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To: Distributors and holders of SPARC Limited Retail-Aimed Callable Investment Notes Global Series 1a and 1b (the "Notes")

You will have already received, or will shortly be receiving, a notice entitled "Credit Event Notice and Notice of Publicly Available Information" (the "Credit Event Notice") from SPARC Limited in its capacity as issuer of the Notes (the "Issuer"), notifying you of the occurrence of a credit event with respect to Lehman Brothers Holdings Inc. ("Lehman"), one of the underlying reference entities for the Notes. A copy of the Credit Event Notice is attached for ease of reference.

We set out below answers to some of the questions that you may have in relation to the structure of the Notes and the impact of the credit event as well as in relation to the next steps involved in the redemption of the Notes.

Holders of the Notes should be aware that this document provides summary information only and that the structure of the Notes and the rights of holders are explained more fully in the Issue Prospectus dated 23 April 2007 relating to the Notes (the "Issue Prospectus"). In particular, you should re-read the section entitled "What are our Notes?" on pages 11-16 of the Issue Prospectus as well as the detailed provisions contained in the Form of Pricing Supplement set out in Appendix 1 on pages 21-48 of the Issue Prospectus (the "Pricing Supplement").

How are the Notes credit-linked?

- The Notes are credit-linked on a "first-to-default" basis to a basket of 8 financial institutions, or "reference entities". Further information in relation to these institutions is contained in the section entitled "The Reference Entities" on pages 9-10 of the Issue Prospectus.

- The "first-to-default" credit-linked nature of the Notes means that if any one or more of the 3 predefined credit events (namely, failure to pay, bankruptcy or restructuring) occurs with respect to <u>any</u> of the 8 reference entities, the Notes will be redeemed early at a "credit event redemption amount" which reflects, among other things, the deterioration in market value of selected debt obligations of the reference entity affected by the credit event.

- The Issuer of the Notes has hedged its obligations under the Notes via certain swap arrangements entered into with UBS AG London Branch ("UBS") in its capacity as swap counterparty. These swap arrangements include a credit default swap transaction as well as an interest rate and (in the case of the Series 1b Notes) a currency swap transaction. Essentially, the swap arrangements enable the Issuer to meet its payment and other obligations under the Notes. There is a more detailed explanation of how these swap arrangements work on pages 15 to 16 of the Issue Prospectus.

- As well as being the swap counterparty under the swap arrangements, UBS is also the calculation agent under the Notes. In such capacity, it decides, among other things, whether or not a credit event has occurred and, following the occurrence of a credit event, which debt obligations of the reference entity affected by the credit event will be valued for the purposes of determining the credit event redemption amount.

- In its capacity as calculation agent, UBS (acting in good faith and commercially reasonable manner) has sole and absolute discretion in making its determinations and any decision that it makes is final and binding on holders of the Notes, as well as on the Issuer, the Trustee and other parties involved in the Notes. In exercising such discretion, however, UBS will ensure that its decisions are consistent with the decisions made by the swap counterparty or the swap calculation agent under the corresponding terms of the swap arrangements in order to ensure that the Issuer's rights under the swap arrangements match its obligations under the Notes.

What was the credit event?

- Lehman filed a Voluntary Petition under Chapter 11 of the U.S. Bankruptcy Code on 15 September 2008. The filing of such a petition constitutes a "bankruptcy" credit event for the purposes of the Notes and for the credit default swap transaction entered into between the Issuer and UBS as part of the swap arrangements.

- "Bankruptcy" has a detailed technical definition, which is set out on page 31 of the Issue Prospectus. The filing of the Chapter 11 Voluntary Petition by Lehman constitutes the institution of a "proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights" by Lehman within the meaning of sub-paragraph (d) of the definition.

- UBS, in its capacity as swap counterparty under the credit default swap transaction, delivered a notice to the Issuer of its determination of the occurrence of a bankruptcy credit event with respect to Lehman on 26 September 2008.

- The delivery of such notice by UBS pursuant to the credit default swap transaction resulted in an obligation on the part of the Issuer to deliver its corresponding Credit Event Notice to the holders of the Notes. The Issuer delivered the Credit Event Notice on 29 September 2008. Delivery by the Issuer of the Credit Event Notice, in turn, triggers the credit event redemption provisions of the Notes. See Schedule A, Part 2 (*Redemption upon Credit Event(s)*) of the Pricing Supplement on page 28 of the Issue Prospectus.

Will the Notes still bear any interest after the occurrence of the credit event?

- No. The Issuer will not pay interest for any part of the semi-annual coupon period during which the credit event occurred and any subsequent period. See the section entitled "What does "credit-linked" mean?" on p.11 of the Issue Prospectus.

What are the next steps involved in the redemption of the Notes?

