



2010 ANNUAL REPORT



中国证券投资者保护基金有限责任公司
CHINA SECURITIES INVESTOR PROTECTION FUND CORPORATION LIMITED



2010 ANNUAL REPORT



TABLE OF CONTENTS

02	1. MESSAGE FROM CHAIRMAN OF THE BOARD OF DIRECTORS
04	2. CORPORATE PROFILE
04	2.1 BOARD OF DIRECTORS
05	2.2 INTRODUCTION AND ORGANIZATIONAL FRAMEWORK
08	2.3 MAJOR FUNCTIONS
09	3. PERFORMANCE IN 2010
23	4. STATISTICAL FORMS
24	4.1 INSTRUCTIONS ON INDICATORS
28	4.2 OUTLINE OF STATISTICS
35	5. CHRONICLE IN 2010
47	6. RELEVANT POLICIES, LAWS AND REGULATIONS
48	6.1 RELEVANT POLICIES, LAWS AND REGULATIONS PROMULGATED BY THE END OF 2009 (LIST)
51	6.2 RELEVANT POLICIES, LAWS AND REGULATIONS RELEASED IN 2010 (LIST AND FULL TEXT)



MESSAGE FROM CHAIRMAN OF THE BOARD OF DIRECTORS

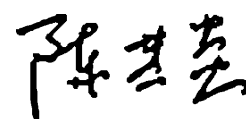
In 2010, capital market in China and China Securities Investor Protection Fund Corporation Limited (SIPF) embraced their 20th and 5th anniversary respectively, and SIPF also made substantial progress with function transformation. On the basis of properly disposing of risks arising from securities companies, the board of directors, together with entire staff continued to improve corporate management rules and regulations, enhanced the functions and safe operation level of the corporate information system in a comprehensive way, actively explored new approaches and mechanisms to effectively protect the legitimate rights and interests of investors, focused on strengthening the construction of securities market transactions settlement fund monitoring system, Extensible Business Reporting Language (XBRL) application system, investor protection evaluation as well as investor education and service system. Various objectives of SIPF in 2010 were attained smoothly.

In the past five years, SIPF has participated in the overall process of comprehensively regulating securities companies, constructed the basic framework for investor service system, the basic risk monitoring system of securities market, as well as an effective long-term securities investor protection mechanism to accommodate the healthy and stable growth of Chinese capital market. In 2011, SIPF will earnestly undertake the following work: 1. Finish the construction of securities market transactions settlement fund monitoring system and put it into operation; 2. Establish the XBRL system for capital market to provide investors with timely and effective information; 3. Strengthen investor service, and

establish an all-around and multi-tiered investor service system; 4. Coordinate well with the court in pushing forward the hearing bankruptcy cases of securities companies, and effectively connect administrative clearing and judicial bankruptcy so as to complete the follow-up works of risk disposition; 5. Further strengthen the raise, use and management of the protection fund; 6. Positively expand international exchange and cooperation, carefully study cross-border investor protection mechanism, actively attend international activities for securities investor protection forums and XBRL, and fully play a part in the circle of international securities investor protection.

In 2011, the board of directors of SIPF will establish an objective and fair assessment mechanism which focus on performance and a working mechanism of pro-competition and pursuing effectiveness, give full play to teamworkship, and strive to accomplish various tasks set for 2011.

The year of 2011, in traditional Chinese calendar, is the year of rabbit, and I wish a prosperous year of rabbit for securities investors.



Chen Gongyan
Chairman Of The Board Of Directors

2.1 Board of Directors



Chairman: Mr. Chen Gongyan (fourth from the left)
Vice Chairman: Mr. Rui Yuehua (fourth from the right)
Vice Chairman: Ms. Zhang Yafen (third from the left)
Executive Director: Mr. Ge Weiping (second from the left)

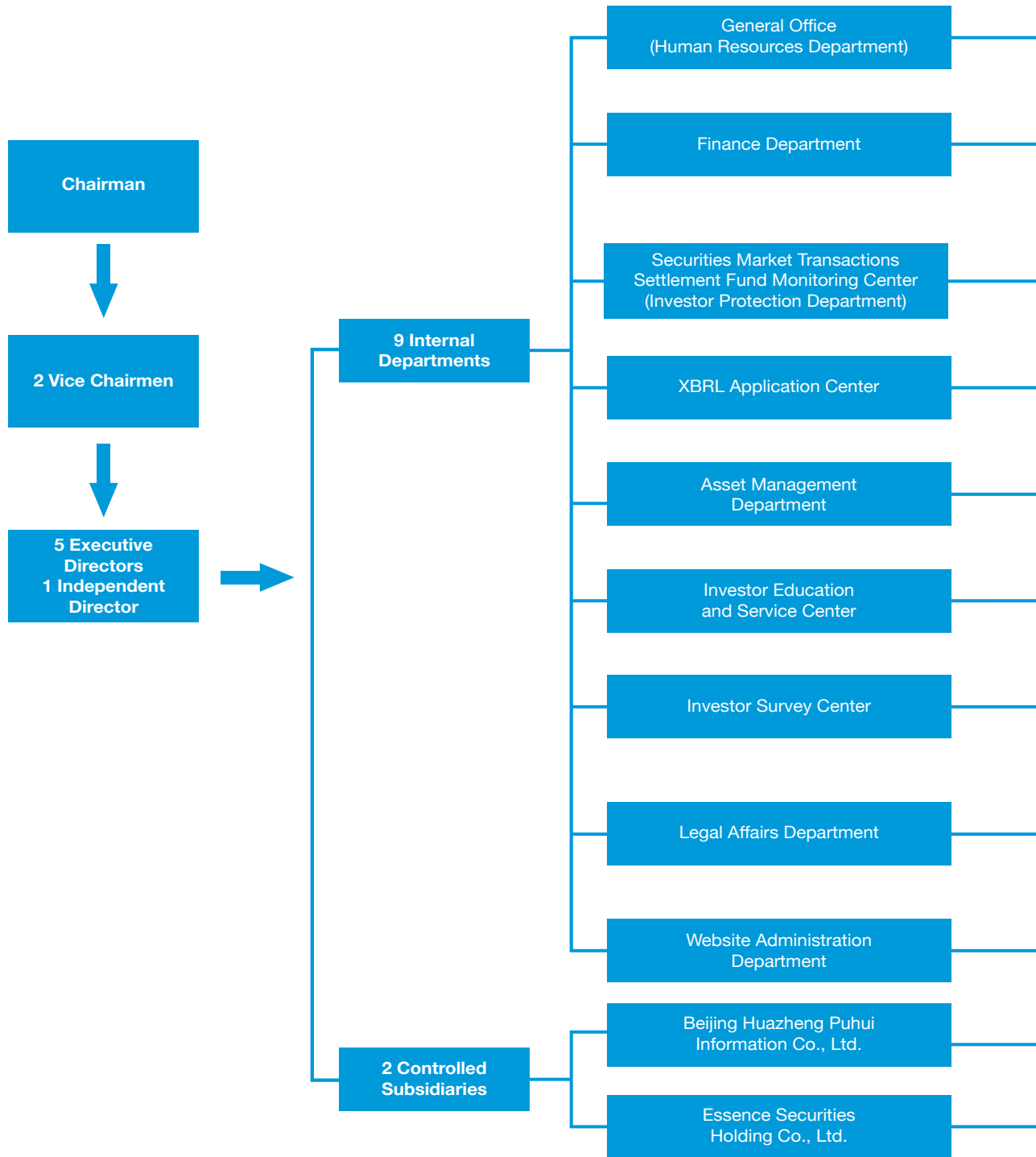
Executive Director: Mr. Ma Donghao (third from the right)
Executive Director: Ms. Zhang Xiaowei (second from the right)
Executive Director: Ms. Li Lian (first from the left)
Executive Director: Ms. Meng Guozhen (first from the right)

2.2 Introduction and Organizational Framework

With the approval of the State Council, CSRC, MOF and PBC promulgated *the Measures for the Administration of Securities Investor Protection Fund (the Measures)* in June 2005, which provides for the establishment of a wholly state-owned protection fund company and the articles of association of the company. On August 30, 2005, SIPF was registered with the State Administration for Industry and Commerce, with a registered capital of RMB6.3 billion injected by the State Council through the MOF. SIPF is subordinate to CSRC.

The Board of Directors of SIPF comprises nine directors. As the decision-making organ of SIPF, the Board is responsible for the operation and management of the company. SIPF adopts independent operation, management and accounting in compliance with applicable laws and regulations of China. With a headcount of 59, SIPF has nine functional departments, including the General Office (Human Resources Department), the Finance Department, the Securities Market Transactions Settlement Fund Monitoring Center (Investor Protection Department), the XBRL Application Center, the Asset Management Department, the Investor Education and Service Center, the Investor Survey Center, the Legal Affairs Department and the Website Administration Department. SIPF also has two controlled subsidiaries: Essence Securities Co., Ltd. and Beijing Huazheng Puhui Information Co., Ltd.

Company Organization Chart



Be responsible for administrative affairs management, formulation of internal rules and regulations, human resources management, performance evaluation and training of staff, international exchange and cooperation, and publicity.

Be responsible for accounting and financial management of SIPF. Specifically, examine and supervise business activities of SIPF in accordance with the financial and accounting rules, prepare budget and final accounts, draft regulations for raising the protection fund, take part in formulating and implementing plans for the use of protection fund, formulate and implement plans for the repayment of PBC re-lending, coordinate relevant preferential tax policies for the protection fund, take charge of raising, management and operation of the protection fund, and manage the state-owned assets of SIPF and its controlled subsidiaries as required by competent authorities.

Be responsible for organizing and coordinating the establishment and maintenance of the Securities Market Transactions Settlement Fund Monitoring System, conducting daily management of the Monitoring System, performing data comparison, statistical analysis and monitoring issues briefing, developing plans for risk disposition of securities companies and plans for the use of protection fund, supervising and reviewing the use of protection fund, and organizing and participating in administrative clearing and bankruptcy liquidation of the disposed securities companies.

Be responsible for the development, maintenance, release and unified management of XBRL taxonomies, establishment and maintenance of XBRL information system, statistical and in-depth analysis of capital market XBRL data, and offering of data services and disposal recommendations.

Be responsible for the preservation and appreciation of proprietary funds and protection funds, declaration of compensated creditor's rights, and management of foreclosed assets. Also be responsible for providing assistance to administrative liquidation of the disposed securities companies, making researches and analysis on asset and liability status of the disposed securities companies, supervising the assets preservation and recovery of the disposed securities companies, reporting claims on behalf of SIPF or on behalf of other companies as an agent in accordance with applicable laws, and handling claims compensation to SIPF.

Be responsible for the overall planning, coordination and implementation of investor education and service, surveys on investor education status and requirements, inspection and assessment on effects of investor education and service, research and development of standard and stable investor education products, and matters related to the system of investor call and interaction platform.

Be responsible for carrying out nation-wide comprehensive survey of investors on a regular basis to monitor the composition, behavior model, mental attitude and intention of investors, conducting irregular special surveys of securities market to collect opinions of investors with a focus on institutional innovation and policies for overall development of the securities market, preparing and releasing investor confidence index to monitor changes in mental attitude and expectation of investors, preparing monthly and annual reports of SIPF, conducting investor protection evaluation of securities companies and listed companies.

Be responsible for providing legal or compliance-oriented suggestions for business and management activities, examining contracts, taking part in negotiating and drafting material contracts, reviewing applications for using the protection fund, protecting trademarks, patents and other intellectual property of SIPF, participating in litigation, arbitration, administrative reconsideration, hearing and other activities under entrustment of the legal representative, facilitating legislation concerning securities investors protection and carrying out relevant researches.

Be responsible for organizing the construction, operation, maintenance, promotion, and other relevant work of the SIPF Chinese website, taking charge of the online investor survey, managing and operating public opinions monitoring system, assisting General Office with the online information disclosure work of SIPF, assisting the business departments in fulfilling their duties via the SIPF Chinese website.

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 SIPF. It is responsible for providing securities market information and technical services to investors.

Incorporated in Shenzhen on August 28, 2006 and with a registered capital of RMB1.51 billion, It is a joint-stock company jointly established by SIPF and Shenzhen Investment Holding Co., Ltd. under the approval of CSRC. Headquartered in Shenzhen, the company has 94 securities business departments and 32 securities service departments nationwide, with over 2,000 employees.

2.3 Major Functions

SIPF's major responsibility is to raise, manage and operate the securities investor protection fund; to monitor risks of securities companies and participate in the risk disposition of these companies; to indemnify creditors as required by China's relevant policies in case that a securities company is subject to compulsory regulatory measures, including dissolution, closure, bankruptcy, administrative takeover by CSRC or trustee operation; to organize and participate in the liquidation of the dissolved, closed or bankrupt securities companies; to manage and dispose foreclosed assets and safeguard the fund's rights and interests; to put forward regulatory and disposal suggestions to 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; to work with relevant authorities in establishing a rectification

mechanism for the potential risks arising from operation of securities companies.

