From: Guy BRIDGE
Sent: Wednesday, September 3, 2008 5:20 PM
To: Nicholas J TAYLOR; Paul Lopez; Joseph Travaglione; Martin NICHOLSON; Patricia GOMES
Subject: Milan Update 03-09-08

Progress on formalising the cash deed has been slower than expected.

As you know the intention was to conclude a simple cash deed for the collateral held which gives us right of set off against liabilities in an entity name in event of a problem, intraday. Placing the cash in a specific a/c rather than MMK.

Once agreed and executed then progress to put in place a Net Overdraft Agreement to ensure we could net balances should there be a DR position greater on an accounts over and above the collateral held - the positive funds being with a different entity. This being required as we have no formal facility agreements in place. A logical and thorough approach whilst firm which would protect HSBC in most eventualities.

The multi entity multi ccy and multi jurisdiction in Asia clearly create a number of additional challenges.

Post various negotiations Milan have now verbally advised me (I await a formal reply) that they will not sign the Cash Deed as is. They had wanted to include events of default and whilst they agreed to take these out were not prepared to agree to our final version. This stance does not surprise me as Milan clearly feel HSBC is being unreasonable and want access to their cash if it is not being used as well as clearly defined parametres as to what/when and how we can use it which weakens our legal position.

We will continue to negotiate in London dependent on their formal reply but there is unlikely to be an agreement in place before this weekend, if at all, on todays dialogue. Overnight reflection may soften their position.

I would recommend we keep our options open but potentially move to get Milan to operate in credit and reduce the PSLs to zero. This could be done over a period of a month minimum unless agreed to the contrary with Milan. They have the surplus cash so this should be possible. However I would not wish to implement this approach without key operational staff (with cover) being able to work with them initially to ensure it was managed smoothly. The danger of adopting this stance is less transparency particularly if payments are not made with the inherent risks involved, namely HSBC create a problem and we thus end up in a potentially worse position as banker/creditor. The onus will be very much on them to be extremely efficient operationally.

We still have GBP 435 m on MMK o/n and they cannot remove without our say so.
A conference call tomorrow would be advisable.

rgds Guy

ps Patricia I will call first thing in the morning as there is probably little you can progress at this stage

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