



Dear Assignment/News/Business Section Editor

Hong Kong Institute of Certified Public Accountants takes disciplinary action against two certified public accountants (practicing) and a corporate practice

(HONG KONG, 14 January 2016) - A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Choi Man Chau, Michael (membership number F01453), Chan Kin Wai (membership number A24477) and Pan China (HK) CPA Limited (corporate practice number M268) on 21 December 2015 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered Choi and Chan to each pay a penalty of HK\$12,000 and Pan China to pay a penalty of HK\$50,000. In addition, the respondents were ordered to pay costs and expenses of disciplinary proceedings of the Institute and the Financial Reporting Council ("FRC") in the total sum of HK\$83,215.60, to be shared equally by them.

Pan China audited the financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2010 and expressed an unmodified auditor's opinion. Choi was an engagement director who signed the audit report and Chan was the engagement quality control reviewer.

The Institute received a referral from the FRC about non-compliance with professional standards in the audit work carried out by Pan China on the valuation of mining rights acquired by the company. After considering the information available, the Institute lodged a complaint under sections 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50).

The three respondents admitted the complaints against them. The Disciplinary Committee found that:

- (1) Choi and the corporate practice were in breach of Hong Kong Standards on Auditing ("HKSAs") 230 *Audit Documentation* and 500 *Audit Evidence*;
- (2) Chan was in breach of HKSA 220 *Quality Control for an Audit of Financial Statements*; and
- (3) Choi and Chan were in breach in the Fundamental Principle of *Professional Competence and Due Care* in sections 100 and 130 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.

Under the ordinance, if the respondents are aggrieved by the order, they may give notice of an appeal to the Court of Appeal within 30 days after they are served the order.

The order and findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at www.hkicpa.org.hk.

Disciplinary proceedings of the Institute are conducted in accordance with Part V of the ordinance by a five-member Disciplinary Committee. Three members of each committee, including a chairman, are non-accountants chosen from a panel appointed by the Chief Executive of the HKSAR, and the other two are CPAs.

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interest of justice. A hearing schedule is available at the Institute's website. A CPA who feels aggrieved by an order made by a Disciplinary Committee may appeal to the Court of Appeal, which may confirm, vary or reverse the order.

Disciplinary Committees have the power to sanction members, member practices and registered students. Sanctions include temporary or permanent removal from membership or cancellation of a practicing certificate, a reprimand, a penalty of up to \$500,000, and payment of costs and expenses of the proceedings.

- End -

About the Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 39,000 members and 18,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation CPA.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of the Global Accounting Alliance – an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

Hong Kong Institute of CPAs' contact information:

Stella To

Head of Corporate Communications

Phone: 2287 7209

Mobile: 9027 7323

Email: stella@hkicpa.org.hk



致：編採主任／新聞／財經版編輯

香港會計師公會對兩名執業會計師及一執業法團作出紀律處分

(香港，二零一六年一月十四日) — 香港會計師公會轄下紀律委員會於二零一五年十二月二十一日就蔡文洲先生(會員編號：F01453)、陳健偉先生(會員編號：A24477)及天健(香港)會計師事務所有限公司(執業法團編號：M268)沒有或忽略遵守、維持或以其他方式應用公會頒布的專業準則，對他們作出譴責。委員會又命令蔡先生及陳先生須分別繳付罰款港幣一萬二千元，而天健須繳付罰款港幣五萬元。此外，三名答辯人須共同支付公會紀律程序及財務匯報局(「財匯局」)的費用共港幣八萬三千二百一十五元六角。

天健審核一間香港上市公司及其附屬公司截至2010年12月31日的財務報表，並發出了無保留意見的核數師報告。蔡先生為該審計項目的項目執業董事，並簽署了有關報告，而陳先生為項目質量控制覆核人員。

公會收到財匯局的轉介，指天健對該公司所收購的礦產開採權的估值所進行的審計工作不符合專業準則。公會經考慮所得的資料，根據《專業會計師條例》(第50章) 第34(1)(a)(vi)條對三名答辯人作出投訴。

三名答辯人承認投訴中的指控屬實。紀律委員會的裁決如下：

- 1) 蔡先生和該執業法團違反了Hong Kong Standards on Auditing (「HKSAs」) 第230號*Audit Documentation*及第500號*Audit Evidence*；
- 2) 陳先生違反了HKSA第220號*Quality Control for an Audit of Financial Statements*；及
- 3) 蔡先生和陳先生違反了Code of Ethics for Professional Accountants中第100及130條的Fundamental Principle of *Professional Competence and Due Care*。