With a view to monitoring material risks which may damage investor interests and the safety of the securities market, on the basis of properly disposing of risks arising from securities companies, SIPF has been dedicated to build the securities market customer fund monitoring system and the data application system based on Extensible Business Reporting Language (XBRL) to intensify risk monitoring of securities market. Furthermore, SIPF has actively carried out evaluation on investor protection of securities companies and listed companies, taken efforts to establish a multi-tiered investor education and service system which integrates investor education, investor survey and investor call, and established a sound, effective and long-term investor protection mechanism.



PERFORMANCE
IN 2010



I Earnestly performed functions with respect to disposal of risks arising from securities companies, acquired the personal creditor' rights of disposed securities companies and filled the gap of customers securities trading settlement funds in strict accordance with state acquisition policies, and duly participated in the risk disposition of securities companies.

1. Reviewed the appropriation and use of the protection fund. In 2010, SIPF actively participated in finalizing account clear-up reports, audit reports on customers trading settlement fund gap and audit reports on gap interests, moved forward the review work to

the phase of collating application document so as to enhance the quality and efficiency of protection fund appropriation. In order to solve the existing difficulties in the acquisitions, SIPF, subject to a five-level discussion framework, actively attended studies and discussions of these difficulties, and, led by CSRC, formulated acquisition process for dormant accounts (including single-capital accounts, same as below), and completed data solidification for dormant accounts. Based on this, SIPF duly reviewed and appropriated the protection fund. In 2010, SIPF reviewed a total of 29 protection fund applications and appropriated RMB282 million, of which RMB7 million was appropriated for acquiring personal creditors' rights, RMB231 million for filling the gap of customers'

securities trading settlement fund, and RMB44 million for filling up the gap of formal dormant accounts' trading settlement fund which has been activated. Thus, SIPF has accomplished the acquisition of the rest creditors' rights and the filling of the trading settlement fund gap, except that Northwest Securities did not return the surplus of gap filling fund and Dapeng Securities had 22 personal creditor's rights who didn't claim and activate the dormant accounts yet. In order to guarantee the compliant use of protection fund, in 2010, SIPF inspected 24 disposed securities companies that has applied for the use of protection fund, and identified such problems in the process as some companies did not timely reimburse

the management fee and remittance fee for the special accounts of protection fund, did not collect all confirmation letters for personal creditor's right acquisition, used other accounts than special accounts for protection fund to pay personal creditors' rights, did not pay personal creditors' rights for a long time, and did not maintain all relevant bills and receipts. Through rectification, these problems all had been duly solved in accordance with proper procedures and the compliant use of protection fund by disposed securities companies was strengthened.

2. Participated in the bankruptcy liquidation of disposed securities companies. In 2010, SIPF further strengthened the supervision of



assets collection, creditors' rights collection, assets disposition and distribution of bankrupt securities companies through creditors' meeting and creditors' committee, carefully implemented the agreement on transferring compensated creditor's rights signed with the administrative liquidation team and timely and fully declared creditor's rights. Based on a fair knowledge of the bankruptcy progress of 26 companies, SIPF classified and handled them accordingly, actively pushed forward the process of bankruptcy liquidation, and strengthened the management and cashing of compensated stocks. By the end of December, SIPF had formally declared RMB25.1335 billion and pre-declared RMB5.6008 billion of creditor' rights to 26 securities companies bankruptcy managers, and participated in bankruptcy property distribution of 19 securities companies, receiving RMB2.0027 billion cash compensation and RMB63 million shares of stocks. Shares of Hafei Aviation Industry Co., Ltd., thus received all had been disposed, realizing an income of RMB254.88512713 million with an appreciation rate of 23%. SIPF coordinated and urged the manager of Minfa Securities to return frozen deposit and corresponding interest, RMB70.92 million and RMB72.3748 million respectively.

II Earnestly performed functions with respect to risks monitoring of securities market, strived to establish securities

market transactions settlement fund monitoring system and XBRL system, and basically formed a monitoring system for routine risks from securities market.

1. Construction of securities market transactions settlement fund monitoring system. On February 23, 2010, CSRC issued *the No.6 Announcement* (hereinafter referred to as *Announcement*), specifying "three-step" schedule and requirements for the construction of monitoring system and authorizing SIPF to be responsible for its construction, maintenance and routine management. With the assistance of the relevant CSRC departments and the participation and efforts of relevant market bodies, the overall monitoring system construction went along in a steady and fair manner as per the principle of "overall planning and step-by-step implementation".





(1) The construction of monitoring system had successively undergone three stages, i.e. “external testing, test running and promotion & application”. External testing was launched on March 1 of 2010, participated by China Securities, CINDA Securities, Essence Securities with their 18 corresponding custodian banks as well as China Securities Depository and Clearing Corporation (CSDCC); test running was launched on July 1 of 2010, covering the remaining 12 securities companies registered in Beijing and relevant commercial banks; promotion & application was inaugurated on September 9, 2010, and the first round covered 16 securities companies in Shenzhen area. (2) System

testing had proceeded orderly. As required by *the Announcement*, monitoring system testing at each stage was divided into interface testing, link testing and joint testing. By the end of 2010, 31 securities companies with all 21 custodian banks and CSDCC had participated in the interface testing and link testing, which covering various counter systems (Kingdom, Hang Seng, Apex, Rootnet) and company liquidation system (Shine Technology) adopted by securities companies, with the exception of Sunguard. After 4 rounds of joint testing, the regularity, accuracy and integrity had been considerably improved, at the same time fewer and fewer problems were identified, and thus acknowledged and resolved by

tested entities. (3) A variety of working mechanisms had been gradually established and improved. Complex work and numerous institutions were involved in the construction of monitoring system. To guarantee the smooth development of relevant work, SIPF explored and set up some teams to coordinate and urge relevant work, established a mechanism of “solve problems by considering internal factors and easy part to external and hard ones, from part to the whole, dealing different kinds of issues with different methods, undergoing multi-round of discussion and coordination to screen similar cases and limiting the process within a specific period of time”, and set up the work reporting system as well as mechanism of different teams coping with their corresponding issues. Such systems and mechanism laid a solid foundation for the construction and operation of monitoring system.

2. Construction of capital market XBRL system. This is an essential part of national informationization development strategy and an important move for improving the efficiency and transparency of capital market. In 2010, SIPF, under the arrangement of CSRC, finished the following work: (1) Accomplished the development of registration management platform by and large. Subject to new coding rules for XBRL elements of securities market, such functions were realized as management of element registration, establishment of category suite, edition of

business statement template, demonstration for category system which were oriented to practical business application. Meantime instance document and index specification on technical standards and guidelines testing were available. (2) Formally launched the IPO project of XBRL system. This system includes such three parts as formulation of category standards, development of receiving platform and disclosing platform, and development of reviewing platform. Specifically, as for category standards formulation, the template for general businesses was almost finalized and had been thrice examined by the reviewing committee, and the first draft of the template for real estate and finance businesses was almost finished, and its category standards formulation was in progress. Various tasks with respect to the development of receiving platform, disclosing platform as well as reviewing platform were basically completed. (3) The relocation and construction work for XBRL system of securities investment fund were carried out as planned. Pursuant to *the Plan for Relocation and Construction of Fund XBRL Reporting System*, SIPF accomplished historical data backup and internal testing for the new system, manufacturers and fund companies respectively, promoted system upgrade, reinforcement and expansion, thus completed the entire relocation work of the system. Now the system enjoyed stable operation. (4) Formulated *the Plan for the XBRL Data*

Backup of Listed Companies, and promoted the construction of listed companies' central data platform. (5) Accomplished hardware procurement and hardware system integration with the assistance of relevant bodies.

III With the dispose work of risks arising from securities companies to be concluded, SIPF gradually moved the focus from crisis handling to routine investor protection. An all-around and multi-tiered investor service system was basically formed, which further strengthened the investor service capacity.

1. Investor survey and evaluation of investor protection. In 2010, SIPF further strengthened investor survey and evaluation of investor protection. (1) Continued to survey investor

confidence. SIPF, on a monthly basis, conducted investor confidence survey, released confidence index and prepared and submitted *the Special Report on Securities Investor Confidence Survey to CSRC* and authorities concerned. (2) Actively organized special surveys. Concerning CSRC's priorities and hot issues cared by investors, SIPF, together with relevant CSRC departments, chose topics, designed questionnaires and organized special surveys with respect to investor education and protection status, investor margin trading, stock index futures, satisfaction degree with investor protection status of listed companies, operation and management of securities companies, assessment towards the legal environment for securities investor protection etc. (3) Continued





to improve the evaluation of securities investor protection by amending and improving

the system of appraisal indicators. SIPF successfully completed the appraisal report on the basis of the survey on the operation and management status of securities companies as well as satisfaction degree of listed companies' investor protection. Meanwhile, SIPF also launched the evaluation of institutional environment for investor protection. (4) Developed and constructed the online survey system. In 2010, SIPF launched the new online survey system, which had such characteristics as wide coverage, high efficiency and sound functions, and could meet the requirements of business development.



2. Investor education and investor call. In 2010, SIPF initiated a series of projects concerning investor education work including producing nonprofit TV plays, conducting education work for investors in 100 securities business

departments and compiling *Investor Manuals*. For the moment, SIPF finished the production of *Dancing K Line* (an investor education theme play of 30 series), continued to conduct the education project for investors of 100 securities business departments, organized the compilation of *Investor Manual* (2nd edition, 10 volumes), and successfully held the online knowledge contest for the 20th anniversary of capital market. The contest was an activity for investor education and securities knowledge dissemination that had attracted wide public participation. According to statistics, a total of 1.55 million people attended the contest, among which 110 thousand made a successful pass. About 95 thousand opinions and messages were received and the accumulative clicks exceeded 31 million. In 2010, SIPF provided investor call in a more standardized way. By the end of December, there were 9879 investor calls. Among these, business consulting calls numbered 1,566, accounting for 15.85% of total, policy consulting calls numbered 433, accounting for 4.38%, criticisms and suggestions numbered 4602, accounting for 46.59%, complaints and reports on offenses numbered 3278, accounting for 33.18%. SIPF replied 99.72% of all investor calls. In order to reflect appeals and requests of securities investors, in 2010, SIPF had completed a total of 48 issues of *Securities Investor Interaction Weekly*, 12 issues of *the Brief Report on Securities Investor Interaction* and 12 issues of *Investor Complaint Report*.

3. Portal website construction for investor protection. In 2010, SIPF website actively explored for new ways and channels for improving its investor service. As for the Chinese website of SIPF, annual traffic was steady, with average per-day visiting (PV) at 29,000. Accumulatively, more than 70,000 articles were updated and over a hundred of pictures were posted. 43 Special reports were presented including “Online Knowledge Contest for the 20th Anniversary of Capital Market”, “Looking Back and Forward on the 20th Anniversary of Securities Market”, and “Celebration of the 5th Anniversary of SIPF”. The column “Securities Market Research” was introduced, with 5 sub-columns under it, i.e, “Macro Research”, “Market Research”, “Industry Research”, “Capital Market Institution Construction” and “Data Analysis”, and 5459 research reports were published. Public opinion monitoring of securities companies was organized, so as to accurately collect and analyze news web pages, forums, blogs and news comments, and to provide public opinion information service from multiple levels and dimensions, including public opinion information search, hotspot information discover and tracking, monitoring of sensitive information, public opinion pre-warning and supervision. The English website of SIPF, since its launch in December 2009, has performed fairly and already become a window for foreign investors to find out Chinese securities market and an important platform for the exchange among



investor protection bodies at home and abroad.

IV Established scientific mechanism for protection fund raising and management, and more mature follow-up re-lending management mechanism. The preservation and appreciation of protection fund were conducted on the basis of safety.

1. Raising of protection fund. In 2010, SIPF continued to improve its fund raising mechanism of “unified standards, dynamic management and differential charging”, regularized payment collection, strengthened the analysis and study towards collection policy, and actively participated in relevant legislative research. SIPF succeeded in completing the protection fund payment of securities companies for 2009 and protection fund prepayment for 2010, and finished the

collection of trading brokerages of SSE and SZSE and interests of frozen subscription fund of depository and clearing corporation and securities companies on a quarterly basis. In 2010, SIPF raised RMB7.506 billion from the market of protection fund, providing a fund guaranty for smoothly launching risk disposition of securities companies and timely repaying the principals and interests of the PBC re-lending.