(1) Designation of valuation date and Lehman obligation(s) to be valued

- The terms and conditions of the Notes provide that, once the Issuer delivers its Credit Event Notice, the Notes will be redeemed by the Issuer at the "Credit Event Redemption Amount" on the "Credit Event Redemption Date". See Schedule A, Part 3 (*Credit Event Redemption Terms*) of the Pricing Supplement on page 28 of the Issue Prospectus.

- UBS (in its capacity as swap counterparty under the credit default swap transaction) has the discretion to decide the date upon which the Credit Event Redemption Amount will be determined. This can be any date within 135 Business Days following 29 September 2008, being the date upon which the Issuer gave the Credit Event Notice to Noteholders. See the definitions of "Valuation Date" at the top of page 29 of the Issue Prospectus, "Final Valuation Date" on page 26 of the Issue Prospectus and "Credit Event Determination Date" on page 28 of the Issue Prospectus.

- UBS is obliged to give the Issuer 10 Business Days' prior notice of its designated Valuation Date, as well as details of the Lehman debt obligation(s) that it intends to use for the purposes of such determination. UBS has given such notice on 29 September 2008 and it is expected that the designated Valuation Date will be 17 October 2008, being the date falling 10 Business Days thereafter. See the paragraph headed "How will the obligations of the affected reference entity be picked?" on page 12 of the Issue Prospectus as well as the detailed provisions of the Pricing Supplement in Appendix 1 of the Issue Prospectus (in particular, please see the definitions of

"Deliverable Obligations" and "Valuation Portfolio" on page 26 of the Issue Prospectus) for more information about the selection criteria for these debt obligation(s).

- The "Credit Event Redemption Amount" is determined by reference, among other things, to the value of the Lehman debt obligation(s) identified by UBS.
- Promptly upon receipt of the notice referred to above from UBS, the Issuer is obliged to deliver a notice on similar terms to the Noteholders.

(2) Determination of value of Lehman obligation(s)

- In order to determine the value of the selected Lehman debt obligation(s), UBS will seek to obtain quotations from at least 5 professional swaps dealers for the purchase of the relevant Lehman debt obligation(s).
- These quotes will be expressed as a percentage of the face value of these debt obligation(s). UBS will take the highest quotation that it obtains to be the final value (referred to as the "Final Price") of these debt obligation(s).
- The difference between the Final Price of the selected Lehman debt obligation(s) and 100% represents the loss in their market value as a result of the Credit Event, e.g. if the Final Price of the selected Lehman debt obligation(s) is 20%, then the loss value is 80%.

(3) Determination of Credit Event Redemption Amount under the Notes

- The loss value is then applied to the outstanding principal amount of the Notes to produce the "Loss Amount" which is to be deducted from the par amount of each Note, e.g. in the case of the Series 1a Notes, if a Note has a par value of USD 5,000, then the Loss Amount will be USD 4,000 (i.e. 80% of USD 5,000).
- Also deducted from the par value of each Note is an amount representing any shortfall between the face value of the collateral for the Notes and the liquidation proceeds thereof. So, if the collateral can only be sold for 90% of its face value, then this would mean an extra 10% deduction (i.e. USD 500 per Note, in the case of the Series 1a Notes). The Issuer, through UBS as the calculation agent, shall use all reasonable efforts to obtain the best firm bids on or around the Valuation Date to sell the Collateral Assets in the market. In the case of Series 1b Notes, such best firm bids will be multiplied by the exchange rate of USD/HKD as determined by the calculation agent in good faith and in a commercially reasonable manner. See Special Condition 3 of the Pricing Supplement on p.25 of the Issue Prospectus.
- The final item to be deducted from the par value of each Note is an amount equal to such Note's *pro rata* share of any "break costs", that is, the early termination value of the swap arrangements and related hedging costs. If such *pro rata* share amounts to USD 250 per Note (again, in the case of the Series 1a Notes), then this would mean that the "Credit Event Redemption Amount" payable in respect of each Note is USD 250 (i.e. USD 5,000 - USD 4,000 - USD 500 - USD 250).
- The calculation for the Series 1b Notes is slightly different to that summarised above since the Credit Event Redemption Amount will be calculated initially in USD and then translated into HKD. There is an explanation for the rationale for this and the risks involved in the paragraph headed "Investing in our Notes involves exchange rate risk" on page 20 of the Issue Prospectus. The full definition of "Credit Event Redemption Amount" is set out on pages 29-31 of the Issue Prospectus.

- **Please note that the above figures are for illustration purposes only. After deduction of all relevant items, it is possible that the "Credit Event Redemption Amount" per Note could be USD 0 (in the case of the Series 1a Notes) or HKD 0 (in the case of the Series 1b Notes).**

(4) Credit Event Redemption Date

- The Credit Event Redemption Date is the 5th Business Day following the date upon which UBS determines the Final Price, which, on the basis of the above assumptions, would mean it would fall sometime in mid to late October 2008.

UBS Securities Asia Limited
as Arranger of the Notes

30 September 2008