PACIFIC INTERNATIONAL FINANCE LIMITED
(incorporated in the Cayman Islands with limited liability)

Secured Continuously Offered Note Programme

Arranger for the Programme

LEHMAN BROTHERS COMMERCIAL CORPORATION ASIA LIMITED

We, Pacific International Finance Limited, have registered a copy of this programme prospectus with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. Neither the Registrar of Companies nor the Securities and Futures Commission takes any responsibility for its contents.
IMPORTANT

If you are in any doubt about the contents of this programme prospectus, you should obtain independent professional advice.

Our notes will be issued under this secured continuously offered note programme. You should read the relevant issue prospectus as well as this programme prospectus before deciding whether to buy our notes.

We cannot give you investment advice; you must decide for yourself, after taking professional advice if appropriate, whether our notes meet your investment needs.

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Summary of our Secured Continuously Offered Note Programme

We have set up our secured continuously offered note programme so that we can issue our notes to the public in Hong Kong frequently and easily. This is an overview of the main features of our programme. We will publish an issue prospectus to explain the terms for each series of our notes.

Our secured continuously offered note programme is established on the basis of the principal trust deed and other legal documents for our private placement programme which we established on 30 March 2000 for the purpose of issuing secured limited recourse notes. When we refer to “our programme” in this programme prospectus, we mean our secured continuously offered note programme.

All our notes will be subject to the master terms and conditions (which are set out in full in Appendix 1). In this section, we summarise the main provisions of the master terms and conditions which apply to all our notes (unless an issue prospectus says otherwise).

Our programme documentation structure is explained in the next section of this programme prospectus. Each series of our notes will be constituted by a new supplemental trust deed that supplements and forms part of the principal trust deed. Scheduled to the supplemental trust deed will be a pricing supplement which sets out the specific terms and conditions of our notes which are constituted by that supplemental trust deed. The pricing supplement is a legal document which, together with the master terms and conditions of our notes, make up the legally binding terms and conditions of that series of notes. We will attach the form of the pricing supplement to the issue prospectus and we will summarise its terms in the issue prospectus.

The main terms of each series of our notes will be set out in an issue prospectus

Whenever we issue notes, we will publish an issue prospectus setting out the terms of our notes. The issue prospectus will specify:

- The currency in which our notes are denominated – we expect to issue most frequently in Hong Kong dollars or US dollars, but any other currencies may also be used.
- The denomination and minimum purchase amount of our notes.
- The offer price – we will specify the offer price of our notes, usually as a percentage of the denomination.
- The rate of interest payable – our notes may specify a fixed rate of interest, a floating rate of interest or a variable or structured rate of interest; some of our notes may not pay any interest at all.
- Maturity – we will specify the maturity date of our notes, on which our notes must be repaid (unless redeemed before then).
- Manner of redemption – our notes may be redeemed in cash or, if mentioned in the issue prospectus, by delivery of securities or other assets.
- Issuer’s call option – if our notes can be redeemed before their maturity date at our choice, the issue prospectus will give details.
- Investor’s put option – if you have the right to require us to repay our notes before their maturity date, the issue prospectus will give details.
- The collateral and swap arrangements for our notes.
- Lehman Brothers exchange option – we will specify if we have entered into an exchange option agreement with Lehman Brothers Asia Limited for a particular series of our notes.

In addition, if there are variations to the master terms and conditions, the issue prospectus for our notes to which the variations apply will describe what the variations are.

We will fix the issue size of each series by reference to general market interest following distribution of an issue prospectus.
We will have to redeem our notes early, and unexpectedly, if there is an “event of default” under our notes or the collateral; if unavoidable taxes are imposed on us or on payments under our notes or the collateral; or if the swap arrangements are terminated.

Our notes may be redeemed before the stipulated maturity date in the following circumstances:

- The master terms and conditions set out certain “events of default”. If any event of default occurs and continues, the trustee or the holders of at least 20% of the then outstanding principal amount of our notes of an affected series may declare the entire principal amount of all of our notes of that series to be due and payable immediately. Events of default include:
  - any failure to pay principal, interest or other amounts due on our notes for 15 days or more after the due date;
  - failure by us to perform any of our other obligations under our notes or the trust deed, if the trustee certifies that 30 days have passed since we were given written notice by the trustee to correct the situation and we have not done so; or
  - certain specified events of bankruptcy, insolvency or reorganization which affect us.
- If the collateral becomes repayable for any reason before its specified maturity date, for example by reason of the imposition of withholding taxes on payments under the collateral; if there is an event of default under the terms and conditions of the collateral; or if the principal of the collateral is reduced or otherwise becomes repayable in accordance with its terms.
- If we are required by Cayman Islands law to withhold or deduct taxes, duties or other charges from payments of principal or interest, then we will make the withholding or deduction and remit it to the tax authorities. You will therefore receive payments under our notes net of any Cayman Islands taxes which we are required to withhold or deduct. If such taxes are imposed, we will, subject to the agreement of the trustee and with the written consent of our other creditors, attempt to substitute another company incorporated in another jurisdiction for ourselves, or change our residence for taxation purposes, failing which we will redeem the notes, subject to certain exceptions. There is, however, currently no requirement for us to make any withholding or deduction under Cayman Islands law.
- If the swap arrangements for our notes are terminated for any reason, for example, because of a default under the swap arrangements or because of an unavoidable tax event or illegality relating to the swap arrangements.

In any of these circumstances, we would have to redeem our notes early.

You must rely on your distributor and the trustee to enforce our obligations under our notes, if it ever becomes necessary.

The principal trust deed provides that no holder of any note can take action against us directly to enforce our notes unless the trustee fails to act in accordance with the principal trust deed. The trustee is entitled to insist that the noteholders indemnify it before it is bound to take any enforcement action.

Under the master terms and conditions, the legal “holder” or “noteholder” of our notes will be the custodian for Euroclear or Clearstream which holds the global note for that series. The trustee will, however, accept instructions from the accountholders in the clearing systems which have been credited with interests in the global note. Your distributor will be the accountholder of our notes that you invest in. In order therefore to assert your rights as an investor in our notes, or to communicate with the trustee or with us, you will have to rely on your distributor either to take action on your behalf or to verify your interest in our notes.

We will not issue individual note certificates. Our notes must be held through a distributor.

We will not issue individual certificates for our notes, so you must arrange for your distributor to hold them in a securities or investment account. If you do not have a securities or investment account already, you will have to open one before you can
buy our notes. Securities or investment accounts and other services will be supplied by your distributor subject to its standard terms and conditions. We are not responsible for the way your distributor handles your account.

Our notes will be held in Euroclear or Clearstream, which are international securities clearing systems.

If the clearing systems close down, we will issue individual certificates for our notes, but we will not issue individual certificates otherwise. The principal trust deed and the agency agreement provide in detail for the arrangements which will apply in the unlikely event that individual certificates have to be issued. If this happens, we will give a notice summarizing these arrangements. If we are unable to deliver this notice through Euroclear or Clearstream, we will publish it in one English language newspaper and one Chinese language newspaper of general circulation in Hong Kong.

**We will make payments and send notices through the clearing systems and your distributor**

Individual investors cannot open a personal account at Euroclear or Clearstream. Your distributor will hold your notes for you, directly or through custodians, in an account at Euroclear or Clearstream.

We will pay interest and principal on our notes in accordance with the rules and procedures of the clearing system which holds them: you will have to rely on your distributor to ensure that payments on your notes are credited to your account with your distributor. Once we have made any payment in this way to the clearing systems, you will have no further rights against us for that payment, even if Euroclear or Clearstream or your distributor fails to transmit to you your share of the payment or transmits it late. (This is because, as far as we are concerned, we have paid our “noteholder”, which is the custodian for Euroclear and Clearstream. We have no control over, or knowledge of, the custody arrangements through which you as an investor hold our notes.)

Any notices we give after our notes are issued will be given in the same way; we will arrange for the notice to be sent through Euroclear and/or Clearstream and you will have to rely on your distributor to ensure the notice reaches you. In the same way, you will need to rely on your distributor to transmit any of your notices to Euroclear or Clearstream and upon that clearing system to relay them to us or to the trustee.

**We will pay principal and interest on the stipulated dates for payment**

The issue prospectus for each series of notes will state the due dates for scheduled payments of principal and interest on our notes.

If any due date for payment is not a business day then we will make the payment on the next day which is a business day. Unless an issue prospectus states otherwise, a “business day” means a day on which Euroclear and Clearstream are operating and on which commercial banks and foreign exchange markets are open for business in Hong Kong and in the main financial centre of the currency in which our notes are denominated.

**We are restricted from borrowing money and performing other activities**

So long as any of our notes remain outstanding, we may not, without the consent of the trustee and any of our other creditors, become indebted for borrowed moneys or engage in any business (other than issues of notes contemplated by this programme prospectus), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property, consolidate or merge with any other person, transfer our properties or assets substantially to any person or issue any shares. However, we may incur debt which is not secured provided it has “limited recourse” terms which are substantially similar to the terms of our notes.

**We or our subsidiaries may buy and sell our notes**

We or our subsidiaries may at any time buy our notes whether in the open market or by private arrangement, at any price. If purchases are made by tender, we or our subsidiaries will allow all noteholders of the series to take part.

If we or our subsidiaries do buy back our notes, we or our subsidiaries may hold them, resell them or decide to cancel them, at our or their choice.
Meetings of noteholders can be convened to decide important matters affecting our notes

The principal trust deed contains provisions for convening meetings of the noteholders to consider any matter affecting their interests.

A meeting could be convened, for example, if we want to propose a change to an important term of our notes or if we want to get approval for a waiver of a breach by us of a term of our notes.

There are detailed provisions in the principal trust deed about how meetings will be conducted in the unlikely event that a meeting is ever called. A meeting may be called either by us, by the trustee or by holders of at least 10 per cent. in outstanding principal amount of a series of notes upon written request to the trustee.

A resolution passed at a meeting of noteholders will be binding on all the holders of the same series of notes, whether or not they were present at the meeting.

If investors can prove their interest in our notes (and you will have to rely on your distributor to help you do this), they may be counted as “noteholders” for the purposes of a meeting. The principal trust deed sets out the procedures and detailed information about how to attend and vote at a meeting.

We can re-open a series of notes to issue more notes of the same series later

We reserve the right to create and issue more notes of a particular series in a follow-on offering after the initial offering has closed. The additional notes will be issued so that they are interchangeable with the originally issued notes – the only difference will be the offer price and, possibly, the amount of the first payment of interest.

Our programme is governed by English law

All our programme documentation, including our notes, is governed by English law (except that the master swap guarantee is governed by New York law). We have agreed in the principal trust deed that the courts of England have jurisdiction to settle any dispute in connection with our notes.
Our Programme Documentation

Our notes will be issued and sold under our secured continuously offered note programme. Our programme was authorised and approved by resolutions of our board of directors on 30 March 2000. The main legal documents which make up our programme are summarised here.

Our notes are constituted by a principal trust deed. The trustee acts as a representative of noteholders

When issued, our notes are constituted by, and have the benefit of, a principal trust deed. The principal trust deed was entered into by us on 30 March 2000 with HSBC Bank USA, National Association (formerly HSBC Bank USA) as trustee. The principal trust deed is a principal document: we will enter into a new supplemental trust deed every time we issue a new series of notes. The principal trust deed as supplemented by the applicable supplemental trust deed is the trust deed for those notes. The master terms and conditions for our notes are scheduled to the principal trust deed. (We have reproduced the master terms and conditions in Appendix 1, for convenience).

In the trust deed we promise to repay principal and to pay any stipulated periodical interest on our notes, and to perform any other payment or delivery obligation, depending on the terms of the particular notes.

We also grant security in favour of the trustee over the assets which back our notes. The security we grant includes:

- a first-ranking security interest in the collateral. The collateral for our notes will be held by a custodian (which will acknowledge the security interest of the trustee) in an account at Euroclear or Clearstream, which are international securities clearing systems. Accordingly, this security interest relates to contractual rights against the custodian and, through the custodian, the clearing systems for delivery of the collateral.

- an assignment by way of first-ranking security interest of all our rights against the swap counterparty under the swap arrangements which back our notes.

The principal trust deed sets out the role of the trustee. The trustee acts as the representative of noteholders. Its major functions are to:

- hold on trust for noteholders, the benefit of the undertakings we give in the principal trust deed, including our promise to repay principal and pay interest.

- hold on trust for noteholders, the swap counterparty and other beneficiaries, the benefit of the security we grant over the assets which back our notes.

- if necessary, take action against us to enforce our undertakings, including enforcing the security that we have created over the assets which back our notes.

- if necessary, ensure that the proceeds of enforcement of the security are paid in the agreed order of priority to those entitled to share in the proceeds. The principal trust deed allows the trustee to pay its own costs first and then requires that the swap counterparty is paid next, and the issuing and paying agent and custodian is paid after that, and finally that noteholders are paid the remaining proceeds in proportion to their claims, unless stated otherwise in the applicable supplemental trust deed.

