

**HLB HODGSON IMPEY CHENG:
ACCOUNTING FIRM TAKEN TO TASK BY NASDAQ COMPANY**

HLB Hodgson Impey Cheng (), an accounting firm, operating in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), has been sued for more than \$HK3 million by a company, listed on NASDAQ.

The Plaintiff in Action Number 2014, lodged in the High Court of the HKSAR, is PacificNet Incorporated, a company, engaged in mobile Internet and gaming technology in the PRC, among other things.

PacificNet was incorporated in the US on April 8, 1987, and the company is registered in the HKSAR.

Its shares are selling on The NASDAQ at about \$US4.60, each (about \$HK36).

While the amount of money with regard to the claim of the Plaintiff does not appear to be a king's ransom, the final outcome could be very damaging if the case goes the distance and a determination is made in favour of the Plaintiff in the HKSAR High Court.

It is alleged at Paragraph 3 of the Statement of Claim, attached to Writ of Summons, Number 2014, that '*In or about March, 2002, the Plaintiff (PacificNet Incorporated), through introduction and referral of a friend, approached the Defendants (HLB Hodgson Impey Cheng) and negotiated with the Defendants to take over the office of auditor for the Group (PacificNet Incorporated) and also the audit works from Messrs. Arthur Anderson & Company.*'

An engagement letter, Paragraph 4 alleges, was penned and signed by the Plaintiff and Defendant on April 3, 2002, whereby it was agreed that HLB Hodgson Impey Cheng would provide, inter alia:

1. Annual statutory audit and financial statements of PacificNet Incorporated;
2. Assist in reviewing the content of management discussion and analysis;
3. Liaise with the US attorney, acting for and on behalf of the Plaintiff in respect of certain statutory filings with the US authorities;
4. Review each quarter of the financial statements of the Plaintiff; and,
5. Taxation services.

Then, from Paragraph 10 of the Statement of Claim, it is alleged:

- '10. *On 25 March, 2003, the Defendants had issued the auditors' report of the Group for the financial years ended 31 December, 2001 and 31 December, 2002.*
- '11. *Based on the completion of the auditors' report as mentioned in paragraph 10 above, the Plaintiff believed that the performance of the Defendants were acceptable and the Defendants had also filed the Profits Tax Returns and respective financial statements to the Hong Kong Inland Revenue Department, the NASDAQ and the USA Inland Revenue Service for and on behalf of the Group accordingly.*
- '12. *Based on the experience of first cooperation and belief of acceptable performance of the Defendants, the Plaintiff and Defendants had reached same and similar agreements*

for services to be provided by the Defendants to the Group at an agreed sum of professional fees for the years of 2003, 2004 and 2005 respectively.

‘13. The Plaintiff had also received letters issued by the Defendants informing them that the audited works for fiscal year 2004 were completed but no evidence and/or audited financial statements and/or Report of Directors were delivered to the Plaintiff’s Chairman of the Board and/or Directors for signatory. Furthermore, no evidence and/or financial statements and/or Report of the Directors were received by the Plaintiff that the Defendants had conducted and/or completed the auditing on financial statements and agreed works as stipulated in quotation letters of the Defendants for the fiscal years 2003 and 2005.

‘14. Further ... [CLICK TO ORDER FULL ARTICLE](#)

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