



SIPF 2007 ANNUAL REPORT

China Securities Investor Protection Fund Corporation Limited



China's securities market boomed in 2007, and laid a solid foundation for investor protection. Under the direct leadership of the China Securities Regulatory Commission (CSRC) and with the great support of the Ministry of Finance (MOF) and the People's Bank of China (PBOC) over the past year, China Securities Investor Protection Fund Co., Ltd (the "Company"), on the one hand, focused on the risk disposition of securities companies, strictly examined the fund used in purchase in light of the country's policies, and ensured the stability of capital market and the society; on the other hand, actively participated in investor education and service activities, and made a salutary attempt in establishment of a more active securities investor protection mechanism.

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Message From Board Chairman

In the past year, the Company operated in a sound and innovative way, and gained initial achievements in protection of investors. Looking back on the past year, while being pleased, we should be keenly aware of the heartfelt care and expectation. Here, I would like to, on behalf of all my colleagues, express my sincere gratitude to the friends of all circles who have been caring for and supporting the Company.

In 2008, risk disposition of securities companies will come to an end, and the Company needs to add more functions and shift its focus of work. In order to establish a multi-level, integrated and active investor protection mechanism composed of investor investigation, education, assistance and compensation, in the next year the Company will, guided by the essence of the national securities and futures regulation conference, accurately understand the internal and external environment of investor protection work, and draw upon international experience to enhance the long-term mechanism, capability and initiative of investor protection mechanism, while completing the work relating to disposed securities companies.

In the coming year, the Company will strictly perform the responsibilities specified in the *Measures for the Administration of Securities Investor Protection Funds*, devote all energies to properly handle the risk disposition of securities companies, and accelerate the identification of problematic accounts, with an aim to complete personal creditor's right purchase and makeup of the gap of customer securities trading settlement fund; the Company will strengthen the raising, utilization and management of protection fund on the principle "what comes from the market should be used for the market", attach importance to the management and utilization of raised fund, and strive to maintain and increase the value of protection fund while ensuring the fund is secure; the Company will modify and amend the *Regulation on Administration of Securities Investor Protection Fund*, and further improve the policy environment for its operation; though the Company has basically completed information system building, it will continue to improve and optimize the functions of China securities investor protection website, in order to turn it into a better technical platform to announce business information, disclose information of securities companies, and promote investor education and services.

The year 2008 is critical to the development of China's capital market, and the functional transformation of the Company. In the coming year, the Company will explore an effective way to monitor and dispose of risks arising from securities companies, and establish a new mechanism for risk monitoring of securities companies. The Company will push forward the international cooperation on securities investor protection, sign the memorandum of understanding with investor protection organizations of related countries, and jointly sponsor the investor protection organization forum. The Company will systematically organize investor education and service, formulate investor education guide, and compile and print a series of investor education manuals. The Company will establish a routine mechanism for investigation of securities investors and an effective mechanism to feed back and respond to investors' complaints, and launch large-scale commonweal investor education lectures. It will organize a task force composed of lawyers, accountants, securities analysts and other securities practitioners, and economic and financial experts to clear up doubts or questions from investors, produce the flash movie for investor education, and develop, compile and regularly announce investor confidence index, securities company governance index and investor protection index, etc.

Capital market cannot succeed without a sound investor protection mechanism. The establishment of a long-term effective securities investor protection mechanism is a pioneering undertaking. Since its establishment, the Company has tried its best to participate in risk disposition of securities companies, and received the warm caring and great support from our peers and the friends of all circles. The caring and support of friends of all circles is also indispensable to successful risk monitoring of securities companies, international cooperation of investor protection organizations, and investor education and service. I believe the Company will certainly live up to its responsibilities, under the correct leadership of the CSRC and with great support of the people of all circles and unremitting efforts of all my colleagues. It will continue to seek truth and be practical, blaze new trails in an innovative way, improve investor protection mechanism, push the capital market to better serve the economic and social development, and make more contributions to the building of a harmonious society.

Chairman: Chen Gongyan

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Corporate Profile

2.1 Members of the Board of Directors



Chairman: Chen Gongyan (fifth from the left)
Vice Chairman: Rui Yuehua (third from the right)
Vice Chairman: Zhang Yafen (fourth from the left)

Executive Director: Liu Suyi (first from the right)
Executive Director: Ma Donghao (third from the left)
Executive Director: Zhang Xiaowei (first from the left)
Executive Director: Li Lian (second from the left)
Executive Director: Meng Guozhen (second from the right)

2.2 Introduction and organizational framework of the Company

In June 2005, the State Council approved the *Measures for the Administration of Securities Investor Protection Funds* jointly released by the CSRC, the MOF and the PBOC, the establishment of a wholly state-owned protection fund company and the articles of association of the Company, in order to protect the legitimate rights and interests of investors, raise, manage and operate securities investor protection fund, establish a long-term effective mechanism for prevention and disposal of securities companies' risks, and promote the reform and stable development of China's capital market. On August 30, 2005, the Company was registered with the State Administration for Industry and Commerce, with registered capital of RMB6.3 billion injected by the State Council via the MOF.

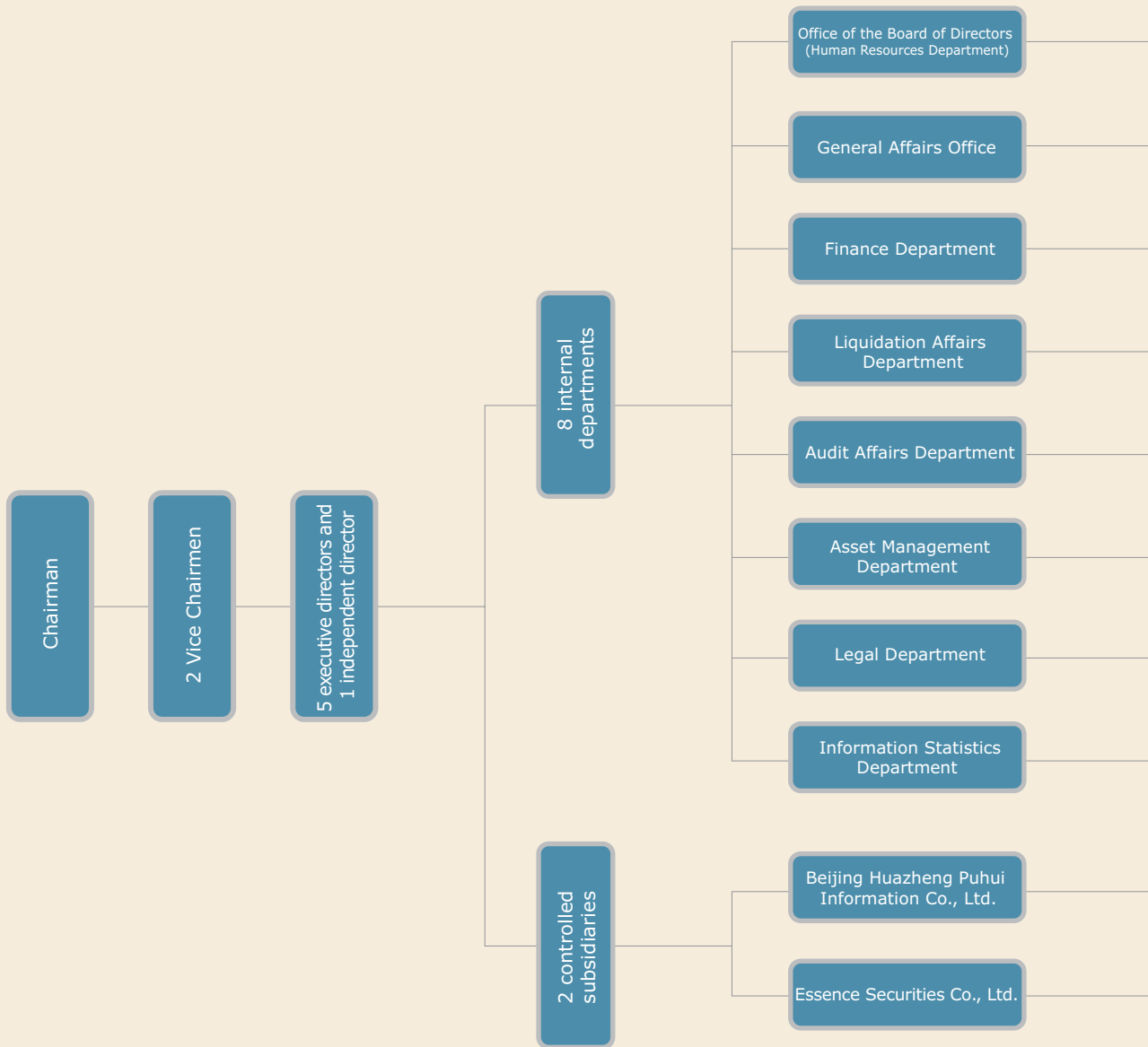
The Company is a non-profit corporate entity, mainly responsible for raising, management and use of securities investor protection fund. The Company is subordinate to the CSRC.

The Company has a board of directors composed of nine directors. The board is the decision-making organ of the Company and is responsible for establishing basic management systems, determining the setup of internal management organs, appointing and removing senior managers, making decisions on important matters such as the raising, management and use of funds, and performing other duties stipulated in the articles of association of the fund company. The Company adopts independent operation, management and accounting in compliance with applicable laws and regulations of China. There are eight functional departments in the Company: Office of the Board of Directors (Human Resources Department), General Office, Finance Department, Clearing Affairs Department, Audit Affairs Department, Asset Management Department, Legal Department and Information Statistics Department. As of the end of 2007, the Company had 58 employees on the payroll, of which, female employees numbered 29, accounting for 50%, employees aged below 35 numbered 42, accounting for 72%, and employees with a master's degree and above numbered 42, accounting for 72%. The Company has two controlled subsidiaries: Essence Securities Co. Ltd. and Beijing Huazheng Puhui Information Co., Ltd (See Figure 2-1).

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Corporate Profile

Figure 2-1: Organizational structure of the Company



Be responsible for daily coordination of administrative affairs of the Company, organization of important meetings, drafting of comprehensive reports, etc.; personnel recruitment and allocation, staff relation, remuneration and welfare, social insurance and other such personnel management; management of international cooperation and exchange activities of the Company; related work of the party committee and other mass organizations, such as Trade Union, and Communist Youth League.