In addition, the trustee has power to agree, in its sole discretion, to modifications to our notes which are minor, technical, or made to correct obvious mistakes.

We also give undertakings in the principal trust deed to support the trustee’s role. For example, we agree to tell the trustee if we breach any of our undertakings or there is an event of default under our notes; and we agree to help enforce the security if necessary.

Under the principal trust deed, the trustee must perform its role with reasonable care, but there are provisions which protect it from liability and
entitle it to indemnification in the event that it is required to take action against us or to enforce the security on your behalf.

We have appointed a calculation agent to make determinations and exercise discretions under the terms and conditions on our behalf

We have appointed Lehman Brothers Commercial Corporation Asia Limited as calculation agent to make all determinations, and exercise all discretions, under the terms and conditions of our notes on our behalf. The calculation agent will, for example, calculate the amount of interest payable under our notes.

The calculation agent has the sole and absolute discretion to make its determinations and exercise its discretions under the legal documentation. Any decision it makes is final and binding on you and on us and the other parties involved in our notes.

The calculation agent must make its determinations and exercise its discretions in accordance with the criteria set out in the terms and conditions of our notes. In practice, the calculation agent will ensure that its decisions under the terms and conditions of our notes are consistent with the decisions made under the corresponding terms of our swap arrangements. This is to ensure that our rights under the swap arrangements continue to match our obligations under our notes. Although the calculation agent has a general duty to act in good faith, the terms and conditions of our notes do not impose an express contractual duty on the calculation agent to do so. Any decision made by the calculation agent may have an unforeseen adverse impact on the value of our notes.

The calculation agent is our agent: it owes no duty to you as investors in our notes.

We have an issuing and paying agent and custodian for administrative functions

Administrative matters relating to our notes are dealt with in the agency agreement, which we entered into on 30 March 2000 with HSBC Bank plc as our issuing and paying agent and our custodian. This agreement sets out the arrangements between us and our issuing and paying agent and custodian for:

- giving notices to the noteholders
- issuing individual certificates for notes, in the unlikely event that we ever need to do so
- organizing and running meetings of the noteholders
- keeping records and dealing with other administrative matters
- holding the collateral on our behalf.

The issuing and paying agent and custodian is our agent: it owes no duties to you as investors in our notes.

Our notes of each series will be represented by a single global note or global notes

We will issue our notes in bearer or registered form. The notes of each series will be represented by a single global note or global notes which we will issue in a principal amount equal to the total principal amount of our notes of that series. We will deposit the global note(s) with a custodian for a clearing system for safe custody. When issued, our notes will have the benefit of the principal trust deed.

Each offer of notes is arranged under our framework programme agreement and our notes are distributed by banks and brokers appointed for that purpose

The legal framework under which we arrange for the offering, issue, placing and/or underwriting of our notes is contained in the programme agreement, which we entered into on 30 March 2000 with Lehman Brothers Commercial Corporation Asia Limited as the arranger under our private placement programme. Lehman Brothers Commercial Corporation Asia Limited as initial subscriber of our notes and Lehman Brothers Asia Limited as arranger for our notes will enter into distributor appointment agreements with the banks and brokers appointed as distributors for each series of our notes for the offering and placing of our notes to the retail public in Hong Kong. The distributors appointed for each series of notes will be specified in the applicable issue prospectus. Lehman Brothers Asia Limited also acts as market agent under such agreements to provide liquidity and secondary trading for our notes.
These agreements record the detailed arrangements between us, the arranger for our notes, the initial subscriber and the distributors involved in offering our notes: you do not, as investors in notes, have any rights under these agreements. If these agreements, as they apply to any particular offering of our notes, contain information which affect your rights as investors in notes, we will disclose it in the applicable issue prospectus.

No invitation may be made directly or indirectly to the public in the Cayman Islands to subscribe for or purchase any of our notes.
Information about us and how our Notes are Secured

Who is Pacific International Finance Limited?

We are a limited liability company incorporated in the Cayman Islands. Our sole purpose and business is to issue notes under our programme.

We are issuing our notes in the ordinary course of our business and not for the purposes of fund raising for Lehman Brothers Holdings Inc. or its subsidiaries and affiliates. We earn a small fee for each series of notes that we issue. Under our programme, all our notes will be arranged for us by Lehman Brothers Commercial Corporation Asia Limited, or if we specify in the issue prospectus, Lehman Brothers Asia Limited. We will use all of the proceeds of issue of our notes to buy the assets on which those notes are secured. These assets are identified for us by the arranger for each series of our notes to match our obligations under our notes and we will buy these assets from or through the arranger for our notes. We have no other significant assets; our issued share capital is only US$1,000.

All our shares are held on trust for charitable purposes.

What happens to my money? How can Pacific International Finance Limited pay me back?

We use the money which you invest in our notes to buy a package of assets. These assets are carefully selected and tailored to match our payment obligations under our notes. We will also enter into swap arrangements to enable us to meet our payment and other obligations under any series of notes, and we will specify those arrangements in the issue prospectus for that series.

For your security, the assets which we buy with the proceeds of issue of notes are held for us by HSBC Bank plc, our custodian. Our arrangements with the custodian ensure that:

- the assets which back up one series of our notes are kept separate from the assets which back up other series. This means that you are not exposed to any defaults or losses which may affect series of notes other than the series you invest in. But it also means that your rights against us for repayment of your notes are limited to your proportionate share of the value of the assets which back that series.

We have to rely on receiving money or securities due under the terms of the assets we hold and the swap arrangements that we enter into, in the right amounts and at the right times if we are to meet our obligations to you. If we do not receive what is due to us under the terms of the assets we hold and the swap arrangements, we will not be able to meet our obligations to you and we will have no choice but to default. As we do not have any other assets out of which we can make up any shortfall, you will have to bear the loss. To protect the investors in our notes of other series, claims against us for the loss (including attempts to have us wound up or put into administration) are not allowed. There is no guarantee from any entity that we will be able to meet our obligations under our notes.

What are the assets which back up our notes?

These are the assets which we will purchase with the money you invest with us when you buy notes and the other contracts we will enter into to make sure we can meet our obligations under our notes.

- Collateral: we will secure our notes on securities to be described in the issue prospectus for each series of our notes. The principal amount of the collateral will normally be equal to the principal amount of notes of a series which it backs. The collateral will be arranged or selected for us by the arranger before we issue our notes.

- Interest rate and/or currency swap and other arrangements: we will enter into swap arrangements with Lehman Brothers Special Financing Inc. and/or Lehman Brothers Finance S.A. (each a swap counterparty) to swap the amounts of interest and principal we receive on the collateral into the amounts we need to pay out on our notes.
What will the collateral be?

On the issue date, we will use the proceeds received from the issue of our notes to buy the collateral. Our collateral may consist of one or more series of different types of securities and may consist of, or include, asset-based securities or other structured or collateralised debt obligations. We will set out the details of the securities in an issue prospectus.

The securities will usually be subject to standard events of default which means that we as the holder will have the right to require early repayment if: there is a payment default under the securities; there is a breach of other terms of the securities which continue for a specified number of days after notice of the breach has been given; or specified events of bankruptcy, insolvency or reorganisation occur. If there is an event of default under the securities, the series of our notes which is backed by the securities will also become repayable early.

The securities will also contain provisions which allow the issuer or the guarantor to redeem them early if there is a change in tax laws, treaties, regulations or rulings in the relevant countries and as a result the issuer or the guarantor would be required to make increased payments of interest or principal on the securities. If the securities were redeemed early for tax reasons, the series of our notes which is backed by the securities would also be redeemed early.

Information about the collateral, including evidence of the rating and the terms and conditions of the collateral, will be made available as one of the display documents for each series of our notes. If an information memorandum or similar offering document was produced for the collateral, we will also make it available as a display document.

How do the swap arrangements work?

We have entered into a master swap agreement dated as of 25 March 2004, with Lehman Brothers Special Financing Inc. as swap counterparty and a master swap agreement dated as of 25 March 2004, with Lehman Brothers Finance S.A. as swap counterparty. In connection with an issue of notes we will enter into one or more swap transactions, the terms of which will be set out in supplemental swap agreements, or confirmations, which supplement the master swap agreements and detail the economic features of the particular swap transactions in relation to a series of notes.

In each case, the arrangements contemplated by the swap agreements will enable us to meet our payment and other obligations under our notes, taking account of our scheduled cashflow receipts on the collateral we hold to back up our notes. The swap arrangements will be tailored to each series of notes to achieve this.

Under a master swap guarantee dated 25 March 2004, Lehman Brothers Holdings Inc. (the swap guarantor) has unconditionally guaranteed to us the due and punctual payment of all amounts payable by the swap counterparties under the swap agreements. Our notes will not be obligations of and will not be guaranteed by the swap counterparty or Lehman Brothers Holdings Inc. The swap guarantee comprises a guarantee only in respect of the swap counterparty’s payments due under the swap agreement.

Can the swap agreement be terminated? What happens then?

The swap agreement for a series of notes will terminate earlier than scheduled in any of the following circumstances.

The swap counterparty has the right to terminate the swap agreement if we either fail to make a payment or delivery when it is due from us under the swap agreement; or if we suffer certain insolvency-related events. The swap agreement will terminate automatically if our notes become due and payable before their scheduled maturity date.

We have the right to terminate the swap agreement if:

- the swap counterparty or the swap guarantor fails to make a payment when it is due under the swap arrangements; or
- the swap counterparty or the swap guarantor suffers certain insolvency related events; or
- the swap counterparty or the swap guarantor defaults on certain other of its obligations not connected with the swap arrangements; or
- the swap counterparty or the swap guarantor merges with another company and that company does not take over the swap counterparty’s obligations under the swap agreement or the swap guarantor’s obligation under the swap guarantee, as the case may be.

Either we or the swap counterparty have the right to terminate the swap agreement if:

- it becomes illegal for the other party or the swap guarantor to perform its obligations under the swap agreement or the swap guarantee; or

- the other party is affected by certain changes in tax law which it cannot avoid; or

- the other party breaches the swap agreement.

We or the swap counterparty may be liable to make a termination payment to the other upon a termination of the swap agreement (regardless of which party may have caused such termination). The amount of any termination payment will be based on the cost of entering into a swap transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the swap agreement. Any such termination payment could be substantial, depending on fluctuations in exchange rates, the interest rate, and the value of other financial instruments that are referenced to in the swap transaction.

For example, exchange rates or interest rates may change so that when the termination amount is calculated it would be expensive to enter into swap arrangements at that time which give the parties the same cashflows as under the swap arrangements which we agreed at the time we issue a particular series of notes.

Upon any early termination of the swap agreement, our notes will become repayable.

Can the collateral or the swap arrangements be changed after the issue date of our notes which they back?

The collateral and the swap arrangements will be subject to security in favour of the trustee. We cannot deal with the collateral or the swap arrangements except as provided in the terms and conditions of our notes and the trust deed unless the trustee gives its consent.

We may, however, agree with Lehman Brothers Asia Limited, in exchange option agreements to be dated the issue date of each series of our notes, that if it surrenders to us for cancellation notes which it owns, we will deliver to it the collateral which backs those notes and cancel the corresponding portion of the swap arrangements. We have agreed this arrangement with Lehman Brothers Asia Limited so that the outstanding amount of our notes can be controlled. If, for example, investors in our notes sell their notes back to Lehman Brothers Asia Limited in its capacity as market agent for a series of notes in order to exit their investment before maturity, the exchange option agreement allows the size of the issue to be reduced accordingly.

Where can I find out more about the swap counterparties and the swap guarantor?

The issue prospectus for each series of our notes will specify the type of collateral that we will use to secure that series and who the swap counterparty and the swap guarantor are for the swap arrangements relating to that series. We expect that all our swap arrangements will be made with Lehman Brothers Special Financing Inc. and/or Lehman Brothers Finance S.A. as swap counterparty and Lehman Brothers Holdings Inc. as swap guarantor.

You can find out more information on Lehman Brothers Special Financing Inc., Lehman Brothers Finance S.A. and Lehman Brothers Holdings Inc. in “Information about Lehman Brothers Special Financing Inc.”, “Information about Lehman Brothers Finance S.A.” and “Information about Lehman Brothers Holdings Inc.” of this programme prospectus.
Where is Pacific International Finance Limited incorporated? What is its business?

We were registered and incorporated on 9 March 2000 under the Companies Law (1998 Revision) (now the Companies Law (2004 Revision)) of the Cayman Islands, registered number CR – 97856, under its former name, Arapahoe International Limited, for an indefinite period. Our name was changed to Pacific International Limited by a special resolution of our sole shareholder on 2 April 2002. Our name was further changed from Pacific International Limited to Pacific International Finance Limited by a special resolution of our sole shareholder on 23 April 2002.

Our registered office is at Strathvale House, North Church Street, P.O. Box 1109, George Town, Grand Cayman KY1-1102, Cayman Islands.

