

23 December 2008

The Civic Party Limited  
Unit B, 16/F, Wing Hang Finance Centre  
60 Gloucester Road  
Wanchai  
Hong Kong

Attn.: Ms. Audrey Eu

Dear Honorable Audrey Eu,

Thank you for your letter for the attention of Mrs Ann Kung and the Hong Kong Association of Banks requesting confirmation of particular issues that were discussed in the Financial Affairs Panel on Thursday 18 December 2008.

### 1. Proposed funding by the distributors

The distributors are prepared to provide finance to the trustee of up to HK\$100,000,000 to assist it in the performance of its duty to protect the interests of the Lehman Mini-bonds investors. The precise terms of the proposed funding have not yet been agreed between the distributors and the trustee. Accordingly, further details of the proposed funding cannot be provided at this stage. The distributors will provide further details once a consensus has been reached with the trustee.

As you are aware, only the trustee (and not the distributors) has the legal standing to defend the interests of the investors and liquidate the mini-bonds. By providing the financing to the trustee, the distributors hope to facilitate and expedite the liquidation process to realise the value of the mini-bonds for investors.

Please rest assured that no extra costs should be incurred for the investors solely as a result of the proposed funding. The trustee should only incur fees and expenses if they are necessary for it to perform its role. If it needs to incur fees and expenses to be able to enforce the security and realise the value of the mini-bonds for investors, the distributors trust that the trustee will act in accordance with the relevant documentation and in the interests of the investors.

Even without this funding, the trustee has the power to borrow money from third parties and provide security to such third parties over the same security that the trustee holds for investors. It is likely that any third party that agrees to provide such funding will do so provided:

- they are paid a margin for the funding; and
- the trustee promises to repay that funding and the relevant interest from the proceeds of the security of the mini-bonds at or above the same level of priority of the trustee's fees and expenses - that is, before the investors receive any amounts owing to them.

We understand that, under the mini-bond documents, the trustee does not need to obtain the consent of the investors before borrowing money to assist in the enforcement process. We will leave it to the trustee to decide whether it will obtain the prior consent of the investors before accepting the financing.

### 2. Fees and expenses of advisers

If the buy-back of the mini-bonds proceeds, it is the intention that the fees and expenses incurred in connection with the buy-back will be included in the calculation of the price at which the distributors will offer to purchase the mini-bonds from investors. That is, the

investors will indirectly bear such fees and expenses if they decide to accept the offer and sell their mini-bonds back to the distributors.

As you are aware, the buy-back of the mini-bonds has stalled and the trustee terminated the swap agreements at the level of the issuer of the mini-bonds on 15 December 2008. This may result in the liquidation of the underlying collateral and the early redemption of the mini-bonds in accordance with the transaction documents. In these circumstances, the buy-back of the mini-bonds may become unnecessary and the fees of Ernst & Young and Mallesons Stephen Jaques will be borne by the distributors themselves and the investors will not have any direct or indirect responsibility for them. Should there be a buy-back in the future, the relevant fees and expenses will be disclosed to the investors who may choose to accept or refuse the offer from the distributors.

### 3. Relationship between Pacific International Finance Ltd. and the trustee

Information regarding Pacific International Finance Ltd. and its relationship with HSBC is something which will need to be directed to HSBC, as we are not in the position to clarify this matter.

Thank you.

*Sukyi*

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Sukyi Yau  
Co-Managing Director  
Citigate Dewe Rogerson

For and on behalf of:  
ABN AMRO Bank N.V. Hong Kong Branch  
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 Ka Wah Bank Limited  
Dah Sing Bank, Limited  
Fubon Bank (Hong Kong) Limited  
Grand Cathay Securities (Hong Kong) Limited  
Industrial and Commercial Bank of China (Asia) Limited  
MEVAS Bank Limited  
Nanyang Commercial Bank, Limited  
Public Bank (Hong Kong) Limited  
Shanghai Commercial Bank Limited  
Sun Hung Kai Investment Services Limited  
Wing Hang Bank, Limited  
Wing Lung Bank Limited

c.c. Secretary for Financial Services and the Treasury  
Hong Kong Monetary Authority  
The Hong Kong and Shanghai Banking Corporation Limited