

Merry X'mas and Happy New Year!



Co-operation with Philippine and Thai regulators

The SFC has signed a Memorandum of Understanding (MOU) with the Philippine Securities and Exchange Commission, and a Letter of Intent with the Securities and Exchange Commission of Thailand to enhance regulatory co-operation with them.

The MOU establishes a framework for mutual assistance and

facilitates the exchange of information between the SFC and the Philippine SEC to enable better regulation and enforcement of the securities laws and regulations of Hong Kong and the Philippines.

Under the Letter of Intent, both the SFC and the SEC of Thailand will strengthen co-operation in matters pertaining to cross-border

trading and the supervision of regulated funds. The two regulators will work towards a set of common goals including entering into a revised MOU.



SFC Chairman Mr Andrew Sheng and Mrs Fe B. Barin, Chairperson of the Philippine SEC, exchanging the MOU.



Mr Sheng and Mr Thirachai Phuvanatharanubala, Secretary-General of the SEC of Thailand, signing the Letter of Intent.

For details, please see press releases issued on 24 and 25 November 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/HTMLGeneralNews?open Agent>.

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Visit our new websites!

Our corporate website (picture) and Electronic Investor Resources Centre (eIRC) have recently been revamped with better contents and features. Investors, market practitioners, the media and other frequent users will find the information they need easily under customised pages. The SFC website and eIRC are at new URLs of www.sfc.hk and www.eirc.hk respectively. We want to hear your comments (please send comments to enquiry@sfc.hk).

For more details, please refer to press release issued on 5 November 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/ikupNewsCode/04PR206?open Document>.





Senior management interview

Mrs Cindy Fung, Director of Human Resources, Training and Development

Congratulations on the recent awards.

Thank you. The awards (see story below) are recognition of the human resources policies and practices of the Commission as a whole. The Commission cares about its staff and wants to make it a nice place to work.

How many staff work at the SFC?

We have around 420 staff. A total of 173, or 41% of them, have professional qualifications - 23% are accountants, 14% are lawyers, and 4% are chartered financial analysts and chartered company secretaries.

Are we losing many staff to the private sector?

As the economy is picking up, we have had a turnover of over 11% in the past year. This is much higher than the year before because the private sector has been competing with us in the search for good finance, accounting and legal professionals. We have to ensure that our salaries are in line with the market.

How do we get the right person for the right job?

We are committed to a policy of equal opportunity in employment. Applicants must first meet the job requirements in

terms of qualifications and experience. They are then assessed through interviews, and may have to take written or skills tests. In addition, from next year, we will use a personality assessment tool to assist in matching candidates with particular jobs.



Please tell us about the SFC's community work.

Our volunteer group is called Commission Possible Volunteers Group. In the past year, our volunteers have visited elderly people in the Eastern District; read books to children in Sham Shui Po who are mainly new immigrants from the Mainland; organised games for school children with disabilities in Lam Tin; and held a Christmas party for single-parent families.

Personal bio

- Joined the SFC as Associate Director of Human Resources in July 1998. Director of Human Resources, Training and Development since April 2000.
- Previously worked in the Hong Kong Monetary Authority and the civil service.
- B.A., University of Hong Kong; Member of Hong Kong Institute of Human Resource Management.
- Enjoys badminton, table tennis, travelling and Chinese chess.

Multiple awards for the SFC

The Association of Chartered Certified Accountants (ACCA) awarded the status of Approved Continuing Professional Development (CPD) Employer to the SFC in November. The SFC is the first employer in Hong Kong and the first financial regulator

in Asia to acquire this status. At the same time, the SFC also became the first financial regulator in Asia to be named as an ACCA Accredited Employer.



Mr Peter Au-Yang (left), SFC's Executive Director and Chief Operating Officer, received a certificate award from ACCA's chief executive, Mr Allen Blewitt.

The awards are recognition of the quality of SFC's training and development support for its staff. For SFC employees who are ACCA members, they will automatically meet the accounting body's CPD requirements.

