



2840 Glasscock Road Lewisburg, Tennessee 37091 USA (931) 359-8781/(931) 359-9689 Fax

Via Facsimile, Electronic Mail and Certified Mail

October 16, 2007

Hon. Christopher Cox, Chairman
Office of the Chairman

Mr. Brian G. Cartwright, General Counsel
Office of the General Counsel

Ms. Linda Thomsen, Director
Division of Enforcement

Mr. John W. White, Director
Division of Corporation Finance

United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: **Inadequate Disclosure of Risks to American Investors of Unreliable Chinese Government Economic Data, of Predicted Political Instability in China, and of Prior Chinese Government Debt Repudiation:**

COMPLAINT

Failure of Chinese companies, that are Government State-Owned Enterprises Listed on the NYSE, Euronext and NASDAQ Exchanges to Disclose Defaulted Full Faith and Credit Defaulted Sovereign Debt; and

Failure of the Nationally Recognized Statistical Rating Organizations (NRSRO's), primarily Standard & Poor's, Moody's and Fitch Ratings Agencies to properly and accurately assign the sovereign credit rating status of the People's Republic of China (PRC) to the appropriate and truthful credit rating status of a "Selective Default" classification consistent with their own published rating metrics and criteria.

Dear Chairman Cox, Mr. Cartwright, Ms. Thomsen and Mr. White:

We respectfully write to your attention on behalf of the many defaulted bondholders represented by the American Bondholders Foundation, LLC¹ in reference to the disclosure obligation of the state-owned enterprises of the Government of China which presently have shares listed and actively traded on the NYSE, Euronext and NASDAQ securities exchanges (please refer to Exhibit 1 for a schedule of such companies).

¹ The American Bondholders Foundation, LLC is an organization comprised of U.S. individual owners of Chinese Government full faith and credit bonds issued prior to 1949 and due to mature in 1960, that seek to require China to abide by settled international law and honor its contractual sovereign obligations to bondholders. Although China in 1987 made payments to British holders of pre-1949 Chinese Government bonds, to settle the claims of British bondholders, China has refused to make any payments to American bondholders of similar Chinese Government bonds.

Access to the United States capital markets conveys significant economic benefits to the listed issuers and, in turn, entails certain obligations including the responsibility to make full and complete disclosure in connection with such listings. At present, no disclosure appears as regards the companies appearing in Exhibit 1 referencing the refusal of the Chinese Government to honor repayment of China's defaulted sovereign debt held by American citizens. Under the successor Government doctrine of settled international law, the repayment obligation for this debt is the responsibility of the Government of the People's Republic of China, which continues to attempt to evade repayment to American citizens. We further note that the United States Foreign Claims Settlement Commission, an agency of the U.S. Department of Justice, has determined that the defaulted bonds represent a valid unpaid general obligation of the Chinese Government.

Accordingly, we request that the Securities and Exchange Commission carefully examine whether the state-owned enterprises of the Government of China and other foreign issuers based in China are adequately disclosing investment risks to current and prospective American owners of Chinese securities including corporate or Government equities and bonds. In particular, we request that the Commission evaluate whether Chinese corporate issuers who are presently, or who will become, subject to the Commission's disclosure requirements under the 1933 Act or the 1934 Exchange Act, especially those issuers with a controlling or large bloc of equity securities owned directly or indirectly by the Chinese Government (the People's Republic of China – PRC), are properly disclosing the known risks posed by (1) the credible allegations that official Chinese Government economic statistics do not meet the financial reporting standards required of issuers in U.S. public markets including the absence of a market determined exchange rate as represented by the U.S. Treasury, and the consequent implication on asset valuations; (2) the adverse consequences of increasing and predicted political instability of the Chinese Government; (3) the human rights and freedom of expression violations ordinarily exhibited by the PRC towards its own people and the constrained individual rights already leading to rural demonstrations and riots, portending opposition that will invite instability, or political repression by the government with increased human rights violations; (4) the official PRC's selective repudiation and non-recognition of remaining Chinese sovereign debts (after having settled such claims from British bondholders) issued by established predecessor Chinese Governments.

We believe that current and future American investors merit the protection which the Commission can provide by ensuring that all Chinese corporate and Government issuers make full and fair disclosure to the investing American public of the unique risks associated with investing in stocks or bonds of Chinese companies or of the Chinese Government.

1. **Misleading Chinese Government Economic Data.**

In its recent (October 31, 2002) quarterly filing with the Commission on Form 6-K, the China Petroleum & Chemical Corporation (called Sinopec) (NYSE/symbol:SPN) stated:

“In the first three quarters of 2002, the PRC economy continued to maintain rapid growth, with a GDP growth rate of 7.9%. Benefiting from the above, there was a stable growth in the domestic demand for refined oil and petrochemical products....” (emphasis added)

“The Company believes that in the fourth quarter of 2002 China's economy will maintain a steady and healthy growth, which will create more demand for petrochemical products in China and a positive market environment for the business of the Company.” (emphasis added).

Sinopec is basing its projections of future profitability and stockholder value on the reliability of the Chinese Government's rosy economic data. According to a December 16, 2002 report included in the New Republic magazine, the official Chinese Government claims of 7%- 10% annual growth during each of the last 20 years "do not add up".² The article further reports that the actual growth rate during the 1998-2001 period was closer to 4% and that "China has been plagued by deflation, rising unemployment and declining energy use" during that period.³ The article goes on to state that China's national economic statistics are subject to "political meddling" and "corruption"⁴, that more than two-thirds of the biggest Chinese companies "falsify their accounting"⁵, that China's "economy is becoming less efficient and competitive, that the country is "without a decent legal system", and that its banking system could be insolvent by 2008. The author concludes that "Ultimately, China's economic façade probably will crack. And, when it does, the consequences may be disastrous."⁶

The Commission has correctly focused attention during the last year on the accuracy, completeness and transparency of American companies' financial statements and their management's analysis. We believe the same level of scrutiny should be applied to those Chinese based companies whose shares are listed on U.S. exchanges or that otherwise desire to access the American capital markets. Any misrepresentation of financial reports are inconsistent with SEC filing obligations. American investors risk otherwise, significant losses as a result of their investment in Chinese companies based on their misplaced reliance on information which, if recently published reports are accurate, is materially misleading. Furthermore, the major Chinese corporations listed on the NYSE are reported to have poor quality earnings, according to a recent article published in the Financial News⁷, citing a report by an independent research firm which is highly critical of the NYSE for allowing the listings.

In this regard, we further note the following revealing comments by experienced Chinese industry observers:

"If you have any credibility, you would probably be rating everything junk in China."

"China doesn't adhere to international accounting standards. To make matters worse, the Government issues misleading statistics."

- *Indiana University's Dr. Scott Kennedy, who specializes in China's political economy.*

"Sometimes you have a column of figures that don't add up to the total at the bottom. It's that bad."

- *Brian Colton, an analyst who rates China's sovereign bonds for Fitch Ratings (Hong Kong).*

(Above statements reported by the *Wall Street Journal*, January 5, 2004).

² "Asia Minor, Is China's Economic Boom a Myth", by Joshua Kurlantzick, The New Republic, December 16, 2002, page 20.

³ Id.

⁴ Id., pages 20 and 24

⁵ Id., page 24.

⁶ Id., page 25.

⁷ See, "Study Slams NYSE Over Chinese Listings" (Financial News), September 17, 2007.

See also the statement by Mr. Gordon Chang, former partner at Paul, Weiss, Rifkind, Wharton & Garrison in Beijing:

“China has less borrowing capacity than many people think; it is not as creditworthy as many people think.” *William J. Casey Institute of the Center for Security Policy*, May 22, 2001.

We urge the Commission to conduct a special study of the reliability of the statistics and the financial reporting of State Owned Enterprises in the PRC where the transition to a market economy is far from complete and the exchange rate is managed. Conferring with U.S. intelligence analysts, Treasury officials and others in order to access the resources available to make an independent analysis of the statements on the performance and stability of China’s economy contained in filings made with the Commission and relied upon by the American investing public.

According to the July 2002 report of the U.S. – China Security Review Commission (established and appointed by the U.S. Congress), “Chinese firms raising capital or otherwise trading their securities in the U.S. markets have predominately been major [majority] state-owned enterprises, some of which have ties to China’s military, defense industry, or intelligence services.” As a result, since the Chinese PRC Government directly or indirectly controls a majority of the ownership of most of the Chinese companies which are listed on U.S. exchanges and are subject to the periodic filing of reports with the Commission, it is doubtful that most such Chinese companies have the independence needed to vigorously challenge the accuracy of the Chinese Government’s official economic data.

The U.S. – China Security Review Commission recommended in July 2002 that the Securities and Exchange Commission more carefully scrutinize the disclosure in the United States of certain foreign issuers, including certain Chinese corporate issuers, to minimize concerns about U.S. national security risks posed by the activities of certain foreign companies”⁸. Similarly, the SEC should carefully scrutinize the accuracy of statements and implied optimistic forecasts contained in SEC filings of Chinese issuers whenever such statements and forecasts are based on the questionable economic data of the Chinese Government.

