

Frequently Asked Questions (“FAQs”) in respect of the conditional agreement reached with Lehman Brothers over the Minibonds collateral

IMPORTANT DISCLAIMER

THIS UPDATE IS PROVIDED FOR INFORMATION PURPOSES ONLY. IT DOES NOT CONSTITUTE LEGAL ADVICE AND IS NOT INTENDED TO BE EXHAUSTIVE. WHILST CARE HAS BEEN TAKEN IN ITS PREPARATION, NO RESPONSIBILITY IS ACCEPTED FOR THE COMPLETENESS OR ACCURACY OF ITS CONTENTS. INTERESTED PARTIES SHOULD NOT RELY ON THIS UPDATE AND SHOULD OBTAIN THEIR OWN LEGAL ADVICE.

WE HAVE PROVIDED AS MUCH INFORMATION AS POSSIBLE IN THIS UPDATE. DISCLOSURE OF ANY FURTHER, CONFIDENTIAL INFORMATION MAY JEOPARDISE THE SETTLEMENT AGREEMENT WHICH HAS BEEN ENTERED INTO AND/OR REALISATION OF THE UNDERLYING COLLATERAL AND THEREFORE PREJUDICE THE INTERESTS OF THE MINIBOND NOTEHOLDERS.

These FAQs have been prepared for the holders of notes (the “Noteholders”), commonly referred to as “Minibonds”, issued under series 10 to 12, 15 to 23 and 25 to 36 only (the “Relevant Series”) of the secured continuously offered note programme of Pacific International Finance Limited (the “Issuer”). The trustee of the notes is HSBC Bank USA, National Association (formerly HSBC Bank USA) (the “Trustee”). These FAQs do not relate to Series 5, 6, 7 and 9 (for the reasons why, please see question 13).

These FAQs should be read in conjunction with the FAQs previously issued.

Q1 How much will I get as a result of the agreement with Lehman Brothers?

The recoveries that the Receivers expect to obtain from the Minibond collateral as a result of the agreement with Lehman Brothers (once it becomes unconditional) will result in all Noteholders of series 10 to 12, 15 to 23 and 25 to 36 being entitled to the returns referred to below:

Series/ Tranche	Approximately*	Series/ Tranche	Approximately*	Series/ Tranche	Approximately*
10A	86%	22A	79%	29D	72%
10B	86%	22B	79%	30A	84%
11A	93%	22C	77%	30B	81%
11B	93%	23A	81%	30C	76%
11C	92%	23B	80%	30D	73%
11D	92%	23C	83%	31A	78%
12A	86%	23D	83%	31B	78%
12B	86%	25A	81%	31C	71%
15A	83%	25B	80%	31D	70%
15B	81%	25C	82%	32A	78%
16A	85%	25D	81%	32B	77%
16B	83%	26A	72%	32C	72%
17A	83%	26B	72%	32D	71%
17B	82%	26C	70%	33A	84%
18A	82%	27A	87%	33B	82%
18B	81%	27B	85%	33C	76%
19A	81%	27C	80%	33D	75%
19B	80%	27D	78%	34A	85%
20A	83%	28A	85%	34B	84%
20B	82%	28B	82%	35A	79%
20C	78%	28C	78%	35B	78%
20D	79%	28D	75%	36A	79%
21A	84%	29A	84%	36B	79%
21B	83%	29B	81%		
21C	81%	29C	75%		

*The recoveries are expressed as “approximately” because exact amounts will not be known until all the collateral has been exchanged into Hong Kong dollars (where relevant) and costs incurred by the collateral custodian have been deducted. The table reflects the Receivers’ present estimates of recoveries to Minibond investors from the collateral.

The information above summarises the anticipated recovery as a result of the conditional agreement with Lehman Brothers only and should be read in conjunction with the announcement made by the Distributing Banks on 28 March 2011 which outlines certain additional recoveries for Eligible Customers (as defined by them). Please contact the party from whom you have acquired your Minibonds for an estimate of your total anticipated recovery.

Q2 Why do different Minibonds series get different amounts?

As stated in the previous FAQs, the recoveries vary from Minibond series to series and by tranches within the series due to differences in the characteristics of the swap contracts attached to each Minibond series, including the maturity dates, the reference entities against which credit protection was sold and the currency denomination of each tranche.