In December, the SFC won the Labour Department's Good People Management Award 2004. We are one of the 19 winners, chosen from 374 organisations and companies.

This award confirms that the SFC has in place sound and comprehensive people management policies and practices. We are pleased that our consistent achievements and continuous commitment as a good employer are recognised.

For more details, please refer to SFC press releases issued on 26 November and 10 December 2004 available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/HTMLGeneralNews?openAgent>.

Guidelines on analyst conflicts of interest

We have issued new guidelines to remove, reduce and manage analyst conflicts of interest.

The guidelines, which will be effective on 1 April 2005, enhance investor protection by requiring analysts to be more accountable and transparent when issuing research reports or making comments in the media.

In finalising the guidelines, we have struck a balance between protecting investors' interests and facilitating the flow of legitimate market information. Our approach is practical for local conditions.

Under the guidelines, analysts have to observe trading blackout periods on stocks they review. Firms and analysts should also not issue investment research in relation to a listed company of which the firms act as a manager, sponsor, or underwriter of the company's public offering during research quiet periods.

There will be safe harbours for trading blackout and quiet periods.

Investment banks should prevent, eliminate and disclose conflicts of interests, such as prohibiting their analysts from participating in sales pitches and deal road shows.

Licensed analysts need to disclose their names, licence status and interests in a stock when commenting on it in the mass media.

The guidelines only apply to licensed and registered persons. But all media commentators will continue to be subject to the market misconduct provisions of the Securities and Futures Ordinance.

For more details, please refer to press release issued on 3 November 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR203?openDocument>.

Record trade orders

Brokers are reminded to take immediate steps to ensure compliance with the telephone recording requirements in the SFC's *Code of Conduct* and internal control guidelines.

Brokers should keep tape recording of client orders for three months as it provides evidence in any dispute between a broker and the client, and hence protects the interests of both parties. Moreover, if a broker is aware of any complaint, inquiry or

investigation, it should keep the related recordings until the case has been closed.

We will conduct a theme inspection on intermediaries' compliance with the requirements in the near future. Those who fail to comply would likely be subject to enforcement action.

For more details, please see press release issued on 25 November 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR225?openDocument>.

Quarterly results

The SFC has published the second *Quarterly Report* of 2004-2005. During the quarter to September, the SFC recorded a surplus of \$33.1 million. The accumulated surplus for first six months of the financial year was \$77.3 million.

Increased market turnover and activities boosted total revenue for the six months to \$280.2 million, 27% higher than that in the same period last year. Total expenditure (including depreciation) was \$202.9 million, almost the same as last year's. We expect to have a surplus in the quarter ending 31 December 2004, based on current information.

Meanwhile, our *Annual Report 2003-2004* (picture) has won two prestigious awards - the Platinum

Award in the Best Corporate Governance Disclosure Awards 2004 organised by the Hong Kong Institute of Certified Public Accountants, and the Silver Award in the Best Annual Reports Awards 2004 organised by the Hong Kong Management Association.

The Quarterly Report, with financial details and a review of operations, is available on the SFC website at: http://www.sfc.hk/sfc/doc/EN/speeches/public/quarterly/jul_sep04_eng.pdf.



FAQs

Q: Are banks' securities and futures operations regulated by the SFC or Hong Kong Monetary Authority (HKMA)?

A: Under the Securities and Futures Ordinance, dealing in securities (including stocks, bonds, stock options and funds) and dealing in futures contracts (including futures and index options) are regulated activities. Banks are required to be registered with the SFC as "registered institutions" in order to carry on these activities. Although HKMA remains the frontline regulator of banks, "registered institutions" must comply with the relevant rules and regulations including codes and guidelines issued by the SFC. HKMA maintains a register of "relevant individuals" who are bank staff engaging in regulated activities. This register is available at HKMA's website at <http://apps.hkma.gov.hk/cgi-bin/hkma/ereg.pl>.

