

PACIFIC INTERNATIONAL FINANCE LIMITED

(incorporated in the Cayman Islands with limited liability)

Secured Continuously Offered Note Programme

Minibond Series 36

**USD Fixed Rate Callable Credit-Linked Notes due 2011
(Tranche A Notes)**

**HKD Fixed Rate Callable Credit-Linked Notes due 2011
(Tranche B Notes)**

Arranger

Lehman Brothers Asia Limited

Distributors

Chong Hing Bank Limited

KGI Asia Limited

Public Bank (Hong Kong) Limited

Dah Sing Bank, Limited

MEVAS Bank Limited

Sun Hung Kai Investment Services Limited

Wing Lung Bank Limited

The date of this issue prospectus is 14 April 2008

We, Pacific International Finance Limited, have registered a copy of this issue prospectus with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. Neither the Registrar of Companies nor the Securities and Futures Commission takes any responsibility for its contents.

IMPORTANT

If you are in any doubt about any of the contents of this issue prospectus you should obtain independent professional advice.

Our Notes are issued under our secured continuously offered note programme. You should read our programme prospectus dated 14 April 2008 as well as this issue prospectus in order to understand the offer before deciding whether to buy our Notes.

Call one of the distributors' hotlines listed inside for a copy of our programme prospectus.

We cannot give you investment advice: you must decide for yourself, after taking professional advice if you deem appropriate, whether our Notes meet your investment needs.

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OUR NOTES AT A GLANCE

MINIBOND SERIES 36

With a strong line up, we strive for potential good returns!

- 3 year tenor, quarterly coupon payments
- Coupons of 5.50%* p.a. (USD) or 5.00%* p.a. (HKD)
- Credit-linked to seven well-known companies, consisting of CLP, CNOOC, DBS, HSBC, HWL, MTR and SCB

Notes:

- * Unless the Issuer exercises the Issuer's call option, or a credit event or other early redemption event as provided in the issue prospectus occurs.

On offer until Friday May 2, 2008 (may change without prior notice)

The Notes are not principal protected

This is a ready-reference summary of the main features of our Notes: you must read this issue prospectus and our programme prospectus for the full binding terms and conditions of our Notes before deciding whether or not to invest.

Minibond Series 36 summary of terms

Issuer:	Pacific International Finance Limited
Issue code:	Minibond Series 36
Offer opens:	14 April 2008
Offer closes:	Expected to be 2 May 2008
Issue date:	Expected to be 15 May 2008, and will not be later than 15 June 2008
Issue price:	100% of denomination
Denomination:	USD5,000 (for Tranche A Notes) or HKD40,000 (for Tranche B Notes)
Maturity date	Expected to be 15 May 2011 (Subject to the exercise of the Issuer's call option, a credit event or other early redemption event as provided in this issue prospectus)

Interest:	Tranche A Notes	Tranche B Notes
	5.50% p.a.	5.00% p.a.
	Payable on interest payment dates at the end of every three months from the issue date (expected to be 15 February, 15 May, 15 August and 15 November of each year, starting from 15 August 2008 and ending on the maturity date of the Notes).	
Issuer's call option:	Exercisable at the Issuer's option on any interest payment date falling on or after 15 May 2009. At least five business days' prior notice will be given. Early redemption is at 100% of principal amount plus the interest then due.	
Redemption at maturity:	100% of the principal amount (unless a credit event occurs to any one of the reference entities or there is early redemption other than on exercise of the Issuer's call option)	
Reference entities#:	CLP Power Hong Kong Limited (Aa3/A+), CNOOC Limited (A1/A), DBS Bank Ltd. (Aa2/A), HSBC Bank PLC (Aa2/AA-), Hutchison Whampoa Limited (A3/A-), MTR Corporation Limited (Aa2/AA) and Standard Chartered Bank (A3/A)	
Credit events:	"Bankruptcy", "Failure to Pay" or "Restructuring" happening to any one of the 7 reference entities. (These credit events have detailed technical definitions which are set out in the form of the pricing supplement in appendix 1 of this issue prospectus)	
Redemption on a credit event:	Upon the occurrence of a credit event, the credit event redemption amount will likely be less, and could be significantly less, than the principal invested.	
Security for the Notes:	<p>AAA-rated collateralised debt obligation securities (CDO) as collateral and swap arrangements with Lehman Brothers Special Financing Inc. as swap counterparty for the payment of principal and interest under each of the two tranches of Notes. The CDO will be linked to a portfolio of international credits. The CDO will not be an asset-backed securities CDO. The CDO will not be linked to asset-backed or mortgage-backed securities.</p> <p>Repayment in full of the principal of our Notes at maturity will be dependent upon the redemption in full of the CDO and as such the CDO is a significant component of the risk and return profile of our Notes. The collateral will be US dollar denominated. Payments by the swap counterparty will be guaranteed by Lehman Brothers Holdings Inc. as swap guarantor.</p>	

The credit ratings shown next to each reference entity are those applicable to the reference obligation of the reference entity (specified in this issue prospectus) as at 9 April 2008 as published by Moody's Investors Service and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. respectively. A credit rating is not a recommendation to buy, sell or hold a security as it does not address other risks associated with holding the security such as liquidity, market and volatility risks. Further information on credit ratings, including how to search for the up-to-date ratings, is set out in this issue prospectus.

If the CDO collateral is purchased after the issue date or if the CDO collateral matures before our Notes, the issue proceeds of our Notes or the redemption monies received (as the case may be) will either be held in cash or invested in a liquidity fund as security for our Notes.

Listing and liquidity:

None. There may be a limited trading market for our Notes or no market at all; you should be prepared to hold our Notes to maturity.

We intend to issue our Notes in two tranches: a tranche of USD Notes and a tranche of HKD Notes. We will treat each tranche separately. For example, we might call one tranche but not the other tranche. Or we might notify a credit event for one tranche but not the other tranche. Each tranche will have its own security package of collateral and swap arrangements to match its cashflows. The swap arrangements for our two tranches of Notes will include an interest rate swap to swap the interest payments on the collateral into the interest amounts due on our Notes. The swap arrangements for our Tranche B Notes will also include a currency swap to swap the US dollar payments of principal and interest on the collateral into the HK dollar amounts of principal and interest due on our Tranche B Notes.

Scheduled dates for payment of interest, early redemption and redemption at maturity must be days (other than a Saturday) on which banks and foreign exchange markets are open for business in London, New York City and Hong Kong and will be postponed to the next date on which this is the case if necessary. We will not pay any extra interest for such delay in payment. We may also reschedule the issue date, interest payment dates and/or maturity date if the offer period for our Notes changes or if the scheduled date is not a business day. If the issue date is rescheduled, the scheduled interest payment dates and maturity date will also change, so that the interest payment dates fall every three months after the issue date and so that the maturity date coincides with the final interest payment date.

In appendix 1 of this issue prospectus, we set out the form of the pricing supplement for our Notes. The legal terms and conditions of our Notes are constituted by the general terms and conditions found in the programme prospectus, and are supplemented by the terms in the pricing supplement.

THE REFERENCE ENTITIES

Our Notes are credit-linked to seven reference entities. We have no special access to information about the reference entities. You must rely on publicly available information about them in deciding whether to buy or hold our Notes.

You can find information about each reference entity and its operations and financial condition on the websites listed in the table below. We will not keep you informed of any material development in relation to the reference entities' businesses. Each of the reference entities is required to keep its public disclosure up-to-date by its principal listing exchange or regulator. The information on these websites is not part of our issue prospectus and we and the arranger accept no responsibility for that information, including whether that information is accurate, complete or up-to-date.

Reference Entity	Reference Entity's Website	Website of Principal Listing Exchange or Regulator
CLP Power Hong Kong Limited ¹	www.clpgroup.com	www.hkex.com.hk
CNOOC Limited	www.cnoocLtd.com	www.hkex.com.hk
DBS Bank Ltd. ²	www.dbs.com	www.sgx.com
HSBC Bank PLC ³	www.hsbc.com	www.londonstockexchange.com
Hutchison Whampoa Limited	www.hutchison-whampoa.com	www.hkex.com.hk
MTR Corporation Limited	www.mtr.com.hk	www.hkex.com.hk
Standard Chartered Bank ⁴	www.standardchartered.com	www.londonstockexchange.com

- 1 CLP Holdings Ltd. (the parent company of CLP Power Hong Kong Limited) is listed on The Stock Exchange of Hong Kong Limited.
- 2 DBS Group Holdings Ltd (the parent company of DBS Bank Ltd.) is listed on The Singapore Exchange Limited.
- 3 HSBC Holdings PLC (the parent company of HSBC Bank PLC) is listed on the London Stock Exchange.
- 4 Standard Chartered PLC (the parent company of Standard Chartered Bank) is listed on the London Stock Exchange.

We have specified a "reference obligation" for each reference entity. The reference obligations have the credit ratings as at 9 April 2008 set out in the following table.

Reference Entity	Reference Obligation	Moody's Rating	Standard and Poor's Rating
CLP Power Hong Kong Limited	CLP Power Hong Kong Financing Limited 6.25 per cent. notes due 8 May 2012 (ISIN: XS0146769020)	Aa3	A+
CNOOC Limited	CNOOC Finance (2002) Limited 6.375 per cent. notes due 8 March 2012 (ISIN: USU17469AA25)	A1	A
DBS Bank Ltd.	DBS Bank Ltd. 7.125 per cent. subordinated notes due 15 May 2011 (ISIN: USY20337AJ30)	Aa2	A
HSBC Bank PLC	HSBC Bank PLC 4.25 per cent. subordinated notes due 18 March 2016 (ISIN: XS0164883992)	Aa2	AA-
Hutchison Whampoa Limited	Hutchison Whampoa International (03/13) Limited 6.50 per cent. notes due 13 February 2013 (ISIN: USG4672QAA25)	A3	A-
MTR Corporation Limited	MTR Corporation (C.I.) Limited 4.75 per cent. notes due 21 January 2014 (ISIN: XS0184198157)	Aa2	AA
Standard Chartered Bank	Standard Chartered Bank 3.625 per cent. subordinated notes due 3 February 2017 (ISIN: XS0211496830)	A3	A

The reference obligations set out above provide a benchmark (with respect to ranking) for selecting the bonds and loans which would be used (if there is a credit event) to calculate the credit event redemption amount: only bonds and loans which rank at least equally with the specified reference obligation in a liquidation of the reference entity will be selected. (This is only one of the selection criteria: the bonds and loans must have other specified characteristics too.)

The reference obligations set out above may be replaced with another debt obligation of the reference entity (of equivalent seniority to the relevant reference obligation) if the relevant reference obligation is redeemed or ceases to be a binding obligation of the reference entity.

The reference obligations for HSBC Bank PLC, DBS Bank Ltd. and Standard Chartered Bank are subordinated notes. This means that those notes would only be repaid after all the senior and unsubordinated creditors of the relevant reference entity had been paid in full. The rating agencies take this seniority of obligations into account in assigning their credit ratings. If a credit event occurs in respect of one of these reference entities, that reference entity's subordinated notes are likely to have a value which is substantially less than its senior and unsubordinated notes, and therefore any credit event redemption amount is likely to be less than what it would have been if the reference obligation was a senior and unsubordinated note(s).

"Moody's Rating" is the credit rating of Moody's Investors Service (Moody's) as at 9 April 2008.

"Standard and Poor's Rating" is the credit rating of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (Standard & Poor's) as at 9 April 2008.

Our Notes are credit-linked to the reference entities and not only to the reference obligations. Information on the ratings of the reference entities' and the reference obligations can be obtained from the website of Standard & Poor's at www.standardandpoors.com, the website of Moody's at www.moody.com and/or the website of Fitch at www.fitchratings.com (as applicable).

Under the terms of our Notes, a reference entity could in limited circumstances be replaced with another entity or entities – its successor – each of which will then become for all purposes a reference entity. The reference obligations will also be substituted accordingly. The circumstances in which this could happen relate to mergers, demergers, spin-offs and similar corporate reorganisations. The pricing supplement in appendix 1 has full details.

A credit rating is not a recommendation to buy, sell or hold a security as it does not address other risks associated with holding the security such as liquidity, market and volatility risks. A high credit rating is not necessarily indicative of high liquidity and low market volatility. You should independently familiarise yourselves with the ratings, the methodology adopted by different credit rating agencies and what they mean and form your own view as to their relevance in any investment decision.

There is a brief guide as to what credit ratings mean in appendix 2. Information set out in appendix 2 is extracted from publicly available information and while we have taken reasonable care to correctly extract and reproduce such information, neither we, any of our directors, nor the arranger is responsible for the accuracy of such information.

