

2006

**SIPF** 年 报

ANNUAL REPORT

## The Board Chairman's Statement

Year 2006 marked the year of innovation and prosperity in China's securities market. The equity reform is about to close, the inherent risks in the securities companies were basically resolved, and the listed companies saw remarkable achievement in reclaiming the embezzled funds. The significant threats shadowing the healthy development of the China's securities market have been removed one after another. The system reform realized fundamental transitions that pushed the securities market further and set the securities market onto the new track for a rational prosperity.

Year 2006 was the year of establishment and perfection for the new systems of securities investor protection in China. Under the direct leadership by China Securities Regulatory Commission, and through support by the Ministry of Finance and the People's Bank of China, the newly established China Securities Investor Protection Fund Co. Ltd. made creative progress in terms of securities company governance, securities market stabilization, and investor education. It has explored and established a far-reaching organizational structure that protects the interests of the securities investors, which matches with the State administrative regulation and sector-wide self-disciplinary supervision.

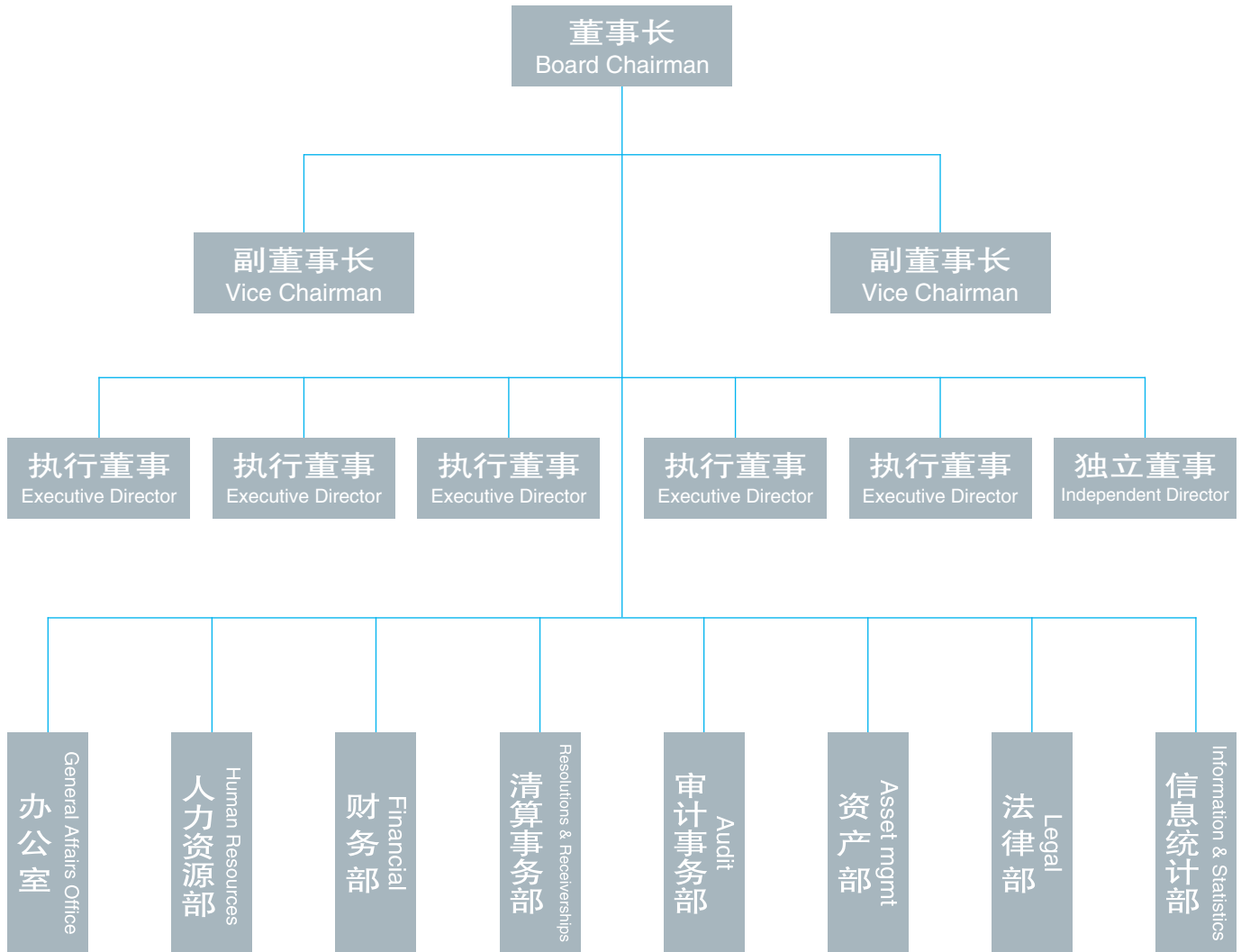
Year 2006 was the year when SIPF concreted its foundation and developed its own code of conduct. For a year, the board of directors of SIPF led our staff team for a large number of fruitful results as a reward for our hardworking and innovation. In this year, SIPF took the ground of "Standardized Operation, Careful Monitoring, Rapid Fund Allocation and Preservation of Social Stability" for timely investigation and protection fund allocation. The company took active role in the securities company risk solutions and practically protected the legal rights of the investors. It has established a sound financial management system and timely organized each special auditing and inspection activity, which effectively ensured the safety, compliance, and effective usage of the protection fund. SIPF has primarily established a set of complete protection fund raising mechanism that enabled enduring financial resources for the long-term and compliant operation of the protection fund. We ensured strict compliance to the regulations such as *Administrative Measures on the Application for Using Protection of Securities Investors Funds (Provisional)*,

*Administrative Measures on Creditor's Right Compensation by China Securities Investor Protection Fund Co., Ltd. (Provisional), Administrative Measures on Specialized Auditing for Personal Creditor's Right and Customer Securities Transaction Settlement Fund (Provisional).* We have also started the drafting of Regulation of Securities Investor Protection Fund as a means of systematic safeguard for investor protection. We emphasized on the IT infrastructure construction. Leveraging on the modern technologies, we strengthened our business management and perfected information monitoring mechanism over the securities companies. We have also researched and built a set of thorough, scientific, reasonable and effective internal organization management system that paved foundation for the standardization and development of the company.

