

## Press Release

23 February 2021

### **FRC Initiates Investigation into Audits of Convoy for 2017 to 2019**

The FRC today initiated an investigation into the audits of the financial statements of Convoy Global Holdings Limited (**Convoy**) for 2017, 2018 and 2019.

The financial statements for each year and the auditor's reports issued by Zhonghui Anda CPA Limited (**Zhonghui**) were published by Convoy on 18 February 2021.

The audit opinion for each year is qualified, meaning that Zhonghui affirms, subject to specified exceptions, that the relevant year's financial statements have been properly prepared in accordance with the applicable financial reporting requirements. Each opinion is subject to multiple exceptions, in relation to which Zhonghui indicates that it was unable to obtain the evidence necessary to form an unqualified opinion.

An auditor is not permitted to qualify the audit opinion if the unknown effects of such exceptions could be both material and pervasive. Instead they are required to withdraw from the audit or to state in the auditor's report that they do not express an opinion on the Financial Statements (i.e. to disclaim their opinion). This is because a qualification would be inadequate to communicate the gravity of the situation, in those circumstances.

Effects of exceptions that are not confined to specific elements, accounts or items of the financial statements or that nonetheless represent or could represent a substantial proportion of the financial statements are by definition pervasive.

Having considered the nature and extent of the exceptions described by Zhonghui, the FRC considers that they give reason to inquire into whether each of Zhonghui, the engagement partner and the engagement quality control reviewer has or may have failed to express an appropriate audit opinion on the Convoy financial statements for 2017, 2018 and 2019.

The FRC has directed that the investigation should be carried out without delay, taking into account the delays in publication of the financial statements of Convoy, the potential implications of the form of the audit opinions for Convoy's listing status, and public questions raised in the context of the following circumstances:

- The purported existence of the 'enigma network' and the substance and business rationale for certain transactions of Convoy;
- Ongoing legal proceedings alleging conspiracy to defraud in relation to certain transactions of Convoy;

- Information published by Convoy based on the investigation conducted by FTI; and
- The withdrawal as auditor of Convoy by the immediate predecessor of Zhonghui and the information provided to Convoy in that context.

Maintaining justified public confidence in the quality of listed entity audits requires transparency in relation to our regulatory actions in such circumstances.

END

## **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](http://www.frc.org.hk).

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