The credit ratings can change if the credit rating agency thinks that the credit quality of a rated entity or obligation has increased or decreased. A downgrade in credit rating is not, however, in itself a credit event under our Notes. You will be able to find out the most up-to-date credit ratings on the websites of the rating agencies by searching for the name of the reference entity or the collateral issuer or by searching for the ISIN code of the reference obligation or the collateral (as applicable) (a free log-in registration may be required before you can conduct the credit ratings search on these websites). The information on these websites may only be available in English. You can ask your distributors if you want to obtain more information about searching for credit ratings on these websites.

The credit rating agencies receive most of their revenue from issuers that they rate. Therefore, a potential conflict of interest exists for rating agencies between the issuers for whom they issue ratings as a service and the debt investors who look to such ratings for guidance in making investment decisions. You may wish to consider this potential conflict of interest when evaluating credit ratings given by rating agencies.

Credit rating agencies do not confirm the validity of information given to them and do not verify or certify the accuracy of the information they analyse. A credit rating therefore does not guarantee the accuracy, completeness or timeliness of the information relied on in connection with such rating or the result obtained from the use of such information.

WHAT ARE OUR NOTES?

Our Notes provide a fixed income investment opportunity. They are credit-linked investments. In return for you taking credit risk on the companies, we pay the following fixed rate interest for our Notes:

Tranche A Notes	Tranche B Notes
5.50% p.a.	5.00% p.a.

What does “credit-linked” mean?

We will redeem our Notes at 100% of their principal amount on the maturity date, unless a credit event happens to any one of the reference entities before then. If a credit event does happen, we will redeem our Notes in an amount equal to the credit event redemption amount and we will not pay interest for any part of the interest period during which the credit event happened or any subsequent period. The credit event redemption amount will likely be less, and could be significantly less, than the principal amount of our Notes.

How is the credit event redemption amount calculated? When is it paid?

The credit event redemption amount is, in summary, the US dollar amount which would be realised on the sale of debt obligations of the reference entity affected by the credit event in a principal amount equal to our Notes less costs and expenses associated with the termination of our Notes (including any amount payable, or receivable by us to or from the swap counterparty as a result of the termination of the swap agreement and any depreciation or appreciation in the market value of the collateral). We will ask dealers to bid for the obligations to be sold and take the highest bid price obtained from such dealers. Deductions of costs and expenses and of amounts we may owe Lehman Brothers Special Financing Inc. under the swap arrangements for our Notes will be made from the proceeds of sale of the debt obligations. The credit event redemption amount will be paid no later than the thirtieth business day after the credit event has been notified to the noteholders. This means that if a credit event occurs on or shortly before the second business day prior to the scheduled maturity date (which is the end of the credit observation period), the credit event redemption amount could be paid after the scheduled maturity date of our Notes. The pricing supplement in appendix 1 has full details.

What are the “credit events”?

The credit events are, in summary:

- “Bankruptcy” – if one of the reference entities becomes insolvent or bankrupt;
- “Failure to Pay” – if one of the reference entities fails to pay when due at least USD1 million (or equivalent) of its borrowings (or borrowings guaranteed by it); and
- “Restructuring” – if one of the reference entities has at least USD10 million (or equivalent) of its borrowings (and/or other borrowings guaranteed by it) restructured as a result of a deterioration in creditworthiness or financial condition.

“Bankruptcy”, “Failure to Pay” and “Restructuring” have detailed technical definitions. The full definitions are set out in the form of the pricing supplement in appendix 1.

A fall in the share price, non-payment of a dividend, or ratings downgrade of a reference entity are not, in themselves, credit events.

When will our Notes be repaid? What is the call option?

Our Tranche A and our Tranche B Notes are scheduled to mature in 2011.

For both tranches of our Notes, we have a “call option”, which means we can choose to repay our Notes early on any interest payment date which is scheduled to fall on or after 15 May 2009.

We will give at least five business days prior notice informing you if we choose to repay our Notes early and the notice will specify the early redemption date. If we use our call option to repay our Notes early, we will repay 100% of the principal amount, plus the interest due on the interest payment date fixed as the early redemption date. We will not pay any more interest after that. Depending on interest rates available in the market at the time we repay our Notes, you may or may not be able to reinvest your money at rates comparable to the rates we would have paid on our Notes had we not repaid them early.

Please note, however, that if a credit event happens during the period between the day notice is given to exercise our call option and the interest payment date fixed as the early redemption date, we may still give you a credit event notice during this period and if this happens, our Notes will be redeemed at the credit event redemption amount, instead of 100% of their principal amount plus the interest due for that interest period (see “What does “credit-linked” mean?” above).

Are our Notes principal protected?

No: our Notes are not principal protected: if a credit event happens to any one of the 7 reference entities on or before the second business day prior to the maturity date, you will lose part, and possibly all, of your investment.

We would also have to redeem our Notes early, at less than their principal amount, if there was an event of default under our Notes; if there was a default on (or other unexpected early repayment of) the collateral which backs our Notes; if the swap arrangements were terminated early; or if we became, unexpectedly, subject to taxation in the Cayman Islands, where we are incorporated. Our programme prospectus has full details in “Master Terms and Conditions of the Notes - Conditions 7(b) and 7(c)” and we give a summary in “Investment Risks” in this issue prospectus. We specify details of how the early redemption amount is determined in the pricing supplement, the form of which is set out in appendix 1 to this issue prospectus.

Who decides if there is a credit event? Who makes decisions under our Notes?

We have appointed Lehman Brothers Asia Limited as our calculation agent to make determinations, and exercise discretions, under the terms and conditions of our Notes on our behalf. The calculation agent will, for example, determine:

- whether the conditions which give rise to a credit event have actually happened to a particular reference entity;
- whether or not to give notice that a credit event has happened;
- if a credit event does happen, which obligations of the reference entity which suffers the credit event will be sold to realise the credit event redemption amount;

- how much the credit event redemption amount is;
- if it is necessary to replace a reference entity with a “successor” entity; and, if so, which entity is the appropriate successor entity; and
- if it is necessary to replace a reference obligation; and, if so, which obligation of the reference entity will be used.

The calculation agent has sole and absolute discretion in making its determinations and exercising its discretions under the legal documentation. Any decision it makes is final and binding on investors in our Notes and on us and the other parties involved in our Notes.

The calculation agent must make its determinations and exercise its discretions in accordance with the terms and conditions of our Notes. In practice, the calculation agent will ensure that its decisions under the terms and conditions of our Notes are consistent with the decisions made by or on behalf of the swap counterparty or the swap calculation agent under the corresponding terms of our swap arrangements. This is to ensure that our rights under the swap arrangements continue to match our obligations under our Notes.

The calculation agent is our agent: it owes no duty to you as investors in our Notes.

How will you know if there is a credit event?

We will give notice to the distributors through Euroclear and Clearstream after the determination has been made. When the credit event redemption amount has been calculated, we will notify the distributors through Euroclear and Clearstream of such amount and the date on which it shall be paid through the relevant clearing system. You will have to rely on your distributor to ensure that our notice(s) reach you.

How will the obligations of the affected reference entity be picked?

The obligations of the affected reference entity used to realise the credit event redemption amount will be selected for us by the swap counterparty in its absolute discretion. However, those obligations must have specified characteristics in order to qualify for selection. The pricing supplement in appendix 1 has full details. In broad summary, the obligations of the affected reference entity:

- must be bonds or loans of (or guaranteed by) the reference entity to which the credit event happened;
- would rank in a liquidation of the reference entity at least equally with the reference obligation specified for that reference entity (and the selected obligations could be or include the reference obligation itself); and
- must have other characteristics as set out in the pricing supplement in appendix 1.

The selection criteria for the obligations of the affected reference entity are complex, but they reflect normal practices in the credit derivatives markets in which we hedge our obligations under our Notes.

Investing in our Notes means you take the credit risk of the 7 named reference entities, but what if the reference entities change or a reference entity is replaced with more than one successor? Will our Notes become more risky?

The reference entities will only be changed in limited circumstances such as a merger, de-merger, spin-off or similar corporate reorganisation. A replacement or successor reference entity could have a different, and worse, credit rating than the predecessor reference entity.

Also, it is possible that a reference entity could be replaced with more than one successor, each of which will be treated for all purposes as a reference entity. If this happens, you would then take on the credit risk of more than the original 7 reference entities. However, if that happens, we will allocate a pro rata portion of each Note to each of the successor reference entities so that a credit event affecting one of the successors would only affect its portion of the Note.

For example, suppose a reference entity is reorganised so that its business (and debt) is split into 2 new companies. If company A takes 60% of the original reference entity's outstanding debt and company B takes 40%, we will allocate the principal amount of each Note to each successor by dividing the principal amount of each Note by the number of successors (i.e. 50% of the principal amount for each successor). We will then treat a credit event which happens to company A as affecting only 50% of the principal amount of each Note. So, we would redeem 50% of the principal amount of each Note at its credit event redemption amount, but the other 50% would be unaffected by that credit event. In this way, although you are exposed to the credit risk of a larger number of reference entities, only a portion of your principal amount of the Notes will be affected if a credit event happens to one of the new successor reference entities.

If a reference entity is replaced with one or more successor(s), we will inform the distributors through Euroclear and Clearstream after the determination has been made. You will have to rely on your distributor to ensure that our notice(s) reach you.

Who should buy our Notes? Are they suitable for everyone?

Our Notes are not suitable for everyone. You should make sure you understand how our Notes work and that an investment in our Notes is appropriate for you in light of your own individual financial position and investment objectives before deciding whether or not to invest.

Our Notes are designed for investors who are:

- looking for fixed rate quarterly interest income in USD or HKD;
- confident that none of the 7 named reference entities will be affected by a credit event (that is, "Bankruptcy", "Failure to Pay" or "Restructuring", which include events such as a major borrowing default, bankruptcy or adverse debt restructuring) between the issue date and the second business day prior to the maturity date of our Notes and who are able to take the risk that they may lose their investment if one of these events does happen;
- willing to accept early repayment of principal for any tranche of our Notes at our choice on any interest payment date falling on or after 15 May 2009; and
- willing to accept the risk that our Notes are not principal protected and if a credit event happens to any one of the reference entities on or before the second business day prior to the maturity date or if we have to redeem our Notes early for taxation or other reasons (except if we exercise our call option), you will only receive back the credit event redemption amount or the early redemption amount, which, in either case, could be significantly less than the principal amount of our Notes.

HOW CAN I BUY SOME NOTES?

You can buy our Notes from any of the distributors listed here. Call one of the hotlines below to find out more about how to buy from a distributor or to get a list of branches where you can place your order for our Notes. You can also find out how to get a copy of our programme prospectus by calling a hotline during normal business hours.

<u>Distributor</u>	<u>Hotline Number</u>
Chong Hing Bank Limited	3768 6888
Dah Sing Bank, Limited	2828 8001
KGI Asia Limited	2878 5555
MEVAS Bank Limited	3101 3838
Public Bank (Hong Kong) Limited	2853 4671
Sun Hung Kai Investment Services Limited	2822 5001
Wing Lung Bank Limited	2526 5555

How long is the offer open? When will I get my Notes?

This is the offering and issue timetable. We are offering our Notes for a limited period only. We may close the offer early, or allow more time, without prior notice. We also reserve the right to cancel the offering or to change the scheduled issue date of our Notes. We will fix the issue size in our discretion according to market demand.

Offer opens:	9 a.m. on 14 April 2008
Offer closes:	Expected to be 4:30 p.m. on 2 May 2008
Issue amount:	We will decide the total principal amount of Notes to be issued in light of investor demand.
Issue date:	Expected to be 15 May 2008 (subject to change if we extend or shorten the offer period), and will be not later than 15 June 2008. If the issue date changes, we will inform the distributors who will in turn inform you.

We intend to issue two tranches of Notes: a tranche of USD Notes and a tranche of HKD Notes. We will treat each tranche separately. For example, we might extend or shorten the offer period for one tranche but not the other tranche, or we may cancel one tranche but not the other tranche.

Do I need an application form?

No. We will not issue an application form for our Notes.

The distributor with which you place your order will ask you to fill in their order form and to make a series of confirmations and acknowledgements to the distributor and to us, including that:

- you have read and understood our programme prospectus and this issue prospectus;
- you understand that our Notes are not principal protected and that you are able to sustain the loss of all or part of your investment in our Notes;
- you accept that neither we nor Lehman Brothers Asia Limited as arranger of this offering accept any responsibility for the provision of services, including custody services, by your distributor;
- you commit to pay the purchase price for your Notes up to the amount of Notes you apply for; and
- you are not located within the United States and are not a US Person within the meaning of Regulation S under the Securities Act (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States).

Our programme prospectus lists other confirmations you will be asked to make. If you place an order for our Notes, we will deem you to be making these confirmations to us on the understanding that we would not otherwise issue Notes for delivery to you. Your distributor may require additional confirmations, too.

Our Notes are not available to US persons.

How do I hold my Notes? What must I rely on my distributor to do for me?

Our Notes will be issued in registered form. We do not intend to issue individual certificates for our Notes, so you must arrange for your distributor to hold them in a securities or investment account. If you do not have a securities or investment account already, you will have to open one before you can buy our Notes.