Q3 Is the agreement with Lehman Brothers conditional?

Yes. The agreement has two conditions:

One, the US Bankruptcy Court's confirmation that a December 2008 order which deals with settlement of Lehman derivatives claims applies to a settlement of claims relevant to the Minibonds; and

Two, Noteholders must pass an extraordinary resolution at a special meeting of Noteholders for each and every Relevant Series in order for the agreement with Lehman Brothers to become effective. Noteholder meetings are expected to be convened in April and held in May for this purpose.

Q4 Who can attend and vote at the meetings?

Minibond investors that continue to own the Relevant Minibonds can attend and vote at the meetings.

Q5 When will I receive my money back?

Provided the agreement becomes unconditional, Noteholders should expect to receive the funds resulting from the agreement in June 2011.

Q6 If a Noteholder does not support the proposed resolutions can he or she opt out of the agreement?

Provided the requisite 75% majority of votes cast at each and every Noteholder meeting for series 10 to 12, 15 to 23 and 25 to 36 are in favour of the extraordinary resolution those resolutions will bind all Noteholders, including Noteholders that do not support the settlement agreement.

Q7 Why did the Receivers enter into the agreement with Lehman Brothers?

Since their appointment in July 2009, the Receivers' role has been to consider all available options to unwind the complex Minibond structure in order to find a solution to the competing claims to the collateral underlying the Minibonds that will preserve and recover optimal value for the Noteholders, having regard to all of the circumstances.

After taking extensive independent expert advice, the Receivers have formed the view that the agreement represents the best possible outcome for the Noteholders in the circumstances. The agreement secures the release of the collateral, enables most of the Noteholders to recover over 80% of their original investment from the collateral and avoids the risks and uncertainties of prolonged, costly and complex litigation.

Q8 Why have the Receivers recommended this settlement?

The Receivers have considered the relative merits of the only viable alternative to the agreement, which is litigation. Based on a thorough review of the options, together with extensive independent expert advice from lawyers and market experts, the Receivers believe that the agreement reached with Lehman Brothers represents the best possible outcome in the circumstances as it resolves the litigation uncertainty which would almost certainly result in an "all or nothing" outcome and take many years to resolve at substantial cost.

Q9 Why are the Receivers not litigating?

As mentioned in Q9, litigation would almost certainly result in an "all or nothing" outcome and take several years to resolve at substantial cost. Litigation is not being pursued because based on legal advice obtained, even successful litigation is unlikely to lead to an improvement in returns to Minibond Noteholders over that resulting from the agreement reached with Lehman Brothers. There is also a real risk that litigation could result in returns to Minibond Noteholders being very much lower or non-existent.

Q10 What is the value of the collateral?

The current value of the collateral is approximately US\$1.5 billion. However, the collateral will only be released to the Receivers after settling with Lehman Brothers. Thereafter, fees, costs, charges, expenses and liabilities properly incurred by the collateral trustee will need to be paid from the collateral. The net proceeds from the collateral after these deductions are not sufficient to enable Noteholders to be paid in full.

Q11 Is the collateral being used to pay the Receivers' and lawyers' fees?

No. The fees of the Trustee, the Receivers and their lawyers and other advisors necessarily incurred in procuring the settlement agreement with Lehman Brothers have been discharged from the Expense Funding Agreement, funded by the Distributor Banks. However, certain costs of the collateral custodian are being met out of the collateral (pursuant to their contractual rights).

Q12 Why aren't series 5, 6, 7 and 9 included in the agreement?

On 30 June 2009 the Receivers were appointed over the underlying collateral for series 10 to 12, 15 to 23 and 25 to 36 only and the agreement with Lehman Brothers is in relation to the collateral in respect of these series only.

The structure and nature of the collateral for series 5, 6, 7 and 9 does not involve the flip clause/priority issue. The collateral for these series is securities issued by Lehman Brothers and therefore claims on these securities are unsecured claims in the Lehman Brothers bankruptcy. The Trustee submitted claims in the Lehman estates in the USA in respect of series 5, 6, 7 and 9 to protect any future recoveries and in December 2010 appointed Ted Osborn, Anthony Boswell and Marie Rowbotham as Receivers over the collateral of these series.

The Receivers will provide an update on the progress of their work in respect of these series in due course.