China's securities market is a fledgling market undergoing transitions. The establishment of a sound investor protection mechanism means much for the harmonic development of China's securities market. Meanwhile, it is also an essential work for the linkage between China's securities market and the international securities markets. In 2007, SIPF will emphasize on the acquisition of personal creditors' right and customer transaction settlement fund. It will build IT system as the support and strengthen auditing and inspection. Its goal is to establish and perfect the far-reaching securities investor protection system. On ground of standardized internal operation, the company will research and perfect the position of SIPF's function and corporate governance. We will build an integrated, multi-level, and active investor protection mechanism through means of investor research and survey, investor education, investor aid, and investor compensation. The efforts are geared towards better capacity and efficiency for investor protection, investor confidence retention, and the harmonic development of the securities market.

We are indebted to the helps and supports from the society during the development of the young SIPF and during the construction of a long-lasting securities investor protection mechanism. All talents of the company are fully aware of their duties and will work harder to conquer the challenges lying in front of us. We will continue improving China's securities investor protection mechanism and repay society with our achievements. We are committed to make greater contributions to the sustaining, healthy, and harmonic development of China's securities market.

## 公司职能 和组织架构





## Corporate Functions and Organizational Structure

China Securities Investor Protection Fund Co. Ltd. is a wholly State-owned financial institution established on approval from the State Council. It is a non-profit corporate body mainly in charge of raising, management and usage of the securities investor protection fund. SIPF is under the supervision by China Securities Regulatory Commission.

### 【 Key Functions 】

The company was established to ensure the exit mechanism for the securities companies, protect the legal right of the investors, raise, manage and operate the securities investor protection fund, establish the lasting mechanism for securities company risk prevention and solution, as well as safeguard reform and stable development of capital market in China. In June 2005, the State Council approved China Securities Regulatory Commission, the Ministry of Finance, and the People's Bank of China in promulgating Administrative Measures of Securities Investor Protection Fund ("Administrative Measures" hereinafter). The State Council also approved the building of wholly State-owned SIPF and its article of association. On August 30 2005, SIPF was registered at the State Administration of Industry and Commerce. The State Council injected capital and the Ministry of Finance made a lump sum allocation of RMB 6.3 billion in registered capital. Its key duties include: raise, manage and operate the securities investor protection fund; monitor the risks of the securities companies, take part in the securities company risk solutions; repay the creditors according to the State polices upon regulatory mandates such as securities company cancellation, closure, bankruptcy or administrative takeover/custodial operation by CSRC; organize and participate in the liquidation of the cancelled, closed or bankrupt securities company; administer and dispose the compensated assets and protect the rights and interests of the fund; Propose to CSRC for regulatory and handling suggestions upon discovery of significant risks arising from the operation and management of the securities companies that threaten the investor's interest and the safety of the securities market; establish corrective mechanism with the relevant authorities for risks and threats in the operation of the securities companies.

### 【 Organizational Structure 】

The company has the board of directors constituted by nine directors. The board of directors is the decision institution of the company that takes the full charge over the company's operation and management. The routine operation and accounting system of the company is run and managed independently according to the relevant State laws. There are eight functional departments in the company: General Affairs Office, Human Resources Department, Financial Department, Resolutions & Receiverships Department, Audit Department, Asset

Management Department, Legal Department, and Information/Statistics Department. The company has 58 full-time employees.

Functions of the departments:

(I) The General Affairs Office is in charge of the company documents, files, corporate seals and stamps, confidentiality, visits and reception, safety and security, logistics, as well as acceptance of protection fund usage application.

(II) Human Resources Department is in charge of labor relationship, Party-mass relationship and labor union, international communication and foreign affairs, organization and management of key meetings; its ancillary duties include service to the board, coordination with administration and Party service.

(III) The Financial Department is in charge of budgeting, accounting, financial analysis, protection fund raising, repayment, arrangement, allocation, and distribution of protection fund and other financial management works.

(IV) The Resolutions & Receiverships Department is in charge of organization and participation in liquidation of the disposed securities companies, preliminary examination on protection fund usage application, supervises the complaint usage of protection fund by the custodial liquidating institution, as well as organizes and participates in securities company risk solutions.

(V) The Audit Department rechecks the protection fund usage application documents, audits the fund usage and organizes the specialized auditing.

(VI) The Asset Management Department is responsible for the compensated assets management, investment management and market research.

(VII) The Legal Department is responsible for the company's legal affairs, investor education, policy and law research, as well as publication and propagation.

(VIII) The Information/Statistics Department is in charge of the company data analysis, information system construction, technical management and maintenance.

## 2006 Work Review and Key Tasks in 2007

The SIPF has made active contributions to the treatment of the securities company risks, stability of the securities market, and investor education during the year since its inception. It owes its success to the care and support from the relevant leaders of the China Securities Regulatory Commission (CSRC), the Ministry of Finance, and the People's Bank of China. Therefore, SIPF has basically accomplished all tasks specified in *SIPF 2006 Work Focus*.