Our business is limited to issuing notes under our secured continuously offered note programme. All our notes are issued fully paid for in cash. We have no other borrowings, indebtedness in the nature of borrowings, loan capital outstanding or created but unissued (including term loans), hire purchase commitments, guarantees or material contingent liabilities.

Who are the directors of Pacific International Finance Limited?

Our directors are professional company directors supplied by HSBC Financial Services (Cayman) Limited.

Our directors are as follows:

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<tr>
<th>Name</th>
<th>Principal Occupation</th>
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<tr>
<td>Scott Aitken</td>
<td>Director</td>
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<tr>
<td>Cereita Lawrence</td>
<td>Director</td>
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<tr>
<td>Janet Crawshaw</td>
<td>Director</td>
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The business address of the directors is HSBC Financial Services (Cayman) Limited, Strathvale House, North Church Street, P.O. Box 1109, George Town, Grand Cayman KY1-1102, Cayman Islands. We have not established a place of business in Hong Kong.

The directors are independent from Lehman Brothers Holdings Inc. and its subsidiaries and affiliates.

Does Pacific International Finance Limited prepare financial statements?

Since the date of our incorporation we have not prepared any financial statements. We are not required by Cayman Islands law, and we do not intend, to publish financial statements. We will provide the trustee with written confirmation, on an annual basis, that no event of default or other matter has occurred with respect to our notes which is required to be brought to the trustee’s attention.

Taking into account the nature of our notes being offered, there has been no material adverse change in our financial position or operations and no material adverse change in our prospects since the date of our incorporation on 9 March 2000.

Can Pacific International Finance Limited start new business areas?

So long as any of our notes remains outstanding, we may not incur any other debt or engage in any business, other than issuing notes and entering into transactions contemplated by this programme. We may not declare dividends, have subsidiaries or employees, purchase, own, lease or otherwise acquire real property, consolidate or merge with any other person or convey or transfer our property or assets substantially as an entirety to any person or issue any shares (other than the 1,000 shares already in issue referred to below).

We have, and will have, no assets other than the sum of US$1,000 representing our issued and payable to us in connection with the issue of notes and the assets which back our notes.

Who are the shareholders of Pacific International Finance Limited?

Our authorised share capital is US$50,000 divided into 50,000 ordinary shares of US$1.00 each. 1,000 of our shares have been issued. The issued shares are fully-paid, for cash, and are in the legal ownership of HSBC Financial Services (Cayman) Limited as share trustee under the terms of a declaration of trust dated 10 March 2000, as
amended by a supplemental trust deed dated 30 March 2000. The share trustee holds the issued shares on trust for holders for the time being of our notes issued under our programme and, thereafter on trust for charitable purposes.

No person has, or is entitled to, an option to subscribe for our shares or debentures.

Neither Lehman Brothers Holdings Inc. nor any of its subsidiaries or affiliates has any equity interest in, or any control over, us. Our obligations are not guaranteed by Lehman Brothers Holdings Inc. or its subsidiaries or affiliates.

Is there any litigation against Pacific International Finance Limited?

There are no litigation or arbitration proceedings against or affecting us, nor are we aware of any claims, pending or, to our knowledge, threatened against us which are material in the context of this programme prospectus or the issue of the notes.
Information about Lehman Brothers Special Financing Inc.

Who is Lehman Brothers Special Financing Inc.

Lehman Brothers Special Financing Inc. is a swap counterparty under the swap agreement pursuant to our programme. The issue prospectus for each series of our notes will specify whether we are to enter into a swap transaction with Lehman Brothers Special Financing Inc. for that series.

General

Lehman Brothers Special Financing Inc. is a wholly-owned subsidiary of Lehman Brothers Inc. and was incorporated with limited liability for an unlimited duration in the State of Delaware on 17 August 1984. Lehman Brothers Special Financing Inc.’s principal executive offices are located at 745 Seventh Avenue, New York, New York 10019, United States of America.

A substantial portion of Lehman Brothers Holdings Inc.’s fixed income derivatives product business is conducted through Lehman Brothers Special Financing Inc.

See “Information about us and how our Notes are Secured” for further details. Our notes will not be obligations of and will not be guaranteed by Lehman Brothers Special Financing Inc.

Directors

Set forth below are the names and the titles of the current members of the Board of Directors of Lehman Brothers Special Financing Inc.:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaushik Amin</td>
<td>Director</td>
</tr>
<tr>
<td>Michael Gelband</td>
<td>Director</td>
</tr>
<tr>
<td>Daniel Malone</td>
<td>Director</td>
</tr>
</tbody>
</table>

The business address of the directors listed above is 745 Seventh Avenue, New York, New York 10019, United States of America.
Information about Lehman Brothers Finance S.A.

Who is Lehman Brothers Finance S.A.?

_Lehman Brothers Finance S.A. is a swap counterparty under the swap agreement pursuant to our programme. The issue prospectus for each series of our notes will state whether we are to enter into a swap transaction with Lehman Brothers Finance S.A. for that series._

General

Lehman Brothers Finance S.A. was incorporated in Switzerland on 30 December 1969 for an unlimited duration as a share corporation (Aktiengesellschaft, société anonyme). Lehman Brothers Finance S.A. is a direct subsidiary of Lehman Brothers Holdings Inc., which holds all the shares of Lehman Brothers Finance S.A., representing a registered and fully paid in share capital of SFr 6,000,000.

The registered office and principal place of business of Lehman Brothers Finance S.A. is at Talstrasse 82, 8001 Zurich, Switzerland.

See “Information about us and how our Notes are Secured” for further details. Our notes will not be obligations of and will not be guaranteed by Lehman Brothers Finance S.A.

Directors

Set forth below are the names and the titles of the current members of the Board of Directors of Lehman Brothers Finance S.A.:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leonard M. Fuller</td>
<td>Chairman</td>
</tr>
<tr>
<td>Sigurbjorn Thorkelsson</td>
<td>Member</td>
</tr>
<tr>
<td>Eric W. Fiechter</td>
<td>Member</td>
</tr>
</tbody>
</table>

The business address of Leonard M. Fuller is Talstrasse 82, 8021 Zurich, Switzerland; the business address of Sigurbjorn Thorkelsson is 25 Bank Street, London E14 5LE, United Kingdom, and the business address of Eric W. Fiechter is 2, rue Charles-Bonnet, 1211 Geneva 12, Switzerland.
Information about Lehman Brothers Holdings Inc.

Who is Lehman Brothers Holdings Inc.?

It is expected that Lehman Brothers Holdings Inc. may act as swap guarantor under the swap guarantee where we enter into a swap agreement. The issue prospectus for each series of our notes will specify the capacity of Lehman Brothers Holdings Inc.

Lehman Brothers Holdings Inc. is one of the leading global investment banks, serving institutional, corporate, government and high net worth clients and customers. It is subject to the information and reporting requirements of the US Securities Exchange Act of 1934, as amended, and is required to file annual, quarterly and special reports and other information with the US Securities and Exchange Commission (the SEC). Required filings with the SEC include: annual reports on Form 10-K; quarterly reports on Form 10-Q and current reports on Form 8-K. All filings are made in English and are not available in Chinese. The filings of Lehman Brothers Holdings Inc. with the SEC can be accessed on the SEC’s website at http://www.sec.gov.

See “Information about us and how our Notes are Secured” for further details. Our notes will not be obligations of and will not be guaranteed by Lehman Brothers Holdings Inc.
Investment Risks

There are investment risks involved in buying our notes. Before applying for any of our notes, you should consider whether our notes are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks can be described in this programme prospectus or an issue prospectus. If you are in any doubt, you should obtain independent professional advice.

If we have to redeem our notes unexpectedly, you could lose part, and possibly all, of your investment

If we have to redeem our notes unexpectedly, we will have to cancel the swap arrangements and sell the collateral for our notes in order to make the redemption. You will only get back, as the early redemption amount, your share of the proceeds of sale of the collateral, which may be worth less than its principal amount (in some cases, it could be zero), less any amounts which we may owe to the swap counterparty because of the early termination of the swap arrangements.

We will have to redeem our notes unexpectedly if:

- There is an event of default under our notes.

- The collateral is repaid early for any reason, for example because there is an event of default under the collateral or for tax reasons, or if the principal amount of the collateral is reduced in accordance with its terms.

- The Cayman Islands imposes taxes on us or on payments under our notes which we cannot avoid.

- The swap arrangements for our notes are terminated for any reason.

In all these cases, the amount we will be able to pay back on our notes will be less, and could be substantially less, than the principal amount of our notes. It is conceivable that you could lose all of your investment.

Our notes do not have a liquid trading market; the trading price of our notes may fluctuate

The trading price of our notes will fluctuate depending on factors such as market interest rate movements, foreign exchange rates, the price of the underlying securities which are linked to our notes, and the market for similar securities. Also, the price could be affected if there are only very few potential buyers in the market.

If you try to sell your notes before maturity you may receive an offer which is less than the amount you invested (in some cases, it could be zero) or you may not be able to sell your notes.

Lehman Brothers Asia Limited as the market agent intends to quote a price at which it will buy our notes in the market. The market agent will quote prices to distributors or brokers if it can, but it may in future be unable to quote a price or may decide to discontinue this service. No assurance is given that such action by the market agent will not have an adverse effect on the liquidity of the market for the notes and the market price.

Our notes are not listed and cannot be traded on the Hong Kong Stock Exchange.

The only assets which back our notes of any series are the collateral and the swap arrangements for that series; the swap counterparty’s claims against the collateral will be paid ahead of noteholders’ claims

We have no significant assets other than the collateral and the swap arrangements which back each series of our notes. Your claims against us are limited in all circumstances to the value of the collateral and any amounts due to us under the swap arrangements.

Under the trust deed, the claims of Lehman Brothers Special Financing Inc. or Lehman Brothers Finance S.A. as swap counterparty for any amounts due to it under the swap arrangements, including any termination payment as compensation for early termination, will be paid first out of the proceeds of the collateral before the claims of noteholders are met.

The assets which back each series of our notes are kept strictly segregated and are available to meet only those claims as are specified in the supplemental trust deed which constitutes the series of notes which they back.
You will have no further claim against us for any loss after we have paid out all the proceeds of the collateral and the swap arrangements for your notes. Under the trust deed you have no right to have us wound up or put into administration.

**Our notes are not covered by the investor compensation fund**

As our notes are not listed, you are not covered by the investor compensation fund if your distributor or any other intermediary defaults.

**There could be conflict of interest arising out of Lehman Brothers Holdings Inc.’s other activities which may affect our notes**

Lehman Brothers Holdings Inc. and its subsidiaries and affiliates are the arranger, initial subscriber, swap counterparty, swap guarantor, calculation agent and market agent for our notes. They may engage in transactions involving, and provide investment banking and other services to, any of the companies underlying our notes or their securities and those transactions may have a positive or negative impact on the value of our notes. They may have officers who serve as directors of any of the companies underlying our notes. They may issue other competing financial products which may affect the value of our notes. You should also note that potential conflicts of interest may arise from the different roles played by Lehman Brothers Holdings Inc. and its subsidiaries and affiliates in connection with our notes and their economic interests in each role may be adverse to your interests in our notes. Neither Lehman Brothers Holdings Inc. nor ourselves owe any duty to you to avoid such conflicts.
How to Buy our Notes

Our notes are available from the distributors specified in the issue prospectus for that series. You cannot purchase our notes directly from us or from the arranger.

Do I need an application form?

No: we will not issue an application form for our notes.

The distributor with which you place your order will ask you to fill in its order form and to make a series of confirmations and acknowledgements, including those set out below.

Distributors may be acting as principal or agent when they sell our notes. The capacity in which your distributor acts could, in some situations, affect your legal remedies against us and the distributor. Your relationship with your distributor is governed by the customer agreement you sign with the distributor and is not controlled by us or by anything in our prospectuses. Ask your distributor to clarify if you are concerned about this.

Our notes are not available to US persons.

How do I hold my notes? What must I rely on my distributor to do for me?

We do not issue individual certificates for our notes, so you must arrange for your distributor to hold them in a securities or investment account. If you do not have a securities or investment account already, you will have to open one before you can buy our notes.

Discuss this with your distributor and shop around if you wish: distributors charge varying fees to open and maintain these accounts. Ensure you are familiar with the standard terms and conditions, including fees, which your distributor will apply to your account. Ask your distributor to explain if you are not familiar with these arrangements.

You should note that your total return on an investment in our notes will be affected by charges levied by your distributor.

Our notes will be held in Euroclear and Clearstream, which are two major international clearing systems for securities. Individual investors cannot open a personal account at either Euroclear or Clearstream: they only cater for institutions.

Your distributor will arrange to hold your notes in an account at Euroclear or Clearstream for you – either its own account or the account of its direct or indirect custodian with the clearing system. We will make all payments on our notes to Euroclear and Clearstream: you will have to rely on your distributor to ensure that payments on your notes are credited through to your account with your distributor. Any notices we give after our notes are issued will be given in the same way: you will have to rely on your distributor to ensure that notices are forwarded to you. Similarly, you will have to rely on your distributor to forward any notices from you to us through the clearing systems.

