

STATEMENT OF DISCIPLINARY ACTION

A. The Disciplinary Action

1. Pursuant to section 37CA of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has:
 - 1.1. publicly reprimanded each of MnO CPA Limited (**MnO**) (formerly known as Wellink CPA Limited), Ms Chan Yan Ting (**Chan**) and Mr Ngan Hing Hon (**Ngan**);
 - 1.2. imposed a pecuniary penalty of HK\$300,000 against MnO;
 - 1.3. imposed a pecuniary penalty of HK\$210,000 against Chan; and
 - 1.4. imposed a pecuniary penalty of HK\$90,000 against Ngan.
2. The sanctions were imposed in relation to the audit of the consolidated financial statements of New Concepts Holdings Limited (**Company**) (stock code: 2221) and its subsidiaries (collectively, the **Group**) for the year ended 31 March 2017 (**2017 Financial Statements**).
3. MnO conducted the audit of the 2017 Financial Statements (**2017 Audit**).¹
4. Chan was the engagement partner for the 2017 Audit and a director of MnO at that time.² Collectively, Chan and MnO are referred to as the **Auditor**.
5. Ngan was the engagement quality control reviewer (**EQCR**) for the 2017 Audit and a director of MnO at that time.³
6. The AFRC found multiple audit deficiencies in the 2017 Audit, specifically in relation to the valuation of technologies and the impairment testing of goodwill following a major acquisition by the Group in December 2016.
7. The deficiencies in the work of the Auditor and Ngan constituted not only failures to observe, maintain or otherwise apply the PAO professional standards (as defined by section 2 of the AFRCO) but also amounted to negligence in the conduct of their profession, in that they failed to meet the standard of care expected of a reasonably competent auditor or EQCR

¹ MnO is registered as a corporate practice with the AFRC (Corporate Practice No. M0472). It was renamed from Wellink CPA Limited to MnO CPA Limited in May 2025.

² Chan is a member of the HKICPA (HKICPA Membership No. A26650), a practising certificate holder (Practising Certificate No. P06380) and a practising director of MnO. She is also a practising director of two other accounting firms, Reanda HK CPA Limited (Corporate Practice No. M0005) and Reanda Lau & Au Yeung (HK) CPA Limited (Corporate Practice No. M0324).

³ Ngan is a member of the HKICPA (HKICPA Membership No. A03274), a practising certificate holder (Practising Certificate No. P05294) and a practising director of MnO. He is also a practising director of another accounting firm, Beijing Xinghua Caplegend CPA Limited (Corporate Practice No. M0903).

respectively. Those deficiencies therefore constitute professional irregularities pursuant to sections 3B(1)(c) and (g) of the AFRCO, and in turn, constitute CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.⁴

8. The PAO professional standards which they failed to observe, maintain or otherwise apply were as follows:

8.1. The Auditor failed to observe, maintain or otherwise apply:

8.1.1 HKSA 200 (*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*);

8.1.2 HKSA 500 (*Audit Evidence*);

8.1.3 HKSA 540 (*Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*);

8.1.4 HKSA 620 (*Using the Work of an Auditor's Expert*);

8.1.5 HKSA 700 (*Forming an Opinion and Reporting on Financial Statements*); and

8.1.6 HKSA 705 (*Modifications to the Opinion in the Independent Auditor's Report*).⁵

8.2. In addition to the above, Chan also failed to observe, maintain and otherwise apply *The Code of Ethics for Professional Accountants (Code of Ethics)*.

8.3. Ngan failed to observe, maintain or otherwise apply:

8.3.1 HKSA 220 (*Quality Control for an Audit of Financial Statements*); and

8.3.2 the Code of Ethics.

B. Summary of Facts

9. The Company was incorporated in the Cayman Islands and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 19 September 2014.

⁴ This disciplinary matter was handled in accordance with section 71 of the Accounting and Financial Reporting Council (Transitional and Saving Provisions and Consequential Amendments) Regulation (Cap. 588B). Pursuant to this section, MnO, Chan and Ngan are treated as if they are professional persons under the AFRCO.

⁵ All references to accounting and auditing standards in this Statement of Disciplinary Action are references to the versions applicable at the time of the 2017 Audit.

