Published Definitions
International Sovereign Credit Rating Classifications [1]

Exhibit 1
Prevailing Artificial Sovereign Credit Rating Classifications
Long-Term Foreign Currency Debt of the Chinese Government [2]

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	A2	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 addition of a "2" denotes mid-range ranking within the assigned rating classification.[3]
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 with the published definitions maintained by the same agencies as illustrated in Exhibit 2, 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).

Exhibit 2
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** [4]

Agency	Rating	Definition
Standard & Poor's	SD (Selective Default) [5]	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.[6]
Moody's	Ba (high range) Caa (low range)	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.[7]
Fitch	DDD RD (Proposed)	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. Proposed new rating classification: a newly introduced rating of "RD" (Restrictive Default) is proposed for assignment 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.

As illustrated in Exhibit 2, the Communist Chinese government continues to engage in a pattern of discriminatory, exclusionary and preferential practices while refusing repayment of its sovereign obligations for which it is legally responsible as the successor government of all China, and which actions are concealed by the assignment, publication and distribution of false international sovereign credit rating classifications by the three primary rating agencies, the published definitions of which do not conform to the fact pattern comprising the immediate instance.[8]

It is the ability of the Communist Chinese government to engage in international debt financing in reliance upon its prevailing rating classifications, and so establish and maintain a sovereign benchmark for the benefit of Chinese corporate issuers, which constitutes the proximate mechanism by which the Chinese government is able to escape its repayment obligation to defaulted creditors. It thus becomes evident that the practices engaged in by the primary international credit rating agencies evidence selective adherence to their respective published definitions, methodologies and criteria in order to attain a predefined result and so avoid an inconvenient truth, to the calculated effect of maximizing their profits.[9]

---

[1] The definition for each specific rating classification was obtained as published by the respective credit rating agencies on the respective agency's website, accessed via the following URLs. Standard and Poor's: *http://www2.standardandpoors.com* Moody's Investors Service: *http://www.moodys.com* Fitch Ratings: *http://www.fitchratings.com*

[2] Prevailing long-term foreign currency sovereign credit rating classifications assigned to the Chinese government as of August 1, 2006 by the three largest nationally recognized statistical rating organizations.

[3] When applied to debt issued by a sovereign issuer, this rating classification denotes an <u>investment grade</u> debt rating for an issuer which has <u>no full faith and credit sovereign obligations remaining in default</u>.

[4] According to the United States Foreign Bondholders Protective Council, established by the U.S. 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 of foreign governments, the Communist Chinese government represents the only instance, in over 40 successful settlements of defaulted sovereign debt, of a government refusing to negotiate the settlement of its defaulted sovereign debt.

[5] Recent instances in which Standard and Poor's has assigned an "SD" rating classification to the long-term foreign currency debt of a sovereign issuer include Russia in 1998 (which defaulted on its domestic obligations while continuing to service its eurobonds); Argentina, following its sovereign debt default in December 2001 and subsequent restructuring, including an exchange offer to existing bondholders; and the Dominican Republic in 2005 (which became delinquent on payments owed to commercial bank creditors while continuing to service its bonded debt). The "SD" rating remained in full force and effect until all outstanding defaulted obligations were resolved.

[6] A prime example of "<u>Selective Default</u>" is the series of full faith and credit sovereign obligations issued as the "Chinese Government Five Per Cent Reorganization Gold Loan", scheduled to <u>mature in 1960</u> and which debt remains in default as an external payment obligation of the successor government of China (i.e., the Communist Chinese government, which was established on October 1, 1949). The Communist Chinese government replaced the Republic of China in the United Nations as the recognized government of China on November 23, 1971 and was subsequently recognized as the government of all China.

[7] This rating classification is appropriate with respect to acknowledging the judicial risk inherent to investment in such obligations arising from the discriminatory, preferential and exclusionary treatment of selected general obligation creditors.