We do not accept any responsibility for the services provided to you by your distributor.

What confirmations will I have to make at the time of buying any notes?

No distributor should accept an order for notes unless you have read and understood this programme prospectus and the issue prospectus, together with any addendum, for our notes.

Your distributor should be able to explain to you how our notes work and to answer your questions.

At the time you buy our notes, your distributor will require you to confirm for the benefit of the distributor and for our benefit that:

- You have read and understood our programme prospectus together with any addendum and the issue prospectus for our notes you want to buy.
- You accept that neither we nor the arranger for our notes accepts any responsibility for the provision of services, including custody services, by your distributor.
You commit to pay the purchase price for our notes up to the amount of notes you apply for.

Your distributor may well require you to make further confirmations in addition to these.

**Are notes available only from the distributors specified for that series?**

Usually this will be the case, yes. We have published this programme prospectus and will publish an issue prospectus for each series of our notes so that our notes can be sold to the public in Hong Kong through the distributors. However, we may make arrangements for our notes to be sold through other channels, whether in Hong Kong or abroad, which are not set out in an issue prospectus. Offers of notes made through other channels could be made at a lower issue price, or on other terms, than are available to investors who buy notes through or from a distributor specified in an issue prospectus.

For example, the arranger or the initial subscriber may also sell our notes to private banks on terms different from those offered in an issue prospectus. The private banks may then sell our notes to their customers on any terms they choose.
Taxation of Notes

**Hong Kong**

We have based this summary of Hong Kong tax on current law and practice. It is intended to give you an overview of what Hong Kong tax you might have to pay if you hold our notes. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our notes, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity under Hong Kong law).

**Withholding tax**

We are not required under current law to make any withholding on account of Hong Kong tax from payments of principal (including premiums and discounts) and interest in respect of our notes.

**Capital Gains Tax**

No capital gains tax is payable in Hong Kong on any capital gains arising from resale of notes.

**Profits Tax**

Profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong as it is currently applied, interest on our notes will be subject to Hong Kong profits tax where such interest is received by or accrued to:

- a financial institution (as defined in the Inland Revenue Ordinance) and such interest arises through or from the carrying on by the financial institution of its business in Hong Kong;

- a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or

- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business.

In addition, Hong Kong profits tax may be charged on profits arising on the sale, disposal or redemption of notes where the sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

**Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced operation on 11 February 2006. Estates of persons who pass away on or after the commencement date of that ordinance are not subject to Hong Kong estate duty.

**Stamp Duty**

Our notes are not subject to Hong Kong stamp duty or bearer instrument duty either upon issue or on any subsequent transfer. If there is stamp duty payable on a series of notes, we will specify that in the applicable issue prospectus.

**The Cayman Islands**

The summary below is of a general nature and is included in this programme prospectus for information purposes only. It is not intended to be and should not be construed as legal or tax advice. You should consult your own tax adviser about your particular circumstances and the tax consequences of investing in our notes.

Noteholders are not subject to any tax in the Cayman Islands in respect of the holding, sale or other disposition of our notes. Payments of interest on our notes may be made by us without withholding or deductions for or on account of Cayman Islands income tax. The Cayman Islands currently have no income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

Noteholders whose notes are brought into the Cayman Islands in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of their notes, where notes are in bearer form, and registered securities evidencing a note or notes to which title is not transferable by delivery will not attract Cayman Island stamp duties. However, an instrument transferring title to such a registered
security, if brought into or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

We have applied for and obtained from the Governor-in-Cabinet of the Cayman Islands an undertaking as to tax concessions dated 21 March 2000 pursuant to Section 6 of the Tax Concessions Law (1995 Revision) (now (1999 Revision)) providing that, for a period of 20 years from the date of such Undertaking, no law subsequently enacted in the Cayman Islands imposing any tax on profits, gains or appreciations will apply to us or our operations.

No stamp duties or similar taxes or charges are payable under Cayman Islands law for the execution and issue of our notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25 per cent. of the face amount of our notes is payable (up to maximum of C.I.$250 (approximately US$305)) unless the notes have been issued by us as part of a series and stamp duty of C.I.$500 (approximately US$610) has been paid in respect of the instrument creating the entire issue of notes.
Other Information about our Programme

Who is responsible for this prospectus?

Our directors collectively and individually accept full responsibility for the accuracy of the information contained in this programme prospectus. They confirm, having made all reasonable enquiries, that to the best of their knowledge and belief this programme prospectus contains no untrue statement (including a statement which is misleading in the form and context in which it is included and including a material omission).

Lehman Brothers Holdings Inc. accepts full responsibility for the accuracy of the information relating to it and to its group companies contained in this programme prospectus. It confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, this programme prospectus contains no untrue statement relating to it or to its group companies (including a statement which is misleading in the form and context in which it is included and including a material omission).

Information included on the websites referred to in this programme prospectus does not form part of this programme prospectus. Neither we nor any of our directors accept any responsibility for information on those websites.

None of the arranger, initial subscriber or the distributors which sell our notes is responsible in any way to ensure the accuracy of our prospectuses.

Will this prospectus be kept up-to-date?

This programme prospectus is accurate as at the date stated on the cover. You must not assume that information in this programme prospectus is accurate at any time after the date of this programme prospectus. If the information in this programme prospectus needs to be updated at the time we register an issue prospectus, we will either put the updated information in the issue prospectus or, if we prefer, we may put it into an addendum to this programme prospectus. If we use an addendum, we will register it with the Registrar of Companies in Hong Kong. Our latest issue prospectus will tell you whether an addendum has been published. If we do publish an addendum, you should read this programme prospectus as including the addendum, starting from the date of the addendum, wherever we refer to this programme prospectus.

We will also give notice of any information about us (or, if we are aware of it, about Lehman Brothers Holdings Inc.) which is necessary to avoid the establishment of a false market in our notes or which may significantly affect our ability to make payments on our notes.

This programme prospectus is also available in a Chinese translation if you prefer.

Where can I read copies of the programme documentation?

This programme prospectus is only a summary description of our programme. To find out more, you can read copies of the contracts which set up our programme by going to the office of Lehman Brothers Commercial Corporation Asia Limited, our arranger at 26/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays.

These are the documents, copies of which we will keep on display during an offer period for our notes and while any of our notes is still outstanding:

- our current programme prospectus, and any updating addendum;
- the principal trust deed, and each supplemental trust deed for which notes are still outstanding. The principal trust deed includes the form of our notes and the master terms and conditions. A supplemental trust deed includes the pricing supplement for our notes it constitutes;
- the agency agreement;
- the programme agreement;
- the information memorandum and the legal documentation which establishes our private placement programme;
- the master swap agreement with Lehman Brothers Special Financing Inc.;
• the master swap agreement with Lehman Brothers Finance S.A.;
• the master guarantee from Lehman Brothers Holdings Inc.;
• the declaration of trust over our shares;
• for each series of our notes:
  – information relating to the collateral
  – copies of the supplemental swap agreement(s) and/or swap confirmation(s) which evidence(s) the swap arrangements for our notes
  – the global note(s)/global certificate(s)
• a summary of the exemptions and of the conditions to which the certificate of exemption relating to this programme prospectus is subject;
• copies of any notices given by us under the conditions of our notes; and
• our memorandum and articles of association.

You may take photocopies of any of these documents but you will be charged a reasonable fee.

**Is this a Companies Ordinance prospectus?**

Yes. This programme prospectus is a prospectus for the purpose of the Companies Ordinance in relation to the offer of notes under our secured continuously offered note programme. The Securities and Futures Commission (SFC) has authorised this programme prospectus for registration by the Registrar of Companies. This authorisation does not imply the SFC’s endorsement or recommendation of our notes.

We asked for, and were granted by the SFC, exemptions from full compliance with some of the provisions of the Companies Ordinance. A summary of the exemptions, and of the conditions to which the certificate of exemption issued by the SFC with respect to this programme prospectus is subject, is one of the documents we will put on display and may be found on the website of the SFC: www.sfc.hk.
Appendix 1

Master Terms and Conditions of our Notes

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the Pricing Supplement in relation to the relevant Series or Tranche of Notes, shall be applicable to the Notes in definitive form (if any). Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to Registered Notes. References in the Master Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme, to the “Offering Circular Supplement” are to the relevant Pricing Supplement and to the “Securities” are to any relevant Underlying Securities.

The Notes (in global and definitive form) and related terms and conditions will be issued in the English language, which shall prevail over any Chinese language version in the event of conflict or discrepancy. The English text is the legally binding text.

The Notes are constituted and secured by a supplemental trust deed dated the Issue Date (the “Supplemental Trust Deed”) and made between the Issuer, the Trustee and, if applicable, the persons specified therein as a counterparty (each a “Counterparty”) and/or a derivatives counterparty (each a “Derivatives Counterparty”), which is supplemental to the trust deed (the “Principal Trust Deed”, which expression shall include any amendments or supplements thereto) dated 30 March 2000 and made between the Issuer and HSBC Bank USA, National Association (the “Trustee”), which expression shall include all persons for the time being the trustee or trustees under the Trust Deed, as trustee for the holders of the Notes. The Principal Trust Deed and the Supplemental Trust Deed are referred to together as the “Trust Deed”. These Terms and Conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the agency agreement (the “Agency Agreement”) dated 30 March 2000 and made between the Issuer, the Trustee as Trustee and registrar (the “Registrar”), HSBC Bank plc as issuing and paying agent (the “Agent”) and transfer agent, HSBC Bank plc as custodian (the “Custodian” which expression shall include any substitute or added Custodians appointed in accordance with the Agency Agreement) and the paying agents (the “Paying Agents”), which expression shall include the Agent and any substitute or additional paying agents appointed in accordance with the Agency Agreement) and the transfer agents (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the “Transfer Agents”) named therein and Lehman Brothers Commercial Corporation Asia Limited as calculation agent (the “Calculation Agent” which expression shall include any substitute or additional Calculation Agent appointed in accordance with the Agency Agreement), are available for inspection at the principal office of the Trustee, being the date hereof at 140 Broadway, 12th Floor, New York, NY 10005-1180 and at the specified office of each of the Paying Agents. The Noteholders (as defined below), the holders of the interest coupons (the “Couponholders”) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) and the holders of the instalment receipts (the “Receipts”) appertaining to the payment of principal by instalments are deemed to have notice of, and shall be bound by all of the provisions of, the Trust Deed and, to the extent applicable to them, the Agency Agreement insofar as they relate to the relevant Notes.

References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it and (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 or any amendment or supplement to it.

Full details of the relevant Securities and Mortgaged Property will be set out in the relevant Supplemental Trust Deed for the relevant Series.

All capitalised items which are not defined in the Conditions shall have the meanings given to them in the relevant Principal Trust Deed and/or the relevant Supplemental Trust Deed. Those definitions will be endorsed on the Definitive Notes or Certificates, as the case may be. References in the Conditions to something as “shown” or “specified” shall mean such matter as is specified in the relevant Supplemental Trust Deed.
1 Form, Denomination and Title

The Notes are issued in bearer form and will be serially numbered ("Bearer Notes", which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form ("Registered Notes") or in bearer form exchangeable for Registered Notes ("Exchangeable Bearer Notes") in each case in the Denomination(s) shown.

All Registered Notes of the same Series shall have the same Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Denomination as the lowest denomination of Exchangeable Bearer Notes.

Bearer Notes are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Notes which do not bear interest in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Any Bearer Note, the principal amount of which is redeemed in instalments, is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates"), each Certificate representing a holding of one or more Registered Notes by the same holder or are issued in non-certificated form with title being shown solely by due entry in the register.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, “Noteholder” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be) and “holder” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be).

2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes: Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of the Registrar or any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 8(b)) for any payment of interest or Instalment Amount, the Coupon in respect of that payment of interest or Receipt in respect of that Instalment Amount need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes, Bearer Notes of one Denomination may not be exchanged for Bearer Notes of another Denomination. Bearer Notes which are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes: One or more Registered Notes may be transferred upon the surrender, at the specified office of the Registrar or any Transfer Agent, (if applicable) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate or the form available from the Registrar duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes: In the case of an exercise of an Issuer’s option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a
partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) will be available for delivery within three business days of receipt of such request for exchange, form of transfer or Exercise Notice or surrender of the Certificate for exchange. Delivery of new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, shall be mailed at the risk of the holder entitled to the new Certificate to such address as may be so specified. In this Condition 2(d) “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar.

(e) **Exchange Free of Charge:** Exchange and transfer of Notes or Certificates on registration or transfer will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 7(f), (iii) after any such Note has been called for redemption in whole or in part or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### 3 Status, Collateral, Obligations and Non-applicability

(a) **Status of Notes:** The Notes are secured, limited recourse obligations of the Issuer, at all times ranking pari passu and without any preference among themselves, secured in the manner described in Condition 4 and recourse in respect of which is limited in the manner described in Condition 4(e) and Condition 11.