SIPF firstly launched the protection fund examination and allocation on ground of “standard operation, strict supervision, and stability”. Through support of the People's Bank of China, the protection fund has established the application, examination, and allocation system for the disposed securities companies. Such move was made jointly with the People's Bank of China, CSRC and its authorized institutions, as well as the administrative administering institutions. SIPF also adopted the “pre-acceptance examination, feedback, and notification” system. The system clarifies the principle and focuses of auditing and established the internal workflow for the application, examination, and allocation of the protection fund. Among 31 securities companies under disposal, the SIPF has shouldered the tasks of protection fund application, examination, and allocation for 25 disposed securities companies except 4 companies (Datong Securities, Jianqiao Securities, First Securities, and Zhongqi Securities) that do not use protection fund and 2 companies (Liaoning Securities and Nanfang Securities) that were directly allocated with on-lending loans by the People's Bank of China. By the end of December 2006, we have received a cumulative 46 packets of applications from 14 securities companies. Among the applications, we have examined and allocated 29 units of protection fund or aggregate of RMB 2.502 billion used to acquire RMB 602 million credit claims from individuals relating to 9745 individual creditor's right holders. The proceeds filled funding gap of RMB 1.9 billion in client securities transaction settlement fund. During the pre-acceptance examination and formal examination, we have disqualified RMB 370 million that were beyond the scope of acquisition and requested the administrative administering institutions to follow up with RMB 346 million in confirmed funds.

Secondly, SIPF took active participation in the securities company risk treatment. The SIPF has dispatched officers in attending the liquidation administration of multiple securities companies, such as Tianyi Securities, in handling the restructure of Huaxia Securities, Tiantong Securities, and

in the creditor's liquidation claim filing for Eagle Securities and China Southern Securities. The SIPF played an active role in the research and coordination of risk treatment policies. It assisted the regulatory organ in guiding the works including the argumentation of securities company account clearing and third-party custody plan for customers' securities settlement fund. SIPF gained timely knowledge of the information in the disposed securities companies and steadily advanced creditor's right administration. Via appointment by CSRC, we directly organized the custodial liquidation of three securities companies, namely, Guangdong Securities, Zhongguancun Securities, and China Sci-Tech Securities; and filed for approval from the State Council on such ground. SIPF invested RMB 1.5 billion jointly with other institutions to establish Essence Securities Co., Ltd. to run the pilot platform specializing securities company risk treatment and to explore the marketized exit for the securities companies. Essence Securities was founded in September 2006 and has settled 1921 staffs and 1.474 million accounts of customers. It has made contribution to the control and treatment of securities company risk. It also safeguarded the interests of the staffs, customers, and the general market.

Thirdly, SIPF organized and implemented special-item auditing. As an effort to practically implement the relevant regulations vesting the supervision duties to the SIPF, to strengthen the auditing and monitoring over the protection fund application from the securities companies under disposal, and to ensure the compliant deployment of the protection fund, The SIPF worked with the risk office and the commissioner office of CSRC and other authorized institution and organized, in four rounds, the intermediary institutions (incl. accounting firms and law firms) and 250 person/time for 20 subjects of special-item auditing over 18 disposed securities companies and have preliminarily formed a set of effective auditing and monitoring mechanism ensuring the safe and compliant usage of the protection fund. The move encouraged the transition from the ex post investigation to the management with combination of ex ante and during-the-event guidance and ex post examination that ensures the initiative, focus, and effectiveness of the auditing works. SIPF has made great achievements in the auditing works in 2006: (1) examined totally 2576 accounts in broker accounts classification relating to RMB 3851.03 million fund balance. There were 153 accounts, or a total balance of RMB 66.58 million, being misclassified and ineligible for compensation. There were 288 accounts, or a total of RMB 331.59 million in balance, that

lacked ground for the classification as normal brokerage accounts; these accounts need further verification. The above two items represented about 10.3% of the examined account balance. (2) SIPF has examined 5102 individual creditors relating to total sum of RMB 1824.88 million for individual creditor's right verification and confirmation. There was one misclassified creditor, or the credit fund of about RMB 889000, that was not eligible for the acquisition. There were 871 creditors, or the total of RMB 319.79 million, that have flaws in the individual creditor's right to be acquired and that entail further information. The total of the above two items represent 18.03% of the total individual creditor's right principal under examination. (3) SIPF discovered in acquisition amount computation that, due to the discrepancy of interest computation, the disputes about acquisition amount occurred at times. The above auditing result has been supplied to the liquidation administering institutions. Some issues were corrected so far.

Fourthly, SIPF has basically established the protection fund raising mechanism. To promptly build the marketized financing channel for the protection fund, the SIPF commenced in 2006 the levying of as protection fund. transaction-handling fee, and interest on the frozen subscription fund. SIPF has made adequate preparations to levy the protection fund from the securities companies. Till the end of December 2006, the fund has collected RMB 1.676 billion protection fund including RMB 347 million as transaction handling charge, RMB 1.327 billion interest on the frozen subscription fund, and RMB 2.6267 million from donations. Thanks to the great supports from the Ministry of Finance, State Administration of Taxation, and CSRC, the protection fund has made excellent coordination for the tax incentives. The papers regulating the tax incentive policies over stamp tax, income tax, and business tax have been officially promulgated. Subsequently, the enforcement of the tax incentive policy effectively broadened the fund source for the protection fund.

Fifthly, SIPF played supporting role to the investor protection legislation and regulation and policy formation. To promote the securities investor protection legislation, in October 2005, the SIPF organized and established the special-topic team that researched and drafted *Administrative Rules on Securities Investor Protection fund (Draft)*. In 2006, the special-topic team organized and held 3 seminars and 11 special-topic work meetings. Through one year's deliberation and revision, the team has basically completed the drafting of the rules for opinion-seeking and further revisions. In 2006, the SIPF has completed all service systems generally. CSRC has promulgated *Administrative Rules on Securities Investor Protection fund Application and Usage (Provisional)*, *Administrative Measures on Creditor's Right Repayment by China Securities Investor Protection Fund Co., Ltd (Provisional)*, and *Notification on Issues Relating to Payment of Securities Investor Protection*

*Fund. The Implementation Measures of Securities Company Payment of Securities Investor Protection Fund (Provisional)* is to be enforced soon. At the same time, the SIPF has published *Administrative Measures on Transaction Fund Special-item Auditing for Personal Creditor's Right and Customer Securities Settlement Fund (Provisional)*. The launch of these series of policies laid foundation for the standardized business development of the SIPF.

