

SOEs' performance, unleash potential of private companies, better allocate resources as well as boost economic potential growth. According to our calculation, by Feb 2014, 62% of all Chinese listcos' market cap was SOEs either central or local ones, while private-owned only accounted for 38%. Among listed SOEs, 54% operated in monopolized sectors like oil & gas, banking, telecom and transportation, 42% operated in competitive sectors like food & beverage, auto, equipment, etc. Going forward, we expect 1) more monopolized central SOEs, in oil & gas, telecom and transportation, to open up for private capital investment with minority shares; 2) large chunk of local SOE shares in competitive sectors like F&B, apparel, electrics and healthcare will be taken over by private capitals; 3) more local SOEs assets to be listed or injected into listcos. More details of this reform will be elaborated in the upcoming SOE reform plan.

**Managing a balance between innovation, development and financial risk prevention**

While encouraging the innovation and modernization in China capital market, the authorities still keep the financial stability as paramount. Risk control, monitoring, reporting and disposal will go side by side with financial market evolution. And most importantly, the bottom line of "no systemic or regional risk" will be firmly held, as per the Guideline. The policy also requires good management on the relationships of market vs. government, and investors at their own risk vs. investor protection. Investors should have a rational investment principle, awareness of risks, responsible for their actions and self-protection ability. Regulators will provide investors, especially small investors, the rights to know, to participate, to appeal and to supervise.

The statement is in line with the "orderly default" concept proposed by regulators in regard of trust market and other shadow banking market risk.

Lin Li (+[redacted])  
Audrey Shi (+[redacted])



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