Discuss this with your distributor and shop around if you wish: distributors charge varying fees to open and maintain these accounts and have different arrangements for processing orders. Ensure you are familiar with the standard terms and conditions which your distributor will apply to your account. Ask your distributor to explain if you are not familiar with these arrangements.

Our Notes will be held in Euroclear and Clearstream, which are two major international clearing systems for securities. Individual investors cannot open a personal account at either Euroclear or Clearstream: they cater only for institutions.

Your distributor will hold your Notes for you in an account at Euroclear or Clearstream – either its own account or the account of its direct or indirect custodian with the clearing system. We will pay interest and principal on our Notes through the clearing systems and you will have to rely on your distributor to ensure that payments on your Notes are credited to your account with your distributor.

Any notices we or Lehman Brothers Asia Limited as arranger give after our Notes are issued will also be given through the clearing systems: you will have to rely on your distributor to ensure that they reach you.

Neither we nor Lehman Brothers Asia Limited as arranger accept any responsibility for the services provided to you by your distributor.

What are the arrangements with the distributors? Are there any hidden charges or fees?

Lehman Brothers Asia Limited as the arranger has appointed the distributors listed in this issue prospectus to take orders for our Notes, and it may also appoint additional distributors after the date of this issue prospectus. We will pay each distributor a commission based on the amount of Notes they sell. These commissions come out of the proceeds of issue of our Notes.

We will use the proceeds of issue of the Notes to purchase the collateral and enter into the swap arrangements which provide the cashflow to allow us to meet our obligations under the Notes. The counterparties with which we deal (which may include the arranger and its affiliates) expect, of course, to make a profit out of these transactions. The cost of these transactions, including any profit element for our counterparties, is included in the issue price and/or the other terms of our Notes.

The inclusion in the original issue price and/or the other terms of our Notes of distributors' commissions and the cost, including our counterparties' profits, of our hedging, together with other transaction costs, is likely to be reflected in lower secondary market prices for our Notes.

There are no soft commission or rebate arrangements between us or Lehman Brothers Commercial Corporation Asia Limited as initial subscriber or Lehman Brothers Asia Limited as arranger and any of the distributors.

Is the offer underwritten?

The offer of our Notes is not underwritten.

Are Notes available only from the distributors?

We have published this issue prospectus and our programme prospectus so our Notes can be sold to the public through the distributors. However, we may make arrangements for our Notes to be sold through other channels, whether in Hong Kong or abroad, which are not set out in this issue prospectus. Offers of Notes made through other channels could be made at a lower issue price, or on other terms, than are available to investors who buy Notes through a distributor specified in this issue prospectus.

For example, we may also sell our Notes to private banks on terms different from those offered in this issue prospectus. The private banks may then sell our Notes to their customers on any terms they choose.

INVESTMENT RISKS

There are investment risks involved in buying our Notes. Before applying for any of our Notes, you should consider whether our Notes are suitable for you in light of your own financial circumstances and investment objectives. If you are in any doubt, get independent professional advice. In addition to the risks set out in the programme prospectus, you should consider the following additional risks.

Our Notes are not principal protected; you could lose part, and possibly all, of your investment

- If a credit event happens to any one of the reference entities on or before the second business day prior to the maturity date, you will only receive back the credit event redemption amount, which will likely be less, and could be significantly less, than the principal amount you invested. If a credit event occurs on or shortly before the second business day prior to the maturity date, the credit event redemption amount could be paid after the scheduled maturity date of our Notes.
- If we have to redeem our Notes early, we will have to cancel the swap arrangements and sell the collateral for our Notes in order to make the redemption. You will only get back, as the early redemption amount, your share of the proceeds of sale of the collateral, which may be worth less than its principal amount, less any amounts which we may owe to the swap counterparty because of the early termination of the swap arrangements. It is likely that your early redemption amount will be less and could be significantly less than the principal amount of your Notes.
- We will have to redeem our Notes early if:
 - there is a credit event as described above (in which case you will only receive back the credit event redemption amount);
 - there is an event of default under our Notes;
 - the collateral is repaid early for any reason, for example because of tax reasons, or there is an event of default under the collateral (or under the underlying securities for the collateral) or the underlying securities for the collateral are repaid early for any other reason;
 - the principal amount of the collateral is reduced in accordance with its terms;
 - the Cayman Islands imposes taxes on us or on payments under our Notes which we cannot avoid; or
 - the swap arrangements for our Notes are terminated for any reason.
- We will not pay any more interest on our Notes after a credit event or an early redemption of our Notes and we will not pay interest for any part of the quarterly interest period during which the credit event happens or the early redemption is made.

In all these cases, the amount we will be able to pay back on our Notes will likely be less, and could be significantly less, than the principal amount of our Notes. It is possible that you could lose all of your investment.

You are exposed to the credit risk of the reference entities; the reference entities could change in succession event

You will receive back less and probably significantly less than the principal amount you invested if a credit event occurs to any one of the reference entities.

- The creditworthiness of the reference entities could be affected by business, economic, political, financial, social, environmental and other events both locally and globally. Events of these types could affect one or more reference entities in the future and make it more likely that a credit event may happen.
- Our Notes are linked to the credit risk of the reference entities. This means that the first credit event (or, at our choice, any subsequent credit event) to occur to any one of the reference entities will lead to our Notes being redeemed at a credit event redemption amount calculated by reference to the price of the borrowing obligations of the reference entity which has suffered the credit event. Usually, the price of borrowing obligations of the affected reference entity will drop when the circumstances leading to a credit event become known and the value of our Notes and the credit event redemption amount would likely fall accordingly.
- A reference entity may, if there is a succession event such as a merger, de-merger or spin-off, be replaced by one or more successor(s) that succeeds to all or substantially all its obligations. The successor reference entity could have a different, and worse, credit rating than the predecessor reference entity. If a reference entity is replaced by more than one successor, the riskiness of our Notes will increase because you are exposed to the credit risk of a greater number of reference entities and accordingly the likelihood of a credit event happening to any one of the reference entities would increase.

The collateral which backs our Notes will be selected according to specified criteria, including its credit rating; the collateral will consist of collateralised debt obligation securities

- We will not select the collateral until shortly before the issue date of our Notes, at the earliest; you will therefore have to rely on the criteria which the collateral must meet in reaching your decision on whether to buy our Notes: when you make your decision you will not know exactly what the collateral will be.
- The collateral will be AAA-rated (and not subject to negative watch or review for possible downgrade) on its purchase date. The credit rating of the collateral could, however, change after its purchase date if, in the opinion of the credit rating agency, the credit quality of the collateral declines.
- If the collateral is purchased shortly after the issue date or if the collateral matures before our Notes, the issue proceeds of our Notes or the redemption monies received (as the case may be) will either be held in cash or invested in liquidity funds as security for our Notes.
- The market value of the collateral will depend on its liquidity. No assurance can be given that a secondary market for any CDO comprised in the collateral will exist or if it does exist will provide sufficient liquidity for the sale thereof. The lack of liquidity may adversely affect the market value of the collateral and, in turn, the performance of our Notes. We can give you no assurance as to whether the market value of the collateral in respect of our Notes will be above or below par.
- The value of the collateral, in the event that we have to sell it in the market on an early redemption of our Notes or if we deliver it to Lehman Brothers Special Financing Inc. following a credit event, may be less, and could be significantly less, than its principal

amount if the credit quality of the collateral has declined since its purchase date or if there is no liquid market in which to sell the collateral. A loss in value of the collateral in these circumstances would be borne by you.

- Since the collateral will be synthetic collateralised debt obligation securities secured on its underlying securities, you are also exposed to the risk of an early repayment of such underlying securities for the collateral for any reason, for example there is an event of default or other similar events under such underlying securities. Upon the occurrence of an early repayment of such underlying securities, the collateral will be repaid early, which will cause us to early redeem our Notes. This can happen even if no credit event has occurred to the reference entities of our Notes or to the entities referenced in any CDO collateral and you may suffer a loss as a result.

Credit ratings of the reference obligations or the collateral by the rating agencies can change following the issue date

There can be no assurance that any credit rating of the reference obligation and the collateral as stated in this issue prospectus will remain in effect or that any such rating will not be revised by the relevant credit rating agency during the term of our Notes. You will be able to find out the most up-to-date credit ratings on the websites of the rating agencies by searching for the name of the reference entity or the collateral issuer or by searching for the ISIN code of the reference obligation or the collateral (as applicable) (a free log-in registration may be required before you can conduct the credit ratings search on these websites). The information on these websites may only be available in English. You can ask your distributors if you want to obtain more information about searching for credit ratings on these websites.

Our Notes do not have a liquid trading market

If you try to sell your Notes before maturity you may receive an offer which is less than the amount you invested or you may not be able to sell your Notes at all.

The only assets which back our Notes are the collateral and the swap arrangements; the swap counterparty's claims against the collateral will be paid ahead of Noteholders' claims if we have to redeem our Notes early

We have no significant assets other than the collateral and the swap arrangements which back each series of our Notes. The claims of Noteholders against us are limited in all circumstances to the value of the collateral and any amounts due to us under the swap arrangements.

Under the trust deed which constitutes our Notes, the claims of the trustee for its expenses, and of the swap counterparty for any amounts due to it under the swap arrangements, including any termination payment as compensation for early termination, will be paid first out of the proceeds of the collateral before the claims of Noteholders are met.

The assets which back each series of our Notes are kept strictly segregated and are available to meet only those claims as are specified in the supplemental trust deed which constitutes the series of Notes which they back.

You will have no further claim against us for any loss of your investment after we have paid out all the proceeds of the collateral and, if any, of termination of the swap arrangements for your Notes. You have no right to have us wound up or put into administration.

Investing in our Tranche B Notes involves exchange rate risk

If there is a credit event or an early redemption (other than by us exercising our call option), the return on our Tranche B Notes could be affected by the prevailing US dollar/HK dollar exchange rate.

This is because the principal amounts of the collateral sold to realise the credit event redemption amount and the early redemption amount will be denominated in US dollars and certain costs may be calculated in US dollars. To redeem our Tranche B Notes in these circumstances, we will convert the US dollar amounts which we have calculated are due for payment into HK dollars so that redemption of our Tranche B Notes is made in HK dollars. The exchange rate we will use will be the exchange rate for the purchase of HK dollars with US dollars which prevails at the time we make the conversion. If the US dollar loses value against the HK dollar between now and then, your HK dollar return on our Tranche B Notes may be reduced.

INFORMATION ABOUT US AND HOW OUR NOTES ARE SECURED

Who is Pacific International Finance Limited?

We are a limited liability company incorporated on 9 March 2000 in the Cayman Islands. Our sole purpose and business is to issue Notes under our programme.

We earn a small fee for each series of Notes that we issue. All our Notes are arranged for us by Lehman Brothers Asia Limited (the arranger) and we always use all of the proceeds of issue of our Notes to buy the assets on which those Notes are secured. These assets are identified for us by the arranger to match our obligations under the Notes and we buy these assets from or through the arranger. We have no other significant assets; our issued share capital is only USD1,000.

All our shares are beneficially owned, through trust arrangements, ultimately by specified charities.

What happens to my money? How can Pacific International Finance Limited pay me back?

We will use the money which you invest in our Notes to buy a package of assets. These assets are carefully selected to match our payment obligations under our Notes.

The assets which we buy with the proceeds of issue of our Notes are held for us by HSBC Bank plc, a professional custodian. Our arrangements with the custodian ensure that:

- the assets are used by us as security for the performance of our payment obligations under our Notes. This means that these assets are earmarked for payment of these obligations and are not available to meet any debts owing to our other creditors;
- the assets which back up each series of our Notes are kept separate from the assets which back up other series. This means that you are not exposed to any defaults or losses which may affect series of Notes other than the series you invest in. But it also means that your rights against us for repayment of your Notes are limited to your proportionate share of the value of the assets which back that series.

We have to rely on receiving money or securities due under the terms of the assets we hold in the full amounts and on the dates due if we are to meet our obligations to you.

If we do not receive what is due to us under the terms of the assets we hold, we will not be able to meet our obligations to you and we will have no choice but to default. As we do not have any other assets out of which we can make up any shortfall, you will have to bear the loss. To protect the investors in our Notes of other series, claims against us for the loss (including attempts to have us wound up or put into administration) are not allowed.

What are the assets which back up our Notes?

These are the assets which we will purchase with the money you invest with us when you buy our Notes offered by this issue prospectus and the other contracts we will enter into to make sure we can meet our obligations under our Notes.

