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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS, AND  
IMPOSING SANCTIONS

*In the Matter of Kenny H. Lee CPA Group, Inc.,  
and Kwang Ho Lee, CPA*

*Respondents.*

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) PCAOB Release No. 2005-022  
) PCAOB No. 105-2005-004  
)  
) November 22, 2005  
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Summary

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is revoking the registration of Kenny H. Lee CPA Group, Inc., and barring its sole shareholder, Kwang Ho Lee, CPA, from being an associated person of a registered public accounting firm. The Board is imposing these sanctions on the basis of its findings concerning the respondents' violations of PCAOB rules and auditing standards in auditing the financial statements of two issuer clients in 2004, and their violations of PCAOB independence standards with respect to one of those clients in 2003.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, fair, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002 ("Act") and PCAOB Rule 5200(a)(1) against Kenny H. Lee CPA Group ("KHL") and Kwang Ho Lee, CPA ("Lee") (collectively, "Respondents").

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, KHL and Lee have each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of this proceeding and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, the Respondents

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each consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.

### III.

On the basis of Respondents' Offers and information obtained by the Board in this matter, the Board finds<sup>1/</sup> that:

#### A. Respondents

1. KHL is an accounting firm incorporated in the state of California and licensed by the California Board of Accountancy (license no. 5185). KHL is registered with the Board pursuant to Section 102 of the Act and PCAOB Rules. Its only office is located in Los Angeles, California.

2. Lee (also known as Kenny H. Lee), 45, of Rancho Palos Verdes, California, is a certified public accountant licensed by the State of California (license no. 64155). Since 1993, Lee has been the chief executive officer and sole shareholder of KHL. Lee is an associated person of KHL, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

#### B. Respondents Violated PCAOB Auditing Standards in the FY 2003 Audit of GSL Holdings, Inc.

3. GSL Holdings, Inc. ("GSL") (formerly Bethurum Laboratories, Inc.) is a British Virgin Islands corporation with offices in Los Angeles, California. Its common stock is registered with the Securities and Exchange Commission ("Commission") under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") and is quoted on the Pink Sheets. GSL's public filings disclose that it has business operations in California and the People's Republic of China ("PRC"), and that it provides facilitation, credit and

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<sup>1/</sup> The sanctions that the Board is imposing in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5)(A), which provides that such sanctions may be imposed in the event of "intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard."

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logistical support to manufacturers and merchants engaged in trade between the PRC and the United States. GSL is an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

4. KHL was engaged as GSL's independent auditor beginning on February 6, 2003. KHL audited GSL's consolidated financial statements for the fiscal year ended December 31, 2003, and issued an unqualified audit report dated April 8, 2004.<sup>2/</sup> In that report, KHL stated that GSL's financial statements fairly presented its financial condition in all material respects in conformity with U.S. generally accepted accounting principles ("GAAP").<sup>3/</sup> KHL's audit report was included in the Form 10-KSB filed by GSL with the Commission on April 14, 2004. GSL's audit committee dismissed KHL on June 17, 2004.<sup>4/</sup>

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<sup>2/</sup> The audit report included an explanatory paragraph expressing substantial doubt as to GSL's ability to continue as a going concern.

<sup>3/</sup> KHL's audit report stated that the audit was conducted in accordance with U.S. generally accepted auditing standards ("GAAS"). Respondents were required to conduct this audit in accordance with the PCAOB's interim auditing standards pursuant to PCAOB Rule 3200T, which took effect on April 25, 2003. However, at the time of this audit, the PCAOB's interim auditing standards were the same as GAAS as it existed on April 16, 2003, and, until PCAOB Auditing Standard No. 1 took effect on May 24, 2004, it remained appropriate for auditors to refer to GAAS in their audit reports. Accordingly, while the reference to GAAS in KHL's report was an appropriate reference at the time, the standards pursuant to which the audit was required to be performed are more appropriately referred to as PCAOB auditing standards (or PCAOB standards), and that is how they are referred to in this Order.