2. Follow-up re-lending management. SIPF faithfully complied with the PBC re-lending operational procedures, improved the follow-up management mechanism of “monthly extension, quarterly interest payment and yearly principal payment”, strengthened information exchange with the Business Administration Department of the PBC, and proactively implemented the re-lending repayment plan by timely repaying the

principal and interest. In 2010, SIPF handled 36 re-lending contract extensions in total with an amount of RMB10.896 billion, repaid RMB5.062 billion of principals of re-lending to the PBC, involving 9 re-lending contracts of 8 disposed securities companies and also paid a total of RMB235 million of interests of re-lending on a quarterly basis. By the end of December, SIPF had paid RMB17.060 billion of principals and RMB1.843 billion of interests of re-lending to the PBC in an accumulative manner. The remaining RMB5.843 billion of principals of the PBC re-lending is expected to be paid off in 2011.

3. The preservation and appreciation of protection fund. In 2010, SIPF kept on strengthening the operation and management of state-owned assets, and by the year-end, owners' equity to the state was up considerably from the previous year, realizing state-owned assets' preservation and appreciation, with a rate at 135.18%. SIPF complied strictly with the investment scope set in *the Measures for the Administration of Securities Investor Protection Fund*, and followed the principle of "safety first and entrust investment centered" to deal well with investment and management of protection fund. SIPF focused particularly on the safety of assets with respect to the custody and management thereof, chose firstly low-risk products within specified scope, and strove to realize a high yield for the protection fund on the premise of controllable risk. In 2010, SIPF

registered an income of RMB481.6 million from the investment of protection fund.

V Actively participated in international cooperation and exchange, and enjoyed ever-increasing influence and discourse power in international investor protection organizations.

In February 2010, chairman of IOSCO executive committee and the secretary general of IOSCO paid an official visit to SIPF, and thought very positively of securities investor protection work in China and the relevant work carried out by SIPF. In April, SIPF, for the first time, attended the 20th XBRL International Conference. In May, FSAP mission team, headed by IOSCO General Secretary and World Bank expert, came to inspect securities investor education and protection work in China, and thought highly of relevant work done by SIPF. In June, in the 35th annual meeting of IOSCO held in Montreal, Canada, SIPF was granted the affiliate membership by IOSCO president committee. SIPF was actively involved in international activities in the area of investor protection for the purpose of keeping track of the new measures and movement of investor protection work of outside markets. In June, SIPF for the first time attended the annual meeting of international investor protection funds, and was invited to attend the "Modernization Task Force Meeting" held by SIPC, where it discussed with investor protection organizations in the United



States and Canada about what it called for, that is, the establishment of cross-border investor protection mechanism and “International Forum on Investor Protection”, and reached a preliminary agreement with respect to the basic framework, major responsibilities and basic principles for the forum. In October, the delegation of SIPF paid a visit to securities investor protection organizations in France and Spain, and discussed matters related to cooperation. In addition, SIPF also actively attended the “Sino-German Securities Investor Protection Program” jointly sponsored by CSRC and GIZ (formerly GTZ), talked and discussed with many European investor protection bodies, and will sign MOU with European Forum of

Deposit Insurers.

VI Further strengthened system construction and internal management, and consolidated the basic concept of “managing personnel and affairs by system”.

1. Institutional construction. “Managing personnel and affairs by system” is a basic concept for corporate management. In 2010, SIPF further improved its internal management system, formulated 9 administrative measures, including *SIPF Guidelines for Tenders* and *Interim Measures on SIPF Website Administration*, and revised 2 internal management rules, that is, *Provisions for SIPF*



Internal Departments and Functions, and Provisions for SIFP Post and Position Rating. Internal operation became smoother and operation efficiency was significantly enhanced. Besides, basic research with respect to the enactment of *Securities Investor Protection Fund Regulations* and corporate growth also went along smoothly.

2. Internal Management. In 2010, subject to practical situation and strengthened construction of internal control mechanism, SIFP became more attentive to the implementation of internal control, continued to improve joint mechanism involving budget management, project management and state-owned assets

management, and further strengthened the internal control system with “institutions and implementation as well as supervision”. (1) Further improved the internal control, and established an external independent auditing mechanism to ensure the effective operation of internal control. (2) Strictly implemented the approving mechanism and centralized decision making for important events that requires “handling separated from examination, authorized signature, mutual checking and conforming procedures” for the purpose of improving “project responsibility system”. (3) Strengthened budget management and financial supervision, regularly held special working meetings on budget implementation



status, and strengthen the supervision of implementation.

3. High-performing workforce building. In 2010, guided by industrial development, SIPF made partial adjustment towards its internal departments and personnel for the purpose of further optimizing HR allocation and replenishing key projects with core talents. The corporate cohesion was continuously enhanced through such activities as knowledge contests, warm attentions, trainings and nation-specific education organized by the

trade union and Youth League. By carrying out “excellence in performance” activities, a fair atmosphere of harmony, progress, exploration and innovation have been created inside SIPF and the awareness of overall situation and social responsibility of the employees have been substantially strengthened. In the course of putting an end to traditional businesses and exploring for new ones, SIPF has cultivated a number of specialized staff well recognized in the industry.



STATISTICAL FORMS

4.1 Instructions on Indicators

1. Statistical content: the statistics covers disposal progress of disposed securities companies; raising, management and use of protection funds; the classification of securities companies and the fund they hand in; compensation of creditor's rights of SIPF; special audit and particulars about intermediary agencies participating in the risk disposition; investor interaction and the like.

2. Statistical scope: among the 31 securities companies disposed of since 2004, 24 companies needed the appropriation of protection fund from SIPF to fill the gap of customer securities trading settlement fund and acquire personal creditor's rights. Southern Securities and Liaoning Securities were directly re-lent by the PBC and SIPF did not need to provide the re-lending. Jianqiao Securities, Datong Securities, First Securities, Jutian Securities and CIFCO Securities did not need the re-lending from SIPF either. Therefore, the expression "all disposed securities companies" mentioned in the disposal progress in the statistical forms means 24 disposed companies relating to SIPF, excluding Southern Securities, Liaoning Securities, Jianqiao Securities, Datong Securities, First Securities, Jutian Securities and CIFCO Securities.

Southern Securities utilized central financial

special fund of RMB1.5 billion for being disposed. On December 25, 2003, disposed Xinhua Securities utilized securities market special compensation fund of RMB259.6 million. The statistic data relating to disposed securities companies other than the above 24 securities companies were contained in the item of "Others" of related forms for reference.

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 RMB100 million.

5. Customer securities trading settlement fund: it means 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 as resident through opening an account or trading financial

products at the financial institution, 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. Investor interaction: it means an investor call and response mechanism established by SIPF with the purpose of actively responding to the demand of investors and enhancing the communication with investors.

8. Acquisition of personal creditor's rights by the central government: according to *the Opinions on Acquisition of Personal Creditor's Rights and Customer Securities Trading Funds* and other relevant policies, the central government shall bear the payment for acquisition of customers' securities trading settlement funds. Of the fund used to acquire personal creditor's right, 90% shall be borne by the central government and the remaining 10% by the provincial governments in the places where head offices, branches and operating outlets of financial institutions are located. However, the fund used to acquire the misappropriated securities of normal brokerage customers shall be borne by the central government. The acquisition of personal creditor's rights by the central government

mentioned herein refers to the personal creditor's rights acquired and funded by the central government, excluding the personal creditor's rights acquired and funded by local governments.

9. Acquisition of re-lending: it means the re-lending (including the re-lending originally granted by branches of the PBC that has been turned over to SIPF) directly acquired from the PBC in the name of SIPF and used as the initial fund source of the securities investor protection fund.

10. Appropriation of the protection fund: it means the protection fund (including the re-lending originally granted by branches of the PBC that have been turned over to SIPF) directly appropriated by SIPF to the liquidation institutions of disposed securities companies.

11. Account clear-up: the basic purpose of account clear-up is to provide basis for the re-lending application, third-party custody, asset collection and investigation of responsible people. The scope of clear-up includes: (1) all accounts opened by securities companies in the over-the-counter system (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.

12. 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.

13. Securities asset disposal: it means the disposal of physical assets (including the physical assets and necessary trading seats of securities business departments, brokerage department, IT department, clearing center, computer room, operation maintenance department 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.

14. General account: it means accounts which are included in the account liquidation scope of disposed securities companies that have been opened in the transaction system of disposed companies and other securities companies.

15. Normal brokerage account: it means an account with the money under it belonging to customer securities trading settlement fund. Pursuant to the *Opinions on Acquisition and the Implementation Measures*, customer

securities trading settlement fund includes the fund deposited in securities companies by the brokerage customers to guarantee full settlement and collection, proceeds (less the brokerage commission and other justifiable expenditures) from sales of marketable securities, dividend of securities held, cash bonus, bond interests and all interests of the aforesaid funds.

16. Dormant account: it means an account that its customer has both securities account and capital account, but has not made any trading or fund deposit and withdrawal during the last three years before the date of disposal, and is out of contact, and no rights claims from the customer up to the announcement date of bankruptcy acceptance.

17. Single capital account: it is an account without corresponding securities account up to the date of disposal and no rights claims from the customer before the announcement date of bankruptcy acceptance.

18. Fund balance: it means the remaining amount under an account on the day of disposal.

19. Compensated creditor's right: it means the creditor's right of the company against disposed securities companies legally arising from the use of protection fund by securities

companies to acquire personal creditor's rights and fill the gap of customer securities trading settlement fund pursuant to the related national policies and regulations, in case of dissolution, closure, bankruptcy, or administrative takeover or trustee operation as required by CSRC.

The compensation of special fiscal fund of RMB1.500 billion utilized by Southern Securities was received by SIPF in replacement. And SIPF was entrusted to receive the compensation of securities market special compensation fund of RMB259.6 million utilized by Xinhua Securities.

20. 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 acquiring the compensated creditor's right against these securities companies.

21. Deadline: December 31, 2010.

4.2 Outline of Statistics

【Raising and Use of Protection Fund】

SIPF raised protection funds of RMB6.9907 billion in 2010. Of which, trading brokerage was RMB1.6681 billion, accounting for 23.86%, fund paid by securities companies was RMB1.2390 billion, accounting for 17.72%; interest of frozen subscription fund was RMB2.6211 billion, accounting for 37.49%, interest income (including interest from fund deposit and lending) was RMB275.9 million, accounting for 3.95%, income from bond sales and interest invested by fund was RMB46.5 million, accounting for 0.67%, compensation from responsible parties and bankruptcy assets settlement was RMB911.2 million (RMB947.7 million was received from responsible parties and bankruptcy assets settlement, but RMB36.5 million was returned since SIPF received a corresponding amount from the bankruptcy administrator for the reimbursement of its advance payment), accounting for 13.04%, and net income from disposal of compensated assets was RMB228.9 million, accounting for 3.27%.

In 2010, RMB6.3875 billion of net protection fund used by SIPF, of which, the net amount used to appropriate risk disposition fund was RMB90.7 million, accounting for 1.41% (RMB281.6 million used to appropriate risk disposition fund and RMB190.9 million protection fund principal refunded by trustee and liquidation agencies), RMB235.0 million or 3.68% used to repay the interest of PBC re-lending, RMB5.0618 billion or 79.25% used to repay the principal of PBC re-lending, and RMB1 billion or 15.66% used in expenditure on use of fund to invest in bonds.

Figure 1: Statistics of Protection Fund Raising in 2010

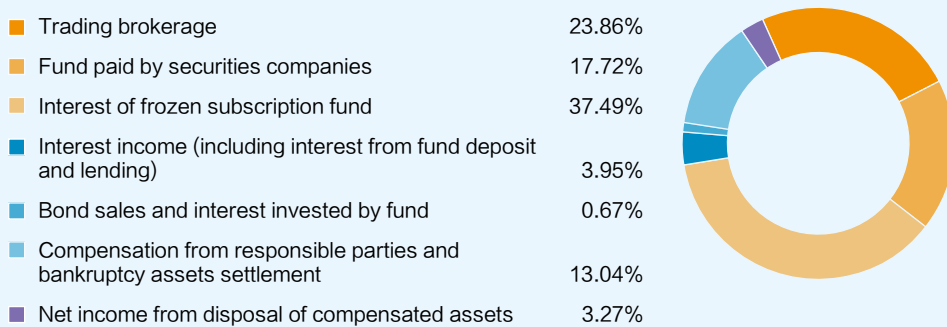
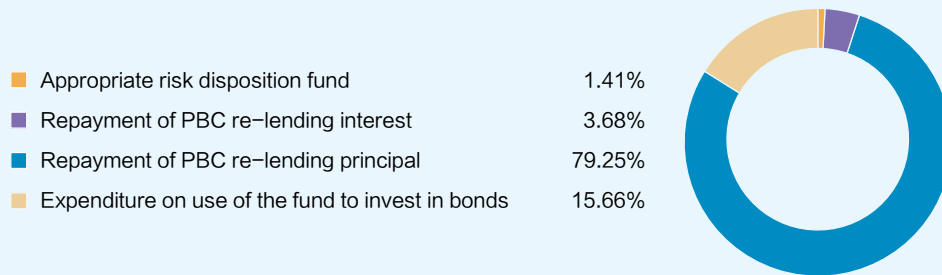


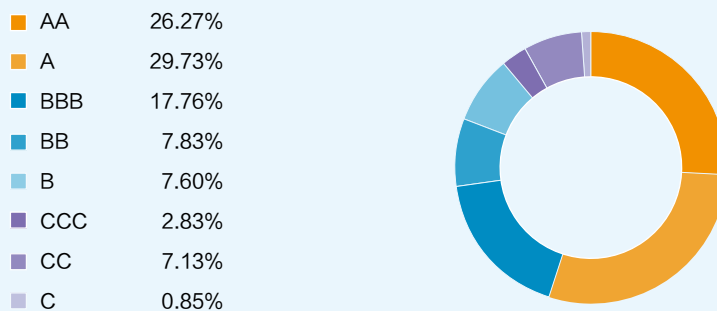
Figure 2: Statistics of Protection Fund Use in 2010



【Category of Securities Company and Fund They Pay】

In 2010, RMB1.239 billion was handed to SIPF, subject to the proportion approved by CSRC, including RMB325.5 million from type-AA securities companies, RMB368.3 million from type-A securities companies, RMB220.0 million from type-BBB securities companies, RMB97.0 million from type-BB securities companies, RMB94.2 million from type-B securities companies, RMB35.1 million from type-CCC securities companies, RMB88.4 million from type-CC securities companies, and RMB10.5 million from type-C securities companies.