2. Political Instability of Chinese Government.

Experts and political analysts are expressing increasing doubt about the ability of the present Communist Party controlled Chinese Government to either reform or survive. This looming political crisis poses real financial risks to Americans investing in Chinese based companies and in debt securities of the Chinese Government. The Chinese Government (through sovereign bond offerings) and Chinese state-owned and other enterprises have raised significant funds in overseas capital markets in recent years, including the U.S. capital markets.⁹ Accordingly, the American Bondholders Foundation, LLC urges the Securities and Exchange Commission to (1) carefully review each registration statement and periodic report filed by a Chinese Government or

⁸ Chapter 6 of the July 2002 Report to Congress of the U.S. –China Review Commission – The National Security Implications of the Economic Relationship Between the United States and China – “China’s Presence in U.S. Capital Markets”

⁹ Id. The U.S. – China Review Commission estimated that Chinese entities have raised more than \$40 billion in international equity markets since 1992, including \$14 billion in U.S. markets since 1998. An additional \$20 billion in U.S dollar denominated bonds have been sold by Chinese issuers in international offerings since 1992.

corporate issuer and (2) require the conspicuous inclusion of adequate disclosure that will alert the investing American public to the material risks posed by this incipient instability and volatility.

In a recent edition of Foreign Affairs one prominent analyst of Chinese political affairs noted the increasing dysfunction of the Chinese Government and the associated threat to economic and political stability:

“China's governance deficits are likely to continue to grow and threaten the sustainability of its economic development. The slow-brewing crisis of governance may not cause an imminent collapse of the regime, but the accumulation of severe strains on the political system will eventually weigh down China's economic modernization as poor governance makes trade and investment more costly and more risky. The current economic dynamism may soon fade as long-term stagnation sets in.

Such a prospect raises questions about some prevailing assumptions about China. ...[t]he international business community, in its enthusiasm for the Chinese market, has greatly discounted the risks embedded in the country's political system. Few appear to have seriously considered whether their basic premises about China's rise could be wrong. These assumptions should be revisited through a more realistic assessment of whether China, without restructuring its political system, can ever gain the institutional competence required to generate power and prosperity on a sustainable basis. As Beijing changes its leadership, the world needs to reexamine its long-cherished views about China, for they may be rooted in little more than wishful thinking”¹⁰

The increasing risks to investors posed by the political instability of the Chinese Government are further evidenced by the following socio-economic trends occurring in China¹¹:

Increasing wealth disparity;

Perceived deprivation by diverse segments of the populace;

Pervasive employment dislocation;

Escalating inflation;¹²

Rampant pollution and toxic environmental poisoning (which was suppressed at the Chinese Government's request in a 2007 World Bank report);

Economic dependence on mercantilist trade policies; and

Vast quantities of uncollectible debt held by the Chinese Government's state-owned banks (estimated by Ernst & Young to exceed \$1 trillion at just one bank).

¹⁰ “China's Governance Crisis”, September/October 2002 Foreign Affairs, Minxin Pei

¹¹ See, for example, Economist Magazine (October 13, 2007).

¹² See, for example, “China Freezes Prices in Move to Contain Inflation” (Associated Press), September 19, 2007).

The American Bondholders Foundation, LLC respectfully requests the Commission to ensure full and fair disclosure by Chinese corporate and Government issuers of the financial risks posed by Governmental and political instability within China so that American investors may make fully informed decisions whether to purchase the equity or debt securities of such issuers. Because many of the Chinese corporate issuers subject to the Commission's jurisdiction are majority owned, directly or indirectly, by the very Chinese Government whose stability is at risk, a conflict of interest may inhibit management of the corporate issuers from making full disclosure of the potential adverse consequences in the absence of a specific Commission mandate. Accordingly, a specific disclosure mandate by the Commission is warranted in order to ensure protection of American investors. Such mandated disclosure would be similar to other recent Commission initiatives to ensure that issuers provide timely and adequate information about the potentially adverse consequences associated with such risks as environmental liabilities, derivatives and currency fluctuations, and inadequate internal accounting controls.

3. Risk of Debt Repudiation.

Full and adequate disclosure requires filings to include the experience and risk of default and unwillingness to pay debt (including debt repudiation) by sovereign and sovereign owned enterprises, filed with the Commission for debt securities issued by a Chinese issuer, including sovereign debt of the People's Republic of China, to contain a clear statement that the People's Republic of China has repudiated the sovereign debt obligations of predecessor Chinese Governments. Prospective American investors are entitled to be fully informed of the official Chinese Government position that the current Chinese Government does not feel bound by the sovereign full faith and credit debt obligations incurred by the established and internationally recognized Government of China during the pre World War II period and before.¹³ Such disclosure will alert American investors to the low regard the PRC gives to accepted international practices, legal precedent and established international law. Selective debt repudiation, using regime change as an excuse not to recognize obligations of prior governments is directly contrary to the norms of international commerce and globalization. Recent court rulings are current evidence of this reality. The possibility that a future Chinese Government might be tempted to seek to invoke the precedent of its PRC predecessor by renouncing any obligation to honor Chinese Government bonds issued in the 1990's or the first years of the 2000 decade.

The position of the current Government of the People's Republic of China disclaiming the obligations of an established and widely recognized predecessor Government of the same nation is inconsistent with the norms of international law. (See *the Restatement (Third) of the Foreign Relations Law of the United States*, Section 712(2) and *Creditors Claims in International Law*, *The International Lawyer*, Vol. 34, page 235, Spring, 2000)¹⁴ In fact, in 1987 China entered into a treaty with Great Britain that recognized the obligation of the current PRC Chinese Government

¹³ February 2, 1983 Aide Memoire of the Ministry of Foreign Affairs of the People's Republic of China, included as pages 81-82 of the American Society of International Law, *International Legal Materials*, 22I.L.M. 75 (1983) wherein the PRC declared "The Chinese Government recognizes no external debts incurred by the defunct Chinese Governments and has no obligation to repay them. ...It is a long-established principle of international law that odious debts are not to be succeeded to."

¹⁴ The widely reported assurances of the United States and the international community that financial obligations incurred by the current (Saddam Hussein era) Iraqi Government to Russia and to France will be honored by any new Iraqi Government following a change of regime is indicative of the prevailing applicability of this principle of international law. As recently as the late 1990's post Soviet era Russia acknowledged its liability to French bondholders for pre-1917 Czarist era Russian sovereign debt.

for bonds issued prior to the 1949 change of Governments.¹⁵ This treaty provided compensation to British holders of Chinese Government bonds issued prior to 1949.¹⁶ American investors are entitled to full disclosure of the repudiations made by the current PRC Chinese Government of the sovereign debts of predecessor Chinese Governments. Such information is an essential component of full disclosure, critical to enable prospective American purchasers of Chinese Government debt securities to assess the likelihood that a successor Chinese Government which might emerge from a political transition to a non-Communist Party dominated state will abide by accepted international law norms and honor debt securities issued by the current PRC Government of China. The issue of the PRC accepting the obligations of most favored nations trade arrangements and the World Trade Organization membership is directly related to accepting the commercial and financial practices of the world trading and investing community. This is a point our Treasury repeatedly makes in Beijing. Clearly, as the possibility of political volatility in China becomes increasingly noted by credible analysts,¹⁷ the repudiation by the present Chinese Government of a predecessor Chinese Government's sovereign debt is a highly material fact that a prudent investor would want to know.

The specifications articulated in Exhibit 2 and Exhibit 3 appended hereto are reiterated in their entirety and are incorporated by reference, and made a part of, this complaint. We allege the disclosure violations described herein as against each of the companies appearing in Exhibit 1, individually, and further allege disclosure violations against all state-owned enterprises of the Government of China which are presently registered, or may become registered with the Commission.

We further note that the Commission has previously received explicit notification of the failure of the Chinese Government to disclose its defaulted sovereign debt on numerous occasions, including:

Letter from Stites & Harbison PLLC addressed to Mr. Harvey L. Pitt, Chairman and Mr. Allen L. Beller, Director, Corporate Finance Division (January 8, 2003);

Letter from Sovereign Advisers addressed to Mr. Michael Macchiaroli, Associate Director, Division of Market Regulation (March 31, 2005);

Letter from the Chairman of the Joint Economic Committee of the United States Congress addressed to the Hon. William H. Donaldson, Chairman, U.S. Securities and Exchange Commission (May 24, 2005);

Letter from Sovereign Advisers to the Hon. Christopher Cox, Chairman, U.S. Securities and Exchange Commission (August 4, 2005);

¹⁵ According to the New York Times of June 8, 1987, Britain reached a settlement with the Chinese Government. "China was previously barred from issuing bonds on the London market because of its refusal to honor debts incurred by Governments before the 1949 Communist Revolution." The settlement did not provide full value to the British bondholders, but it does provide official evidence of the Chinese Government's willingness, however reluctantly, to recognize its obligation to honor bonds like those held by American bondholders.

¹⁶ Unfortunately, only British citizens and British companies, and no American bondholders or other non-British nationals, were eligible to submit claims. See Part IV of the Foreign Compensation (People's Republic of China) Order 1987 of Her Majesty's Government.