10. At the time of the 2017 Audit, the Group was incurring losses in its main business of construction work in Hong Kong, and so instead was seeking to expand its relatively new environmental protection business, involving kitchen waste treatment and industrial water treatment in the Chinese Mainland.
11. As part of this expansion, on 14 December 2016 (**Acquisition Date**), the Group acquired a 51% equity interest in Clear Industry Company Limited for a total consideration of approximately HK\$101.6 million.
12. Clear Industry Company Limited and its subsidiaries (collectively, **CIG**) provided EPC (engineering, procurement and construction) services in the areas of kitchen waste treatment and industrial water treatment, and held various technologies related to kitchen waste treatment (**Technologies**).
13. As part of the purchase price allocation for the acquisition of CIG:
 - 13.1. the Group estimated the fair value of the Technologies to be approximately HK\$25.9 million as at the Acquisition Date (approximately 40% of CIG's total assets), based on the report of a valuation expert engaged by management; and
 - 13.2. given that the amount paid by the Group significantly exceeded the fair value of CIG's identifiable net assets, and the vendor's retention of a substantial non-controlling interest, a very high proportion of the amount paid by the Group (90%, or HK\$90.98 million) was ultimately allocated to goodwill.
14. At year-end, the Group tested the goodwill for impairment and concluded it was not impaired. As a result, the Group reported no impairment of either the goodwill or the Technologies in the 2017 Financial Statements.
15. The Auditor issued an unmodified audit opinion on those financial statements. In doing so, the Auditor relied on the fair value of the Technologies estimated by management's expert, and concurred with management's assessment that goodwill was not impaired.
16. The following year, management wrote off the vast majority of the Technologies, and the entirety of the goodwill from the acquisition of CIG, as an impairment loss for the year ended 31 March 2018. Management did so on the basis that CIG had failed to obtain any new EPC contracts during the year, leading to a significant decline in revenue.

C. Summary of Findings

17. The audit work conducted in respect of the 2017 Audit was the subject of an investigation conducted by the Audit Investigation Board pursuant to section 23(3)(b) of the then Financial Reporting Council Ordinance (Cap. 588).

18. The AFRC found significant deficiencies in the Auditor's work in two main areas of the 2017 Audit, being the valuation of the Technologies and impairment testing of goodwill. The deficiencies in these areas culminated in the Auditor's overall failure to obtain sufficient appropriate audit evidence to support its unmodified audit opinion. See the findings in Section C.1 below.
19. The AFRC also found significant deficiencies in Ngan's engagement quality control review. See the findings in Section C.2 below.
20. In light of these deficiencies, the AFRC further found that Chan and Ngan failed to act diligently in accordance with the applicable professional standards and thereby failed to comply with the fundamental principle of professional competence and due care, in breach of sections 100.5(c) and 130.1 of the Code of Ethics.

C.1 Findings Against the Auditor

C.1.1 The Technologies

21. Management's expert estimated the fair value of the Technologies based on a relief-from-royalty model, which:
 - 21.1. estimated how much the Company would hypothetically pay in royalties if it did not own the Technologies, and instead had to license them from third parties at a particular royalty rate (fixed as 5% of projected revenue for EPC services); and
 - 21.2. then discounted those hypothetical royalty payments to their present value, which were taken to represent the fair value of the Technologies.
22. The model therefore depended heavily upon three key assumptions:
 - 22.1. the royalty rate;
 - 22.2. the useful life of the Technologies; and
 - 22.3. projected EPC revenue.
23. The Auditor relied upon the management's expert's estimated fair value for the purpose of issuing an unmodified audit opinion on the 2017 Financial Statements. However, the Auditor did so without obtaining sufficient evidence of the appropriateness of the work performed by management's expert. In particular, the Auditor lacked sufficient evidence to demonstrate that the key assumptions relied upon by management's expert were reasonable, for the following reasons.
24. Firstly, the management's expert's report recorded:

