

**RESPONSES TO QUESTIONS RELATING TO THE FINAL RESOLUTION PROPOSAL  
FOR CERTAIN SERIES OF LEHMAN BROTHERS MINIBONDS**

**GENERAL REMARKS**

The following responses have been prepared through discussion among each of the 16 banks that distributed Lehman Brothers-related “minibonds” issued by Pacific Finance International Limited (“**Minibonds**”) in Hong Kong (“**Distributing Banks**”).

**RESPONSES TO QUESTIONS**

**1 In respect of each series/tranche of the Relevant Series, what is -**

- (a) the number of original Minibond holders and the amount involved;**
- (b) the number of original holders who have accepted the Repurchase Scheme and the amount involved;**
- (c) the number of holders who were eligible to receive the offer under the Repurchase Scheme but refused to accept the Agreement, as well as the amount involved;**
- (d) the number of holders who were not eligible to receive the offer under the Repurchase Scheme and the amount involved.**

1.1 The table in the attached **Item 1** provides the requested information for Minibond series 10-12, 15-23 and 25-36 (“**Relevant Series**”). This information has been aggregated based on information provided by each Distributing Bank.

1.2 The table shows that:

1.2.1 approximately 95.6% of total Minibond investors who purchased Relevant Minibonds from the Distributing Banks are eligible customers; and

1.2.2 approximately 98.9% of total eligible customers who purchased Relevant Minibonds have accepted repurchase offers from the Distributing Banks (either under the Repurchase Scheme or under other terms).

**2 In respect of each Series/Tranche, what is the amount of “ex gratia payment” provided by the Distributing Banks, as well as the total amount of ex gratia payment provided by each Distributing Bank?**

2.1 The Distributing Banks do not currently have this information. This is because the offer of an ex gratia payment has not yet been made and it is not yet known how many customers will accept an offer of an ex gratia payment once it is made.

2.2 However, it is expected that the total amount of ex gratia payments that will be made by the Distributing Banks will be up to HK\$976.8 million. These ex gratia payments will enable investors to recover an additional amount of between 3.5% to 15% of the original nominal amount of their investment.

2.3 Ex gratia payments are conditional upon:

2.3.1 first, the United States Bankruptcy Court confirming that its previous orders which lay down procedures for Lehman Brothers to enter settlements in respect of claims

arising under certain derivatives contracts apply to settlement relating to the relevant collateral. The Receivers announced on 14 April 2011 that this condition has been met;

- 2.3.2 second, the passing of extraordinary resolutions for each Relevant Series;
- 2.3.3 third, the relevant customer being eligible to receive the ex gratia payment and not having been already placed in an equivalent or better position through the receipt of settlement amounts from their Distributing Bank; and
- 2.3.4 fourth, the relevant Distributing Bank receiving from the eligible customer a prescribed form of acceptance signed and returned by that customer. The prescribed form of acceptance will be substantially the same as the form of acceptance which eligible customers who participated in the Repurchase Scheme have already signed as part of that scheme.

**3 For the original Minibond holders who have been defined as experienced investors in the Repurchase Scheme, what are the reasons for them to receive the collateral value only and for the Distributing Banks not to provide them with ex gratia payment concurrently?**

- 3.1 The Receivers have advised that the conditional agreement with Lehman Brothers will, upon it becoming unconditional, enable investors of Relevant Series of Minibonds to recover between 70% and 93% of the amounts they invested.
- 3.2 In addition to the collateral recovery amount, as a goodwill gesture, the Distributing Banks have resolved to offer an ex gratia payment scheme to eligible customers.
- 3.3 For this purpose, the definition of “eligible customer” is effectively the same as that adopted for the Lehman Minibonds Repurchase Scheme announced on 22 July 2009. “Eligible customers” do not include corporations, professional investors and investors experienced in the trading of structured products. Eligible customers account for approximately 95.6% of all Minibond investors. The regulators and the Distributing Banks were of the view that this approach was a practical and reasonable way to resolve the Minibonds issue.
- 3.4 The offer of an ex gratia payment to eligible customers should be taken as the Distributing Banks’ goodwill gesture to customers under extremely unusual and unprecedented circumstances.

