

## IMPORTANT

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

This Issue Prospectus has been prepared for the purpose of giving information in respect of the issue by Victoria Peak International Finance Limited (the “Issuer”) of the Notes described herein pursuant to its Retail Note Programme (the “Programme”). The offering of the Notes is made pursuant to this Issue Prospectus and the programme prospectus dated 5 June 2006 issued by the Issuer (the “Programme Prospectus”). Prospective investors should read the Programme Prospectus, which includes important information about the Issuer and the Programme, together with this Issue Prospectus in order to understand the offer to which the documents relate, in particular before making an application in response to the offer.

### Octave Notes Series 10

US Dollar Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2012 (“Tranche A Notes”)  
HK Dollar Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2012 (“Tranche B Notes”)  
(each a “Tranche” and the notes of either or both Tranches, the “Notes”)  
issued by

## Victoria Peak International Finance Limited

*(incorporated with limited liability in the Cayman Islands)*

pursuant to its  
**Retail Note Programme**

The Notes are not principal protected and the Issuer will not seek to have the Notes rated by any credit rating agency. Prospective investors should note there are many different types of retail notes and bonds in the Hong Kong market place, many of which will have unique and/or distinctive features, and not all retail notes or bonds are principal protected. Prospective investors should ensure they understand the nature of the Notes and the risks involved, and should read carefully the contents of this Issue Prospectus and the Programme Prospectus and in particular (but not limited to) the sections headed “Risk Factors” in these documents and the section headed “Application Procedures” in this Issue Prospectus and consult professional advisers as to the suitability of the Notes as an investment for their individual circumstances, before they invest in the Notes.

Prospective investors should contact one of the Distributors whose contact telephone numbers are listed on the following page if they wish to invest in the Notes.

A copy of this Issue Prospectus has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Cap. 32) of Hong Kong (the “Companies Ordinance”). The Registrar of Companies in Hong Kong and the Securities and Futures Commission (the “SFC”) take no responsibility as to the contents of this Issue Prospectus.

*Arranger*

### Morgan Stanley & Co. International Limited

*Distributors*

Bank of China (Hong Kong) Limited  
CITIC Ka Wah Bank Limited

Dah Sing Bank, Limited  
MEVAS Bank Limited  
Public Bank (Hong Kong) Limited  
Wing Hang Bank, Ltd.

Chiyu Banking Corporation Limited  
Core Pacific-Yamaichi International  
(H.K.) Limited  
ICEA Securities Ltd  
Nanyang Commercial Bank, Limited  
Shanghai Commercial Bank Limited  
Wing Lung Bank Limited

## Reaching for higher potential returns from a solid foundation

雄厚根基 攀登潛在回報高峰

### SUMMARY OFFER INFORMATION

Offer Period: From 9.00 a.m. on 29 August 2006 to 4.30 p.m. on 15 September 2006 or such earlier or later date as may be determined by the Arranger in its absolute discretion.

Issue Price: 100 per cent. of the principal amount of the Notes

Issue Size: In order to maintain flexibility with respect to the aggregate principal amount of the Notes to be issued, the actual aggregate principal amount of each Tranche of Notes to be issued shall be determined by Morgan Stanley & Co. International Limited (in such capacity, the “**Arranger**”) in its absolute discretion on the Fixing Date in light of general market interest following distribution of this Issue Prospectus.

Please note that the Issuer after consultation with the Arranger may decide on the Fixing Date to issue either or both Tranche(s) or may decide not to issue either or both Tranche(s) in light of general market interest in the Notes.

Interest Rate: *Tranche A Notes*: 6.10 per cent. per annum from Year 1 to Year 4 and 7.20 per cent. per annum from Year 5 to 5.5

*Tranche B Notes*: 5.40 per cent. per annum from Year 1 to Year 4 and 6.50 per cent. per annum from Year 5 to 5.5

The definition of the terms “Year 1 to Year 4” and “Year 5 to 5.5” are set out in the sections headed “Information about the Notes — Interest Rate” at page 19 of this Issue Prospectus.

Interest on both Tranches will be payable semi-annually in arrear on 25 March and 25 September in each year commencing on 25 March 2007 (or in each case, if applicable, such other dates falling every six months following the Issue Date). Interest ceases to be payable in certain circumstances — see the section headed “Information about the Notes — Interest Payment Dates”.