Figure 3: Category of Securities Company and Fund They Pay in 2010



【Chronicle Review on Protection Fund Raising and Using】

By the end of December 2010, SIPF accumulatively received RMB8.4788 billion from trading brokerage, RMB12.5628 billion from the hand-in funds by securities companies, RMB15.3822 billion from interest of frozen subscription fund, RMB6.9 million from donation and RMB2.0309 billion from compensation from the responsible parties and bankruptcy assets liquidation.

By the end of December 2010, SIPF accumulatively appropriate risk disposition fund of RMB1.0162 billion by using the raised fund from market, of which, RMB589.6 million used for filling the gap of customer securities trading settlement funds, and RMB426.6 million for acquisition of personal creditor's rights. By the end of December, SIPF accumulatively repaid RMB17.0602 billion and RMB1.8426 billion for the principal and interest of PBC re-lending, respectively.

【Investor Interaction】

In 2010, a total of 9,879 messages had been received from investors, of which 1566 messages for service consulting, accounting for 15.85%, 433 for policy consulting, accounting for 4.38%, 3278 for complaints and reports, accounting for 33.18%, and 4602 for criticisms and suggestions to the securities market, accounting for 46.59%. 99.72% of these messages were replied (handled).

【Risk Disposal】

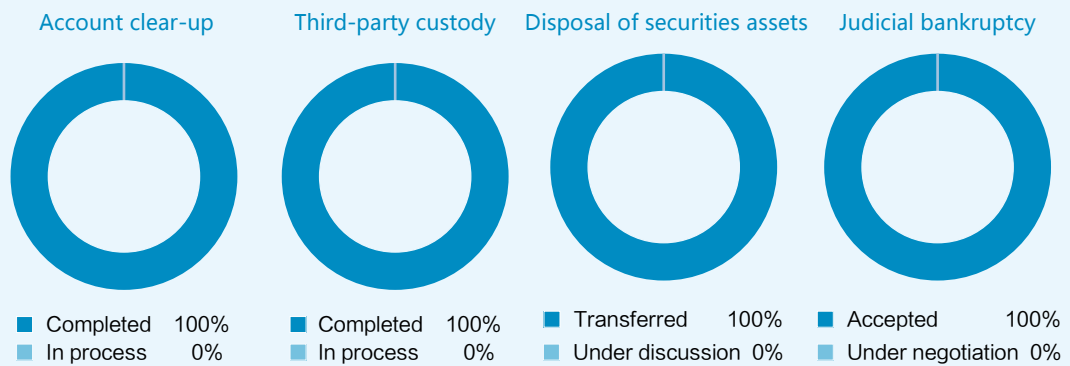
Account clear-up: by the end of December 2010, a total of 24 disposed securities companies had completed the account clear-up, accounting for 100% of all disposed securities companies (24 companies, the same below).

Third-party custody: by the end of December 2010, a total of 24 disposed securities companies had completed the third-party custody, accounting for 100% of all disposed securities companies. Among the 624 business departments of all the disposed securities companies, 624 departments had completed the disposal, accounting for 100% of the total.

Disposal of securities assets: by the end of December 2010, the transfer of securities assets of the 24 securities companies all had been completed.

Judicial bankruptcy: by the end of December 2010, the judicial bankruptcy of 24 disposed securities companies (100% of the total) had been accepted by courts.

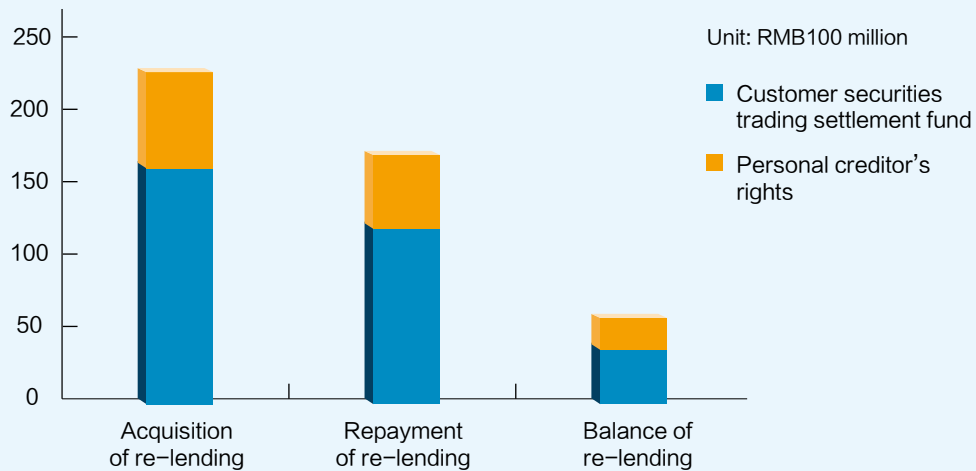
Figure 4: Progress of Risk Disposition of Securities Companies



【Acquisition of Re-lending and Repayment】

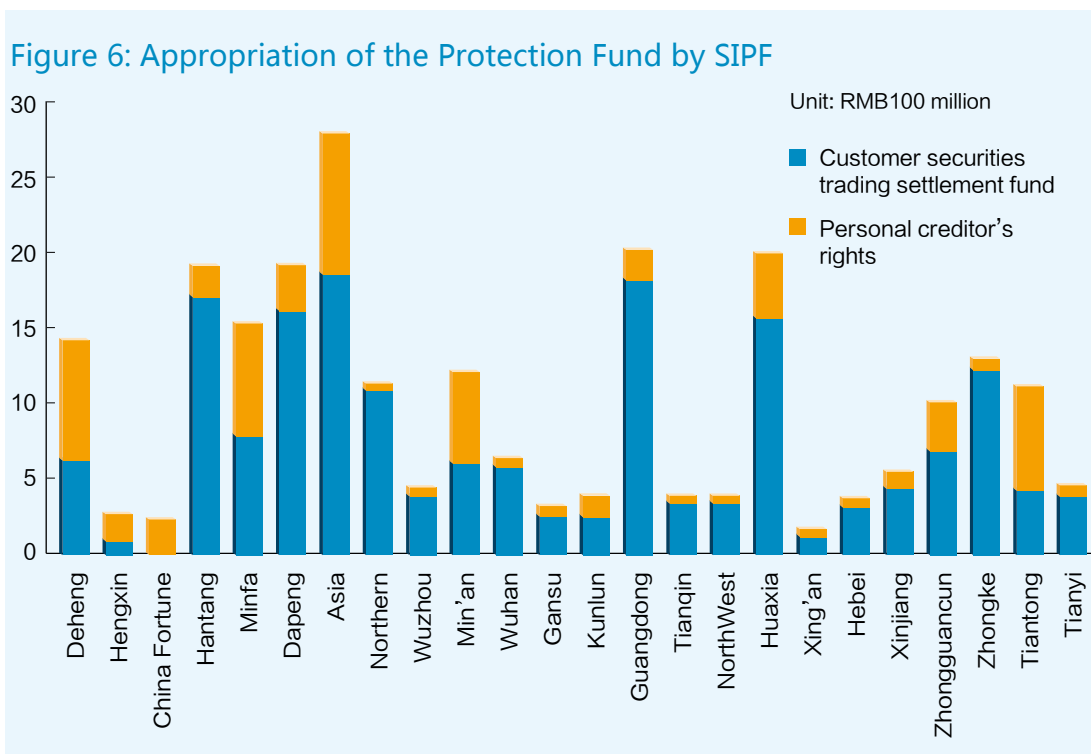
By the end of December 2010, SIPF had acquired re-lending of RMB22.8945 billion, and accumulatively repaid RMB17.0602 billion of the principal of re-lending, accounting for 74.52% of total. The balance of the principal amounted to RMB5.8343 billion, accounting for 25.48% of total.

Figure 5: Acquisition and Repayment of Re-lending by SIPF



【Appropriation of the Protection Fund】

By the end of December 2010, SIPF had appropriated protection fund of RMB22.4425 billion to 24 disposed securities companies, of which, RMB16.2133 billion or 72.24% was used to fill the gap of customer securities trading settlement fund, and RMB6.2292 billion or 27.76% was used to acquire personal creditor's rights.



【Accounts and Personal Creditors Involved in Protection Fund Appropriation】

By the end of December 2010, SIPF had appropriated protection fund of RMB16.2133 billion to fill the gap of customer securities trading settlement fund (including gap of dormant accounts and single-capital accounts), involving 9,675,710 normal brokerage accounts; SIPF had appropriated protection fund of RMB6.2292 billion for acquiring personal creditor's rights, involving 61,290 personal creditors.

【Dormant Accounts and Single-capital Accounts of Disposed Securities Companies】

By the end of December 2010, 24 disposed securities companies had reported the dormant accounts with account balance of RMB449.9 million on the settlement date, and their single-capital account involved a balance of RMB66.1 million.

【Acquisition of Customer Securities Trading Settlement Fund】

By the end of December 2010, according to account clear-up reports and statistics from disposed securities companies, 24 securities companies needed to apply acquisition funds whose gap of customer securities trading settlement fund amounted to RMB16.5289 billion, including account balance of RMB516.0 million from the dormant and single-capital accounts without appropriation of acquisition funds for the moment; SIPF appropriated a total of RMB16.1688 billion protection fund to fill the gap of customer securities trading settlement fund (the acquisition fund of dormant accounts and single-capital accounts are not concluded), with a surplus of RMB118.5 million refunded after filling the fund gap.

【Creditor's Rights】

By the end of December 2010, a total of 26 securities companies had entered the bankruptcy and liquidation proceedings. SIPF was the largest creditor for 20 of them, and the chairman of creditor committee for 19 of them.

The total amount of creditor's rights formally declared by SIPF reached RMB25.1335 billion, and that of pre-declared creditor's rights was RMB5.6008 billion.

【Compensation of Creditor's Rights】

By the end of December 2010, nineteen securities companies had distributed bankrupt property. SIPF received RMB2.0027 billion of compensation in cash (including RMB3.0 million received on behalf on the MOF), 8,474,964 shares in Hafei Aviation Industry Co., Ltd., 32,625,414 shares in Harbin Pharmaceutical Group, 7,559,899 shares in Liaoning Cheng Da, and 14,008,381 shares in Double-Crane Pharmaceutical. SIPF, on behalf of the MOF, received compensation of 90,406 shares in Hafei Aviation Industry and 348,032 shares in Harbin Pharmaceutical Group.

【Special Audit】

By the end of December 2010, 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 22 companies.



CHRONICLE
IN 2010

2010 | Jan.

On January 11, SIPF sent by mail the *Application of Enforcement Objection* to Nanjing Intermediate Court of Jiangsu Province, raising objection to the freeze-up of RMB95 million of customer trading excess reserves of Minfa Securities.

On January 11, SIPF received stocks from the first property distribution of Minfa Securities.

On January 20, SIPF finished the development of the software of securities customer trading settlement fund monitoring system, and launched the software testing.

On January 21, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 18)* to CSRC.

On January 28, SIPF finished the investor confidence survey for January, and submitted to CSRC *the Special Report on Securities Investor Confidence Survey (Issue 1, 2010)*.

On January 29, SIPF attended the 5th creditors' committee and the 2nd creditors' meeting of Huaxia Securities, listened to the manager's report, discussed and voted for the plan of its first bankruptcy property distribution.

2010 | Feb.

On February 23, CSRC issued *the No.6 Announcement* of 2010 (hereinafter *Announcement*), specifying the overall schedule for the construction of securities trading settlement fund monitoring system and authorizing SIPF to be responsible for its construction, maintenance and routine management.

On February 25, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 19)* to CSRC.

2010 | Mar.

