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**中銀香港(控股)有限公司**

**BOC HONG KONG (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(the “Company”, Stock Code: 2388)**

## **ANNOUNCEMENT**

### **FINAL RESOLUTION PROPOSAL IN RESPECT OF RELEVANT MINIBONDS**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

References are made to (i) the announcement dated 22 July 2009 made by the Company regarding the agreement entered into by the BOCHK Group with the SFC, the HKMA and thirteen other Distributing Banks in respect of the Repurchase Scheme for the repurchase of certain series of Minibonds, without admission of any liability. Under the Repurchase Scheme, the BOCHK Group has offered to repurchase certain series of Minibonds from the Eligible Customers who had purchased those Minibonds through the BOCHK Group; (ii) the press announcement dated 28 March 2011 jointly published by the BOCHK Group and thirteen other Distributing Banks in respect of the proposed arrangements under the Conditional Agreement, a copy of which is attached to this announcement as Appendix I (the “**Distributing Banks’ Announcement**”); and (iii) the press announcement dated 28 March 2011 published by the Receivers in relation to the proposed arrangements under the Conditional Agreement and the expected recovery amounts for each tranche of the Relevant Minibonds, a copy of which is attached to this announcement as Appendix II (the “**Receivers’ Announcement**”).

### **RECOVERY OF COLLATERAL FOR RELEVANT MINIBONDS AND CONDITIONAL AGREEMENT**

On 28 March 2011, the Receivers announced that Lehman Brothers, the Trustee, the Receivers (as agents of the Issuer and without personal liability) and others have entered into the Conditional Agreement to settle the opposing claims asserted by Lehman Brothers in respect of the Collateral. The Receivers, in its announcement, advised that the Conditional Agreement will, upon it becoming unconditional, enable investors of the Relevant Minibonds to recover between 70% and 93% of the amounts they invested. The level of recovery for each tranche of the Relevant Minibonds is different. The actual distribution to each investor will depend on the specific circumstances of the investor. Please refer to both the Distributing Banks’ Announcement and the Receivers’ Announcement for further details.

The Conditional Agreement is conditional upon the following:

- (1) the US Bankruptcy Court confirming that its previous orders which lay down procedures for Lehman Brothers to enter into settlements in respect of claims arising under certain derivatives contracts apply to settlements relating to the Collateral. The Receivers have advised that an application will be made by Lehman Brothers to the US Bankruptcy Court on 29 March 2011 for this purpose; and
- (2) the passing of extraordinary resolutions for each and every series of the Relevant Minibonds. For this purpose, the Issuer will convene a meeting for each series of the Relevant Minibonds which can only be attended by persons who hold a beneficial title in the Relevant Minibonds. If investors have transferred the beneficial title in their Relevant Minibonds to the BOCHK Group pursuant to either the Repurchase Scheme or some other settlement with the BOCHK Group, the BOCHK Group will participate and vote in such noteholder meetings.

The BOCHK Group understands that, after extensive negotiations with Lehman Brothers, the Receivers believe that the proposed level of recovery represents the best possible outcome for investors of the Relevant Minibonds given the legal uncertainty surrounding the priority of competing claims over the Collateral. Accordingly, the Receivers recommend the proposed arrangements with Lehman Brothers. Therefore, the BOCHK Group has, based on the information available to it as at the date of this Announcement, decided to accept the Receivers' recommendation for the Relevant Minibonds owned by it and will vote in favour of the extraordinary resolutions at the meetings of the holders of the Relevant Minibonds.