- collateral: a principal amount of AAA-rated collateralised debt obligation securities (CDO) equivalent to the total principal amount of our Notes that we issue. The collateral for our Notes will be US dollar denominated. The principal amount of the collateral for our Tranche B Notes will be the US dollar equivalent of the principal amount of our Tranche B Notes based on the prevailing exchange rate. The collateral will be selected for us by the arranger before we issue our Notes. The CDO will not be an asset-backed securities CDO. The CDO will not be linked to asset-backed or mortgage-backed securities. If the CDO collateral is

purchased after the issue date or if the CDO collateral matures before our Notes, the issue proceeds of our Notes or the redemption monies received (as the case may be) will be held in cash or invested in liquidity funds as security for our Notes.

- interest rate and/or currency swap: we will enter into swap arrangements with Lehman Brothers Special Financing Inc. to swap the amounts of interest and principal we receive on the collateral into the amounts we need to pay out on our Notes.
- credit default swap: we will also enter into an agreement with Lehman Brothers Special Financing Inc. under which Lehman Brothers Special Financing Inc. will pay us a premium which we use to increase the interest we can pay on our Notes. The premium, and its amount, reflect the risk we take that there could be a credit event affecting a reference entity. If a credit event does happen to a reference entity, we will deliver the collateral to Lehman Brothers Special Financing Inc. and Lehman Brothers Special Financing Inc. will pay us the credit event redemption amount due on our Notes. The credit default swap may be documented in the same legal agreement as the interest rate and currency swap.

How will the collateral be chosen?

On or shortly after the issue date, we will use the proceeds received from the issue of our Notes to buy the collateral. We cannot state with certainty what the collateral will be when we publish an issue prospectus for a series of notes as we rely on the arranger to make suitable collateral available to us. However, for this series of Notes, the collateral for our Notes will consist of synthetic collateralised debt obligation notes (commonly known as a Synthetic CDO). The level of protection against credit loss provided within the proposed Synthetic CDO is expected to represent a minimum of 105% of that required by the applicable rating agency for the assignment of a AAA rating or Aaa rating, as the case may be.

Irrespective of its composition, the CDO collateral must, however, meet the following criteria as at the date we purchase it:

- (i) be rated AAA by Standard and Poor's and/or AAA by Fitch, Inc., Fitch Ratings, Ltd. and their subsidiaries and any successor or successors thereto (Fitch) and/or Aaa by Moody's;
- (ii) not be subject to any negative CreditWatch of Standard and Poor's, negative Rating Watch of Fitch or review for possible downgrade on Moody's Watchlist;
- (iii) have a maximum maturity not later than the maturity date of our Notes; and
- (iv) be acceptable to Lehman Brothers Special Financing Inc. as a funding source for our obligations under the swap arrangements.

The CDO will not be an asset-backed securities CDO. The CDO will not be linked to asset-backed or mortgage-backed securities.

The arranger may source securities for issue specifically to be used as collateral for our Notes.

If we purchase the CDO collateral after the issue date or if the CDO collateral matures before our Notes, the issue proceeds of our Notes and the redemption monies received (as the case may be) will either be (i) paid into a deposit account with a third party bank (which may or may not be interest bearing); or (ii) invested in any US dollar denominated money market fund or liquidity fund or similar investment that principally invests in short term fixed income obligations, and has a rating of at least AAAM by Standard and Poor's and/or AAA/V-1+ by Fitch and/or Aaa/MR1+ by Moody's. Cash held in the third party deposit account or invested in this way will also be subject to security in favour of the trustee.

The credit rating of the collateral can change if the credit rating agency thinks that the credit quality of the collateral has increased or decreased. A downgrade in credit rating is not, however, in itself a credit event under our Notes. You will be able to find out the most up-to-date credit ratings of the collateral on the websites of the rating agencies by searching for the name of the collateral issuer or by searching for the ISIN code of the collateral (as applicable) (a free log-in registration may be required before you can conduct the credit ratings search on these websites). The information on these websites may only be available in English. You can ask your distributors if you want to obtain more information about searching for credit ratings on these websites.

Within 10 business days after our purchase of the collateral, we will notify the noteholders of the name, issuer, guarantor (if applicable), maturity date, ISIN code and rating (as at the issue date) of the collateral. Further information about the collateral, including evidence of the rating and the terms and conditions of the collateral, will be made available as one of the display documents for our Notes. If an information memorandum or similar offering document was produced for the collateral, we will also make it available as a display document. The collateral will not be issued by Lehman Brothers Treasury Co. B.V.. You can ask your distributors if you want to obtain more information on the collateral.

How do the swap arrangements work?

We have entered into a master swap agreement dated 25 March 2004 with Lehman Brothers Special Financing Inc. as a swap counterparty. In connection with the issue of our Notes we will enter into supplemental agreements, or confirmations, which contain the economic features of the particular swap arrangements in relation to our Notes.

The arrangements contemplated by the swap agreement are intended to enable us to meet our payment and other obligations under our Notes. The following is a summary of the obligations of each party under the swap agreement:

- (i) on each interest payment date in respect of the collateral, we will pay to Lehman Brothers Special Financing Inc. a sum equal to the interest receivable by us in respect of the collateral;
- (ii) on each interest payment date in respect of our Notes, Lehman Brothers Special Financing Inc. will pay to us an amount equal to the interest due on our Notes; and
- (iii) upon the occurrence of a credit event, we will deliver the collateral to Lehman Brothers Special Financing Inc. and Lehman Brothers Special Financing Inc. will pay to us a cash amount equal to the market value of debt obligations (chosen by it) of the reference entity in respect of which the credit event has occurred. Further, that amount will be adjusted by (i) any amount payable by us to Lehman Brothers Special Financing Inc. as a result of the termination of the swap agreement and (ii) any difference between the principal amount of the collateral and the market value of the collateral (as determined by the calculation agent).

We will apply the redemption monies received by us in respect of the collateral in settlement of the redemption monies required to be paid on our Notes.

Lehman Brothers Holdings Inc. has unconditionally guaranteed to us the due and punctual payment of all amounts payable by Lehman Brothers Special Financing Inc. under the swap agreement. Our Notes will not be obligations of and will not be guaranteed by Lehman Brothers Holdings Inc.

Can the swap agreement be terminated? What happens then?

The swap agreement for our Notes may terminate earlier than scheduled in any of the following circumstances.

The swap counterparty has the right to terminate the swap agreement if we either fail to make a payment or delivery when it is due from us under the swap agreement; or if we suffer specified insolvency-related events. The swap agreement will terminate automatically if our Notes become due and payable before their scheduled maturity date.

We have the right to terminate the swap agreement if:

- that swap counterparty fails to make a payment when it is due under the swap arrangements or Lehman Brothers Holdings Inc. fails to make the payment under the swap guarantee;
- that swap counterparty or Lehman Brothers Holdings Inc. suffers specified insolvency-related events;
- that swap counterparty or Lehman Brothers Holdings Inc. defaults on certain other of its obligations not connected with the swap arrangements; or
- that swap counterparty or Lehman Brothers Holdings Inc. merges with another company and that company does not take over that swap counterparty's obligations under the swap agreement or the obligations of Lehman Brothers Holdings Inc. under the swap guarantee, as the case may be.

Either we or the swap counterparty have the right to terminate the swap agreement if:

- it becomes illegal for the other party to perform its obligations under the swap agreement (or for Lehman Brothers Holdings Inc. to perform its obligations under the swap guarantee);
- if the other party is affected by certain changes in tax law which it cannot avoid; or
- the other party breaches the swap agreement.

We or the swap counterparty may be liable to make a termination payment to the other upon the termination of the swap agreement (regardless of which party may have caused the termination). The amount of any termination payment will be based on the cost of entering into a swap transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the swap agreement.

A termination payment could be a substantial amount. For example, exchange rates or interest rates may change so that when the termination amount is calculated it would be expensive to enter into swap arrangements at that time which give the parties the same cashflows as under the swap arrangements which we agreed at the time we issue our Notes.

Upon any early termination of the swap agreement, our Notes will be redeemed early.

Can the collateral or the swap arrangements be changed after the issue date of our Notes?

The collateral and the swap arrangements will be subject to security in favour of the trustee. We cannot deal with the collateral or the swap arrangements except as described in this issue prospectus or as provided in the terms and conditions of our Notes and the trust deed unless the trustee gives its consent.

We have, however, agreed with Lehman Brothers Asia Limited, in an exchange option agreement to be dated the issue date, that if it surrenders to us for cancellation Notes which it owns, we will deliver to it the collateral which backs those Notes and cancel the corresponding portion of the swap arrangements. We have agreed this arrangement with Lehman Brothers Asia Limited so that the outstanding amount of our Notes can be controlled. If, for example, investors in our Notes sell their Notes to Lehman Brothers Asia Limited as the market maker of our Notes in order to exit their investment before maturity, the exchange option agreement allows the size of the issue to be reduced accordingly.

Where can I find out more about the swap arrangements, the swap counterparty and the swap guarantor?

There is a detailed description of the master swap agreement in our programme prospectus. The legal documentation for the swap arrangements for our Notes, including the swap guarantee, can be inspected as display documents.

The swap counterparty, Lehman Brothers Special Financing Inc., is an indirect consolidated subsidiary of Lehman Brothers Holdings Inc. The swap guarantor, Lehman Brothers Holdings Inc., conducts its fixed income derivatives product business through Lehman Brothers Special Financing Inc.

Our programme prospectus tells you how to find out more about the swap counterparty and the swap guarantor.

MORE INFORMATION ABOUT OUR NOTES AND OUR PROSPECTUSES

Where can I find more information about Pacific International Finance Limited and our Notes?

Our Notes are issued under our secured continuously offered note programme. The programme is described in our programme prospectus dated 14 April 2008. Please read the programme prospectus, together with this issue prospectus, carefully before you decide whether to buy our Notes. Our programme prospectus contains important information, including information about:

- Pacific International Finance Limited as issuer of our Notes;
- Lehman Brothers Special Financing Inc. as swap counterparty;
- Lehman Brothers Holdings Inc. as swap guarantor;
- the assets which back our Notes;
- investment risks of buying our Notes;
- Hong Kong and Cayman Islands taxation applicable to our Notes;
- the arrangements for holding and transferring our Notes in Euroclear and Clearstream and how we make payments and give notices while our Notes are held in Euroclear and Clearstream;
- the legally binding terms and conditions of our Notes, including what happens if we default or there is a default under the assets which back our Notes, and the role of the trustee. The trustee acts as the representative of holders of Notes; and
- the general procedure for buying Notes through a distributor of our Notes and how these distributors are likely to hold your Notes and receive notices and payments on our Notes from us on your behalf.

You can ask for a printed copy of our programme prospectus at any distributor where you can buy our Notes, or you can pick up a copy during normal business hours from the offices of Lehman Brothers Asia Limited at 26/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

Our programme prospectus (and this issue prospectus) is also available in a Chinese translation if you prefer.

We have not authorised anyone to give you any information about our Notes other than the information in this issue prospectus and our programme prospectus. You should not rely on any other information.

We will give notice of any information relating to us (or, if we are aware of it, about Lehman Brothers Holdings Inc.) which is necessary to avoid the establishment of a false market in our Notes or which might reasonably be expected significantly to affect our ability to meet our commitments under our Notes or the ability of Lehman Brothers Holdings Inc. to meet its obligations under the swap guarantee.

Can I sell my Notes before their maturity?

You can contact one of the distributors starting 3 months after the issue date to ask for a price at which you can sell your Notes. These distributors may then get a quote from Lehman Brothers Asia Limited as the market agent, who intends to quote prices on a best efforts basis on one day each week (which is expected to be Friday). However, the market agent may in future be unable to quote a price or may decide to discontinue this service.

Neither we nor Lehman Brothers Asia Limited are responsible for the establishment or maintenance of a secondary trading market in our Notes.

The trading price of our Notes will fluctuate depending on factors such as market interest rate movements, the market's view of the credit quality of the reference entities, the swap counterparty, the swap guarantor and the collateral and the market for similar securities. Also, the price of our Notes could be affected if there are only very few potential buyers in the market for our Notes or for the credit risk inherent in our Notes.

If you try to sell your Notes before maturity you may receive an offer which is less than the amount you invested; or you may not be able to sell your Notes at all.

Our Notes are not listed and cannot be traded on the Hong Kong Stock Exchange.

Do I have to pay stamp duty on our Notes?

No, there is no stamp duty on issue or transfer of our Notes.

Who is responsible for this issue prospectus and the programme prospectus?

Our directors collectively and individually accept full responsibility for the accuracy of the information contained in this issue prospectus and in our programme prospectus. They confirm, having made all reasonable enquiries, that to the best of their knowledge and belief this issue prospectus and our programme prospectus, when read together, contain no untrue statement (including a statement which is misleading in the form and context in which it is included and including a material omission).

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our prospectuses. Neither we nor any of our directors accept any responsibility for information on these websites.

Our programme prospectus (taken together with, and as updated by, this issue prospectus) is accurate at the date of this issue prospectus. You must not assume, however, that information in our prospectuses is accurate at any time after the date of this issue prospectus.