Sixthly, SIPF has launched thorough construction of the information system. CSRC, the Ministry of Finance, and the People's Bank of China promulgated *Administrative Measures on Securities Investor Protection Fund* and articulated the securities company information-sharing mechanism between the SIPF and CSRC. The purpose of such is to monitor the risks of the securities companies, to propose the supervision and treatment suggestions to CSRC upon detection of key risks arising from the operation and management of the securities companies that threaten investor interest and security market security, and to jointly build the corrective mechanism with the relevant authorities. To implement the works, the SIPF treated the information system construction as a key task in 2006. It utilized RMB 10 million contributed by Beijing Municipal Government and formed alliance with other institutions to establish and control SIPF Information Co. Ltd. specializing in information system development and maintenance. Through adequate argumentation, the SIPF information system will be established on spectrums including securities company supervision information system, SIPF service management system, and investor protection website. The investor protection website is under development. SIPF has completed the design and argumentation for the service management system and outlined the technical plan. SIPF has basically completed the requirement designs of the securities company supervision information system.

Seventhly, SIPF rolled out investor education and investor protection research. The compliant and legal investment by investors is the basis of security market regulation. In 2006, the SIPF adopted multiple forms of investor education activities and made preliminary achievements: on ground of "Securities Investor Protection" column jointly sponsored with *China Securities Journal*, SIPF collaborated with Shanghai Securities Exchange and Shanghai Securities News to open "Securities Investor Protection Forum". The forum invited the experts and scholars in attending the investor education activities. In addition, SIPF held the prized essay solicitation event – "Securities Investor Protection" – within the organization of CSRC. The event collected 62 essays that reinforced the sector supervision mentality for investor protection. In 2006, the SIPF also organized a series of investor protection projects and researches on key policy and practical problems. This year,



there are 65 research projects that passed project initiation or are in development stage. The content of the research project relate to special topics such as: theoretical system for investor protection, securities company risk treatment, securities company administrative restructure and reorganization, research of current investor protection by listed companies, protection fund raising and management, investor protection index, SIPF function and positioning.

Eighthly, SIPF strengthened the financial system construction and financial management. In 2006, the SIPF continued its emphasis of standardized operations in financial system construction and financial management. By early 2006, the Ministry of Finance, promulgated *Administrative Measures on Financial Management of China Securities Investor Protection Fund Co., Ltd.* On this ground, the SIPF formulated *Accounting System for China Securities Investor Protection Fund Co., Ltd.*, which was presented to the Ministry of Finance for filing and enforcement. To strengthen financial management, SIPF hired experienced CPA firm in assisting the improvement of all financial systems. Efforts were made to establish accounts and books tailored to the service characteristics of the protection fund. Through one year's effort, the protection fund has basically established a sound financial management system, set up internal accountability system, strengthened internal accounting, and adopted the accrual principle for accounting practice. SIPF established the total budget system including fixed assets acquisition and expense budgeting. It compiled the annual corporate budget according to the regulations and standards of the Ministry of Finance. According to the special characteristics of the SIPF, SIPF established the corresponding risk control system and internal audit system, which increased the internal supervision and internal control. SIPF clarified the expenditure standards and line of authority for approvals, standardized the expense application procedures, and practically reduced numerous unnecessary expenditures. By the end of the year, through direction by CSRC, the SIPF has established the financial self-discipline and self-checking team led by the chairman of the board. The team conducted thorough examination of SIPF's financial management, invited CPA firm for annual auditing, and adopted corrective measures for problems discovered during self-checking and the annual auditing. The CPA firm has presented the auditor's report with unqualified opinions.

Ninthly, SIPF primarily establishes the investment management system and decision mechanism. To ensure the scientific-ness and openness of the investment decisions, the SIPF established investment decision committee and formulated *Administrative Measures on Financial Management of China Securities Investor Protection Fund Co., Ltd (Provisional)* and *Work Rules on Investment Decision Committee of China Securities Investor Protection Fund Co., Ltd.* SIPF has

preliminarily established scientific investment decision mechanism and investment system of clear accountabilities and check-and-balance mechanism. In 2006, the SIPF utilized the capital fund and made eight pilot short-term investments of RMB 858 million in aggregate in T-bond, Central Bank bills, and policy financial bonds. The investment yielded cumulative return of RMB 4.335 million. SIPF made meaningful exploration in improving the return on capital and in ensuring the capital preservation and appreciation.

Tenthly, SIPF strengthened the staff team building and standardized corporate operation. In 2006, SIPF made apparent improvements in staff team building. Through approval by CSRC, the SIPF has basically completed the open-market recruitment of new staffs in July 2006 and elected almost 30 staffs specializing law, accounting, finance and economics, and computer science. SIPF also rolled out a series of staff orientation including military training and professional training. SIPF has established a diligent, experienced, and specialized professional team capable for securities company risk treatment and protection of shareholders' interest. In 2006, through csrc's approval, the SIPF further perfected SIPF's cadre system and threw the routine works onto the right track. In addition, according to the practical situations, the SIPF constantly establishes and improves the internal control and management system and has formed an effective operation mechanism and positive corporate culture. All paved concrete foundation for further development.