**4 What is the latest estimated value of the collateral for Series 5, 6, 7 and 9 of the Minibonds?**

- 4.1 The Distributing Banks do not have this information.

**5 What is the latest estimated value of the collateral for the Relevant Series of the Minibonds; whether such estimated value will be disclosed to all existing Minibond holders in order to provide them with comprehensive and complete information for considering and determining if they will accept the current agreement relating to the recovery of the collateral of the Minibonds?**

- 5.1 The Distributing Banks were not involved in the valuation of the collateral and assume this question is addressed to the Receivers. We are also not in a position to comment on its disclosure to Minibond holders or other customers.

- 6 Will the HKMA, the SFC and the Government appoint a third party to conduct a fair and impartial assessment on the estimated value of the collateral of the Relevant Series of the Minibonds in order to provide comprehensive and complete information to all existing Minibond holders for considering and determining if they will accept the current agreement relating to the recovery of the collateral of the Minibonds?**
- 6.1 The Distributing Banks are not aware of whether or not the HKMA, the SFC or the Government will conduct a further assessment of the estimated value of the collateral of the Relevant Series.
- 7 Given the stipulation of the Repurchase Scheme that the Distributing Banks would provide a fund of \$291 million in order to enable PwC, whose partners were appointed as Receivers by HSBC Bank USA, NA. (i.e. the Trustee for the Minibonds) to take all necessary actions to recover the underlying Minibond collateral, with regard to the current agreement relating to the recovery of the collateral of the Minibonds, what are the total expenses incurred by HSBC Bank USA, NA. (the Trustee) and PwC (the Receivers)? Please advise whether the total expenses have been paid from the fund without any deduction from the collateral value; if not, of the amounts deducted by the Trustee and the Receivers from the collateral value, with a detailed breakdown of the amount deducted by each Series/Tranche.**
- 7.1 The Distributing Banks assume this question is addressed to the Trustee and Receivers. The Distributing Banks have paid to the Trustee all amounts requested of them under the fund.
- 8 Please advise whether HSBC Bank USA, NA., the Trustee, has deducted the costs from the collateral pursuant to its contractual right specified in the Lehman Minibonds contracts. If so, how much has HSBC Bank USA, NA. deducted from the value of the collateral? Please provide a detailed breakdown of the amount deducted by Series/Tranche. How has HSBC Bank USA, NA. as Trustee calculated the amounts deducted and pursuant to which contractual provisions has it deducted such amounts.**
- 8.1 The Distributing Banks assume this question is addressed to the Trustee.
- 9 What are the respective amounts that can be received by Lehman Brothers for each Series under the agreement between Lehman Brothers Special Financing Inc. (Lehman Brothers) and PwC (the Receivers)?**
- 9.1 The Distributing Banks are not parties to that agreement and assume this question is addressed to the Receivers.
- 10 Please provide detailed information concerning the negotiation among PwC, Lehman Brothers and HSBC Bank USA, NA. on handling the collateral and the process by which the agreement was reached.**
- 10.1 The Distributing Banks were not involved in that negotiation and assume this question is addressed to the Receivers.
- 11 Please provide a detailed explanation given by PwC on the phrases “the legal uncertainty surrounding the priority of competing claims over the Collateral” and “prolonged, complex and costly litigation”.**
- 11.1 The Distributing Banks have not been involved in PricewaterhouseCooper’s assessment of, and discussions with its advisers about, the priority of competing claims nor the potential length or cost of litigation. We assume this question is addressed to the Receivers.