The arranger and the distributors are not responsible in any way to ensure the accuracy of our prospectuses.

When were our Notes authorised?

The offer and issue of our Notes were authorised on 8 April 2008.

Where can I see the legal documentation for our Notes?

During the offer period for our Notes and while any of our Notes is outstanding, you can read copies of the contracts which set up our secured continuously offered note programme, including:

- the pricing supplements (when issued), which set out the legally binding terms and conditions of our Notes offered by this issue prospectus;
- information about the collateral (when available);

- the documents listed as display documents in our programme prospectus;
- this issue prospectus; and
- a summary of the exemptions and of the conditions to which the certificate of exemption relating to this issue prospectus is subject,

by going to the offices of the arranger, Lehman Brothers Asia Limited at 26/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, during normal business hours and not on Saturdays, Sundays or public holidays.

A reasonable fee will be charged if you want to take photocopies of any of the documents.

You can find out more about how the legal documentation works by reading our programme prospectus.

Is this a Companies Ordinance prospectus?

Yes. The Securities and Futures Commission (SFC) has authorised this issue prospectus for registration by the Registrar of Companies. The SFC's authorisation does not imply the SFC's endorsement or recommendation of the offer contained or referred to in this document.

We asked for, and were granted by the SFC, exemptions from full compliance with some of the provisions of the Companies Ordinance. A summary of the exemptions and of the conditions to which the certificate of exemption issued by the SFC is subject will be on display and may be found on the website of the SFC: *www.sfc.hk*.

APPENDIX 1

FORM OF PRICING SUPPLEMENT

This is the form of the pricing supplement for our Notes. There will be one pricing supplement for each of our Tranche A Note and Tranche B Notes. The pricing supplement will be issued in the English language, which shall prevail over any Chinese language version in the event of conflict or discrepancy. The English text is the legally binding text.

We may make changes to the form of the pricing supplement before the Notes are issued without notifying investors if the change is for correction or clarification or for technical reasons or if the change is not to the material disadvantage of investors.

[15 May] 2008

**PACIFIC INTERNATIONAL FINANCE LIMITED
PRICING SUPPLEMENT**

relating to

Minibond Series 36

USD Fixed Rate Callable Credit-Linked Notes due 2011 (“**Tranche A Notes**”)
HKD Fixed Rate Callable Credit-Linked Notes due 2011 (“**Tranche B Notes**”)
(each a “**Tranche**” and the notes of any or all Tranches, the “**Notes**”)
pursuant to its Secured Continuously Offered Note Programme

arranged by

LEHMAN BROTHERS ASIA LIMITED

This document constitutes the pricing supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the programme prospectus dated 14 April 2008 (the “**Programme Prospectus**”) and the issue prospectus relating to the Notes dated 14 April 2008 (the “**Issue Prospectus**”). This pricing supplement contains the final terms of the Notes and must be read in conjunction with the Programme Prospectus and the Issue Prospectus.

The terms of the Tranche [A⁽¹⁾/B⁽²⁾] Notes are as follows:

- | | | |
|----------|-----------------------------------|-----------------------------------------------------------------------------------------------|
| 1 | Issuer: | Pacific International Finance Limited |
| 2 | Relevant Subscriber/Lead Manager: | Lehman Brothers Commercial Corporation Asia Limited (“ LBCCA ”) as Relevant Subscriber |
| 3 | (i) Series No: | 36 |
| | (ii) Tranche No.: | [A ⁽¹⁾ /B ⁽²⁾] |

(1) For Tranche A Notes.

(2) For Tranche B Notes.

Terms of Series

4	Relevant Currency (or Currencies in the case of Dual Currency Notes):	[United States dollars (“USD”) ⁽¹⁾ /Hong Kong dollars (“HKD”) ⁽²⁾]
5	Principal Amount:	<i>[To be determined]</i>
6	Form of the Notes:	Registered Global Certificate
7	Status:	Secured and limited recourse obligations of the Issuer, secured as provided below.
8	Denomination(s):	[USD5,000 ⁽¹⁾ /HKD40,000 ⁽²⁾]
9	Issue Date:	[15 May] 2008
10	Issue Price:	100 per cent. of the Denomination
11	Maturity Date:	[15 May] 2011, subject to (i) redemption upon the occurrence of a Credit Event as provided in Annex 1 to this pricing supplement, (ii) redemption at the option of the Issuer as provided in paragraph 13 below and (iii) Early Redemption as provided in the Conditions and paragraph 50 below.
12	Redemption Amount (including early redemption):	Par, subject to the occurrence of a Credit Event, Underlying Securities Default Event and other specified events as set out in paragraph 50.

Early Redemption

13	Terms of redemption at the option of the Issuer or other Issuer’s option (if applicable):	<p>Upon the exercise by the Derivatives Counterparty of the Derivatives Counterparty Option (as defined below) in respect of the Tranche [A⁽¹⁾/B⁽²⁾] Notes, the Issuer shall redeem the Tranche [A⁽¹⁾/B⁽²⁾] Notes in whole but not in part, at the Principal Amount plus accrued interest on any Interest Payment Date which falls on or after [15 May] 2009 by giving not less than five Business Days’ prior written notice to holders of Tranche [A⁽¹⁾/B⁽²⁾] Notes. The Tranche [A⁽¹⁾/B⁽²⁾] Notes will also be redeemed early in the circumstances set out in the Conditions and paragraph 50 below.</p> <p>“Derivatives Counterparty Option” means the option of the Derivatives Counterparty, as provided in the LBSF Swap Agreement (as defined in paragraph 53(d) below), to terminate the LBSF Swap Agreement in whole but not in part in respect of the notional amount of any Tranche of the Notes, by giving not less than five Business Days’ notice to the Issuer.</p>
14	Issuer’s Option Period:	Not applicable

15	Terms of redemption at the option of the Noteholders or other Noteholders' Option (if applicable):	Not applicable
16	Noteholders' Option Period:	Not applicable
17	Interest Commencement Date (if different from Issue Date):	Issue Date
18	Interest Basis:	Fixed Rate
19	Interest Payment Date(s):	Quarterly on [15 February, 15 May, 15 August and 15 November], subject to Following Business Day Convention.
20	Interest Period Date(s) (if applicable):	Quarterly on [15 February, 15 May, 15 August and 15 November], with no adjustment provided that the first Interest Period shall be the period from the Issue Date to 15 August 2008.
21	Interest Rate (including after Maturity Date):	[5.50 per cent. per annum ⁽¹⁾ .] [5.00 per cent. per annum ⁽²⁾ .] The Tranche [A ⁽¹⁾ /B ⁽²⁾] Notes will cease to bear any interest from the Interest Payment Date immediately preceding the occurrence of a Credit Event or an Underlying Securities Default Event.
22	Day Count Fraction:	30/360
23	Fixed Rate Interest Amount:	Not applicable
24	Broken Amount:	Not applicable

Floating Rate

[Paragraphs 25-39 omitted as inapplicable to the Notes]

Other

40	Redemption for Taxation Reasons permitted on days other than Interest Payment Dates:	Yes
41	Index/Formula (Indexed Note):	Not applicable
42	Calculation Agent:	Lehman Brothers Asia Limited has been appointed as Calculation Agent for the purposes of paragraph 50 below pursuant to a Supplemental Agency Agreement dated 19 April 2007 the (" Supplemental Agency Agreement ").

[Paragraphs 43-48 omitted as inapplicable to the Notes]

49	Business Day Jurisdictions for Condition 8(h) (jurisdictions required to be open for payment):	Hong Kong, London and New York City
50	Mandatory Redemption/Credit Event/Other Specified Event:	<p>Condition 7(b) and Condition 7(c) will apply subject as amended in Annex 1 to this pricing supplement.</p> <p>“Other specified event” in Condition 7(c)(iv) means an Underlying Securities Default Event or an Underlying Securities Tax Event Redemption as set out in Annex 1 to this pricing supplement.</p>
51	Variation:	Not applicable
52	Details of any other additions or variations to the Conditions:	<p>The Issuer and the Custodian have entered into a custody agreement dated 28 May 2002 as amended and restated on 22 February 2008 and a Supplemental Agency Agreement dated 19 April 2007, as amended or supplemented from time to time, (together the “Custody Agreement”) which set out the rights and obligations of the Custodian in respect of its role as Custodian of the Securities. The provisions of the Custody Agreement replaced the corresponding provisions of the Agency Agreement. Therefore, references in the Conditions to the Agency Agreement shall, where appropriate, be deemed to include references to the Custody Agreement.</p> <p>The following paragraph shall be added to Condition 15:</p> <p>“So long as the Notes are represented by a Global Certificate which is held on behalf of Euroclear or Clearstream International, notices required to be given to Noteholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders.”</p>
53	Mortgaged Property:	
	(a) Securities:	<p>The initial Security will comprise:</p> <p>[To be determined] [(“CDO Securities”)]*/[The issue proceeds of the Notes of USD [●] (“Cash Collateral”)]#/ [[●] in net asset value of [shares]/[units] of the [Name of the Liquidity Fund] (“Liquidity Fund”)][×]</p> <p>[The [Cash Collateral]/[Liquidity Fund] will be exchanged at the discretion of the Calculation Agent for [To be determined] (“CDO Securities”) at a later date determined by the Calculation Agent]^{#×}</p>

* Include if the initial Security is collateralised debt obligations.

Include if the initial Security is cash.

× Include if the initial Security is Liquidity Fund.

If the CDO Securities mature prior to the Maturity Date of the Notes, the redemption monies received upon the maturity or redemption of the CDO Securities will either be (i) paid into a deposit account with a third party bank (which may or may not be interest bearing); or (ii) invested in any US dollar denominated money market fund or liquidity fund or similar investment that principally invests in short term fixed income obligations and has a rating of at least AAAM by Standard and Poor's, a division of The McGraw-Hill Companies, Inc. and/or AAA/V-1+ by Fitch, Inc., Fitch Rating, Ltd. and any successor or successors thereto and/or Aaa/MR1+ by Moody's Investors Service. Cash held in the third party deposit account or invested in this way will also be subject to security in favour of the trustee.

The Securities for the Tranche A and the Tranche B Notes of Minibond Series 36 are allocated on a pro rata basis.

- (b) Security (order of priorities): The Trustee shall apply all moneys received by it under the Trust Deed in connection with the realization or enforcement of the security constituted by or pursuant to the Trust Deed in accordance with the following:

Derivatives Counterparty Priority

- (c) Underlying Agreement (if applicable): Not applicable
- Counterparty(ies): Not applicable
- (d) Derivatives Contract (if applicable): Under an ISDA Master Agreement dated as of 25 March 2004 and confirmations thereto with an effective date as of the Issue Date (including the guarantee of the Derivatives Guarantor dated 25 March 2004), made between the Issuer and Lehman Brothers Special Financing Inc. as a Derivatives Counterparty ("**LBSF**") (the "**LBSF Swap Agreement**"), the Issuer will pay to LBSF sums equal to interest receivable by it in respect of the Securities and LBSF will pay to the Issuer sums equal to the interest amount payable to the Noteholders under the Notes. In addition, if a Credit Event occurs on or before the second Business Day prior to the Maturity Date, the Issuer will deliver to LBSF the Securities no later than the second Business Day following the Credit Event Determination Date and LBSF will pay to the Issuer the Credit Event Redemption Amount on the Credit Event Redemption Date.

The LBSF Swap Agreement may be terminated early, among other circumstances:

- (i) on the due date for payment of the Notes if at any time the Notes become repayable in accordance with the Conditions prior to the Maturity Date;
- (ii) at the option of one party, if there is a failure by the other party to pay any amounts due under the LBSF Swap Agreement;
- (iii) if (subject as provided in the LBSF Swap Agreement) withholding taxes are imposed on payments made by the Issuer or the Derivatives Counterparty under the LBSF Swap Agreement or it becomes illegal for either party to perform its obligations under the LBSF Swap Agreement;
- (iv) upon the occurrence of certain other events with respect to either party to the LBSF Swap Agreement, including insolvency; and
- (v) in part upon exercise on one or more occasions by Lehman Brothers Asia Limited of its exchange option (the “**Lehman Brothers Exchange Option**”), as referred to in the Programme Prospectus, granted by the Issuer to Lehman Brothers Asia Limited pursuant to an exchange option agreement to be dated the Issue Date.

Consequences of Early Termination:

Upon any such early termination of the LBSF Swap Agreement (except pursuant to exercise of the Lehman Brothers Exchange Option referred to in (v) above, in which case no such termination payment as described in this paragraph will be due), the Issuer or the Derivatives Counterparty may (subject as set out below and provided, in the case of certain tax events that the Issuer may first be obliged to use all reasonable endeavours to transfer its obligations) be liable to make a termination payment to the other (regardless, if applicable, of which of such parties may have caused such termination). Where such a termination payment is payable, it will be based on the replacement cost or gain for a swap transaction that would have the effect of preserving for the party making the determination the economic equivalent of the LBSF Swap Agreement. In all cases of early termination occurring other than by reason of a default by the Derivatives Counterparty (in which case the determination will be made by the Issuer) or illegality (in which case the party which is not the Affected Party (as defined in the LBSF Swap

Agreement) will make the determination (or, if there are two Affected Parties, each party will make a determination which will be averaged)), the termination payment will be determined by the Derivatives Counterparty on the basis of quotations received from at least three market-makers (failing which, by the Derivatives Counterparty or the Issuer, as aforesaid, based upon loss).