Be responsible for the Company's documentation, maintenance of files, seals and secrets, handling of complaint letter and visit, security guard, logistics and acceptance of protection fund applications.

Be responsible for reviewing applications to use protection funds and appropriating protection funds, formulating and implementing relevant plans on reloan management, raising protection funds from the market, etc.; financial accounting management of the Company and budget and final account management; participating in the formulation and implementation of policies on the employees' remuneration and welfare; financial supervision and management of subsidiaries.

Be responsible for organizing and participating in the liquidation of disposed securities companies, examining the protection fund use applications, urging custodian and liquidation institutions to use the protection funds in compliance with regulations, and organizing and participating in other work relating to risk disposition of securities companies.

Be responsible for reviewing the protection fund use applications, conducting audit and inspection of the use of protection funds, and organizing special audits.

Be responsible for management of compensated creditor's rights of the Company, management and disposal of foreclosed assets, investment management and market research.

Be responsible for the Company's legal affairs, investor education, research of policies, laws and regulations, and publicity.

Be responsible for data statistics and analysis, information system building, technical management and maintenance.

Founded in Beijing on August 31, 2006, Beijing Huazheng Puhui Information Co., Ltd, a joint-stock company limited by shares, was sponsored and controlled by the Protection Fund Company. Beijing Huazheng Puhui Information Co., Ltd is responsible for maintaining the China securities investor protection website, and providing securities market information and technical services to investors.

Essence Securities Co. Ltd. is a joint-stock company jointly established by the Protection Fund Company and Shenzhen Investment Holding Co., Ltd with the approval of the CSRC. It was incorporated in Shenzhen on August 28, 2006, with registered capital of RMB1.51 billion. Headquartered in Shenzhen, the company has 95 securities business departments and 17 securities service departments nationwide, with a headcount of over 2,000 persons.

2.3 Corporate responsibility and fund sources

Pursuant to Article 7 of the *Measures for the Administration of Securities Investor Protection Funds*, the Company's responsibility is to:

- (1) raise, manage and operate fund;
- (2) monitor risks of securities companies and participate in the risk disposition of these companies;
- (3) indemnify creditors as required by China's relevant policies in case a securities company is subject to compulsory regulatory measures, including dissolution, closure, bankruptcy, administrative takeover by the CSRC, and trustee operation;
- (4) organize and participate in the liquidation of the dissolved, closed or bankrupt securities companies;
- (5) manage and dispose of foreclosed assets and safeguard the fund's rights and interests;
- (6) put forward regulatory and disposal suggestions to the CSRC in case a securities company's operation and management have material risks that may damage investor interests and the safety of the securities market; join relevant authorities in establishing a rectification mechanism for the potential risks arising from operation of securities companies;
- (7) other responsibilities as approved by the State Council.

Pursuant to Article 12 of the *Measures for the Administration of Securities Investor Protection Funds*, the Company's fund sources include:

- (1) 20% of the trading brokerage when the venture capitals of Shanghai Stock Exchange and Shenzhen Stock Exchange reach their respective upper limits;
- (2) 0.5%-5% of operating income of securities companies registered within the territory of China;
- (3) Interest income from the frozen fund used to subscribe for such securities as stocks and convertible bonds;
- (4) Compensation from relevant responsible parties and the income of indemnity from liquidation of bankrupt securities companies;
- (5) Donations of domestic and overseas institutions, organizations and individuals;
- (6) Other lawful income.

2.4 Corporate logo



Interpretation of logo:

- The logo is in the shape of a round coin with square hole, in the center of which there is the letter "S", the first letter of "Securities". That embodies the feature of the Company engaged in financial and securities industries.
- On the surface of the logo, there are two rings overlapped, which are designed with reference to the traditional image of Taiji. Complete and full of changes, the logo symbolizes the relation of mutual promotion between regulated development of capital market and protection of investors.
- The square opening at the center of the logo consists of nine straight lines. The Chinese character for "nine", a homonym of the Chinese character for "eternity", symbolizes the eternity and prosperity of the cause of investor protection. "Nine" is the largest number in traditional Chinese culture. Nine solid straight lines show that investor protection is the top priority of the development of the securities market.
- The logo is blue, and gives people a feeling of freshness, peace and harmonization. It implies that the Company will be devoted to promoting health and harmonious development of capital market and creating a safer and looser environment for investors.

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Performance in 2007

3.1 Examination and appropriation of protection fund

It is an important responsibility of the Company to purchase personal creditor's rights and fill the gap of customer securities trading settlement fund in strict compliance with governmental policies. Different from 2006, the application for protection fund showed such characteristics as more batches, less number of persons, small amount of each batch, large amount of single creditor's right, and many problematic matters in 2007, especially the second half of the year. At present, among the personal creditor's rights that have not been purchased, most of them have an amount of over RMB200,000, and have been in dispute for many years. Since most of the un-purchased customer securities trading settlement funds involve dormant accounts, entrusted wealth management accounts due before the disposition date, and such other issues, the purchase policy could not be directly applied. Taking into account these characteristics, the Company adopted the following measures in examination and appropriation of protection funds:

First, while ensuring China's purchase policy is implemented strictly and consistently, the Company publicly demonstrated the problematic accounts one by one. According to the requirement of the CSRC of "continuing to act as purchase policy, study, report, deliberate, and work out solutions for issues in time, and complete the purchase as early as practicable for those in compliance with policy", the Company tried every means to improve examination and appropriation efficiency, and complete risk disposition of securities companies as early as possible, by implementation of various measures, such as preview and application for reloan in advance. It has basically completed the task of purchase as required.

Second, after clearing up and sorting the issues found in the examination of protection funds, the Company put forward solutions for reference in policy-making. In 2007, the Company submitted many requests for instructions and reports to the CSRC, such as the *Request for Instructions on Related Policy Issues Concerning Properly Handling Risk Disposition of Securities Companies*, and formulated practicable policies and measures for these issues in conjunction with the Risk Office of the CSRC. Moreover, the Company drew up the *Circular on Further Regulating the Dormant Accounts of Securities Companies (Consultative Draft)*, and the *Plan on Allocation of Reloan Line for Securities Companies*, and practicably resolved the policy issues relating to the purchase.

3.2 Special audit and inspection

Focusing on the need of risk disposition of securities companies, the Company strengthened inspection force and broadened the inspection scope in 2007. It conducted 29 audits and inspections of 17 securities companies in four batches. The inspection covered account clear-up, special audit of customer securities trading settlement fund gap and personal creditor's rights, use of emergency aid fund, use of appropriated protection fund, assets and liabilities, and special audit and inspection of problematic matters and major difficult matters. From 2006 to 2007, the Company conducted 47 audits and inspections of 22 disposed securities companies. More than 400 persons of 41 accounting firms and law offices which were engaged by the Company participated in these inspections. The details about the inspections are as follows:

First, the Company inspected all accounts of the inspected companies that had a balance of more than RMB1 million and were classified as normal brokerage, and selectively inspected key accounts with a balance below RMB1 million. A total of 4,712 accounts were inspected, with a total balance of RMB4,953 million. The inspections found that 240 accounts, with a total balance of RMB77 million, should not be offset, and the evidence was not insufficient for classification of 701 accounts, with a total balance of RMB443 million, as normal brokerage accounts. The balance of these accounts accounted for 10.49% of that of all inspected accounts.

Second, the Company audited and inspected the identified personal creditor's rights with an amount of more than RMB200,000 in the inspected companies, and selectively inspected key creditor's rights with an amount below RMB200,000. A total of 5,400 personal creditors were inspected, with total principal of RMB2,354 million. The inspections found that the principal of creditor's rights of RMB4.9 million from seven creditors should not be purchased, and the principal of creditor's rights of RMB533 million from 953 creditors should be further demonstrated as there were errors. The balance of these principals of creditor's rights accounted for 22.85% of that of all inspected creditor's rights.

Third, in respect of calculation of purchase amount, the inspection and clearing team found, in a special audit, that the purchase amount of approximately RMB1,558 million would be affected due to many factors, such as accrued interest payable, accrued interest receivable, and funds frozen and transferred by judicial authorities and banks.

Through practice over nearly two years, special audit and inspection has become an important means to ensure the use of protection funds is in compliance with laws and regulations. Initial achievements have been made in audit and inspection. First, the Company analyzed, studied and summarized the common issues in time, and put forward policy suggestions, thereby increasing the initiative in purchase and reducing the policy risks arising from legal use of state purchase funds; second, through improving a complete set of inspection mechanism, such as on-site inspection, communication and feedback, investigation and rectification, the Company played a role of correcting errors and made policy implementation more accurate; third, the Company strengthened examination by inspection, and intervened ahead of time by audit and inspection, so as to understand matters, verify the fact, grasp the first-hand information and improve the efficiency of fund application, examination and appropriation; fourth, the Company established a mechanism to resolve problems in a legal, transparent and classified manner. By the end of 2007, the Company had put forward more than 20 policy suggestions to the CSRC.

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Performance in 2007

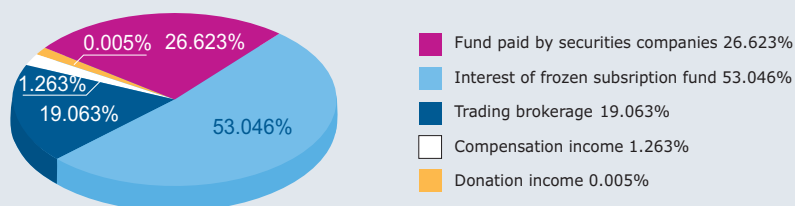
3.3 Raising and management of protection funds

As required by the *Measures for the Administration of Securities Investor Protection Funds*, the CSRC formally promulgated the *Implementation Measures for the Payment of Securities Investor Protection Funds by Securities Companies (For Trial Implementation)* in 2007, in order to improve the protection fund raising mechanism. The payment of protection funds by securities companies indicates that the fund raising channels on the protection fund market have been in place, and the protection fund raising mechanism has been basically established.