Note Denomination/  
Principal Amount  
per Note: Tranche A Notes: USD5,000  
Tranche B Notes: HKD40,000

Fixing Date: Expected to be 19 September 2006, on which date the Issue Size will be determined.

Issue Date: Expected to be 25 September 2006, but will not be later than 27 November 2006.

Issuer Call Option:	In respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early the Notes of such Tranche (in whole and not in part) at any time from and including the first Interest Period End Date if the Swap Counterparty has exercised the Swap Counterparty Option in respect of such Tranche of Notes.
Scheduled Maturity Date:	25 March 2012 (or, if applicable, such date falling 66 months after the Issue Date) (see the section headed “Information about the Notes — Scheduled Maturity Date”).
Payment on Scheduled Maturity Date:	100 per cent. of the principal amount of the Notes. However, the Notes will be redeemed at an amount which may be substantially less than their outstanding principal amount upon the occurrence of certain events, such as the giving of a notice to the Noteholders of a Company or Sovereign Credit Event in respect of a Company or the Sovereign Entity, the occurrence of a Mandatory Redemption Event and the occurrence of an Issuer’s Event of Default. Such redemption may occur prior to or even, in certain circumstances, following the Scheduled Maturity Date.
Security for the Notes:	(i) The Original Underlying Securities, any Reinvested Eligible Investments and the proceeds of redemption or repayment of the Original Underlying Securities and any Reinvested Eligible Investments (the “ <b>Underlying Securities</b> ”) (see the section headed “Information about the Underlying Securities” in this Issue Prospectus for the meaning of such capitalised terms); (ii) the swap arrangements entered into with the Swap Counterparty referred to herein and (iii) the contingent forward transactions entered into with the Forward Counterparty referred to herein.
Listing:	The Notes will not be listed on any exchange.

## THE DISTRIBUTORS

During the Offer Period, prospective investors may only purchase Notes from an appointed Distributor.

The following are the Distributors which have been appointed as at the date of this Issue Prospectus, and their respective “hotline” telephone numbers:

Distributors	“Hotline” 熱線	Distributors	“Hotline” 熱線
Bank of China (Hong Kong) Limited .....	3669 3668	ICEA Securities Ltd .....	3101 8605
Chiyu Banking Corporation Limited .....	2232 3633	MEVAS Bank Limited .....	3101 3838
CITIC Ka Wah Bank Limited .....	2287 6788	Nanyang Commercial Bank, Limited .....	2622 2633
Core Pacific-Yamaichi International (H.K.) Limited .....	2826 0857	Public Bank (Hong Kong) Limited .....	2853 4671
Dah Sing Bank, Limited .....	2828 8001	Shanghai Commercial Bank Limited .....	2818 0282
		Wing Hang Bank, Ltd .....	3199 9182
		Wing Lung Bank Limited .....	2526 5555

Prospective investors should telephone one of the appointed Distributors if they wish to find out how to purchase Notes and/or obtain a list of distributing locations from where copies of the English and Chinese language versions of the Programme Prospectus and this Issue Prospectus (together, the “**Offering Documents**”) may be obtained.

Additional distributors may be appointed by the Arranger after the date of this Issue Prospectus. The identities and “hotlines” of any such additional distributors will be made available to prospective investors upon request during normal business hours on any day (Saturdays, Sundays and public holidays in Hong Kong excepted) from the offices of the Arranger’s agent specified on page 39 of this Issue Prospectus. References herein to “**Distributor(s)**” shall be deemed to include any such additional distributor(s) appointed after the date of this Issue Prospectus.

### Marketing Materials

**Advertising or promotional materials in respect of the Notes (the “Marketing Materials”) may be issued and/or distributed by parties other than the Issuer. Any such Marketing Materials must be issued in full compliance with all relevant laws, regulations, guidelines and/or codes (among other things, the law requires that any Marketing Materials must be true, accurate and not misleading or deceptive) and should state clearly who takes full responsibility for the issue and content of such Marketing Materials. None of the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty or the Determination Agent represents that the contents of any Marketing Materials are true, accurate, not misleading or not deceptive and no responsibility whatsoever is accepted in relation to any Marketing Materials by or on behalf of such person.**

## References to websites

All references to websites in this Issue Prospectus are intended to assist prospective investors to access further public information relating to the subject matter indicated. Prospective investors should conduct their own web searches to ensure that they are viewing the most up-to-date information. Information appearing on such websites does not form any part of the Offering Documents. None of the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty or the Determination Agent accepts any responsibility whatsoever that such information, if available, is accurate and/or up-to-date, and no responsibility is accepted in relation to any such information by any person responsible for any of the Offering Documents.

