

## Press Release

18 August 2021

### FRC Investigates Next Digital Financial Statements and Audits

The FRC today announces the initiation of:

- (1) An enquiry into the financial statements of Next Digital Limited (**Next Digital**) for the year ended 31 March 2019 (**2019 Annual Accounts**), year ended 31 March 2020 (**2020 Annual Accounts**) and six months to 30 September 2020 (**2021 Interim Accounts**);
- (2) An investigation into the audit of the 2019 Annual Accounts by Deloitte Touche Tohmatsu (**Deloitte**); and
- (3) An investigation into the audit of the 2020 Annual Accounts by CCTH CPA Limited (**CCTH**).

The FRC identified questions about the financial statements and audits of Next Digital through proactive monitoring of market developments (noting that there were late changes in auditor between the three financial years to 31 March 2019, 2020 and 2021), a referral by another regulator and a complaint from a member of the public.

The enquiry will address:

- (a) The impairment assessments of Next Digital's cash generating units for the 2019 Annual Accounts, 2020 Annual Accounts and the 2021 Interim Accounts and the appropriateness of the resulting impairment provisions made in those financial statements by Next Digital's management; and
- (b) The going concern assessments for the 2020 Annual Accounts and 2021 Interim Accounts and resulting adoption of the going concern basis of accounting and resulting disclosures made in those financial statements by Next Digital's management.

The investigation into Deloitte's audit of the 2019 Annual Accounts will address their audit work on management's impairment assessments and the appropriateness of the resulting impairment provisions in those financial statements. Deloitte gave an unmodified opinion on the 2019 Annual Accounts.

The investigation into CCTH's audit of the 2020 Annual Accounts will address their audit work on management's impairment assessments and the appropriateness of the resulting impairment provisions in those financial statements. The investigation will also address CCTH's audit work on management's going concern assessment and the appropriateness of its auditor's report in that respect.

CCTH gave an unmodified opinion on the 2020 Annual Accounts. CCTH did not include in its auditor's report a separate section under the heading "Material uncertainty

related to going concern” (**Going Concern Section**) even though management identified material uncertainties relating to going concern in the 2020 Annual Accounts.

### ***Auditor reporting requirements about going concern material uncertainties***

If a material uncertainty relating to going concern exists, an auditor is required to:

- Include a Going Concern Section in their report if adequate disclosure of the material uncertainty is made in the financial statements; and
- Modify their report by qualifying or expressing an adverse opinion if not.

### ***Why going concern and impairment assessments matter to investors***

Going concern and impairment assessments are evidence-based judgments that management have to make when relevant in preparing the financial statements. The outcome of these types of assessment respectively determine:

- (i) Whether management can adopt the going concern basis of accounting in the relevant financial statements and whether disclosures should be included in the financial statements about material uncertainties relating to the entity’s ability to continue as a going concern; and
- (ii) Whether management should make impairment provisions against the entity’s assets allocated to cash generating units.

These assessments and the resulting implications for the financial statements are especially important when an entity and the businesses comprising its cash generating units are loss making and it has net current liabilities. These circumstances applied to Next Digital in its 2019 Annual Accounts and its 2020 Annual Accounts.

The disclosures and provisions that may result from such assessments provide information for investors about the financial performance and position of the entity that is relevant and may be especially important to their investment decision making in those circumstances.

### ***Our purpose in reporting publicly***

The FRC initiated the enquiry and investigations, taking into account that it is in the interests of the investing public to address public questions and uncertainty about whether and to what extent, if any:

- (i) The 2019 Annual Accounts, 2020 Annual Accounts and 2021 Interim Accounts were materially misstated with respect to impairment provisions;
- (ii) The 2020 Annual Accounts and 2021 Interim Accounts were materially misstated with respect to material uncertainties relating to going concern; and
- (iii) The respective auditor’s reports on the 2019 Annual Accounts and the 2020 Annual Accounts are reliable with respect to those matters.

The FRC announces the initiation of enquiries and investigations when considered necessary in the circumstances in order to protect the interests of shareholders and the investing public so as to maintain public confidence in our financial market and independent auditor regulation.

End

## **About the Financial Reporting Council**

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong. We are 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](http://www.frc.org.hk).

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