ITEM 1<sup>1</sup>  
項目 1

	No. of “original” minibond holders and the amount involved 原有迷債持有人數目及所涉金額		No. of holders who have accepted (or effectively accepted) the Repurchase Agreement and the amount involved 接納（或實際接納）回購協議的持有人數目及所涉金額		No. of holders who refused to accept the Repurchase Agreement and the amount involved 拒絕接納回購協議的持有人數目及所涉金額		No. of holders ineligible to receive the offer under the Repurchase Agreement and the amount involved 非合資格收取回購協議要約的持有人數目及所涉金額	
Series 系列	No. of holders 持有人數目	Amount involved (HK\$) 所涉金額（港元）	No. of holders 持有人數目	Amount involved (HK\$) 所涉金額（港元）	No. of holders 持有人數目	Amount involved (HK\$) 所涉金額（港元）	No. of holders 持有人數目	Amount involved (HK\$) 所涉金額（港元）
10A	272	90,129,000	256	82,368,000	4	975,000	12	6,786,000
10B	944	192,480,000	901	178,440,000	13	1,560,000	30	12,480,000
11A	91	27,846,000	85	25,233,000	4	585,000	2	2,028,000
11B	209	43,920,000	197	40,560,000	6	640,000	6	2,720,000
11C	182	59,982,000	173	45,942,000	3	11,856,000	6	2,184,000
11D	700	145,960,000	688	143,520,000	6	1,200,000	6	1,240,000
12A	621	168,753,000	584	153,738,000	7	1,092,000	30	13,923,000
12B	976	185,360,000	935	177,360,000	20	3,200,000	21	4,800,000
15A	826	266,448,000	782	206,583,000	14	15,210,000	30	44,655,000
15B	629	125,080,000	614	111,320,000	7	840,000	8	12,920,000
16A	784	243,750,000	739	226,161,000	12	2,730,000	33	14,859,000
16B	576	130,440,000	557	112,440,000	9	2,720,000	10	15,280,000
17A	1,068	416,130,000	991	364,611,000	30	12,636,000	47	38,883,000
17B	529	114,960,000	511	111,480,000	9	1,440,000	8	1,960,000
18A	736	214,071,000	697	188,253,000	13	2,808,000	26	23,010,000
18B	234	41,520,000	224	39,000,000	5	1,320,000	5	1,200,000
19A	375	130,845,000	350	101,205,000	7	2,106,000	18	27,534,000
19B	499	105,880,000	473	100,640,000	9	960,000	17	4,280,000
20A	387	123,084,000	360	109,512,000	7	4,602,000	20	8,970,000
20B	456	74,440,000	445	69,440,000	7	1,200,000	4	3,800,000

<sup>1</sup> The numbers in this table apply to Minibonds which are currently held through, or which were previously repurchased by, the 16 Distributing Banks.

