

**BACKGROUND INFORMATION RELATING TO THE FINAL RESOLUTION PROPOSAL
FOR CERTAIN SERIES OF LEHMAN BROTHERS MINIBONDS**

The 16 Distributing Banks of Lehman Brothers Minibonds thank the Chairman and members of the Legislative Council for inviting its representatives to attend the meeting with the Panel on Financial Affairs and for the opportunity to comment on the “Proposal Relating to the Final Resolution of Certain Series of Minibonds”.

We would like to emphasize that the best possible result set out in the final resolution proposal has been achieved through the hard work of the Distributing Banks, the Trustee and the Receivers over a long period of time. This result will enable an overwhelming majority of Minibond investors to receive additional payments in relation to their investments.

Since Lehman Brothers’ filing for bankruptcy protection in 2008, the Distributing Banks have tried hard to obtain the best possible result for Minibond investors. In July 2009, the Distributing Banks initiated the Lehman Brothers Minibonds Repurchase Scheme. At the same time, the Distributing Banks set aside the commission income they received from the sale of the Minibonds, totaling approximately HK\$291 million, to fund the expenses of the Trustee in recovering the collateral. This enabled the appointment of independent and professional receivers and the negotiation with Lehman Brothers for the early recovery of the collateral.

Through the practical support provided by these arrangements, the Receivers, the Trustee and other relevant parties have recently been able to achieve a major breakthrough by reaching a conditional agreement with Lehman Brothers in relation to Series 10 to 12, 15 to 23 and 25 to 36 of the Minibonds. That agreement will become effective upon the satisfaction of two conditions.

The first condition was met last week when the United States Bankruptcy Court confirmed its previous orders that Lehman Brothers may settle its rights in respect of the collateral. This week, the Distributing Banks issued a notice of meeting to Minibond investors of the relevant series who are eligible to attend the meetings. If the final resolution proposal is accepted by at least 75% of investors at the meeting for each relevant series of Minibonds, this agreement will enable investors in the relevant series to recover between 70% and 93% of their invested amount, regardless of whether they have already settled with their Distributing Banks.

This level of recovery indicates that even after the financial crisis, the collateral for the relevant series of Minibonds still has a relatively high value. The Distributing Banks are informed that the Receivers are of the opinion that the proposed level of recovery represents the best possible outcome for investors, considering the legal uncertainty that still hovers over the claims on the Minibond collateral, and the risks of costly and prolonged litigation. The Distributing Banks respect the professional judgment of the Receivers, and have hence resolved to vote in favour of the final resolution proposal.

Aside from the recovery of the collateral proceeds, the Distributing Banks have also resolved, as a goodwill gesture, to offer an ex gratia payment to eligible customers. The ex gratia payment will be equal to 50% of any shortfall in the recovery of the amount invested. Based on the collateral recovery levels mentioned previously, the total level of recovery for eligible customers, after taking into account the ex gratia payment by the Distributing Banks, will be between 85% and 96.5%.

As part of this final resolution proposal, the Distributing Banks have also undertaken to increase the funding made available to the Trustee to HK\$662 million to pay for all the fees, expenses and other amounts in respect of the recovery of the collateral and the Trustee’s role in respect of the Minibonds. This increase in funding will ensure that the amount available to Minibond investors will not be deducted.

The Distributing Banks have demonstrated great sincerity and effort by making substantial financial

commitments to expedite the resolution of the Lehman Minibonds incident. The Distributing Banks hope and believe that the current proposal will receive the support of their customers and the public alike, so that it can be completed smoothly and as early as possible.

In the last two and a half years, Minibond investors, the Distributing Banks and their employees, together with the general public, have had to face a great deal of stress and anguish. It is the Distributing Banks' sincere wish that with the final resolution of the Minibonds issue, the Hong Kong community can leave all of this behind and move forward together.

Distributing Banks (In alphabetical order):

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd. Hong Kong Branch

The Bank of East Asia, Limited

Chiyu Banking Corporation Limited

Chong Hing Bank Limited

CITIC Bank International Limited

Dah Sing Bank Limited

Fubon Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

MEVAS Bank Limited

Nanyang Commercial Bank, Limited

Public Bank (Hong Kong) Limited

The Royal Bank of Scotland N.V.

Shanghai Commercial Bank Limited

Wing Hang Bank, Limited

Wing Lung Bank Limited

Hong Kong, 20 April, 2011