

Corporate Affairs

[Achievements]

- Managed budget prudently and achieved a \$169 million surplus
- Established an off-site backup office
- Gained external recognition of human resources and training policies and procedures
- More secure and convenient remote connection solutions for office system access
- Introduced more application and network services for FinNet users
- New investor education TV and radio programmes, university credit courses
- Revamped the SFC website and the eIRC
- Active participation in community work and voluntary services

[This Chapter Is About]

- Finances and administration
- Human resources and training
- Technology support
- Investor education and communications
- Reaching stakeholders
- Care for the community

What We Do

- Provide finance, human resources, training, information technology, management and corporate services to the Commission;
- Educate investors and handle complaints; and
- Communicate with stakeholders including the media.

This chapter covers the work of the departments of Finance and Administration, Human Resources, Training and Development, Information Technology, Investor Education and Communications, and Corporate Communications.

What We Did

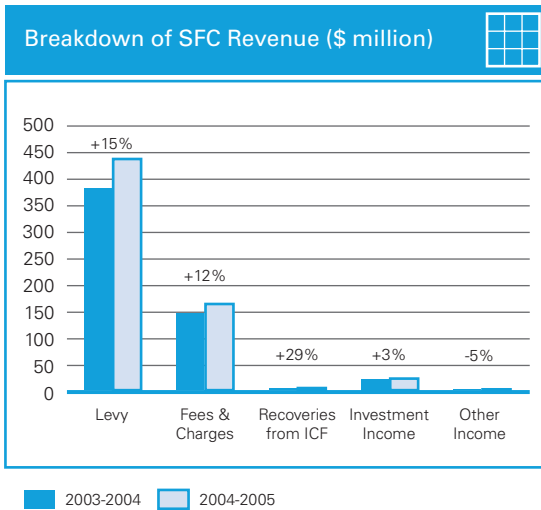
Finances and Administration

■ Financial Highlights

Benefiting from the economic recovery, there were increases in all income sources. Total revenue for 2004-2005 increased by 13% or \$74 million to \$625 million (\$551 million in 2003-2004).

Levy income, our primary source of revenue, increased by 15% or \$55 million to \$435 million (\$380 million) as the average daily market turnover surged to \$16.8 billion (\$14.6 billion). For income purpose, the turnover figure includes the amount of new fund raisings, which also attract transaction levy.

Fees and charges income rose by 12% or \$17 million to \$162 million (\$145 million) due to increase in market activities.



During the year, we continued to manage our budget prudently and spent only on areas where additional resources were considered necessary to improve market quality. Total expenditure was \$456 million (\$426 million), \$13 million higher than the approved budget. Compared to a year ago, expenditure was 7% or \$30 million higher, mainly because of the staff variable pay awarded to address the high staff turnover.

As a result, the SFC achieved a surplus of \$169 million for 2004-2005 as compared with the projected surplus of \$4 million for 2004-2005 and the \$125 million surplus recorded in 2003-2004. Our reserves at the end of March 2005 stood at

\$860 million, equivalent to 1.7 times of estimated expenditure (including depreciation) of \$508 million for 2005-2006.

Our budget for 2005-2006 forecasts an operating surplus of \$5 million. In March 2005, the Financial Secretary under the delegated authority from the Chief Executive approved the budget.

At the end of March 2005, the total NAV of the Investor Compensation Fund, the Unified Exchange Compensation Fund and the Commodity Exchange Compensation Fund was \$1.51 billion.

Office Expansion and Backup Office

Following the Government’s issuance in March 2004 of its consultation conclusions on enhancing listing regulation, last July the SFC moderately expanded its Chater House offices by renting half an extra floor at favourable terms of the existing lease. This was to accommodate the projected manpower increase required to cope with the additional functions under the Government’s proposal to enhance listing regulation.

Last October, we established a backup office in Kowloon as a business recovery measure so that our contingency team has a first port of call to carry on essential business in the event of exigency.