<sup>1</sup> 本附表的數字適用於現時透過 16 家分銷銀行持有或彼等先前回購的該等迷債。

	No. of “original” minibond holders and the amount involved 原有迷你債券持有人數目及所涉金額		No. of holders who have accepted (or effectively accepted) the Repurchase Agreement and the amount involved 接納（或實際接納）回購協議的持有人數目及所涉金額		No. of holders who refused to accept the Repurchase Agreement and the amount involved 拒絕接納回購協議的持有人數目及所涉金額		No. of holders ineligible to receive the offer under the Repurchase Agreement and the amount involved 非合資格收取回購協議要約的持有人數目及所涉金額	
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20C	13	1,092,000	11	858,000	--	--	2	234,000
20D	39	6,320,000	35	5,640,000	2	520,000	2	160,000
21A	365	110,058,000	344	95,082,000	2	429,000	19	14,547,000
21B	670	106,440,000	652	102,720,000	7	440,000	11	3,280,000
21C	82	10,240,000	78	7,800,000	--	--	4	2,440,000
22A	144	32,019,000	138	31,083,000	2	468,000	4	468,000
22B	433	59,840,000	427	57,280,000	5	560,000	1	2,000,000
22C	47	7,880,000	46	7,760,000	1	120,000	--	--
23A	332	112,554,000	305	91,806,000	4	546,000	23	20,202,000
23B	923	223,080,000	884	196,680,000	8	2,400,000	31	24,000,000
23C	13	4,485,000	13	4,485,000	--	--	--	--
23D	55	12,840,000	49	10,760,000	--	--	6	2,080,000
25A	250	77,688,000	236	72,501,000	2	156,000	12	5,031,000
25B	766	176,680,000	737	162,880,000	9	5,520,000	20	8,280,000
25C	8	10,608,000	8	10,608,000	--	--	--	--
25D	7	1,600,000	7	1,600,000	--	--	--	--
26A	100	24,063,000	94	20,475,000	--	--	6	3,588,000
26B	357	80,360,000	344	77,000,000	2	80,000	11	3,280,000
26C	35	3,640,000	30	3,240,000	1	40,000	4	360,000
27A	1,012	440,817,000	909	397,254,000	8	1,794,000	95	41,769,000
27B	1,400	412,880,000	1,297	354,160,000	9	2,560,000	94	56,160,000
27C	140	43,017,000	132	34,398,000	1	78,000	7	8,541,000
27D	401	86,600,000	387	80,320,000	4	440,000	10	5,840,000
28A	679	322,530,000	600	255,996,000	7	16,185,000	72	50,349,000
28B	743	251,240,000	701	232,360,000	4	520,000	38	18,360,000
28C	100	46,527,000	94	28,080,000	2	1,248,000	4	17,199,000
28D	170	35,400,000	163	33,360,000	2	160,000	5	1,880,000
29A	359	164,502,000	327	149,292,000	1	78,000	31	15,132,000

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29B	323	109,360,000	311	101,280,000	1	40,000	11	8,040,000
29C	57	17,823,000	53	15,249,000	--	--	4	2,574,000
29D	114	21,440,000	113	21,360,000	--	--	1	80,000
30A	345	195,000,000	316	174,174,000	1	117,000	28	20,709,000
30B	313	90,080,000	297	80,680,000	3	4,200,000	13	5,200,000
30C	66	20,397,000	64	19,968,000	--	--	2	429,000
30D	135	22,760,000	133	22,640,000	1	80,000	1	40,000
31A	269	132,709,200	242	121,602,000	2	390,000	25	10,717,200
31B	426	139,280,000	401	120,880,000	2	480,000	23	17,920,000
31C	56	11,934,000	55	11,700,000	--	--	1	234,000
31D	203	37,440,000	194	32,560,000	4	400,000	5	4,480,000
32A	126	62,977,590	119	62,127,000	2	117,000	5	733,590
32B	128	23,320,000	122	21,080,000	2	440,000	4	1,800,000
32C	53	20,709,000	51	18,135,000	--	--	2	2,574,000
32D	102	20,960,000	95	19,520,000	1	520,000	6	920,000
33A	244	106,626,000	225	99,372,000	--	--	19	7,254,000
33B	229	59,640,000	218	57,600,000	1	120,000	10	1,920,000
33C	61	22,464,000	58	20,397,000	--	--	3	2,067,000
33D	254	54,000,000	247	47,760,000	2	2,600,000	5	3,640,000
34A	730	347,685,000	667	294,957,000	8	2,301,000	55	50,427,000
34B	2,585	753,040,000	2,463	713,120,000	22	5,880,000	100	34,040,000
35A	1,084	596,154,000	980	529,659,000	11	13,962,000	93	52,533,000
35B	4,050	1,419,480,000	3,865	1,296,400,000	30	15,360,000	155	107,720,000
36A	505	157,677,000	455	128,232,000	--	--	50	29,445,000
36B	1,397	356,000,000	1,332	318,880,000	12	15,120,000	53	22,000,000
<b>TOTAL</b>	<b>34,592</b>	<b>10,565,033,790</b>	<b>32,686</b>	<b>9,462,616,000</b>	<b>380</b>	<b>166,149,000</b>	<b>1,525</b>	<b>936,188,790</b>