

## MOVING FORWARD TOGETHER WITH OUR CUSTOMERS

### A PROPOSAL RELATING TO THE FINAL RESOLUTION OF CERTAIN SERIES OF LEHMAN BROTHERS MINIBONDS

We, the sixteen Distributing Banks (the "Banks" or the "Distributing Banks") of Lehman Brothers Minibonds ("Minibonds") issued by Pacific International Finance Limited (the "Issuer"), have been working towards a satisfactory outcome for the recovery of the Minibond collateral, and announce today a final resolution proposal for **Series 10 to 12, 15 to 23 and 25 to 36** of the Minibonds (the "Relevant Series" or the "Relevant Minibonds").

Following the offer of a repurchase scheme of Minibonds announced on 22 July 2009 ("Repurchase Scheme"), we committed to assist in and to expedite the recovery of the collateral for, among other outstanding Minibonds, the Relevant Minibonds ("Collateral") by HSBC Bank USA, N.A., the trustee for the Minibonds (the "Trustee"). The Trustee had already appointed Messrs. Ted Osborn, Anthony Boswell and Jan Blaauw, partners of PricewaterhouseCoopers Hong Kong as receivers (the "Receivers") for the Collateral.

#### COLLATERAL RECOVERY

The Receivers separately announced today that a conditional agreement among Lehman Brothers Special Financing Inc. ("Lehman Brothers"), the Receivers (as agents of the Issuer and without personal liability), the Trustee and others has been reached to settle opposing claims asserted by Lehman Brothers in respect of the Collateral. The Receivers advised that the agreement will, upon it becoming unconditional, enable investors of Relevant Minibonds to recover between **70% and 93%** of the amounts they invested. Investors should note that the level of recovery for each tranche of the Relevant Minibonds is different. The actual distribution to each investor (the "Recovery Payment") will depend on the specific circumstances of the investor as illustrated under "Payment Examples" below. Investors should also refer to the Receivers' announcement for further details.

After extensive negotiations with Lehman Brothers, the Receivers believe that the proposed level of recovery represents the best possible outcome for investors of Relevant Minibonds given the legal uncertainty surrounding the priority of competing claims over the Collateral. The agreement allows the Receivers and the Trustee to avoid the risks and uncertainty of prolonged, complex and costly litigation with Lehman Brothers and other parties. Accordingly, the Receivers recommend the proposed arrangements with Lehman Brothers.

The agreement is subject to two conditions.

Firstly, the agreement is conditional on the US Bankruptcy Court confirming that its previous orders which lay down procedures for Lehman Brothers to enter into settlements in respect of claims arising under certain derivatives contracts apply to settlements relating to the Collateral. The Receivers have confirmed that an application will be made by Lehman Brothers to the US Bankruptcy Court on 29 March 2011 for this purpose.

Secondly, the agreement is conditional on the passing of extraordinary resolutions for each and every Relevant Series. The Issuer will convene a meeting for each Relevant Series which can only be attended by persons who hold a beneficial title in the Relevant Minibonds. If investors have transferred the beneficial title in their Minibonds to their Bank pursuant to either the Repurchase Scheme or some other settlement with their Bank, their Bank will participate and vote in such noteholder meetings. Each Distributing Bank has, based on the information available to it today, individually decided to accept the Receivers' recommendation for the Relevant Minibonds owned by it and will vote in favour of the extraordinary resolutions at the noteholder meetings so that this matter can be resolved in a way which maximizes the benefits to investors within a reasonable timeframe.