#### **EX-GRATIA PAYMENTS AND INCREASED FUNDING UNDER THE EXPENSES FUNDING AGREEMENT**

As stated in the Distributing Banks' Announcement, in addition to the arrangements under the Repurchase Scheme and the Conditional Agreement, as a goodwill gesture, the BOCHK Group has agreed to offer Ex-gratia Payments to Eligible Customers of the Relevant Minibonds if the Conditional Agreement is approved and is fully implemented. For the purpose of the Ex-gratia Payment Scheme, Eligible Customers are those investors in the Relevant Minibonds who are either those investors who were eligible to participate in the Repurchase Scheme or those who would have been eligible under the Repurchase Scheme had they not previously reached a settlement with the BOCHK Group on a case-by-case basis. Under the Ex-gratia Payment Scheme, the Ex-gratia Payments to which each Eligible Customer will be notionally entitled is equal to 50% of any shortfall in the recovery of the amount invested. The actual amount of the Ex-gratia Payments to be received by Eligible Customers of the Relevant Minibonds will depend on the recovery amount of the Collateral and the amount (if any) previously received from the BOCHK Group as part of a settlement with the BOCHK Group pursuant to the Repurchase Scheme or otherwise. Consequently, the amount of the Ex-gratia Payments is investor specific. For further details of the Ex-gratia Payment Scheme, please refer to the Distributing Banks' Announcement.

Based on the rates of recovery of between 70% and 93% as advised by the Receivers, the total level of recovery to Eligible Customers, after taking into account the offer of Ex-gratia Payments, will be in the range of 85% to 96.5% of the principal amount of their investment.

The proposal to pay the Ex-gratia Payments to Eligible Customers of the Relevant Minibonds is not part of the Repurchase Scheme, but is instead a goodwill gesture by the BOCHK Group under highly unusual and unprecedented circumstances. It should not be viewed as a precedent for other investors or investment products of the BOCHK Group.

The BOCHK Group has made available to the Trustee approximately HK\$160 million (equivalent to the amount of commission income the BOCHK Group received as distributors of Minibonds) by way of an Expense Funding Agreement. As part of the final resolution proposal, the BOCHK Group will increase the funding available to the Trustee to pay all fees, expenses and other amounts which may be incurred in connection with the recovery of the collateral of certain series of Minibonds and the Trustee's role in respect of the Minibonds. Without this funding, the Trustee would have been entitled to retain all or a part of the Collateral to indemnify it (and its agents) for liabilities and expenses arising from the settlement process. Such retention would reduce the amounts available to holders of the Relevant Minibonds.

### **IMPORTANT**

**Shareholders of the BOCHK Group, potential investors of securities of the BOCHK Group and customers of the Relevant Minibonds should note that the Conditional Agreement is subject to the satisfaction of two conditions and therefore may or may not proceed. The Issuer will not receive the recovery proceeds from the Collateral unless the two conditions in the Conditional Agreement are satisfied. As the Ex-gratia Payment Scheme is subject to the approval and full implementation of the arrangements under the Conditional Agreement, it may or may not proceed. The actual distribution to be paid to customers of the Relevant Minibonds are subject to the BOCHK Group having received from or on behalf of the Issuer the proceeds from the recovery of the Collateral for each Relevant Minibond. Any information provided by the BOCHK Group on the potential and estimated payments to the customers of the Relevant Minibonds pursuant to the Conditional Agreement and the Ex-gratia Payment Scheme is an estimation only, and there is no guarantee that the payments would be made. Even if the Conditional Agreement and the Ex-gratia Payment Scheme proceed, as the final payments would depend on the implementation of the Conditional Agreement and the Ex-gratia Payment Scheme, there is no guarantee that such payments will be in the amounts described in this announcement or the Distributing Banks' Announcement.**

**Shareholders and potential investors of securities of the BOCHK Group should therefore exercise caution when dealing in the securities of the BOCHK Group.**

### **POTENTIAL FINANCIAL IMPACT ON THE BOCHK GROUP**

As of the date of this announcement, the BOCHK Group had repurchased a total of approximately HK\$5.9 billion in nominal value of the principal amount of Minibonds under the Repurchase Scheme or pursuant to settlement agreements with customers. As a result, for the financial years ended 31 December 2009 and 2010, the BOCHK Group had recognised in aggregate a loss of approximately HK\$4 billion through making provisions for the Minibonds repurchased by the BOCHK Group and the funding provided under the original terms of the Expenses Funding Agreement.