The offer of the Notes by the Issuer is made solely on the basis of the information contained in the Offering Documents and prospective investors should exercise an appropriate degree of caution when assessing the value of other information which may appear on such websites and/or Marketing Materials.

## Conventions

Prospective investors should be aware that where each Tranche of Notes is represented by a Global Certificate registered in the name of a nominee for the common depositary for Euroclear and/or Clearstream, Luxembourg, the term “Noteholders” in the Programme Prospectus and herein shall mean the registered nominee for the common depositary for Euroclear and/or Clearstream, Luxembourg, as the case may be, as the legal holder of the relevant Tranche of Notes. Individual retail investors in the Notes are not “Noteholders” in this context. The terms “you”, “investors” or “prospective investors” have been used herein to describe the individual retail investors purchasing the Notes from a Distributor.

Any action an investor may wish to take against the Issuer in accordance with the terms and conditions of the Notes will require the cooperation of the Noteholder and/or the Trustee (as the case may be). Investors have no right of direct action against the Issuer and will need to rely on their Distributor or broker to contact the Trustee to take action against the Issuer on their behalf. The terms of business of one Distributor or broker to another may be very different and prospective investors are advised to read carefully the terms of business of any party they intend to engage in maintaining an investment account for their Notes, and ensure they understand the circumstances in which they may rely on such party to act on their behalf.

References herein to “HK\$”, “HKD” and “HK dollars” are to Hong Kong dollars and “US\$”, “USD” and “US dollars” are to United States dollars.

## THE PROGRAMME PROSPECTUS AND THE ISSUE PROSPECTUS

The Offering Documents for the Notes comprise the Programme Prospectus and this Issue Prospectus.

The information contained in the Programme Prospectus, amended as set out in this Issue Prospectus, is deemed to be repeated on the date of publication of this Issue Prospectus. In the case of any discrepancy between the Programme Prospectus and this Issue Prospectus, this Issue Prospectus shall prevail.

Prior to an investment in the Notes, prospective investors must have received and read, or been given the opportunity to receive and read, the English or the Chinese language versions of the Offering Documents. If prospective investors have not received a copy of any of the Offering Documents in their preferred language prior to making a decision to invest in the Notes, they must immediately contact their Distributor and obtain a copy of the missing Offering Document(s) in their preferred language.

Hard copies of the Programme Prospectus and this Issue Prospectus (all available in separate English and Chinese language versions) may be obtained, free of charge, during normal business hours on any day (Saturdays, Sundays and public holidays in Hong Kong excepted) as follows:

- **During the Offer Period:** from each of the Distributors described above and from the office of the Arranger's agent specified on page 39 of this Issue Prospectus.
- **After the Offer Period and for so long as any Notes remain outstanding:** upon request, from the office of the Arranger's agent specified on page 39 of this Issue Prospectus.

If in doubt as to where to obtain the Programme Prospectus and/or this Issue Prospectus, prospective investors should contact one of the Distributors.

計劃章程及本發行章程 (全部文件分別備有一中一英兩個獨立版本) 的印製本可根據下列期間及地點於任何一日 (香港的星期六、星期日及公眾假期除外) 的日常辦公時間免費索取:

- **發售期內:** 在上文所述的各分銷商及本發行章程第39頁所述的安排人的代理的辦事處。
- **發售期後及只要有任何債券仍未償還:** 向本發行章程第39頁所述的安排人的代理的辦事處要求索取。

假如準投資者對索取計劃章程及／或本發行章程的地點有任何疑問，應聯絡其中一名分銷商。

The Programme Prospectus contains important information about:

- the Issuer of the Notes;
- the Master Agreement and Swap Guarantee relevant to the swap arrangements described herein;
- investment risk factors;
- taxation implications relating to the purchase, holding and sale of the Notes;
- custody, clearing and settlement arrangements;
- market making arrangements; and
- the contractually binding master terms and conditions of the Notes (the “**Master Conditions**”), including the security arrangements for the Notes.