## **Distributing Banks' Voluntary Initiative – the Ex Gratia Payment Scheme and Expenses Funding Agreement**

### *Distributing Banks to make Ex Gratia Payment to Eligible Customers*

In addition to the Collateral recovery amount, as a goodwill gesture, the Distributing Banks have resolved to offer an ex gratia payment scheme to Eligible Customers of Relevant Minibonds. For the purpose of the ex gratia payment scheme, Eligible Customers are either those investors who were eligible to participate in the Repurchase Scheme or those who would have been eligible under the Repurchase Scheme had they not previously reached a settlement with the Distributing Banks on a case-by-case basis. The ex gratia payment to which each Eligible Customer will be notionally entitled is equal to 50% of any shortfall in the recovery of the amount invested ("Ex Gratia Payment"). The actual amount of the Ex Gratia Payment will depend on the Collateral recovery amount as well as the amount (if any) previously received from the investor's Bank as part of a settlement. Consequently, the amount of the Ex Gratia Payment is investor specific. For further details, please see the "Payment Examples" and "Estimated Time for Payment" below and review in detail the notice that will be sent out by each Distributing Bank, on or about 28 March 2011, to its investors who currently hold, or previously held, Relevant Minibonds.

Based on the rates of recovery of between 70% and 93% as advised by the Receivers, the total level of recovery to Eligible Customers, after taking into account the offer of Ex Gratia Payments by the Distributing Banks, will be in the range of **85% to 96.5%** of the principal amount of their investment.

**The proposal to pay the Ex Gratia Payments to Eligible Customers is *not* part of the Repurchase Scheme, but is instead a goodwill gesture by the Distributing Banks under highly unusual and unprecedented circumstances. It should not be viewed as a precedent for other investors or investment products.**

**Payment of the Recovery Payment and the Ex Gratia Payment, as applicable, is subject to the Distributing Banks having received from or on behalf of the Issuer the recovery proceeds from the Collateral for each Relevant Series. The Issuer will not receive the recovery proceeds from the Collateral unless the two conditions in the agreement with Lehman Brothers are satisfied.**

### *Distributing Banks to provide further support to the Trustee*

The Distributing Banks have made available to the Trustee approximately HK\$291 million (equivalent to the amount of commission income they received as distributors of Minibonds) by way of an Expenses Funding Agreement dated 30 October 2009. As part of this final resolution proposal, the Distributing Banks will increase the funding available to the Trustee to approximately HK\$662 million to pay for all fees, expenses and other amounts which may be incurred in connection with the recovery of the collateral of the outstanding Minibonds and the Trustee's role in respect of the Minibonds. Without this funding, the Trustee would have been entitled to retain all or a part of the Collateral to indemnify it (and its agents) for liabilities and expenses arising from the settlement process. Such retention would reduce the amounts available to holders of the Relevant Series.

## **LOOKING AHEAD**

To date, approximately 97% of total Minibond investors who purchased Relevant Minibonds from the Distributing Banks have already received offers to repurchase their Minibonds, and 96% in total have accepted these offers (either under the Repurchase Scheme or under other terms). An overwhelming majority of investors of Relevant Minibonds have therefore already settled their claims with the Distributing Banks. We believe that those settlements, together with the Recovery Payment and (if applicable) the Ex Gratia Payment, will provide a high level of recovery to the vast majority of those investors. In addition, most investors of Relevant Minibonds (irrespective of whether they have previously settled with their Bank) can expect to

receive the Recovery Payment as described in this Announcement. We are therefore confident that the proposed arrangements will find the support of Minibond investors and the public.

We thank our customers, shareholders and the community again for their understanding and support during this challenging period. We also extend our appreciation to our staff who have exhibited commitment and professionalism throughout this trying time. We thank the HKSAR Government and local regulators for working with us to procure this result. We remain fully committed to working with the HKSAR Government, the local regulators and the investor community to ensure that Hong Kong remains one of the world's pre-eminent international financial centres.

Distributing Banks (In alphabetical order):

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd. Hong Kong Branch

The Bank of East Asia, Limited

Chiyu Banking Corporation Limited

Chong Hing Bank Limited

CITIC Bank International Limited

Dah Sing Bank Limited

Fubon Bank (Hong Kong) Limited

Industrial and Commercial Bank of China  
(Asia) Limited

MEVAS Bank Limited

Nanyang Commercial Bank, Limited

Public Bank (Hong Kong) Limited

The Royal Bank of Scotland N.V.