Regardless of which party makes the determination of the termination payment (if any), there is no assurance that the proceeds from the sale of the Securities plus or minus, as the case may be, such termination payment will be sufficient to repay the principal amount due to be paid in respect of the Notes and any other amounts in respect thereof that are due.

Upon an early termination of the LBSF Swap Agreement upon exercise of the Lehman Brothers Exchange Option, a pro rata amount of the LBSF Swap Agreement corresponding to that proportion of the Notes to be exchanged will be terminated without any termination payment being paid from either party.

[With respect to Tranche B Notes, LBSF shall pay the Party A Initial Exchange Amount (as defined in the LBSF Swap Agreement) of USD[●] and the Issuer shall pay the Party B Initial Exchange Amount (as defined in the LBSF Swap Agreement) of HKD[●] on the Issue Date.⁽²⁾]

Derivatives Counterparty(ies):	Lehman Brothers Special Financing Inc. (the “ Derivatives Counterparty ” or the “ Swap Counterparty ”)
Derivatives Guarantor (if applicable):	Lehman Brothers Holdings Inc.
(e) Details of Credit Support Document (if applicable):	Not applicable
(f) Credit Support Provider:	Not applicable
(g) Details of Stock Borrowing Agreement (if applicable):	Not applicable
(h) Stock Borrower:	Not applicable
(i) Specify any other Mortgaged Property:	Not applicable
(j) Custodian:	HSBC Bank plc
(k) Entitlement to procure realisation of security:	Not applicable

54	Investment Management Agreement:	Not applicable
55	Exchange: Global Note/Global Certificate exchangeable for Bearer/Registered Notes:	Yes, but only in the limited circumstances set out Definitive in the Global Certificate
56	Details of any additions or variations to the Programme Agreement:	The Issuer, LBCCA (in its capacity as Arranger in respect of the Programme) and Lehman Brothers Asia Limited (“ LBAL ”) entered into a Supplemental Programme Agreement dated 19 April 2007 pursuant to which LBAL was appointed as the Arranger in respect of the Notes.
57	Net Price payable to Issuer:	[USD[●] ⁽¹⁾ /HKD[●] ⁽²⁾]
58	Common Code:	[●]
59	ISIN Code:	[●]
60	Registrar:	HSBC Bank USA, National Association Issuer Services 452 Fifth Avenue New York NY 10018-2706 United States of America Telephone No.: [●] Fax: [●] Attention: [●]
61	Issuing and Paying Agent, Transfer Agent:	HSBC Bank plc as Issuing and Paying Agent Corporate Trust and Loan Agency 8 Canada Square Level 24 London E14 5HQ England Telephone No.: [●] Telex: [●] Fax: [●] Attention: [●]
62	Market Agent:	Lehman Brothers Asia Limited 26/F, Two International Finance Centre 8 Finance Street Central Hong Kong Telephone No.: [●] Fax: [●] Attention: [●]

ANNEX 1

TO THE PRICING SUPPLEMENT

Credit Events

Definition of Credit Event

“**Credit Event**” means the Calculation Agent in its sole and absolute discretion acting in good faith having the right (but not the obligation) to declare the occurrence of a Credit Event upon the occurrence of one or more of the following events or conditions with respect to any of the Reference Entities, the Reference Obligations or other Obligations of the Reference Entities, which event or condition occurs on or after the Issue Date and on or prior to the second Business Day prior to the Maturity Date:

- (i) Bankruptcy ;
- (ii) Failure to Pay; and
- (iii) Restructuring.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from: (a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation, (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation, however described, (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described, or (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

The Calculation Agent shall notify the Issuer of the occurrence of a Credit Event as soon as practicable following the declaration of such Credit Event.

- (a) For these purposes:

“**Bankruptcy**” means a Reference Entity (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (e) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (h) causes or is subject to any event with respect to it

which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive); or (i) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Failure to Pay” means after the expiration of any applicable (or deemed) Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than USD1,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated), as of the occurrence of the relevant Failure to Pay, under one or more Obligations.

“Restructuring” (a) means that, with respect to one or more Obligations, including as a result of an Obligation Exchange, and in relation to an aggregate amount of not less than USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated), any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between a Reference Entity or a Governmental Authority and a sufficient number of holders of such Obligation to bind all holders of the Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not provided for under the terms of such Obligation in effect as of the later of the Issue Date and the date as of which such Obligation is issued or incurred:

- (i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;
 - (ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
 - (iii) a postponement or other deferral of a date or dates for either (A) the payment or accrual of interest or (B) the payment of principal or premium;
 - (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation; or
 - (v) any change in the currency or composition of any payment of interest or principal.
- (b) Notwithstanding the provisions of (a) above, none of the following shall constitute a Restructuring:
- (i) the payment in euros of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
 - (ii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
 - (iii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of a Reference Entity.

- (c) For purposes of paragraphs (a) and (b) above, the term “Obligation” shall be deemed to include Underlying Obligations for which a Reference Entity is acting as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to a Reference Entity in paragraph (a) of this definition shall be deemed to refer to the relevant Underlying Obligor and the reference to a Reference Entity in paragraph (b) of this definition shall continue to refer to such Reference Entity.

Occurrence of a Credit Event

Upon the occurrence of a Credit Event on or prior to the second Business Day prior to the Maturity Date (i) the Issuer shall deliver a Credit Event Notice to the Noteholders via Euroclear and Clearstream International promptly after the Credit Event Determination Date; (ii) the Notes shall cease to bear interest and no further payment will be made in respect of interest accrued from the immediately preceding Interest Payment Date (or if there is no such immediately preceding Interest Payment Date, the Issue Date); (iii) the Swap Settlement Amount will be determined on the Credit Event Determination Date; (iv) the Securities shall be delivered to LBSF no later than the second Business Day following the Credit Event Determination Date; (v) the Deliverable Obligations shall be identified by the Calculation Agent on a date (the “**Settlement Determination Date**”) occurring no later than the second Business Day preceding the Credit Event Redemption Date (at the sole and absolute discretion of the Calculation Agent) in a nominal amount equivalent to the Settlement Principal Amount; (vi) LBSF shall pay the Credit Event Redemption Amount to the Issuer on a date (the “**Credit Event Redemption Date**”) occurring no later than the thirtieth Business Day after the Credit Event Notice is given; (vii) the LBSF Swap Agreement shall terminate once all payments in relation to the LBSF Swap Agreement have been made; and (viii) the Issuer will redeem the Notes by payment of the Credit Event Redemption Amount on the Credit Event Redemption Date.

The notice (the “**Credit Event Notice**”) setting out the occurrence of a Credit Event shall include a brief description of the relevant event, an explanation of how it fits the definition of a Credit Event and a summary of the Publicly Available Information confirming such Credit Event.

If the outstanding principal amount of the Notes is required to be allocated as contemplated in sub-paragraph (d) of the definition of “Successor” below:

- (a) the Issuer shall be entitled to give multiple Credit Event Notices, one with respect to each Successor, and where any Credit Event Notice is so given, a Credit Event will be deemed to have occurred only in relation to an amount of the outstanding principal amount of the Notes equal to the portion of the outstanding principal amount of the Notes relating to the relevant Successor;
- (b) where a Credit Event Notice is so given, interest will cease to accrue on the portion of the outstanding principal amount of the Notes relating to the Successor that is the subject of such Credit Event Notice and the Issuer will redeem the Notes by payment of an amount equal to the Credit Event Redemption Amount corresponding to the portion of the outstanding principal amount of the Notes relating to the Successor that is the subject of such Credit Event Notice; and
- (c) save where the full principal amount of the Notes has been so redeemed, the Issuer shall remain entitled notwithstanding any partial redemption to give one or more further Credit Event Notices with respect to any Successor, and its related principal amount, or any other Reference Entity in respect of which no Credit Event Notice has been previously given.

For these purposes:

“**Publicly Available Information**” means information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in the Credit Event Notice has occurred and which has been published in or on not less than two internationally recognised published or

electronically displayed news sources (it being understood that each Public Source shall be deemed to be an internationally recognized published or electronically displayed news source), regardless of whether the reader or user thereof pays a fee to obtain such information; provided that, if any of LBSF or its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless LBSF or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation.

“**Public Source**” means Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun and Financial Times (and successor publications).

Credit Event Redemption Amount

The “**Credit Event Redemption Amount**” per Note shall be the amount determined by the Calculation Agent in its sole and absolute discretion, equal to the amount attributable to one Note in respect of the sum of (a) the Liquidation Proceeds in [USD]⁽¹⁾/[HKD]⁽²⁾ of the Deliverable Obligations, (b) the Market Value Adjustment, and (c) the Swap Settlement Amount.

For these purposes:

“**Market Value Adjustment**” means an amount equal to the Liquidation Proceeds of the Securities minus the outstanding principal amount of the Notes at the time of the delivery of the Credit Event Notice.

“**Swap Settlement Amount**” means the amount expressed in [USD]⁽¹⁾/[HKD]⁽²⁾ (as determined by the Calculation Agent on the day of the relevant termination) of any early termination amount or close out payment receivable (expressed as a positive amount) or payable (expressed as a negative amount) by the Issuer under the LBSF Swap Agreement in relation to the Tranche [A⁽¹⁾/B⁽²⁾] Notes due to the termination of the LBSF Swap Agreement (in whole or in part).

“**Liquidation Proceeds**” means (a) in respect of the Deliverable Obligations, the amount realisable upon the sale of Deliverable Obligations in an aggregate nominal amount equal to the outstanding principal amount of the Notes at the time of the delivery of the Credit Event Notice, and (b) in respect of the Securities, the amount realisable upon the sale of the outstanding principal amount of the Securities then owned by the Issuer, as the case may be, at the relevant Liquidation Price (which, in the case of multiple Deliverable Obligations, will be a weighted average, based on nominal amount, of Liquidation Prices) less any costs or expenses associated with the relevant sale (after conversion of any such amounts, to the extent necessary, into USD or HKD at prevailing market rates), as determined by the Calculation Agent in its sole and absolute discretion.

“**Liquidation Price**” means the highest clean bid price, expressed as a percentage, obtained by the Calculation Agent for the Deliverable Obligations in the relevant nominal amount or the Securities in the outstanding principal amount then owned by the Issuer, as the case may be, on the relevant date, upon the solicitation of three Dealers in such Deliverable Obligations or Securities, as the case may be, selected by the Calculation Agent in its sole and absolute discretion.

“**Dealers**” means dealers in the Deliverable Obligations or the Securities (as the case may be).

“**Deliverable Obligations**” means a portfolio of one or more obligations consisting of Bonds and/ or Loans of the Defaulted Reference Entity (as defined herein) in an aggregate nominal amount equal to the outstanding principal amount of the Notes at the time of the delivery of the Credit Event Notice with the following characteristics:

“**Not Subordinated**” meaning an obligation that is not Subordinated to the Reference Obligation of the Defaulted Reference Entity notwithstanding that such identified Reference Obligation may no longer be outstanding on the relevant date of determination. The ranking in priority of payment of each

Reference Obligation (including any Substitute Reference Obligation) shall be determined as of the later of (i) the Issue Date and (ii) the date on which such obligation was identified as a Reference Obligation; and

“**Standard Specified Currency**” meaning an obligation that is payable in any of the lawful currencies of Canada, Japan, Switzerland, Hong Kong, Singapore, United Kingdom and the United States of America and the euro (and any successor currency to any such currency), which currencies may be referred to collectively as the “Standard Specified Currencies”.

“**Reference Obligation**” means, in respect of any Reference Entity, the obligation specified under the heading “Reference Obligation” opposite the relevant Reference Entity as set out in the following table, and any Substitute Reference Obligation.