In order to regulate the raising of protection funds, the Company made efforts in the following aspects in 2007: first, the Company studied the approach of determining the payment proportion in line with the classification and rating of securities companies, and informed the Institutional Department and local offices of the CSRC of the issues found in the collection of funds, in order to jointly ensure the protection fund raising policy is properly implemented; second, the Company continued to improve the working mechanism with such payment units as the stock exchanges, securities registration and clearing companies and securities companies, to ensure successful collection of protection funds; third, the Company assisted the CSRC in requesting the MOF and the State Administration of Taxation to implement the preferential tax policies for protection funds; fourth, the Company established an internal protection fund raising management process, and improved the analysis and reporting system for fund raising and use. After securities companies paid the protection funds for the first half of 2007, the Company also organized a symposium to hear suggestions and comments from some securities companies.

In 2007, the Company raised funds of RMB10,668.6 million from the market, including RMB2,840.3 million paid by securities companies, RMB5,659.3 million in the interest income derived from frozen subscription funds, RMB2,033.8 million in the trading brokerage, RMB134.7 million in the compensation income and RMB500,000 in the donation income (See Figure 3-1). As of the end of 2007, the Company had raised protection funds of RMB12,379.3 million from the market (including deposit interest income of RMB34.4 million from the funds) and repaid interest of reloan of the PBOC of RMB771.2 million; the balance of protection funds raised from the market was RMB11,608.1 million.

Figure 3-1: Statistics of protection funds raised from the market in 2007



3.4 Declaration and indemnification of creditor's rights

In 2007, pursuant to the *Measures for the Administration of Compensation of Creditor's Right of China Securities Investor Protection Fund Co., Ltd (For Trial Implementation)*, the Company formulated related supporting measures, and established an internal declaration and management mechanism and process for compensation of creditor's right whereby the responsibilities are well defined and related departments cooperate with one another. It also established a sound mechanism for coordination with external institutions, courts accepting bankruptcy cases and bankruptcy managers, laying a solid foundation for properly handling declaration of its creditor's rights in compliance with relevant laws and regulations, ensuring its creditor's rights are fully declared and compensated in time, and protecting its legitimate rights and interests. In the compensation of creditor's rights, the Company summarized the issues arising from the asset collection and bankruptcy liquidation of disposed securities companies, and put forward policy suggestions: first, in order to nail down the policies relating to the judgment of securities company bankruptcy cases and promote the judgment of such cases, the Company classified and studied the major issues arising from the case judgment and liquidation of bankrupt securities companies, and submitted *Some Issues and Policy Suggestions on the Bankruptcy Liquidation of Securities Companies* to the CSRC; second, in respect of the building of capital market integrity system, the Company submitted *the Report on Asset Collection for Disposed Securities Companies*, and put forward the suggestions on the disposal measures and implementation plan regarding the companies responsible for the disposed securities companies.

As of the end of 2007, a total of 25 disposed securities companies had the debtor-creditor relationship with the Company. Except for Huaxia, MF, Wuhan and Tiantong securities companies, all the companies have entered the bankruptcy and liquidation proceedings. Among the securities companies which had entered the bankruptcy and liquidation proceedings, 13 companies held the first creditors' meetings. The Company was named as the chairman of the creditors' meetings of 11 securities companies, and the convener of the creditor committees of nine securities companies. The Company presided over or participated in 26 creditors' meetings and meetings of the creditor committee, and performed well in protecting related rights and interests of creditors and maintaining the continuity and effectiveness of administrative liquidation policy during the judgment of bankruptcy cases, within the legal framework. The Company declared creditor's rights of RMB14,535.5 million

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Performance in 2007

(including principal of RMB14,139.7 million and interest of RMB395.8 million) to 15 bankruptcy liquidation teams, and pre-declared creditor's rights of RMB4,187.6 million (including RMB16.6 million in principal and interest declared on behalf of the MOF). It took over cash of RMB327.2 million from China Eagle Securities and China Southern Securities. It also took over 32,625,414 shares in Harbin Pharmaceutical Group (with a market value of approximately RMB540 million based on the closing price before the suspension of trading) and 8,474,964 shares in Hafei Aviation Industry Co., Ltd (with a market value of approximately RMB260 million based on the closing price before the suspension of trading) distributed to China Southern Securities.

3.5 Investor education

According to the arrangements made by the CSRC for securities investor education, the Company launched a variety of investor education activities based on its conditions in 2007, and has gained initial achievements.

First, the Company sponsored an investigation of Chinese securities market investors in conjunction with the Securities Association of China and the Investor Education Office of the CSRC. After the first investigation ended in July 2007, the Company prepared the *Analysis Report on Questionnaire of Chinese Securities Investors*, and had a basic understanding of investor information, providing basis for making decisions on investor education. The second investor investigation is in process.

Second, the Company continued to push forward the study of series topics concerning investor protection. The Company has established 81 topics, and has presented research findings for 40 topics, with more than 2.9 million words. Meanwhile, it launched the *Investor Protection Research*, an internal publication, and printed 14 issues of the publication in 2007, providing an effective communication platform for research of investor protection.

Third, in order to strengthen risk education for minority investors, the Company, together with the Securities Association of China, produced the flash movie *-Three Investors in the Fund and Stock Market*, which includes 12 stories and was formally aired on the "Securities Time" of the economic channel of the CCTV on August 16, 2007.

Fourth, the Company assisted the Information Center of the CSRC in undertaking the research of the subject "investor education and service knowledge center", a subtopic of the E-finance service pilot project in the national scientific and technological support plan for the "11th Five-Year Plan" period. The subject was composed of investment database system, investment knowledge collaborative service (WIKI) and investor education software (Flash). The Company set up a subject leading team and appropriated earmarked funds of research of the subject.

Fifth, the Company conducted systematic study of investor education at home and abroad, and achieved such research findings as the *International Experience and Trend of Investor*

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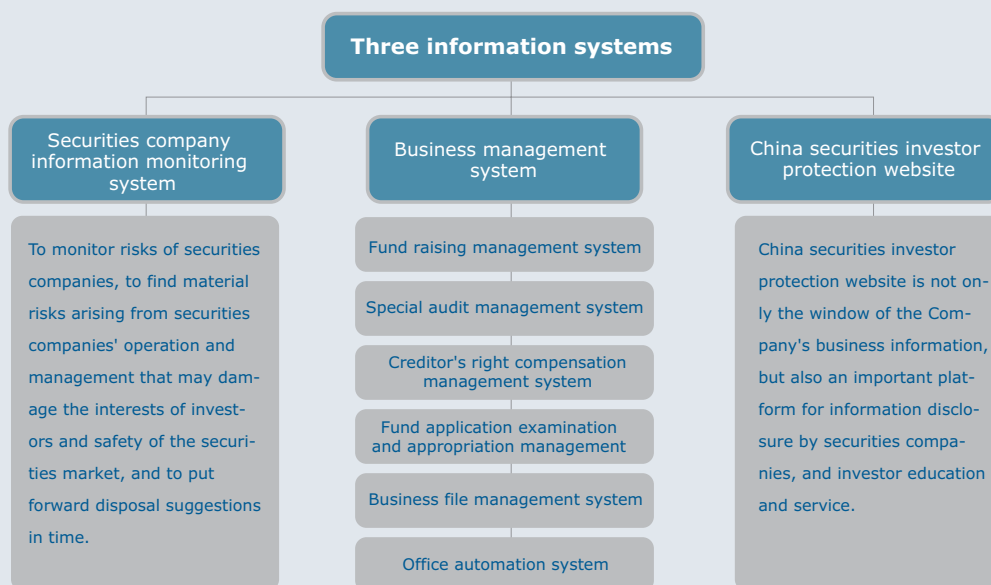
Education, Investor Education in China and Investor Education in Hong Kong, providing rewarding reference for systematically pushing forward investor education.

Over the past year, the Company devoted great efforts to the building of investor education system, scientific research, cultivation of professionals, and increase of facilities and equipment. It also created good conditions for improving the quality of investor education, and made rewarding exploration in perfection of its position orientation after completion of the risk disposition of securities companies.

3.6 Building of information system

In 2007, the Company pushed forward the building of three information systems in an all-round way, i.e. business management system of the Company, securities company information monitoring system and China securities investor protection website. In order to effectively build an information system, the Board of Directors of the Company made an overall planning, stressed the priorities and developed the systems separately, within the scope of budget as approved by the MOF. Overall planning means the drafting of information system building plan and unification of the technical platform. Stressing priorities means the concentration of force to develop China securities investor protection website; developing the systems separately means classification of the Company's business management system into six sub-systems, and implementation of them step by step according to the maturity of business demands (See Figure 3-2).

Figure 3-2: Structural diagram of three information systems



So far the demand design of business management system and the demonstration of technical implementation plan have been completed, and each business system has been under development. The demand design of securities company information monitoring system has been completed, and the Company is demonstrating a technical plan of interface between the system and the securities institutions supervision comprehensive information system (CISP). As an important part of the Company's information system, China securities investor protection website was put into operation on December 26, 2007 through nearly one year of development after the formal request for proposal.