<sup>4/</sup> Upon KHL's dismissal, GSL's audit committee engaged Deloitte Touche Tohmatsu (Hong Kong) ("DTT") as the company's auditor. On September 28, 2004, GSL filed a Form 8-K with the Commission disclosing that DTT had resigned on September 22, 2004, without issuing an audit report. GSL disclosed further that, "[p]rior to resigning, [DTT] advised [GSL] that the internal controls necessary for [GSL] to develop reliable financial statements do not exist and that information had come to the attention of DTT that, if investigated further, might materially impact the fairness or reliability of the report on [GSL's] consolidated financial statements for the fiscal year ended December 31, 2003[,] issued by the predecessor to [DTT], Kenny H. Lee CPA Group, Inc."

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5. An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance PCAOB standards.<sup>5/</sup> Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements.<sup>6/</sup> In connection with the audit of GSL's financial statements for FY 2003, Respondents failed to exercise due professional care, failed to exercise professional skepticism, and failed to obtain sufficient competent evidential matter. Specific instances of Respondents' conduct constituting violations of PCAOB standards are described below.

1. GSL's FY 2003 Property Acquisitions

6. During FY 2003, GSL's total reported assets increased from \$755,857 to \$49,861,311. According to GSL's public filings, most of that increase related to GSL's acquisitions of two properties in the PRC. GSL disclosed that both properties were acquired from GSL's controlling shareholder, Everbright Development Overseas Limited ("Everbright"), a Beijing-based entity, in exchange for restricted shares of GSL's common stock. Specifically, GSL disclosed that, in September 2003, it issued more than 9.5 million shares of its common stock to Everbright in exchange for 350,370 square meters of undeveloped real property in the city of Nantong, PRC. GSL also disclosed that it completed the purchase of a 258,241 square-foot hotel in the city of Haimen, PRC, on December 29, 2003, and issued more than 6.4 million shares of its common stock to Everbright in January 2004 as consideration for the purchase. GSL's FY 2003 financial statements reported that the Nantong property was valued at \$19,064,890 and the Haimen property was valued at \$12,926,830. As reported in the financial statements, the aggregate value of these properties – \$31,991,720 – represented 64 percent of GSL's total reported assets at December 31, 2003.

7. Respondents never obtained sufficient competent evidence to reasonably conclude that GSL had legally acquired the two properties. For example, Respondents never verified that final acquisition agreements were executed. In the case of one acquisition, Respondents reviewed a two-page memorandum of understanding ("MOU")

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<sup>5/</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>6/</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; § 230, *Due Professional Care in the Performance of Work*; § 326, *Evidential Matter*.

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in which GSL and Everbright expressed a "present intent" to negotiate and execute a definitive agreement regarding sale of the property. The MOU expressly stated, however, that it was non-binding and that material terms and conditions remained to be negotiated. Despite the contingent nature of the MOU, Respondents neither obtained the definitive agreement contemplated by the MOU, nor otherwise corroborated that the transaction occurred or that GSL had rights to the property.

8. In addition, Respondents' audit procedures were insufficient to reasonably conclude that GSL had properly valued the properties in its financial statements. To support the values reported in its financial statements, GSL provided Respondents with appraisals purportedly obtained from independent appraisers located in the PRC.<sup>7/</sup> While Respondents relied on these appraisals during the audit, they never evaluated whether the appraisers had the requisite experience, certification or standing to perform the appraisals; never evaluated the assumptions and methodologies used by the appraisers; and never made inquiries concerning the appraisers' relationships, if any, to GSL or Everbright.<sup>8/</sup>

9. Respondents' failure to obtain sufficient competent evidential matter concerning these property acquisitions is compounded by GSL's disclosure that both properties were acquired from its controlling shareholder, Everbright. At all relevant times, GSL's chairman was also the chairman and controlling shareholder of Everbright. PCAOB standards require auditors to employ a heightened standard in testing material transactions between related parties.<sup>9/</sup>

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<sup>7/</sup> The property values reported in GSL's financial statements were based on the appraisals, and presumably were intended by GSL to represent the properties' fair value. However, because the transferor, Everbright, was also GSL's controlling shareholder, GAAP may have required GSL to record the properties at Everbright's carrying amount as of the date of transfer. The correct GAAP treatment depends on additional information that Respondents did not obtain or evaluate in performing the audit. See Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, paragraphs D11 & D12; see also EITF Issue No. 90-5, *Exchanges of Ownership Interests Between Entities Under Common Control*.