Review of Takeovers and Repurchases Codes

The SFC is consulting the public on proposals to amend the Codes on Takeovers and Mergers and Share Repurchases.

We hope to keep the Codes updated with market developments and international practice to ensure continued fair treatment for shareholders.

Some of the major proposals relate to:

- “one-cent” or “low-ball” hostile offers, which might be used to frustrate a target company’s business without any genuine intention to seek control, and the circumstances under which such offers should be allowed to proceed;
- options to address lawful frustrating action by an incumbent

offeree board to prevent a successful offeror from exercising its rights of control over the offeree board;

- shifting the focus from pre-vetting of documents to back-end enforcement in line with international trend and hopefully shortening the commenting process; and
- changes to provide a framework for dealing with telecom mergers that are subject to review by the Telecommunications Authority under new laws recently introduced.

Please comment by 14 January 2005.

For details, please see press release issued on 30 November 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR232?openDocument>. Comments can be sent to us by various means including by email to cfcdconsult@sfc.hk.

Theme inspection on sponsors

Sponsors act as gate-keepers in Initial Public Offerings. We plan to conduct a theme inspection on them after the first quarter of 2005.

The SFC will review sponsors’ compliance with the *SFC Corporate Finance Adviser Code of Conduct*, with particular reference to a due diligence practice note recently issued by the Stock Exchange together with certain Listing Rules amendments. The SFC will take disciplinary action against those who fail in their duties, including fines, suspension and revocation of licence.

Under the SFC Code, sponsors have a duty

to exercise due care and skill, to keep books and records in relation to their advisory work, and to observe specific requirements under the Listing Rules. Sponsors should put in place effective systems and procedures to ensure compliance with the amendments to the Listing Rules and the due diligence practice note, which will become effective on 1 January 2005.

For more details, please see press release issued on 2 December 2004, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR235?openDocument>.

Appointments

- The Financial Secretary has re-appointed **Mr Alan Linning** as Executive Director (Enforcement) of the SFC for two years, until 31 October 2006. **Mr Peter Au-Yang**, Executive Director and Chief Operating Officer, has been redeployed to double-up as the Executive Director (Corporate Finance) following the departure of Mr Ashley Alder on completion of his contract at the end of October. (<http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR196?openDocument>)
- The SFC has appointed **Mr Ashley Alder**, **Mr David Cheung** and **Mr James Siu** to the Dual Filing Advisory Group from 16 November 2004 to 30 September 2005. (<http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR217?openDocument>)



Circulars

The following recently published circulars are available on the SFC website under "Legislation & Regulatory Handbook" - "Regulatory Handbook" - "Codes, Guidelines and Circulars" at: <http://eapp01.sfc.hk/apps/cc/RegulatoryHandbook.nsf/eng/GenerateHTMLTB?openAgent>.

1. Circular to Licensed Corporations and Registered Institutions - Courses to Facilitate Former Practitioners to Re-enter the Industry and New Recognised Continuous Professional Training Providers (09.12.2004)
2. Circular to Licensed Corporations which are licensed for Type 6 regulated activity - Theme Inspection of Sponsors (02.12.2004)
3. Circular to Licensed Corporations which are licensed for Type 1 or 8 regulated activity - SFC's Advice to Securities Firms Offering IPO Financing (29.11.2004)
4. Circular to SFC's Licensed Intermediaries - Telephone Recording Requirements (25.11.2004)
5. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - (1) US President's Executive Order 13224 (2) Non-cooperative Countries and Territories (3) United Nations (Anti-Terrorism Measures) Ordinance (12.11.2004)
6. Circular to Licensed Corporations and Registered Institutions - Consultation Conclusions on the Regulatory Framework for Addressing Analyst Conflicts of Interest (08.11.2004)
7. General Circular to SFC-approved Fund Management Companies (04.11.2004)
8. Circular to Licensed Corporations - Facilitation of Lodgement of Annual Returns by Representatives (28.10.2004)
9. Circular to deemed licensed corporations which have not submitted migration applications - Migration to the New Regime under the Securities and Futures Ordinance (21.10.2004)
10. The Takeovers Executive of the Securities and Futures Commission has imposed Cold Shoulder Orders on Mr Fung Chiu and Mr Lian En Sheng (18.10.2004)
11. Circular to Licensed Corporations and Associated Entities - United Nations Security Council Resolution 1532 (15.10.2004)