If the Conditional Agreement is approved and proceeds to full implementation, as a holder of the Relevant Minibonds it repurchased, the BOCHK Group will be entitled to receive distributions under the Conditional Agreement. Taking into account of the expected recovery payments of the Relevant Minibonds under the Conditional Agreement, the potential payments by the BOCHK Group pursuant to the Ex-gratia Payment Scheme and the increased funding under the Expenses Funding Agreement, the BOCHK Group estimates that it will write back part of the provisions in respect of the Minibonds it repurchased. It is estimated the write-back will effectively reduce the original loss recognised by the BOCHK Group to approximately HK\$1 billion.

Assuming that the proposed arrangements under the Conditional Agreement are fully implemented and the Ex-gratia Payment Scheme is consequently also fully implemented, based on the estimates stated above, investors who purchased the Relevant Minibonds from the BOCHK Group is expected to realise in aggregate a loss of HK\$640 million in nominal value of the principal amount of the Relevant Minibonds invested (this amount does not take into account of the interest received by such investors).

The BOCHK Group would like to emphasize that the above information only represents the estimation of the BOCHK Group based on its current understanding of the proposed arrangements under the Conditional Agreement. The actual recovery and hence the overall financial impact to the BOCHK Group would depend on the final distributions and payments under the Conditional Agreement and the Ex-gratia Payment Scheme. If, upon the approval and full implementation of the Conditional Agreement and the Ex-gratia Payment Scheme, there is any material difference from the information provided above, the BOCHK Group will make a further announcement according to the requirements of the Listing Rules when necessary.

## **DEFINITIONS**

“BOCHK Group”	the Bank of China (Hong Kong) Group (comprising Bank of China (Hong Kong) Limited, Nanyang Commercial Bank Limited and Chiyu Banking Corporation Limited)
“Code of Conduct”	the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission issued by the SFC pursuant to section 399 of the SFO
“Collateral”	the underlying collateral for the Relevant Minibonds
“Conditional Agreement”	the conditional agreement between Lehman Brothers, the Trustee, the Receivers (as agents of the Issuer and without personal liability) and others dated 27 March 2011 in relation to the settlement of opposing claims asserted by Lehman Brothers in respect of the Collateral
“Distributing Banks”	the BOCHK Group, Bank of Communications Co Ltd, The Bank of East Asia, Limited, Chong Hing Bank Ltd, CITIC Bank International Ltd, Dah Sing Bank Ltd, Fubon Bank (Hong Kong) Ltd, Industrial and Commercial Bank of China (Asia) Ltd, Mevas Bank Ltd, Public Bank (Hong Kong) Ltd, The Royal Bank of Scotland N.V., Shanghai Commercial Bank Ltd, Wing Hang Bank Ltd and Wing Lung Bank Ltd

“Eligible Customers”	<p>persons who, through the BOCHK Group, purchased the Relevant Minibonds (and series 5, series 6, series 7 and series 9 of Minibonds) as part of a primary offering and with open positions in such Minibonds, except those who (i) have, in the three years preceding their first purchase of Minibonds, executed five or more transactions in Leveraged Products, Structured Products or a combination of these products; (ii) are non-individuals, meaning those who hold an account with the BOCHK Group in the name of an entity incorporated or formed in Hong Kong or elsewhere, excluding sole proprietorship and exempt charitable bodies under section 88 of the Inland Revenue Ordinance (Cap. 112) and not-for-profit organizations whose assets are not managed by an SFC licensed fund manager; (iii) are professional investors falling under paragraph (a) to (i) of the definition of “professional investor” in Part 1 of Schedule 1 to the SFO; (iv) are professional investors under section 3 of the Securities and Futures (Professional Investor) Rules (Cap. 571D) and classified by the BOCHK Group and agreed by the customers to be treated as such in accordance with paragraphs 15.3 and 15.4 of the Code of Conduct at the time they purchased the Minibonds; or (v) have previously settled their claims in relation to the distribution of Minibonds with the BOCHK Group</p>
	<p>for the purpose of the Ex-gratia Payment Scheme, Eligible Customers are those investors in the Relevant Minibonds who are either those investors who were eligible to participate in the Repurchase Scheme or those who would have been eligible under the Repurchase Scheme had they not previously reached a settlement with the BOCHK Group on a case-by-case basis</p>
“Ex-gratia Payment Scheme”	<p>a scheme to be offered by the BOCHK Group to the Eligible Customers of the Relevant Minibonds upon the approval and full implementation of the Conditional Agreement to make Ex-gratia Payments to Eligible Customers of the Relevant Minibonds</p>
“Ex-gratia Payments”	<p>the ex-gratia payments to which the Eligible Customers will be notionally entitled which is equal to 50% of any shortfall in the recovery of the amount invested</p>