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的命令。

根據《專業會計師條例》，如答辯人不服紀律委員會對他們作出的命令，可於命令文本送達後30天內向上訴法庭提出上訴。

紀律委員會的書面判決可於公會網頁內Compliance 部分查閱，網頁為 <http://www.hkicpa.org.hk>。

公會的紀律程序是根據《專業會計師條例》第V部份，由五位成員組成的紀律委員會執行。每個紀律委員會的大多數成員，即包括主席在內的三名成員，是從業外人士組成的紀律小組中選派，該紀律小組的成員是由香港特別行政區行政長官委任的；另外兩名成員由專業會計師出任。

除非負責的紀律委員會因公平理由認為不恰當，否則紀律聆訊一般以公開形式進行。紀律聆訊的時間表可於公會網頁查閱。如當事人不服紀律委員會的裁判，可向上訴法庭提出上訴，上訴法庭可確定、修改或推翻紀律委員會的裁判。

紀律委員會有權向公會會員、執業會計師事務所會員及註冊學生作出處分。紀律處分範圍包括永久或有限期地將違規者從會計師註冊紀錄冊中除名或吊銷其執業證書、對其作出譴責、下令罰款不多於五十萬港元，以及支付紀律程序的費用。

關於香港會計師公會

香港會計師公會是香港唯一獲法例授權負責專業會計師註冊兼頒授執業證書的組織，會員人數超過三萬九千，註冊學生人數逾一萬八千。公會會員可採用「會計師」稱銜（英文為 **certified public accountant**，簡稱 **CPA**）。

公會(Hong Kong Institute of Certified Public Accountants)於一九七三年一月一日成立，當時的英文名稱為 **Hong Kong Society of Accountants**。

公會根據《專業會計師條例》履行職責，以公眾利益為依歸。其職能廣泛，包括開辦專業資格課程(**Qualification Programme**)以確保會計師的入職質素，以及頒布香港的財務報告、審計及專業操守準則。此外，公會亦負責在香港監管和推動優良而有效的會計實務，以鞏固香港作為國際金融中心的領導地位。

香港會計師公會是全球會計聯盟(**Global Accounting Alliance, GAA**)的成員之一。全球會計聯盟於二零零五年成立，聯合了全球頂尖的專業會計團體，推動優質服務，並積極與各地監管機構、政府及關連人士就國際重要議題共同合作。

香港會計師公會聯絡資料

杜幼儀

傳訊部主管

直線電話：2287 7209

手提電話：9027 7323

電子郵箱：stella@hkicpa.org.hk

IN THE MATTER OF

A Complaint made under section 34(1)(a) of the Professional Accountants Ordinance (Cap. 50) ("PAO")

BETWEEN

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

AND

Choi Man Chau, Michael (F01453) **1st RESPONDENT**
Chan Kin Wai (A24477) **2nd RESPONDENT**
Pan China (HK) CPA Limited (M268) **3rd RESPONDENT**

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants ("the Institute").

Members: Miss CHAN, Nancy (Chairman)
 Mr. KAN Siu Lun
 Mr. KWONG, Chi Ho, Cecil
 Mr. CHOW, Tak Sing, Peter
 Mr. WARDELL, James

ORDER

Upon reading the complaint against Mr. Choi Man Chau, Michael, a certified public accountant (practising) ("Choi") as the 1st Respondent, Mr. Chan Kin Wai, a certified public accountant (practising) ("Chan") as the 2nd Respondent, and Pan China (HK) CPA Limited, a corporate practice ("Pan China") as the 3rd Respondent, as set out in a letter from the Registrar of the Institute ("the Complainant") dated 25 June 2015, the written submission of the Respondents dated 15 October 2015 and 26 October 2015, the written submission of the Complainant dated 27 October 2015, and other relevant documents, the Disciplinary Committee is satisfied by the admission of the Respondents and the evidence adduced before it that the following complaints are proved:

1. Section 34(1)(a)(vi) of the PAO applies to Pan China and Choi in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 8 and 9 of HKSA 500 in their impairment assessment of the Aleinuer Mine and Xinjiang Mine.

2. Section 34(1)(a)(vi) of the PAO applies to Pan China and Choi in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraph 8 of the HKSA 230 as a result of their failure to prepare any or any adequate audit documentation regarding their discussions with the management in the impairment assessment of the Aleinuer Mine and Xinjiang Mine.
3. Section 34(1)(a)(vi) of the PAO applies to Chan in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 20 and 21 of the HKSA 220 as a result of his failure to identify the audit deficiencies in the impairment assessment of the Aleinuer Mine and Xinjiang Mine when acting as the EQCR for the audit.
4. Section 34(1)(a)(vi) of the PAO applies to Choi and Chan in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 100.5(c) and 130.1 of the COE as a result of their failure to maintain professional knowledge or skill and/or to act diligently when acting as the engagement director and EQCR respectively in the audit of the Company for the year ended 31 December 2010.

