

LEHMAN, LEE & XU

雷曼律师事务所



PRESS RELEASE

NEW LAW ADOPTED TO PROTECT STATE ASSETS

Beijing, China – Friday 31 October, 2008 –

China's legislature approved on Tuesday a law to safeguard the country's 30 trillion yuan (\$4.4 trillion) worth of State assets. Following years of debate and repeated revisions by the National People's Congress (NPC), the Enterprise State Assets Law will now oversee the capital of nearly 120,000 State-owned companies, to prevent their assets from illegal seizure or sale. Government statistics show that between 80 billion and 100 billion yuan worth of State assets are lost each year because of mismanagement. Lawmakers have attributed slack management and misconduct of State asset managers to much of the loss over the years. "China has been devoted to the reform of its State-owned enterprises, and there is an urgent need for legislation to safeguard the management of State capital. This is the collective suggestion of many legislators," Wu Bangguo, the nation's top legislator, said yesterday. "With the law passed, it has become a pillar to supervise the colossal State capital," Wu said before bringing to a close the bimonthly NPC legislative session.

The new law stipulates that if "malicious collusion" is found to have taken place in a deal involving State assets - leading to the loss of assets - the deal is deemed invalid. Also, State companies are subject to the current Company Law and other related regulations. While the law covers State-run companies, it excludes the assets owned by government agencies or the State's natural resources such as land, forest, mines and water. The law becomes effective from May 1.

Scott Garner of Lehman, Lee & Xu commented that "our firm has been involved in many M&A (mergers & acquisitions) deals involving state owned enterprises. These deals inevitably involved the transfer of state assets, such as plant and equipment, land use rights, etc, which required that we enlist the services of licensed appraisers to appraise the value of the state assets to be transferred. Without an independent appraiser, the deal cannot be approved by the State Owned Assets Supervision and Administration Commission (SASAC). In theory, China already has a system to ensure that its assets are only transferred to private ownership if the government receives fair market value for the assets. What the new law does is to ensure that if corruption or criminal collusion is found to be involved, the transaction would be deemed invalid, making it much easier for the

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government to recover its lost assets.”

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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