In compliance with the new statutory Occupational Safety and Health Regulation, new office chairs were acquired for all staff with a view to enhancing work conditions.

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Human Resources and Training

■ Staff and Remuneration

There were 406 permanent established posts and eight temporary established posts. Separately, provision was made for 24 temporary staff and 14 Executive Trainees.

As at 31 March 2005, there were 431 staff, comprising 390 regular staff filling the permanent established posts and 41 temporary staff. Total staff number was 416 a year ago.

A total of 182 SFC staff, representing 42% of all staff, held professional qualifications. During the year, overall staff turnover increased from 7.2 % to 12.02%.

In accordance with the recommendations of the Hay Report issued in June 2002, the remuneration information of the top three tiers of our senior executives is disclosed as follows:

- All Executive Directors are not entitled to any other benefits except for retirement benefits, medical and life insurance, and annual leave. A six-month "sanitisation" period is applicable to all Executive Directors upon termination of

employment which is not treated as garden leave with pay, and no compensation will be made.

- In his current employment contract, the Chairman's annual remuneration package comprises a fixed pay of \$6,750,000 and a performance-related variable pay of up to \$337,500. The fixed pay is constant throughout the contract period and the variable pay is awarded annually on performance basis. The Chairman has voluntarily waived all his variable pay in his preceding and current contracts. His total emoluments (including retirement benefits) during the year amounted to \$6,800,000.
- The average of the total emoluments (including retirement benefits and leave pay) of the other five Executive Directors during the year amounted to \$4,317,000. This comprised average fixed pay of \$3,581,000, average performance-related variable pay of \$440,000, and average retirement benefits and leave pay of \$296,000.
- The average of the total emoluments (including retirement benefits) of the seven serving Senior Directorate Grade Staff during the year amounted to \$3,005,000. This comprised average fixed pay of \$2,571,000, average performance-related variable pay of \$390,000, and average retirement benefits of \$44,000.



Financial Secretary
Mr Henry Tang (left)
presents the Good
People Management
Award to COO
Mr Peter Au-Yang.

■ Human Resources Policies and Procedures

A revised Personnel Manual, which includes Grievance Procedures, Disciplinary Procedures and Equal Employment Opportunities Policy, came into effect on 1 April 2004. A revised Code of Conduct and the staff investment policy took effect on 1 February 2005 and 1 April 2005 respectively.

In December 2004, the SFC won the Labour Department's Good People Management Award

2004. We are amongst the 19 winners chosen from 374 organisations and companies. The award recognises the Commission's sound and comprehensive people management policies and practices. It is also recognition of the Commission's consistent achievements and continuous commitment to being a good employer.

■ Training and Development

We allocated more resources to training and development activities as the Commission's finances improved. We provided more customised workshops to colleagues. During the year, we organised for executives of all levels 320 programmes covering industry topics, management, language and information technology.



A team-building workshop in progress.

There were in-depth workshops on derivatives, financial fraud and financial statement analysis by external consultants. Sharing sessions were given by local and overseas market experts and senior staff including the Chairman and Executive Directors. Training on management subjects like leadership, inter-personal and communication

skills, presentation skills, emotional intelligence was organised. In addition, some training was tailor-made for individual departments. These included outdoor team-building workshops and language workshops. We also organised Open Space programmes which are workshops for executives to enhance internal communications and encourage free exchange of ideas.

We have secondment arrangements with many other organisations. Locally, we seconded two staff to the Hong Kong Monetary Authority (HKMA) during the year. Eight staff were seconded to the CSRC while we received four CSRC secondees. Two staff were seconded to the UK's Financial Services Authority and two to the Australian Securities and Investments Commission.

In addition, seven staff attended short courses in the US, UK and the Asia Pacific region. To learn more about the Shenzhen securities markets and to strengthen contact with our counterparts in China, about 60 staff visited Shenzhen in early 2005.