“Expenses Funding Agreement”	the agreement dated 30 October 2009 entered into between the Trustee and the Distributing Banks in relation to the recovery of the collateral for the Minibonds, pursuant to which the BOCHK Group had made available an amount of approximately HK\$160 million to fund the Trustee’s expenses in realizing the value of the Collateral and the BOCHK Group has subsequently agreed to increase the funding to up to approximately HK\$371 million
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKMA”	the Monetary Authority appointed under section 5A(1) of the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong)
“Issuer”	Pacific International Finance Limited
“Lehman Brothers”	Lehman Brothers Special Financing Inc.
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Minibonds”	Retail structured notes issued under the “Secured Continuously Offered Note Programme” of the Issuer, commonly known as Lehman Brothers Minibonds
“Receivers”	Messrs. Ted Osborn, Anthony Boswell and Jan Blaauw, partners of PricewaterhouseCoopers Hong Kong, who have been appointed by the Trustee to act as receivers for the Relevant Minibonds
“Relevant Minibonds”	the following series of Minibonds: series 10, series 11, series 12, series 15, series 16, series 17, series 18, series 19, series 20, series 21, series 22, series 23, series 25, series 26, series 27, series 28, series 29, series 30, series 31, series 32, series 33, series 34, series 35 and series 36
“Repurchase Scheme”	the scheme to repurchase the Relevant Minibonds (and series 5, series 6, series 7 and series 9 of Minibonds) from Eligible Customers offered by the BOCHK Group pursuant to the agreement between the BOCHK Group, the SFC, the HKMA and the Distributing Banks dated 22 July 2009 pursuant to section 201 of the SFO
“SFC”	the Securities and Futures Commission

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Structured Product”	a derivative or other product which is structured in the form of a debenture, security or deposit and which contains, references, or is based on, a derivative or a derivative strategy. The definition comprises: (i) credit-linked notes or credit-linked instruments, (ii) equity-linked notes, deposits or instruments and (iii) private placement notes, provided that, however, Structured Products do not include any principal-protected product or listed securities
“Trustee”	HSBC Bank USA, National Association

By Order of the Board  
**Jason C.W. Yeung**  
*Company Secretary*

Hong Kong, 28 March 2011

*As at the date of this announcement, the Board comprises Mr. XIAO Gang\* (Chairman), Mr. LI Lihui\* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. LI Zaohang\*, Mr. ZHOU Zaiqun\*, Mdm. ZHANG Yanling\*, Mr. GAO Yingxin, Dr. FUNG Victor Kwok King\*\*, Mr. KOH Beng Seng\*\*, Mr. SHAN Weijian\*\*, Mr. TUNG Chee Chen\*\* and Mr. TUNG Savio Wai-Hok\*\*.*

\* *Non-executive Directors*

\*\* *Independent Non-executive Directors*

## APPENDIX I

### MOVING FORWARD TOGETHER WITH OUR CUSTOMERS A PROPOSAL RELATING TO THE FINAL RESOLUTION OF CERTAIN SERIES OF LEHMAN BROTHERS MINIBONDS

We, the sixteen Distributing Banks (the “Banks” or the “Distributing Banks”) of Lehman Brothers Minibonds (“Minibonds”) issued by Pacific International Finance Limited (the “Issuer”), have been working towards a satisfactory outcome for the recovery of the Minibond collateral, and announce today a final resolution proposal for **Series 10 to 12, 15 to 23 and 25 to 36** of the Minibonds (the “Relevant Series” or the “Relevant Minibonds”).

