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PRESS RELEASE

LEHMAN, LEE & XU COMMENTS ON CHINA BANKING REGULATORS ORDER TO CHINESE BANKS TO LEND TO SMALL FIRMS

Beijing, China – Tuesday 21 October, 2008 –

This week, Reuters reported that the China Banking Regulatory Commission (CBRC), China's banking regulator had issued a directive to Chinese banks they should target their lending at small companies. The directive issued this weekend was an attempt to help firms weather the current global financial crisis. "Pay great attention to the financing problems of small firms, and err toward these small companies when issuing new loans," the China Banking Regulatory Commission said on Monday in a statement on its website (www.cbrc.gov.cn). But banks must also be cautious when it comes to offering loans, especially big ones, the statement said, summarizing a meeting chaired by banking watchdog head Liu Mingkang. "Strengthen risk analysis when it comes to large loans," it added. The regulator also called on its various departments to pay close attention to changes in global financial conditions and the impact that may have upon China. "Strengthen risk management, preserve the stable operations of the financial sector and effectively support the sustainable and healthy development of the economy," it added. State media over the weekend cited a Cabinet meeting as calling on banks to lend more to small and medium-sized companies. The Chinese government has repeatedly voiced confidence that it can keep its economy and financial markets stable in the face of the global meltdown. It has also said it is willing to work with other countries to help tackle the crisis.

Scott Garner of Lehman, Lee & Xu commented that "the order coming out of the CBRC (China Banking Regulatory Commission) is an attempt to help the smaller Chinese firms, primarily exporters and manufacturers engaged in exports, to get through this current financial crisis. It is fairly common knowledge that China's exports are slowing as is China's economy as a whole, in large part due to a lowered consumption in the US and in Europe and therefore a resulting lowered demand for Chinese goods. This week, it was reported that approximately half of all toy manufacturers in Guangdong Province have gone out of business in 2008, because of price pressure and lower demand for their goods. The CBRC's order would allow local banks to lend to smaller manufacturers so that these firms can weather the storm as central banks around the world try to stabilize the credit markets. One area the Chinese regulators will have to watch very carefully are the non-performing loan ratios. As recently as 2003, non-performing loans at Chinese banks were at 20%. At the top four state owned banks, that ratio was much higher, as high as 50%. In 2008, the non-performing loan rate had dropped considerably, to around 5%, in large part due to strict lending requirements. The banking regulators will have a difficult task balancing the need for extending credit to struggling firms while at the same time trying to ensure that the current low non-performing ratios are maintained."

Lehman, Lee & Xu is a prominent Chinese corporate law firm and trademark and patent agency with offices in Beijing, Shanghai, Shenzhen, Hong Kong, Macau, and Mongolia. The firm is recognized as a leading expert in corporate law and an active member of the Shanghai community.

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