(b) **Securities and Other Transactions:** In connection with the issue of the Notes the Issuer may acquire, or may acquire interests in, one or more transferable securities (the “Securities”) issued by or representing obligations of one or more persons and there may be executed:

(i) one or more letters of credit, guarantees, loan agreements evidencing loans advanced by the Issuer, options in favour of the Issuer or other credit support documents (each a “Credit Support Document”) made by a credit support provider (each a “Credit Support Provider”) in favour of the Issuer;

(ii) one or more agreements (each a “Underlying Agreement”) between the Issuer and one or more persons (each a “Counterparty”) under which the Issuer may agree to buy or sell securities or enter into other contractual relations;

(iii) one or more interest rate and/or currency exchange agreements or option or future or other derivative contracts (each a “Derivatives Contract”) between the Issuer and one or more counterparties (each a “Derivatives Counterparty”);

(iv) one or more stock borrowing agreements between the Issuer and one or more stock borrowers (each a “Stock Borrower”) (each a “Stock Borrowing Agreement”); and

(v) one or more other agreements as may be specified (each a “Contract”), each as further described in the Supplemental Trust Deed.
A summary of the terms of each Credit Support Document, Underlying Agreement, Derivatives Contract and Stock Borrowing Agreement (if any) will be set out in the relevant Supplemental Trust Deed.

(c) Non-applicability: Where no reference is made in the Supplemental Trust Deed to any Collateral or Obligation, references in these Conditions to any such Collateral or Obligation and to any related Obligor or Creditor, as the case may be, shall not be applicable.

4 Mortgaged Property

(a) Security: Unless otherwise specified in the Supplemental Trust Deed, the obligations of the Issuer to the Trustee and the Noteholders under the Notes, to each Counterparty under the relevant Underlying Agreement and to each Derivatives Counterparty under the relevant Derivatives Contract are respectively secured, pursuant to the Trust Deed, or, if so specified, the Security Document, by:

(i) a first fixed charge or pledge in favour of the Trustee over the Securities and all sums derived therefrom;

(ii) hereby assigns by way of first fixed charge in favour of the Trustee all of the Issuer’s rights, title and interest against the Custodian and/or any sub-Custodian, to the extent that they relate to the Securities;

(iii) an assignment by way of first fixed charge in favour of the Trustee of the Issuer’s rights, title and interest under each relevant Credit Support Document, Underlying Agreement, Stock Borrowing Agreement, Derivatives Contract and/or Contract and any sums received thereunder;

(iv) a first fixed charge in favour of the Trustee over (a) all sums held by the Agent to meet payments due in respect of the Notes and (b) any sums received under any relevant Credit Support Document, Underlying Agreement, Stock Borrowing Agreement, Derivatives Contract and/or other Contract; and

(v) an assignment by way of first fixed charge in favour of the Trustee of the Issuer’s rights, title and interest under the Agency Agreement in respect of the Notes and the Securities, including all sums derived therefrom in respect of the Notes and all rights against the Custodian with respect to the Securities including, without limitation, all rights to the delivery thereof as against the Custodian under the Agency Agreement or any applicable clearing system or the operator thereof or as against any bank, broker or other intermediary and including all rights arising or existing in respect of any of the Securities.

If so specified in the Supplemental Trust Deed, the relevant Counterparty and/or Derivatives Counterparty will have the benefit of a prior ranking, independent security interest over some or all of the assets securing the Notes.

Unless otherwise specified in the Supplemental Trust Deed, the Securities will be held by the Custodian (which expression shall include any additional or other Custodians from time to time appointed) on behalf of the Trustee subject to the charge referred to above. The Issuer reserves the right at any time with the prior written approval of the Trustee to change the Custodian. Notice of such change shall be given to the Noteholders in accordance with Condition 15.

Under a declaration of trust dated 10 March 2000 (as amended by a supplemental trust deed dated 30 March 2000), HSBC Financial Services (Cayman) Limited (the “Share Trustee”) holds all the issued shares of the Issuer on trust for the holders of all bonds or notes issued by the Issuer which are secured on identified assets of the Issuer (and not on any assets of the Issuer in respect of which security has been granted to secure any other bonds and notes) and recourse in respect of which is limited to the assets over which security is granted until all payments due in respect of such bonds and notes of each Series under the relative Conditions have duly been made in accordance with their terms and thereafter on trust for a specified charity.
(b) Application of Proceeds: The Trustee shall (subject to the provisions of the Supplemental Trust Deed and to Clause 6.3 of the Principal Trust Deed) apply all moneys received by it under the provisions of the Trust Deed and the relevant Supplemental Trust Deed in connection with the realisation or enforcement of the Security as follows:

(1) if "Derivatives Counterparty Priority" is specified:

(a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder (including any taxes required to be paid, the costs of realising any security and the Trustee’s remuneration);

(b) secondly, rateably in meeting the claims (if any) of the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose shall include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Securities);

(c) thirdly, rateably in meeting the claims (if any) of the holders of Notes, Coupons and Receipts (which for this purpose shall include any claim of the Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts); and

(d) fourthly, in payment of the balance (if any) to the Issuer.

(2) if "Pari Passu Ranking" is specified:

(a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder (including any taxes required to be paid, the costs of realising any security and the Trustee’s remuneration);

(b) secondly, rateably in meeting the claims (if any) of the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose shall include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Securities) and the holders of Notes, Coupons and Receipts (which for this purpose shall include any claim of the Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts); and

(c) thirdly, in payment of the balance (if any) to the Issuer.

(3) if "Noteholder Priority" is specified:

(a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder (including any taxes required to be paid, the costs of realising any security and the Trustee’s remuneration);

(b) secondly, rateably in meeting the claims (if any) of the holders of Notes, Coupons and Receipts (which for this purpose shall include any claim of the Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts);

(c) thirdly, rateably in meeting the claims (if any) of the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose shall include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Securities); and
(d) fourthly, in payment of the balance (if any) to the Issuer.

If the moneys received by the Trustee under any of paragraphs (b) or (c) of “Derivatives Counterparty Priority”, paragraph (b) of “Pari Passu Ranking” or paragraphs (b) or (c) of “Noteholder Priority” are not enough to pay the respective amounts in full, the Trustee shall apply them rateably on the basis of the amount due to each party entitled to such payment under the respective paragraph subject to the order of priority specified therein.

(c) Realisation of Security: If any security becomes enforceable, the Trustee may at its discretion and shall:

(i) if “Holder Request” is specified, on receipt of a request in writing by the holders of at least one-fifth in aggregate principal amount of the Notes then outstanding (as defined in the Trust Deed); or

(ii) if “Extraordinary Resolutions Direction” is specified, on receipt of a direction by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

(iii) if “Counterparty A Direction” is specified, and if sums are due to the Counterparty and/or Derivatives Counterparty and/or the Custodian the claims in respect of which are secured, on receipt of a direction in writing by any Counterparty or by any Derivatives Counterparty or by the Custodian (unless this would in the Trustee’s opinion be contrary to the interests of the holders of Notes, Coupons or Receipts, subject to sub-Clause 6.3 of the Principal Trust Deed); or

(iv) if “Counterparty B Direction” is specified, and if sums are due to the Counterparty and/or Derivatives Counterparty and/or the Custodian the claims in respect of which are secured, on receipt of a direction in writing by any Counterparty or by any Derivatives Counterparty or by the Custodian,

or shall direct the relevant party to the Security Document to realise the Securities, enforce and/or realise any Credit Support Document and terminate the Underlying Agreement(s) and/or Stock Borrowing Agreement(s) and/or Derivatives Contract in accordance with its or their terms, and or take action against any Credit Support Provider, any Counterparty, any Stock Borrowers and/or Derivatives Counterparty, as the case may be, but without any liability as to the consequence of such action and without having regard to the effect of such action on individual Noteholders or Couponholders and provided that the Trustee shall not be required to take any action that could in the opinion of the Trustee involve any personal liability or expense without first being indemnified to its satisfaction.

(d) Shortfall After Application of Proceeds: If the net proceeds of the realisation of the security under paragraph (c) above (the “Net Proceeds”) are not sufficient to make all payments then due in respect of the Notes, the Coupons and the Receipts or claims of the Custodian and/or the Issuing and Paying Agent (if any) and for the Issuer to meet its obligations, if any, in respect of terminating the Underlying Agreement and/or Derivatives Contract (or a part of either of them), then the obligations of the Issuer in respect of them will be limited to such Net Proceeds and the other assets of the Issuer (including, in the case of a mandatory partial redemption, the Securities other than the Repayable Assets and, in all cases, the assets on which any other obligations of the Issuer, are secured), will not be available for payment of any shortfall arising therefrom. Any such shortfall shall be borne by the Noteholders and Couponholders and/or each Counterparty and/or each Derivatives Counterparty, the Trustee, the Custodian and the Agent according to the priorities specified in the Supplemental Trust Deed.

The Issuer will not be obliged to make any further payment in excess of the Net Proceeds and accordingly no debt shall be owed by the Issuer in respect of any shortfall remaining after realisation of the security under this Condition 4 and application of the proceeds in accordance with the Trust Deed. None of the Trustee, the Counterparties, the Derivatives Counterparties, the Noteholders, the Custodian and the Agent may take any further action to recover such shortfall. Failure to make any payment in respect of any shortfall shall in no circumstances constitute an Event of Default under Condition 10.
(e) **Substitution of Mortgaged Property:** The Issuer may from time to time upon agreement with all the Noteholders or where the Trustee is satisfied that such substitution is not materially prejudicial to the interests of the Noteholders, upon agreement with the Trustee, and, in either case, with the prior written consent of the Derivatives Counterparty or where so specified, with the prior written consent of only the Derivatives Counterparty, substitute alternative security for such of the Mortgaged Property as it may deem appropriate (provided in either case, (in the case of rated Notes) that such substitution will not result in a downgrade of any rating assigned to the Notes as confirmed in writing by the relevant rating agency to the Trustee). Where the Derivatives Counterparty alone is to consent to such substitution, the Trustee shall rely on the written consent of the Derivatives Counterparty without further investigation. Any such alternative Mortgaged Property shall be held subject to the charges in favour of the Trustee as set out in the Supplemental Trust Deed and the Issuer shall execute such further documentation as the Trustee may require as a condition to such substitution. If the Trustee agrees to the substitution, the Issuer shall notify the Noteholders thereof in accordance with Condition 15.

5 **Restrictions**

So long as any of the Notes remains outstanding, the Issuer shall not, without the consent of the Trustee, incur any other indebtedness for borrowed moneys or engage in any business (other than acquiring and holding the Mortgaged Property issuing the Notes and entering into Non-Recourse Loans, acquiring, benefitting from or entering into any Credit Support Document, entering into any Underlying Agreement, any Stock Borrowing Agreement, and/or any Derivatives Contract or Contract and issuing further series of notes and entering into related transactions as described below), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed) or issue any shares (other than such shares as were in issue on 10 March 2000).

The Issuer may from time to time (without the consent of the Noteholders but provided that the Trustee is satisfied that the restrictions of this Condition will be complied with) issue further notes (which may form a single series with the Notes) and create or incur further obligations relating to such notes or by entering into Non-Recourse Loans, provided that such further notes and obligations are:

(a) secured (save in the case of such further notes forming a single series with the Notes) on assets of the Issuer other than (i) the Mortgaged Property securing another Series of Notes, (ii) the funds held from time to time by the Agent for payment of principal and interest on the Notes, (iii) the benefit of any Credit Support Document, Underlying Agreement and/or Derivatives Contract or Contract relating to the Notes, (iv) the assets on which any other obligations of the Issuer are secured and (v) the Issuer’s share capital;

(b) issued on terms in substantially the form contained in these Conditions which provide for the extinction of all claims in respect of such further notes and obligations or loans after application of the proceeds of the assets on which such further notes and obligations are secured and as confirmed by legal opinions (in respect of Cayman Islands and English law) in such form and with such content as may be satisfactory to the Trustee; and

(c) in the case of such further notes forming a single series with the Notes, secured pari passu upon the Mortgaged Property and such further assets of the Issuer upon which such further notes are secured, all in accordance with Condition 14.

6 **Interest and Other Calculations**

(a) **Interest Rate and Accrual:** Each Note bears interest on its outstanding principal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Interest Rate, such interest being payable in arrear on each Interest Payment Date unless otherwise specified in the relevant Supplemental Trust Deed.

Interest will cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (as well after as before judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date.
(b) **Business Day Convention:** If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Relevant Business Day, then, if the Business Day Convention specified is (i) the Floating Rate Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Relevant Business Day and (B) each subsequent such date shall be the last Relevant Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day, (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Relevant Business Day or (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Relevant Business Day.