Reference Entity	Reference Obligation
CLP Power Hong Kong Limited	CLP Power Hong Kong Financing Limited 6.25 per cent. notes due 8 May 2012 (ISIN: XS0146769020)
CNOOC Limited	CNOOC Finance (2002) Limited 6.375 per cent. notes due 8 March 2012 (ISIN: USU17469AA25)
DBS Bank Ltd.	DBS Bank Ltd. 7.125 per cent. subordinated notes due 15 May 2011 (ISIN: USY20337AJ30) ⁽¹⁾
HSBC Bank PLC	HSBC Bank PLC 4.25 per cent. subordinated notes due 18 March 2016 (ISIN: XS0164883992) ⁽¹⁾
Hutchison Whampoa Limited	Hutchison Whampoa International (03/13) Limited 6.50 per cent. notes due 13 February 2013 (ISIN: USG4672QAA25)
MTR Corporation Limited	MTR Corporation (C.I.) Limited 4.75 per cent. notes due 21 January 2014 (ISIN: XS0184198157)
Standard Chartered Bank	Standard Chartered Bank 3.625 per cent. subordinated notes due 3 February 2017 (ISIN: XS0211496830) ⁽¹⁾

Note:

- (1) This Reference Obligation is a subordinated obligation of the relevant Reference Entity which is subordinate in right of payment to other senior and unsubordinated obligations of such Reference Entity. The Deliverable Obligations may not be subordinated to this Reference Obligation but may be subordinated to other senior and unsubordinated obligations of the relevant Reference Entity.

As at 9 April 2008, each Reference Obligation had the credit ratings as set out on page 6 of the Issue Prospectus.

In the event that a Reference Obligation is redeemed in full or otherwise ceases to be an Obligation of a Reference Entity (the “**Removed Reference Obligation**”), the Calculation Agent may identify one or more Obligations which preserve the economic equivalent of the delivery and payment obligations of the Issuer to be a substitute Reference Obligation (the “**Substitute Reference Obligation**”). The Substitute Reference Obligation shall be an Obligation of the Reference Entity equivalent in seniority to the Removed Reference Obligation.

Definitions

The following other definitions are used in relation to the determination of a Credit Event:

“Affiliate” means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, “control” of any entity or person means ownership of a majority of the voting power of the entity or person.

“Best Available Information” means:

- (i) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information or, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Calculation Agent makes its determination for the purposes of this definition of “Best Available Information”, other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulators, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; and
- (ii) in the case of a Reference Entity which does not file with its primary securities regulators or its primary stock exchange, or which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Calculation Agent to allow it to make a determination for the purposes of this definition of “Best Available Information”.

Information which is made available more than 14 calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information.

“Bond” means Borrowed Money that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money obligation.

“Borrowed Money” means with respect to any Reference Entity, any one or more obligations of such Reference Entity for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit), either directly or as provider of any Qualifying Guarantee, (but excluding any obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal).

“Credit Event Determination Date” means any date on which the Calculation Agent determines in its sole and absolute discretion that a Credit Event has occurred.

“Defaulted Reference Entity” means the Reference Entity in respect of which the Credit Event Notice has been given.

“Governmental Authority” means any de facto or de jure government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Reference Entity or of the jurisdiction of organization of a Reference Entity.

“**Grace Period**” means the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Issue Date and the date as of which such Obligation is issued or incurred. Any Obligation with no grace period specified shall be deemed to have a grace period of 3 Business Days, provided that no such deemed grace period shall expire later than the second Business Day prior to the Maturity Date.

“**Loan**” means any Borrowed Money that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money obligation.

“**Obligation**” means Borrowed Money and each Reference Obligation.

“**Obligation Exchange**” means the mandatory transfer (other than in accordance with the terms in effect as of the later of the Issue Date and date of issuance of the relevant Obligation) of any securities, obligations or assets to holders of Obligations in exchange for such Obligations. When so transferred, such securities, obligations or assets will be deemed to be Obligations.

“**Qualifying Guarantee**” means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the “**Underlying Obligation**”) for which another party is the obligor (the “**Underlying Obligor**”). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement; or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced or otherwise altered or assigned (other than by operation of law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment).

“**Reference Entities**” means CLP Power Hong Kong Limited, CNOOC Limited, DBS Bank Ltd., HSBC Bank PLC, Hutchison Whampoa Limited, MTR Corporation Limited and Standard Chartered Bank (each a “**Reference Entity**”) or any of their respective Successors.

“**Relevant Obligations**” means the Obligations constituting Bonds and Loans of the Reference Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Reference Entity and any of its Affiliates, as determined by the Calculation Agent. The Calculation Agent will determine the entity which succeeds to such Relevant Obligations on the basis of the Best Available Information. If the date on which the Best Available Information is available or is filed precedes the legally effective date of the relevant Succession Event, any assumptions as to the allocation of obligations between or among entities contained in the Best Available Information will be deemed to have been fulfilled as of the legally effective date of the Succession Event, whether or not this is in fact the case.

“**Subordination**” means, with respect to an obligation (the “**Subordinated Obligation**”) and another obligation of a Reference Entity to which such obligation is being compared (the “**Senior Obligation**”), a contractual, trust or similar arrangement providing that (i) upon the liquidation, dissolution, reorganization or winding up of the Reference Entity, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. “**Subordinated**” will be construed accordingly.

“**Substitute Reference Obligation**” means one or more obligations of a Reference Entity (either directly or as provider of a Qualifying Guarantee) that will replace one or more Reference Obligations, identified by the Calculation Agent in accordance with the following procedures:

- (a) In the event that (i) a Reference Obligation is redeemed in whole or (ii) in the opinion of the Calculation Agent (A) the aggregate amounts due under any Reference Obligation have been materially reduced by redemption or otherwise (other than due to any scheduled

redemption, amortization or prepayments), (B) any Reference Obligation is an Underlying Obligation with a Qualifying Guarantee of a Reference Entity and, other than due to the existence or occurrence of a Credit Event, the Qualifying Guarantee is no longer a valid and binding obligation of such Reference Entity enforceable in accordance with its terms, or (C) for any other reason, other than due to the existence or occurrence of a Credit Event, any Reference Obligation is no longer an obligation of a Reference Entity, the Calculation Agent shall identify one or more Obligations to replace such Reference Obligation.

- (b) Any Substitute Reference Obligation or Substitute Reference Obligations shall be an Obligation that (i) ranks pari passu (or, if no such Obligation exists, then, at the Issuer's option, an Obligation that ranks senior) in priority of payment with such Reference Obligation (with the ranking in priority of payment of such Reference Obligation being determined as of the later of (A) the specified trade date in the related swap confirmation and (B) the date on which such Reference Obligation was issued or incurred and not reflecting any change to such ranking in priority of payment after such later date), (ii) preserve the economic equivalent, as closely as practicable as determined by the Calculation Agent, of the payment obligations of the parties to the related swap confirmation, and (iii) is an obligation of the relevant Reference Entity (either directly or as provider of a Qualifying Guarantee). The Substitute Reference Obligation or Substitute Reference Obligations identified by the Calculation Agent shall, without further action, replace such Reference Obligation or Reference Obligations.
- (c) If more than one specific Reference Obligation is identified as a Reference Obligation with respect to a Reference Entity, any of the events set forth under (a) above has occurred with respect to one or more but not all of the Reference Obligations for such Reference Entity, and the Calculation Agent determines that no Substitute Reference Obligation is available for one or more of such Reference Obligations, each Reference Obligation for which no Substitute Reference Obligation is available shall cease to be a Reference Obligation.
- (d) If more than one specific Reference Obligation is identified as a Reference Obligation with respect to a Reference Entity, any of the events set forth under (a) above has occurred with respect to all of the Reference Obligations for such Reference Entity, and the Calculation Agent determines that at least one Substitute Reference Obligation is available for any such Reference Obligation, then each such Reference Obligation shall be replaced by a Substitute Reference Obligation and each Reference Obligation for which no Substitute Reference Obligation is available will cease to be a Reference Obligation.
- (e) If (i) more than one specific Reference Obligation is identified as a Reference Obligation with respect to a Reference Entity, any of the events set forth under (a) above has occurred with respect to all the Reference Obligations of such Reference Entity and the Calculation Agent determines that no Substitute Reference Obligation is available for any of the Reference Obligations of such Reference Entity, or (ii) only one specific Reference Obligation is identified as a Reference Obligation, any of the events set forth under (a) above has occurred with respect to such Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for that Reference Obligation, then the Calculation Agent shall continue to attempt to identify a Substitute Reference Obligation until the Maturity Date.
- (f) For the purpose of identification of a Reference Obligation, any change in a Reference Obligation's CUSIP or ISIN number or other similar identifier will not, in and of itself, convert such Reference Obligation into a different Obligation.

“**Succession Event**” means an event such as a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event in which one entity succeeds to the obligations of another entity whether by operation of law or pursuant to any agreement. Notwithstanding the foregoing, “**Succession Event**” shall not include an event in which the holders of

obligations of a Reference Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connection with a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event.

“**Successor**” shall have the meaning determined in accordance with the following provisions:

- (a) In relation to a Reference Entity, “**Successor**” means the entity or entities, if any, determined as set forth below:
 - (i) if one entity directly or indirectly succeeds to 75% or more of the Relevant Obligations of the Reference Entity by way of a Succession Event, that entity will be the sole Successor;
 - (ii) if one entity directly or indirectly succeeds to more than 25% (but less than 75%) of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than 25% of the Relevant Obligations will be the sole Successor;
 - (iii) if more than one entity each directly or indirectly succeeds to more than 25% of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entities that succeed to more than 25% of the Relevant Obligations will be Successors and sub-paragraph (d) below relating to this definition of “Successor” will apply;
 - (iv) if one or more entities each directly or indirectly succeed to more than 25% of the Relevant Obligations of the Reference Entity by way of a Succession Event, and more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor and sub-paragraph (d) below relating to this definition of “Successor” will apply;
 - (v) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25% of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity will not be changed in any way as a result of the Succession Event; and
 - (vi) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25% of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations (or, if two or more entities succeed to an equal percentage of Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations of the Reference Entity) will be the sole Successor.

The Calculation Agent will be responsible for determining, as soon as reasonably practicable after it becomes aware of the relevant Succession Event (but no earlier than 14 calendar days after the legally effective date of the Succession Event), and with effect from the legally effective date of the Succession Event, whether the relevant thresholds set forth above have been met, or which entity qualifies under sub-paragraph (a)(vi) above of this definition of “Successor”, as applicable. In calculating the percentages used to determine whether the relevant thresholds set forth above have been met, or which entity qualifies under sub-paragraph (a)(vi) above of this definition of “Successor”, as applicable, the Calculation Agent shall use, in respect of each applicable Relevant Obligation included in such calculation, the amount of the liability in respect of such Relevant Obligation listed in the Best Available Information.

- (b) For purposes of interpreting this definition of Successor, “succeed” means, with respect to a Reference Entity and its Relevant Obligations (or, as applicable, obligations), that a party other than such Reference Entity (i) assumes or becomes liable for such Relevant Obligations (or, as applicable, obligations) whether by operation of law or pursuant to any agreement or (ii) issues Bonds that are exchanged for Relevant Obligations (or, as applicable, obligations), and in either case such Reference Entity is no longer an obligor (primary or secondarily) or guarantor with respect to such Relevant Obligations (or, as applicable, obligations). The determinations required pursuant to this definition of Successor shall be made, in the case of an exchange offer, on the basis of the outstanding principal balance of Relevant Obligations tendered and accepted in the exchange and not on the basis of the outstanding principal balance of Bonds for which Relevant Obligations have been exchanged.
- (c) Where (i) a Reference Obligation has been specified with respect to a Reference Entity, (ii) one or more Successors to the Reference Entity have been identified and (iii) any one or more such Successors have not assumed the Reference Obligation, a Substitute Reference Obligation will be determined in accordance with the definition of Substitute Reference Obligation above.
- (d) Where, pursuant to sub-paragraphs (iii) or (iv) of clause (a) of the definition of “Successor” above, more than one Successor has been identified:
 - (i) each Successor will be treated as a Reference Entity;
 - (ii) the Calculation Agent shall divide the outstanding principal amount of the Notes by the number of Successors in equal portions and allocate the resultant amount to each Successor;
 - (iii) the provisions in the third paragraph under the heading “Occurrence of a Credit Event” in this Annex 1 shall apply; and
 - (iv) the Conditions will otherwise continue to apply except to the extent that modification is required, as determined by the Calculation Agent, to preserve the economic effects of the original Conditions.
- (e) If two Reference Entities merge resulting in only one direct successor, then (i) the direct successor shall be a Successor; and (ii) an additional entity with a credit rating equal to or better than the lower rating of the two merged entities shall be appointed as a Successor.

Underlying Securities Default Events

Definition of Underlying Securities Default Event

“**Underlying Securities Default Event**” means the Securities become repayable in whole or in part, or their principal amount is reset resulting in a reduction of such principal amount, prior to their scheduled maturity date for any reason whatsoever (other than as a result of an Underlying Securities Tax Event Redemption).

“**Underlying Securities Default Event Determination Date**” means any date on which the Calculation Agent determines in its sole and absolute discretion acting in good faith that an Underlying Securities Default Event has occurred.

Occurrence of Underlying Securities Default Event

Upon the occurrence of an Underlying Securities Default Event, the Issuer shall notify the Noteholders of the Underlying Securities Default Event via Euroclear and Clearstream International promptly after the Underlying Securities Default Event Determination Date and the Issuer will redeem the Notes in whole, by payment of the Underlying Securities Default Redemption Amount as soon as practicable after the occurrence of such Underlying Securities Default Event.

