



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 certified public accountant (practising) and a firm

(HONG KONG, 15 July 2019) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Chan Kam Fuk, a certified public accountant (practising) (A20032) and Dominic K. F. Chan & Co. (1777) on 5 June 2019 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered the respondents to pay a penalty of HK\$80,000 and costs of the disciplinary proceedings of HK\$36,630.

Chan is the sole proprietor of Dominic K. F. Chan & Co. which issued an unmodified auditor's opinion on the consolidated financial statements of a Hong Kong listed company, Art Textile Technology International Company Limited (now known as **Art Group Holdings Limited**), and its subsidiaries for the year ended 30 June 2015.

The Institute received a referral from the Financial Reporting Council about irregularities in the audit of the company's financial statements. **The financial statements disclosed basic and diluted loss per share that incorrectly included profits attributable to non-controlling interests. In addition, the diluted loss per share wrongly took into account potential ordinary shares which had an anti-dilutive effect. As a result of the errors, there was non-compliance with Hong Kong Accounting Standard 33 Earnings Per Share.** In their audit, the respondents failed to identify the incorrect amounts of loss per share disclosed in the financial statements.

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

The respondents admitted the complaint against them. The Disciplinary Committee found that the respondents were in breach of 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.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against the respondents under section 35(1) of the ordinance. The Committee considered that amounts of loss or earnings per share reflect the performance of a company and are key indicators for steering equity investment decisions, so their accuracy is crucial. **The Committee further noted that the respondents had a past record of non-compliance with professional standards in reporting on a listed company's financial information.**

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/>

- End -

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 more than 44,000 members and 17,100 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.

Hong Kong Institute of CPAs' contact information:

Ms Gemma Ho
Public Relations Manager
Phone: 2287-7002
Email: gemmaho@hkicpa.org.hk

Ms Rachel So
Head of Corporate Communications and Member Services
Phone: 2287-7085
Email: rachelso@hkicpa.org.hk



香港會計師公會對一名執業會計師及一間會計師事務所作出紀律處分

(香港，二零一九年七月十五日) 香港會計師公會轄下紀律委員會，於二零一九年六月五日就執業會計師陳錦福先生(會員編號：A20032)及陳錦福會計師事務所(事務所編號：1777)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，對他們作出譴責。此外，紀律委員會命令兩名答辯人須繳付罰款 80,000 港元及紀律程序費用 36,630 港元。

陳先生是陳錦福會計師事務所的獨資經營者，該事務所曾就香港上市公司錦藝紡織科技國際有限公司(現稱錦藝集團控股有限公司)及其附屬公司截至二零一五年六月三十日止年度的綜合財務報表發表無保留的核數師意見。

公會收到財務匯報局的轉介，指該上市公司的財務報表審計有違規情況。該財務報表披露的每股基本及攤薄虧損錯誤地將非控股權益應佔盈利計算在內，亦將具反攤薄效應的潛在普通股錯誤地計入每股攤薄虧損中。該等錯誤違反了 Hong Kong Accounting Standard 第 33 號「Earnings Per Share」。答辯人在進行審計時未有發現財務報表披露了錯誤的每股虧損數額。

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。紀律委員會裁定答辯人違反了 Code of Ethics for Professional Accountants 第 100.5(c)條及第 130.1 條有關「Professional Competence and Due Care」的基本原則。

經考慮有關情況後，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。委員會認為每股虧損或盈利反映公司的業績，是影響股本投資決定的關鍵參考，故其數額的準確性十分重要。委員會同時注意到，答辯人過往為一間上市公司進行財務資料報告時曾有違反專業準則的記錄。

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/>

– 完 –

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。公會會員超過 44,000 名，學生人數逾 17,100。

公會開辦專業資格課程，確保會計師的人職質素，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。

香港會計師公會聯絡資料：

何玉淳女士

公共關係經理

直線電話：2287-7002

電子郵箱：gemmaho@hkicpa.org.hk

蘇煥娟女士

企業傳訊及會員事務主管

直線電話：2287-7085

電子郵箱：rachelso@hkicpa.org.hk

IN THE MATTER OF

A Complaint made under Sections 34(1A) and 41A 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. Chan Kam Fuk (A20032)
Dominic K.F. Chan & Co. (1777)

1st RESPONDENT
2nd RESPONDENT

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

Members: Dr. WILSON Claire (Chairman)
Mr. SIU Choi Fat
Mr. YU Tin Yau, Elvin
Mr. CHEUNG Yiu Leung, Andy
Mr. LAI Yat Hin, Adrian

ORDER AND 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. Chan Kam Fuk, a certified public accountant (practising) (the “**1st Respondent**”) and Dominic K. F. Chan & Co., a firm (the “**2nd Respondent**”) (collectively the “**Respondents**”).