IT IS ORDERED that:-

1. the Respondents be reprimanded under section 35(1)(b) of the PAO;
2. each of the 1st and 2nd Respondents pay a penalty of HK\$12,000 under section 35(1)(c) of the PAO and the 3rd Respondent pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO; and
6. the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant and the Financial Reporting Council in the total sum of HK\$83,215.60 under section 35(1)(iii) and section 35(1)(d)(ii) of the PAO. The costs and expenses shall be shared equally by the Respondents.

Dated the 21st day of December 2015

IN THE MATTER OF

A Complaint made under section 34(1)(a) of the Professional Accountants Ordinance (Cap. 50) ("PAO")

BETWEEN

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

AND

Choi Man Chau, Michael (F01453) 1st RESPONDENT
Chan Kin Wai (A24477) 2nd RESPONDENT
Pan China (HK) CPA Limited (M268) 3rd RESPONDENT

Members: Miss CHAN, Nancy (Chairman)
 Mr. KAN Siu Lun
 Mr. KWONG, Chi Ho, Cecil
 Mr. CHOW, Tak Sing, Peter
 Mr. WARDELL, James

REASONS FOR DECISION

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants ("the Institute") as Complainant against Mr. Choi Man Chau, Michael, a certified public accountant (practising) ("Choi") as the 1st Respondent, Mr. Chan Kin Wai, a certified public accountant (practising) ("Chan") as the 2nd Respondent, and Pan China (HK) CPA Limited, a corporate practice ("Pan China") as the 3rd Respondent. Section 34(1)(a)(vi) of the PAO applied to the Respondents.
2. The particulars of the Complaint as set out in a letter dated 25 June 2015 ("the Complaint") from the Registrar of the Institute to the Council of the Institute for consideration of the Complaint for referral to the Disciplinary Panels were as follows:-
 - (1) **China Daye Non-Ferrous Metals Mining Limited ("Company")** and its subsidiaries is a group listed on the Hong Kong Stock Exchange (Stock **Code: 00661**) ("**Group**"). The Group was principally engaged in corporate investment and trading in securities, minerals exploitation and

trading in non-ferrous metals. The audited financial statements of the Company for the year ended 31 December 2010 ("**2010 Financial Statements**") were prepared in accordance with Hong Kong Financial Reporting Standards.

- (2) Pan China was the auditor of the Company for the financial year in question, and they expressed an unmodified audit opinion on the 2010 Financial Statements. The auditor's report stated that the audit was conducted in accordance with Hong Kong Standards on Auditing.
- (3) Choi, a former practising director of Pan China, was the engagement director and signed the auditor's report in the name of Pan China on 29 March 2011 on the 2010 Financial Statements.
- (4) Chan, a practising director of Pan China, was the engagement quality control reviewer ("EQCR") for the audit.
- (5) The 2010 Financial Statements show that the Company's major assets included mining rights of HK\$2,156 million (2009: HK\$2,142 million), representing 107% (2009: 109%) of the Company's net assets.
- (6) Note 17 *Mining Rights* in the 2010 Financial Statements and prior periods' financial statements of the Company states,

17. MINING RIGHTS	As at 31 Dec 2010 HK\$'000	As at 31 Dec 2009 HK\$'000	As at 30 Apr 2009 HK\$'000	As at 30 Apr 2008 HK\$'000
Cost/ Carrying amount:				
At the beginning of the year	2,142,547	2,055,140	2,488,859	-
Additions	-	-	-	2,488,859
Impairment loss (provided) / written back	14,038	87,407	(433,719)	-
Balance at the end of the year	<u>2,156,585</u>	<u>2,142,547</u>	<u>2,055,140</u>	<u>2,488,859</u>

No amortisation was provided during the year/period as the Group has not yet commenced the exploitation of the ores.

- (7) Note 5(b) to the 2010 Financial Statements states,

"The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows."