<sup>8/</sup> See AU § 336, *Using the Work of a Specialist*.

<sup>9/</sup> See, e.g., AU § 334.07, *Related Parties* ("The auditor should place emphasis on testing material transactions with parties he knows are related to the

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### 2. GSL's FY 2003 Contract Costs

10. GSL disclosed that, in the fourth quarter of FY 2003, it prepaid a PRC vendor for products and/or services related to the company's business operations in that country. GSL recorded these costs as an asset valued at \$10,446,331, representing nearly 21 percent of GSL's total reported assets at December 31, 2003. Respondents failed to perform adequate audit procedures to test whether GSL had actually prepaid the vendor in FY 2003, and whether those costs were properly classified as an asset on GSL's balance sheet.

11. In addition, Respondents failed to perform adequate audit procedures to determine whether GSL's classification of those prepayment costs as an asset was consistent with GAAP. Specifically, Respondents did not take sufficient steps to obtain an understanding of the products and services in question to be able to assess whether those prepayment costs would result in a probable future economic benefit to GSL. Without an adequate understanding of the underlying products and services, Respondents had no reasonable way of assessing whether GSL's classification of the costs as an asset was appropriate.<sup>10/</sup> Moreover, even if it had been appropriate to classify the costs as an asset, Respondents should have, but did not, evaluate whether those costs were recoverable in light of, among other things, GSL's recurrent losses and lack of revenue history.<sup>11/</sup>

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reporting entity."); AU § 9334.18 ("The risk associated with management's assertions about related party transactions is often assessed as higher than for many other types of transactions because of the possibility that the parties to the transactions are motivated by reasons other than those that exist for most business transactions.").

<sup>10/</sup> To assess whether the classification of the prepayment costs as an asset was appropriate, Respondents needed to have sufficient understanding of the underlying products and services to be able to evaluate whether the prepayment costs would result in a probable future economic benefit to GSL. See FASB Concepts Statement No. 6, *Elements of Financial Statements*, paragraph 25 (asset defined as a "probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events").

<sup>11/</sup> See SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

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### 3. GSL's Statement of Cash Flows

12. GSL included certain non-monetary exchanges involving property acquisitions in its statement of cash flows. This accounting treatment departed from GAAP, which requires the reporting of non-cash activities in related disclosures, not in the cash flow statement.<sup>12/</sup> As a result, GSL overstated its operating cash flow by approximately \$32 million (reporting an operating cash flow of approximately \$23.7 million instead of -\$8.3 million). Respondents failed to identify this GAAP departure, and failed even to perform audit procedures necessary to evaluate whether this accounting treatment complied with GAAP.<sup>13/</sup>

### 4. GSL's Deferred Taxes and Related Valuation Reserve

13. GSL recorded deferred tax assets of \$1,150,346, which it computed based solely on U.S. federal and California state tax rates, even though most of GSL's revenues and a significant portion of its losses were attributed to the foreign operations of GSL subsidiaries. Respondents failed to identify that this accounting departed from GAAP,<sup>14/</sup> and failed even to perform audit procedures necessary to evaluate whether this accounting treatment complied with GAAP.

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<sup>12/</sup> See SFAS No. 95, *Statement of Cash Flows*, paragraph 32.

<sup>13/</sup> An auditor's opinion that an issuer's financial statements are presented in conformity with GAAP must be based on an audit performed in accordance with PCAOB standards. PCAOB standards require an auditor to perform audit procedures sufficient to evaluate the issuer's adherence to GAAP. This Order's description of audit failures relating to GAAP departures in an issuer's financial statements necessarily reflects the Board's judgment concerning the proper application of GAAP. Any such description of GAAP departures, however, should not be understood as an indication that the Securities and Exchange Commission has considered or made any determination concerning the issuer's compliance with GAAP.