In 2006, the SIPF has rolled out all necessary works and exercised its due functions in the overall governance over the securities companies. However, due to the short horizon since its birth and the lack of practical experience, SIPF suffers from insufficient communication and coordination and there were shortcomings during work such as: a number of regulations that entail further improvement; lack of experience in workload assessment and budget compilation; inexperienced creditor's right repayment and shortcomings in asset liquidation and creditor's right repayment; special-item auditing focus in account clearing, gaps in customer securities settlement fund, and personal creditor's right special-item auditing and examination; underdeveloped auditing and checking for the protection fund utilization, suspicious transactions, assets and liabilities, and creditor's right repayment; and also, SIPF's IT system lags behind the actual needs of the works. The IT system failed to adapt to transition (of the securities companies) from thorough governance to routine supervision and failed to fulfill the goal of risk monitoring over the securities companies. Especially, the current functions of the SIPF are limited to the gap-fill for customer securities settlement fund shortage and to the acquiring of the personal creditor's rights during the treatment of securities company risks. As for the function of the SIPF after the finish of risk treatment and



after the transition into the role of routine supervision, there is no clear definition yet. There is no investor aid and education system in place, which is not contributive to the formation of long-term positive and effective investor protection.

In 2007, the SIPF will fully implement the spirit of national financial work meeting and national securities and futures regulation work meeting. According to the requirement of *Work Plan of Comprehensive Governance of the Securities Company* and the securities company comprehensive governance work meeting, SIPF will emphasize on the acquisition of personal creditor's right and customer transaction settlement fund. SIPF will pave ground of IT system construction, strengthen auditing and supervision, and take the goal of establishing and perfecting the long-term securities investor protection mechanism. In addition to continued improvement in the internal operation standards, SIPF will research and improve its function definition and corporate governance structure. It will ensure the measures including investor research, investor education, investor aid and investor compensation so as to ensure an integrated, multi-level and proactive investor protection mechanism, to increase investor protection capacity and efficiency, to maintain investor confidence, and to promote the harmonic development of the securities market.

I. Properly implement the acquisition of personal creditor's right and customer settlement fund, establish and improve creditor's right repayment management system

SIPF will further improve the work mechanisms for the SIPF. It will take part in the securities company risk treatment so as to improve the work efficiency in securities company risk treatment. SIPF will continue strengthening the risk treatment policy research, cooperate with the relevant institutions on handling methods over issues such as inactive accounts, and seek prompt settlement of pending issues during the job allocation of risk treatment. SIPF will seek active coordination with the People's Bank of China for speedy implementation of refinancing fund transfer works. It will strictly execute the State's acquisition policy, maintain the solemnity and consistency of the State acquisition policy, improve the protection fund examination and fund allocation efficiency as per requirements of speed, due care, and strictness, and promptly complete the creditor's right acquisition. In combination with the protection fund examination and allocation, SIPF will complete the workflow for creditor's right repayment management. Due to the special functions, as the biggest creditor of the securities company under administration, and after the administered securities company enters into the bankruptcy procedures, the SIPF will undoubtedly take the positions as the creditor committee chairman or the member of the chairman committee

of the securities company to be disposed. Therefore, in order to strengthen the linkage with the administering works, the SIPF shall seek information in the assets and liabilities of the securities company. It will also ensure the checking, collection, assurance and disposal during administering works. To coordinate with the creditor committee's actions, SIPF shall make necessary preparations for the active maintenance of administrative measures. On such ground, SIPF shall act in accordance with the overall planning of CSRC and the job allocation of securities company risk treatment. The purpose is to assist with the transition of the disposed securities company from administering works to legal bankruptcy and is to research for the link mechanism between administering works and bankruptcy liquidation. SIPF shall further strengthen communication with the bankruptcy court and the liquidation institution, timely and thoroughly file for the SIPF's eligible credit rights, and legally exercise the information right, participation right and supervision right of the SIPF during the liquidation. When necessary, SIPF may hire intermediary institutions to assist the SIPF in protecting the creditors' interest and urge the liquidation institution to increase the creditors' eligible repayment ratio and to increase the conversion value of the compensated assets. In addition to the participation in the liquidation, SIPF shall seek active exploration of SIPF creditor's right repayment method, find improvements of creditors' right repayment ratio and efficiency through means of debt-equity conversion and mediation so as to maximize the SIPF's legal interests as a creditor.

## II. Carefully roll out protection fund raising, research for refinancing repayment plan

SIPF will implement the protection fund assessment collection strictly in accordance with *Notification on Questions Relating to the Contribution of Securities Investor Protection Fund and Implementation Measures on Securities Company Payment of Securities Investor Protection Fund (Provisional)*. It will hasten the research and formulation of the matching papers for protection fund raising management. SIPF will also establish the standardized and regulated fund collection workflow to further improve the accounting, routine statistics, and report analysis management. SIPF will strengthen coordination and communication with China Securities Depository and Clearing Corporation Limited, bank of capital verification, and other institutions to find solutions of interest rate setting mechanism over frozen fund for securities subscription. SIPF will further research for the solutions of problems arising from the tax policy implementation for the protection fund, strictly execute all tax incentive policy papers that were officially enforced, and promptly complete the taxation coordination and tax rebate issues. Leveraging on the fund raised from the market, the SIPF makes prudent investment in T-bond, Central Bank financial bond, and other

highly safe products within acceptable policy scope and further ensure the subsequent funding source for the protection fund. In addition to the fund raising for the protection fund, SIPF will give due consideration and careful analysis of fund application and allocation, interest and principal repayment tenure, and source of protection fund. This is done to estimate the SIPF's repayment capacity for refinancing and to propose the refinancing repayment plan to the relevant institutions on such ground.