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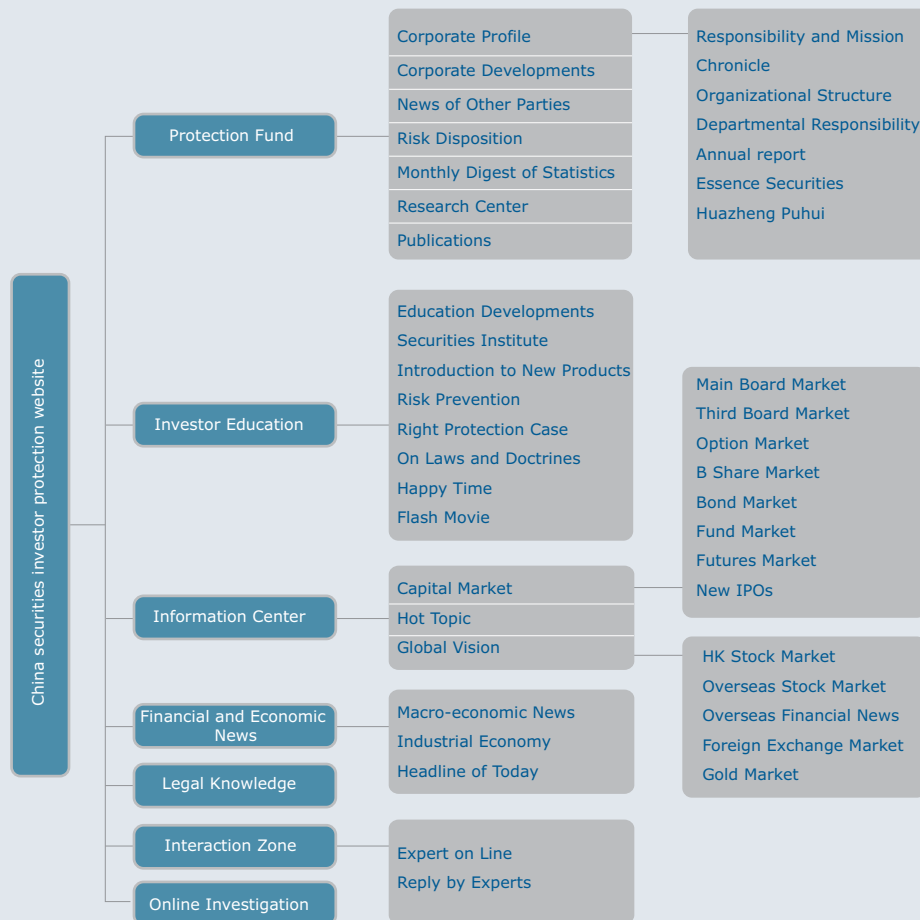
Performance in 2007

3.7 China securities investor protection website

The China securities investor protection website started operation on December 26, 2007. Mr. Chen Gongyan, Chairman of the Company, Ms. Song Bai, Deputy Director of Investor Education Office of the CSRC, and Ms. Li Wei, Deputy Director of Information Center of the CSRC, jointly lighted up the laser ball flashing the domain name, indicating the formal operation of the website. The formal launch of China securities investor protection website provoked strong reactions in the industry.

China securities investor protection website is the first website in China that focuses on investor protection. It is not only the window of the Company's business information, but also an important platform for disclosing information and providing services to investors according to the law and protecting investors' legitimate rights and interests (See Figure 3-3).

Figure 3-3: Framework of China securities investor protection website



The website, as a window to publicize the Company to the outside, introduces to the investors the Company's responsibility and mission, business structure, organizational framework, business progress and related laws and regulations; it also publicizes the policies, laws and regulations relating to the securities market, and strengthens the transparency of policies and effectiveness of law enforcement; it also rapidly voices investors' thoughts and enables investors to understand the latest regulatory developments of securities market.

As a service platform targeting investors, the website provides investors with basic investment knowledge and the skills in prevention of market risk and securities frauds. It educates and helps investors to safeguard their legitimate rights and interests, and publishes authoritative and practical investor protection information. It also provides all investors with compulsorily disclosed information and sufficient securities market messages, as well as authoritative and reliable financial information and research reports.

The website targets China's securities investors and the biggest potential securities investors in the world. Being committed to disclose authoritative policies and information and provide rapid and efficient services, the website offers a technical platform for announcement of market information, investment in wealth management products and promotion of corporate image by such securities market players as securities companies, listed companies, and fund management companies. It also serves as a bridge between investors and such intermediate agencies as law offices and accounting firms.

Popular features of the website

Investor education: to establish an online securities institute, introduce, in an easily understandable form, the basic knowledge about investment in funds, stocks and other securities, provide many flash movies concerning investor education, including the Three Investors in Fund and Stock Market, and serve as the introductory manual for stock market novices.

Investor service: to invite securities experts and lawyers and accountants to answer netizens' questions on line, explain the market movement and related laws and regulations, help investors to build up a right investment concept, identify and hedge investment risk, reply to the legal questions of investors, provide customized legal consulting services and enable investors to fully understand their legitimate rights and interests.

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Performance in 2007

Thoughts of investors: to understand investors' thoughts and feelings, show their complaints and requirements, encourage investors to form a communication platform with the forum and blog to record and share their investment experience and lessons with other investors, and enhance the ability of grasping and steering risks.

Investor investigation: to conduct investor investigation, scientifically analyze the online investigation results to provide basis for judgment of market situations and scientific policy-making, and try to design, establish and regularly disclose an investor confidence index that can reflect the psychological change of investors.

3.8 Internal management

Regulating corporate management is the foundation for properly handling investor protection. In 2007, the focus of the Company's regulated operation was to:

- Clear up the original 35 rules and regulations in line with the conditions of the Company since its establishment, keep improving various rules and regulations, and release and implement nine internal management regulations and business rules, concerning staff management, audit and inspection, compensation of creditor's rights and management of intermediate agencies.
- Enhance the capability of financial management and internal control, strictly implement the budget, strengthen management of budget and final accounts, and properly prepare for the shift from old accounting standards to new accounting standards in line with the actual conditions. Based on the improvement of risk control system and internal audit system, the Company has engaged accounting firms to carry out annual audits for two successive years, making the annual audit a fixed system.
- Strengthen staff education and training in order to improve their comprehensive quality and make them meet the development needs of the Company. With the great support of the Personnel & Education Department and International Cooperation Department of the CSRC in 2007, the Company provided overseas training for three persons and short-term off-the-job training for seven persons, and dispatched five young cadres to the CSRC and the MOF for training. Meanwhile, it also encouraged employees to participate in further education and training, in order to improve their professional quality and skills.

3.9 Corporate activity

Forge the team with passion

On May 26, 2007, the Company, in conjunction with the CSRC, organized the extensive training with the theme of "Forging the team with passion". Nearly 200 young employees of the Company and the CSRC participated in the training. Through the training, employees, on the one hand, understood their potential, and stood unafraid of setback and hardship; on the other hand, they were keenly aware of the importance of teamwork, thus enhancing the awareness of collective participation and sense of responsibility.

Actively donate to help poor students and contribute to the society

During August 10-13, 2007, Mr. Chen Gongyan, Chairman of the Company, led a group of employees of the Company and Essence Securities Co. Ltd. to investigate the economic development in Gannan Zang Autonomous Prefecture, highland pastoral area, and donate for its education undertaking. A total of RMB400,000 was donated for building a multimedia room in both Maixiang Center Primary School in Xiahe County and Awancang Primary School of Maqu County, so as to improve the IT conditions in the pastoral area. The investigation and donation activity strengthened the communications between the people of Zang and Han nationalities, enhanced the social responsibility of employees and aroused their patriotic passion.

Welcome the 17th National Congress of the CPC and re-experience the Jinggangshan spirit

On October 10, 2007, as the 17th National Congress of the CPC was forthcoming, the Party Committee of the Company organized its members to visit Jinggangshan, the sacred place of revolution, to educate them about the revolutionary traditions. Taking this opportunity, these members re-experienced the Jinggangshan spirit of "firm faith, plain living and hard struggle, doing anything as it is, and daring to pioneer new route".

Organize army-civilian activity to build a harmonious society and celebrate the 17th National Congress of the CPC

On October 25, 2007, the Youth League Committee of the Company and the No.66018 Army of No.38 Corps jointly organized soldiers and civilians to hold an activity with the theme of “building a harmonious society and celebrating the 17th National Congress of the CPC”, and donated computers, projectors, books and stationery goods to officers and soldiers of the army. Through listening to the report on modern military development trend, visiting the modern equipment of the army, and participating in cultural and sports activities, employees enhanced the awareness of national defense and patriotic passion.

4.1 Instructions on indicators

- 1. Scope of statistics:** among the 31 securities companies disposed of since 2004, 25 companies needed the appropriation of protection fund from the Company to fill the gap of customer securities trading settlement fund and purchase personal creditor's rights. China Southern Securities was directly given reloan by the PBOC, but gap of repayment with the compensation income and equity premium should be undertaken by the Company. Liaoning Securities was directly given reloan by the PBOC and the Company did not need to provide the reloan. Capital-Bridge Securities, Daton Securities, The First Securities and CIFCO Securities did not need the reloan from the Company either. Therefore, the expression "all disposed securities companies" mentioned in the disposal progress means 26 securities companies relating to the Company, including China Southern Securities, but excluding Liaoning Securities, Capital-Bridge Securities, Daton Securities, The First Securities and CIFCO Securities.
- 2. Statistical content:** the statistics covers disposal progress of disposed securities companies, raising, management and use of protection funds, compensation of creditor's rights of the Company, special audit, and particulars about the intermediary agencies participating in the risk disposition.
- 3. Error:** the calculation is based on a rounding-off method. Due to the error in the rounding off, the sum of all figures is not necessarily equal to the total amount.
- 4. Amount unit:** except as otherwise provided herein, the amount unit should be RMB1 million.
- 5. Customer securities trading settlement fund:** it means the fund deposited in the securities trading settlement fund account by the brokerage customer for ensuring full settlement and collection, proceeds (less the brokerage commission and other justifiable expenditures) from sales of marketable securities, dividends of securities held, cash bonus, bond interest and interest of the funds above.

- 6. Personal creditor's right:** it means the creditor's right against a financial institution arising from input of funds by a resident through opening an account or trading financial products with a financial institution (means a securities firm, hereinafter as the same), excluding the creditor's right against financial institution through account opening or product trading by an individually-owned business, a sole proprietorship enterprise or an enterprise of individual partnership.
- 7. Acquisition of reloan:** it means the reloan (including the reloan originally granted by branches of the PBOC that has been turned over to the Company) directly purchased from the PBOC in the name of the Company and used as the initial fund source of the securities investor protection fund.
- 8. Appropriation of protection fund:** it means the protection fund (including the reloan originally granted by branches of the PBOC that has been turned over to the Company) directly appropriated by the Company to the liquidation institutions of disposed securities companies.
- 9. Account clear-up:** the basic purpose of account clear-up is to provide basis for the reloan application, third-party custody, asset collection and investigation of responsible persons. The scope of clear-up includes: (1) all accounts opened at counters of securities companies (within the system); (2) accounts opened by securities companies and their affiliated parties in a third-party financial institution (outside the system); (3) customer securities trading settlement fund accounts and settlement excess reserve accounts opened by securities companies with banks and settlement companies. The clear-up scope of brokerage accounts mainly includes all capital accounts opened by brokerage customers within the system. The clear-up scope of non-brokerage accounts includes the capital accounts opened within and outside the system.
- 10. Third-party custody:** it is also called bank custody, which is based on the separation of customer securities from capital management, and follows the principle "securities companies manage securities and commercial banks manage fund", in order to erect a firewall between securities companies and the trading settlement fund of their customers. Securities companies are responsible for customer securities trading, share management and calculation of the trading difference of customers based on the trading settlement data of

the securities registration companies. Commercial banks are responsible for the fund transfer of customer trading settlement fund account, cash deposit and withdrawal and the fund settlement and collection between securities companies, registration companies and customers, as well as payment of interest and transfer of commissions for customers according to the instructions of securities companies.