On March 3, SIPF received compensation from the first property distribution of Asia Securities in cash.

On March 4, Chairman Chen Gongyan convened and presided over the 15th meeting of the five-member coordination team, to study and discuss about the nature of dormant accounts of Southern Securities, acquisition of personal creditor' rights

of Guangdong, Asia, Deheng and other disposed securities companies, issues concerning the conclusion of administrative liquidation and future work arrangement, and announced recent judicial issues and communication and coordination with the Supreme People's Court.

On March 5, SIPF attended the 6th creditors' committee of Minfa Securities to review and discuss the supplementary plan for bankruptcy property auction, and listened to the report of the bankruptcy manager.

On March 12, SIPF received compensation from the second property distribution of Xing'an Securities in cash.

On March 12, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 20)* to CSRC.

On March 18, SIPF finished the first-quarter interest repayment for PBC re-lending.

From 18 to 19 of March, SIPF held the "Special Meeting on External Testing of Monitoring System" with 3 securities companies, 3 commercial banks and Kingdom Technology, printed and issued the "Meeting Minutes" in the name of SIPF, establishing coordination and communication mode of "1+6", and improving the coordination and communication mechanism of various parties.

On March 26, SIPF attended the 7th creditors' committee of Southern Securities and discussed relevant matters including *Working Plan for Creditor's Rights Clear-up of Southern Securities* and *Supplementary opinions on Amendment to Bankruptcy Property Disposal Plan of Southern Securities*.

On March 26, SIPF received compensation from the first property distribution of China Fortune Securities in cash. On the same day, SIPF also received supplemental cash payment from the second property distribution of Southern Securities.

On March 30, SIPF finished the investor confidence survey for March, and submitted to CSRC *the Special Report on Securities Investor Confidence Survey (Issue 3, 2010)*, and uploaded it to CSRC's general information system for institution supervision.

2010 | Apr.

On April 7, SIPF printed and issued *the Letter on Relevant Issues Concerning Link Connection for Monitoring System* (Zh.B.H [2010] No.48).

On April 10, SIPF finished the acquisition of personal creditor's rights of Min'an Securities and Guangdong Securities as well as the appropriation of the securities trading settlement fund for filling the gap to the trustee and liquidation agency.

On April 12, Chairman Chen Gongyan convened and presided over the 16th meeting of the five-member coordination team for risk disposition of securities companies, to study and discuss about special issues related to the acquisition, administrative liquidation and acceptance with respect to acquisition of personal credit rights and customer securities trading settlement fund of Dapeng, Deheng, China Fortune, Hebei and Xing'an securities, as well as working arrangement of summing-up meeting for completing risk disposition thereof.

On April 14, the 40-episode TV series for investor education named *the Stock Market Story* was broadcast at Xinjiang TV Station.

On April 16, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 21)* to CSRC.

On April 20, SIPF formally printed and issued *the Brief Report on Monitoring System Work (Issue 1)*, which summarized the first round of interface testing and problems identified, and submitted it to Department of Intermediary Supervision of CSRC, relevant regional branches, CSDCC, and related securities companies and commercial banks.

On April 21, SIPF organized the entire staff to donate for the earthquake-stricken Yushu of Qinghai Province, totalling more than RMB69,000.

On April 22, SIPF attended the third creditors' committee of Tianyi Securities, reviewed and discussed matters with respect to the first distribution.

On April 23, Chairman Chen Gongyan met 21 LL.M students from Law School of Tsinghua, including 16 students from the United States, Canada and other countries and regions, and 5 Chinese students, who were accompanied by Ms. Maggie Dong, the president of the US-China Legal Exchange Foundation.

On April 29, SIPF issued *Monitoring System No.1 Announcement* and relevant

2010 | May

attachments, including new-version of interface specifications and reporting guidelines for securities companies and commercial banks (V1.0 trial version), external testing plan (V1.0 trial implementation) and reporting calendar (2010), etc.

On May 16, SIPF completed and submitted to MOF the annual check materials for property rights registration of the state-owned assets of 2009, and organized, on the same day, Essence Securities to provide the annual check materials for property rights registration of state-owned assets of 2009, and reported to MOF as required on behalf of it.

On May 18, SIPF held, with Office of Administrative Sanction Committee of CSRC, the “International Forum on Securities Regulation Reform and Investor Protection”.

On May 18, SIPF leaders met the FSAP mission team, headed by IOSCO General Secretary Mr. Greg Tanzer and World Bank expert Patrick Conroy.

On May 24, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 22)* to CSRC.

On May 24, SIPF Vice Chairman Ge Weiping attended the 20th executive committee meeting of XBRL International Organization held in Brussels.

On May 28, SIPF attended the sixth creditors’ committee of Huaxia Securities.

2010 | Jun.

From June 2 to June 4, SIPF attended the working conference for examining the financial statements of national financial corporations of 2009. The Ministry of Finance confirmed that our company's financial statements of 2009 passed the examination.

On June 4, SIPF attended the third meeting of creditor commission of Tianyi Securities, which listened to the working report of the manager, approved the first distribution plan of Tianyi Securities after deliberation and discussion, and also received the first property distribution of Tianyi Securities in cash.

From June 8 to June 18, Chairman Chen Gongyan went to USA and Canada to attend the Annual Meeting of Investor Protection Fund as well as the Expert Meeting of “Modernization Task Force” organized by SIPC.

On June 10, SIPF formally became an affiliated member of IOSCO in the 35th annual meeting of IOSCO held in Montreal, Canada.

On June 17, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 23)* to CSRC.

On June 23, *Acquisition Rules for the Dormant Accounts and Single-capital Accounts of the Disposed Securities Companies* (Zh.J.B.F [2010] No.61) officially came into effect.

On June 26, SIPF participated in the meeting of the creditors' committee of Gansu Securities, which discussed and voted for the price-reduced auction of its real estate in Shenzhen.

On June 29, SIPF issued *Monitoring System [2010] No.2 Announcement* and relevant attachments, including interface specifications for securities companies and commercial banks (V1.1 trial version), and guidelines for joint external testing (Trial version).

On June 30, SIPF completed the interests repaying procedures of the PBC re-lending of the second quarter.

2010 | Jul.

On July 7, SIPF printed and issued the *Circular Concerning the Trial Operation of Securities Trading Settlement Fund Monitoring System* (CSRC [2010] No.103) and the *Brief Report on Monitoring System Work (Issue 2)*.

On July 16, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 24)* to CSRC.

On July 16, SIPF issued and printed *the Brief Report on Monitoring System Work (Issue 3)*.

On July 18, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Tiantong Securities.

On July 20, SIPF participated in the seventh meeting of creditors' committee, and listened to the report of manager, reviewed and discussed the report concerning investigation conclusion of partial recall rights.

On July 22, SIPF attended the “Sino-German Securities Investor Protection Symposium and Its Signing Ceremony” sponsored by CSRC and BaFin.

On July 26, SIPF issued *Monitoring System [2010] No.3 Announcement and Guidelines for the Second Round of Joint External Testing of Monitoring System*.

On July 27, SIPF issued *Monitoring System [2010] No.4 Announcement and Guidelines for the First Round of Joint Testing of Trail Running for Monitoring System*.

On July 29, SIPF jointly held, with Department of Legal Affairs of CSRC, the “Symposium on Improving Legislations for Civil Liabilities of Securities Infringement”.

On July 31, SIPF finished the first round of joint testing of monitoring system.

On July 31, SIPF finished protection fund collection for the first half year from securities companies.

2010 | Aug.

On August 6, SIPF held the inaugurating ceremony and press conference for the “Online Knowledge Competition for the 20th Anniversary of Capital Market” at the studio of the People’s Daily Online.

On August 6, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Minfa Securities.

On August 11, SIPF participated in the fifth creditors’ meeting of Xing’an Securities, and listened to the report of manager on stock disposal and subsequent property distribution.

On August 11, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Wuhan Securities.

On August 17, SIPF organized and conducted the second round of joint external testing and the first round of joint testing of trail running for monitoring system.

On August 17, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 25)* to CSRC.

On August 18, SIPF signed the creditor’s rights transfer agreement with the administrative liquidation team of China Fortune Securities.

2010 | Sept.

On August 18, SIPF attended the eighth meeting of creditors' committee, and listened to the special report of manager on the mediation with Wallstar Investment.

On August 20, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Tianyi Securities.

On August 25, SIPF finished function testing, pressure testing and external media download application testing for XBRL fund transfer system.

On August 27, SIPF finished the *Special Survey Report on Margin Trading in 2010*.

On August 31, SIPF attended by communication the third creditors' meeting of Guangdong Securities, examined and voted for the *No.2 Plan for Evaluating Bankruptcy Property of Guangdong Securities*, and reviewed the creditor' rights.

On September 1, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Xing'an Securities.

On September 2, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Kunlun Securities.

On September 3, SIPF held the first expert committee meeting for SIPF English website.

On September 6, SIPF issued *Monitoring System [2010] No.5 Announcement* and relevant attachments, including *Specifications of Monitoring System Interface for Securities Companies (V1.2)* and *Specifications of Monitoring System Interface for Commercial Banks (V1.2)*.

From 6 to 16 of September, director Ma Donghao led a delegation to visit France and Spain, and discussed cooperation matters with French and Spanish investor protection bodies.

On September 7, SIPF held the "Special Meeting on Joint Testing on Monitoring System (For Banks in North China Region)", announced the result of joint testing with banks, and urged that relevant problems should be solved as soon as possible.

On September 8, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Tianyi Securities.

On September 9, SIPF held the "Special Meeting on Joint Testing on Monitoring System (For Banks in Shenzhen Region)", announced the result of joint testing with banks, and urged that relevant problems should be solved as soon as possible.

On September 10, SIPF held the "Special Meeting on Joint Testing on Monitoring System (For Banks in South China Region)", announced the result of joint testing with banks, and urged that relevant problems should be solved as soon as possible.

On September 10, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 26)* to CSRC.

On September 14, SIPF issued *Monitoring System [2010] No.5 Announcement and Guidelines for Joint Testing on Monitoring System (2010-9)*.

On September 15, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Min'an Securities.

On September 15, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Hebei Securities.

On September 15, SIPF finished *the Evaluation Report on Investor Protection of Listed Companies in China*, giving an expertise and systematic evaluation of the protection of investors' legitimate rights and interests of listed companies in 2010.

On September 24, SIPF finished *the Evaluation Report on Investor Protection of Securities Companies in China*, giving an expertise and systematic evaluation of the protection of investors' legitimate rights and interests of Securities companies in 2010.

On September 26, Chairman Chen Gongyan attended the Asia Securities Forum 2010 (New Growth Force for Asian Capital Market) held in Beijing, and delivered a speech of "China Fully Plays the Role of Self-regulation in Controlling and Preventing Risks Arising from the Securities Market".

On September 29, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Minfa Securities.

2010 | Oct.

On September 30, SIPF finished the examination and approval of the acquisition of personal creditor's rights of Gansu Securities, the appropriation for filling the gap of customer securities trading settlement fund of Hengxin Securities, and the application of Hebei Securities to return the remaining acquisition money for customer securities trading settlement fund.

On October 12, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Hebei Securities.

On October 13, SIPF finished the special survey on stock index futures together with Department of Futures Supervision of CSRC.

On October 14, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Northern Securities.

On October 15, SIPF held the first board meeting in 2010, and discussed duty changes of Vice Chairman Rui Yuehua.

On October 20, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Hengxin Securities.

On October 20, director Ge Weiping attended the 21st XBRL International Conference held in Beijing. The conference published national XBRL technical standards and category standards for enterprises accounting rules.

On October 22, SIPF finished the testing of XBRL fund reporting system at piloted fund companies.

On October 25, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 27)* to CSRC.

On October 27, SIPF finished the interface and link testing for securities companies in Shenzhen region as required by the full promotion and application of the trading settlement fund monitoring system.

On October 28, SIPF issued *Monitoring System [2010] No.7 Announcement, Guidelines for Joint Testing on Monitoring System (2010-11)*, and *Specifications of Monitoring System Interface for Commercial Banks (V1.3, trial version)*.

2010 | Nov.

On October 28, SIPF finished the examination and appropriation for the first round of acquisition of dormant accounts and single-capital accounts of Dapeng Securities.

On October 28, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Gansu Securities, and handled the transfer of pre-declared creditor's rights of Gansu Securities to formal ones.

On October 29, SIPF finished the examination and appropriation for filling the gap of customer securities trading settlement fund and interest of Xinjiang Securities.

On October 30, SIPF signed the creditor's rights transfer agreement with the administrative liquidation team of Wuhan Securities.

On November 7, Chairman Chen Gongyan went to Susong of Anhui Province for the completion ceremony of SIPF poverty alleviation projects.

On November 15, SIPF finished the *Special Report on Stock Index Futures*, giving a systematic formulation of investors' risk perception and capacity of risk control as well as their awareness of stock index futures risks and investor eligibility management.