III. Thoroughly strengthen auditing and monitoring, explore for new mechanism where the SIPF plays a role in routine regulatory process

During the duty allocation for securities company risk treatment, to ensure the compliant usage of the protection fund, SIPF shall further strengthen supervision and guidance over the customers' securities settlement fund and individual creditor's right special-item auditing, improve the auditing and monitoring system, and constantly perfect the supervision and checking procedures, guideline for checking, guidance for report content and format, and other work systems relating to auditing and monitoring. On ground of on-going account clearing and checking for fund shortage in customer securities settlement fund and personal creditor's right special-item auditing, SIPF shall fully roll out the auditing and monitoring for fund usage after the protection fund allocation (incl. emergency aid fund utilization), suspicious items, inactive accounts, and assets and liabilities. SIPF shall further strengthen routine guidance by intermediary institutions taking part in special-item auditing, evaluate its performance, and establish the sound auditing and checking accountability system. During the transition of the securities companies from the thorough governance to routine supervision, SIPF shall actively cooperate with the regulatory organs in strengthening the information monitoring over the securities company, making the full use of auditing and monitoring function during the routine supervision over the securities companies, and exploring the new mechanisms where the SIPF cooperates with the regulatory organs in taking part in the securities company information monitoring and control and on-site checking under the routine supervision.

IV. Complete IT system construction, build technical platform for securities company information supervision and investor protection

In 2007, SIPF will thoroughly complete the construction of three IT systems, namely: securities company supervision, SIPF service management, and investor protection website. One of the

key tasks for establishing the investor protection mechanism is the thorough and timely receipt of securities company supervision information, which calls for a set of efficient IT monitoring system. SIPF shall further perfect the design for securities company supervision information system and promptly roll out the technical argumentation, project initiation, and development for shared information before the close of the year. The purpose of the move is to cooperate with the routine supervision over the securities company, to properly carry out the securities company information monitoring, and to timely propose risk prevention and treatment suggestions. The SIPF service management system includes protection fund application and allocation management sub-system, creditors' right repayment management sub-system, protection fund raising management sub-system, investor protection research results announcement and management sub-system, special-item auditing management sub-system, and automated office sub-system. SIPF shall accelerate the development and upgrade for such systems adapting to the requirements of the corporate development. SIPF shall accelerate the construction of the investor protection website. The emphasis in website construction shall be given to the technical platform for securities company information disclosure and investor education. The SIPF sets up the information system construction lead team for greater leadership in system requirement research and technical development. For proper securities company risk treatment job allocation by the SIPF, the IT system construction shall take adequate usage of the functions in the information company.

V. Promote formulation of *Administrative Rules on Securities Investor Protection Fund*, roll out investor education

According to the requirement proposed by Shang Fulin, the Chairman of CSRC, during the national securities and futures supervision work meeting, which calls for the "prompt institution of drafting *Administrative Rules on Securities Investor Protection Fund*", the SIPF will continue seeking and aggregating the revision opinions from all interested parties, deepen research on key and challenging issues related to the rules, write the legislation background information and special-topic research reports, further revise and perfect the draft rules. The rules specify the legislation mission in establishing the long-term investor protection mechanism. On ground of improvement in the investor compensation mechanism, the rules emphasize on the establishment of ex ante investor risk prevention system and on the proactive-ness of investor protection mechanism; it further improves the function definition of the SIPF and builds the SIPF as an investor protection institution of sound functions, consistent duties and authorities, efficient operation, standardized management, and effective supervision. SIPF shall make full use of its

advantage to increase communication with the investors for knowledge of investors and market dynamics. According to the general plan of CSRC, SIPF rolls out the investor education, actively searches for effective means of investor education, and properly carries out the investor education: 1. Strengthen investor education research. With reference to the international experience, SIPF makes the policy recommendation to improve China's securities investor education system, promotes and establishes the investor education system matching with the capital market mechanism, and propose the effective methods where the SIPF plays a role in the securities investor education according to the practical situations. 2. Enrich mode and channel of investor education. SIPF launches a series of colorful and practical investor education activities. Through investor education and risk reminder activities jointly launched with the relevant media, SIPF takes the full benefit of investor protection website to publicize information and spread investor protection knowledge, thereby strengthening the investors' self-protection mentality and ability. 3. Continue deepening the research on the relevant topics and policies for more solid theoretical ground for investor education and other investor protection. In addition, SIPF shall improve the investor education work mechanisms and properly arrange human resources, material, and funding for investor education to ensure the meaningful results of investor education.

VI. Research for possible roles in securities company restructure, explore exit from the temporary equity holding in the securities company

SIPF shall adapt to the requirement of the routine supervision and research for possible roles of the SIPF during securities company restructures. Upon conclusion of the securities company risk treatment, the historical tasks of massive cancellation and closure of the securities companies has come to a conclusion. During the routine regulation supervision stage, the merger/acquisition and restructure among the securities companies shall be the normal phenomenon for risk reduction and resource consolidation. Today, the biggest obstacle that run before the securities company merger/acquisition and restructure is the lack of liquidity in securities company equity. After the participation of the SIPF into the securities company restructure, the SIPF sells the temporary holding of equity to the resourceful securities companies, which contributes to the group corporation of securities company, contributes to the effective reorganization of the securities company sector resources, and contributes to the improvement of the SIPF function definition to make full use of the protection fund. In addition to the role in securities company restructure, in 2007, the SIPF will seek active exploration of exit mechanism for its temporary holdings in the securities companies. As the controlling shareholder, the SIPF will further urge Essence Securities

to perfect corporate governance, establish and improve the operation mechanism and internal control system, and strengthen risk prevention capacity, thereby truly encouraging the resources consolidation and optimization of securities sector. To ensure the fair image of the market, in 2007, the SIPF will urge Essence Securities for capital increase and properly dilute the SIPF's equity in Essence Securities. Furthermore, the SIPF will, according to the securities market and Essence Securities founding plan approved by the Ministry Finance, the People's Bank of China, and CSRC, formulate the exit plan for its temporary equity holding. With the precondition of maintenance of market stability and securities investor confidence, on ground of State-owned assets preservation and appreciation, the SIPF will transfer the Essence Securities' equity step by step until the total sellout.