11. Securities asset disposal: it means the disposal of physical assets (including the physical assets and necessary trading seats of securities firms' local branches, brokerage departments, IT departments, clearing centers, computer rooms, operation maintenance departments and other related departments) for investment banking business or maintenance of normal operation of customer securities brokerage business. The disposal should not cover such assets as house property, car, goodwill, deferred asset, self-operating securities and proprietary capital which have no direct relation with investment banking business or maintenance of securities brokerage business of securities companies. The specific scope should be determined by the liquidation team.

12. Projected compensation ratio: it means the ratio of the projected realized bankrupt property of a disposed securities company less preferred compensation amount and necessary expenses to the total amount of ordinary debts. The lower (upper) limit means the pessimistic (optimistic) estimation of the recoverable assets based on the conditions of each asset. The assets of disposed securities companies mainly include self-operating securities, accounts receivable, long-term equity investment and fixed assets. The recoverable amount of self-operating securities is based on the closing price of such securities in the secondary market on the last trading day of the estimated period. The recoverable amount of the accounts receivable, long-term equity investment and fixed assets is based on the appraised value or the actual disposition value, if any. If there is no appraisal value or disposition value for reference, the recoverable amount may be estimated according to the book value in the most recent audit report provided by the administrative liquidation team or bankruptcy manager, taking into account the account aging, operation status of debtors and investee companies, and the conditions of fixed asset market.

13. Compensated creditor's right: it means the creditor's right of the Company against disposed securities companies arising from the use of protection fund by securities com-

panies to purchase personal creditor's rights and fill the gap of customer securities trading settlement fund in case of dissolution, closure, bankruptcy, or administrative takeover or trustee operation as required by the CSRC.

14. Compensation of creditor's right: it means that the Company participates in the bankruptcy liquidation and distribution of bankrupt assets of disposed securities companies according to the law after purchasing the compensated creditor's right against these securities companies.

15. Database of backup intermediate agencies: it means the list of intermediate agencies that meet certain qualifications and are available for participation in the risk disposition of securities companies. The law offices with experience in securities business and clearing affairs, accounting firms with relevant securities qualifications and experienced in liquidation affairs, asset management companies and other competent institutions, if meeting relevant conditions and passing the selection procedures as required, may be included in the database of backup intermediate agencies.

16. Deadline of statistics: December 31, 2007

4.2 Outline of statistics

【Risk disposition】

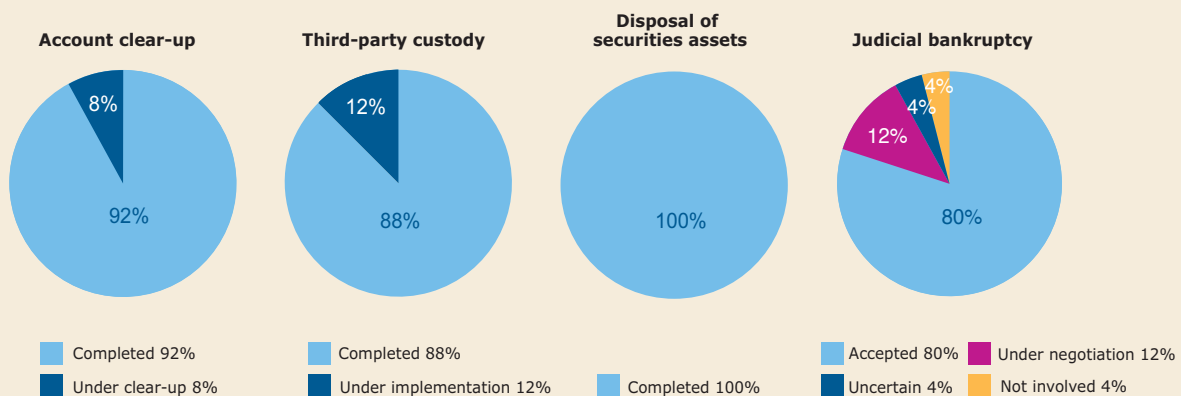
Account clear-up: by the end of 2007, a total of 24 disposed securities companies had completed the account clear-up, accounting for 92% of all disposed securities companies (26 companies, the same below). Two companies were under clear-up, accounting for 8%.

Third-party custody: by the end of 2007, a total of 23 disposed securities companies had completed the third-party custody, accounting for 88% of all disposed securities companies. Three companies were in process, accounting for 12%. Among the 714 business departments of all the disposed securities companies, 675 departments had completed the disposal, accounting for 95% of the total.

Disposal of securities assets: by the end of 2007, the transfer of securities assets of the 26 disposed securities companies had been completed.

Judicial bankruptcy: by the end of 2007, the judicial bankruptcy of 21 disposed securities companies (80% of the total) had been accepted by courts. Three companies (12%) were under negotiation with relevant courts. One company (4%) was uncertain about the court. One company (4%) did not go bankrupt.

Figure 4-1: Progress of risk disposition of securities companies



【Fund raising and use】

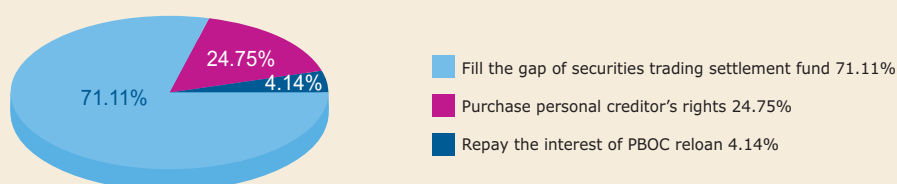
The Company raised protection funds of RMB30,664.4 million in 2007, a year-on-year increase of RMB26,028.2 million or 561.41%, of which the PBOC reloan and interest was RMB19,961.4 million, accounting for 65.10%, trading brokerage was RMB2,033.8 million, accounting for 6.63%, fund paid by securities companies was RMB2,840.3 million, accounting for 9.26%, interest of frozen subscription fund was RMB5,659.3 million, accounting for 18.46%, and donation, interest and compensation income were RMB169.6 million, accounting for 0.55%.

Figure 4-2: Statistics of raising of protection funds in 2007



In 2007, the Company utilized protection funds of RMB18,632.6 million, accounting for 60.76% of total, of which RMB17,861.4 million, accounting for 95.86% of total, was used to fill the gap of securities trading settlement fund and purchase personal creditor's rights, and RMB771.2 million, accounting for 4.14%, was used to repay interest of reloan.

Figure 4-3: Statistics of protection fund use in 2007



【Acquisition of reloan and appropriation of protection funds】

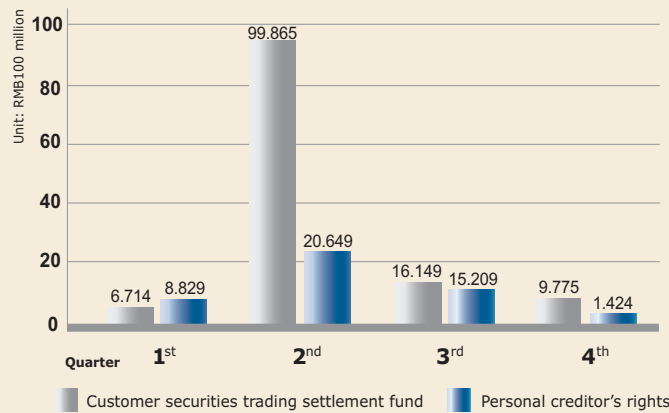
In 2007, the Company purchased reloan of RMB19,936.0 million, and appropriated protection funds of RMB17,861.4 million. Of the appropriation, RMB13,250.3 million was used to fill the

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Statistics Information

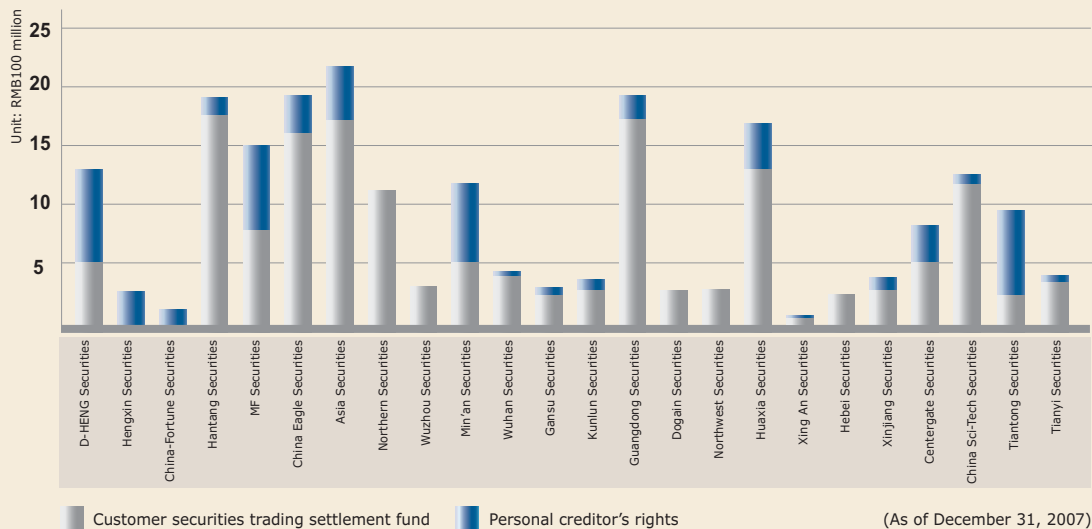
gap of customer securities trading settlement fund, and RMB4,611.1 million used to purchase personal creditor's rights.

Figure 4-4: Statistics of protection fund appropriation in 2007 (on a quarterly basis)



By the end of 2007, the Company had purchased reloan of RMB22,881.7 million, and appropriated protection funds of RMB20,363.6 million to 24 disposed securities companies. Of the appropriation, RMB15,150.7 million, or 74.4%, was used to fill the gap of customer securities trading settlement fund, and RMB5,212.9 million, or 25.6%, used to purchase personal creditor's rights.