On November 16, SIPF issued *the Circular on Further Strengthening Data Reporting for Joint Testing on Monitoring System* (Zh.B.F [2010] No.195).

On November 19, SIPF issued *the Circular on Implementing the Second Round of Joint Testing for Full Promotion and Application of Monitoring System (Shenzhen Region)* (Zh.B.F [2010] No.197).

On November 19, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 28)* to CSRC.

On November 24, SIPF attended the XBRL system relocation and acceptance meeting, and acknowledged the contents and workload of projects beyond Phase 1 and within Phase 2 of XBRL fund system construction.

On November 25, SIPF held the second SIPF expert committee meeting.

2010 | Dec.

On December 3, SIPF formally published *the Investor Manuals* (2nd edition).

From 5 to 8 of December, SIPF finished the “2010-11” joint testing for the trading settlement fund monitoring system.

On December 6, SIPF finished the transition from the old system to the new one, and that the new XBRL fund system formally became the leading system which will undertake independently the reporting and disclosure of XBRL fund information.

On December 14, SIPF held the on-site contest and awarding ceremony for the “Online Knowledge Contest for the 20th Anniversary of Capital Market”.

On December 21, SIPF held the second board meeting in 2010, and discussed corporate performance in 2010 and key tasks for 2011.

On December 21, SIPF attended the third creditors’ meeting of Hantang Securities, and discussed issues related to bankruptcy property distribution.

From 22 to 28 of December, SIPF finished the third round of testing, reporting, verifying and disclosing for the first batch of provisional announcements through the tested platform by all fund companies and custodian banks.

On December 27, SIPF submitted, together with IT Service Center of CSRC, *the Brief Report on Securities Investor Interaction (Issue 29)* to CSRC.

On December 27, SIPF signed the creditor’s right transfer agreement with Tianqin Securities.

On December 28, SIPF published *A Collection of Typical Securities Violation Cases and Reports*.

On December 29, SIPF issued *Monitoring System [2010] No.7 Announcement* and relevant attachments, printed and issued data reporting calendar and preparation instructions for 2011.

On December 30, SIPF finished the examination and approval of the appropriation for filling the gap of customer securities trading settlement fund of Gansu Securities and the acquisition of personal creditor’s rights of Dapeng Securities.

The background features a blue gradient with faint, diagonal binary code (0s and 1s) on the left side. On the right side, there are several overlapping, curved, light blue lines that create a sense of motion and depth.

RELEVANT POLICIES, LAWS AND REGULATIONS

6.1 Relevant Policies, Laws and Regulations Promulgated By the End of 2009 (List)

- 1. Opinions on Acquisition of Personal Creditor's Rights and Customer Securities Trading Settlement Funds**
(Jointly promulgated by PBC, MOF, CBRC and CSRC in October 2004)
- 2. Implementation Measures on Acquisition of Personal Creditor's Rights and Customer Securities Trading Settlement Funds**
(Jointly promulgated by PBC, MOF, CBRC and CSRC on January 28, 2005)
- 3. Measures for the Administration of Securities Investor Protection Fund**
(Jointly promulgated by the CSRC, MOF, and PBC on June 30, 2005)
- 4. Circular of the People's Bank of China, Ministry of Finance, and China Securities Regulatory Commission on the Issues Relating to Acquisition of Personal Creditor's Rights and Customer Securities Trading Settlement Funds of Securities Companies**
(Z.J.F [2005] No.59 Promulgated on June 30, 2005)
- 5. Circular on Printing and Distributing the Measures for the Administration of Application and Use of Securities Investor Protection Fund (For Trial Implementation)**
(Zh.J.F. [2006] No.20 Promulgated on March 7, 2006)
- 6. Circular on Printing and Distributing the Measures of China Securities Investor Protection Fund Corporation Limited for the Administration of Compensated Creditor's Rights (For Trial Implementation)**
(Zh.J.F. [2006] No.48 Promulgated on May 17, 2006)
- 7. Circular Announced by PBC, MOF, CBRC and CSRC on Supplementary Notice Concerning the Issues Relating to Acquisition of Personal Creditor's Rights**
(Y.F. [2006] No.189 Promulgated on June 2, 2006)
- 8. Circular on Relevant Issues Concerning Payment of Securities Investor Protection Fund**
(Zh.J.F. [2006] No.78 Promulgated on July 12, 2006)
- 9. Circular of Ministry of Finance and State Administration of Taxation on Stamp Tax for Securities Investor Protection Fund**
(C.Sh. [2006] No.104, promulgated by State Administration of Taxation and Ministry of Finance on August 3, 2006)

- 10. Circular of Ministry of Finance and State Administration of Taxation on Business Tax for Securities Investor Protection Fund**
(C.Sh. [2006] No.172, promulgated by State Administration of Taxation and Ministry of Finance on December 13, 2006)
- 11. Circular of Ministry of Finance and State Administration of Taxation on Relevant Tax Issues of China Securities Investor Protection Fund Corporation Limited**
(C.Sh. [2006] No.169, promulgated by State Administration of Taxation and Ministry of Finance on December 22, 2006)
- 12. Circular on Printing and Distributing the Measures for the Administration of Special Audit of Personal Creditor's Rights and Customer Securities Trading Settlement Funds (For Trial Implementation)**
(Zh.B.F. [2006] No.31 Promulgated on May 22, 2006)
- 13. Rules of the Supreme People's Court on the Managers Designated for Judgment of Enterprise Bankruptcy Cases**
(F.Sh. [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)
- 14. Rules of the Supreme People's Court on the Remuneration of the Managers Designated for Judgment of Enterprise Bankruptcy Cases**
(F.Sh. [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)
- 15. Rules of the Supreme People's Court on Several Issues Concerning the Laws Applicable to Enterprise Bankruptcy Cases that Have not been Decided when the Enterprise Bankruptcy Law of the People's Republic of China Starts Trial Implementation**
(F.Sh. [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 25, 2007)
- 16. Circular on Properly Handling Risk Disposition of Securities Companies**
(Zh.J.F. [2007] No.12 Promulgated on January 10, 2007)
- 17. Circular on Printing and Distributing the Implementation Measures for the Payment of Securities Investor Protection Fund by Securities Companies (For Trial Implementation)**
(Zh.J.F. [2007] No.50 Promulgated on March 28, 2007)

18. **Circular on Opinions Concerning the Handling of Related Issues of Administrative Liquidation of Securities Companies**
(Zh.J.B.F. [2007] No.56 Promulgated on June 18, 2007)
19. **Circular on Printing and Issuing 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**
(Zh.B.F. [2007] No.45 Promulgated on April 3, 2007)
20. **Circular on Printing and Distributing the Internal Process of China Securities Investor Protection Fund Corporation Limited for the Declaration of Compensated Creditor's Rights (For Trial Implementation)**
(Zh.B.F. [2007] No.93 Promulgated on October 22, 2007)
21. **Circular on Printing and Issuing the Guidelines of China Securities Investor Protection Fund Corporation Limited for Asset and Liability Liquidation Audit and Inspection Plan (For Trial Implementation) and the Guidelines of China Securities Investor Protection Fund Corporation Limited for the Form and Content of Asset and Liability Liquidation Audit and Inspection Report (For Trial Implementation)**
(Zh.B.F. [2007] No.97 Promulgated on October 29, 2007)
22. **Circular on Printing and Distributing the Regulations of China Securities Investor Protection Fund Corporation Limited Governing Intermediary Agencies (For Trial Implementation)**
(Zh.B.F. [2007] No.122 Promulgated on December 27, 2007)
23. **Regulations on Risk Settlement of Securities Companies**
(PRC State Council Order No.523 Promulgated on April 23, 2008)
24. **Notice of Ministry of Finance, China Securities Regulatory Commission, the National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission on Printing and Distributing the Basic Standard for Enterprise Internal Control**
(C.K. [2008] No.7 Promulgated on May 22, 2008)
25. **Supplementary Notice of Ministry of Finance and State Administration of Taxation on Relevant Tax Issues of China Securities Investor Protection Fund Corporation Limited**
(C.Sh. [2008] No.78 Promulgated on July 14, 2008)
26. **Circular on Further Regulating the Dormant Accounts of Disposed Securities Companies**
(Zh.J.F. [2008] No.24 Promulgated on April 8, 2008)

27. **Circular on Properly Handling the Account Management of Disposed Securities Companies**
(Zh.J.F.X.B. [2008] No.108 Promulgated on October 6, 2008)
28. **Circular on Printing and Issuing the Guidelines on Finishing Administrative Clear-up of Disposed Securities Companies**
(Zh.J.F.X.B. [2008] No.113 Promulgated on December 17, 2008)
29. **Circular on Printing and Issuing the Guidelines on Inspection of the Protection Fund Use by China Securities Investor Protection Fund Corporation Limited (For Trial Implementation)**
(Zh.B.F. [2008] No.11(Promulgated on February 1, 2008)
30. **Circular on Printing and Issuing the Internal Management Process for Protection Fund Application and Appropriation (Revision)**
(Zh.B.F. [2008] No.172 Promulgated on August 11, 2008)
31. **Supplementary Regulations on Relevant Issues Concerning Payment of the Securities Investor Protection Fund by Securities Companies**
(CSRC Announcement [2009] No.25 Promulgated on May 26, 2009)
32. **Circular on Judgment and Enforcement of the Supreme People's Court on Cases Related to the Disposed Securities Companies in Accordance with Applicable Laws**
(F.F. [2009] No.35 Promulgated on September 9, 2009)

6.2 Relevant Policies, Laws and Regulations Released in 2010 (List and Full Text)

1. **Announcement Concerning Relevant Issues of Securities Trading Settlement Fund Monitoring System**
(February, 23, 2010, CSRC Announcement [2010] No.6)
2. **Circular of Supreme People's Court on Issues Concerning Freezing and Compulsory Transfer of Customer Securities Trading Settlement Fund of Disposed Securities Companies by Some People's Courts**
(June 22, 2010, Min Er Ta [2010] No.21)
3. **Circular on Printing and Issuing SIFP Guidelines for Tenders and Other Three Working Guidelines**
(December 31, 2010, Zh.B.F [2010] No.237)

Announcement Concerning Relevant Issues of Securities Trading Settlement Fund Monitoring System

(February 23, 2010, CSRC Announcement [2010] No.6)

For the purpose of protecting the legitimate rights and interests of investors and guaranteeing the safety of customer's fund, CSRC decide to establish the securities trading settlement fund monitoring system (hereinafter "monitoring system"), and hereby authorizes China Securities Investor Protection Fund Corporation (hereinafter "SIPF") to take charge of the construction, maintenance and routine management of this monitoring system. Parties concerned shall fully recognize the importance and urgency of monitoring system construction, and finish monitoring system construction and application as required. Relevant matters are announced below.

1. Arrangement for external testing stage. External testing for the monitoring system shall be launched on March 1, 2010, and it is decided that China Securities, CINDA Securities and Essence Securities will be tested. In April 2010, the aforesaid 3 securities companies, based on monitoring system interface specifications and data transmission guidelines, shall complete the development of reporting system and the preparation for joint link and transmission testing, and coordinate with their designated commercial banks to finish relevant tasks concertedly.

2. Arrangement for test running stage. Test running for the monitoring system will be launched on July 1, 2010, and in June 2010, 16 securities companies with registered address in Beijing, based on monitoring system interface specifications and data transmission guidelines, shall complete the development of reporting system, finish the preparation for joint link and transmission testing, and coordinate with their designated commercial banks to finish relevant tasks concertedly.

3. Arrangement for full promotion and application stage. The full promotion and application for the monitoring system will be launched on September 1, 2010, and by the end of August 2010, all securities companies, based on monitoring system interface specifications and data transmission guidelines, shall complete the development of reporting system, finish the preparation for joint link and transmission testing, and coordinate with their designated commercial banks to finish relevant tasks concertedly.

4. All regional branches of CSRC shall urge securities companies in their regions to faithfully implement the task of monitoring system construction. Failure to report data as required will be deemed as not conforming to regulatory requirement for accurate, timely and integral information reporting, and the corresponding regional branch shall impose proper regulatory measures upon securities companies concerned; SIPF shall regularly report the status of monitoring system construction by securities companies, and take it as the basis for classification and evaluation.

5. All regional branches of CSRC shall assist securities companies in urging designated commercial banks to faithfully implement the task of monitoring system construction. Regulatory authorities will adopt proper regulatory measures if any commercial bank fails to make required data reporting within a specified period and thus affects the completeness of customer fund monitoring data, and securities companies shall recommend their customers to transfer their fund to commercial banks that have joined in the monitoring system.

6. SIPF shall formulate and publish specifications for monitoring system interface, data reporting guidelines and other technical specifications and guidelines, timely provide them to securities companies and designated commercial banks, and be responsible for coordinating and organizing external testing, test running and full promotion & application. Parties concerned shall provide active support and cooperation.