Following the offer of a repurchase scheme of Minibonds announced on 22 July 2009 (“Repurchase Scheme”), we committed to assist in and to expedite the recovery of the collateral for, among other outstanding Minibonds, the Relevant Minibonds (“Collateral”) by HSBC Bank USA, N.A., the trustee for the Minibonds (the “Trustee”). The Trustee had already appointed Messrs. Ted Osborn, Anthony Boswell and Jan Blaauw, partners of PricewaterhouseCoopers Hong Kong as receivers (the “Receivers”) for the Collateral.

#### COLLATERAL RECOVERY

The Receivers separately announced today that a conditional agreement among Lehman Brothers Special Financing Inc. (“Lehman Brothers”), the Receivers (as agents of the Issuer and without personal liability), the Trustee and others has been reached to settle opposing claims asserted by Lehman Brothers in respect of the Collateral. The Receivers advised that the agreement will, upon it becoming unconditional, enable investors of Relevant Minibonds to recover between **70% and 93%** of the amounts they invested. Investors should note that the level of recovery for each tranche of the Relevant Minibonds is different. The actual distribution to each investor (the “Recovery Payment”) will depend on the specific circumstances of the investor as illustrated under “Payment Examples” below. Investors should also refer to the Receivers’ announcement for further details.

After extensive negotiations with Lehman Brothers, the Receivers believe that the proposed level of recovery represents the best possible outcome for investors of Relevant Minibonds given the legal uncertainty surrounding the priority of competing claims over the Collateral. The agreement allows the Receivers and the Trustee to avoid the risks and uncertainty of prolonged, complex and costly litigation with Lehman Brothers and other parties. Accordingly, the Receivers recommend the proposed arrangements with Lehman Brothers.

The agreement is subject to two conditions.

Firstly, the agreement is conditional on the US Bankruptcy Court confirming that its previous orders which lay down procedures for Lehman Brothers to enter into settlements in respect of claims arising under certain derivatives contracts apply to settlements relating to the Collateral. The Receivers have confirmed that an application will be made by Lehman Brothers to the US Bankruptcy Court on 29 March 2011 for this purpose.

Secondly, the agreement is conditional on the passing of extraordinary resolutions for each and every Relevant Series. The Issuer will convene a meeting for each Relevant Series which can only be attended by persons who hold a beneficial title in the Relevant Minibonds. If investors have transferred the beneficial title in their Minibonds to their Bank pursuant to either the Repurchase Scheme or some other settlement with their Bank, their Bank will participate and vote in such



noteholder meetings. Each Distributing Bank has, based on the information available to it today, individually decided to accept the Receivers' recommendation for the Relevant Minibonds owned by it and will vote in favour of the extraordinary resolutions at the noteholder meetings so that this matter can be resolved in a way which maximizes the benefits to investors within a reasonable timeframe.

## **DISTRIBUTING BANKS' VOLUNTARY INITIATIVE – THE EX GRATIA PAYMENT SCHEME AND EXPENSES FUNDING AGREEMENT**

### *Distributing Banks to make Ex Gratia Payment to Eligible Customers*

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 of Relevant Minibonds. For the purpose of the ex gratia payment scheme, Eligible Customers are either those investors who were eligible to participate in the Repurchase Scheme or those who would have been eligible under the Repurchase Scheme had they not previously reached a settlement with the Distributing Banks on a case-by-case basis. The ex gratia payment to which each Eligible Customer will be notionally entitled is equal to 50% of any shortfall in the recovery of the amount invested ("Ex Gratia Payment"). The actual amount of the Ex Gratia Payment will depend on the Collateral recovery amount as well as the amount (if any) previously received from the investor's Bank as part of a settlement. Consequently, the amount of the Ex Gratia Payment is investor specific. For further details, please see the "Payment Examples" and "Estimated Time for Payment" below and review in detail the notice that will be sent out by each Distributing Bank, on or about 28 March 2011, to its investors who currently hold, or previously held, Relevant Minibonds.