(c) **Interest Rate on Floating Rate Notes:** If the Interest Rate is specified as being Floating Rate, the Interest Rate for each Interest Accrual Period will be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(i) if the Primary Source for the Floating Rate is a Page, subject as provided below, the Interest Rate shall be:

   (x) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

   (y) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (i)(x) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (i)(y) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Interest Rate shall be the arithmetic mean of the Relevant Rates which each of the Reference Banks is quoting to major banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(iii) if paragraph (ii) above applies, and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Interest Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Relevant Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Relevant Currency or, if the Relevant Currency is Euro, in those member states that are participating in European economic and monetary union (the “Euro-Zone”) as selected by the Calculation Agent (the “Principal Financial Centre”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (x) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (y) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Interest Rate shall be the Interest Rate determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Interest Rate applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(d) **Interest Rate on Zero Coupon Notes:** As from the Maturity Date, the Interest Rate for any overdue principal in respect of a Note the Interest Rate of which is specified to be Zero Coupon shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 7(e)).
(e) Margin, Maximum/Minimum Interest Rates, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:

(i) If any Margin or Rate Multiplier is specified (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Interest Rates, in the case of (x), or the Interest Rates for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (c) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

(ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified, then any Interest Rate, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, “unit” means the lowest amount of such currency which is available as legal tender in the country of such currency.

(f) Calculations: The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Interest Rate and the outstanding principal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period will equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(g) Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts: As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation, it will determine the Interest Rate and calculate the amount of interest payable (the “Interest Amounts”) in respect of each Denomination of the Notes for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount or any Instalment Amount to be notified to the Issuer, the Trustee, the Agent, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such information and as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Interest Rate payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no notification of the Interest Rate or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(h) Determination or Calculation by Trustee: If the Calculation Agent fails at any time for any reason to establish the Interest Rate for an Interest Accrual Period or the Interest Amount or any other requirement, the Trustee shall do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of
this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(i) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Accrual Period**” means, in relation to Day Count Fraction below, the actual number of days in the relevant period from and including the Start Date to but excluding the Interest Payment Date.

“**Actual Calculation Period**” means, in relation to Day Count Fraction below, the actual number of days from and including one Interest Period Date to but excluding the next Interest Period Date.

“**Business Day**” means:

(i) in the case of a specified currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or

(ii) in the case of Euro, a day on which the TARGET system is operating (a “TARGET Business Day”); and/or

(iii) in the case of a specified currency and/or one or more specified financial centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the specified currency in the specified financial centre(s) or, if no currency is specified, generally in each of the financial centres so specified.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the “**Calculation Period**”):

(i) if “Actual/365” or “Actual/Actual-ISDA” is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if “Actual/365 (Fixed)” is specified, the actual number of days in the Calculation Period divided by 365;

(iii) if “Actual/360” is specified, the actual number of days in the Calculation Period divided by 360;

(iv) if “30/360”, “360/360” or “**Bond Basis**” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

(v) if “30E/360” or “**Eurobond Basis**” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(vi) if “Actual/Actual-ISMA” is specified hereon, (a) if the Accrual Period is the same as or shorter than the Actual Calculation Period during which it falls, the Accrual Period divided by (x) such Actual Calculation Period times (y) the Number of Actual Calculation Periods or (b) if the Accrual Period starts in one Actual Calculation Period and ends in another, the sum of (A) the
number of days in such Accrual Period falling within the first Actual Calculation Period divided by (x) such first Actual Calculation Period times (y) the Number of Actual Calculation Periods and (B) the calculation in (A), but substituting “second Actual Calculation Period” for “first Actual Calculation Period”.

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“Interest Accrual Period” means the period beginning on the Interest Commencement Date and ending on the first Interest Period Date and each successive period beginning on an Interest Period Date and ending on the next succeeding Interest Period Date.

“Interest Commencement Date” means the date of the issue of the Notes (the “Issue Date”) or such other date as may be specified.

“Interest Determination Date” means, with respect to an Interest Rate and Interest Accrual Period, the date specified as such, or, if none is so specified, (i) the first day of such Interest Accrual Period if the Relevant Currency is sterling or (ii) the day falling two Business Days in London for the Relevant Currency prior to the first day of such Interest Accrual Period if the Relevant Currency is neither sterling nor Euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Relevant Currency is Euro.

“Interest Period” means the period beginning on the Interest Commencement Date and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified.

“Interest Rate” means the rate of interest payable from time to time in respect of this Note and which is either specified, or calculated in accordance with the provisions hereof.

“Number of Actual Calculation Periods” means, in relation to Day Count Fraction above, the number of Actual Calculation Periods normally ending in any year.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuter Monitor Money Rates Service ("Reuters") and the Dow Jones Telerate Service ("Telerate")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Payment Date” means, in relation to Day Count Fraction above, the date on which interest for the relevant period falls due.

“Reference Banks” means the institutions specified or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money swap or over-the-counter index option market) which is most closely connected with the Benchmark.

“Relevant Business Day” means with respect to a Business Day Convention, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in each of the financial centres specified, or if none is so specified, the principal financial centre for the Relevant Currency.

“Relevant Currency” means the currency specified as such or, if none is specified, the currency in which the Notes are denominated.

“Relevant Date” means, in respect of any Note, Receipt or Coupon, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date
on which notice is duly given to the Noteholders in accordance with Condition 15 that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the financial centre as may be specified as such or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of Euro shall be Europe) or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Relevant Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre and for this purpose “local time” means, with respect to Europe and the Euro-Zone as a Relevant Financial Centre, Central European time.

“Representative Amount” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the amount specified as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“Specified Duration” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 6(b).

“Start Date” means, in relation to Day Count Fraction above, the date from which interest for the relevant period begins to accrue.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

(j) Calculation Agent and Reference Banks: The Issuer shall procure that there shall at all times be four Reference Banks with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer will appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for an Interest Period or Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer shall (with the prior approval of the Trustee) appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

7 Redemption, Purchase and Options

(a) Final Redemption: Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer’s or Noteholder’s option in accordance with Condition 7(f) or (g), each Note will be redeemed at its Redemption Amount (which, unless otherwise specified, is its outstanding principal amount) on the Maturity Date specified on each Note. Notes with no final maturity date will only be redeemable or repayable in accordance with the following provisions of this Condition 7 or Condition 10.

(b) Mandatory Redemption: Unless otherwise specified, if any of the Securities forming part of the Mortgaged Property become or becomes capable of being declared repayable prior to their stated date of maturity for whatever reason or (unless the Trustee otherwise agrees) there is a payment default in
respect of any of the Securities forming part of the Mortgaged Property, all such Securities together with some or all remaining Securities, as specified, forming part of the Mortgaged Property (which may or may not form obligations of the same person as those which have become repayable or in respect of which there has been such a payment default) shall be deemed to have become repayable (the “Repayable Assets”). The Issuer shall then forthwith give not more than 30 nor less than 15 days’ notice to the Trustee and the Noteholders and upon expiry of such notice shall redeem each Note in whole or, as the case may be, in part on a pro rata basis in a proportion of its Redemption Amount equal to the proportion that the principal amount of the Repayable Assets which are the subject of such notice bears to the principal amount of the Securities forming part of the Mortgaged Property which have not, at the date of the giving of the notice, been the subject of that or any other such notice. Interest shall continue to accrue on the part of the principal amount of Notes so redeemed until payment thereof has been made to the Trustee and notice is given in accordance with Condition 15 that such amount is available for payment. Failure to make any payment due in respect of a mandatory redemption under this Condition 7(b) of part of the principal amount of the Notes or interest thereon shall not constitute an Event of Default under Condition 10.

In the case of such redemption and the security constituted by the Trust Deed becoming enforceable, the Trustee may take such action as is provided in Condition 4(c).

Noteholders should be aware that in such event, the early redemption amount may be less than the principal amount and accrued interest due in respect of the Notes being redeemed.

(c) Redemption for Taxation and Other Reasons: If:

(i) the Issuer, on the occasion of the next payment due in respect of the Notes, would be required by law to withhold or account for tax or would suffer tax in respect of its income so that it would be unable to make payment of the full amount due, then the Issuer shall so inform the Trustee, and shall use its best endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Trustee and the Derivatives Counterparties as the principal obligor and if it is unable to arrange such substitution before the next payment is due in respect of the Notes; and/or

(ii) a Credit Support Document, an Underlying Agreement, a Derivatives Contract or a Contract is terminated in whole for any reason; and/or

(iii) a Credit Event occurs; and/or

(iv) any other specified event occurs,

then the Issuer shall forthwith give not more than 30 nor less than 15 days’ notice to the Trustee, the Noteholders, and upon expiry of such notice shall redeem all but not some only of the Notes at their outstanding Redemption Amount together with any interest accrued to the date fixed for redemption. Such notice shall be given promptly upon the occurrence of any of the above events unless the Trustee shall certify to the Issuer that it considers in its absolute discretion that it is in the best interests of the Noteholders that such notice be delayed or not given or an Extraordinary Resolution of the Noteholders shall otherwise direct.

Notwithstanding the foregoing, if any of the taxes referred to in (c)(i) above arises (x) by reason of any Noteholder’s connection with the Cayman Islands otherwise than by reason only of the holding of any Note or receiving or being entitled to any Redemption Amount or interest in respect thereof; or (y) by reason of the failure by the relevant Noteholder to comply with any applicable procedures required to establish non-residence or other similar claim for exemption from such tax, then to the extent it is able to do so, the Issuer shall deduct such taxes from the amounts payable to such Noteholder and all other Noteholders shall receive the due amounts payable to them. Any such deduction shall not be an Event of Default under Condition 10.

In the case of such redemption and the security constituted by the Trust Deed becoming enforceable, the Trustee may take such action as is provided in Condition 4(c).

Noteholders should be aware that in such event, the early redemption amount may be less than the principal amount and accrued interest due in respect of the Notes being redeemed.
(d) **Purchases:** The Issuer may only purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price, with the prior written consent of the Trustee.

(e) **Early Redemption of Zero Coupon Notes:**

(i) The Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date, the Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 7(b) or 7(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note.

(ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note shall be the scheduled Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown.

(iii) If the Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 7(b) or 7(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in subparagraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (as well after as before judgment) until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 6(d).

(f) **Redemption at the Option of the Issuer and Exercise of Issuer’s Options:** If so specified, the Issuer may, on giving irrevocable notice to the Noteholders falling within the Issuer’s Option Period (as specified), redeem, or exercise any Issuer’s option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Redemption Amount or their principal amount whichever is the higher together with interest accrued to the date fixed for redemption.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer’s option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer’s option the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed, which shall have been drawn in such place and in such manner as the Trustee may approve, subject to compliance with any applicable laws or regulations.

(g) **Redemption at the Option of Noteholders and Exercise of Noteholders’ Options:** If so specified, the Issuer shall, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders’ option which may be specified the holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option notice (a “Put Notice” or “Option Notice”, as appropriate) within the Noteholders’ Option Period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

Noteholders should be aware that in such event, the early redemption amount may be less than the principal amount and accrued interest due in respect of the Notes being redeemed.
(h) **Redemption by Instalments:** Unless previously redeemed, purchased and cancelled as provided in this Condition 7 or the relevant Instalment Date (being one of the dates so specified on the Notes) is extended pursuant to any Issuer’s or Noteholders’ Option in accordance with Condition 7(f) or (g), each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the specified Instalment Amount, whereupon the outstanding principal amount of such Note shall be reduced for all purposes by the Instalment Amount.

(i) **Exchange Option:** If so specified, any holder of Notes may at its option, exchange any or all of its Notes for an amount (the “Net Asset Value”) calculated by the Calculation Agent, equal to the then market value of such proportion of the Mortgaged Property (the “attributable Mortgaged Property”) as equals the proportion (rounded down to the nearest whole number) which the principal amount of the Notes to be exchanged bears to the total principal amount outstanding of the Notes, adjusted as appropriate by the value realised or cost incurred, as the case may be, as a result of the termination of any Credit Support Document and/or Underlying Agreement and/or Derivatives Contract and/or Contract, or part thereof in accordance with this Condition 7(i). To exercise such option, the holder of Notes shall deposit the relevant Bearer Notes or Certificates in respect of Registered Notes (together in the case of Bearer Notes with all (if any) Receipts and unmatured Coupons appertaining thereto) at the office of any Paying Agent, together with written notice that such option is to be exercised. The Issuing and Paying Agent will forthwith notify the Issuer, each Counterparty, each Credit Support Provider, each Derivatives Counterparty, the Custodian and the Trustee of receipt of such written notice. Each Credit Support Provider, Counterparty, and Derivatives Counterparty shall forthwith notify the Issuer, the Trustee, the Custodian and the Issuing and Paying Agent (who shall then notify the relevant holder) of the net sums payable by such Credit Support Provider and by, or, as the case may be, to such Counterparty and/or Derivatives Counterparty on termination of the relevant part of the relevant Credit Support Document or Underlying Agreement or Derivatives Contract as appropriate. The part of the relevant Credit Support Document or Underlying Agreement or Derivatives Contract to be terminated will be the pro rata amount thereof corresponding to that proportion of the Notes to be exchanged. The calculation of the Net Asset Value in accordance with this Condition 7(i) shall be binding on the relevant holders. Any such Net Asset Value shall be payable to the holder at the specified office of the Paying Agent at which the relevant Bearer Notes or Certificates in respect of Registered Notes were deposited on the twentieth calendar day after such deposit (the “Delivery Date”).