<sup>14/</sup> See SFAS No. 109, *Accounting for Income Taxes*, paragraph 17 ("Deferred taxes shall be determined separately for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction.").

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14. In addition, while the reduction of a deferred tax asset by a valuation allowance is required if it is more likely than not that some portion of the tax asset will not be realized in future periods,<sup>15/</sup> GSL recorded no valuation allowance and stated in the notes to the financial statements that, based on projections of future taxable income and the company's tax planning strategies, it was more likely than not that the deferred tax assets would be realized in future periods. GSL, however, had a consistent pattern of operating losses, and KHL's audit report included an explanatory paragraph expressing substantial doubt as to GSL's ability to continue as a going concern. Although these factors suggest that a valuation allowance may have been required, Respondents neither reviewed GSL's projections and strategies, nor otherwise evaluated whether a valuation allowance should have been recorded.

C. Respondents Violated PCAOB Independence Standards With Respect to the Axesstel Inc. Engagement in 2003

15. Axesstel, Inc. ("Axesstel") (formerly Miracom Industries, Inc.) is a Nevada corporation with offices in San Diego, California. Its common stock is registered with the Commission under Section 12(g) of the Exchange Act and is traded on the American Stock Exchange. Axesstel's public filings disclose that it has business operations in California and South Korea, and that it designs, manufactures and markets fixed wireless voice and data products. Axesstel is an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

16. KHL was engaged as Axesstel's independent auditor beginning in or about August 2002.<sup>16/</sup> During the fiscal year ended December 31, 2003, KHL performed interim reviews of Axesstel's financial statements for the quarters ended March 31 and June 30, 2003.

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<sup>15/</sup> Id.

<sup>16/</sup> KHL originally served as the auditor for Miracom Industries, Inc. ("Miracom"), a public shell with few assets and no operations. In or about August 2002, Miracom entered into a reverse acquisition with Axesstel, Inc., a privately-held California company with operating assets ("Axesstel-California"). As a result of that merger, Miracom acquired all of the issued and outstanding stock of Axesstel-California and the former shareholders of Axesstel-California received 95 percent of Miracom's shares. Miracom then changed its name to Axesstel. Following the reverse acquisition, KHL was retained as Axesstel's auditor.

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17. On June 2, 2003, while KHL was engaged as Axesstel's independent auditor, Lee accepted an offer to serve on the company's board of directors. Following his acceptance of that offer, KHL continued its attest engagement for Axesstel. On August 5, 2003, KHL completed an interim review of Axesstel's financial statements for the quarter ended June 30, 2003. KHL's review report was included in the Form 10-QSB filed by Axesstel with the Commission on August 15, 2003. In late September 2003, Lee formally became a member of Axesstel's board of directors and became chairman of the board's audit committee. KHL's professional engagement as Axesstel's auditor continued until November 3, 2003.<sup>17/</sup>

18. At the time of the conduct at issue, PCAOB Rule 3600T, *Interim Independence Standards*, required registered public accounting firms and their associated persons to comply with the independence standard described in Rule 101 of the AICPA's Code of Professional Conduct, and interpretations and rulings thereunder, as in existence on April 16, 2003, in connection with the preparation and issuance of audit reports. That standard requires that an auditor "be independent in the performance of professional services."<sup>18/</sup> Interpretations of that standard provide that independence shall be considered impaired if, "[d]uring the period covered by the financial statements or during the period of the professional engagement, a . . . partner or professional employee of the firm was simultaneously associated with the client as a . . . director."<sup>19/</sup>

19. Accordingly, in light of the facts and circumstances described above, Respondents failed to maintain independence with respect to Axesstel during the professional engagement period, in violation of PCAOB interim independence standards and PCAOB Rule 3600T.