China Securities Regulatory Commission
February 23, 2010

Circular of Supreme People's Court on Issues Concerning Freezing and Compulsory Transfer of Customer Securities Trading Settlement Fund of Disposed Securities Companies by Some People's Courts

(June 22, 2010, Min Er Ta [2010] No.21)

To Higher People's Court of Beijing, Shanghai, Jiangsu, Shandong, Hubei and Fujian:

Recently, China Securities Regulatory Commission (CSRC) has sent a letter to us, saying that customer securities trading settlement fund previously frozen and transferred by some people's courts has not been timely released or refunded, and as a result, the gap of corresponding customer securities trading settlement fund is hard to be filled, and administrative liquidation of disposed securities companies has been affected. Therefore, they request us to coordinate people's courts concerned to release or refund the customer securities trading settlement fund. After discussion, relevant issues are decided as follows:

1. The freezing and compulsory transfer of customer securities trading settlement fund shall be handled in strict accordance with the provisions of *Securities Law of the People's Republic of China*, *the Circular of Supreme People's Court on Freezing and Compulsory Transfer of Securities Trading Settlement Fund* (F.[2004] No.239), *the Circular of Supreme People's Court, Supreme People's Procuratorate, Ministry of Public Security and China Securities Regulatory Commission on Issues Concerning the Checking, Freezing and Compulsory Transfer of Securities and Securities Trading Settlement Fund* (F.F.[2008] No.4), and *the Circular of Supreme People's Court on the Judgment and Enforcement of Cases Related to the Disposed Securities Companies in Accordance with Applicable Laws* (F.F. [2009] No.35). If customer securities trading fund has been frozen and transferred in violation of above provisions, people's courts shall make resolute rectification.

2. In the process of securities company disposition, it is an important function for China Securities Investor Protection Corporation (hereinafter "SIPF") to fill the gap of customer securities trading settlement fund in accordance with relevant state policies. The money under the special deposit accounts and settlement excess reserves accounts for customer securities trading settlement fund of disposed securities companies all shall belong to securities trading settlement fund. By filling the gap arising from the freezing and compulsory transfer of disposed securities companies' customer trading settlement fund, SIPF will obtain corresponding subrogation, and for claims thus raised by

SIPF, people's courts shall grant the support. If frozen or transferred customer securities trading settlement fund is already released and transferred to the manager's account, upon request by SIPF, courts for relevant bankruptcy cases shall oversee the manager to return the fund to the special account of SIPF; if the fund is still frozen, SIPF may apply to relevant preservation courts for its release, and these courts shall release and return the fund to the special account of SIPF; if the fund is already transferred, SIPF may apply to relevant enforcement courts for reimbursement, and these courts shall return the fund to the special account of SIPF. In addition, if the gap is not yet filled for frozen and transferred customer securities trading settlement fund, relevant administrative liquidation team may apply to preservation or enforcement courts for release or return.

Higher courts shall urge courts under their jurisdiction to observe and implement the above provisions.

A circular is hereby given.

Supreme People's Court of PRC
June 22, 2010

Circular on Printing and Issuing SIPF Guidelines for Tenders and Other Three Working Guidelines

(December 31, 2010, Zheng Bao Fa [2010] No.237)

To Functional Departments:

SIPF Guidelines for Tenders (For trial implementation), SIPF Guidelines for Procurement by Inquiry (For trial implementation), SIPF Guidelines for Procurement by Competitive Negotiation (For trial implementation), and SIPF Guidelines for Procurement from Single Suppliers (For trial implementation) were adopted on December 8 of 2010 by the 12th chairman working meeting. They are hereby published, and will be effective as from January 1, 2011.

See Attachments:

1. *SIPF Guidelines for Tenders (For trial implementation)*
2. *SIPF Guidelines for Procurement by Inquiry (For trial implementation)*
3. *SIPF Guidelines for Procurement by Competitive Negotiation (For trial implementation)*
4. *SIPF Guidelines for Procurement from Single Suppliers (For trial implementation)*

December 31, 2010

SIPF Guidelines for Tenders

(For trial implementation)

Article 1 These guidelines are formulated in accordance with relevant laws and regulations as well as *SIPF Measures for Project Management* for the purpose of regulating SIPF tenders.

Article 2 When tender is required in accordance with *SIPF Measures for Project Management*, SIPF will be the tenderee, and specific matters will be handled by responsible departments. Responsible departments may choose a procuratorial agency and authorize it to carry out the tender.

Article 3 A project in principle shall be subject to tender if its single purchase exceeds RMB1 million (including 1 million), and in case that other procurement method is necessary, it shall have the approval of the chairman meeting.

Article 4 Tenders shall adopt scientific assessment methods, and when needs can be satisfied, the principle of low price and high quality shall prevail, and price assessment management shall be strengthened so as to protect lawful rights and interests of SIPF and substantially improve the efficiency and effectiveness of the procurement fund's usage.

Article 5 Responsible departments shall set up a tender team on its own, and the latter shall take overall charge of the project subject to tender, including proposing tender method, examining contents of tender documents, holding bid assessment meeting, deciding the bid winner etc.

Article 6 Goods and service tenders include public tenders and invitational tenders.¹

If public tender is adopted, SIPF shall issue a tender announcement in newspapers, periodicals, informational networks, SIPF website or other media designated by the state. The tender announcement shall clearly contain such particulars as SIPF name, address and contact information, bidder qualifications, the details of the project subject to tender including name, nature, quantity, place of implementation, time of implementation, bid submission deadline, time and place for bid opening, and methods and prices to acquire the tender documents.²

An invitational tender means that a tenderee chooses at random over three suppliers among qualified suppliers as required by law and invite them, in the form of invitation, to submit their bids.

Article 7 SIPF shall prepare paper-form tender documents, or may release electronic tender

¹ A public tender means that a tenderee, in the form of tender announcement, invites unspecified suppliers to submit bids.

² See Article 16 of the Law of on Tenders and Bids.

documents at designated information networks, but shall maintain the consistency between these two. Electronic form shall have the same legal force with paper-form. The minimum period from the issuing of the tender documents to the deadline for submission of bid documents by bidders may not be less than 20 days.

Article 8 If tender documents are sold, the price shall be such as to cover the printing cost only, no profit shall be made, and tender documents shall not be priced on the basis of procurement amount. The time for tender document sale shall not be less than 5 working days.

Article 9 Bid assessment committee shall include SIPF staff and experts from outside, and external experts shall not be less than half of total members. SIPF staff shall come from assistant director or higher positions and attend bid assessment in their own name.

Article 10 Bid assessment members shall, in an independent capacity, conduct and participate in SIPF procurement assessment. SIPF shall formulate uniform disciplines and working rules for bid assessment, and bid assessment members shall strictly observe these disciplines and rules, and carry out bid assessment on the basis of the methods and standards specified in tender documents.

Article 11 Bid assessment members shall have the following rights with respect to SIPF procurement activities:

- (1) To know SIPF procurement provisions and relevant circumstances;
- (2) To assess the quality of goods, projects and services provided by suppliers;
- (3) To recommend and vote for candidate bid-winning suppliers;
- (4) To receive remuneration as required (with the exception of SIPF staff, and remuneration standards shall be specified by responsible departments);
- (5) Other rights provided for by laws, regulations and rules.

Article 12 Bid assessment members shall be subject to the following obligations in SIPF procurement activities:

- (1) To provide truthful and reliable assessment opinions on SIPF procurement;
- (2) To strictly observe SIPF disciplines and not reveal assessment facts to the outside (not including those specified in paragraph (4));
- (3) To discover, timely report to SIPF and prevent unfair competition, collusion or other violations by suppliers in the course of SIPF procurement;

(4) To reply to inquiries or questions raised by parties concerned with respect to SIPF procurement assessment;

(5) Other obligations required by laws, regulations and rules.

Article 13 SIPF may, in accordance with the need of a project subject to tender, demand the intended bidders to provide documentary evidences related to their qualifications and information on their business performance in its tender announcement or invitations for submission of bids, and shall conduct the preliminary examination about the qualifications of the intended bidders, and only suppliers passing this examination are qualified for bidding; and if the state has the provisions on the qualifications of bidders, such provisions shall govern.³

Article 14 SIPF may demand bidders to pay bid deposit, and shall specify in the tender documents the amount and payment method of bind deposit. The bid deposit shall not be more than one percent of estimated procurement budget.

SIPF may refuse to accept his bid documents if a bidder fails to pay bid deposit as specified in tender documents.

SIPF shall refund bid deposit to suppliers who do not win the bid within five working days after the bid winning notice is issued, and shall refund bid deposit to the bid-winning supply within five working days after the contract is signed.

Article 15 Unless the project has special requirements, suppliers usually shall satisfy the following conditions:

- (1) Have the capacity of bearing civil liabilities independently;
- (2) Have good business reputation, sound finance and accounting rules;
- (3) Have the equipments and special technical capacity necessary for contract performance;
- (4) Have a good record of tax and social security payments;
- (5) Have no material operational violations within three years before participating in the procurement;
- (6) Other conditions required by laws and administrative provisions.

For a specific case, adjustment is allowed, and responsible departments shall report to SIPF leaders for approval.

Article 16 If SIPF desires to make necessary clarifications or modifications in its tender documents

³ See Article 18 of the Law of on Tenders and Bids.

has already been issued, it shall notify all receivers of its tender documents in a written form at least 15 days prior to the deadline for submission of bid documents set in its tender documents. Such clarifications or modifications shall be the constituent of its tender documents.⁴

Article 17 A bidder shall deliver his bid documents to the place of submission prior to the deadline for submission set in the tender documents. SIPF shall sign and keep the bid documents when receiving and may not open them. If the number of bidders is less than three, SIPF shall issue the tender anew. SIPF shall refuse to accept any bid documents delivered after the deadline for submission set in the tender documents.⁵

Two or more legal persons or other organizations may form a consortium and jointly submit their bids as one bidder.

For goods of the same brand and model, a manufacturer can only entrust one agent to attend the bidding, otherwise, its bids will be nullified.

Article 18 Bid opening shall be presided over by responsible departments, and all bidders shall be invited to join. Bids shall be opened publicly at the time and place predetermined in the tender documents.

Article 19 Bid assessment members shall assess and compare bid documents independently in accordance with standards and methods specified in the tender documents. Bid assessment members each shall independently assess and score the bid documents of every valid bidder, and then sum up the score of every item for every bidder. Bid assessment may use minimum bid price method, composite grade method, and price performance ratio method.

(1) Minimum Bid Price Method refers to a method deciding candidate bid-winning suppliers mainly on the basis of price, that is, when substantial requirements in the tender documents are all satisfied, the minimum bid price will be established on the basis of uniform price factors, and the bidder giving the lowest quotation will become a candidate bid-winning supplier or the bid winner. This method is applicable to standard custom-built products and general service items.

(2) Composite Grade Method refers to a method making overall assessment of various factors specified in the tender documents and choosing the bidder with the highest total score as the candidate supplier or bid-winner, provided that substantial requirements in the tender documents are all satisfied.

⁴ See Article 23 of the Law of on Tenders and Bids.

⁵ See Article 28 of the Law of on Tenders and Bids.

When composite grade method is adopted, the score for price will be calculated as per the priority of low price, that is, the lowest bid price that satisfies requirements specified in the tender documents will be the reference price, with a full mark for price, and scores for other bidders shall be calculated with the formula below:

$$\text{Score for bid price} = (\text{reference price} / \text{bid price}) \times \text{weight of price} \times 100$$

When composite grade method is used for similar procurement projects, SIPF in principle shall not change assessment factors and scoring standards.

Factors for composite grade mainly include price, technology, finance, credit standing, performance, and service, responsiveness to tender documents, and corresponding weights or scores. Assessment factors and scores shall be specified in the tender documents as is proper for the project, plus detailed scoring standards. Bidder's qualification shall not be a factor for assessment.

Subject to composite grade method, for goods, the score for price shall have a weight of 30% to 60% in total score, while for service, the score for price shall have a weight of 10% to 30%. For service subject to uniform price standards, the price will not be a factor for assessment. If adjustment is necessary due to special circumstance, the chairman meeting shall be informed and its approval is required.

$$\text{Total score} = F1 \times A1 + F2 \times A2 + \dots + Fn \times An$$

F1, F2..... Fn, scores for various assessment factors;

A1, A2, An, weights of various factors (A1 + A2 + + An = 1).

(3) Price Performance Ratio Method means a method assessing bid documents as required, then calculating for every valid bidder the total score for factors other than price (including technology, finance, credit standing, performance, service, responsiveness to tender documents), then dividing it with bid price, and choosing the bidder with the highest quotient (total score) as the candidate bid-winning supplier or bid winner.

$$\text{Total score} = B / N$$

B is the composite grade for a bidder, B = F1 × A1 + F2 × A2 + + Fn × An, of which: F1, F2.....

Fn, scores for factors other than price; A1, A2, An, weights of factors other than price (A1 + A2 + + An = 1).