Figure 4-5: Statistics of protection fund appropriation (by disposed securities companies)



(As of December 31, 2007)

【Estimate of compensation】

The Company estimated the ratio of compensation from disposed securities companies for the protection funds based on the assets and liabilities of these securities companies, of which six companies were estimated to have a lower limit of compensation ratio of above 20%, namely China Southern Securities, China-Fortune Securities, Hantang Securities, Huaxia Securities, Xing An Securities and Hebei Securities, seven companies between 10%-20%, namely China Eagle Securities, Northern Securities, Northwest Securities, Centergate Securities, China Sci-Tech Securities, Tiantong Securities and Tianyi Securities, five companies between 5%-10%, namely MF Securities, Asia Securities, Wuhan Securities, Guangdong Securities and Xinjiang Securities, and seven companies below 5%, namely D-HENG Securities, Hengxin Securities, Wuzhou Securities, Min'an Securities, Gansu Securities, Kunlun Securities and Dogain Securities.

【Compensated creditor's rights】

By the end of 2007, a total of 21 securities companies had entered the bankruptcy and liquidation proceedings.

The relloan granted by the Business Management Department of the PBOC to China Eagle Securities had been transferred to the Company. The Company had creditor's rights of RMB2,321.4 million, accounting for 46.75% of total creditor's rights, of which pre-declared creditor's rights were RMB425.8 million. The Company acted as the chairman of the creditors' conference. Seven creditors, including the Company, formed the creditor committee.

The principal of creditor's rights declared by the Company to the China Southern Securities Liquidation Team reached RMB1,510.1 million (including RMB10.1 million declared on behalf of the MOF), and creditor's rights stood at RMB1,574.6 million (including RMB16.6 million in principal and interest declared on behalf of the MOF), accounting for 4.47% of total creditor's rights. The Company was the second largest creditor of China Southern Securities. 10 creditors, including the Company, were named as the members of the creditor committee.

The creditor's rights of Wuzhou Securities were declared by Zhengzhou Sub-branch of the PBOC and had been transferred to the Company. The bankruptcy manager of Wuzhou Securities acknowledged that the Company had creditor's rights of RMB316.4 million against the securities company, accounting for 31.45% of total creditor's rights. The Company acted as the chairman of the creditors' conference.

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Statistics Information

The Company declared creditor's rights of RMB260.3 million against Kunlun Securities, accounting for 23.22% of total creditor's rights, of which RMB46.9 million was pre-declared. The Company acted as the chairman of the creditors' conference. The Company and six other creditors were elected as members of the creditor committee.

The Company declared creditor's rights of RMB268.9 million against Northwest Securities, accounting for 20.68% of total creditor's rights, of which RMB33.3 million was pre-declared. The Company acted as the chairman of the creditors' conference. Five creditors, including the Company, formed the creditor committee.

The creditor's rights of Northern Securities were declared by Shanghai Management Headquarters of the PBOC and had been transferred to the Company. The Company had creditor's rights of RMB1,148.8 million, accounting for 26.89% of total creditor's rights. The Company acted as the chairman of the creditors' conference. Five creditors, including the Company, were elected as members of the creditor committee.

The Company declared creditor's rights of RMB350.7 million to the bankruptcy manager of Hebei Securities, accounting for 13.26% of total creditor's rights, of which creditor's rights of RMB107.2 million were pre-declared. Shijiazhuang Xinhua Road West Sub-branch of China Construction Bank was named as chairman of the creditors' conference. The first creditors' conference rejected the proposal of bankruptcy manager for nomination of members of the creditor committee.

The bankruptcy manager of China Sci-Tech Securities acknowledged that the Company had creditor's rights of RMB1,311.5 million against the securities company, accounting for 53.92% of total creditor's rights, of which creditor's rights of RMB57.8 million were pre-declared. The Company acted as the chairman of the creditors' conference. Seven creditors, including the Company, were elected as members of the creditor committee.

The Company declared creditor's rights of RMB223.7 million to the bankruptcy manager of Dogain Securities, accounting for 56.07% of total creditor's rights, of which pre-declared creditor's rights of RMB22.4 million had not been confirmed. The Company acted as the chairman of the creditors' conference. Five creditors, including the Company, were elected as members of the creditor committee.

The Company declared creditor's rights of RMB2,392.1 million to the bankruptcy manager of Asia Securities, accounting for 66.73% of total creditor's rights, of which pre-declared creditor's rights of RMB1,481 million had not been confirmed. The Company acted as the chairman of the creditors' conference. Four creditors, including the Company, were elected as members of the creditor committee.

The Company declared creditor's rights of RMB389.5 million to the bankruptcy manager of Hengxin Securities, of which creditor's rights of RMB277.6 million were pre-declared.

The Company declared creditor's rights of RMB920 million to the bankruptcy manager of Centergate Securities, accounting for 52.50% of total creditor's rights, of which pre-declared creditor's rights of RMB286 million had not been confirmed. The Company acted as the chairman of the creditors' conference. Seven creditors, including the Company, were elected as members of the creditor committee.

The Company declared creditor's rights of RMB364.2 million to the bankruptcy manager of China-Fortune Securities, of which creditor's rights of RMB270.9 million were pre-declared.

The Company declared creditor's rights of RMB2,803.5 million (including RMB1.2 million declared on behalf of Anhui Provincial Government) to the bankruptcy manager of Hantang Securities, accounting for 35.82% of total creditor's rights, of which creditor's rights of RMB842 million were pre-declared. The Company acted as the chairman of the creditors' conference. The Company and five other representatives of creditors and one representative of employees were elected as members of the creditor committee.

The Company declared creditor's rights of RMB2,288.1 million to the bankruptcy manager of Guangdong Securities, accounting for 25.98% of total creditor's rights, of which creditor's rights of RMB320.1 million were pre-declared. The Company acted as the chairman of the creditors' conference.

The declaration of creditor's rights of the Company against such securities companies as D-HENG, Min'an, Gansu and Tianyi was in process.

[Asset disposal of bankrupt securities companies]

By the end of 2007, the assets of six bankrupt securities companies had been disposed of.

China Eagle Securities disposed of fixed assets of RMB196,777,300, of which RMB153,854,400 was incorporated into the bankrupt property after deducting the preferred compensation of RMB42,922,900. The securities company disposed of self-operating securities of RMB324.35 million and other assets of RMB315,275,600, which were all incorporated into the bankrupt property. Proceeds from asset disposal which were incorporated into the bankrupt property totaled RMB793.48 million.

Kunlun Securities disposed of fixed assets of RMB5.93 million, self-operating securities of RMB8.37 million, and other assets of RMB9.2 million, which, totaling RMB23.5 million, were all incorporated into bankrupt property.

Northwest Securities disposed of fixed assets of RMB1,870,900, which was incorporated into the bankrupt property. It also disposed of other assets of RMB45.15 million, of which RMB32,904,200 was incorporated into the bankrupt property after deducting the preferred compensation of RMB12,245,800. The securities company's asset disposal proceeds which were incorporated into the bankrupt property totaled RMB34,775,100.

China Southern Securities disposed of self-operating securities of RMB45.9 million and HKD4.4 million, which were all incorporated into the bankrupt property. China Southern Securities disposed of RMB1,180 million worth of shares in Yinhua Fund. China Southern Securities had received the down payment of RMB354 million.

Wuzhou Securities disposed of other assets of RMB6 million, which were all incorporated into the bankrupt property.

China Sci-Tech Securities disposed of self-operating securities of RMB13.5 million, which were all incorporated into the bankrupt property.

[Compensation of creditor's rights]

By the end of 2007, two securities companies had distributed bankrupt property.

In the distribution of the property of China Eagle Securities, the Company received compensation of RMB272,203,400. Since RMB425,840,900 out of the creditor's rights declared by the Company had not been converted into entity creditor's rights, RMB62,895,400 was accordingly set aside.

China Southern Securities distributed property in November 2007, and the Company received compensation of RMB54,962,200 in cash, 8,474,964 shares in Hafei Aviation Industry Co., Ltd and 32,625,414 shares in Harbin Pharmaceutical Group. The Company, on behalf of the MOF, received compensation of RMB586,300 in cash, 90,406 shares in Hafei Aviation Industry Co., Ltd and 348,032 shares in Harbin Pharmaceutical Group.

【Special audit】

By the end of 2007, special audit reports on customer securities trading settlement fund had been issued for 24 disposed securities companies. In respect of personal creditor's rights, formal audit reports had been issued for 18 companies, and audit reports on partial personal creditor's rights issued for five companies. One company had no personal creditor's rights.

【Database of backup intermediate agencies】

As of the end of 2007, there were 19 intermediate agencies in the database of backup intermediate agencies, of which 10 agencies are accounting firms and nine are law offices.

1. On January 10, 2007, the CSRC approved the *Company's Request for Instructions on Related Policy Issues Concerning Properly Handling Risk Disposition of Securities Companies*, and nailed down the policies regarding the disposal of gap of securities fund of personal customers of normal brokerage business misappropriated by securities companies and the allocation of state purchase fund limits of disposed securities companies.
2. On January 30, 2007, China Audit Certified Public Accountants completed the audit of the Company's financial statements for 2006, and issued an audit report without reservations.
3. On February 14, 2007, in order to ensure social stability during the Spring Festival and in the period when the National People's Congress and the Chinese People's Political Consultative Conference were held, the Company completed examination of all applications regarding purchase of personal creditor's rights, and appropriated in full the purchase fund according to China's purchase policy.
4. On February 17, 2007, Mr. Shang Fulin, Chairman of the CSRC, visited the Company together with other leaders of the CSRC.
5. On March 9, 2007, the Company participated in the first creditors' conference of Kunlun Securities and was named by the Intermediate People's Court of Xining City as the chairman of the conference and the chairman of the creditor committee.
6. On March 19, 2007, the Company, together with Shanghai and Shenzhen commissioner offices and relevant authorized institutions of the CSRC, organized five batches of special audits, inspecting the account clear-up, the gap of customer securities trading settlement fund, and special audits of personal creditor's rights of four securities companies, i.e. Guangdong Securities, Hengxin Securities, Tianyi Securities and China-Fortune Securities.
7. On March 21, 2007, the Company participated in the second meeting of creditor committee of China Southern Securities, and voted on such proposals as the principle for asset disposal of the securities company.
8. On March 23, 2007, the Company, together with the Risk Office of the CSRC, held a symposium on some issues concerning transition from administrative liquidation to judicial bankruptcy of disposed securities companies. Some courts accepting bankruptcy cases and bankruptcy managers attended the symposium.

