Going Concern".

Complaint 4: Against Zenith

11. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the accounting treatments of (a) the Group's interest in Harvest Network; and/or (b) Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 6 of HKSA 510 "Initial Audit Engagements - Opening Balances".

Complaint 5: Against Zenith

12. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the accounting treatments of (a) the Group's interest in Harvest Network; and/or (b) Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 7 of HKSA 710 "Comparative Information - Corresponding Figures and Comparative Financial Statements".

Complaint 6: Against Cheng

13. Section 34(1)(a)(vi) of the PAO applies to Cheng in that, as the engagement director in the audit of the 2011 Financial Statements, he failed or neglected to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in accordance with sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants (the "Code").

Complaint 7: Against Keung

14. Section 34(1)(a)(vi) of the PAO applies to Keung in that, as the EQCR in the audit of the 2011 Financial Statements, she failed or neglected to observe, maintain or otherwise apply a professional standard, namely sections 100.5(c) and 130.1 of the Code for her failure to diligently carry out an adequate engagement quality control review, in accordance with paragraph 20 of HKSA 220 “Quality Control for an Audit of Financial Statements”.
15. The Complaint Letter was issued on 17 May 2018. Those facts include the facts as set out in the 1st AIB Report dated 16 March 2017 and the 2nd AIB Report dated 1 February 2018. Both AIB reports were referred to the Institute, pursuant to s.9 (f) of the FRC Ordinance (Cap 588) (the “**FRC Ordinance**”) upon which the complaint was based. The AIB Reports stand as evidence of the facts stated therein, pursuant to s.35 (7) of the FRC Ordinance.
16. The 1st and 2nd Respondents admitted to the Complaint by joint application with the Complainant dated 26 June 2018.
17. The 3rd Respondent submitted a Respondent’s Case on 31 December 2018.
18. A directions hearing was held on 1 August 2019 attended by the Complainant and the Respondents, which was adjourned to a further date to be fixed.
19. The 3rd Respondent admitted to the Complaint by joint application with the Complainant dated 18 December 2019.
20. On 15 January 2020, the **Complaint** submitted its written submissions on sanctions.
21. On 30 January 2020, one of five the Disciplinary Committee members, Ms Margaret Choi retired as a Disciplinary Committee Panel A member. By letter dated 30 January 2020, the Complainant stated that it had no objection to the disciplinary proceeding with 4 Disciplinary Committee members. By letter dated 13 February 2020, the 3rd Defendant stated she had no objection to the disciplinary proceeding with 4 Disciplinary Committee members and by letter dated 19 February 2020, the 1st and 2nd

Respondents stated they had no objection to the disciplinary proceeding with 4 Disciplinary Committee members.

22. On 13 February 2020, the 3rd Respondent submitted her written submissions on sanctions.
23. On 20 and 31 March 2020 the 1st and 2nd Respondents submitted their written submissions on sanctions.
24. A sanctions hearing was held on 14 October 2020 (rescheduled from 23 July 2020 due the covid-19 situation) where the Disciplinary hearing heard submissions from the Complainant and the Respondents.
25. The Complainant also submitted supplemental submissions on 23 October 2020 to which the Respondents did not reply.

THE PAO

26. Section 34(1)(a) of the PAO provides that
*A complaint that—
a certified public accountant—
(vi) failed or neglected to observe, maintain or otherwise apply a professional standard; shall be made to the Registrar who shall submit the complaint to the Council which may, in its discretion but subject to section 32D(7), refer the complaint to the Disciplinary Panels.*
27. Section 34 (1AA) of the PAO provides that
The provisions of subparagraphs (ia), (ib), (ic), (iv), (v), (vi), (vii), (viii) and (ix) of paragraph (a) of subsection (1) shall apply mutatis mutandis in relation to a corporate practice and accordingly, in addition to those specified in subsection (1)(b), a complaint under subsection (1) may be made against such a practice on any 1 or more of the grounds specified in those subparagraphs as so applied.
28. Section 35 of the PAO provides that
(1) If a Disciplinary Committee is satisfied that a complaint referred to it under section 34 is proved, the Disciplinary Committee may, in its discretion make any one or more of the following orders—