Shanghai Commercial Bank Limited

Wing Hang Bank, Limited

Wing Lung Bank Limited

Hong Kong, 28 March, 2011

## PAYMENT EXAMPLES

The amount that investors will receive following the recovery of the Collateral depends on whether they are Eligible Customers or non-Eligible Customers.

### **Eligible Customers**

Eligible Customers may receive both a Recovery Payment and an Ex Gratia Payment.

#### *Example 1*

*Calculation of recovery – If you have received 60% of the amount invested*

If you:

- are an Eligible Customer;
- accepted the offer to have your Minibonds repurchased; and
- have already received 60% of the principal amount of your Minibonds,

the following table sets out examples to illustrate how to calculate your Recovery Payment and Ex Gratia Payment:

<b>Collateral recovered</b>	70%	75%	80%	85%	90%	95%
<b>Settlement amount received</b>	60%	60%	60%	60%	60%	60%
<b>Recovery Payment</b>	10%	15%	20%	25%	30%	35%
<b>Ex Gratia Payment</b>	15%	12.5%	10%	7.5%	5%	2.5%
<b>Total payment due to Eligible Customer</b>	25%	27.5%	30%	32.5%	35%	37.5%
<b>Total amount recovered by Eligible Customer</b>	85%	87.5%	90%	92.5%	95%	97.5%

#### *Example 2*

*Calculation of recovery – If you have received 70% of the amount invested*

If you:

- are an Eligible Customer;
- accepted the offer to have your Minibonds repurchased; and
- have already received 70% of the principal amount of your Minibonds,

the following table sets out examples to illustrate how to calculate your Recovery Payment and Ex Gratia Payment:

<b>Collateral recovered</b>	70%	75%	80%	85%	90%	95%
<b>Settlement Amount received</b>	70%	70%	70%	70%	70%	70%
<b>Recovery Payment</b>	0%	5%	10%	15%	20%	25%
<b>Ex Gratia Payment</b>	15%	12.5%	10%	7.5%	5%	2.5%
<b>Total payment due to Eligible Customer</b>	15%	17.5%	20%	22.5%	25%	27.5%
<b>Total amount recovered by Eligible Customer</b>	85%	87.5%	90%	92.5%	95%	97.5%

### **Non-Eligible Customers**

Non-Eligible Customers will receive a Recovery Payment that equals:

- the Collateral recovery amount for their Minibonds;
- less any payment they have previously received pursuant to any settlement with their Bank for their Minibonds,

*provided that* if the amount a non-Eligible Customer has previously received from their Bank for their Minibonds is equal to or higher than the Collateral recovery amount for their Minibonds, they will not receive any Recovery Payment.

### **ESTIMATED TIME FOR PAYMENT**

Following receipt by the Distributing Banks of the recovery proceeds from the Collateral, which is currently expected to be not later than the end of June 2011:

- the Recovery Payment will be paid; and
- the Ex Gratia Payment will be payable to Eligible Customers upon receipt by the Distributing Banks of a prescribed form of acceptance signed and returned by those Eligible Customers.

Investors will not receive a Recovery Payment and/or Ex Gratia Payment if they have already been placed in an equivalent or better position through the receipt of settlement amounts from their Bank.

<p><b>IMPORTANT</b></p> <p><b>IF YOU ARE IN ANY DOUBT AS TO ANY ASPECT OF THIS ANNOUNCEMENT, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.</b></p> <p><b>THIS ANNOUNCEMENT IS A SUMMARY ONLY. YOU MUST READ THIS ANNOUNCEMENT TOGETHER WITH:</b></p> <ul style="list-style-type: none"> <li>• <b>THE ANNOUNCEMENT MADE TODAY BY THE RECEIVERS OF THE COLLATERAL. SEE <a href="http://www.pwchk.com/minibonds">http://www.pwchk.com/minibonds</a>; AND</b></li> <li>• <b>A LETTER WHICH YOUR BANK WILL SEND TO YOU BY POST ON OR ABOUT 28 MARCH 2011 WHICH EXPLAINS HOW THIS ANNOUNCEMENT APPLIES TO YOU.</b></li> </ul>
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