**Potential investors should read this Issue Prospectus in conjunction with the Programme Prospectus to which it relates in order to understand the offer to which the documents relate, in particular before making an application in response to the offer.**

## TABLE OF CONTENTS

	<i>Page</i>
<b>SUMMARY</b> .....	9
<b>INFORMATION ABOUT THE NOTES</b> .....	18
<b>TECHNICAL DEFINITIONS</b> .....	40
<b>INFORMATION ABOUT THE UNDERLYING SECURITIES</b> .....	60
<b>INFORMATION ABOUT THE SWAP ARRANGEMENTS FOR THE NOTES</b> .	63
<b>INFORMATION ABOUT THE FORWARD AGREEMENT</b> .....	66
<b>INFORMATION ABOUT THE COMPANIES AND THE SOVEREIGN ENTITY</b> .....	68
<b>RISK FACTORS</b> .....	72
<b>APPLICATION PROCEDURES</b> .....	82
<b>DISTRIBUTION ARRANGEMENTS</b> .....	88
<b>MARKET MAKING ARRANGEMENTS</b> .....	90
<b>ADDITIONAL INFORMATION ABOUT THE OFFERING</b> .....	92
<b>APPENDIX A</b>	
<b>CREDIT AND STABILITY RATINGS</b> .....	100

## SUMMARY

*The information set out in this section is a summary of the principal features of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the detailed information appearing elsewhere in this Issue Prospectus and the Programme Prospectus. Capitalised terms used in this Issue Prospectus but not defined herein shall have the meanings given to them in the Programme Prospectus. Capitalised terms used in this section shall have the meanings given to them in the sections headed “Information about the Notes” and “Technical Definitions” in this Issue Prospectus.*

### Structure and Outline

#### The Issuer of the Notes

The Issuer is incorporated with limited liability in the Cayman Islands. It is a thinly capitalised special purpose company which will issue the Notes under the Programme on a limited recourse basis backed by cashflows from certain assets held by it (comprising, amongst other things, the Underlying Securities and its rights under a Swap Agreement and a Forward Agreement entered into in connection with the issue of the Notes).

#### The Notes

The key features of the Notes are:

- (i) the Issuer will issue the Notes under the Programme on the Issue Date to raise funds to invest in an equal aggregate principal amount of the Original Underlying Securities. In the event that any of the Original Underlying Securities are redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer of such Original Underlying Securities (or, in the case of Original Underlying Securities in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity Date, the proceeds of redemption or repayment will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing). The Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption or repayment in Eligible Investments (any Eligible Investments acquired shall herein be referred to as “**Reinvested Eligible Investments**”). If any of the Reinvested Eligible Investments are themselves redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms by the issuer of such Reinvested Eligible Investments (or, in the case of Reinvested Eligible Investments in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity Date, the proceeds of redemption or repayment will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing). The Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption or repayment of such Reinvested Eligible Investments in Eligible Investments. Any such Eligible Investments will also constitute Reinvested Eligible Investments. This process can be repeated any number of times if applicable. Neither the redemption, in whole or in part, of any of the Original Underlying Securities or Reinvested Eligible Investments at or above their outstanding

principal amount including any accrued interest in accordance with their terms (or, in the case of Original Underlying Securities or Reinvested Eligible Investments in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) as described above nor the investment in Eligible Investments using the proceeds of redemption or repayment of such Original Underlying Securities or Reinvested Eligible Investment, as the case may be, as described in this paragraph will in itself impact on the Noteholders or the terms of the Notes. However, prospective investors should note that the monetary value of such proceeds of redemption or repayment of Underlying Securities could be lower than the market value of the Underlying Securities which were redeemed or repaid to yield such proceeds. Similarly, the market value of any Underlying Securities invested in using such proceeds of redemption or repayment of previously redeemed or repaid Underlying Securities could be lower than the market value of the Underlying Securities which were redeemed or repaid to yield such proceeds. Prospective investors should note that this could have an adverse impact on the investors' return of the investment in the Notes. See the section headed "Information about the Underlying Securities" in this Issue Prospectus for the meaning of "Original Underlying Securities" and "Underlying Securities";