D. Respondents Violated PCAOB Auditing Standards In the 2004 Axesstel Restatement Engagement

20. Lee resigned from Axesstel's board of directors in or about March 2004. On or about September 21, 2004, Axesstel re-engaged KHL to perform audit services related to a restatement of the company's financial statements for the fiscal year ended

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<sup>17/</sup> KHL became registered with the Board on October 22, 2003.

<sup>18/</sup> ET § 101.01, *Independence*.

<sup>19/</sup> ET § 101.02 (Interpretation 101-1).

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December 31, 2002.<sup>20/</sup> The restatement involved, among other things, changes in Axesstel's accounting for software research and development costs, a license purchased from another company, and other items including stock options, employee bonuses, and goodwill impairment.<sup>21/</sup> On September 30, 2004, KHL issued an audit report relating to the restatement, which stated that an audit had been conducted in accordance with PCAOB standards. The report also stated that the restated financial statements fairly presented Axesstel's financial condition in all material respects in conformity with GAAP. KHL's audit report was included in a Form 10-KSB/A filed by Axesstel with the Commission on October 13, 2004, and in a Form SB-2 Registration Statement filed on October 15, 2004.

21. Before issuing the audit report, Respondents performed no audit procedures to determine whether the restated amounts proposed by management were fairly stated in conformity with GAAP.<sup>22/</sup> Respondents merely accepted at face value the restatement journal entries proposed by Axesstel's management. Respondents' conduct violated the most fundamental PCAOB standards, which require an auditor to perform audit procedures necessary to afford a reasonable basis for an opinion and prohibit an

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<sup>20/</sup> KHL performed the original audit of Axesstel's FY 2002 financial statements and issued an audit report thereon on February 28, 2003. That audit report preceded the effective date of PCAOB Rule 3200T, *Interim Auditing Standards*.

<sup>21/</sup> The restatement impact on Axesstel's FY 2002 financial statements included the following: (1) research and development expenses increased by 389 percent, from \$162,909 to \$796,742; (2) total assets decreased by six percent from \$6,241,501 to \$5,863,717; (3) gross profit decreased by 24 percent, from \$4,588,136 to \$3,490,226; (4) operating income decreased 82 percent, from \$751,990 to \$132,034; (5) net income decreased by 91 percent, from \$635,626 to \$55,265; (6) basic earnings per share decreased from \$0.09 to \$0.01; and (7) diluted earnings per share decreased from \$0.06 to \$0.01. See Axesstel Form 10-KSB/A (filed October 13, 2004).

<sup>22/</sup> Respondents performed no audit procedures on the restated financial statements until they became aware in late October 2004 that the Board's Division of Enforcement and Investigations was investigating KHL's Axesstel audit engagements. After receiving a request for documents from the PCAOB staff, Lee requested documentation from Axesstel to support the restated financial statements and completed certain audit procedures on December 14, 2004 – two and a half months after KHL issued its September 30, 2004 audit report.

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auditor from relying on management representations as a substitute for such procedures.<sup>23/</sup>

### E. Respondents Violated PCAOB Rules

22. PCAOB Rule 3100 requires that a registered public accounting firm and its associated persons comply with all applicable auditing and related professional practice standards. That requirement encompasses a requirement to comply with the PCAOB's interim auditing standards as described in PCAOB Rule 3200T and with the PCAOB's interim independence standards as described in PCAOB Rule 3600T. Respondents' failure to comply with PCAOB auditing standards, as described above, violated PCAOB Rules 3100 and 3200T. Respondents' failure to comply with PCAOB independence standards, as described above, violated PCAOB Rules 3100 and 3600T.

### IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- i. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), Kenny H. Lee CPA Group, Inc.'s registration with the Board is revoked; and

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<sup>23/</sup> AU §§ 150, 230, 326, and 333.02-04, *Management Representations*.

**ORDER**

- ii. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Kwang Ho Lee is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

ISSUED BY THE BOARD.

  
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J. Gordon Seymour  
Acting Secretary

November 22, 2005