2. By a letter dated 13 November 2018 to the Council of the Institute, the Registrar (the “**Complainant**”) complained that the Respondents had failed or neglected to observe, maintain or otherwise apply a professional standard under section 34(1)(a)(vi) of the PAO.
3. The Respondents admitted the Complaint against them by submitting a ‘Confirmation by Respondents’, which was sent to the Disciplinary Committee by letter dated 14 December 2018.
4. The facts set out in the Complaint are not disputed by the Respondents.
5. 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 should make written submissions on sanctions and costs.
6. The Disciplinary Committee agreed to the parties’ proposal to dispense with the steps set out in paragraphs 17 to 30 of the Rules.
7. The Complainant made submissions on sanctions and costs by letter dated 19 March 2019.
8. The Respondents made submissions on sanctions and costs by letter dated 19 March 2019.

BACKGROUND

9. On 7 February 2018, the Financial Reporting Council (“**FRC**”) referred to the Institute an extract of a review assessment report (“**FRC Report**”) concerning non-compliance with accounting requirements and auditing irregularities in relation to the consolidated financial statements of Art Textile Technology International Company Limited (now known as Art Group Holdings Limited) (stock code: 00565) (the “**Company**”) and its subsidiaries (collectively the “**Group**”) for the year ending 30 June 2015 (“**2015 Financial Statements**”).
10. The FRC Report identified errors and departures from HKAS 33 Earnings per Share (“**EPS**”) in the Company’s calculation of basic and diluted loss per share (“**LPS**”) as disclosed in the 2015 Financial Statements.

11. The 2nd Respondent issued an unmodified opinion on the 2015 Financial Statements on 25 September 2015. As the engagement partner of the audit, the 1st Respondent failed to identify the mistakes in the Company's LPS calculations which resulted in a significant understatement of LPS reported in the 2015 Financial Statements.
12. The Respondents admitted the allegations set out in the FRC Report.

THE COMPLAINT

13. Section 34(1)(a)(vi) of the PAO applies to the 1st Respondent and, through section 41A of the PAO, applies to the 2nd Respondent in that they failed to observe, maintain or otherwise apply a professional standard in respect of the audit of the basic and diluted loss per share (LPS) as reported in the 2015 Financial Statements.

FACTS AND CIRCUMSTANCES LEADING TO THE COMPLAINT

14. The 2015 Financial Statements showed that the 2015 basic and diluted LPS were 0.40 Hong Kong cents (HK cents) and 0.39 HK cents respectively.
15. According to the 2015 Financial Statements, note 14:
 - (a) The basic LPS of 0.40 HK cents was derived from dividing the “loss for the year attributable to the owners of the Company” (the “Numerator”) of HK\$4.65 million by the weighted average number of ordinary shares for the purpose of basic loss per share of 1,175,296,000 shares.
 - (b) The diluted LPS of 0.39 HK cents was derived from dividing the Numerator of HK\$4.65 million by the weighted average number of ordinary shares for the purpose of diluted loss per share of 1,201,319,000 shares. To arrive at 1,201,319,000 shares, the Company included the effect of the potential ordinary shares in respect of the 26,023,000 share options issued by the Company.
16. The Company made two errors in the calculations stated in paragraph 15(a) and (b) above.
 - (a) With regards to the calculation of the basic and diluted LPS, the Numerator should be HK\$12.44 million. The figure of HK\$4.65 million used by the Company in its calculations included profits attributable to the non-controlling interests which contravened the requirements under

paragraphs 10 and 30 of HKAS 33 in determining the basic and diluted LPS.