- (ii) pursuant to the Swap Agreement, the Issuer will pay an amount equal to any interest received in respect of the Underlying Securities (if any) to the Swap Counterparty and the Swap Counterparty will pay the Issuer an amount equal to the interest (calculated as described below) due to be paid by the Issuer on the Notes. Where necessary the Issuer will enter into interest rate and currency swap agreements to ensure interest and currency payment amounts match;
- (iii) if a Company or Sovereign Credit Event occurs (as further described below) during the term of the Notes and the Issuer gives notice to the Noteholders of the occurrence of such Company or Sovereign Credit Event, the Notes will be redeemed on the Company or Sovereign Credit Event Redemption Date at the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed "Procedure for redemption of the Notes following a Company or Sovereign Credit Event" in this section below), being an amount which may be substantially less than the principal amount of the Notes. In addition, the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date on which the Issuer gives notice to the Noteholders of the occurrence of the Company or Sovereign Credit Event (or, if notice of the occurrence of the Company or Sovereign Credit Event is given prior to the first Interest Period End Date, no interest will be payable on the Notes);
- (iv) in respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early in whole (but not in part) the Notes of such Tranche at any time from and including the first Interest Period End Date if the Swap Counterparty has exercised the Swap Counterparty Option in respect of such Tranche of Notes. In such circumstances, such Tranche of Notes will be redeemed in whole (but not in part) at their principal amount plus accrued interest up to the relevant Call Redemption Date (as further described in the paragraph headed "Issuer Call Option" in the section headed "Information about the Notes" in this Issue Prospectus). Following the exercise of an Issuer Call Option in respect of a Tranche of Notes, as such Tranche of Notes will redeem in whole, no interest will be payable on such Tranche of Notes after the Call Redemption Date;

- (v) the Notes may also be redeemed mandatorily upon the occurrence of a Mandatory Redemption Event (as further described in the paragraph headed “Mandatory Redemption” in the section headed “Information about the Notes” in this Issue Prospectus) or an Issuer’s Event of Default (as further described in the paragraph headed “Issuer’s Events of Default” in the section headed “Information about the Notes” in this Issue Prospectus) at the Mandatory Redemption Amount, being an amount which may be substantially less than the principal amount of the Notes. In either case, the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date on which the Mandatory Redemption Event occurs or, as the case may be, the Issuer’s Event of Default occurs (or, if the Mandatory Redemption Event occurs or, as the case may be, the Issuer’s Event of Default occurs prior to the first Interest Period End Date, no interest will be payable on the Notes); and
- (vi) provided the Notes are not redeemed as a result of notice being given in respect of a Company or Sovereign Credit Event, the occurrence of a Mandatory Redemption Event, the exercise by the Issuer of the Issuer Call Option in relation to the relevant Tranche of Notes or the occurrence of an Issuer’s Event of Default, the Issuer will apply the redemption monies receivable in respect of the Underlying Securities (and, where necessary, using the swap arrangements to ensure interest and currency payments match) in repayment of the Notes. In such circumstances, the Notes will be redeemed at their principal amount on the Scheduled Maturity Date.

### **Security in respect of the Notes**

The obligations of the Issuer under the Notes will be secured principally by security created over its rights in respect of the Underlying Securities, the Swap Agreement and the Forward Agreement. A prior security interest will be given to, among others, the Swap Counterparty and the Forward Counterparty, securing the Issuer’s obligations under the Swap Agreement and the Forward Agreement, respectively (see the section headed “Description of the Security Arrangements in respect of the Notes” in the Programme Prospectus and also the paragraph headed “Security” in the section headed “Information about the Notes” in this Issue Prospectus).

### **The Companies and the Sovereign Entity**

The Notes are credit linked to (but are not obligations of):

- The Bank of East Asia, Limited and its Successors (“**BEA**”);
- DBS Bank Ltd. and its Successors (“**DBS**”);
- Standard Chartered Bank and its Successors (“**SCB**”);
- The Goldman Sachs Group, Inc. and its Successors (“**GS**”);
- Lehman Brothers Holdings Inc. and its Successors (“**Lehmans**”);
- Swire Pacific Limited and its Successors (“**Swire**”); and
- CNOOC Limited and its Successors (“**CNOOC**”);

(each a “**Company**” and collectively referred to in this Issue Prospectus as the “**Companies**”); and

- The People’s Republic of China and its Successors (the “**Sovereign Entity**”).