A friendly badminton match with colleagues of the Shenzhen Stock Exchange after a study visit to the Shenzhen securities market.

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In November 2004, the Association of Chartered Certified Accountants (ACCA) awarded the Commission the status of Approved Continuing Professional Development Employer. We are the first employer in Hong Kong and the first financial regulator in Asia to acquire this status. At the same time, we became the first financial regulator in Asia to be named an ACCA Accredited Employer. The awards are recognition of the quality of our training and development support for staff. For SFC employees who are ACCA members, they are deemed to have met the accounting body's CPD requirements.

■ Staff Welfare and Employee Relations

We continued to promote staff relations and communications. In addition to social activities like in-house staff lunches and a barbeque, divisions received subsidies to organise recreational activities for their staff to foster team spirit.

A squash team was formed last year and an inter-divisional bowling competition was held. After work practice for basketball, soccer, badminton, table tennis and squash were arranged. Externally, our soccer and basketball teams competed in the Public Organisation Challenge League and Supervisory Cup respectively, with the HKMA, HKEx, the Mandatory Provident Fund Schemes Authority and Hong Kong Mortgage Corporation, etc.



The SFC Basketball Team celebrates a win in the Supervisory Cup Basketball Competition 2004.

Technology Support

Our IT strategy is to support the Commission's business operations in a secure and cost effective manner. We use viable and proven technology to continuously enhance our operational efficiency, and work with other market players to help strengthen Hong Kong's financial infrastructure.

■ Internal IT Development and Enhancement

A secure remote access IT solution was implemented in May 2004 to enable staff to access SFC systems when they are away from the office. We have also issued senior executives with



About 80 staff and their families enjoy a barbeque outing in Yuen Long.

portable wireless devices since April 2004 to read and write emails while on the go.

To strengthen information security, we implemented dual-factor authentication and single sign-on for SFC system logon in May 2004. The various remote system accesses have been integrated and are protected by security token, with a quality performance close to that in an office environment. We are also studying to consolidate the log records of various system platforms to better monitor our corporate network and system environment.

On IT infrastructure enhancement, a Storage Area Network System Project aimed to improve system efficiency, availability and recovery capability was completed in October 2004. We target to finish in 2005 three large-scale projects to improve system performance and reliability. They are related to the SFC's email system, application server and corporate database.

On knowledge management and work process improvement, we handled over 1,700 requests by colleagues to build or enhance databases and work systems. We are exploring different IT solutions for document management, interactive form submission and enterprise resource planning that would help enhance information sharing and collaboration within the Commission and facilitate submission of information by practitioners and the public.

■ FinNet

FinNet is a secure private business-to-business financial network to support the financial communities in Hong Kong in conducting

electronic transactions and information delivery. At present, major users include financial regulators, HKEx, local banks, and securities and derivative intermediaries.

FinNet introduced dual network carriers (i.e. the network is provided by two telecom service providers simultaneously) in June 2004 to provide more network connection choices to the FinNet participants. Two community-wide banking applications were launched on FinNet during the year for the local banking sector. They are the Commercial Credit Reference Agency service offered by Dun and Bradstreet, and the File Transfer Service offered by Hong Kong Interbank Clearing Limited.

Investor Education and Communications

We continued to educate different sectors of the community on investment related issues through innovative initiatives.

We joined the Radio Television Hong Kong (RTHK) to produce a nine-episode Cantonese drama, All about Stock Investing, to discuss hot investor topics such as IPO investing, pooling risk of margin accounts, corporate governance and shareholder activism. The programme debuted on TVB and ATV in June 2004 and re-ran on FirstVision of New World First Bus and Cable TV after receiving positive response. The series is now available on VCDs for free distribution to the public.

Another TV series advised investors how to protect themselves from product mis-selling. The 10-episode Cantonese documentary-drama series,

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Foundations in Wealth Management, examined investment advisory services and key features of niche products, including specialised funds, investment-linked assurance schemes and structured products. It was broadcast on Cable TV in November 2004 and is also available on VCDs. Investors can also view it on the Electronic Investor Resources Centre (eIRC).