- 24.1. little or no work on the assumed useful life of the Technologies and projected EPC revenue; and
 - 24.2. very few details of the work done on the royalty rate.
25. Secondly, while the Auditor had engaged its own expert to assist in reviewing the key assumptions, the Auditor should have identified from the Auditor's expert's report that there were:
- 25.1. apparent inconsistencies between the Auditor's expert's findings and other audit evidence; and
 - 25.2. apparent significant gaps in the Auditor's expert's recorded work – for example:
 - 25.2.1 the Auditor's expert had not recorded performing any work on the assumed royalty rate or useful life of the Technologies; and
 - 25.2.2 although the projected EPC revenue was entirely reliant on a purported "pipeline" of new EPC projects, the Auditor's expert did not record performing any work to assess the likelihood of CIG being able to obtain new projects.
26. Thirdly, in the absence of sufficient recorded work by either expert, it was open to the Auditor to simply conduct its own evaluation of the reasonableness of the key assumptions. However:
- 26.1. the Auditor did not perform any work to evaluate the assumed royalty rate or useful life of the Technologies; and
 - 26.2. the Auditor's evaluation of the projected EPC revenue was heavily reliant upon uncorroborated management representations, and raised new questions about the plausibility of that assumption. For example:
 - 26.2.1 the Auditor did not obtain any audit evidence to support management's representation on the probability of projects in the "pipeline" being awarded to CIG (such as memorandums of understanding or correspondence with potential clients); and
 - 26.2.2 management's projected EPC revenue contemplated a massive 605% increase in revenue in the first year (relative to historical revenue), which raised serious questions about how this was to be achieved. The Auditor failed to obtain any explanation for this.

27. In those circumstances, the Auditor should not have relied upon the management's expert's estimated fair value of the Technologies, and should not have issued an unmodified audit opinion.
28. These deficiencies in the Auditor's work constituted breaches of:
- 28.1. HKSA 500.8(c), in that the Auditor failed to properly evaluate the appropriateness of the management's expert's work and in particular, the reasonableness of the management's expert's significant assumptions as audit evidence;
 - 28.2. HKSA 620.12, in that the Auditor failed to properly evaluate the adequacy of the Auditor's expert's work for the Auditor's purposes;
 - 28.3. HKSA 200.15, in that the Auditor failed to apply an appropriate level of professional scepticism to management's representations;
 - 28.4. HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgment by deciding to rely on management representations without appropriate corroborative evidence;
 - 28.5. HKSA 500.6, in that the Auditor failed to design and perform appropriate audit procedures to corroborate management's representations;
 - 28.6. HKSA 200.17, in that the Auditor failed to obtain sufficient appropriate audit evidence of the fair value of the Technologies;
 - 28.7. HKSA 540.18, in that the Auditor failed to identify, as part of its evaluation of the estimated fair value of the Technologies, that it lacked sufficient audit evidence to conclude that this estimate was reasonable;
 - 28.8. HKSA 705.6, in that the Auditor failed to modify its audit opinion in the absence of sufficient appropriate audit evidence; and
 - 28.9. HKSA 700.11, in that the Auditor wrongly concluded it had obtained reasonable assurance that the 2017 Financial Statements were free from material misstatement. The Auditor lacked sufficient appropriate audit evidence to reach such a conclusion.

C.1.2 Goodwill Impairment Testing

29. For the purpose of testing whether the goodwill arising from the acquisition of CIG was impaired at year-end, management:
- 29.1. used a discounted cash flow model to estimate CIG's value in use; and

- 29.2. concluded that the estimated value in use exceeded CIG's carrying amount, and therefore goodwill was not impaired.
30. The discounted cash flow model was heavily dependent upon several assumptions adopted by management, which management considered reasonable and supportable. These included:
- 30.1. projected EPC revenue, which was based on a pipeline of potential projects (not existing projects); and
- 30.2. projected gross profit margins ranging from 44% to 50%.
31. The Auditor concurred with management that goodwill was not impaired, and that the projected EPC revenue and gross profit margins were reasonable and supportable.
32. The Auditor was obliged to obtain sufficient appropriate audit evidence to support both of those conclusions. In respect of the projected EPC revenue in particular, this ought to have involved obtaining:
- 32.1. audit evidence demonstrating management's ability to obtain new projects, e.g. by reference to contracts for new projects between the Acquisition Date and the date of the audit opinion; or
- 32.2. in lieu of the above, audit evidence to support the likelihood of CIG being awarded the potential projects in the pipeline.
33. However, the Auditor failed to obtain sufficient appropriate audit evidence of either projected EPC revenue or projected gross profit margins. Despite being aware that impairment testing of goodwill was a key audit matter and subject to a significant degree of judgment by management, the Auditor:
- 33.1. did not obtain any audit evidence demonstrating management's ability to obtain new projects;
- 33.2. relied heavily upon uncorroborated management representations to the effect that:
- 33.2.1 the potential projects in the pipeline had "*high chances*" of being awarded to CIG; and
- 33.2.2 CIG had "*high technology skills*" which would allow it to charge high prices and therefore generate higher gross profit margins;
- 33.3. performed fundamentally flawed comparisons of projected EPC revenue against actual revenue to arrive at the (incorrect) conclusion that the projected EPC revenue was conservative. Those