Notwithstanding the foregoing provisions of this Condition 7(i), the Issuer may, at its discretion, elect to satisfy its obligations hereunder by delivery to the relevant holder of the attributable Mortgaged Property. In any such case, the Issuer will procure that, subject to any payment due from the holder to the Counterparty and/or Derivatives Counterparty being made, the relevant attributable Mortgaged Property is delivered to the Noteholder (or to any other place or account specified in the written notice referred to above) on the Delivery Date and shall use all reasonable endeavours to procure that any payment being due from the relevant Credit Support Provider and/or Counterparty and/or Derivatives Counterparty to the holder on termination of the relevant Credit Support Document and/or Underlying Agreement and/or Derivatives Contract or part thereof is duly made.

No interest will be payable with respect to Notes deposited for exchange pursuant to this Condition in respect of the period from the date of issue of the Notes (in the case of exchange prior to the first due date for the payment of interest on the Note) or the previous date for the payment of interest on the Note (in any other case) to the date of such exchange.

(j) **Cancellation:** All Notes purchased by or on behalf of the Issuer must be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, when so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.
Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)) as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due, drawn on or, at the option of the holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register (or, if more than one person is shown in the Register in respect of one Certificate, to the first named person) at the close of business on the fifteenth day before the due date for payment thereof (the “Record Date”). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of that currency.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments Subject to Law, etc:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Agent, the Paying Agents, the Registrar, the Transfer Agents, the Calculation Agent and the Custodian initially appointed by the Issuer and their respective specified offices are listed below. The Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent and the Custodian act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Custodian and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer will at all times maintain (i) an Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) a Paying Agent and, in relation to Registered Notes, a Transfer Agent having a specified office in Hong Kong, (vi) a Custodian and (vii)
if and so long as the Notes are listed on any stock exchange, a Paying Agent and, in the case of
Registered Notes, Transfer Agent having a specified office in the city where such stock exchange is
located.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes
denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office will promptly be given to the
Noteholders in accordance with Condition 15.

(f) Unmatured Coupons and Receipts and Unexchanged Talons:

(i) Unless the Notes provide that the relative Coupons are to become void upon the due date for
redemption of those Notes, Bearer Notes should be surrendered for payment together with all
unmatured Coupons (if any) appertaining thereto, failing which an amount equal to the face
value of each missing unmatured Coupon (or, in the case of payment not being made in full, that
proportion of the amount of such missing unmatured Coupon which the sum of principal so paid
bears to the total principal due) will be deducted from the Redemption Amount due for payment.
Any amount so deducted will be paid in the manner mentioned above against surrender of such
missing Coupon within a period of 10 years from the Relevant Date for the payment of such
principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) If the relative Notes so provide, upon the due date for redemption of any Bearer Note,
unmatured Coupons relating to such Note (whether or not attached) shall become void and no
payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such
Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of
such Talon.

(iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all
Receipts relating to such Note having an Instalment Date falling on or after such due date
(whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note which provides that the relative Coupons are to become void upon the
due date for redemption of those Notes is presented for redemption without all unmatured
Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for
redemption without any unexchanged Talon relating to it, redemption shall be made only against
the provisions of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Notes is not a due date for payment of interest, interest
accrued from the preceding due date for payment of interest or the Interest Commencement Date,
as the case may be, shall only be payable against presentation (and surrender if appropriate) of
the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a
Note which only bears interest after its Maturity Date shall be payable on redemption on such
Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet
issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered
at the specified office of the Agent in exchange for a further Coupon sheet (and if necessary another
Talon for a further Coupon sheet) (but excluding any Coupons which have become void pursuant to
Condition 9).
(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Business Day Jurisdictions**” and:

(i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day.

9 **Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and (subject to Condition 8(f)(ii)) Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

10 **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the outstanding Notes, or if so directed by an Extraordinary Resolution of such holders, shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that such Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Redemption Amount, together with accrued interest (if any) thereon as provided in the Trust Deed, in any of the following events (each an “**Event of Default**”):

(a) default is made for a period of 15 days or more in the payment of any sum due in respect of the Notes or any of them; or

(b) the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (unless such failure is, in the opinion of the Trustee, incapable of remedy in which case no such notice as is referred to in this paragraph shall be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) any order shall be made by any competent court or any resolution passed for the winding-up or dissolution of the Issuer save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms previously approved in writing by the Trustee.

The Issuer has undertaken in the Principal Trust Deed that, on each anniversary of the date of the Principal Trust Deed and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by a Director to the effect that at a date not more than five days prior to the date of the certificate, since the date of the Principal Trust Deed, or as the case may be, the date of the last such certificate, no Event of Default or other matter required to be brought to the Trustee’s attention has occurred.

11 **Enforcement**

Only the Trustee may pursue the remedies available under the Trust Deed to enforce the rights of the Noteholders, Couponholders, the Counterparty and/or Derivatives Counterparty and no Noteholder, Couponholder, Counterparty or Derivatives Counterparty is entitled to proceed against the Issuer unless the Trustee, having become bound to proceed in accordance with the terms of the Trust Deed, fails or neglects to do so. Having realised the security or, in the case of a partial redemption pursuant to Condition 7(b), the Repayable Assets together with a corresponding part of the security, and distributed the net proceeds in accordance with Condition 4, the Trustee may not take any further steps against the Issuer to recover any sum still unpaid and no debt shall be owed by the Issuer in respect of such sum. In particular none of the aforesaid persons may petition or take any other step for the winding-up of the Issuer nor shall any of them have any claim in respect of any sum over or in respect of any assets of the Issuer which are security for other liabilities of the Issuer.
12 Meeting of Noteholders; Modifications; Waiver; and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Notes (including these Conditions or the provisions of the Trust Deed insofar as the same may apply to such Notes). An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and on all relevant Couponholders and holders of Receipts, except that any Extraordinary Resolution proposed, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest thereof, (ii) to reduce or cancel the principal amount or any Instalment Amount of, or any premium payable on redemption of, the Notes (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the Interest Amount in respect thereof, (iv) if a Minimum and/or a Maximum Interest Rate, Instalment Amount or Redemption Amount is shown, to reduce any such Minimum and/or Maximum, (v) to change any method of calculating the Redemption Amount or, in the case of Zero Coupon Notes, to vary the method of calculating the Amortised Face Amount, (vi) to change the currency or currencies of payment or denomination of the Notes, (vii) to take any steps which as specified may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, (ix) to modify the provisions of the Trust Deed concerning this exception or (x) to modify certain provisions of Condition 4, will only be binding if passed at a meeting of the Noteholders (or at any adjournment thereof) at which a special quorum (provided for in the Trust Deed) is present.

The Trust Deed contains provisions for written resolutions in lieu of meetings of Noteholders if signed by or on behalf of the holders of the aggregate principal amount of Notes required to pass the relevant resolution at a meeting of Noteholders.

The Issuer will not exercise any rights in its capacity as holder of the Securities unless directed to do so by the Trustee or by an Extraordinary Resolution of the Noteholders and, if such direction is given, the Issuer will act only in accordance with such directions (as more specifically set out in the Trust Deed). In particular, the Issuer will not attend or vote at any meeting of holders of Securities (if applicable), or give any consent or notification or make any declaration in relation to the Securities, unless it shall have been so requested by the Trustee or by any Extraordinary Resolution of the Noteholders or by any Counterparty or Derivatives Counterparties.

(b) ** Modification and Waiver:** The Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the relevant Underlying Agreement, the relevant Stock Borrowing Agreement, the relevant Derivatives Contract or the relevant Credit Support Document which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver or authorisation shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

(c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Noteholders or Couponholders, to the substitution of any other company in place of the Issuer or of any previous substituted company, as principal obligor under the Trust Deed and all of the Notes then outstanding. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders. Under the Trust Deed, the Trustee may require the Issuer to use its best endeavours to procure the substitution as principal obligor under the Trust Deed of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Notes.
(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders of such Notes or the Coupons, Receipts or Talons relating thereto and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders of such Notes, Coupons, Receipts or Talons.

13 **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, at the specified office of the Agent in London (in the case of the Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders in accordance with Condition 15, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14 **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes; provided that, unless otherwise approved by an Extraordinary Resolution of Noteholders, the Issuer provides additional assets as security for such further notes in the same proportion that the principal amount of such new notes bears to the Notes and the Issuer enters into, or has the benefit of, additional or supplemental Credit Support Documents, Underlying Agreements and/or Derivatives Contract extending the terms of any existing Credit Support Documents, Underlying Agreement and/or Derivatives Contract to the new Notes on terms no less favourable than such existing documents and agreements. Any new notes forming a single series with the Notes shall be constituted and secured by a deed supplemental to the Trust Deed, such further security shall be added to the Mortgaged Property so that the new and existing Notes shall be secured by the same Mortgaged Property and references in these Conditions to “Notes”, “Securities”, “Mortgaged Property”, “Credit Support Documents”, “Underlying Agreements” and “Derivatives Contract” shall be construed accordingly. The Trust Deed contains provisions for convening a single meeting of the holders of the Notes and the holders of notes of other specified series in certain circumstances where the Trustee so decides.

15 **Notices**

Notices to the holders of Registered Notes will be faxed or mailed to them or, if there is more than one holder of any Registered Note, to the first named holder of that Note at their respective facsimile numbers or addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing or upon confirmation or answerback being received in the case of facsimile transmission. Notices to the holders of Bearer Notes will be valid if published in a daily English and Chinese newspaper of general circulation in Hong Kong approved by the Trustee.

Couponholders and holders of Receipts and Talons shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition.

16 **Indemnification and Obligations of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including for the exercise of any voting rights in respect of the Mortgaged Property, for the sufficiency and enforceability (which the Trustee has not investigated) of the security created over the Mortgaged Property and for taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee and any affiliate is entitled to enter into business transactions with the Issuer, any issuer or guarantor (where applicable) of any of the Mortgaged Property, any Credit Support Provider, Counterparty or Derivatives Counterparty or any of their subsidiary, holding or associated companies without accounting to the Noteholders for profit resulting therefrom.
The Trustee is exempted from liability with respect to any loss or theft or reduction in value of the Mortgaged Property, from any obligation to insure or to procure the insuring of the Mortgaged Property and from any claim arising from the fact that the Mortgaged Property will be held in safe custody by the Custodian or any custodian selected by the Trustee (in each case, if applicable).

The Trustee is not obliged to monitor the performance by any other person of their obligations to the Issuer and may assume that such obligations are being performed unless it has actual knowledge to the contrary.

The Trust Deed provides that in acting as Trustee under this Trust Deed the Trustee shall not assume any duty or responsibility to any Counterparty, Credit Support Provider or Derivatives Counterparty (other than to pay to any Counterparty, Credit Support Provider or Derivatives Counterparty any moneys received and repayable to it held on trust for it and to act in accordance with the provisions of Conditions 4) and shall have regard solely to the interests of the Noteholders and shall not be obliged to act on any directions of the Counterparty or Derivatives Counterparty if this would in the Trustee’s opinion be contrary to the interests of the Noteholders or Couponholders.

17 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in conjunction with the Notes, the Receipts, the Coupons or the Talons may be brought in such courts ("**Proceedings**"). The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) **Agent for Service of Process:** The Issuer irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent in England to receive service of process in any Proceedings in England based on any of the Notes, the Receipts, the Coupons or the Talons.
Appendix 2

Derivatives

We may enter into one or more derivatives transactions in connection with the issue of a series of notes under our programme, which will be effected on or before the issue date of the relevant series. Any such derivatives transaction will be entered into by the Issuer for the purpose of achieving the desired investment objective of the relevant series of notes, and may be effected by the relevant derivative being incorporated in the terms of any underlying securities, in the provisions of a swap agreement (if any) or otherwise. A description of any such derivative transaction will be included in the relevant issue prospectus. A general discussion of derivatives follows below.

General Characteristics of Options

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. Thus, the following general discussion relates to each of the particular types of options discussed in greater detail below.

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying asset, basket of assets, index or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying asset, basket of assets, index or other instrument at the exercise price. An “American” style put or call option may be exercised at any time during the option period, whereas a “European” style put or call option may be exercised only upon expiration or during a fixed period prior to expiration.

It is not anticipated that the options we deal in will be exchange traded; rather, they will be over-the-counter (“OTC”) options purchased from or sold to securities dealers, financial institutions or other parties (collectively referred to as “Counterparties” and individually referred to as a “Counterparty”) through a direct bilateral agreement with a Counterparty. In contrast to exchange-listed options, which generally have standardised terms and performance mechanics, all of the terms of an OTC option, including such terms as method of settlement, terms, exercise price, premium, guarantees and security, are determined by negotiation of the parties.

