LEHMAN, LEE & XU 雷曼律师事务所

PRESS RELEASE

LEHMAN, LEE & XU COMMENTS ON MOVES BY THE STATE COUNCIL TO COMBAT CHINA'S SLOWING ECONOMY

Beijing, China – Wednesday 22 October, 2008 –

This week, China Daily reported that as the US financial crisis starts to take its toll around the world, the Chinese government is set to reverse its monetary policy stance, reversing policies that reigned in the economy and moving to more loose policies designed to stimulate the economy. The US government has taken a number of measures to unfreeze its credit market and bail out beleaguered financial institutions, including the $700 billion rescue plan. The European Union, Japan and other major economies have all instituted similar measures. Financial analysts expect that some of the measures being considered by the State Council are interest rate adjustments as well as adjustments in China's taxing policies. Within the first three quarters of this year, China's GDP growth was 9.9 percent year-on-year, 2.3 percentage points lower than the same period last year. Considered to be a sign of a slowing economy, the State Council has vowed to tackle the danger of economic hard landing by making major policy changes. "As the global economy is deteriorating, we should adopt flexible and prudent macroeconomic policies to stabilize the domestic financial market and promote steady and rapid economic growth," Li Xiaochao, spokesman of the National Bureau of Statistics, said yesterday.

Analysts commonly believe that a more relaxed monetary policy alone would not be enough to invigorate the economy and would require proactive fiscal policies to ward off the danger of economic hard landing. Along with interest rate cuts this month, the 5 percent personal income tax on savings interest was also scrapped to stimulate domestic demand, which offsets depositors' losses from recent deposit rates cuts. The State Council has other options open to it, including increasing infrastructure investment, reforming the value-added tax system and cutting personal income tax. Another area in which policies may change is in China's value-added tax (VAT). In 2004, VAT reform was initiated in the China's northeastern provinces on a trial basis. The VAT reform may be expanded to other areas of the county. Unlike the current system, the reform would allow the deduction of input VAT incurred on fixed asset purchases, thus encouraging corporate investment in equipment renovation. Economists expect the reform to start from next year, as more and more enterprises start to feel the pinch due to rising costs and decreasing demand from the gloomy

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international market.

Scott Garner of Lehman, Lee & Xu commented that "the Chinese government is taking the global credit crisis very seriously because the impacts are already being felt here. Every day, the government is initiating new policies designed to ward off the effects of a world economic slowdown. These policies have included extending bank loans to struggle firms, stimulating domestic demand for Chinese manufactured goods, initiating a large scale expansion of China's rail network. If China were to adjust the VAT rates, this would be in line with other measures already taken by the government. The VAT reform, which we have seen up in the northeast would certainly be welcomed by our foreign clients further south, in Jiangsu, Zhejiang, Fujian, and Guangdong. For foreign investors who are serious about a future in China, a relaxation of VAT on fixed assets would encourage foreign investors to continue investing in China and possibly to even expand their operations."

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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