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VIA E-MAIL AND FEDERAL EXPRESS

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RE: Defaulted Sovereign Debt of China

Dear Mr. Li and Mr. Ding:

We represent the more than 250 American holders of defaulted full faith and credit sovereign debt of the nation of China who have organized under the auspices of the American Bondholders Foundation, LLC. Because you are the counsel to the People's Republic of China listed on China's registration statement filed October 15, 2003 with the United States Securities and Exchange Commission related to the offering of \$4,500,000,000 principal amount of debt securities of China, it seems appropriate that we direct our clients' claims to you for proper resolution by your client, the Government of China. We have previously submitted proper demands for payment on behalf of our defaulted Chinese Government bond clients to the People's Republic of China—both to the Chinese Embassy in Washington and to the Office of the Ministry of Finance in Beijing. To date, China apparently refuses to acknowledge its legal obligations under international law and established commercial law principles to honor Chinese sovereign debt issued prior to 1949.

When the United States and the People's Republic of China established diplomatic relations in 1979, the valid claims of Americans owning defaulted pre-1949 Chinese government bonds were left unresolved. Attempts by the American based Foreign Bondholders Protective Council to settle the matter through communications with the Chinese Ambassador to the United States were unsuccessful.¹ I enclose a copy of defaulted unpaid Chinese Government bonds cataloged by the Foreign Bondholders Protective Council.

China continues, inexplicably, to discriminate against American holders of its full faith and credit pre-1949 debts even though China paid comparable claims of British holders of similar pre-1949 Chinese sovereign debt securities pursuant to a June 1987 agreement with Great Britain.²

¹ See, for example, the letter by the President of the Foreign Bondholders Protective Council dated July 11, 1979 to the Chinese Ambassador to the United States.

² *New York Times* June 8, 1987

Huanting Timothy Li, Esq.
Henry Hailhua Ding, Esq.
December 31, 2003
Page 2

Contrary to the position submitted by China in an *Aide Memoire* to a representative of the United States Department of State in 1983 purporting to repudiate the obligation of China for its pre-1949 sovereign debt³, there is no basis in international law to support the position of the Chinese government⁴. Our clients are the holders of full faith and credit bonds issued by the internationally recognized government of the nation of China between 1912 and 1949. In fact, that government (Republic of China) continued to be recognized by the United Nations until 1970 and by the United States until 1979.

The weakness of China's position asserted in 1983 that a successor government may lawfully and unilaterally repudiate the sovereign debts of an internationally recognized predecessor government is evident by the Chinese Government's own position today with respect to sovereign Iraqi debts owed to China. The Chinese government has proclaimed that the successor government in Iraq remains responsible for the payment of the sovereign debts issued by the internationally recognized predecessor government of that nation (even one as barbaric as the Saddam Hussein regime of 1979-2003)⁵. And even if the so-called "odious debt" doctrine had validity, its applicability would be highly limited and would not apply to sovereign debts issued by a government as widely recognized internationally as was the Republic of China between 1912 - 1949.

In addition to the precedent created by the 1987 settlement between China and Great Britain, it is noteworthy that the current post Soviet successor government of Russia in the late 1990's accepted its legal liability for pre-1917 Czarist era sovereign Russian debt held by French bondholders by payment to French bondholders of approximately \$400,000,000.⁶

Our clients are bewildered by the omission in the October 15, 2003 Registration Statement/Prospectus of China of information regarding the fifty years of default by China of its debt securities. In the section captioned "Debt Record" there is no reference to China's repudiation and non-payment of pre 1949 full faith and credit Chinese debt securities and how such repudiation departs from the norms of international and commercial law. Nor is there any inclusion of the judicial battle that China waged in the United States courts in the mid 1980's against American

³ February 2, 1983 Aide Memoire of the Ministry of Foreign Affairs of the People's Republic of China.

⁴ See, for example, *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).

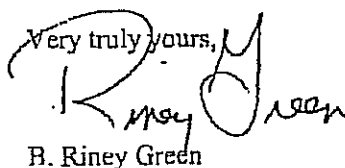
⁵ See news reports related to the visit earlier this week to President Hu Jintao and Premier Wen Jiabao by special United States envoy James A. Baker III seeking the consent of the Chinese Government to some reduction in the Iraqi sovereign debt payments to China.

⁶ Associated Press article, October 30, 2000.

Huanling Timothy Li, Esq.
Henry Haihua Ding, Esq.
December 31, 2003
Page 3

holders of defaulted pre-1949 Chinese government bonds⁷ and how American bondholders have been discriminated against in comparison to their British counterparts. Is a future post-Communist Party-controlled China reserving the right to repudiate post 1949 Chinese government debt securities?

Please contact me promptly so that arrangements can be made for a full and fair settlement of the proper claims of hundreds of American owners of defaulted full faith and credit sovereign debt of China. Thank you.

Very truly yours,

B. Riney Green

BRG:rhc

cc: Ministry of Finance, People's Republic of China
American Bondholders Foundation
Foreign Bondholders Protective Council
Chief Counsel, Securities and Exchange Commission

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⁷ The Jackson v. People's Republic of China case, United States District Court for the Northern District of Alabama.