¹⁷ See Parts 1 and 2 of this Letter.

Letter from Sovereign Advisers addressed to Mr. Brian G. Cartwright, General Counsel, Office of the General Counsel, Ms. Linda Thomson, Director, Division of Enforcement and Mr. John W. White, Director, Division of Corporation Finance (September 1, 2006); and

Letter from Sovereign Advisers addressed to Mr. Brian G. Cartwright, General Counsel, Office of the General Counsel, Ms. Linda Thomson, Director, Division of Enforcement and Mr. John W. White, Director, Division of Corporation Finance (February 15, 2007).

4. Failure of the Nationally Recognized Statistical Rating Organizations (NRSRO's) to Conform to Published Metrics (e.g., Willingness to Pay): "Standard & Poor's Sovereign Credit Ratings are an Assessment of Each Government's Ability and Willingness to Service its Debt in Full and on Time"; and Failure to Conform to Published Criteria (e.g., Definitions) as Referenced Below.

Published Definitions: International Sovereign Credit Rating Classifications

**Prevailing Artificial Sovereign Credit Rating Classifications:
Long-Term Foreign Currency Debt of the Chinese Government**

Agency	Rating	Definition
Standard & Poor's	A	An obligor rated 'A' has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
Moody's	A1	Bonds which are rated "A" possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future. The modifier "1" indicates that the obligation ranks in the higher end of its generic rating category.
Fitch	A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Compare the above artificial sovereign credit rating classifications assigned to China with the published definitions maintained by the same agencies appearing below, which definitions truthfully describe the genuine rating classifications in light of the factual evidence (i.e., the actions of the Communist Chinese government with respect to evasion of repayment of its defaulted sovereign debt, including the actions of repudiation; selective default; rejection of the successor government doctrine of settled international law; discriminatory settlement with Great Britain; and the practice of preferential, exclusionary and discriminatory payments to selected general obligation creditors of the government of China).

Truthful Sovereign Credit Rating Classifications

Long-Term Foreign Currency Debt of the Chinese Government As Determined by Conformance of Agencies' Published Criteria and Definitions to Facts Comprising the Actions of the Communist Chinese Government, Including: [1] **Repudiation**; [2] **Selective Default**; [3] **Rejection of Successor Government Doctrine of International Law**; [4] **Discriminatory Settlement with Great Britain**; [5] **Preferential and Discriminatory Payments to Selected General Obligation Creditors**

Agency	Rating	Definition
Standard & Poor's	SD (Selective Default)	An obligor rated "SD" (Selective Default) has failed to pay one or more of its financial obligations (rated or unrated) when it came due. An "SD" rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner

Moody's	Ba (high) Caa (low)	Bonds which are rated "Ba" are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. Bonds which are rated "Caa" are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
Fitch	DDD RD	Default. Entities rated in this category have defaulted on some or all of their obligations. Entities rated "DDD" have the highest prospect for resumption of performance or continued operation with or without a formal reorganization process. Note that the newly introduced rating of "RD" (Restrictive Default) is described as the classification Fitch will assign to an issuer (including sovereigns) in cases in which the issuer has defaulted on one or more of its financial commitments, although it continues to meet other obligations.

In summary, the American Bondholders Foundation, LLC urges the Commission to hold the People's Republic of China, their State-Owned Enterprises, businesses and corporations to the very same policies and procedures, rules and regulations, laws of proper disclosure and reporting that U.S. businesses and corporations are required to adhere to. Stop the "double set of standards" and require the full disclosure to the Commission and the investing American public of the unique and material risks outlined in this letter of investing in Chinese corporate and Governmental securities.

Sincerely,

Jonna Z. Bianco, President
American Bondholders Foundation, LLC

Exhibits Appended Hereto:

- Exhibit 1:** Schedule of state-owned enterprises of the Government of China presently listed on the NYSE Euronext and NASDAQ securities exchanges.
- Exhibit 2:** Complaint describing violations of the federal securities laws of the United States in respect to the offer, sale and trading of sovereign debt securities of the People's Republic of China including violations of Rule 10b-5 and Section 10(b) of the Exchange Act.
- Exhibit 3:** Complaint alleging fraud in connection with offerings of securities by the Government of China within the United States.

cc: Mr. John A. Thain, Chief Executive Officer
NYSE Group, Inc.

Mr. Robert Greifeld, President and Chief Executive Officer
NASDAQ Stock Market

Ms. Patricia Rado, President and Chief Operating Officer
American Stock Exchange

Ms. Mary L. Schapiro, Chief Executive Officer
Financial Industry Regulatory Authority

Mr. Russ Iuculano, Executive Director
North American Securities Administrators Association

Hon. Lawrence G. Wasden, President
National Association of Attorneys General

Hon. Andrew M. Cuomo, Attorney General for the State of New York
Office of the New York State Attorney General

Mr. John Petty, President
United States Foreign Bondholders Protective Council

Mr. Kevin O'Brien, President
Sovereign Advisers

Exhibit 1

Exhibit 1.1: PRC SOEs listed on the NYSE Euronext Securities Exchange:

Aluminum Corp. of China Ltd. (ACH)

China Eastern Airlines Corporation Limited (CEA)

China Life Insurance Company Limited (LFC)

China Mobile (Hong Kong) Ltd. (CHL)

China Netcom Group Corporation (Hong Kong) Limited (CN)

China Petroleum & Chemical Corporation (SNP)

China Southern Airlines Company Limited (ZNH)

China Telecom Corporation Limited (CHA)

China Unicom (CHU)

Guangshen Railway Co. Ltd. (GSH)

Huaneng Power International Inc. (HNP)

Jilin Chemical Industrial Company, Ltd. (JCC)

PetroChina Company Ltd. (PTR)

Semiconductor Manufacturing International Corporation (SMI)

Sinopec Shanghai Petrochemical Company Limited (SHI)

Suntech Power Holdings Co., Ltd. (STP)

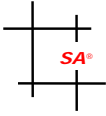
Yanzhou Coal Mining Co. Ltd. (YZC)

Exhibit 1.2: PRC SOEs listed on the NASDAQ Securities Exchange:

Aluminum Corp. of China
American Dairy
ASAT Holdings
Asia Payment Systems
AsiaInfo Holdings
Alpha Spacecom
Baidu.Com, Inc.
Beijing Med-Pharm Corp
Brilliance China
China Automotive Systems
China Eastern Airlines
China Energy Ventures Corp
China Cable & Comm.
China National Offshore Oil
China Energy Savings Tec
China Techfaith Wireless
China Telecom
Chinadotcom
China Unicom
China Netcom
Chindex
Comtech Group
Ctrip.com
China Yuchai International
Deswell Industries
Guangshen Railway
HuaNeng Power
International DisplayWorks,
INTAC International
Jilin Chemical Industrial J

51 Job, Inc.
China Finance Online
KongZhong Corporation
China Life Insurance
eLong
Linktone
The9 Limited
Ninetowns Digital World
Nam Tai Electronics
Netease.com
Pacifinet Inc.
PetroChina
Radica Games
Sinopec Shanghai
Sina Corp.
Semiconductor Manufac.
Shanda Interactive
Sina.com Corp
Sinopec
Sohu.com
Sinovac Biotech
Target Media
Tiens Biotech
Tom Online
UTStarcom
Watchdata System
Webzen
Qiao Xing Telephone
Yanzhou Coal Mining
China Southern Airlines

Exhibit 2



Sovereign Advisers[®]
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4901 E. Sunrise Drive • Suite 711
Tucson • Arizona • 85718

Tel (USA): 520.327.2482 • Fax: 520.322.9850
Email: info@sov-advisers.com
Website: <http://www.sov-advisers.com>

Kevin O'Brien
President

Dr. Tulsu Uprety, Ph.D.
Vice President

James Kay, CPA
Vice President

Wynne Hall, MBA
Vice President

September 1, 2006

Mr. Brian G. Cartwright, General Counsel
Office of the General Counsel

Ms. Linda Thomsen, Director
Division of Enforcement

Mr. John W. White, Director
Division of Corporation Finance

United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Recent actions evidencing failure to comply with disclosure obligations of registered sovereign issuers under the federal securities laws of the United States in respect to the offer, sale and trading of sovereign debt securities of the People's Republic of China: violations of Rule 10b-5 and Section 10(b) of the Exchange Act.