From time to time, investors might find stocks that are related to a particular business more appealing. This happened in the case of H shares and red chips fever in 1997 and the Internet stocks bubble in 1999. Recently, there has been interest in “Macau” concept stocks. Dr Wise spent a day in Macau and published an article to remind investors that they should understand what they are buying. Investors must know the risks involved and their limits in investing in concept stocks.

Dr Wise has studied 19 stocks that are perceived as “Macau” concept stocks. Their prices on average tripled while turnover increased by 5.8 times from September to late November. It is noted 12 out of them recorded losses in the last financial year.

No matter how rosy a concept is, it is important for a company to turn new ideas and business plans into revenues and profits.

You should consider a number of questions before investing in a concept stock:

- Has the company officially announced its business plan? Or is it just a rumour?
- What is the business and its status? Is the business already in operation? Have the projects started?
- How does the company turn concepts into businesses and deliver on its promises?
- Does its plan have well-mapped feasible strategies?
- Is the company able to make profits? How do the company and financial analysts tipping the stock come up with the estimated revenues and profits? What are the assumptions?
- How competitive is the market? Has the company any competitive edge?
- Has the company strong and reputable management?
- Is the stock reasonably priced? Are there any other investment risks?

Dr Wise is a fictitious character. For more details, please see the article A Day in Macau under Dr Wise’s Column, available on the SFC-operated Electronic Investor Resources Centre at: http://www.eirc.hk/eirc/html/EN/features/doctor/features_87_226_312.htm.

Educational VCDs

Our latest educational documentary-drama series, *Foundations in Wealth Management*, which became one of its most highly rated programmes when it was shown on Cable TV earlier, are now available in VCD format (Chinese only) at our office free of charge. You can also visit the SFC-operated Electronic Investor Resources Centre to watch the series. There is a version with English language dubbing: http://www.eirc.hk/eirc/html/EN/studio/studio_audio6.htm.



In brief

The **Public Shareholders Group** held its 23rd meeting in November. The SFC solicited feedback from members on a paper on a review related to the Investor Compensation Fund.

The Committee on Payment and Settlement Systems of central banks of the Group of Ten countries and the Technical Committee of the International Organization of Securities Commissions released a report entitled **Recommendations for Central Counterparties** in November. It sets out comprehensive standards for risk management of central counterparties (CCP) for both securities and derivatives markets. The SFC has participated in formulating these standards. (<http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/04PR226?openDocument>)



Investor resources

The following items of investor resources have been made available to the investing public or updated recently. They can be found on the Electronic Investor Resources Centre (eIRC) at the URLs provided.

Investor Alert Updates (<http://www.eirc.hk/eirc/html/EN/alert/alert.htm>):

22 unlicensed companies have been added to the Alert List: “Goldmill Wagner Associates”, “International Options Trading Limited Pty”, “The Manhattan Pacific Group” (08.12.2004), “Lloyds and Barclays Inc.”, “Sterling Futures Management Limited”, “Washington Mutual Bank” (not related to Washington Mutual Bank, a subsidiary of Washington Mutual, Inc., USA) (01.12.2004), “Bao Tai Commercial Bank”, “Benson & Raymond Acquisitions Inc.”, “Standard Capital International Cooperation Ltd”, “SunTrust Bank” (not related to SunTrust Bank, an affiliate of SunTrust Banks, Inc., USA) (24.11.2004), “Easystar Int’l Holdings Limited”, “Easystar Securities Limited”, “Easystar Forex Investment Limited” (17.11.2004), “Maxi-Trade Company”, “The Williams Group” (10.11.2004), “SpartaMatrix” (02.11.2004), “Baros Corporation” (27.10.2004), “Mckenzie Goldstein & Associates” (19.10.2004), “D M Gray Consulting” (15.10.2004), “Vannex Corporation” (14.10.2004), “Solitaire Management Services Ltd” and “Worldcorp Intertrade Limited” (12.10.2004). Information of two companies including “Bernard Simpson Consultants” (08.12.2004) and “Richardson Resources” (02.11.2004) has been updated on the list.