- comparisons were flawed because the Auditor had failed to adopt the same parameters when calculating the respective revenue amounts;
- 33.4. failed to resolve apparent inconsistencies in the audit evidence obtained; and
 - 33.5. otherwise did not obtain any other audit evidence which might amount to sufficient appropriate audit evidence.
34. In those circumstances, the Auditor should not have:
- 34.1. relied upon management's projected EPC revenue and gross profit margins;
 - 34.2. concurred that goodwill was not impaired; and
 - 34.3. issued an unmodified audit opinion.
35. As a result of these deficiencies, the Auditor breached:
- 35.1. HKSA 200.15, in that the Auditor failed to apply an appropriate level of professional scepticism to management's representations;
 - 35.2. HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgment by deciding to rely on management's representations without appropriate corroborative audit evidence;
 - 35.3. HKSA 200.17, in that the Auditor failed to obtain sufficient appropriate audit evidence that goodwill was not impaired as at 31 March 2017;
 - 35.4. HKSA 540.18, in that the Auditor failed to identify, as part of its evaluation of CIG's estimated value in use as an accounting estimate, that it lacked sufficient audit evidence to conclude that this estimate was reasonable;
 - 35.5. HKSA 500.11, in that the Auditor failed to resolve inconsistencies in the audit evidence obtained;
 - 35.6. HKSA 705.6, in that the Auditor failed to modify its audit opinion in the absence of sufficient appropriate audit evidence; and
 - 35.7. HKSA 700.11, in that the Auditor wrongly concluded it had obtained reasonable assurance that the 2017 Financial Statements were free from material misstatement. The Auditor lacked sufficient appropriate audit evidence to reach such a conclusion.

C.2 Findings against Ngan

36. The AFRC found multiple deficiencies in the engagement quality control review performed by Ngan in the 2017 Audit.

37. As the EQCR, Ngan was obliged to evaluate the engagement team's significant judgments and conclusions, particularly in respect of key audit matters such as goodwill impairment testing. His work in this regard was inadequate and fell significantly short of discharging this obligation, in breach of HKSA 220.20.
38. Based on the audit documentation which Ngan reviewed (or should have reviewed), he ought to have identified that the Auditor lacked sufficient appropriate audit evidence to support its conclusions on the fair value of the Technologies and impairment of goodwill, and declined to sign off on the completion of the engagement quality control review until this had been resolved.
39. However, Ngan failed to identify this, and instead proceeded to sign off on the engagement quality control review. He thereby allowed the Auditor to incorrectly issue an unmodified audit opinion in the 2017 Audit.

D. Conclusion

40. Having considered all relevant circumstances, the AFRC is of the view that each of the regulatees failed to observe, maintain or otherwise apply the PAO professional standards (as defined by section 2 of the AFRCO) and have been negligent in the conduct of their profession. Each of them has therefore committed a professional irregularity under sections 3B(1)(c) and (g) of the AFRCO, and are therefore guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.
41. In determining sanctions, the AFRC has had regard to its Sanctions Policy for Professional Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons and the Guidance Note on Cooperation with the AFRC, and has taken into account all relevant circumstances, including the following:
 - 41.1. The misconduct by the Auditor and EQCR involved moderately serious failures to meet the standard of care expected of them, as well as breaches of the PAO professional standards.
 - 41.2. As a result of the misconduct, the Auditor incorrectly issued an unmodified audit opinion on the financial statements of a publicly-listed company.
 - 41.3. The misconduct potentially caused material misstatements in the 2017 Financial Statements, particularly in light of the fact that in the following year, the Company recognised impairment losses for the entirety of the HK\$90.98 million in goodwill arising from the acquisition of CIG and the vast majority (i.e. HK\$24.4 million) of the Technologies.

41.4. That being said, the AFRC does not make any finding of intentional, dishonest or deliberate misconduct by any of the regulatees, and all three regulatees have a clean disciplinary record with the AFRC and HKICPA.