Dear Mr. Cartwright, Ms. Thomson and Mr. White:

We respectfully write to your attention concerning the matter of the defaulted sovereign debt of the Government of China as this matter pertains to the disclosure requirements affecting recent, as well as future, offers, sales and trading of debt securities of the Government of China and its state-owned enterprises within the United States.¹⁸

In the United States, the disclosure obligations for registered sovereign issuances are governed by the Securities and Exchange Commission's Schedule B, which affirmatively requires only minimal disclosure including pricing, payments schedule, and volume. However, an affirmative obligation by registered sovereign issuers to speak with respect to additional disclosure does exist in that statements made in connection with an offering of securities, although literally true, may not be misleading through their incompleteness as specified by Rule 10b-5 and Section 10(b) of

¹⁸ Please refer to the complaint dated March 31, 2005 filed with the SEC Division of Market Regulation describing the wrongful actions of the underwriters of recent offerings of debt securities of the Government of China and the credit rating agencies in the matter of selectively ignoring the full faith and credit sovereign debt of the Government of China presently existing unpaid and in a state of default: (<http://www.globalsecuritieswatch.org/SEC.pdf>). The complaint was subsequently the subject of a comprehensive internal review by the SEC at the request of numerous members of the United States Congress: (<http://www.globalsecuritieswatch.org/congress.html>). See also the letter dated May 24, 2005 addressed to the SEC Chairman by the Honorable Jim Saxton, Chairman of the Joint Economic Committee: (http://www.globalsecuritieswatch.org/chairman_saxton_demand_for_investigation.pdf). We are informed that the facts and circumstances described in the complaint were influential in the recent passage of legislation (HR 2990) reforming federal regulatory oversight of the credit rating agencies.

the Exchange Act.¹⁹ Under Rule 10b-5 and Section 10(b) of the Exchange Act, a duty is imposed upon an issuer to refrain from disclosing materially incomplete statements (i.e., the prohibition against “half-truths”).

Accordingly, a source of a sovereign’s obligation to disclose additional risks in the offering documents arises from additional disclosure which the sovereign volunteers. In the event that a registered sovereign issuer may elect to provide additional disclosure beyond the requirements imposed by SEC Schedule B, such statements must constitute full and complete disclosure and not be misleading through their incompleteness. Under Rule 10b-5, statements that are literally true can create liability if they create a materially misleading interpretation because they omit some key fact (or, in other words, are “half-truths”). The duty not to make “half-truths” under Rule 10b-5 applies to both registered and non-registered sovereign bond issuances.

We refer now to the inadequate disclosure contained in the prospectus dated October 16, 2003 and in the prospectus supplement dated October 22, 2003 pertaining to the registered offering, sale and issuance of sovereign obligations of the People’s Republic of China, and offer several obvious examples of disclosure obligations required by Rule 10b-5 and Section 10(b) of the Exchange Act which are omitted from mention in the above offering document.²⁰

Examples of failures to fully disclose key facts, constituting violations of Rule 10b-5 and Section 10(b) of the Exchange Act:

1. Voluntary Disclosure: Debt Record (page 69 of the prospectus) –

“The central government has always paid when due the full amount of principal of, any interest and premium on, and any amortization or sinking fund requirements of, external and internal indebtedness incurred by it since the PRC was founded in 1949.”

Omission: This statement is misleading to offerees and prospective purchasers. Both the prospectus and the prospectus supplement intentionally omit any mention of the existence of pre-1949 defaulted full faith and credit sovereign obligations of the Government of China, which under accepted conventions of international law, the payment obligation for such indebtedness was incurred by the central government of China in 1949 and on which that government has since settled with British bondholders while continuing to evade the claims of American bondholders.

¹⁹ The lack of meaningful affirmative disclosure obligations in the Schedule B context, elevates the importance of the obligation not to speak in “half-truths”. See James D. Cox, *Rethinking U.S. Securities Laws in the Shadow of International Competition*, L. & Contemp. Problems, Autumn 1992, at 177, 192-193 (cited at 13, *An Empirical Study of Securities Disclosure Practices*, authored by Mitu Gulati and Stephen Choi, Duke Law School Working Paper, 2006).

²⁰ Registration no. 333-108727. (ISIN US712219AJ30 / CUSIP 712219AJ3). See prospectus dated October 16, 2003 and the prospectus supplement dated October 22, 2003: (<http://www.sec.gov/Archives/edgar/data/909321/000114554903001347/u98681p1e424b5.htm>).

As we have previously described, neither the prospectus nor the prospectus supplement contain any mention whatsoever regarding the existence of defaulted full faith and credit sovereign debt of the Government of China which remains unpaid in a state of default, and for which the People's Republic of China is liable for repayment under settled international law as the internationally-recognized successor government of China, and which government continues to engage in actions evidencing both selective default and discriminatory settlement under settled international law.²¹ Such actions act to create the risk of seizure of proceeds of any securities offering by the Government of China or any of its state owned enterprises and also act to expose purchasers of sovereign obligations issued by the People's Republic of China to the risk of injunctions preventing discriminatory payments to such purchasers.

2. Voluntary Disclosure: External Debt (page 67 of the prospectus) – Note: this section contains extensive narrative and numerous schedules referencing the outstanding obligations and external debt of the Government of China. No mention is made regarding the existence of defaulted sovereign debt of the Government of China. An excerpt of this section appears below:

“Loans are the primary source of external debt. Non-trade loans accounted for approximately 84.4% of the total external debt outstanding at December 31, 2002. Commercial loans (i.e., loans obtained from any source on commercial terms), official primary government loans (i.e., loans obtained on favorable terms from foreign governments and international financial organizations including the World Bank and Asian Development Bank) and other types of debt financing accounted for approximately 53.5%, 30.9% and 15.6%, respectively, of total external debt in the form of loans at December 31, 2002. The central government's current policy is to continue to

²¹ The U.S. registration statement including the prospectus and prospectus supplement pertaining to the 2003 sovereign bond offering and sale by the People's Republic of China was prepared by the U.S. law firm of Sidley Austin Brown & Wood LLP. We note that this is the same law firm that, through its predecessor firm of Brown & Wood LLP, admitted to orchestrating an artifice which was then operated as a knowingly fraudulent tax shelter scheme and which defrauded the U.S. Treasury out of an estimated \$2.5 billion in tax revenues, and which firm then agreed to make a \$40 million payment to settle a civil class action lawsuit for tax shelter fraud in connection with the very recent KPMG case. This settlement is in addition to separate actions brought by the U.S. Department of Justice and the Internal Revenue Service in the largest criminal tax case ever. Sidley Austin was also the subject of a special inquiry conducted by the Senate Permanent Subcommittee on Investigations. Apparently, this law firm not only engineered the fraudulent tax shelter scheme, but also issued a knowingly fraudulent tax opinion to support the massive multi-billion dollar scheme. We note that Sidley Austin also concealed the fact of a public hearing entitled, “U.S.-China Ties: Reassessing the Economic Relationship” conducted by the House Committee on International Relations, which invited and did include testimony pertaining to the existence of defaulted sovereign debt of the Government of China, and which occurred prior to the date of the 2003 prospectus supplement. We further note the fact that Sidley Austin concealed the existence of a House Concurrent Resolution (“H.Con.Res.60”) in the United States Congress which specifically referenced the existence of the defaulted sovereign debt of the Government of China. We also note that subsequent to the receipt of constructive notice provided by the letter prepared by the law firm of Stites & Harbison dated December 31, 2003, that Sidley Austin failed to take any action to amend the 2003 U.S. registration statement and prospectus. Such failure evidences the application of a reckless standard of care.

seek loans from foreign governments and international financial institutions to finance infrastructure projects in China. At the end of 2002, the total outstanding external debt was US\$168.5 billion.”

“The Ministry of Finance, on behalf of the central government, has raised funds in the international capital markets through various debt securities and bond issues since 1993. The Ministry of Finance’s principal objective is to set up benchmarks for other Chinese borrowers. Several state-owned financial institutions and enterprises have also issued debt securities in the international capital markets with the approval of the State Council.”

“Unless the central government expressly provides otherwise, the central government does not guarantee or provide any direct or indirect credit support to any entity in China. However, debtors that have their external debt registered with the State Administration of Foreign Exchange have the right to buy foreign currencies as permitted by the central government at the China Foreign Exchange Trading System rate in order to service the interest and principal payments on their registered external debt.”

Omission: The language of this section intentionally conceals the existence of a significant liability of the People’s Republic of China under the successor government doctrine of settled international law espousing continuity of obligations. The failure to disclose the existence of the defaulted sovereign debt of the Government of China and the existence of a defaulted class of creditors also exposes purchasers of the offered obligations to the risk of judicial and other actions brought by the class of defaulted creditors, the existence of which remains undisclosed, and whose actions to recover payment on the defaulted obligations would reasonably be considered to be adverse to the interests of purchasers of newly-offered obligations. The concealment of the defaulted sovereign debt of the Government of China also acts to intentionally deceive prospective purchasers as to the actual risk of non-repayment inherent to the actions of the Government of China towards its defaulted creditors and the refusal to honor repayment of its outstanding defaulted sovereign debt.

3. Voluntary Disclosure: Recent Developments (page S-6 of prospectus supplement) –

“The credit ratings accorded to China’s debt securities by the rating agencies are not recommendations to purchase, hold or sell the notes to the extent such ratings do not comment as to market price or suitability for you. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant, and if any such rating is so revised or withdrawn, we are under no obligation to update this prospectus supplement. On October 15, 2003, Moody’s Investors Service, Inc. upgraded China’s sovereign rating from A3 to A2 for long-term foreign-currency denominated debt. The rating outlook is stable. On October 22, 2003, Standard & Poor’s Ratings Group affirmed its BBB senior unsecured foreign currency credit rating for China. The outlook is positive. On October 13, 2003, Fitch IBCA, Inc. affirmed the long-term foreign currency rating of China at A-. The rating outlook is positive. This rating applies to all of China’s senior unsecured long-term sovereign debt issues.”