Based on the rates of recovery of between 70% and 93% as advised by the Receivers, the total level of recovery to Eligible Customers, after taking into account the offer of Ex Gratia Payments by the Distributing Banks, will be in the range of **85% to 96.5%** of the principal amount of their investment.

**The proposal to pay the Ex Gratia Payments to Eligible Customers is *not* part of the Repurchase Scheme, but is instead a goodwill gesture by the Distributing Banks under highly unusual and unprecedented circumstances. It should not be viewed as a precedent for other investors or investment products.**

**Payment of the Recovery Payment and the Ex Gratia Payment, as applicable, is subject to the Distributing Banks having received from or on behalf of the Issuer the recovery proceeds from the Collateral for each Relevant Series. The Issuer will not receive the recovery proceeds from the Collateral unless the two conditions in the agreement with Lehman Brothers are satisfied.**

### *Distributing Banks to provide further support to the Trustee*

The Distributing Banks have made available to the Trustee approximately HK\$291 million (equivalent to the amount of commission income they received as distributors of Minibonds) by way of an Expenses Funding Agreement dated 30 October 2009. As part of this final resolution proposal, the Distributing Banks will increase the funding available to the Trustee to approximately HK\$662 million to pay for all fees, expenses and other amounts which may be incurred in connection with the recovery of the collateral of the outstanding Minibonds and the Trustee's role in respect of the Minibonds. Without this funding, the Trustee would have been entitled to retain all or a part of the Collateral to indemnify it (and its agents) for liabilities and expenses arising from the settlement process. Such retention would reduce the amounts available to holders of the Relevant Series.

## **LOOKING AHEAD**

To date, approximately 97% of total Minibond investors who purchased Relevant Minibonds from the Distributing Banks have already received offers to repurchase their Minibonds, and 96% in total have accepted these offers (either under the Repurchase Scheme or under other terms). An overwhelming majority of investors of Relevant Minibonds have therefore already settled their claims with the Distributing Banks. We believe that those settlements, together with the Recovery Payment and (if applicable) the Ex Gratia Payment, will provide a high level of recovery to the vast majority of those investors. In addition, most investors of Relevant Minibonds (irrespective of whether they have previously settled with their Bank) can expect to receive the Recovery Payment as described in this Announcement. We are therefore confident that the proposed arrangements will find the support of Minibond investors and the public.

We thank our customers, shareholders and the community again for their understanding and support during this challenging period. We also extend our appreciation to our staff who have exhibited commitment and professionalism throughout this trying time. We thank the HKSAR Government and local regulators for working with us to procure this result. We remain fully committed to working with the HKSAR Government, the local regulators and the investor community to ensure that Hong Kong remains one of the world's pre-eminent international financial centres.

### **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, 28 March, 2011

## PAYMENT EXAMPLES

The amount that investors will receive following the recovery of the Collateral depends on whether they are Eligible Customers or non-Eligible Customers.

### *Eligible Customers*

Eligible Customers may receive both a Recovery Payment and an Ex Gratia Payment.

#### *Example 1: Calculation of recovery – If you have received 60% of the amount invested*

If you:

- are an Eligible Customer;
- accepted the offer to have your Minibonds repurchased; and
- have already received 60% of the principal amount of your Minibonds,

the following table sets out examples to illustrate how to calculate your Recovery Payment and Ex Gratia Payment:

<b>Collateral recovered</b>	70%	75%	80%	85%	90%	95%
<b>Settlement amount received</b>	60%	60%	60%	60%	60%	60%
<b>Recovery Payment</b>	10%	15%	20%	25%	30%	35%
<b>Ex Gratia Payment</b>	15%	12.5%	10%	7.5%	5%	2.5%
<b>Total payment due to Eligible Customer</b>	25%	27.5%	30%	32.5%	35%	37.5%
<b>Total amount recovered by Eligible Customer</b>	85%	87.5%	90%	92.5%	95%	97.5%