- (a) *an order that the name of the certified public accountant be removed from the register, either permanently or for such period as it may think fit;*
- (b) *an order that the certified public accountant be reprimanded;*
- (c) *an order that the certified public accountant pay a penalty not exceeding \$500,000 to the Institute;*
- (d) *an order that the certified public accountant—*
 - (i) *pay the costs and expenses of and incidental to an investigation against him under Part VA; and*
 - (ii) *where the disciplinary proceedings were instituted as a result of an investigation under the Financial Reporting Council Ordinance (Cap. 588), pay to the FRC the sum the Disciplinary Committee considers appropriate for the costs and expenses in relation or incidental to the investigation reasonably incurred by the FRC;*
- (da) *an order that the practising certificate issued to the certified public accountant be cancelled;*
- (db) *an order that a practising certificate shall not be issued to the certified public accountant either permanently or for such period as the Disciplinary Committee may think fit,*

THE FRC ORDINANCE

29. Section 9 of the FRC Ordinance provides that

The functions of the FRC are—

f) to refer to a specified body any case or complaint concerning—

(i) any misconduct by a PIE auditor or registered responsible person of a registered PIE auditor;

THE CODE

30. Section 100.5 of the Code provides that

A professional accountant shall comply with the following fundamental principles:

(c) Professional Competence and Due Care—to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards...

31. Section 130.1 of the Code provides that:
- The principle of professional competence and due care imposes the following obligations on all professional accountants:*
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and*
 - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.*

1st and 2nd Respondents

32. Zenith and Cheng admitted to the findings and that the audit of the 2011 Financial Statements failed to comply with the requirements under HKSA 230, HKSA 500, HKSA 570, HKSA 510 and HKSA 710 with regard to the Group's convertible bonds, convertible notes, cumulative preference shares, share options, interest in a subsidiary group and their preferred shares and related dividends, and going concern.
33. The Respondents lacked understanding on the standards' requirements and over-relied on management's representations without performing adequate procedures to obtain sufficient corroborative evidence and documenting the work and outcomes.
34. Cheng failed to ensure that an appropriate EQCR was appointed to carry out an objective evaluation of the 2011 audit. As EQCR, Keung, was a very junior accountant (she was admitted in about May 2010) who lacked the experience of an EQCR and should not have been appointed for the role. Cheng failed to comply with the fundamental principle of professional competence and due care in compliance with sections 100.5(c) and 130.1 of the COE.
35. The level of sanctions should take into account the seriousness of the case and public interest, particularly where they involve a listed company. The sanctions should reflect this taking into account other factors such as disciplinary record.
36. This is not the only offence by Zenith and Cheng. In another case also referred by the FRC, Zenith and Cheng were found to have not complied with professional standards in relation to the calculation of the "loss per share" of a listed company. The matter was dealt with by a Resolution by Agreement with terms of a reprimand and financial penalty of HK\$25,000.

37. The Disciplinary Committee is mindful that it is not bound by the decisions of other disciplinary committees. The Complainant has referred the Disciplinary Committee to, among others, 2 cases which it submitted were relevant.
38. In D-16-1222F, the respondents failed to comply with professional standards in respect of their audit of a listed company. That case also involved the audit of convertible bonds and impairment assessments. In that case, the auditor failed to perform adequate audit procedures to challenge management's assumptions in arriving the accounting estimates. The disciplinary committee ordered that the respondents be reprimanded and that the firm and engagement partner to each pay a penalty of HK\$150,000 and HK\$100,000 respectively and ordered a cancellation cancellation of practising certificates of the engagement partner and EQCR. The respondents had a record of prior offences.
39. In D-14-988F, the respondents failed to comply with professional standards in their audit of a listed company involving convertible bonds. The disciplinary committee ordered that the respondents be reprimanded and the engagement partner to pay a penalty of HK\$70,000. The respondents had no prior record of offences.

3rd Respondent

40. Keung did not have the professional knowledge and skill at the level expected of a competent EQCR and she admitted that at the time, being a very junior accountant, she did not have sufficient experience of the EQCR's role and responsibilities. She admitted that she failed to carry out an adequate engagement quality control review as required under HKSA 220. She submitted that she had not intended to be the EQCR and was appointed as the EQCR by the engagement partner and she had minimal control over the matter. The subject matter of the Complaint took place over 8 years ago when Keung was a very junior accountant. Keung was put in a very difficult position being so junior and having to comply with the instructions of her employer. She has a clean disciplinary record. The 1st and 2nd Respondents' conduct was much more culpable than the 3rd Respondent's.
41. During the sanctions hearing Keung asked that she not be reprimanded and merely fined. She submitted that a reprimand may have a serious impact on her career and livelihood.