Omission: Any mention of the specific risks to purchasers arising as a result of the suspension of the sovereign credit rating of the Government of China owing to a credible and reasonably foreseeable threat of litigation seeking recovery of payment on the defaulted sovereign debt of the Government of China. Although the language of this section of the prospectus supplement does acknowledge the generic possibility of the withdrawal of the sovereign credit rating of the Government of China, the language fails to disclose the existence of known facts evidencing the falsity of the prevailing sovereign credit rating classifications assigned to the Government of China by Standard and Poor's Ratings Service, Moody's Investors Service, and Fitch Ratings and the attendant prospect for litigation in this regard.²² The generic risk disclosure language offered in this section fails to fully disclose the existence of the actual and known specific risks attributable to the failure to disclose the existence of the defaulted sovereign debt of the Government of China, and which risks would reasonably be expected and foreseeable to cause the occurrence of suspension of the sovereign ratings assigned to the Government of China (i.e., the risk that suspension may occur as a result of an action brought in the future against the credit rating agencies by defaulted creditors of the Government of China). Such actions brought by defaulted creditors would reasonably be expected to include recovery of damages sustained as a consequence of a tort injury (e.g., the "taking" of the defaulted creditors' ability to enforce the debt contract occurring as a direct consequence of the intentional assignment of a knowingly fraudulent credit rating classification to the Government of China).

4. Voluntary Disclosure: General Information (page S-11 of the prospectus supplement) –

"China is neither involved in any litigation, arbitration or administrative proceedings which are material in the context of the issue of the notes nor aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened."

"Except as disclosed in this prospectus supplement and the accompanying prospectus, there has been no significant change in the condition (financial, political, economic or otherwise) or the affairs of China which is material in the context of the issue of the notes since December 31, 2002."

Omission: At the time of the dates appearing on the prospectus and the prospectus supplement, there existed a reasonably anticipated prospect for litigation in the form of a judicial action for recovery of repayment of the defaulted sovereign debt of the Government of China, including imposition of injunctions and restraining orders acting to adversely affect the flow of payments to selected classes of creditors, halt trading in affected securities, and the possible seizure of offering proceeds or interest payments by defaulted creditors.

²² The three Nationally Recognized Statistical Rating Organizations named above command a dominant position of the rating business, comprising a 94% market share.

The American Bondholders Foundation, comprising a large group of affiliated U.S. persons holding defaulted sovereign debt of the Government of China, was organized in early 2001 to consolidate the claims of defaulted creditors of the Government of China and was actively engaged along with other parties in both the United States as well as outside the United States, in efforts, including possible judicial action(s), to recover repayment of the defaulted full faith and credit sovereign debt of the Government of China prior to, at the time of, and subsequent to the dates of the prospectus and prospectus supplement, and remains actively engaged in such recovery efforts at present. Such efforts, which were widely publicized at the time and so should have been known to the parties responsible for preparing the prospectus and the prospectus supplement, would have been reasonably anticipated as of the dates of the prospectus and the prospectus supplement to produce judicial and other action(s) affecting various creditors of the Government of China, including purchasers of the 2003 sovereign bond offering.²³

The language of this section completely fails to disclose not only the risks to purchasers of litigation in connection with recovery of the defaulted sovereign debt of the Government of China, but also fails to disclose the engagement of the United States Congress on behalf of the interests of the defaulted class of U.S. creditors of the Government of China, and the reasonably foreseeable and highly potential prospect of political and legislative action(s) by the United States Congress to enforce fair trade and commerce practices and which may adversely affect both the liquidity and the market price of sovereign bonds issued by the Government of China on which that government selectively honors payment while refusing to honor payment to its defaulted creditors in violation of both settled international law and the established *pari passu* legal doctrine prohibiting discriminatory payments among creditors.²⁴ We have previously noted that public testimony was provided at a public hearing prior to the date of the prospectus supplement before the House International Relations Committee on October 21, 2003 describing the very pertinent issue of the unpaid full faith and credit sovereign debt of the Government of China existing in a state of default, as the Government of China continues

²³ See news article entitled, *U.S. Holders of Pre-1949 China Bonds Sue Rating Agencies*. EuroWeek (July 21, 2006). See also, the letter prepared by Sovereign Advisers addressed to the McGraw-Hill Companies dated May 18, 2006, providing constructive notice of the taking of defaulted creditors' ability to enforce collection of the defaulted sovereign debt of the Government of China as a result of the intentional application of a reckless standard of care in developing the previous as well as the prevailing sovereign credit rating classifications assigned to the long-term foreign currency debt of the Government of China and which wrongful practices enabled the Government of China to resume international financing while avoiding repayment of the Government of China's defaulted sovereign debt. Identical versions of this letter were also delivered to Moody's Investors Service and Fitch Ratings, providing each firm with constructive notice.

²⁴ See information describing the effect on holders of sovereign debt as a result of the Belgian Court's decision in *Elliott Associates*, as well as letters from members of the United States Congress endorsing regulatory enforcement relating to matters pertinent to full disclosure and recovery of repayment of the defaulted full faith and credit sovereign debt of the Government of China: (<http://www.globalsecuritieswatch.org>).

to evade repayment to defaulted creditors through actions evidencing a pattern of selective default and discriminatory settlement.²⁵

In particular regard to litigation disclosure, please note the existence of at least one civil lawsuit against the Government of China which is presently pending in the U.S. District Court for the Southern District of New York comprising a judicial action for recovery of repayment on the defaulted sovereign debt of the Government of China.²⁶ The occurrence of this action was reasonably foreseeable in October 2003, and the attendant risks to investors in newly-offered debt securities of the Government of China were not disclosed to the investing public which relied on the 2003 prospectus and prospectus supplement, many of whom may have been induced to purchase the offered securities owing to concealment of both the existence of the full faith and credit sovereign debt of the Government of China which remains unpaid in a state of default, as well as the attendant risks posed by this fact, including recent actions evidencing both selective default and discriminatory settlement by the Government of China.²⁷

Please be advised that regardless of the ultimate disposition of the specific instance referenced in this section (i.e., Marvin L. Morris vs. People's Republic of China), we expect additional parallel and derivative actions to subsequently occur as a result of this action. The continuing evasion by the Government of China as respects repayment of its defaulted sovereign debt necessitates the aggressive prosecution of judicial actions for recovery. We anticipate the filing of additional civil suits by various parties seeking recovery of the defaulted sovereign debt of the Government of China in both U.S. courts and in various foreign jurisdictions as well. We also anticipate the imminent filing of numerous petitions requesting the grant of injunctions and restraining orders both in the United States and abroad pursuant to a concerted recovery action to collect repayment of this debt.

²⁵ See transcript of testimony provided at the public hearing conducted by the House Committee on International Relations on October 21, 2003 entitled, "U.S.-China Ties: Reassessing the Economic Relationship": (http://www.house.gov/International_Relations/108/bian2021.htm). This publicly televised testimony was presented to members of the House Committee on International Relations prior to the date of the prospectus supplement (October 22, 2003), yet the circumstances described in the Congressional testimony were intentionally and wrongfully omitted from disclosure in both the prospectus and the prospectus supplement. Both the prospectus and the prospectus supplement noticeably fail to disclose any reference to, or mention of, the letter sent by the law firm of Stites & Harbison PLLC to the Ministry of Finance of the People's Republic of China demanding payment of the claims of defaulted U.S. creditors of the Government of China (copy enclosed).

²⁶ See Marvin L. Morris, Jr. vs. People's Republic of China (05 CIV 4470) presently pending in the U.S. District Court for the Southern District of New York: (http://www.globalsecuritieswatch.org/civil_complaint.pdf).

²⁷ The Government of China continues to ignore the claims of U.S. bondholders who are victims of both selective default and discriminatory settlement by the Government of China (see the 1987 treaty with Great Britain which settled the claims of British bondholders), which continues to attempt to evade repayment in flagrant violation of accepted conventions of international trade and commerce including rejection of the successor government doctrine of settled international law.

Accordingly, the grant of such injunctions and restraining orders may reasonably be expected to include any of the following on either a pre-judgment or post-judgment basis:

1. Injunction(s) enjoining and prohibiting the offer or sale of securities of the Government of China or any of its state-owned enterprises;
2. Injunction(s) enjoining and prohibiting the transmittal of any proceeds derived from any securities offering by the Government of China or any of its state-owned enterprises;²⁸
3. Injunction(s) enjoining and prohibiting the Government of China from making discriminatory payments to other creditors in circumvention of payments to defaulted creditors;²⁹
4. Injunction(s) enjoining and suspending publication of the sovereign credit rating assigned to the Government of China;³⁰
5. Injunction(s) enjoining and suspending trading activities involving any securities of the Government of China or any of its state-owned enterprises; and
6. Enforcement of judgments attaching commercial assets of the Government of China, including the seizure of proceeds from the offer and sale of securities.