#### *Example 2: Calculation of recovery – If you have received 70% of the amount invested*

If you:

- are an Eligible Customer;
- accepted the offer to have your Minibonds repurchased; and
- have already received 70% of the principal amount of your Minibonds,

the following table sets out examples to illustrate how to calculate your Recovery Payment and Ex Gratia Payment:

<b>Collateral recovered</b>	70%	75%	80%	85%	90%	95%
<b>Settlement Amount received</b>	70%	70%	70%	70%	70%	70%
<b>Recovery Payment</b>	0%	5%	10%	15%	20%	25%
<b>Ex Gratia Payment</b>	15%	12.5%	10%	7.5%	5%	2.5%
<b>Total payment due to Eligible Customer</b>	15%	17.5%	20%	22.5%	25%	27.5%
<b>Total amount recovered by Eligible Customer</b>	85%	87.5%	90%	92.5%	95%	97.5%

### ***Non-Eligible Customers***

Non-Eligible Customers will receive a Recovery Payment that equals:

- the Collateral recovery amount for their Minibonds;
- *less* any payment they have previously received pursuant to any settlement with their Bank for their Minibonds,

*provided that* if the amount a non-Eligible Customer has previously received from their Bank for their Minibonds is equal to or higher than the Collateral recovery amount for their Minibonds, they will not receive any Recovery Payment.

### **ESTIMATED TIME FOR PAYMENT**

Following receipt by the Distributing Banks of the recovery proceeds from the Collateral, which is currently expected to be not later than the end of June 2011:

- the Recovery Payment will be paid; and
- the Ex Gratia Payment will be payable to Eligible Customers upon receipt by the Distributing Banks of a prescribed form of acceptance signed and returned by those Eligible Customers.

Investors will not receive a Recovery Payment and/or Ex Gratia Payment if they have already been placed in an equivalent or better position through the receipt of settlement amounts from their Bank.

### **IMPORTANT**

**IF YOU ARE IN ANY DOUBT AS TO ANY ASPECT OF THIS ANNOUNCEMENT, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.**

**THIS ANNOUNCEMENT IS A SUMMARY ONLY. YOU MUST READ THIS ANNOUNCEMENT TOGETHER WITH:**

- **THE ANNOUNCEMENT MADE TODAY BY THE RECEIVERS OF THE COLLATERAL. SEE <http://www.pwchk.com/minibonds>; AND**
- **A LETTER WHICH YOUR BANK WILL SEND TO YOU BY POST ON OR ABOUT 28 MARCH 2011 WHICH EXPLAINS HOW THIS ANNOUNCEMENT APPLIES TO YOU.**

## APPENDIX II

### *Receivers from PwC reach agreement with Lehman Brothers in respect of Minibonds Collateral*

#### **The agreement**

Receivers from PricewaterhouseCoopers (“PwC”) announce today that they have reached a conditional agreement with Lehman Brothers Special Financing Inc. (“Lehman Brothers”) which will result in the Pacific Minibond noteholders (“Noteholders”) of series 10 to 12, 15 to 23 and 25 to 36 (the “Relevant Series”) receiving significant recoveries from the underlying collateral to be released as a result of the agreement becoming unconditional.

The agreement is expected to result in most of the Minibond investors recovering over 80% of their original investment from the underlying collateral.

The Receivers believe that the agreement reached provides a good result in the circumstances and will avoid the risks and uncertainties of prolonged, costly and complex litigation. The agreement is conditional on Noteholder approval (explained below) and obtaining US Bankruptcy Court confirmation that an order made on 16 December 2008 (known as the Derivatives Procedures Order) applies to the transactions underlying the Relevant Series. Lehman Brothers will make the necessary application on 29 March 2011 for this purpose.

#### **Background**

On 30 June 2009, HSBC Bank USA, National Association, the trustee of the Relevant Series of the Minibonds, appointed PwC partners Ted Osborn, Anthony Boswell and Jan Blaauw as Receivers of the collateral underlying the Relevant Series.