42. During the sanctions hearing and in its supplemental submissions dated 23 October 2020, the Complainant referred to the judgement of Hon. Au JA in HCAL 187/2016 delivered on 30 September 2020 wherein the Court considered the decision of a disciplinary committee to be a “Non-Publicity Order”.
43. The Disciplinary Committee has taken into account the said judgement but considers that it is distinguishable as this Disciplinary Committee was and is not considering any non-publicity Order in respect of the Reasons for Decision or redacting the 3rd Respondent’s name from the Reasons for Decision and/or Order. It is in the public interest that all decisions and orders be made public. In Hon. Au JA’s decision, only the Non-Publicity Order of the disciplinary committee was quashed (but not the financial penalties or the failure to reprimand).
44. The sanctions in section 35 of the PAO can and should be regarded as separate and not dependant on each other and the Disciplinary Committee is not obliged to give a reprimand in all cases.
45. During the sanctions hearing and in its supplemental submissions dated 23 October 2020, the Complainant also confirmed that it was aware of one case (D-11-0601H) where a Respondent was not reprimanded but a nominal penalty was imposed. The Disciplinary Committee could therefore impose a financial penalty reflecting the seriousness of conduct (or lack thereof) without a reprimand or give a reprimand without financial penalty.
46. The Complainant had also referred to the Guidelines to Disciplinary Committee for Determining Disciplinary Orders. In any event, the Disciplinary Committee is not bound by past disciplinary decisions or the Guidelines, though it may take them into account when considering each case on its own merits.
47. The Disciplinary Committee is concerned about the delay in commencing these proceedings as it has led to memories being blurred and it is very undesirable to have such an inordinate delay in commencing proceedings for any complaint, especially when no fraud or dishonesty is involved. The Disciplinary Committee is also concerned that the Institute consider a minimum post-qualification experience requirement for appointments of ECQRs.

Costs

48. The Respondents should pay the costs and expenses of and incidental to the proceedings of the Institute, including the costs and expenses of the Committee. Costs incurred by the Institute in disciplinary proceedings are financed by membership subscriptions and registration fees. In addition, as the disciplinary proceedings were a result of investigations under the FRC Ordinance, the Respondents should also pay to the FRC's investigation costs.
49. The Complainant submitted a statement of costs which set out the respective hourly charging rates of the staff members of the Institute who had worked on this matter and the respective amount of time spent by them.
50. The Disciplinary Committee is satisfied by the admissions of the Respondents and evidence adduced before it that the complaints are proved.
51. IT IS ORDERED THAT:-
 - (a) The 1st and 2nd Respondents be reprimanded under Section 35(1)(b) of the PAO;
 - (b) The 1st Respondent be fined the sum of HK\$150,000 under Section 35(1)(c) of the PAO;
 - (c) The 2nd Respondent be fined the sum of HK\$150,000 under Section 35(1)(c) of the PAO;
 - (d) The 3rd Respondent be fined the sum of HK\$10,000 under Section 35(1)(c) of the PAO;
 - (e) The Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$225,000 (i.e. HK\$75,000 payable by the 1st Respondent; HK\$75,000 payable by the 2nd Respondent and HK\$75,000 payable by the 3rd Respondent) under section 35(1)(iii) of the PAO (i.e. Complainant's (including FRC's costs of HK\$91,656.70) costs of HK\$197,000 and the Clerk to the DC's costs of HK\$28,000).

Dated 22 December 2020

Mr. NG, Wai Yan
Chairman of Disciplinary Committee
Disciplinary Panel A

Ms. CHUI Hoi Yee
Member of Disciplinary Committee
Disciplinary Panel A

Mr. TSAI Wing Chung, Philip
Member of Disciplinary Committee
Disciplinary Panel B

Mr. SHEN Ka Yip Timothy
Member of Disciplinary Committee
Disciplinary Panel B

IN THE MATTER OF

A Complaint made under Section 34 (1A) and 34(1AA) 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

- | | | |
|-----|---|----------------------------|
| (1) | Zenith CPA Limited (corporate practice no. M0399) | 1 ST RESPONDENT |
| (2) | Mr. Cheng Po Yuen, a CPA (practising) (membership no. F06724) | 2 ND RESPONDENT |
| (3) | Ms. Keung Yee Man, a CPA (membership no. A32928) | 3 RD RESPONDENT |
- (collectively the “**Respondents**”)

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

Members: Mr. NG Wai Yan (Chairman)
Ms. CHUI Hoi Yee
Mr. TSAI Wing Chung, Philip
Mr. SHEN Ka Yip, Timothy