Year 2007 will be a crucial year for job allocation of securities company risk treatment and the completion of long-term investor protection mechanism. The SIPF will further strengthen management team building and internal management, promote teamwork spirit, and establish employee care, staff communication and suggestion system. SIPF will take the mission to build the quality team to improve training, performance evaluation, and incentive mechanisms, to strengthen staff responsibility and sense of ownership, to build the harmonic corporate culture of prudence, practicality, efficiency, and cooperation, and to build concrete foundation for the accomplishment of securities company governance and 2007 work objective.



## China Securities Investor Protection Fund Co. Ltd. Milestone Events

1. June 30, 2005 The *Administrative Rules on Securities Investor Protection Fund* was launched by CSRC, the Ministry of Finance and the People's Bank of China and took effect on July 1, 2005.
2. August 30, 2005 China Securities Investor Protection Fund Co. Ltd. (SIPF) was registered for establishment, with registered capital of RMB 6.3 billion financed by Ministry of Finance.
3. September 27, 2005 Mr. Zhuang Xinyi, Vice Chairman of CSRC, attended and delivered a significant speech at SIPF incorporation ceremony. Mr. Zhao Qingguo, Deputy Director of Human Resources Department, CSRC declared the names of SIPF board directors. Mr. Chen Gongyan, Chairman of the Board, hosted the 1st SIPF Board Meeting of 2005, in which events of the company's opening etc were discussed.
4. September 29, 2005 SIPF officially started operation.
5. October 21, 2005 The Investment Decision Committee was established comprised of 7 members.
6. October 27, 2005 SIPF initiated jointly with *China Securities Daily* a specific column to discuss the securities investor protection issues for 6 months and published 25 relevant articles to systematically carry out full scale promotion of investor protection systems for the first time.
7. November 4, 2005 Entrusted by CSRC, SIPF organized the custodial liquidation of Guangdong Securities. 2/3 of SIPF staff participated in the on-site risk treatment work team of Guangdong Securities, originating an integrative model for risk treatment in custodial liquidation and exploring the feasibility of multi-bank custody by trial operation.
8. December 12, 2005 The People's Bank of China published the *Operating Guidelines on Reloan by China Securities Investor Protection Fund Co. Ltd.*
9. December 23, 2005 Chen Gongyan, Chairman of the Board, held the 2nd Board Meeting of 2005 to discuss the work agenda of the legislation team, arrange the series studies on the subject of investor protection and etc.
10. February 24, 2006 Entrusted by CSRC, SIPF conducted custodial liquidation and administrative clearing of China Sci-Tech Securities and Zhongguangcun Securities and assigned staff to participate in the on-site work team.
11. March 3, 2006 SIPF provided RMB 50 million emergency aids out of self-owned

- capitals to China Sci-Tech Securities that was undergoing risk disposition to make up for the capital gap in the customer securities transaction.
12. March 7, 2006 SIPF published recruiting announcement to engage about 30 candidates specialized in law, accounting, finance and IT. The recruitment process was completed by July.
  13. March 7, 2006 CSRC published the *Administrative Rules on Securities Investor Protection Fund Application and Usage (Provisional)* via CSRC (2006) No. 20.
  14. March 10, 2006 The Ministry of Finance published the *Administrative Measures on the Accounting Issues of China Securities Investor Protection Fund Co. Ltd.*
  15. March 24, 2006 SIPF published the *SIPF 2006 Work Focus* via SIPF (2006) No. 20 as approved by the Board.
  16. March 27, 2006 SIPF issued the fund for the first time to purchase the individual creditor's right formed by Guangdong Securities' embezzlement of national debt, amounting to RMB 113 million.
  17. April 18, 2006 SIPF launched an essay writing award competition on the topic of "Securities Investor Protection" within the CSRC system.
  18. April 18, 2006 SIPF received a donation of over RMB 20,000, the first fund-raising income since its incorporation.
  19. April 20, 2006 Mr. Chen Gongyan hosted the 1st Board Meeting of 2006, discussing the schemes of investing to establish Essence Securities as well as an information network company. The Board approved several rules and regulations including the *Administrative Measures on Paid Creditor's Rights of Protection Fund*, the *Administrative Measures on Transaction Fund Special Auditing for Personal Creditor's Rights and Customer Securities Settlement Fund*, rules on budgets and final accounts and the accounting principles.
  20. May 10, 2006 SIPF attended the 1st Creditor Conference of Eagle Securities to execute the lawful rights of a creditor as a protection fund company for the first time since its incorporation.
  21. May 17, 2006 CSRC published the *Administrative Measures on Paid Creditor's Rights of China Securities Investor Protection Fund (provisional)* via CSRC (2006) No. 48.
  22. May 18, 2006 SIPF held the auditing meeting at Nanchang to summarize the work of