Underlying Securities Default Redemption Amount

The “**Underlying Securities Default Redemption Amount**” per Note shall be [the USD amount]⁽¹⁾/[a HKD amount equivalent to the amount]⁽²⁾ attributable to one Note in respect of the proceeds of sale of the Securities plus the Swap Settlement Amount minus any costs and expenses incurred when the Securities are sold [(after conversion of any such amounts, to the extent necessary, into HKD at prevailing market rates)]⁽²⁾.

Occurrence of both an Underlying Securities Default Event and a Credit Event

Notwithstanding the preceding paragraphs, upon the occurrence of both an Underlying Securities Default Event and a Credit Event (provided that the Credit Event occurs prior to the termination of the LBSF Swap Agreement as a result of the Underlying Securities Default Event), the Notes will be redeemed at the Credit Event Redemption Amount instead of at the Underlying Securities Default Redemption Amount.

To the extent that the Notes are deemed to have become repayable due to a Cayman Tax Event or an Underlying Securities Tax Event Redemption (each an “**Early Redemption Event**”), the Notes will be redeemed 30 Business Days following the Early Redemption Event at the relevant Early Redemption Amount as set out below:

(i) Cayman Tax Event

Upon the occurrence of early redemption in accordance with Condition 7(c)(i) (a “**Cayman Tax Event**”), the Calculation Agent shall arrange for the sale of the Securities and the [USD]⁽¹⁾/[HKD]⁽²⁾ amount attributable to one Note in respect of the proceeds of such sale plus the Swap Settlement Amount minus any costs and expenses incurred by the Calculation Agent in effecting such sale [(after conversion of any such amounts, to the extent necessary, into HKD at prevailing exchange rates)]⁽²⁾ shall be the Early Redemption Amount per Note (the “**Early Redemption Amount**” following a Cayman Tax Event).

(ii) Tax Redemption of Underlying Securities

If the Securities are redeemed for taxation reasons in accordance with the terms and conditions of the Securities (the “**Underlying Securities Tax Event Redemption**”), the Calculation Agent shall arrange for the sale of the Securities and the [USD]⁽¹⁾/[HKD]⁽²⁾ amount attributable to one Note in respect of the proceeds of such sale plus the Swap Settlement Amount minus any costs and expenses incurred by the Calculation Agent in effecting such sale [(after conversion of any such amounts, to the extent necessary, into HKD at prevailing exchange rates)]⁽²⁾ shall be the Early Redemption Amount per Note (the “**Early Redemption Amount**” following an Underlying Securities Tax Event).

APPENDIX 2

A BRIEF GUIDE TO CREDIT RATINGS

What is a credit rating?

An issuer credit rating is a current assessment by a credit rating agency of a company's overall financial capacity to pay its debts. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific debt. An issue or debt credit rating is a current assessment by a credit rating agency of the creditworthiness of a company with respect to a specific debt. It takes into consideration the company's capacity to pay the debt in accordance with the terms of the debt, the nature and provisions of the debt and the relative position of the debt in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

There can be no assurance that any stated credit rating will remain in effect for any given period or that any such rating will not be revised by the relevant credit rating agency in the future if, in the relevant credit rating agency's judgment, circumstances so warrant. A downward revision of a credit rating does not of itself constitute a credit event.

It should be noted that a credit rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor (a company or country), as the credit rating agencies do not comment on market price or suitability for a particular investor.

What do the credit ratings mean?

These are guidelines issued by Standard and Poor's, Fitch and Moody's on what each of their ratings means.

Standard and Poor's Long-Term Issue Credit Ratings

AAA

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB

An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B

An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC

An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC

An obligation rated 'CC' is currently highly vulnerable to nonpayment.

C

A subordinated debt or preferred stock obligation rated 'C' is currently highly vulnerable to nonpayment. The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A 'C' also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.

D

An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Credit Watch

CreditWatch highlights the potential direction of a short- or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P's analytical staff. These may include mergers, recapitalizations, voter referendums, regulatory action, or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is necessary to evaluate the current rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review,

and rating changes may occur without the ratings having first appeared on CreditWatch. The “positive” designation means that a rating may be raised; “negative” means a rating may be lowered; and “developing” means that a rating may be raised, lowered, or affirmed.

Standard and Poor’s Money Market Fund Ratings

AAAm

Safety is excellent. Fund provides superior capacity to maintain principal value and limit exposure to loss.

AAm

Safety is very good. Fund provides strong capacity to maintain principal value and limit exposure to loss.

Am

Safety is good. Fund provides sound capacity to maintain principal value and limit exposure to loss.

BBBm

Safety is fair. Fund provides adequate capacity to maintain principal value and limit exposure to loss.

Dm

Fund has failed to maintain principal value; realized or unrealized losses exceed 0.5% of net asset value.

‘G’

The letter ‘G’ follows the rating symbol when a fund’s portfolio consists entirely of direct U.S. government securities.

+ or -

Ratings may be modified (except AAAm) to show relative standing within the rating categories.

Fitch’s Long-Term Credit Ratings

The following rating scale applies to foreign currency and local currency ratings:

Investment Grade

AAA

Highest credit quality. “AAA” ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA

Very high credit quality. “AA” ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

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.

BBB

Good credit quality. “BBB” ratings indicate that there is currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

Speculative Grade

BB

Speculative. “BB” ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B

Highly speculative.

For issuers and performing obligations, “B” ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of “R1” (outstanding).

CCC

For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions.

For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of “R2” (superior), or “R3” (good) or “R4” (average).

CC

For issuers and performing obligations, default of some kind appears probable.

For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of “R4” (average) or “R5” (below average).

C

For issuers and performing obligations, default is imminent.

For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of “R6” (poor).

Notes to Fitch’s Long-Term Credit Ratings

Modifiers “+” or “-”

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the “AAA” Long-term rating category, to categories below “CCC”. (The +/- modifiers are only used to denote issues within the CCC category, whereas issuers are only rated CCC without the use of modifiers.)

Rating Watch

Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as “Positive”, indicating a potential upgrade, “Negative”, for a potential downgrade, or “Evolving”, if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

Fitch’s Volatility Ratings

Lowest Market Risk (Stable Value)

Funds rated ‘V-1+’ are considered to have the lowest market risk. The rating is assigned only to money market funds or local government investment pools that should not experience loss of principal value to shareholders or participants even in severely adverse interest rate environments.

Low Market Risk

Funds rated ‘V-1’ and ‘V-2’ are considered to have low market risk. Total returns exhibit relative stability, performing consistently across a broad range of interest rate scenarios. These funds offer low risk exposure to interest rates and changing market conditions.

Moderate Market Risk

Funds rated ‘V-3’ and ‘V-4’ are considered to have moderate market risk. Total returns perform consistently over intermediate- to long-term holding periods, but will exhibit some variability over shorter periods due to greater exposure to interest rates and changing market conditions.

Moderate to High Market Risk

Funds rated ‘V-5’, ‘V-6’, and ‘V-7’ are considered to have moderate to high market risk. Total returns experience significant variability across a broad range of interest rate scenarios. These funds typically exhibit significant exposure to interest rates and changing market conditions, and may face additional risks from mortgage prepayments, derivatives, leverage, illiquid markets, and/or foreign currencies.

Speculative Market Risk

Funds rated ‘V-8’, ‘V-9’, and ‘V-10’ are considered to have speculative market risk. Total returns may experience extreme variability across a broad range of interest rate scenarios. These funds typically exhibit substantial exposure to interest rates and changing market conditions, as well as mortgage prepayments, derivatives, leverage, illiquid markets, and/or foreign currencies.

Moody’s Long-Term Rating Definitions

Aaa

Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A

Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa

Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba

Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B

Obligations rated B are considered speculative and are subject to high credit risk.

Caa

Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca

Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C

Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Modifiers “1”, “2”, and “3”

Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Watchlist

Watchlist lists the names of credits whose Moody's ratings have a likelihood of changing. These names are actively under review because of developing trends or events which, in Moody's opinion, warrant a more extensive examination. Inclusion on this Watchlist is made solely at the discretion of Moody's, and not all borrowers with ratings presently under review for possible downgrade or upgrade are included on any one Watchlist. In certain cases, names may be removed from the Watchlist without a change in rating.

Moody's Money Market and Bond Fund Ratings

Aaa

Money Market Funds and Bond Funds rated Aaa are judged to be of an investment quality similar to Aaa-rated fixed income obligations – that is, they are judged to be of the best quality.

Aa

Money Market Funds and Bond Funds rated Aa are judged to be of an investment quality similar to Aa-rated fixed income obligations – that is, they are judged to be of high quality by all standards.

A

Money Market Funds and Bond Funds rated A are judged to be of an investment quality similar to A-rated fixed income obligations – that is, they are judged to possess many favorable investment attributes and are considered as upper-medium-grade investment vehicles.

Baa

Money Market Funds and Bond Funds rated Baa are judged to be of an investment quality similar to Baa-rated fixed income obligations – that is, they are considered as medium-grade investment vehicles.

Ba

Money Market Funds and Bond Funds rated Ba are judged to be of an investment quality similar to Ba-rated fixed income obligations – that is, they are judged to have speculative elements.

B

Money Market Funds and Bond Funds rated B are judged to be of an investment quality similar to B-rated fixed income obligations – that is, they generally lack characteristics of a desirable investment.

Caa

Money Market Funds and Bond Funds rated Caa are judged to be of an investment quality similar to Caa-rated fixed income obligations – that is, they are of poor standing.

Ca

Money Market Funds and Bond Funds rated Ca are judged to be of an investment quality similar to Ca-rated fixed income obligations – that is, they represent obligations that are speculative in a high degree.

C

Money Market Funds and Bond Funds rated C are judged to be of an investment quality similar to C-rated fixed income obligations – that is, they are the lowest-rated class of bonds.

Note: Numerical modifiers 1, 2 and 3 may be appended to each rating classification from Aa to Caa. The modifier 1 indicates that the fund or similar investment vehicle ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the fund or similar investment vehicle ranks in the lower end of its letter rating category.

Moody's Market Risk Ratings

MR1

Money Market Funds and Bond Funds rated MR1 are judged to have very low sensitivity to changing interest rates and other market conditions.

MR2

Money Market Funds and Bond Funds rated MR2 are judged to have low sensitivity to changing interest rates and other market conditions.

MR3

Money Market Funds and Bond Funds rated MR3 are judged to have moderate sensitivity to changing interest rates and other market conditions.

MR4

Money Market Funds and Bond Funds rated MR4 are judged to have high sensitivity to changing interest rates and other market conditions.

MR5

Money Market Funds and Bond Funds rated MR5 are judged to have very high sensitivity to changing interest rates and other market conditions.

Note: A "+" modifier appended to the MR1 rating category denotes constant NAV money market funds and other qualifying funds.

How reliable are credit ratings?

Standard & Poor's regularly produces a default study which calculates the incidence of defaults across all rating classes over varying periods.

The default events which Standard & Poor's uses in its study are similar to (but not identical with) the credit events which we use in our notes.

Standard & Poor's records a default:

- on the first occurrence of a payment default on any financial obligation of a company; or
- when holders of a company's debt accept substitute debt with lower interest, longer maturities or any other diminished financial term.

We have extracted the table below from Standard & Poor’s 2007 Global Corporate Default Study and Rating Transitions. It shows the cumulative default history for the four investment grade rating categories (AAA, AA, A and BBB) from 1 to 3 years. The study is global and covers the period from 1981 to 2007.

Investment grade default history

Rating	Year 1	Year 2	Year 3
AAA	0.00%	0.00%	0.09%
AA	0.00%	0.00%	0.00%
A	0.07%	0.18%	0.30%
BBB	0.23%	0.54%	0.85%

For example, take a bond which is rated A by Standard & Poor’s. The table shows that the statistical likelihood of default on the bond, based on the cumulative historical default history of A-rated bonds between 1981 and 2007, is 0.07% in the first year following issue, 0.18% in the second year, 0.30% in the third year, and so on.

These historical default rates show a correlation between Standard & Poor’s ratings and the incidence of default: generally, the higher the rating, the lower the incidence of default and vice versa. However, statistical exceptions may occur in the highest rating categories where the number of defaults is small. For example, if one out of all “AAA” rated bonds in a sample defaulted in a particular year while none of the “AA” rated bonds did, the cumulative average default rate for “AAA” rated bonds will be shown to be higher than that of the “AA” rated bonds. Nevertheless, this does not imply that “AAA” rated bonds are generally riskier than “AA” rated bonds but rather that both rating categories have very low historical default rates.

Historical default rates provide a measure of the historical accuracy of Standard & Poor’s ratings. However, they are not necessarily indicative of the likelihood of one of the credit events under our notes happening to any particular reference entity specified in a series of our notes.

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