- (8) The Company acquired two mining rights during the financial year ended 30 April 2008 at a fair value of \$2,488 million:

- (a) Aleinuer Mine (a molybdenum mine in Mongolia) ("**Aleinuer Mine**"); and
- (b) Xinjiang Mine (a copper mine in Xinjiang) ("**Xinjiang Mine**")
- (9) In the circulars issued by the Company to shareholders during the acquisition of the two mining rights in June 2007 and January 2008, the Company announced that:
- (a) *"It is expected that the commercial operation of the [Aleinuer Mine] will commence in mid 2009 following the completion of the construction of the mining facilities....."; and*
- (b) *"It is expected that first phase of the mining and processing facilities of the [Xinjiang Mine]..... will commence commercial operation by 2009."*
- (10) In the 2010 Financial Statements, the carrying amounts of the Aleinuer Mine and Xinjiang Mine were \$723.8 million and \$1,432.7 million respectively, representing 36% and 71% of the Group's net assets as at 31 December 2010 (note 17, 2010 Financial Statements).
- (11) For the year ended 31 December 2011, note 17 to the financial statements disclosed that due to the legal proceedings concerning the Aleinuer Mine and the actual circumstances concerning the mine, the Company made a full impairment provision of HK\$723.8 million against the Aleinuer Mine. The loss for the year 2011 amounted to HK\$669 million.

17. MINING RIGHTS	As at 31 Dec 2011 HK\$'000	As at 31 Dec 2010 HK\$'000
Cost/ Carrying amount:		
At the beginning of the year	2,156,585	2,142,547
Impairment loss (provided) / written back	<u>(723,838)</u>	<u>14,038</u>
Balance at the end of the year	<u>1,432,747</u>	<u>2,156,585</u>
No amortisation was provided during the year/period as the Group has not yet commenced the exploitation of the ores		

- (12) On 12 November 2014, the Financial Reporting Council referred the matter to the Institute enclosing a **Report of the Audit Investigation Board dated 1 September 2014** pursuant to section 9(f) of the Financial Reporting Council Ordinance, Cap 588 (the "**AIB Report**").

Relevant Professional Standards

- (13) Paragraphs 8, 9 and A48 of Hong Kong Standard on Auditing 500 *Audit Evidence* ("**HKSA 500**") states,

8. If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes: (Ref: Para. A34 A36)

(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37 A43)

(b) Obtain an understanding of the work of that expert; and (Ref Para. A44-A47)

(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. 448)

9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:

(a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref Para. A49-A50)

(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)

A48. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;*
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and*
- If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data.*

- (14) Paragraph 20 and 21 of Hong Kong Standard on Auditing 220 *Quality Control for an Audit of Financial Statements* ("**HKSA 220**") states,

20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

(a) Discussion of significant matters with the engagement partner;

(b) Review of the financial statements and the proposed auditor's report;

(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and

(d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26-A27, A29-A31)

21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

- (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;*
- (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and*
- (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A28-A31)*

- (15) Sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants ("COE ")* states,

100.5 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.

130.1 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 performing professional activities or providing professional services.*

- (16) Paragraph 8 of Hong Kong Standard on Auditing 230 *Audit Documentation ("HKSA 230")* states,

8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)

- (a) The nature, timing, and extent of the audit procedures performed to comply with the HKSAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)*
- (b) The results of the audit procedures performed, and the audit evidence obtained; and*

(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)

Complaint 1

- (17) Section 34(1)(a)(vi) applies to Pan China and Choi in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 8 and 9 of HKSA 500 in their impairment assessment of the Aleinuer Mine and Xinjiang Mine.

Facts and Circumstances in support of Complaint 1

- (18) The Company engaged a valuer ("Valuer") to provide an opinion on the fair value of the Aleinuer Mine and Xinjiang Mine as at 31 December 2010 ("Valuation Reports"). The Valuation Reports were prepared with reference to feasibility study reports prepared in 2006 and 2008 respectively ("Feasibility Study Reports").
- (19) Pan China considered that the valuation approach was "reasonable" and the values of the Aleinuer Mine and Xinjiang Mine as at 31 December 2010 were "fairly stated". However they failed to consider or consider adequately the following factors or apparent deficiencies in the valuation.
- (20) As the Feasibility Study Reports were prepared back in 2006 and 2008, the Respondents failed to ascertain whether the facts and assumptions in these feasibility reports were still applicable or whether appropriate adjustments should be made in the valuations. Further details are set out in AIB Report §§3.2.3-3.2.4.
- (21) The Respondents did not test the sufficiency, relevance and accuracy of the source data used by the Valuer. Further details are set out in AIB Report §§3.2.6, 3.2.8, and 3.2.9, which included (inter alia) the following failures:
- (a) Price adjustments were limited to discussions with management of the Company and the Respondents simply accepted the management's view that no price and costs adjustment was needed throughout the forecast periods. In fact, there were significant changes in the prices of minerals in those past few years.
 - (b) There was no consideration of the impact of general inflation as required by paragraph 40 of HKAS 36 *Impairment of Assets*¹.