The potential for such actions poses material risks to investors holding outstanding obligations of the Government of China which that government selectively honors and on which the Government of China continues to make discriminatory payments, as well as to investors in future debt securities issued by the Government of China.

In light of the voluntary disclosures contained in the 2003 prospectus and the prospectus supplement, the intentional omissions of the “full and complete story” (including material facts and attendant risk factors) constitute violations of Rule 10b-5 and Section 10(b) of the Exchange Act.

In the absence of proactive regulatory enforcement mandating full and complete disclosure as required by Rule 10b-5 and Section 10(b) of the Exchange Act, we are concerned that investors who have purchased previous debt securities issued by the Government of China, as well as investors solicited for future offerings of debt securities issued by the Government of China or its state-owned enterprises, may in light of the inadequate disclosure offered in connection with such offerings and sale, constitute induced purchasers whom have not been fully apprised of the attendant risks associated with any investment in such securities. We are therefore confident that the Commission will act promptly to ensure full compliance with the disclosure obligation imposed by the federal securities laws, and specifically Rule 10b-5 and Section 10(b) of the Exchange Act, in connection with future registered offerings in the United States by the Government of China and its state-owned enterprises.

²⁸ An example would be a grant of injunction either preventing any public offering(s) of securities of a bank owned by the Government of China or preventing the inter-jurisdictional transfer of any proceeds of such securities offering(s) to the Government of China or any of its state-owned enterprises.

²⁹ See Elliott Associates, L.P., General Docket no. 2000/QR/92 (Court of Appeals of Brussels, 8th Chamber, Sept. 26, 2000). The Court granted Elliott’s *ex parte* petition for a restraining order against Euroclear.

³⁰ Please refer to copy of letter dated May 18, 2006 addressed to Mr. Harold McGraw III, Chairman of the McGraw-Hill Companies (copy enclosed).

Sincerely,

Kevin O'Brien
President

KO:jwc

- Enclosures:
1. Copy of letter prepared by the law firm of Stites & Harbison PLLC addressed to the Ministry of Finance of the People's Republic of China dated February 5, 2002, evidencing a demand for payment of the defaulted full faith and credit sovereign debt of the Government of China held by United States bondholders.
 2. Copy of letter prepared by the law firm of Stites & Harbison PLLC addressed to the United States Securities and Exchange Commission dated January 8, 2003, providing notice to the primary regulatory agency of the United States Government responsible for enforcement of the federal securities laws regarding inadequacy of disclosure referencing undisclosed risk factors pertinent to compliance with the disclosure obligation of Chinese Government issuers engaging in U.S.-registered securities offerings.
 3. Copy of letter prepared by the law firm of Stites & Harbison PLLC addressed to the law firm of Sidley Austin Brown & Wood LLP dated December 31, 2003, providing constructive notice of the existence of full faith and credit sovereign debt of the Government of China which presently remains unpaid in a state of default, and including a schedule referencing such debt, prepared by the Foreign Bondholders Protective Council.
 4. Copy of letter prepared by Sovereign Advisers addressed to the McGraw-Hill Companies dated May 18, 2006, providing constructive notice of the taking of defaulted creditors' ability to enforce collection of the defaulted sovereign debt of the Government of China as a result of the intentional application of a reckless standard of care in developing the previous as well as the prevailing sovereign credit rating classifications assigned to the long-term foreign currency debt of the Government of China and which wrongful practices enabled the Government of China to resume international financing while avoiding repayment of the Government of China's defaulted sovereign debt. Identical versions of this letter were also delivered to Moody's Investors Service and Fitch Ratings, providing each firm with constructive notice.

cc: Members of the 109th United States Congress

 Honorable F. James Sensenbrenner, Jr., Chair
 U.S. House of Representatives Committee on the Judiciary

 Honorable Sue Kelly, Chair
 U.S. House of Representatives Subcommittee on Oversight and Investigations

 Honorable Norm Coleman, Chair
 Senate Permanent Subcommittee on Investigations

 Honorable Michael J. Garcia
 United States Attorney for the Southern District of New York

 Honorable Eliot Spitzer
 Attorney General for the State of New York

 Honorable Robert M. Morgenthau
 New York County District Attorney for the District of Manhattan

 Mr. Russ Iuculano, Executive Director
 North American Securities Administrators Association

 Mr. Thurbert E. Baker, President
 National Association of Attorneys General

 Mr. Eddy Wymeersch, Chairman
 Committee of European Securities Regulators

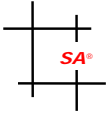
 [57 Foreign Securities Commissions]

 Mr. Ronald Scott Moss, Esq.
 Moss & Associates, P.C.

 Mr. John Petty, President
 Foreign Bondholders Protective Council

 Ms. Jonna Bianco, President
 American Bondholders Foundation

Exhibit 3



Sovereign Advisers[®]
Specialists in Risk Metrics Analytics

4901 E. Sunrise Drive • Suite 711
Tucson • Arizona • 85718

Tel (USA): 520.327.2482 • Fax: 520.322.9850
Email: info@sov-advisers.com
Website: <http://www.sov-advisers.com>

Kevin O'Brien
President

Dr. Tulsu Uprety, Ph.D.
Vice President

James Kay, CPA
Vice President

Wynne Hall, MBA
Vice President

February 15, 2007

Mr. Brian G. Cartwright, General Counsel
Office of the General Counsel

Ms. Linda Thomsen, Director
Division of Enforcement

Mr. John W. White, Director
Division of Corporation Finance

United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: **AMENDMENT STATING ALLEGATION OF FRAUD**

For incorporation into the following document dated September 1, 2006 and filed with the SEC Divisions of Enforcement and Corporation Finance and the Office of the General Counsel:

COMPLAINT

Recent actions evidencing failure to comply with disclosure obligations of registered sovereign issuers under the federal securities laws of the United States in respect to the offer, sale and trading of sovereign debt securities of the People's Republic of China: violations of Rule 10b-5 and Section 10(b) of the Exchange Act.

Dear Mr. Cartwright, Ms. Thomson and Mr. White:

We respectfully write to your attention in reference to the Complaint dated September 1, 2006 (the "Complaint", a copy of which is enclosed with this correspondence) as filed with the Divisions of Enforcement and Corporation Finance and the Office of the General Counsel, to incorporate the additional specification of fraud as described below and as appears in "Exhibit A" attached hereto, as pertains to the failure to disclose the existence of the defaulted sovereign debt of the government of China in matters involving the registration of recent as well as future offers and sales of debt securities of the Government of China and its state-owned enterprises within the United States.³¹ We reiterate each and every specification stated in the Complaint describing the omission of certain facts and the intentional concealment (as evidenced by the failure to amend certain statements in the face of constructive notice) of material information comprising violations of Rule 10b-5 and Section 10(b) of the Exchange Act as regards the debt record of the Chinese government, and now pray leave of the Commission to amend said Complaint to include the additional specifications and allegations as described herein.

³¹ Please note that the Complaint may be accessed and viewed on the world wide web at the following URL: http://www.globalsecuritieswatch.org/Sovereign_Disclosure_Obligation.pdf

Action of the Specifications Articulated in the Complaint:

The action of the specifications articulated in the Complaint presently on file with the Commission operates to the effect of enabling the government of China to continue to escape the repayment obligation for its defaulted sovereign debt and to thereby perpetrate a deception upon the investing public through omissions of fact (in the form of “half-truths”) and the intentional concealment of material facts, and which thereby further operates to misstate the actual risks endemic to investment in debt obligations of the government of the People’s Republic of China.

Amendment to the Complaint Stating Allegation of Fraud:

The subject of this Amendment to the Complaint pertains to certain representations contained in the U.S. Registration Statement, including the Prospectus dated October 16, 2003 and the Supplement to the Prospectus dated October 22, 2003 as filed with the United States Securities and Exchange Commission pertaining to the registration, offering and sale of U.S. \$1 billion of 4.75% notes due 2013 issued by the People’s Republic of China³², and specifically to the following language which appears on page S-7 of the Supplement to the Prospectus describing the ranking of the obligations publicly registered, offered and sold within the United States in 2003 and which obligations remain outstanding as of the date of this letter:

“Ranking

The notes will rank equally with each other and **with all other general and (subject to the provisions in the notes providing for the securing of such obligations in the event certain other obligations of China are secured) unsecured obligations of China for money borrowed** and guarantees given by China in respect of money borrowed by others. **China will pledge its full faith and credit** for the due and punctual payment of the notes and **for the due and timely performance of all obligations of China** with respect to the notes.” (*Emphasis added*).