For the first time, the SFC partnered with the RTHK and The Salvation Army to tailor-make a programme targeting citizens aged 50 or above. The 12 radio segments, Invest Wisely for Seniors, was aired on RTHK Channel 5 from September to December 2004. Market experts appeared as guests to discuss wide-ranging topics on stock, fund and bond investments.

Also for the first time, the SFC partnered with Lingnan University to run a credit-based course. The Craft of Financial Investing helped undergraduates of all disciplines understand the market infrastructure and investment activities. The course attracted 160 students.

The eIRC was revamped in November 2004. All investor related materials were relocated from the SFC corporate website to the eIRC, making it an all-in-one investor portal with comprehensive investor education and alert materials. New functions have been introduced to facilitate information search and navigation. We have also changed to an easy-to-remember URL (www.eirc.hk).

Warning investors of financial scams remains a top priority. In view of an increase in reports, we alerted the public to phishing scams, which imitate financial institutions to entice recipients to provide personal information.

We posted 90 entities on the Alert List of unlicensed overseas companies, suspected boiler rooms and scam websites during the year, bringing the total to 238 entities. Besides, we presented 13 Smart Investor Awards to members of the public for their reports on financial scams.

As part of our thematic campaigns, we published two leaflets to educate investors on securities services related fees and charges, and the key questions to ask when seeking investment advice. These publications were supplemented by on-line feature articles and interactive games. We published the monthly Dr Wise's Column, plus a special issue in November. The Column covered concept stocks, REITs, derivative warrants, bonds, sponsors, settlements of disciplinary cases, etc.

During the year, we organised 64 seminars, reaching over 6,300 people. For instance, two rounds of workshops for secondary school teachers attracted a record 2,200 enrolments. We gave talks on retirement financial planning to employees of members of the Employers' Federation of Hong Kong. We also talked to civil servants due for retirement, professional bodies, secondary school students and the general public.

Investor Enquiries and Complaints Handling

During the year, we received 4,523 investor enquiries (5,382 in 2003-2004). We handled 1,214 complaints (1,252).

All public complaints received are tabled at the Complaints Control Committee, which conducts preliminary assessments and determines whether further action is necessary. The Committee comprises senior executives of various departments. The Committee referred 701 cases to operational divisions for further assessment, while 154 cases were investigated by the Enforcement Division.

stakeholders including the public. During the year, we issued 289 press releases (270 in 2003-2004). Our senior executives gave 43 interviews (32) to local, Mainland and international news organisations. We held 13 press conferences or briefings (11) to announce new policies and discuss our work. We handled 1,405 media enquiries (1,486).

Statistics of Public Complaints

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Table

| Nature of complaints | 2004-2005 | 2003-2004 |
|---|--------------------|--------------|
| Conduct of licensed intermediaries or registered institutions | 381 (+0.3%) | 380 |
| Listing related matters & disclosure of interests | 367 (-16%) | 436 |
| Market misconduct | 162 (-23%) | 211 |
| Financial products | 41 (+46%) | 28 |
| Other financial activities | 228 (+30%) | 175 |
| Miscellaneous | 35 (+59%) | 22 |
| Total | 1,214 (-3%) | 1,252 |



We meet journalists on formal occasions as well as socially like this Spring Dinner in February 2005.

Reaching Stakeholders

The SFC actively engages stakeholders in the development of its regulatory policies and keeps the public informed of its activities.

The mass media is an important partner in communicating our work and policies to the

SFC's corporate website (www.sfc.hk) is a valuable source of information for practitioners, investors, and other users. More than 3,700 people subscribed to the Update Alert service to get emails of new information. We re-designed the corporate website and improved its contents and features last November (see overleaf). With easier navigation, visitors can generally reach the information needed with fewer clicks. The average number of hits per day for the past year fell 2% to 337,258, after reaching a peak of 446,277 hits per day last August. The upgrade has significantly improved the usability of the website in accordance with industry standards.