9. On March 28, 2007, the CSRC promulgated the *Implementation Measures for the Payment of Securities Investor Protection Funds by Securities Companies (For Trial Implementation)* (Z.J.F [2007] No.50), whereby securities companies are required to pay the protection funds after January 1, 2007.
10. On March 30, 2007, the Company and the CSRC Risk Office jointly issued the *Circular on Urging for the Regular Submission of Information about Protection Fund Use* (Z.B.F [2007] No.42).
11. On April 3, 2007, the Company promulgated the *Guidelines for the Form and Content of Special Audit Report on Customer Securities Trading Settlement Fund* and the *Guidelines for the Form and Content of Special Audit Report on Personal Creditor's Rights* (Z.B.F [2007] No.45).
12. On April 17, 2007, the Company handled the declaration of creditor's rights against the Northwest Securities.
13. On April 23, 2007, the Company participated in the first creditors' conference of Northwest Securities and was named by the Intermediate People's Court of Yinchuan City as the chairman of the conference.
14. On May 8, 2007, the Company transferred the pre-declared creditor's rights of RMB232 million against China Eagle Securities into entity creditor's rights for the first time.
15. On May 18, 2007, the *Investor Protection Research* started publication.
16. On May 22, 2007, the Company promulgated the *Summary of Work in 2006 and Focus of Work in 2007 of Protection Fund Company* (Z.B.F [2007] No.53).
17. On May 28, 2007, the Company participated in the second creditors' conference of China Eagle Securities, and discussed, voted on and approved the first bankrupt property distribution plan of the securities company. According to the distribution plan, the Company received bankrupt assets based on the actual amount of declared creditor's rights. That is the first time for the Company to participate in the bankrupt property distribution of disposed securities companies.

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Chronicle

18. On June 11, 2007, the Company, together with the Securities Association of China, sponsored the first investigation of Chinese securities investors. The respondents include more than 3,000 individual investors and over 140 institutional investors. The Company prepared the *Analysis Report on Questionnaire of Chinese Securities Investors*.
19. On June 20, 2007, the Company completed the transfer of reloan directly granted by the PBOC before establishment of the Company. The principal of reloan was transferred in 20 batches on the day, with a total amount of RMB9,090.7 million.
20. On June 32, 2007, the Company repaid the interest of reloan of the PBOC for the first time.
21. On July 4, 2007, the Company, together with Shanghai and Shenzhen commissioner offices and relevant authorized institutions of the CSRC, organized the sixth batch of special audits, concerning the problematic matters of five securities companies, including Xing An Securities, D-HENG Securities, Hantang Securities, China Sci-Tech Securities and Centergate Securities, the special audit of the gap of customer securities trading settlement fund of Hengxin Securities, and the use of emergency aid fund and protection fund by China Sci-Tech Securities and Centergate Securities.
22. On July 10, 2007, the World Bank issued a no-objection letter, and thus the legal framework and operating mechanism of Chinese securities investor protection fund, a component of China's economic reform implementation project declared by the Company, was formally approved.
23. On July 17, 2007, Mr. Chen Gongyan, Chairman of the Company, held the first meeting of the Board of Directors of the Company in 2007. The meeting discussed such matters as the equity financing of Essence Securities, adjustment of directors and their responsibilities, etc.
24. On July 25, 2007, the Company handled the declaration of creditor's rights against the Asia Securities.
25. On August 2, 2007, the CSRC approved the proportion of payment of protection funds by securities companies for 2007, indicating the formal initiation of payment of protection fund by securities companies.

On the same day, the Company received the first batch of compensation of RMB79,239,200 from China Eagle Securities, the first time for the Company to receive such compensation.

26. On August 16, 2007, the Company, together with the Securities Association of China, jointly produced the series flash movie regarding investor education-*Three Investors in the Fund and Stock Market*, which was first aired in the evening program-Securities Time of the economic channel of the CCTV.
27. During August 24-25, 2007, the Company, together with the CSRC Risk Office, invited the Supreme People's Court and some courts accepting bankruptcy cases, bankruptcy managers, and administrative liquidation institutions to hold the Symposium on Risk Disposition and Bankruptcy Liquidation of Securities Companies, and formed *Some Issues and Policy Suggestions on the Bankruptcy Liquidation of Securities Companies*.
28. On August 27, 2007, the Company, together with Shanghai and Shenzhen commissioner offices and relevant authorized institutions of the CSRC, organized the seventh batch of special audits, concerning special inspection of key items of assets and liabilities of five securities companies, including D-HENG Securities, Hantang Securities, MF Securities, Min'an Securities and Wuhan Securities.
29. On August 31, 2007, at the summarizing and commending meeting of comprehensive governance of securities companies held by the CSRC, the Company's Liquidation Affairs Department was awarded the title of "Advanced Group for Comprehensive Governance of Securities Companies", Yang Qing, Liu Lei and Chen Tiyong awarded the title of "Advanced Individual for Comprehensive Governance of Securities Companies", and Pan Jingen, Jin Lina and Zhao Dongwei were commended in a notice.
30. On September 12, 2007, the Company, together with the CSRC Risk Office and Shanghai Commissioner Office, conducted a special audit of some accounts of Asia Securities.
31. On September 19, 2007, the Company participated in the first creditors' conference of Northern Securities and was named by Shanghai No.2 Intermediate People's Court as the chairman of the conference and the convener of the creditor committee.

32. On September 28, 2007, Mr. Chen Gongyan, Chairman of the Company, presided over the first meeting of the five-member coordination team for risk disposition of securities companies ("five-member team"). The meeting studied relevant arrangements for symposia on risk disposition of securities companies and judgment of bankruptcy cases, assigned the tasks for maintenance of stability in the National Day period and the period of the 17th National Congress of the CPC, and required relevant persons to pay attention on sensitive creditor's rights, personal creditor's rights within the scope of purchase, interested parties (shareholders and creditors) and laid-off employees of bankrupt companies, and other factors that may trigger instability. The meeting also called on relevant persons to properly handle purchase of personal creditor's rights, strengthen coordination and communication on issues in dispute arising from purchase review, and study and resolve such issues in time according to pertinent policies. As for major issues, the Company may engage intermediate agencies to demonstrate and determine the nature of issues based on inspections. As for the issues regarding the purchase of personal creditor's rights, as long as the issues are unique and non-comparable, the issues may be solved as required by pertinent policies as early as possible. The meeting also required that the Company should promptly push some securities companies to enter the bankruptcy proceedings.

33. On September 29, 2007, the Company removed its office to Tower B, Xincheng Mansion, 5 Financial Street, Xicheng District, Beijing.

34. On October 8, 2007, the Company and the International Department of the MOF formally entered into a reloan agreement on the legal framework and operating mechanism of Chinese securities investor protection fund, a component of China's economic reform implementation project.

35. On October 16, 2007, the Company formally entrusted an asset appraisal agency to appraise the assets of Essence Securities.

36. On October 22, 2007, the Company formally promulgated and implemented the *Internal Process for Declaration of Compensated Creditor's Rights of China Securities Investor Protection Fund Co., Ltd* (For Trial Implementation).

On the same day, the Company handled the declaration of creditor's rights against Hebei Securities.

37. October 29, 2007, the Company promulgated the *Guidelines for Asset and Liability Liquidation Audit and Inspection Plan (For Trial Implementation)* and the *Guidelines for the Form and Content of Asset and Liability Liquidation Audit and Inspection Report (For Trial Implementation)* (Z.B.F [2007] No.97).

On the same day, the Company handled the declaration of creditor's rights against China Sci-Tech Securities.

38. On October 31, 2007, the Company handled the declaration of creditor's rights against Hengxin Securities.

39. On November 2, 2007, Mr. Chen Gongyan, Chairman of the Company, presided over the second meeting of the five-member team, to study the implementation of relevant policies, determination of account nature, and purchase of creditor's rights in disposition of securities company risks, and discuss the arrangement and material preparation for the symposia on risk disposition of securities companies and judgment of bankruptcy cases. The meeting also studied the issues arising in the implementation of such policies as the treatment of commission income before the disposition date and the treatment of dormant accounts as stipulated by the CSRC (See Z.J.B.F [2007] No.56 document). The meeting also allowed the securities asset transferee to make advances for the gap of margins that are not in place, on a voluntary basis.

40. On November 9, 2007, Mr. Chen Gongyan, chairman of the Company, presided over the third meeting of the five-member team, to study the issues relating to the purchase of creditor's rights from 71 personal creditors by D-HENG Securities, and administrative liquidation and bankruptcy liquidation of China Southern Securities. The meeting required that the personal creditor's rights, if meeting purchase policy and with adequate application materials in place, should be purchased as early as possible. Those needing supplementary materials should be demonstrated at the earliest opportunity. Those contrary to the purchase policy should be rejected. Those with unclear background should be further investigated. Several complex personal creditor's rights should be studied and handled otherwise.

On the same day, the Company also participated in the first creditors' conference of Hebei Securities, and voted on such proposals as nomination of members of creditor committee.

41. On November 15, 2007, the Company participated in the first creditors' conference of Dogain Securities and was named by Beijing No.1 Intermediate People's Court as the chairman of the conference and the convener of the creditor committee.
42. On November 16, 2007, Mr. Chen Gongyan, chairman of the Company, presided over the second meeting of the Board of Directors in 2007. At the meeting, he conveyed the plan determined by the Party Committee of the Company on studying and carrying forward the spirits of the 17th National Congress of the CPC, and discussed such matters as the utilization of fund raised from the market in purchase, subsidiary supervision and management measures, implementation of new accounting standards, guidelines for protection fund use inspection plan, interim measures on management of publication of business information of protection funds, measures for administration of maintenance of securities investor protection fund website, and launch of securities investor protection fund website.
43. On November 21, 2007, the Company participated in the fourth meeting of the creditor committee of China Southern Securities, to discuss the matters regarding distribution of bankrupt property.
44. On November 23, 2007, the Company participated in the second creditors' conference of China Southern Securities, and voted on the *Plan on First Bankrupt Property Distribution in the Bankruptcy Case of China Southern Securities*.
45. On November 27, 2007, the Company handled the declaration of creditor's rights against Centergate Securities and China-Fortune Securities.
46. On November 30, 2007, the Company participated in the first creditors' conference of China Sci-Tech Securities and was named by Beijing No.2 Intermediate People's Court as the chairman of the conference and the convener of the creditor committee.
47. On December 7, 2007, the Company, as the chairman of the creditors' conference of China Sci-Tech Securities, presided over the first creditors' conference of China Sci-Tech Securities, and discussed and reviewed the proposal for liquidation of related assets of the securities company.