Dr Wise’s Column (<http://www.eirc.hk/eirc/html/EN/features/index.htm>)

A Day in Macau (30.11.2004), *How much do you know about REITs?* (23.11.2004) and *Viatical Settlements - “You Bet His Life”* (26.10.2004)



Homepage of the revamped eIRC.

Fees & charges

It will be easier for investors to compare securities-related fees and charges among banks and brokers, with new SFC guidelines coming into effect on 1 January 2005.

More than 70 items of fees and charges currently in use in the market are recommended to be grouped under six standardised categories: 1) trade-related services; 2) scrip handling and settlement-related services; 3) information services; 4) account maintenance; 5) nominee services and corporate actions; and 6) financing and other services.

The guidelines apply to banks and brokers serving non-professional investors on securities traded on the local exchange. They help enhance transparency and comparability of fees and charges in the market. We believe that our investor education efforts and market forces will gradually encourage more intermediaries to adopt the guidelines.

For more details, please see press release issued on 26 November, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/1kupNewsCode/04PR229?openDocument>.

Craft of Financial Investing, the first credit-based course on foundations of investing jointly introduced by the SFC and Lingnan University, ended on 26 October. More than 30 students visited the SFC, the Stock Exchange and a broker to learn about the regulators and the market. Li Fung (left), a year one student of the Department of Philosophy, said: "We can get a lot of information on investing through channels such as radio and newspapers, but it might just be stock tips. I think this course has instead taught me how to invest wisely in the future," Li said. Ng Hoi Tik (Year 2, Department of Translation) said: "I have learnt that an investor really has to do research on an investment product before putting money in it."



Other publications

The following publications have been published since the release of the last *SFC Alert*. They are available on the SFC website under "Speeches & Publications" - "Publications" at: <http://www.sfc.hk/sfc/html/EN/speeches/public/public.html>.

1. Consultation Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases (30.11.2004)
2. Consultation Conclusions on the Draft Guidelines on Good Disclosure of Securities Services Related Fees and Charges (26.11.2004)
3. SFC Quarterly Bulletin - Autumn 2004 (19.11.2004)
4. SFC Enforcement Reporter - November 2004 (17.11.2004)
5. SFC Quarterly Report - July to September 2004 (12.11.2004)
6. Consultation Conclusions on the Proposed Repeal of Certain Class Exemptions made under section 38A(2)/342A(2) of the Companies Ordinance (12.11.2004)
7. What's eIRC (05.11.2004)
8. Consultation Conclusions on the Regulatory Framework for Addressing Analyst Conflicts of Interest (03.11.2004)
9. Consultation Conclusions on the Regulation of Sponsors and Independent Financial Advisers (19.10.2004)
10. SFC Enforcement Reporter - October 2004 (15.10.2004)

Recruitment

The following SFC position is open. For application and details of the opening, please visit the SFC website at: <http://www.sfc.hk/sfc/html/EN/aboutsfc/employment/employment.html>.

- **Executive Director - Supervision of Markets**



Subscription information

The bi-monthly *SFC Alert* forms part of our range of regular publications; others include the monthly *SFC Enforcement Reporter*, the *Quarterly Report*, the *Quarterly Bulletin* and the *Annual Report*. All these publications are posted on the SFC website.

Free subscription to the electronic version of the *SFC Alert* (and other publications) can be made to sfcalert@sfc.hk.

Feedback

Tell us what you think of the *SFC Alert*. Questions and comments can be sent to sfcalert@sfc.hk.

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