#### **Procedure for redemption of the Notes following a Company or Sovereign Credit Event**

- The Issuer notifies the Trustee and the Noteholders (via the clearing systems) that (1) a Company or Sovereign Credit Event has occurred in respect of one of the Companies or the Sovereign Entity (specifying the applicable Company or Sovereign Credit Event and the Credit Event Entity (as defined in the section headed “Technical Definitions” in this Issue Prospectus) on or promptly after the Company or Sovereign Credit Event Determination Date and (2) the Notes have ceased to bear interest from the Interest Period End Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of such Company or Sovereign Credit Event (or, if such notification is given prior to the first Interest Period End Date, no interest will be payable on the Notes), and the Notes will be redeemed on the Company or Sovereign Credit Event Redemption Date at the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described below). The notice setting out the occurrence of a Company or Sovereign Credit Event will include a brief description of the relevant event and the Public Source of such information and an explanation of how it fits the definition of a Company or Sovereign Credit Event.
- In practice, prior to the Issuer notifying the Trustee and the Noteholders as described above, the Issuer would have received a notice from the Swap Counterparty notifying the Issuer that a Company or Sovereign Credit Event has occurred in respect of one of the Companies or the Sovereign Entity. The Credit Event Entity notified to the Trustee and Noteholders by the Issuer as described above will be the same Company or Sovereign Entity, as the case may be, notified by the Swap Counterparty to the Issuer under the Swap Agreement. If a Company or Sovereign Credit Event occurs in respect of more than one Company or Sovereign Entity at or about the same time, and notice of a Company or Sovereign Credit Event is given to the Noteholders, the Credit Event Entity as set out in the Company or Sovereign Credit Event Notice will be the same Company or Sovereign Entity, as the case may be, selected by the Swap Counterparty and notified to the Issuer under the Swap Agreement.
- On or prior to the Valuation Date (as defined below) after the Company or Sovereign Credit Event Determination Date, the Swap Counterparty will identify at its sole and absolute discretion certain borrowing obligations of the Credit Event Entity which are “Bonds” or “Loans” which meet the criteria for Deliverable Obligations, provided that the Swap Counterparty may at its discretion on or prior to the Valuation Date change one or more of the “Bonds” or “Loans” it has identified. In practice, the same “Bonds” or “Loans” will be identified as Deliverable Obligations under the provisions of the Swap Agreement.
- The aggregate principal amount of “Bonds” or “Loans” so identified (or its equivalent in United States dollars calculated by reference to the relevant spot exchange rate at the time the quotation is being obtained on the Valuation Date in the case of “Bonds” or “Loans” which are not denominated in United States

dollars. In practice, the spot exchange rate(s) used will be the same as the spot exchange rate(s) used by the calculation agent under the Swap Agreement) will be equal to the principal amount of the Tranche A Notes and Tranche B Notes outstanding on the Company or Sovereign Credit Event Determination Date.

- On any date (the “**Valuation Date**”) falling on or after the 52nd Business Day to and including the 125th Business Day following the Company or Sovereign Credit Event Determination Date, as selected by the Swap Counterparty at its sole and absolute discretion, the Swap Counterparty will obtain firm bid prices for the purchase of the Deliverable Obligations identified as described above from five Dealers as selected by the Determination Agent, acting for and on behalf of the Issuer (which Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates). If firm bid prices from five Dealers cannot be obtained, the Swap Counterparty will determine such bid price for the purchase of the Deliverable Obligations at its sole and absolute discretion, following which the Determination Agent, acting for and on behalf of the Issuer, will also determine the Company or Sovereign Credit Event Redemption Amount (which amount is then adjusted to allow for adjustments in respect of the pro rata share of changes in the value of the Underlying Securities (as more fully described below)). The determination of the Company or Sovereign Credit Event Redemption Amount may fall after the Scheduled Maturity Date.
- The Company or Sovereign Credit Event Redemption Amount will be an amount equal to the amount determined for the Deliverable Obligations of the Credit Event Entity in accordance with the previous paragraph.
- The Company or Sovereign Credit Event Redemption Amount will reflect the fall in value of the Deliverable Obligations of the Credit Event Entity.
- The holders of the Tranche A Notes will receive their pro-rata share of the Company or Sovereign Credit Event Redemption Amount plus or minus, as the case may be, their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Company or Sovereign Credit Event Redemption Date. The amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.
- The holders of the Tranche B Notes will receive the sum of the following amounts, after conversion into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Company or Sovereign Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith: (i) their pro-rata share of the Company or Sovereign Credit Event Redemption Amount, plus or minus, as the case may be, (ii) their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Company or Sovereign Credit Event Redemption Date. The amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.

