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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.<sup>1</sup> 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.

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<sup>1</sup> 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](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 China<sup>2</sup>, 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.<sup>3</sup>

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<sup>2</sup> 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>

<sup>3</sup> 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:

<b>Post-1949 Actions of the Government of the People's Republic of China</b>	<b>Date</b>
1. The attempt to repudiate the Defaulted Debt <sup>4</sup>	1983
2. The practice of selective default <sup>5</sup>	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 <sup>6</sup>	Continues in effect at present
4. Rejection of the successor government doctrine of settled international law <sup>7</sup>	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 <sup>8</sup>	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](http://www.globalsecuritieswatch.org/Bondholders_Say_China_Owes_2.3_Billion.doc)

<sup>4</sup> 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.

<sup>5</sup> Ibid.

<sup>6</sup> 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.

<sup>7</sup> 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.<sup>9</sup> Certain instances involving such claims have been brought before the United States Foreign Claims Settlement Commission (the "Commission").<sup>10</sup> 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.<sup>11</sup> 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.<sup>12</sup> As

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<sup>8</sup> See the 1987 treaty between the governments of China and Great Britain which settled the claims of British citizens holding the Defaulted Debt.

<sup>9</sup> 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).

<sup>10</sup> 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).

<sup>11</sup> 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.

<sup>12</sup> 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.<sup>13</sup> 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.<sup>14</sup> 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."

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<sup>13</sup> 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 (2<sup>nd</sup> 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.

<sup>14</sup> 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 notice<sup>15</sup> 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.<sup>16</sup>

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

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<sup>15</sup> 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.

<sup>16</sup> 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 110<sup>th</sup> 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



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

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### 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.