Unless the parties provide for it, no central clearing or guaranty function is involved in an OTC option. As a result, if a Counterparty fails to make or take delivery of the securities or other instrument underlying an OTC option it has entered into with us or fails to make a cash settlement payment due in accordance with the term of that option, the series of notes for whose account the OTC option was purchased will lose any premium we paid for the option as well as any anticipated benefit of the transaction. Thus, the creditworthiness of each such Counterparty (or of any guarantor or credit enhancement of the Counterparty’s credit) must be assessed to determine the likelihood that the terms of the OTC option will be met. We will enter into OTC option transactions only with broker-dealers, domestic or foreign banks, or other licensed or non-licensed, or registered or unregistered, financial institutions that are deemed creditworthy, but it is not required that such counterparty be rated by a recognised credit rating agency.

If we write a call option, the premium that we receive may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying security, basket of securities or instruments held by us for the account of a series of notes or will increase our income attributable to the relevant series of notes. Similarly, the sale of put options can also provide portfolio gains.

We reserve the right to invest in options on instruments and indexes which may be developed in the future to the extent consistent with applicable law and the investment objectives of a series of notes.

Currency Transactions

We may engage in currency transactions with Counterparties to generate income or to hedge the value of portfolio securities denominated in particular currencies against fluctuations in relative value. Currency transactions include currency forward contracts, exchange-listed currency contracts and options thereon, exchange listed and OTC options on currencies and currency exchange rate swaps. A forward currency contract involves a privately negotiated obligation to purchase or sell (with delivery generally required) a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. A currency exchange rate swap is an agreement to exchange cash flows based on the
notional difference among two or more currencies and operates similarly to an interest rate swap, which is described below under “Swaps, Caps, Floors, Collars and Swaptions”. We may enter into currency transactions only with Counterparties that are deemed creditworthy.

Our dealings in forward currency contracts and other currency transactions such as options and swaps may be for speculative or for hedging purposes. Hedging transactions may include transaction hedging and position hedging. Transaction hedging is entering into a currency transaction with respect to our specific assets or liabilities, which will generally arise in connection with the purchase or sale of portfolio securities or the receipt of income from them. Position hedging is entering into a currency transaction with respect to portfolio securities positions denominated or generally quoted in that currency.

We may cross-hedge currencies by entering into transactions to purchase or sell one or more currencies that are expected to increase or decline in value relative to other currencies to which we have or in which we expect to have exposure. To reduce the effect of currency fluctuations on the value of existing or anticipated holdings of securities underlying a series of notes, we may also engage in proxy hedging. Proxy hedging is often used when the currency to which the assets underlying a series of notes are exposed is difficult to hedge generally or difficult to hedge against the US dollar. Proxy hedging entails entering into a forward contract to sell a currency, the changes in the value of which are generally considered to be linked to a currency or currencies in which some or all of the securities underlying the series of notes are or are expected to be denominated, and to buy another currency. The amount of the contract would not exceed the market value of the securities underlying the series of notes denominated in linked currencies.

**Commodities Transactions**

*Futures Contracts*

Commodity futures contracts are contracts made on a commodity exchange which provide for the future delivery of various agricultural commodities, industrial commodities, currencies or financial instruments at a specified date, time and place. The contractual obligations may be satisfied either by taking or making physical delivery of an approved grade of the commodity (or cash settlement in the case of certain futures contracts) or by entering into an offsetting futures contract for the sale or purchase of the same commodity on the same exchange prior to the designated date of delivery.

Commodity futures prices are highly volatile and are influenced by, among other things, changing supply and demand relationships, governmental agricultural, commercial and trade programs and policies, political and economic events, weather and climate conditions, insects and plant disease, purchases and sales by various countries, and changing interest rates.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor. For example, if at the time of purchase 10 per cent. of the price of a futures contract is deposited as margin, a 10 per cent. decrease in the price of the futures contract would, if the contract were then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. Thus, like other leveraged investments, any futures trade may result in losses in excess of the amount invested.

*Forward Contracts*

Forward contracts are not regulated by any governmental agency and such contracts are not guaranteed by an exchange or its clearing house. Consequently, trading in forward contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which we have a forward contract, as well as risks due to the absence of any limitations on the number or size of open positions and restrictions on concentration. Such risks are potentially increased if we obtain direct lines of credit to engage in such trading activities. Banks, broker-dealer firms and other financial entities are not required to continue to make markets in foreign currencies. There have been periods, for example, during which certain banks have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell.
**Swaps, Caps, Floors, Collars and Swaptions**

We may enter into interest rate, currency, equity and index swaps, the purchase or sale of related caps, floors and collars, options and swaptions and other similar derivatives. We will enter into these transactions for the account of a series of notes to preserve a return or spread on a particular investment or portion of its portfolio, to protect against currency fluctuations, as a duration management technique or to protect against any increase in the price of securities we anticipate purchasing for the account of the series of notes at a later date. Interest rate swaps involve the exchange by us with another party of their respective commitments to pay or receive interest (for example, an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal). Currency and index swaps are agreements to exchange cash flows on a notional amount based on changes in the values of the reference currencies or indexes and which involve the initial and final exchange of currencies and periodic payments on the notional amount, based on fixed or floating rates or some other index. The purchase of a cap entitles the purchaser to receive payments on a notional amount from the party selling the cap to the extent that a specified index exceeds a predetermined rate or level. The purchase of a floor entitles the purchaser to receive payments based on a notional amount from the party selling the floor to the extent that a specified index falls below a predetermined rate or amount. A collar is a combination of a cap and a floor that preserves a certain return with a predetermined range of rates or values. The purchase of a swaption entitles the purchaser to enter into the related swap transaction with the party selling the swaption. We may either be a purchaser or a seller of caps, floors, collars and swaptions for the account of a series of notes. Currency exchange rate swaps involve the initial and final exchange of the related currency amounts. A swap may involve non-periodic payments, such as upfront payments, or include a final exchange amount for which a counterparty may be at risk to some, all or more than all of the notional amount. It is expected that we will enter into swap transactions for the account of a series of notes which are structured to take a view on one or more specific trends in the financial markets and will likely include leveraged structures that will result in either gains or losses that are greater than a comparative unleveraged structure with the same notional amount.

We will usually, but not always, enter into swap arrangements for the account of a series of notes on a net basis, that is, the two payments streams are netted out in a cash settlement on the payment date or dates specified in the instrument, with us receiving or paying, as the case may be, only the net amount of the two payments. We will not enter into any swap, cap, floor, collar, swaption or other derivative for the account of a series of notes unless the Counterparty is deemed creditworthy. If a Counterparty defaults, we may have contractual remedies pursuant to the
agreements related to the transaction. Structured swaps, equity swaps and certain caps, floors, collars and swaptions are illiquid transactions and consequently, it may be difficult for the Issuer to find replacement Counterparties who will pay the market value of the related swap transaction.

**Mortgaged Property Arrangements**

We may be required to pledge substantially all of the assets underlying a series of notes to Counterparties under a Credit Support Document and/or Swap and/or Contract and/or Securities Agreement (all as defined in the Conditions and each of such agreements, a “Related Contract”) to secure our obligations for the account of the series of notes under such transactions. Under the terms of these pledge arrangements, the Mortgaged Property will be liquidated if we default, or are otherwise unable to perform its obligations, under the Related Contracts. In addition to a default or other failure to perform our obligations under a Related Contract, the relevant Mortgaged Property may be liquidated under certain other circumstances, including the failure to deliver additional Mortgaged Property when required. Due to the type of Mortgaged Property and/or unfavourable and illiquid market conditions, the liquidation of the Mortgaged Property may reduce or eliminate the assets underlying the relevant series of notes or result in losses to the assets underlying the relevant series of notes. MOREOVER, IF WE FAIL TO DELIVER ADDITIONAL MORTGAGED PROPERTY TO MEET OUR OBLIGATIONS UNDER ANY PLEDGE AGREEMENT OR OTHER PLEDGE ARRANGEMENT, THE ASSETS UNDERLYING THE RELEVANT SERIES OF NOTES COULD BE LIQUIDATED UNDER MARKET CONDITIONS WHICH MAY BE UNFAVOURABLE.

**Risk Factors**

Derivatives have special risks associated with them, including possible default by the Counterparty to the transaction, illiquidity and, to the extent the view as to certain market movements is incorrect, the risk that the use of the derivatives could result in losses greater than if they had not been used.

Losses resulting from the use of derivatives will reduce the value of the assets underlying a Series of Notes, and possibly the income attributable to the series of notes, and the losses can be significantly greater than if derivatives had not been used.

In the case of options, because option premiums paid to or received by us for the account of a series of notes are small in relation to the market value of the instruments underlying the options, buying and writing options can result in large amounts of leverage. The leverage offered by trading in options could cause the value of the assets underlying a series of notes to be subject to frequent and wider fluctuation than would be the case if we did not trade in options for the account of the series of notes.

In addition to the market value of the instruments underlying an option, the value of an option also depends on the following components: (a) volatility of the option, (b) time to maturity of the option, (c) interest rates and (d) dividend or interest yields on the underlying instrument.

Volatility (sometimes referred to as implied volatility) is determined by the dealers in the related options based on a variety of factors including expectations of future volatility, liquidity of the underlying instrument, the degree that the particular option is in-the-money or out-of-the-money and the investor demand for the particular option. If the volatility of an option increases, the value of the option will increase if all other option pricing components remain constant. Likewise, the value of an option will decrease if the volatility of an option decreases and if all other pricing components remain constant.

As an option becomes in-the-money or out-of-the-money or is at-the-money, the volatility of the option may change, all other factors remaining constant, for example because the option dealers may value the option differently because it is now out-of-the-money rather than in-the-money. Also, generally the more demand for an option the higher the option’s price and lower demand results in a lower volatility. Generally, purchasers of an option will benefit and a seller of an option will be adversely affected, if volatility of the option increases. Also, it is possible that the level of the underlying instrument may move in favour of the option purchaser or writer but the value of the option may actually decrease because of a change in volatilities.

Generally, the value of an option declines over time due to time decay. If all the other components of option pricing remain constant, the value of an out-of-the-money option will decline to zero at maturity and the value of an in-the-money option will decline to the intrinsic value of the option.
Generally, the purchaser of an option will be adversely affected by time decay and the seller will benefit. However, it is possible that the level of the underlying instrument may move in favour of the option purchaser or writer but the value of the option may actually decrease because of time decay.

Interest rates and dividends and/or interest payments on the underlying instrument also affect the price of the option. Assuming all other pricing components remain constant, a rise in interest rates generally increases the price of call options, and reduces the prices of put options and a decline in interest rates will cause a decrease in the price of call options and an increase in the price of put options.

Generally, an increase in the dividend and/or interest yield of the underlying instrument will generally cause the price of a call option to decline and a put option to increase. If the dividend and/or interest yield falls on the underlying instrument, the price of a put option will decrease and the price of a call option will increase assuming all other pricing components remain constant.

No assurance can be given that we will be able to effect closing transactions in options at a time when it wishes to do so. If we cannot enter into a closing transaction, we may be required to hold onto a position for the account of a series of notes that we might otherwise have closed out, in which case the assets underlying the series of notes for whose account such options were purchased would continue to be at market risk on the underlying instrument and we could face higher transaction costs, including brokerage commissions.

We are not required to “cover” any options that it writes for the account of a series of notes; that is, it is not required to own securities or other assets sufficient to enable it to satisfy its obligations as the writer of the options. Potential losses from uncovered option writing differ significantly from losses that could be incurred from covered option writing or purchases of options since the assets underlying a series of notes would bear the risk of us having to purchase securities or other assets at a higher market value in order to deliver it upon exercise of the option (or to pay the associated cash settlement). For that reason, if the market price for securities or other assets has increased, our losses for the account of a series of notes from uncovered call writing, for example, may theoretically be unlimited. Losses from purchases of options, on the other hand, are limited to the total amount of the option premium paid.

Currency transactions involve some of the same risks and considerations as other transactions with similar instruments. Currency transactions can result in losses to the assets underlying a series of notes if the underlying currency fluctuates in value to a degree or in a direction that is not anticipated. Further, the risk exists that the perceived linkage between various currencies may not be present or may not be present during the particular time that we are engaging in proxy hedging. Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulations or exchange restrictions imposed by governments. These forms of governmental actions can result in losses to the assets underlying a series of notes if we are unable to deliver or receive currency or monies in settlement of obligations, and could also cause positions we have entered into for the account of a series of notes to be rendered useless, resulting in full currency exposure as well as incurring transaction costs. Currency exchange rates may fluctuate based on factors extrinsic to that country’s economy.

Interest rate swaps, currency exchange rate swaps, and equity swaps, forwards, caps, floors and collars have certain risks associated with them, including possible default by the counterparty to the arrangement and, to the extent the movements in interest rates, currency exchange rates or the equity markets are adverse to the position of the assets underlying a series of notes, the risk that the use of the swap transaction could result in reductions in the value of the assets underlying such series of notes. It is anticipated that we will enter into leveraged swaps, structured to take a view on specific relationships in the financial markets. When compared to swaps with similar notional amounts, structured swaps are likely to be much more illiquid with wider bid/ask spreads, and if a swap is also leveraged the swap will be riskier to the degree of its leverage.
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