- risk treatment for securities companies, exchange ideas and arrange the special auditing of disposed securities companies.
23. May 22, 2006 CSRC approved to publish the *Administrative Measures on Transaction Fund Special Auditing for Personal Creditor's Right and Customer Securities Settlement Fund (provisional)* via SIPF (2006) No. 31.
24. June 5-17, 2006 SIPF initiated creditor's right clear-up upon disposed securities companies (i.e. the first round of special audit) together with The Office of Risk Management, Shanghai Office of Commissioner and Shenzhen Office of Commission under CSRC. By December 31, 2006 four special audits had been conducted including account clear-up, capital gap in customer securities transaction settlement, personal creditor's rights, assets and debts, questionable issues and use of protection fund.
25. June 26, 2006 SIPF made pre-declaration to the Insolvency Liquidation Group of Eagle Securities about the RMB 697 million unexecuted portion of the customer transaction settlement and personal creditor's rights to be acquired. This is the first time that SIPF conducted declaration of the creditor's rights legally established against bankrupted securities companies.
26. July 2006 SIPF co-launched the Securities Investor Protection Forum with Shanghai Securities Exchange and *Shanghai Securities Daily*.
27. July 10, 2006 Chen Gongyan, Chairman of the Board, hosted the 2nd Board Meeting of 2006. The meeting attendees reviewed and discussed the *Articles of Association of Essence Securities Co. Ltd. (draft)* and approved to recommend Niu Guanxing, Rui Yuehua, Wang Yanguo, Wang Xiaohe, Qing Song to serve as Director and Zhang Yafen as Supervisor of Essence Securities. They also decided that Mr. Chen Gongyan would attend the Essence Securities Founders Meeting on behalf of SIPF and execute voting rights accordingly.
28. July 10, 2006 SIPF purchased office place at Xinsheng Mansion.
29. July 12, 2006 CSRC published the *Notification on Issues Relating to Payment of Securities Investor Protection Fund* stating explicitly that 20% of all transaction processing fee incurred by Shanghai Securities Exchange and Shenzhen Securities Exchange since July 1, 2005 and any interest income incurred upon subscription for frozen capital by securities exchanges, settlement companies and underwriters since January 28, 2005 shall be paid to the protection fund in accordance with the regulation. SIPF's fund-raising from the market channel entered into the concrete operation period.

30. July 28, 2006 Chen Gongyan, Chairman of the Board, hosted the 3rd Board Meeting of 2006. The meeting attendees discussed issues with respect to payment to securities investor protection fund by securities companies, development of the information network company and construction of information infrastructure.
31. August 3, 2006 The Seminar of Applying for Allocation of Protection Fund and Securities Investor Protection was held in Xining.
32. August 13-20, 2006 SIPF organized new employees to participate the military training in the suburb of Beijing.
33. August 25, 2006 Chen Gongyan met the group of Intermediaries and Supervision Division of Hong Kong's Securities and Futures Commission, led by Pu Weiguang, Chief Director and exchanged ideas about issues relating to securities investor protection.
34. August 28, 2006 Essence Securities Co. Ltd. which SIPF founded and invested in RMB 1.5 billion, was officially registered for establishment.
35. August 31, 2006 Huazheng Puhui Information Holding Ltd. in which SIPF has majority shareholding was registered for establishment.
36. September 8, 2006 SIPF declared the creditor's rights of RMB 1,555 million, which resulted from special fund of RMB 1.5 billion allocated by central government finance to China Southern Securities and the interests thereof, to the Insolvency Liquidation Group of China Southern Securities.
37. September 18, 2006 Zhuang Xinyi, Vice Chairman of CSRC, hosted a special meeting and listened to SIPF's report on one-year work progress since incorporation on behalf of CSRC.
38. October 27, 2006 SIPF attended the 1st Creditor Meeting of China Southern Securities and was assigned the member of the Creditor Rights Chairman Administrative Board by Shenzhen Middle People's Court.
39. November 2, 2006 SIPF Labor Union was approved for establishment and Zhang Xiaowei elected Chairman.
40. November 8, 2006 SIPF completed the drafting and verification of the demand for establishing the information monitoring system and the sub-system for fund-raising management of protection fund.
41. November 11, 2006 SIPF successfully launched the 1st Seminar of China Regional Financial Cooperation, Financial Market Innovation and Securities Investor

- Protection in Shanghai with Tongji University, Institute of Finance and Trade Economics under CASS, Shanghai International Finance Academy, Department of Regional Financial Development and Cooperation under Shanghai Finance Association as well as Editors Department of *Shanghai Finance*.
42. November 30, 2006 SIPF organized the special audit and check on assets and debts management of four disposed companies: Tiantong Securities, Huaxia Securities, Minfa Securities and Aisa Securities.
43. December 5, 2006 SIPF conducted the pilot work of special checking on assets and debts in 8 disposed securities companies including China Fortune, Northern, Min'an, Kunlun, Northwest, Xinjiang, China Sci-Tech and JuTian. This is an important attempt for SIPF to understand the assets and debts structure of disposed securities companies, reinforce management and reduce loss of state-owned assets.
44. December 15-19, 2006 The Meeting of Protection Fund Applying for Auditing and Payment of Creditor's Rights was held (Hainan Region). An award ceremony was also held for the "Securities Investor Protection" Award Essay Writing Competition. 22 essays were selected, 5 won the special award and 10 the first award.
45. December 19, 2006 Chen Gongyan, Chairman of the Board, hosted the 4th Board Meeting of 2006, in which SIPF budget and final accounts were discussed.
46. December 21-24, 2006 SIPF held the Seminar of Assets Protection and Claim of Creditors Rights of Disposed Securities Companies in Xiamen among the administrative liquidation groups, insolvency liquidation groups and intermediaries to discuss the establishing of incentive mechanism for assets protection and claim of creditors rights in the disposed or bankrupted securities companies.
47. December 22, 2006 The *Notice of the Ministry of Finance and the State Administration of Taxation on Stamp Tax upon Securities Investor Protection Fund* (FT(2006) No. 104) and the *Notice of the Ministry of Finance and the State Administration of Taxation on Taxation upon China Securities Investor Protection Fund Co. Ltd.* (FT (2006) No. 169) were officially published.
48. December 28, 2006 SIPF officially launched the Protection Fund Website Construction Project through public bidding.