

Customer FAQ on Lehman-linked Notes

The following set of Frequently Asked Questions (FAQs) is only for reference to investors in Hong Kong of outstanding unlisted structured products issued by the following:

- Pacific International Finance Limited
- Atlantic International Finance Limited
- Pyxis Finance Limited

If you are not an investor in Notes issued by one of the above three entities, please contact the distributors from which you had purchased your Notes.

HSBC is providing the following information as reference only to Notesholders, in its capacity as Trustee under the trust deeds pursuant to which the above three entities issued Notes. Whilst every endeavour has been made to ensure that the responses to these FAQs are reliable as at the date they are issued, no representations or warranties can be or are given regarding their accuracy or completeness.

The following FAQs do not seek to provide and should not be treated as legal, financial or tax advice from HSBC. Noteholders should seek independent professional advice with respect to their own positions.

1. What will happen to the Notes as Lehman Brothers Holdings Inc (“Lehman”) has filed for bankruptcy?

As Lehman is the swap guarantor under the transaction, the bankruptcy filing is a termination event under the swap transaction and accordingly the Issuer has a right to terminate the swap and redeem the Notes. The decision lies in the first instance with the Issuer, but such decision must be consented to by the Trustee or the Noteholders. If the Issuer does not elect to terminate the swap and continues to service the payments on the Notes, no action can be taken on behalf of the Noteholders. If there is a principal payment default under the Notes, action can then be taken to sell the underlying securities and distribute the proceeds.

2. Has there been a payment default or will there be one soon?

We are now aware that the Issuer has failed to pay interest on certain series of the Notes. The Trustee has sent notices of such payment defaults to the affected Noteholders

3. I have not received any notification. Can you tell me now if my investments are in default?

There are a number of Notes programmes under which notes of various Series were issued. The information and actions may be different for each specific programme and Series. As Trustee with respect to certain Notes, we will send notices of such payment defaults to the affected Noteholders through the proper channels.

If you require information on your particular investments, we suggest that you contact the distributors from which you had purchased your Notes.

4. What do I need to do now?

You will receive information from the Trustee on your particular investment via your distributor. However the Trustee can not provide legal, financial or tax advice to the Noteholders.

5. Are the Notes principal protected? Will the Noteholders get their principal and interest back? How much would Investors get back now?

The Notes are not principal protected. The claims of Noteholders against the Issuer are limited in all circumstances to the value of the underlying assets and any amounts due and paid to the Issuer under the swap arrangement (less certain expenses).

6. Can I redeem now? Why not?

Unless specifically allowed for under the terms of the particular series of the Notes in which you have invested, you will have no right to elect for early redemption of the Notes. You may also have difficulties selling the Notes now as the Notes do not have a liquid trading market. Please contact the relevant distributors from which you had purchased your Notes for this information.

7. How long do I have to wait to receive my proceeds in the event the Issuer defaults on the payment?

As proceeds for payment of the Notes will come from the sale or other disposition of the underlying securities, the timing depends on the sale process.

8. How do we know the current value of the Notes?

Please contact the relevant distributors from which you had purchased your Notes for this information. They will be in contact with the Calculation Agent, Lehman Brothers Asia Limited.

9. What are the underlying assets which back the Notes?

The underlying assets depend on the series that you had invested in. Please contact the relevant distributors from which you had purchased your Notes.

10. How can I find out the current value of the underlying assets?

The current value of the underlying assets is unknown at this time.

11. Are the underlying assets safe as there was a line in the product brochure that said the “*security of the investment is in AA rated securities*“?

While the underlying securities fulfilled the rating requirement at the start of the transaction, given the current market condition, the rating may not be the same now. We note that the rating, in itself, is not a determinant of the value of the underlying securities.

12. What is the current credit rating of the underlying assets?

We are looking into this.

13. Who will manage the asset liquidation?

In the event the Issuer fails to pay any principal amount due on the Notes, HSBC as Trustee may be directed by the Noteholders to step in to take recovery actions.

14. How much can Noteholders get back upon liquidation of the underlying securities? How is the balance of the recovery proceeds calculated?

This depends on the value of the Underlying Assets, any amounts due and paid to the Issuer or due and payable by the Issuer under the swap arrangement, the cost of enforcement as well as any outstanding fees and expenses.

15. Who should Noteholders contact if they have queries?

Noteholders should first contact the relevant distributors from which you had purchased your Notes.

16. What is the action taken to date by HSBC as trustee?

We have written to the Issuer for more information in respect of, among other things, its intentions towards the existing swap transactions and any possible early redemption of the Notes as well as its intentions and ability to continue to service payments under the Notes going forward should it elect not to redeem the Notes. The Trustee continues to review of the documents in connection with the programme and has appointed legal advisers to advise the Trustee on the options in case of a default or an early redemption.

17. Will HSBC, as trustee, be advising the Noteholders with respect to the options available and course of actions required to be taken?

HSBC, as Trustee, will provide notices to the Noteholders as required under the transaction documents. We are unable to provide legal, financial or tax advice to the Noteholders.

18. Both Barclays and Nomura are buying some of Lehman's assets - will either institution assume Lehman's obligations as swap counterparty role?

We have not received any indication that Barclays or Nomura will assume the role of swap counterparty.

19. Where can I get related documentation on the Note programme?

The Base prospectus can be obtained from the distributors from which you had purchased your Notes. We are inquiring as to whether Lehman Brothers Commercial Corporation Asia Limited will make the related documentation available to the Noteholders.

20. What is HSBC's role as trustee?

A trustee is responsible for administering the trust deed between the issuer on behalf of and as directed by the investors. Subject to the terms of the relevant trust deed and any applicable regulatory requirement, the trustee's responsibilities will ordinarily include:

- To monitor the issuer's compliance with specific covenants
- To coordinate information flow between the issuer and note/bond holders
- To arrange and coordinate note/bond holders' meetings

- To enforce the rights of note/ bond holders in the event of a default as directed by such holders.

21. Did Lehman guarantee the Notes? Do the noteholders have a claim against Lehman in the bankruptcy proceeding?

Lehman did not guarantee the Notes. Lehman guaranteed the payments, if any, due by its affiliate under the swap agreements. To the extent that the swap agreements are terminated and there are payments due to the issuer under the swap agreements, the Trustee can be directed to submit a proof of claim therefor in the Lehman bankruptcy proceeding on behalf of the Noteholders.