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Securities and Futures Commission Web Page (www.sfc.hk)

The screenshot shows the SFC website interface with several callout boxes:

- Build your briefcase to directly access frequently visited pages**: Points to the 'Add to My Briefcase' button.
- Clearer navigation with nine modified main sections**: Points to the top navigation menu.
- Useful information tailor-made for nine user groups**: Points to the 'INFORMATION FOR' section.
- Access to the Electronic Investor Resources Centre**: Points to the eIRC logo.
- See the latest news and policies**: Points to the 'WHAT'S NEW' section.
- The most recent publications at-a-glance**: Points to the 'REGULAR PUBLICATIONS' section.
- One click to licensees and products registers**: Points to the 'REGISTERS & PRODUCT LISTS' section.
- Quick access to SFC codes and guidelines**: Points to the 'CODER AND GUIDELINES' section.

Electronic Investor Resources Centre Web Page (www.eirc.hk)

The screenshot shows the eIRC website interface with several callout boxes:

- Send us enquiries or complaints easily through simple forms**: Points to the 'Contact Us' link.
- One click to subscribe for monthly e-newsletter and email alerts of eIRC updates**: Points to the 'UPDATE ALERT' button.
- Check blacklisted firms and websites, and win the Smart Investor Awards**: Points to the 'Investor Alert' button.
- Numerous reference materials for teachers to discuss in class**: Points to the 'eLibrary' button.
- Find out the upcoming events in the calendar**: Points to the 'Calendar' button.
- Brochures, feature articles and FAQs on topical areas**: Points to the 'Publications' button.
- Play and learn through interactive games**: Points to the 'Interactive' button.
- Tune in to SFC investor video and audio programmes**: Points to the 'Studio' button.

We received 3,673 public enquiries (3,872 in 2003-2004), of which 1,729 were made to the enquiry email (enquiry@sfc.hk). Full replies were given within four days in 88% of the email enquiries.

SFC's annual report continued to be recognised for its overall performance and disclosure. The Annual Report 2003-2004 won the Platinum Award in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2004 (Public Sector/Not-for-Profit Organisations category) and the Silver Prize in the Hong Kong Management Association's Best Annual Reports Awards 2004 (Non-profit Making and Charitable Organisations category).

Our regular publications are available online: the monthly SFC Enforcement Reporter and the bi-monthly newsletter SFC Alert inform the market of our enforcement actions and work in general; the Quarterly Report updates our financial position and regulatory work; and the Quarterly Bulletin.

Last May, we published the third edition of the English-Chinese Glossary of Securities, Futures and Financial Terms. A CD-ROM was also produced. The glossary is popular among professionals and the academia. More than 4,000 copies of the three editions of the glossary have been sold or distributed.

Throughout the year, we continued to receive visitors from local, Mainland and overseas regulators and financial institutions who want to learn more about the SFC in general or to discuss specific subjects.

Care for the Community

We continued to support community and charitable projects. We participated in the Community Chest Green Day and the Dress

Casual Day. We raised \$350,000 for victims of the tsunami tragedy in South Asia.

Our volunteers team, the Commission Possible Volunteers Group, organised four activities reaching out to 180 elderly and children, with active participation and generous donations from staff and their families.

These activities included a reading day for children of the Home of Love in Shamshuipo, Mid-Autumn Festival home visits to the elderly in the Eastern District, a Fun Fun Christmas Day for children at the Caritas Mutual Aid Centre for Single Parent Families, and a Chinese New Year visit to the St. Mary's Home for the Aged.



The elderly at a home for the aged receive red packets from an SFC staff in the Chinese God of Fortune costume.

In addition, individual Commission staff also devote their own time to other voluntary community services such as Civil Aid Service and Oxfam.