Since their appointment, the Receivers’ role has been to consider all available options to unwind the complex Minibond structure and find a solution to the competing claims on the Minibond collateral in order to preserve and recover value for the Minibond investors in the Relevant Series.

#### **Recovery levels from the realisation of collateral**

A summary of the estimated recoveries that Minibond investors in the Relevant Series will be entitled to receive from the collateral recovered by the Receivers after the agreement reached with Lehman Brothers becomes unconditional is set out below:

<b>Estimated percent recovery (of principal amount invested)</b>	<b>Estimated percent of Minibond investors in each percentile range</b>
> 90%	4%
80 – 90%	65%
70 – 80%	31%
	100%

The recovery to Minibond investors from the collateral will vary from 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 for each tranche. The estimated recoveries in each series/tranche are set out in the information box at the end of this announcement.

The recovery of the collateral as a result of the conditional agreement will mean that all Noteholders of the Relevant Series will be entitled to the returns referred to below.

*This announcement summarises the recovery Minibond investors can expect to receive as a result of the conditional agreement with Lehman Brothers only and should be read in conjunction with the announcement made today by the Distributing Banks. Minibond investors should contact the party from whom they acquired their Minibonds for further information including an estimate of their total anticipated recovery.*

### **Meetings required to approve the agreement**

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 announced in April and held in May for this purpose.

A majority of Noteholders consisting of 75% or more of the votes cast at the meeting must vote in favour of the agreement for each and every Relevant Series in order for the extraordinary resolutions to be passed and the agreement with Lehman Brothers to become effective. Notices of the meetings for each of the Relevant Series will be sent to Minibond investors who are eligible to attend and vote through the clearing systems in the normal way and directly by the party from whom they acquired their Minibonds. These notices will be despatched after obtaining US Bankruptcy Court confirmation that the Derivatives Procedures Order applies to the relevant transactions.

Eligible investors who continue to own the Relevant Minibonds are encouraged to attend and vote at the meetings.

Information in connection with the Noteholder meetings will be placed on the Receivers' Website: <http://www.pwchk.com/minibonds>

### **Distributions to minibond investors**

Subject to the requisite approvals being obtained, Minibond investors should expect to receive distributions in June 2011.

Further information including *Frequently Asked Questions* in connection with the agreement can be found on the Receivers' website: <http://www.pwchk.com/minibonds>.

For the avoidance of doubt, the agreement does not include series 5, 6, 7 and 9. The agreement is only in relation to the collateral underlying series 10 to 12, 15 to 23 and 25 to 36.

***Indicative recovery to Minibond investors as a percentage of the principal amount invested***

Series/ Tranche	Approximately*
10A	86%
10B	86%
11A	93%
11B	93%
11C	92%
11D	92%
12A	86%
12B	86%
15A	83%
15B	81%
16A	85%
16B	83%
17A	83%
17B	82%
18A	82%
18B	81%
19A	81%
19B	80%
20A	83%
20B	82%
20C	78%
20D	79%
21A	84%
21B	83%
21C	81%

Series/ Tranche	Approximately*
22A	79%
22B	79%
22C	77%
23A	81%
23B	80%
23C	83%
23D	83%
25A	81%
25B	80%
25C	82%
25D	81%
26A	72%
26B	72%
26C	70%
27A	87%
27B	85%
27C	80%
27D	78%
28A	85%
28B	82%
28C	78%
28D	75%
29A	84%
29B	81%
29C	75%

Series/ Tranche	Approximately*
29D	72%
30A	84%
30B	81%
30C	76%
30D	73%
31A	78%
31B	78%
31C	71%
31D	70%
32A	78%
32B	77%
32C	72%
32D	71%
33A	84%
33B	82%
33C	76%
33D	75%
34A	85%
34B	84%
35A	79%
35B	78%
36A	79%
36B	79%

\* 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 Receivers and PwC cannot and do not offer any form of financial or legal advice to Minibond investors and nothing herein should be construed as such. Minibond investors should seek independent professional advice with respect to their own legal and financial positions.***

28 March 2011