[8] See in particular the Communist Chinese government's unwillingness to respect repayment of the defaulted full faith and credit sovereign obligations held by United States citizens, for which the government of China is liable under the successor government convention of settled international law and which convention was invoked by the 1983 *Aide Memoire* in which the Communist Chinese government explicitly attempted to repudiate its obligation to repay the debt. We further note the determination by the United States Foreign Claims Settlement Commission in *Carl Marks & Co.* wherein the Commission found that the unpaid debt represents a general obligation of the government of China. By their published definitions, the prevailing sovereign credit rating classifications assigned to the Communist Chinese government exclude and thereby conceal the fact of selective default, as shown in Exhibit 1 and Exhibit 2.

[9] In this regard, we note the following statement, *"NRSROs should be legally accountable for their ratings."* Source: Investment Company Institute, Statement Before the SEC Hearings on Issues Relating to Credit Rating Agencies (November 21, 2002). See also the statement, *"Reliance by credit rating agencies on issuer fees could lead to a conflict of interest and the potential for rating inflation."* United States Securities and Exchange Commission, <u>Rating Agencies and the Use of Credit Ratings Under the Federal Securities Laws</u> (2003). See also the statement, *"Given the steps the SEC has taken to improve levels of independence for accounting firms and equity analysts, similar action should be required to restore the credibility of and confidence in the rating system."* Source: *"Is the SEC Going Soft on Credit Rating Agencies?"* Danvers, Kreag and Billings, B. Anthony, <u>The CPA Journal</u> (May 2004). For further revealing information concerning the unregulated business practices of the three primary international credit rating agencies, see our letter dated June 21, 2005, addressed to Mr. David Walker, Comptroller General of the United States of America, and in particular, footnotes #14 (at 6), #15(at 6,7), #16 (at 7), #19 (at 8,9), and #20 (at 10). The letter is accessible on the world wide web and may be viewed at the following URL:
http://www.globalsecuritieswatch.org/GAO_LETTER.pdf
Christopher Mahoney, Executive Vice President at Moody's was quoted in a recent article entitled, *"China's Pre-War Bond Default Stirs U.S. Anger"* (Gillian Tett in London, Richard Beales and Andrew Parker in New York, and Andrew Yeh in Beijing) published by the <u>Financial Times</u> (June 7, 2005) as stating, *"The fact that a country has defaulted in the past is a credit negative, but it does not preclude … a high rating today."* This article may be viewed on the world wide web at the following URL:
http://www.globalsecuritieswatch.org/Financial_Times_June_7,2005_.pdf
Mr. Mahoney is silent as regards the critical aspect of the same country continuing to evade repayment of its defaulted debt. Interestingly, in this same article an unidentified international banker is quoted as stating that this matter represents, *"…a sensitive issue"*. In an article entitled, *"US Holders Claim on China for Pre-War Bonds"*, <u>EuroWeek</u> (April 8, 2005), an unidentified Asian ratings analyst is quoted as stating that this same matter represents, *"…a hot potato"*. According to a recent article entitled *"The Ratings Game"* by Martin Mayer (July 1999) published by <u>The International Economy</u>, *"All ratings agencies agree that a debtor is in default when it either misses a payment beyond a grace period or seeks to renegotiate the loan – 'anything', says S&P's Marie Cavanaugh, 'that is not 'timely service of debt according to the terms of issue'."* In fact, Standard and Poor's own "Selective Default" classification states *"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."* See supra Exhibit 2. We observe that the Chinese government's defaulted sovereign debt, existing unpaid and in a state of default, has come to rest principally in the hands of individual investors as opposed to institutions, and that the agencies and the advisers to the Communist Chinese government therefore anticipated a very minimal risk of objection via a unified voice as respects the assignment of a long-term foreign currency sovereign credit rating to the Chinese Government which has the action of concealing the existence of the Chinese Government's defaulted sovereign debt. When Standard & Poor's first assigned the rating in 1992, it did not reflect the existence of the Chinese Government's defaulted sovereign debt and established a new, and artificial, foundation upon which the Chinese Government could resume international financing without repaying its defaulted sovereign debt, and also constitute the basis upon which to build the rating over the future term.