The above language, excerpted from the Supplement to the Prospectus, purposefully conceals the existence of the defaulted full faith and credit sovereign debt of the government of China (the “Defaulted Debt”), and in particular, the Chinese Government Five Per Cent Reorganisation Gold Loan which was scheduled to mature in 1960 and which remains outstanding, unpaid and in a state of default as a general obligation of the government of China.³³

³² Registration Number 333-108727. The Common Code for this offering of notes is 017941941, the ISIN is US712219AJ30 and the CUSIP is 712219AJ3. The Prospectus and the Supplement to the Prospectus may be accessed and viewed on the world wide web at the following URL:

<http://www.sec.gov/Archives/edgar/data/909321/000114554903001347/u98681p1e424b5.htm>

³³ See attached schedule of China’s defaulted sovereign debt, prepared by the United States Foreign Bondholders Protective Council. The U.S. Foreign Bondholders Protective Council was established by the United States Department of State, Department of the Treasury, and the Federal Trade Commission for the purpose of assisting U.S. citizens in recovery of repayment of defaulted obligations issued by foreign governments. According to the president of the Foreign Bondholders Protective Council, China represents

Actions of the Government of China:

A comparison of the factual record with the description of China's actions as stated in the U.S. Registration Statement and the Prospectus reveals numerous departures from the truth. The language claiming equal ranking and punctual payment by China of its sovereign obligations conceals the existence of the Defaulted Debt and further conceals the wrongful actions of the government of the People's Republic of China with respect to its treatment of the general obligation creditors of the Chinese government holding the Defaulted Debt as summarized below:

Post-1949 Actions of the Government of the People's Republic of China	Date
1. The attempt to repudiate the Defaulted Debt ³⁴	1983
2. The practice of selective default ³⁵	Continues in effect at present
3. The practice of engaging in discriminatory payments to a selected group of general obligation creditors, e.g., purchasers of its recently issued notes, while excluding payment to another group of general obligation creditors, e.g., the holders of the Defaulted Debt ³⁶	Continues in effect at present
4. Rejection of the successor government doctrine of settled international law ³⁷	Continues in effect at present
5. Discriminatory settlement of the Defaulted Debt with a selected group of creditors (i.e., citizens of Great Britain) while refusing to honor repayment to other members of the same class of creditors ³⁸	1987

the sole instance, in over 40 settlements of defaulted sovereign debt, in which the debtor government refuses to negotiate the settlement of its defaulted debt. As a result of the continuation of China's wrongful actions and the wrongful actions of other parties actively engaged in the operation of a profitable scheme to assist China in escaping its repayment obligation to defaulted creditors, various court actions are either presently pending or are in the development phase. See, for example, the article describing a second complaint recently filed in United States District Court for the Southern District of New York: "Bondholders Say China Owes \$2.3 Billion", *Bank & Lender Liability Litigation Reporter*, Vol. 12, Issue 16 (Dec. 14, 2006). Thomson West Publishing Company. The article may be accessed and viewed on the world wide web at the following URL:

http://www.globalsecuritieswatch.org/Bondholders_Say_China_Owes_2.3_Billion.doc

³⁴ See *Aide Memoire* issued by the Ministry of Foreign Affairs of the People's Republic of China dated February 2, 1983. That the government of the People's Republic of China understood its obligation for repayment of the Defaulted Debt is implicit to the decree of repudiation. There would have been no occasion for repudiation were there no obligation.

³⁵ *Ibid.*

³⁶ *Ibid.* Specifically, interest payments made to purchasers of the Chinese government's recently issued general obligation notes, while excluding proportional payments to pre-existing general obligation creditors of the Chinese government. This practice is being addressed in pending court actions in order to restrain and enjoin non-proportional payments to selected creditors.

³⁷ *Ibid.*

The International Claims Settlement Act Excludes Settlement by the U.S. Foreign Claims Settlement Commission of Claims Relating to the Government of China's Defaulted Sovereign Debt:

The claims of United States citizens involving the defaulted sovereign debt of the government of China have not been settled as of the date of this letter.³⁹ Certain instances involving such claims have been brought before the United States Foreign Claims Settlement Commission (the "Commission").⁴⁰ The Commission subsequently determined that any claim for repayment of the Defaulted Debt evidenced by the bonds was not within the purview of Title V of the International Claims Settlement Act of 1949, as amended, and was therefore outside the authority of the FCSC.⁴¹ Claims pertaining to the Defaulted Debt have been consistently referred by the United States Department of State to the United States Foreign Bondholders Protective Council.⁴² As

³⁸ See the 1987 treaty between the governments of China and Great Britain which settled the claims of British citizens holding the Defaulted Debt.

³⁹ See materials cited in supra note 3 (schedule of the Chinese government's defaulted sovereign debt, prepared by the United States Foreign Bondholders Protective Council).

⁴⁰ See, e.g., *In the Matter of the Claim of Carl Marks & Co. Inc.* (Claim No. CN-0420; Decision No. CN-472, entered as a Proposed Decision on June 17, 1970 and reaffirmed as the Final Decision of the Commission on March 11, 1971); *In the Matter of the Claim of Catharine E. Olive* (Claim No. CN-2-012; Decision No. CN-2-058, entered as a Proposed Decision on October 17, 1979 and reaffirmed as the Final Decision of the Commission on Nov. 21, 1979); and *In the Matter of the Claim of Welthy Kiang Chen* (Claim No. CN-2-015; Decision No. CN-2-066, entered as a Proposed Decision on October 17, 1979 and reaffirmed as the Final Decision of the Commission on April 1, 1981).

⁴¹ See the Final Decision of the Commission in *Carl Marks & Co., Inc.*, Foreign Claims Settlement Commission, Claim No. CN-0420; Decision No. CN-472, March 11, 1971 (supra note 10). See in particular, the statement articulated by the Commission in its decision: "... a claim based upon such bonds does not come within the purview of Title V of the International Claims Settlement Act of 1949, as amended." The Foreign Claims Settlement Commission is an independent quasi-judicial federal agency organized administratively as a separate agency within the United States Department of Justice. The Commission's primary mission is to determine the validity and monetary value of claims of United States nationals for loss of property or for personal injury in foreign countries, as authorized by Congress, upon referral by the Secretary of State, or following government-to-government claims settlement agreements. The Commission was vested with the authority for adjudicating claims against the Chinese Communist regime arising since 1949. The Foreign Claims Settlement Commission does not have, nor has it ever had, the authority to settle any claims against the government of China arising prior to 1949, including any claims related to the Defaulted Debt, which entered into default in 1939. See also, the letter dated December 11, 1979 prepared by the U.S. Department of State and addressed to the Chairman of the U. S. House of Representatives Subcommittee on Trade of the Committee on Ways and Means, acknowledging that the defaulted Chinese bonds owned by American citizens were outside the scope of the 1979 U.S. - China Agreement between the governments of the United States and China, and referring United States claimants to the U.S. Foreign Bondholders Protective Council.

⁴² See letter prepared by the Foreign Bondholders Protective Council dated July 11, 1979 and addressed to His Excellency Chai-Zemin, Ambassador of the People's Republic of China. See also, the letter prepared by the United States Department of State dated August 13, 2002 and addressed to Mr. Marvin L. Morris, Jr.

noted previously, the U.S. Foreign Bondholders Protective Council has reported that in over forty successful attempts to settle the defaulted foreign debt of foreign states, the government of China represents the only instance of a government refusing to negotiate the settlement of its defaulted sovereign debt. As a result, the Defaulted Debt remains an outstanding general obligation of the government of China existing unpaid and in a state of default.

Summary and Conclusion of Allegation Asserting Specification of Fraud:

Under established international law, a nation's international obligations remain unchanged after a mere change of government, even if such a change is a radical one, such as from a dictatorship to a democracy.⁴³ The Defaulted Debt therefore remains an unpaid, defaulted general obligation of the government of China.

China recognized its liability for the repayment of its defaulted sovereign debt owed to British citizens in 1987, yet continues to attempt to escape its repayment obligation on this same debt held by citizens of the United States through the making of discriminatory payments to selected creditors holding China's general obligation debt, while excluding other creditors from proportional payments.⁴⁴ The notes registered in the United States and offered and sold to investors in 2003 pursuant to the registration statement do not rank equally with all other general obligations of China, and the government of the People's Republic of China does not honor the "due and timely performance of all obligations of China."

⁴³ See Pieter H. F. Bekker, *The Legal Status of Foreign Economic Interests in Occupied Iraq*, American Society of International Law (July 2003). International decisions have recognized that it does not matter that the former Government represented a dictatorship. See, e.g., Tinoco Case (Gr. Br. V. Costa Rica), *U.N. Reports of International Arbitral Awards*, Vol. I, 369, 375 (1923), reprinted in 18 AJIL 147 (1924). The decision held that the new Government of Costa Rica was bound by concessions and bank notes given by Tinoco, the former dictator of Costa Rica, to British companies, and dismissed as irrelevant that Tinoco's regime was unconstitutional under Costa Rican law and had not been recognized by several states. The United Nations Security Council has never declared null and void the contracts of a former Government of a U.N. member state and its authority to do so would be questionable. Article 46 of the Hague Regulations makes clear that "private property", which can be said to include proprietary rights granted in a state contract, "must be respected". See also, Paragraph 17 of the United Nations Security Council Resolution 687 (1991), whereby the Council decided that Iraqi statements repudiating its foreign debt were null and void. See also, United Nations General Assembly Resolution V (Dec. 2, 1950) acknowledging the status of contractual rights as property ("No one shall be deprived of property, including contractual rights, without due process of law and without payment of just and effective compensation"). See also, *Restatement (Third) of the Foreign Relations Law of the United States* (1986), Section 712(2). See also, *Creditors' Claims in International Law*, 34 Int'l Law. 235 (2000). See also, the court's reasoning in *Pravin Banker Associates v. Banco Popular Del Peru*, 1997 WL 134390 (2nd Cir NY) wherein the court noted that the United States steadfastly maintains the policy of ensuring the enforceability of valid debts under principles of contract law. The Second Circuit affirmed the District Court's ruling that Pravin's claims should be recognized.