ORDER

Upon considering the Complaints against the 1st Respondent, Zenith CPA Limited (a firm of certified public accountants, “**Zenith**”), the 2nd Respondent, Cheng Po Yuen (a certified public accountant (practising), “**Cheng**”) and the 3rd Respondent, Keung Yee Man (a certified public accountant, “**Keung**”), as set out in a letter from the Registrar of the Hong Kong Institute of Certified Public Accountants dated 17 May 2018; the 1st and 2nd Respondents’

admission to the Complaint by joint application dated 26 June 2018; the parties' submissions during a directions hearing held on 1 August 2019; the 3rd Respondent's admission to the Complaint by joint application dated 18 December 2019; the Complainant's written submissions on sanctions submitted on 15 January 2020; the 3rd Respondent's written submissions on sanctions submitted on 13 February 2020; the 1st and 2nd Respondents' written submissions on sanctions submitted on 20 and 31 March 2020 and Upon hearing the parties' submissions at the sanctions hearing held on 14 October 2020 and Upon considering the Complainant's supplemental submissions submitted on 23 October 2020, the Disciplinary Committee is satisfied by the admissions of the Respondents and evidence adduced before it that the following complaints are proved:-

Complaint 1: Against Zenith

1. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to: (a) classification of convertible bonds; and/or (b) measurements of convertible bonds, cumulative preference shares, and share options; and/or (c) accounting treatment of the Group's interest in Harvest Network; and/or (d) accounting treatment of Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply HKSA 230 "Audit Documentation".

Complaint 2: Against Zenith

2. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to: (a) classification of convertible bonds; and/or (b) recognition and classification of subordinated convertible notes; and/or (c) measurements of convertible bonds; and/or (d) accounting treatment of the Group's interest in Harvest Network; and/or (e) accounting treatment of Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 6 of HKSA 500 "Audit Evidence".

Complaint 3: Against Zenith

3. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the assessment of the Group's ability to continue as a going concern, Zenith failed or

neglected to observe, maintain or otherwise apply paragraphs 12, 14 and 16 of HKSA 570 “Going Concern”.

Complaint 4: Against Zenith

4. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the accounting treatments of (a) the Group's interest in Harvest Network; and/or (b) Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 6 of HKSA 510 “Initial Audit Engagements - Opening Balances”.

Complaint 5: Against Zenith

5. Section 34(1)(a)(vi) as applied by section 34(1AA) of the PAO applies to Zenith in that, when carrying out the audit of the 2011 Financial Statements, with regards to the accounting treatments of (a) the Group's interest in Harvest Network; and/or (b) Preferred Shares and the related dividends, Zenith failed or neglected to observe, maintain or otherwise apply paragraph 7 of HKSA 710 “Comparative Information - Corresponding Figures and Comparative Financial Statements”.

Complaint 6: Against Cheng

6. Section 34(1)(a)(vi) of the PAO applies to Cheng in that, as the engagement director in the audit of the 2011 Financial Statements, he failed or neglected to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in accordance with sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.

Complaint 7: Against Keung

7. Section 34(1)(a)(vi) of the PAO applies to Keung in that, as the EQCR in the audit of the 2011 Financial Statements, she failed or neglected to observe, maintain or otherwise apply a professional standard, namely sections 100.5(c) and 130.1 of the Code for her failure to diligently carry out an adequate engagement quality control review, in accordance with paragraph 20 of HKSA 220 “Quality Control for an Audit of Financial Statements”.

8. IT IS ORDERED THAT:-

- (a) The 1st and 2nd Respondents be reprimanded under Section 35(1)(b) of the PAO;
- (b) The 1st Respondent be fined the sum of HK\$150,000 under Section 35(1)(c) of the PAO;
- (c) The 2nd Respondent be fined the sum of HK\$150,000 under Section 35(1)(c) of the PAO;
- (d) The 3rd Respondent be fined the sum of HK\$10,000 under Section 35(1)(c) of the PAO;
- (e) The Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$225,000 (i.e. HK\$75,000 payable by the 1st Respondent; HK\$75,000 payable by the 2nd Respondent and HK\$75,000 payable by the 3rd Respondent) under section 35(1)(iii) of the PAO (i.e. Complainant's (including FRC's costs of HK\$91,656.70) costs of HK\$197,000 and the Clerk to the DC's costs of HK\$28,000).

Dated 22 December 2020

Mr. NG, Wai Yan

Chairman of Disciplinary Committee
Disciplinary Panel A

Ms. CHUI Hoi Yee

Member of Disciplinary Committee
Disciplinary Panel A

Mr. TSAI Wing Chung, Philip

Member of Disciplinary Committee
Disciplinary Panel B

Mr. SHEN Ka Yip Timothy

Member of Disciplinary Committee
Disciplinary Panel B