¹ HKAS36, §40 provides that "Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or

(c) Discounted cash flow projections wrongly included estimated future income tax payments and cash outflow from financing activities, contrary to para 50 of HKAS36². Pan China admitted to this mistake in their letter of 26 March 2013 to the AIB.

(22) There was no evidence of audit work done to ascertain the relevance and reasonableness of 12 out of 15 items in the estimated future cash outflows. Audit evidence was obtained for only 2 items for Xinjiang Mine and one item for Aleinuer Mine. Further details are set out in §§3.2.11 and 3.2.12 of the AIB Report.

Complaint 2

(23) Section 34(1)(a)(vi) applies to Pan China and Choi in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraph 8 of the HKSA 230 as a result of their failure to prepare any or any adequate audit documentation regarding their discussions with the management in the impairment assessment of the Aleinuer Mine and Xinjiang Mine.

Facts and circumstances in support of Complaint 2

(24) When asked by AIB to respond to the audit deficiencies as set out above, Pan China alleged in their letters of 26 March 2013 and 13 January 2014 that they had certain discussions with Company's management concerning the impairment assessment of the 2 mines – see AIB Report §§3.1.3.2, 3.1.3.5, and 3.1.3.6. However the documentation of these alleged discussions was limited to a one-page handwritten note in the audit working paper (annex 2T to the AIB Report), which did not cover many of the matters set out in the letters of 26 March 2013 and 13 January 2014.

(25) In the premises, Pan China and Choi failed to document or document sufficiently the details of their discussion with management concerning the impairment assessment as set out in the letters of 26 March 2013 and 13 January 2014.

Complaint 3

(26) Section 34(1)(a)(vi) applies to Chan in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 20 and 21 of the HKSA 220 as a result of his failure to

decreases)."

² HKAS36, §50 provides that "Estimates of future cash flows shall not include:

- (a) Cash inflows or outflows from financing activities; or
- (b) Income tax receipts or payments."

identify the audit deficiencies in the impairment assessment of the Aleinuer Mine and Xinjiang Mine when acting as the EQCR.

Facts and Circumstances in support of Complaint 3

(27) The mining rights in the Aleinuer Mine and Xinjiang Mine were the principal assets of the Group and yet their valuations appeared inherently imprecise and were based on various estimates and assumptions made by the Company's management and the Valuer. It is reasonable to expect that Chan as the EQCR would select the audit working papers concerning the impairment assessment when performing the EQCR. Had he done so, he should have identified the audit deficiencies as set out above.

(28) Accordingly, Chan as the EQCR failed to comply with para 20 and 21 of HKSA 220.

Complaint 4

(29) Section 34(1)(a)(vi) of the PAO applies to Choi and Chan in that they failed or neglected to observe, maintain or otherwise apply professional standards as provided in paragraphs 100.5(c) and 130.1 of the COE as a result of their failure to maintain professional knowledge or skill and/or to act diligently when acting as the engagement director and EQCR respectively in the audit of the Company for the year ended 31 December 2010.

Facts and Circumstances in support of Complaint 4

(30) Based on the above audit deficiencies, Choi and Chan have failed to maintain their professional knowledge or skill and/or to act diligently when acting as the engagement director and EQCR respectively in the audit of the Company for the year ended 31 December 2010.

3. The Respondents admitted the Complaint against them. They did not dispute the facts as set out in the Complaint. They agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with.
4. By a letter dated 6 October 2015 addressed to the Complainant and the Respondents, the Clerk to the Disciplinary Committee ("DC"), under the direction of the DC, informed the parties that they should make written submissions to the DC as to the sanctions and costs and that the DC would not hold a hearing on sanctions and costs unless otherwise requested by the parties.
5. In considering the proper order to be made in this case, the DC has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the written submission of the Respondents dated 15 and 26

October 2015, the written submission of the Complainant dated 27 October 2015, and the conduct of the Complainant and the Respondents throughout the proceedings. The DC found that the Complaint (1 to 4 above) has been proved.

6. The DC orders that:-

- 1) the Respondents be reprimanded under section 35(1)(b) of the PAO;
- 2) each of the 1st and 2nd Respondents pay a penalty of HK\$12,000 under section 35(1)(c) of the PAO and the 3rd Respondent pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO; and
- 3) the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant and the Financial Reporting Council in the total sum of HK\$83,215.60 under section 35(1)(iii) and section 35(1)(d)(ii) of the PAO. The costs and expenses shall be shared equally by the Respondents.

Dated the 21st day of December 2015