On the same day, the trade union of the Company organized employees to participate in an activity with the theme of "welcoming the Olympic Games and climbing the Great Wall".

48. On December 10, 2007, the Company handled the declaration of creditor's rights against Hantang Securities, the first time for it to declare creditor's rights against a bankrupt securities company on behalf of local government (Financial Department of Anhui Province).

On the same day, the Company, as the chairman of the creditors' conference of Northwest Securities, presided over the second creditors' conference of the securities company, and discussed and reviewed the bankrupt property management plan, bankruptcy manager remuneration plan, asset and creditor's right liquidation plan, etc.

49. On December 13, 2007, the Company participated in the first creditors' conference of Asia Securities and was named as the chairman of the conference and the convener of the creditor committee.

50. On December 14, 2007, the Company, as the chairman of the creditors' conference of Kunlun Securities, presided over the first creditors' conference of the securities company, heard the report on bankruptcy liquidation of Kunlun Securities and reviewed the plan on remuneration of the bankruptcy manager.

51. On December 18, 2007, the Company, as the chairman of the creditors' conference of China Eagle Securities, presided over the third creditors' conference of the securities company, and discussed and approved the plan on the second distribution of property of China Eagle Securities.

On the same day, the Company handled the declaration of creditor's rights against Guangdong Securities.

52. On December 24, 2007, the Company participated in the first creditors' conference of Hantang Securities and was named as the chairman of the conference and the convener of the creditor committee.

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53. On December 25, 2007, the Company participated in the first creditors' conference of Centergate Securities and was named as the chairman of the conference and the convener of the creditor committee.

On the same day, the Company organized the eighth batch of special audits, inspecting the use of protection funds by six securities companies, i.e. Hebei Securities, Gansu Securities, Wuhan Securities, Kunlun Securities, Min'an Securities and Northwest Securities.

54. On December 26, 2007, the Company formally launched www.sipf.com.cn, the first website in China that focuses on investor protection on China's securities market.

55. On December 27, 2007, the Company promulgated the *Rules of China Securities Investor Protection Fund Co., Ltd for Management of Intermediate Agencies (For Trial Implementation)* (Z.B.F [2007] No.122).

56. On December 28, 2007, the Company, as the chairman of the creditors' conference of Northern Securities, presided over the first creditors' conference of the securities company, heard the report on bankruptcy liquidation of Northern Securities and reviewed the plan on remuneration of the bankruptcy manager.

6.1 Rules and regulations promulgated by the end of 2006 (List)

1. **Measures for the Administration of Securities Investor Protection Funds**
(Jointly promulgated by the CSRC, MOF, and PBOC on June 30, 2005)
2. **Opinions on Purchase of Personal Creditor's Rights and Customer Securities Trading Funds**
(Jointly promulgated by the PBOC, MOF, CBRC and CSRC in October 2004)
3. **Implementation Measures on Purchase of Personal Creditor's Rights and Customer Securities Trading Funds**
(Jointly promulgated by the PBOC, MOF, CBRC and CSRC on January 28, 2005)
4. **Circular of the PBOC, MOF, and CSRC on the Issues Relating to Purchase of Personal Creditor's Rights and Customer Securities Trading Funds of Securities Companies**
Z.J.F [2005] No.59 (Promulgated on June 30, 2005)
5. **Circular Announced by the PBOC, MOF, CBRC and CSRC on Supplementary Notice Concerning the Issues Relating to Purchase of Personal Creditor's Rights**
Y.F [2006] No.189 (Promulgated on June 2, 2006)
6. **Circular on Printing and Distributing the Measures for the Administration of Application and Use of Securities Investor Protection Funds (For Trial Implementation)**
Z.J.F [2006] No.20 (Promulgated on March 7, 2006)
7. **Circular on Printing and Distributing the Measures of China Securities Investor Protection Fund for the Administration of Compensated Creditor's Rights (For Trial Implementation)**
Z.J.F [2006] No.48 (Promulgated on May 17, 2006)
8. **Circular on Printing and Distributing the Measures for the Administration of Special Audit of Personal Creditor's Rights and Customer Securities Trading Funds (For Trial Implementation)**
Z.B.F [2006] No.31 (Promulgated on May 22, 2006)
9. **Circular on Relevant Issues Concerning Payment of Securities Investor Protection Funds**
Z.J.F [2006] No.78 (Promulgated on July 12, 2006)
10. **Circular of the MOF and the State Administration of Taxation on the Related Stamp Tax Policies of Securities Investor Protection Funds**
C.S. [2006] No.104 (Promulgated by the State Administration of Taxation and the MOF on August 3, 2006)
11. **Circular of the MOF and the State Administration of Taxation on the Related Taxation Issues of China Securities Investor Protection Fund Co., Ltd**
C.S. [2006] No.169 (Promulgated by the State Administration of Taxation and the MOF on December 22, 2006)
12. **Circular of the MOF and the State Administration of Taxation on the Related Business Tax Issues of Securities Investor Protection Funds**
C.S. [2006] No.172 (Promulgated by the State Administration of Taxation and the MOF on December 13, 2006)

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6.2 Rules and regulations released in 2007 (List)

- 13. Circular on Properly Handling Risk Disposition of Securities Companies**
Z.J.F [2007] No.12 (Promulgated on January 10, 2007)
- 14. Circular on Printing and Distributing the Implementation Measures for the Payment of Securities Investor Protection Funds by Securities Companies (For Trial Implementation)**
Z.J.F [2007] No.50 (Promulgated on March 28, 2007)
- 15. Circular on Printing and Distributing the Guidelines for the Form and Content of Special Audit Report on Customer Securities Trading Settlement Fund and the Guidelines for the Form and Content of Special Audit Report on Personal Creditor's Rights**
Z.B.F [2007] No.45 (Promulgated on April 3, 2007)
- 16. Rules of the Supreme People's Court on the Managers Designated for Judgment of Enterprise Bankruptcy Cases**
F.S [2007] No.8, adopted at the 1422nd meeting of the Judicial Committee of the Supreme People's Court on April 4, 2007 (Promulgated on April 12, 2007)
- 17. Rules of the Supreme People's Court on the Remuneration of the Managers Designated for Judgment of Enterprise Bankruptcy Cases**
F.S [2007] No.9, adopted at the 1422nd meeting of the Judicial Committee of the Supreme People's Court on April 4, 2007 (Promulgated on April 12, 2007)
- 18. Rules of the Supreme People's Court on Some Issues Concerning the Laws Applicable to Enterprise Bankruptcy Cases that Have not Been Decided when Implementation of the Enterprise Bankruptcy Law of the People's Republic of China Starts**
F.S [2007] No.10, adopted at the 1425th meeting of the Judicial Committee of the Supreme People's Court on April 23, 2007 (Promulgated on April 28, 2007)
- 19. Circular on Opinions Concerning the Handling of Related Issues of Administrative Liquidation of Securities Companies**
Z.J.B.F [2007] No.56 (Promulgated on June 18, 2007)
- 20. Circular on Printing and Distributing the Internal Process for Declaration of Compensated Creditor's Rights of China Securities Investor Protection Fund Co., Ltd (For Trial Implementation)**
Z.B.F [2007] No.93 (Promulgated on October 22, 2007)
- 21. Circular on Printing and Distributing the Guidelines for Asset and Liability Liquidation Audit and Inspection Plan (For Trial Implementation) and the Guidelines for the Form and Content of Asset and Liability Liquidation Audit and Inspection Report (For Trial Implementation)**
Z.B.F [2007] No.97 (Promulgated on October 29, 2007)
- 22. Circular on Printing and Distributing the Rules of China Securities Investor Protection Fund Co., Ltd for Management of Intermediate Agencies (For Trial Implementation)**
Z.B.F [2007] No.122 (Promulgated on December 27, 2007)

Third, the Company strengthened work guidance, enhanced service awareness and improved service quality. As for the issues of form or procedures in the fund applications that did not meet the purchase policy, the Company cleared up these issues and established accounts, and fed back such issues to the institutions authorized by the CSRC and administrative liquidation institutions in a timely and patient way. Although examination personnel spent a lot of time in the feedback and handling of these issues, it reduced contradictions, pushed forward the frontline clear-up, sped up the progress and received understanding and support of most institutions and personnel. After October 1, due to the delay in identification and confirmation and the complexity of determination of account nature, the number of visitors appealing to the Company for help increased. In order to ensure social stability, the Company formulated a stability plan, and established a joint mechanism for handling complaint letters and visits in conjunction with the Risk Office of the CSRC, Shanghai and Shenzhen commissioner offices, On-site Task Force and Administrative Liquidation Team, in an effort to mitigate instability factors and prevent instability events incurred by purchase.

By the end of 2007, the Company had examined 114 appropriations of protection fund. If the RMB9,090.7 million transferred from the PBOC to the Company for reloan is added, the Company appropriated RMB20,363.6 million, of which RMB15,150.7 million was used to fill the gap of customer securities trading settlement fund, and RMB5,212.9 million used to purchase personal creditor's rights, representing more than 86% of the purchase amount. In the examination, the Company crossed out RMB279 million that should not be covered in the purchase, crossed out RMB968 million that had unclear nature and insufficient evidence and was included in the purchase after re-demonstration or supplementation of materials, and crossed out RMB1,647 million from problematic accounts with nature unidentified.



地址：中国北京市西城区金融大街5号新盛大厦B座
邮编：100034
电话：010-66580521
传真：010-66580500
网址：www.sipf.com.cn

Address: Tower B, Xincheng Place, 5 Jinrong Street,
Xicheng District, Beijing, P.R. China
Post code: 100034
Tel: 86-10-66580521
Fax: 86-10-66580500
Website: www.sipf.com.cn