(b) The potential ordinary shares had an anti-dilutive effect in that their conversion to ordinary shares would decrease the LPS value. Under paragraphs 41 and 43 of HKAS 33, calculation of diluted LPS should not include anti-dilutive effects which would decrease LPS from continuing operations.

17. If the calculations were computed accurately in accordance with HKAS 33, the correct basic and diluted LPS for 2015 should both be 1.06 HK cents, which is more than double the amount of the disclosed figures. As such, the basic and diluted LPS were significantly misstated in the 2015 Financial Statements.
18. LPS/EPS calculations reflect the performance of a company and as such they are key indicators for steering equity investment decisions. The accuracy of such calculations in a company's financial statement is crucial.
19. In conducting audit procedures on the basic and diluted LPS in the 2015 Financial Statements, the Respondents did not comply with the relevant professional standards in that they failed to identify that an incorrect loss figure was used in the LPS calculations; and incorrectly took into account the anti-dilutive nature of the potential ordinary shares.
20. The Respondents admitted that they had extracted a wrong loss figure when auditing the LPS calculation and agreed that the potential ordinary shares are anti-dilutive.
21. Under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants ("Code"), a professional accountant shall maintain professional knowledge and skill at a level required, and act diligently in accordance with applicable technical and professional standards when performing professional work.
22. The Respondents did not maintain professional knowledge and skill at a level required, and did not act diligently in accordance with applicable technical and professional standards in respect of their audit of the basic and diluted LPS reported in the 2015 Financial Statements.
23. The Code is a professional standard referred to in the PAO, and section 34(1)(a)(vi) applies to the Respondents in this respect.

DECISION AND ORDER

24. The Disciplinary Committee is satisfied by the admission of the Respondents and the evidence adduced before it that the Complaint is proved.
25. The Disciplinary Committee acknowledges that it has a wide discretion as to the sanctions that it could impose, and that each case is fact sensitive. The Committee is not bound by the decision of previous committees.
26. The Disciplinary Committee has taken into account the past disciplinary decisions referred by the Complainant and other past decisions published by the Institute.
27. In determining the proper Order to be made, the Disciplinary Committee has considered the facts and circumstances in support of the Complaint and the conduct of the Respondents throughout the proceedings. The admission of the Respondents and their cooperation have also been taken into consideration.
28. The Complainant's and Respondents' submissions on sanctions and costs have been considered by the Disciplinary Committee.
29. It is noted that the Respondents have now implemented steps to avoid a repetition of the incident in the future.
30. The Disciplinary Committee regards the Complaint as serious.
31. The Complaint concerns inaccurate LPS/EPS calculations, which reflect the performance of a company. Since such calculations are key indicators for steering equity investment decisions, the accuracy of such calculations in a company's financial statement is crucial.
32. It is also noted that the Respondents have a past history of non-compliance with professional standards in their reporting work on a listed company's unaudited pro forma financial information, which is of concern to the Disciplinary Committee.
33. It is noted that the Respondents do not raise any objections to the costs that may be imposed in connection with the Complaint.

34. Given the serious nature of the Complaint and past history of non-compliance, the Disciplinary Committee considers that a financial penalty of HK\$80,000 is the appropriate sanction to be imposed against the Respondents.
35. The Disciplinary Committee considers that a reprimand against the Respondents shall also be imposed as an appropriate sanction to signify the Committee's disapproval of conduct in this Complaint.
36. With regards to costs, the Disciplinary Committee considers that the sum of HK\$36,630 was incurred reasonably and shall be borne by the Respondents.
37. The Disciplinary Committee ORDERS that: -
 - (a) the Respondents be reprimanded under Section 35(1)(b) of the PAO;
 - (b) the Respondents shall pay a penalty of HK\$80,000 under Section 35(1)(c) of the PAO;
 - (c) the Respondents shall jointly and severally pay the costs and expenses of and incidental to the proceedings in the sum of HK\$36,630 under Section 35(1)(iii) of the PAO.

Dated the 5th day of June 2019

Dr. WILSON Claire
Chairman

Mr. SIU Choi Fat
Disciplinary Panel A

Mr. CHEUNG Yiu Leung, Andy
Disciplinary Panel B

Mr. YU Tin Yau, Elvin
Disciplinary Panel A

Mr. LAI Yat Hin, Adrian
Disciplinary Panel B