

Press Release

19 March 2021

FRC Investigates Victory City Financial Statements and Deloitte Audit

The FRC today announces the initiation of:

- (i) An enquiry into the financial statements of Victory City International Holdings Limited (**Victory City**) for the year to 31 March 2020 (**Annual Accounts**) and six months to 30 September 2020 (**Interim Accounts**); and
- (ii) An investigation into the audit of the Annual Accounts by Deloitte Touche Tohmatsu (**Deloitte**).

In an announcement on 22 February 2021 (**First Announcement**), Victory City noted that, in a letter from Deloitte dated 11 February 2021 received by the audit committee on 16 February 2021 (**First Letter**), Deloitte stated that on 22 January 2021 it had obtained two credit reports relating to two Mainland subsidiaries of Victory City and that the credit reports contained certain outstanding borrowings of RMB946 million (**borrowings**), “part of which” might not have been included in the Annual Accounts and the Interim Accounts.

Deloitte was the auditor of the Victory City Annual Accounts and expressed an unmodified audit opinion on them. Deloitte also expressed an unmodified review conclusion on the Interim Accounts.

On 22 February 2021, Deloitte advised the FRC of the First Announcement. In a letter dated 2 March 2021, responding to questions raised by the FRC on 27 February 2021, Deloitte noted that it had advised the Company on 26 February 2021 (**Second Letter**) that based on its analysis it no longer seemed accurate to indicate that only part of the borrowings may not have been included in the Annual Accounts and the Interim Accounts.

The FRC also received a complaint from a member of the public on 23 February 2021, which raised concerns about the generic nature of the information provided about possible unrecorded borrowings in the First Announcement and questioned whether the audit work on bank borrowings had been carried out properly.

On 9 March 2021, Victory City issued an announcement (**Second Announcement**), in which it noted that it had received the Second Letter from Deloitte. It also noted that it had asked Deloitte to clarify the inconsistency between the First Letter and the Second Letter and to provide further information and explanations in relation to their analysis referred to in the Second Letter.

The FRC has initiated the enquiry into the Annual Accounts and Interim Accounts and the investigation into the audit of the Annual Accounts, taking into account that trading in Victory City's shares is continuing, because it is in the interest of the shareholders of Victory City and of the investing public to address public questions and uncertainty about:

- Whether and if so to what extent the Annual Accounts and Interim Accounts are materially misstated with respect to unrecorded borrowings; and
- Whether the audit of the Annual Accounts has been conducted in accordance with the relevant auditing standards.

The FRC announces the initiation of investigations into financial reporting and audits of listed entities when considered necessary in the circumstances, for example, to protect the interests of shareholders or the investing public, to allay public concerns or to maintain public confidence in the system for independent auditor regulation.

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About the Financial Reporting Council

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong committed to upholding the quality of financial reporting of listed entities of Hong Kong so as to enhance investor protection and strengthen investor confidence in corporate reporting.

For more information about the statutory functions of the FRC, please visit www.frc.org.hk.

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