

My *wish list*

Conway Lee has independent non-executive director (INED) roles with a number of top Chinese companies. Here, he shares his opinions on external auditor services, regulation, data analytics and the role of the INED.



CONTINUE TO BUILD INVESTOR RELATIONS

Investor relations (IR) has become a major industry in mainland China and Hong Kong as communication with stakeholders increases in importance. Listed companies in general recognize the need for good in-house IR, and I hope they continue to build this function and improve their communication with investors and others.

At WH Group, where I am an INED, we have a full-time internal IR officer and hire professional IR firms to advise us. We do regular roadshows

and release corporate information through various media to make sure investors are kept up to date about the status of our company.

KEEP IMPROVING CORPORATE GOVERNANCE

Both the mainland Chinese and Hong Kong regulators have taken corporate governance very seriously, with heavy penalties imposed for rule breaches. The quality of Chinese companies has improved tremendously, partially as a result of this. We can see this, for example, in the way that two major Chinese organizations became Global

500 companies in a short period of time. More and more Chinese companies are joining that league, but we cannot be complacent, and we should all aspire to keep improving corporate governance.

A STRONG VOICE

Business environments are rapidly evolving, and regulators are constantly trying to catch up and cope with this. That's understandable, but their new regulations can become a big burden for many businesses. What's more, the changes are one-sided. The regulators update the regulations to suit their needs. We, as companies, don't have the power to do that.

So companies need a strong voice to counter such changes, and the accounting bodies and Big Four firms are best placed to provide that. To cope with new regulations, directors also need regular training and professional advice, especially on the more complicated issues.

REDUCE EXISTING REGULATION

There is also a need to simplify or reduce existing governmental bureaucracy, as capital markets have become conservative and over-regulated. An example is regulations around the process of vetting initial public offerings (IPOs). I am working on an IPO now, but the Hong Kong Stock Exchange is conservative in its regulatory line on IPOs, which makes it very difficult.

SHARE INFORMATION RESOURCES

If external firms can leverage internal auditor resources, they can reduce the time and the fee, so they should do it more. I always encourage internal auditors to exchange information with external auditors, but it doesn't always happen. Globally, these two sides often exchange a lot of information on companies, but many in Hong Kong and mainland China don't, and I don't know why.

KEEP EXPLORING BIG DATA

Many industries are using big data analytics techniques for planning, which is highly effective. As part of this, auditors use sophisticated analytics programs to achieve optimal audit objectives and provide business insights, which clients appreciate.

Often, auditors cannot verify 100% of the supporting information, but they can use analytics to maximize the assurance level. There is definitely room for companies and their auditors to explore the use of big data further.

INSIST ON INTEGRITY

The biggest thing I learned after working at EY for 30 years is to insist on integrity in everything I do. Without integrity, you have no soul.

I always remind myself that the role of an INED is to protect minority stakeholders' interests. In conflicts, I need to exercise my judgment in how to balance that with the interests of major shareholders within the rules and laws. That is why you need to be selective in accepting an INED position and make sure the major shareholders have the same level of integrity that you have.

VALUE YOUR INEDS

Many smaller listed companies in Hong Kong do not appreciate the value of having INEDs on their board at all, as they think of them simply as a regulatory requirement: a company's major shareholders appoint the directors, but the Hong Kong Stock Exchange's rules state that not less than one third must be INEDs.

A good example of the value of INEDs is where a major shareholder wishes to increase their percentage shareholding by exchanging their own assets for shares. As INEDs, we make sure the injected assets are valid and properly valued, with help from advisers and accountants if necessary. We would make sure the exchange is subject to independent shareholder approval and hold an extraordinary shareholders' meeting, in which the major shareholders would not vote. If the advisers accept that the asset injection is good, we can advise the independent shareholders to vote in favor. If not, we could advise them against it. ■

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PROFILE

Conway (Kong Wai) Lee is an independent non-executive director at a number of companies in China, including major names such as WH Group and Guotai Junan Securities. He started his career at EY predecessor organization Turquands Ernst & Whinney in 1980. In 1983, he joined Arthur Young, working in Hong Kong and then Australia. In 1989, he returned to Hong Kong and rejoined Ernst & Whinney, which became EY the following year. He became a partner in Ernst & Young Hua Ming LLP in 1993 and managing partner of the Beijing office in 2000. In 2009, he left EY and started working as an INED.

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