⁴⁴ Prior to the 1987 treaty with Great Britain, China was barred from the issuance of any debt on the London market because of its refusal to honor the debts incurred by the pre-1949 government.

The making of a false statement or claim, which in the face of constructive notice⁴⁵ becomes a knowingly false statement or claim, and the subsequent failure to take any action to amend such false statement or claim, and which false statement or claim has the action of misleading the investing public through concealment of the truth, constitutes a falsehood which rises to the level of fraud.⁴⁶

In the absence of proactive regulatory enforcement mandating full and complete disclosure as required by Rule 10b-5 and Section 10(b) of the Exchange Act, we are concerned that investors who have purchased previous debt securities issued by the government of China, as well as investors solicited for future offerings of debt securities issued by the government of China or its state-owned enterprises, may in light of the inadequate disclosure offered in connection with such offerings and sale, constitute induced purchasers whom have not been fully apprised of the attendant risks associated with any investment in such securities. We are therefore confident that the Commission will act promptly to ensure full compliance with the disclosure obligation imposed by the federal securities laws, and specifically Rule 10b-5 and Section 10(b) of the Exchange Act, in connection with future registered offerings in the United States by the government of China and its state-owned enterprises.

Sincerely,

Kevin O'Brien
President
KO:jwc

⁴⁵ The existence of the Defaulted Debt of the Chinese government was explicitly disclosed in a letter prepared by the law firm of Stites & Harbison PLLC dated December 31, 2003 and delivered to the law firm of Sidley Austin Brown & Wood LLP. No action has been taken by Sidley Austin as of the date of this writing to amend the U.S. Registration Statement describing the notes offered and sold by the People's Republic of China.

⁴⁶ See definition of "fraud", n. 1. A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment. 2. A misrepresentation made recklessly without belief in its truth to induce another person to act. 3. A tort arising from a knowing misrepresentation, concealment of a material fact, or reckless misrepresentation made to induce another to act to his or her detriment. See in particular, "fraud in the inducement", fraud occurring when a misrepresentation leads another to enter into a transaction with a false impression of the risks, duties, or obligations involved; an intentional misrepresentation of a material risk or duty reasonably relied on, thereby injuring the other party without vitiating the contract itself, esp. about a fact relating to value. See also, "mail fraud", an act of fraud using the U.S. Postal Service, as in making false representations through the mail to obtain an economic advantage. 18 USCA §§ 1341-1347. See also, "wire fraud", an act of fraud using electronic communications, as by making false representations on the telephone to obtain money. The Federal Wire Fraud Act provides that any artifice to defraud by means of wire or other electronic communications (such as radio or television) in foreign or interstate commerce is a crime. 18 USCA § 1343. Source: Black's Law Dictionary (Eighth Edition). Bryan A. Garner, Editor in Chief. West Publishing Company (2004). ISBN 0-314-15199-0.

- Enclosures:
1. Reproduction (titled as "Exhibit A") of page S-7 of the Supplement dated October 22, 2003, to the Prospectus dated October 16, 2003, falsely describing the debt obligations of the People's Republic of China being registered thereunder and publicly offered and sold in the United States as ranked equally with all other general and unsecured obligations of China and the timely performance of payment of all obligations of China.
 2. Copy of Complaint dated September 1, 2006 filed with the Divisions of Enforcement and Corporation Finance and the Office of the General Counsel of the United States Securities and Exchange Commission.
 3. Schedule of the defaulted sovereign debt of the Chinese government prepared by the United States Foreign Bondholders Protective Council.
 4. Copy of letter dated July 11, 1979 authored by Mr. John Petty, President of the United States Foreign Bondholders Protective Council, addressed to His Excellency Chai-Zemin, Ambassador of the People's Republic of China regarding the matter of the claims of United States citizens involving the defaulted full faith and credit sovereign debt of the Chinese government.

cc: Members of the 110th United States Congress

Honorable Max Baucus, Chairman
United States Senate Committee on Finance

Honorable Christopher Dodd, Chairman
United States Senate Committee on Banking, Housing, and Urban Affairs

Honorable Patrick Leahy, Chairman
United States Senate Committee on the Judiciary

Honorable Carl Levin, Chairman
United States Senate Permanent Subcommittee on Investigations

Honorable Jack Reed, Chairman,
United States Senate Subcommittee on Securities, Insurance, and Investment

Honorable Tim Johnson, Chairman
United States Senate Subcommittee on Financial Institutions

Honorable Craig Thomas, Chairman
United States Senate Subcommittee on International Trade

Honorable Evan Bayh, Chairman
United States Senate Subcommittee on Security and International Trade and
Finance

Honorable Herb Kohl, Chairman
United States Senate Subcommittee on Antitrust, Competition Policy and
Consumer Rights

Honorable Charles Schumer, Chairman
Joint Economic Committee

Honorable Henry Waxman, Chairman
U.S. House of Representatives Committee on Oversight and Government Reform

Honorable Barney Frank, Chairman
U.S. House of Representatives Committee on Financial Services

Honorable John Conyers, Jr., Chairman
U.S. House of Representatives Committee on the Judiciary

Honorable Paul Kanjorski, Chairman
U.S. House of Representatives Subcommittee on Capital Markets, Insurance, and
Government-Sponsored Enterprises

Honorable Melvin Watt, Chairman
U.S. House of Representatives Subcommittee on Oversight and Investigations

Honorable Luis Gutierrez, Chairman
U.S. House of Representatives Subcommittee on Domestic and International
Monetary Policy, Trade, and Technology

Honorable Linda Sanchez, Chairwoman
U.S. House of Representatives Subcommittee on Commercial and Administrative
Law

Mr. David M. Walker, Comptroller General of the United States
United States Government Accountability Office

Honorable Michael J. Garcia
United States Attorney for the Southern District of New York

Honorable Andrew M. Cuomo
Attorney General for the State of New York

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February 15, 2007
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Honorable Robert M. Morgenthau
New York County District Attorney for the District of Manhattan

Mr. Joseph Borg, President
North American Securities Administrators Association

Mr. Russ Iuculano, Executive Director
North American Securities Administrators Association

Mr. Thurbert E. Baker, President
National Association of Attorneys General

Mr. Eddy Wymeersch, Chairman
Committee of European Securities Regulators

[57 Foreign Securities Commissions]

Mr. Ronald Scott Moss, Esq.
Moss & Associates, P.C.

Mr. John Petty, President
Foreign Bondholders Protective Council

Ms. Jonna Bianco, President
American Bondholders Foundation

EXHIBIT A

Offering Summary

This offering summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and does not contain all the information that you should consider before investing in the notes. You should read this entire prospectus supplement and the accompanying prospectus carefully.

Issuer	The People's Republic of China.
Notes offered	US\$1,000,000,000 aggregate principal amount of 4.75% notes due 2013.
Issue date	October 29, 2003.
Maturity date	October 29, 2013.
Issue price	99.426% of the principal amount of the notes plus accrued interest, if any.
Interest rate	4.75% per year.
Interest payment dates	April 29 and October 29 of each year, beginning on April 29, 2004.
Ranking	The notes will rank equally with each other and with all other general and (subject to the provisions in the notes providing for the securing of such obligations in the event certain other obligations of China are secured) unsecured obligations of China for money borrowed and guarantees given by China in respect of money borrowed by others. China will pledge its full faith and credit for the due and punctual payment of the notes and for the due and timely performance of all obligations of China with respect to the notes.
Listings	China has applied for listing of and permission to deal in the notes on the Luxembourg Stock Exchange and The Stock Exchange of Hong Kong Limited.
Form	The notes will be issued in the form of global securities registered in the name of Cede & Co., nominee of The Depository Trust Company, or DTC.
Clearance and settlement	Beneficial interests in the notes will be shown on, and transfer of such beneficial interests will be effected only through, records maintained by DTC and its participants, unless certain contingencies occur, in which case the notes will be issued in definitive form. You may elect to hold interests in the notes through DTC, Euroclear Bank S.A./N.V., or Euroclear, or Clearstream Banking, <i>société anonyme</i> , or Clearstream, if you are a participant in these clearing and settlement systems.
Payment of principal and interest	Principal and interest on the notes will be payable in U.S. dollars. As long as the notes are in the form of a book-entry security, payments of principal and interest will be made through the facilities of DTC.
Common Code, ISIN and CUSIP	The Common Code is 017941941, the ISIN is US712219AJ30 and the CUSIP is 712219AJ3.