N is bid price.

Article 20 When the budget specifies a base bid price, it is necessary to consult this price. The number of candidate winning bidders shall be decided in accordance with procurement needs, but these candidates must be ranked in a certain order.

(1) When minimum bid price method is used, they shall be ranked in ascending order of bid prices, and in case of same bid prices, and superiority of technical indicators shall prevail. When bid assessment committee deems that any top-ranking candidate that has obviously irrational or lower-than-cost minimum bid price or quotations for some items, and thus may affect product quality and honest contract performance, it shall ask this candidate to provide written explanations and relevant supporting materials in a specified period of time, otherwise, bid assessment committee may revoke his/her candidacy and replace him/her with the candidate following him/her, and the rest will be handled in the same manner.

(2) When composite grade method is used, they shall be ranked in descending order, for those with same score, they shall be ranked in ascending order of bid price, and when score and bid price are same, superiority of technical indicators shall prevail.

(3) When price performance ratio method is used, they shall be ranked in descending order of quotient, when quotient is same, they shall be ranked in ascending order of bid price, and when quotient and bid price are same, superiority of technical indicators shall govern.

Article 21 When a bidder's price has any omission, the highest bid price by other bidders shall be included into his/her total bid price. Price after adjustment shall be his/her bid price, and the score for price shall be calculated for every bidder on the basis of their respective bid price.

Article 22 Responsible departments shall prepare a report on the basis of original assessment records and results signed by entire assessment members to recommend candidate winning bidders to SIPF, and bid assessment report shall truthfully include the following contents:

- (1) Basic introduction and datasheet;
- (2) List of bid assessment members;
- (3) Records of bid opening;
- (4) List of eligible bids;
- (5) An account of nullified bids;
- (6) List of assessment standards, methods or factors;
- (7) List of assessed prices or score comparison;

- (8) Assessed bidder ranking;
- (9) List of recommended winning bidders;
- (10) Summary of clarifications, explanations, additions and corrections.

Article 23 Responsible department shall propose the bid winner on the basis of written assessment report by bid assessment committee from among candidate winning bidders recommended, and subject to approval of SIPF leaders, responsible department may also authorize bid assessment committee to determine the winning bidder directly.

Article 24 The bid assessment committee may deny all the bids if, after the assessment, believes that they fail to meet the requirements set forth in the tender documents. If all the bids on a project subject to tender according to law are denied, SIPF shall start the tender anew in accordance with Law.⁶

Article 25 Before the winning bidder is determined, SIPF may not negotiate with any bidder on such substantial contents as bid price or bidding plan.⁷

Article 26 In the process of bid assessment, in case of any of the following circumstances, bids will be nullified, and SIPF shall not be liable for losses thus caused to bidders.

- (1) Suppliers qualified or making substantial response to tender documents are less than three;
- (2) There are violations that affect the fairness of procurement;
- (3) Bid prices are all higher than procurement budget, and SIPF cannot afford it;
- (4) Procurement is cancelled due to important accident.

After bids are nullified, responsible department shall send a notice to all bidders to inform them of reasons. Unless procurement is cancelled, tender shall be reorganized; when other method of procurement is necessary, it shall have the approval of SIPF leaders before the commencement of procurement.

Article 27 When the winning bidder is determined, SIPF shall issue a bid-winning notice to the former and concurrently, notify all bidders who do not win the bid about the result. The bid-winning notice is legally binding on both SIPF and the winning bidder.

If, after the bid-winning notice is issued, SIPF alters the bidding result or the winning bidder waives the winning project, SIPF or the said winning bidder shall bear legal liabilities according to law.⁸

⁶ See Article 42 of the Law of on Tenders and Bids.

⁷ See Article 43 of the Law of on Tenders and Bids.

⁸ See Article 45 of the Law of on Tenders and Bids.

Article 28 SIPF and the winning bidder shall sign a written contract in accordance with tender documents and the winner's bid documents within thirty days upon the issuing of the bid winning notice, and the contract signed shall not make substantial change to tender documents and bid documents, and they may not conclude any other agreement contrary to the substantial contents of the contract.

Article 29 Upon receiving written questioning from a bidding supplier, SIPF shall give a reply within seven working days.

Article 30 SIPF shall establish truthful and integral tender archives, take care of every procurement document, and shall not falsify, fabricate, conceal or destroy them. Procurement documents shall be kept at least for fifteen years as from the end of procurement.

Attached: Sample documents for bid invitation (not provided herein)

SIPF Guidelines for Procurement by Inquiry

(For trial implementation)

Article 1 These guidelines are formulated in accordance with relevant laws and regulations as well as *SIPF Measures for Project Management* with an aim to regulate procurement by inquiry.

Article 2 A project may be subject to procurement by inquiry if goods or service items to be purchased enjoy uniform specifications and standards, ample supply and small price fluctuation.

Article 3 Procurement by inquiry shall be subject to scientific assessment, and when needs can be satisfied, the principle of low price and high quality shall prevail, and price assessment management shall be strengthened so as to protect legitimate rights and interests of SIPF.

Article 4 Responsible department shall take charge of major matters with respect to procurement by inquiry.

Article 5 Procurement by inquiry shall observe the following procedures:

(1) Set up an inquiry team. Before inquiry, the inquiry team shall specify price composition, assessment standards and other matters, for example, quotation by suppliers is sales price itself, or shall include freight charges, installation and test running charges, after-sales service charges and the like, and standards for choosing final suppliers.

(2) Establish a list of suppliers for inquiry. Based on procurement needs, the inquiry team shall choose at least three suppliers from qualified suppliers, send an inquiry notice to them and ask them to make quotation.

(3) Inquire about price. The inquiry team shall ask chosen suppliers to quote once for all a fixed price within a specified period of time, and it shall keep confidential of quotation documents, and open them as scheduled.

(4) Determine final suppliers. The inquiry team shall prepare a list of candidate suppliers in accordance with procurement needs and the principle of the lowest price with equivalent quality and service, and send it to SIPF leaders for approval, and then notify all inquired suppliers of the result.

Article 6 Inquiry usually is done by sending inquiry documents to suppliers, including at least the inquiry notice, contents and requirements for procurement inquiry, quotation document format (sample

attached below) and the like.

Inquiry documents shall contain fundamental factors, and when sample document is changed, it should be noted in relevant reports.

Article 7 When procurement is less than RMB100,000 (including RMB100,000), inquiry can be made by email or other means.

Article 8 After inquiry, further discussion can be made with final suppliers as to price and details of product and service provision.

Article 9 When procurement is made by inquiry, records of procurement activities shall be maintained, and reported as an attachment to relevant internal reports. Such records at least shall include the following contents:

- (1) Project type and name;
- (2) Project budget and fund composition;
- (3) Reasons for procurement by inquiry;
- (4) Conditions and reasons for selecting suppliers to be inquired;
- (5) Replies from inquired suppliers (written quotation document, email, fax, audio);
- (6) Assessment standards;
- (7) Other relevant records.

Attached: Sample documents for procurement by inquiry (not provided herein)

SIPF Guidelines for Procurement by Competitive Negotiation

(For trial implementation)

Article 1 These guidelines are formulated in accordance with relevant laws and regulations for the purpose of regulating procurement by competitive negotiation, improve negotiation efficiency and guarantee procurement quality.

Article 2 Competitive negotiation is to negotiate with several suppliers (no less than three) and in the end choose a winning one.

Article 3 Procurement by competitive negotiation shall be conducted in an open, fair, just and conforming manner.

Article 4 In any of the following circumstances, goods or service may be subject to procurement by competitive negotiation:

(1) After bid invitation, no supplier submits bid, or there is no valid bid or another tender is not tenable. Tender may fail in the following cases: firstly, no supplier submits bid; secondly, the number of valid bidding suppliers does not reach the compulsory three or more, or though there are more than three bidding suppliers, yet qualified ones are less than three; thirdly, another tender is not tenable.

(2) Due to complicated technology or special nature, detailed specifications or requirements cannot be established. This mainly arises from technical contents and special nature of the object to be purchased, and so, SIPF cannot provide detailed product specifications or service requirements, for example, software development and design.

(3) The time necessary for tenders cannot satisfy urgent needs. That is to say, since public tender has a long period of procurement, and in case of emergent procurement due to unforeseen factors (justified), SIPF cannot obtain required goods and service through public tender.

(4) Total amount cannot be obtained beforehand. That is, the object is special and complex, and has not been purchased before, and has little cost information, and so, total amount cannot be calculated beforehand.

Article 5 Responsible department shall take charge of procurement by competitive negotiation.

Article 6 Procurement by competitive negotiation shall observe the following procedures:

- (1) Set up a negotiation team, which include no less than three persons.
- (2) Prepare negotiation documents. These documents shall be prepared with reference to tender documents, and shall specify negotiation procedures, negotiation contents, draft contract provisions, assessment standards, and negotiation terms shall not contain discriminatory clauses.
- (3) Fix a list of suppliers for negotiation. The negotiation team shall choose no less than three valid suppliers from the list of qualified suppliers, and provide them with negotiation documents; when less than three suppliers respond to negotiation, flexible handling is applicable, and responsible department shall immediately report to SIPF leaders and ask about their opinions. If SIPF leaders approves that negotiation be continued, responsible department may organize qualified suppliers to implement the following procedures.
- (4) Negotiate. All team members shall negotiate with one supplier every time. In the course of negotiation, no party shall reveal related technical materials, price and other information of other suppliers. In case of any substantial change of negotiation documents, the negotiation team shall notify in writing all participating suppliers.
- (5) Determine the winning supplier. Final quotation shall be made in a specified period, the negotiation team will rank these quotations in ascending order, and then recommend candidate winners to SIPF leaders, and after the winning supplier is determined, responsible department shall notify the result to all participating suppliers who do not win.

Article 7 When procurement is made by competitive negotiation, records of procurement activities shall be maintained, and reported as an attachment to relevant internal reports. Such records at least shall include the following contents:

- (1) Project type and name;
- (2) Project budget and fund composition;
- (3) Reasons for procurement by competitive negotiation;
- (4) Conditions and reasons for inviting suppliers for negotiation;
- (5) Negotiation and relevant documents;
- (6) Assessment standards;
- (7) Other relevant records.

SIPF Guidelines for Procurement from Single Suppliers

(For trial implementation)

Article 1 These guidelines are formulated in accordance with relevant laws and regulations for the purpose of regulating procurement from single suppliers and guaranteeing procurement quality.

Article 2 Procurement from single suppliers, also called as direct procurement, means that the quantity meets the standard of tender, but goods involved only has one source, goods or service are confidential and non-public, or belong to a certain patent, initial production, contract addition, subsequent expansion of a procurement project, or due to unforeseen emergency, they cannot be bought from other suppliers. Absence of competition is the leading characteristic for such procurement.

Article 3 Procurement from single suppliers shall be conducted in an open, transparent, fair and honest way.

Article 4 In any of the following circumstances, goods or service can be subject to procurement from single suppliers:

- (1) They can only be bought from a single supplier;
- (2) Due to unforeseen emergency, they cannot be bought from other suppliers;
- (3) It is necessary to purchase from the original supplier so as to ensure the consistency and supporting service of the original project, but additional procurement shall not exceed ten percent of the original contract value;
- (4) Goods or service are confidential and shall not be made public;
- (5) Required by competent authorities.

Article 5 “Single” in paragraph (1) of Article 4 means that due to technology, technical or patent protection, initial protection and other reasons, goods and service can only be made or provided by a specified supplier, and there is no other rational choice or replacement.

Article 6 Paragraph (3) of Article 4 means, so far as procurement contract is concerned, when the original supplier replaces or expand goods and service, choosing a different supply may lead to incompatibility or inconsistency, and cannot ensure consistency with the original project and the requirement of supporting service, and so, it is necessary to continue to purchase them from

the original supplier, and additional procurement shall not be more than ten percent of the original contract value. Additional procurement refers to addition to the original project rather than buying something new, or else it will be buying a different article.

Article 7 Unless unforeseen emergency occurs, SIPF shall refrain from procurement from single suppliers.

Article 8 Responsible department shall take charge of procurement from single suppliers, and shall set up a three-person procurement team.

Article 9 The procurement team shall negotiate with and purchase from the supplier on the basis of worthiness, reciprocity, guaranteed quality and reasonable price.

Article 10 When procurement is made from a single supplier, records of procurement activities shall be maintained, and reported as an attachment to relevant internal reports. Such records at least shall include the following contents:

- (1) Project type and name;
- (2) Project budget and fund composition;
- (3) Reasons for procurement from a single supplier;
- (4) Consultation with the supplier and relevant materials;
- (5) Other relevant records.



Address: Tower B, Xincheng Place, 5 Jinrong Street,
Xicheng District, Beijing, P.R. China

Post code: 100140

Tel: 010-66580521

Fax: 010-66580500

Website: www.sipf.com.cn/NewEN/