- Prospective investors should appreciate that the market value of the Deliverable Obligations used to determine the Company or Sovereign Credit Event Redemption Amount as described above may be subject to certain deductions relating to the costs associated with the holding and/or handling and/or sale and/or valuation of the “Bonds” or “Loans” and will be paid net of any required withholding and deductions (such amount is referred to in this Issue Prospectus as the “net cash equivalents of the Deliverable Obligations”). The pro-rata share of such net cash equivalents of the Deliverable Obligations will be paid to holders of the Tranche B Notes in Hong Kong dollars converted at the USD/HKD exchange rate prevailing on or about the Company or Sovereign Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, and after making certain adjustments as described in the previous two bullet points. Therefore, investors in the Tranche B Notes will be exposed to an additional exchange conversion risk which, depending on the prevailing exchange rate, may or may not have an adverse impact on the return of the investment in their Tranche B Notes. The amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.
- Prospective investors should also appreciate that the credit risk borne by investors under the Notes is not allocated to any Company or Sovereign Entity in any proportion.

### **Company or Sovereign Credit Event**

In respect of a Company, a “**Company or Sovereign Credit Event**” includes any of the following events:

- “**Bankruptcy**” includes eight defined circumstances which relate to the corporate dissolution, bankruptcy or insolvency of a Company or certain defined steps being taken which may lead to the corporate dissolution, bankruptcy or insolvency of a Company.
- “**Failure to Pay**” includes the failure by a Company to make payment (in an amount of not less than USD1,000,000 (the “**Payment Requirement**”)) under one or more defined types of borrowing obligations when such payments fall due.
- “**Restructuring**” may occur in respect of a Company if (with a number of defined exceptions) a Company or a Governmental Authority agrees with the holders of one or more defined types of borrowing obligations in an aggregate amount of not less than USD10,000,000 (the “**Default Requirement**”) to:
  - a reduction in interest payable
  - a reduction in principal payable
  - a postponement of scheduled interest or principal payment date
  - a subordination of the borrowing obligation
  - a change in currency or other composition of interest or principal payment (in certain defined circumstances)

unless the agreed Restructuring does not, amongst other things, result from a deterioration in the creditworthiness or financial condition of a Company.

In respect of the Sovereign Entity, a “**Company or Sovereign Credit Event**” includes any of the following events:

- “**Failure to Pay**” includes the failure by the Sovereign Entity to make payment (in an amount of not less than the Payment Requirement (being USD1,000,000)) under one or more defined types of borrowing obligations when such payments fall due.
- “**Restructuring**” may occur in respect of the Sovereign Entity if (with a number of defined exceptions) the Sovereign Entity or a Governmental Authority agrees with the holders of one or more defined types of borrowing obligations in an aggregate amount of not less than the Default Requirement (being USD10,000,000) to:
  - a reduction in interest payable
  - a reduction in principal payable
  - a postponement of scheduled interest or principal payment date
  - a subordination of the borrowing obligation
  - a change in currency or other composition of interest or principal payment (in certain defined circumstances)

unless the agreed Restructuring does not, amongst other things, result from a deterioration in the creditworthiness or financial condition of the Sovereign Entity.

- “**Repudiation/Moratorium**” may occur if (1) an authorised officer of the Sovereign Entity or a Governmental Authority (a) rejects in whole or in part, or challenges the validity of borrowing obligations in an amount of not less than USD10,000,000 or (b) imposes a moratorium or standstill in respect of one or more borrowing obligations in an aggregate amount of not less than USD10,000,000 and (2) a Failure to Pay or Restructuring occurs (determined without regard in either case to the Payment Requirement or the Default Requirement).

*Each of the above Company or Sovereign Credit Events is fully defined in the section headed “Technical Definitions” in this Issue Prospectus. Such definitions are based on (with certain modifications) technical definitions current in the professional credit derivatives market. The above description is a summary intended to convey the general nature of the Company or Sovereign Credit Events as defined and prospective investors should remember that the actual occurrence of a Company or Sovereign Credit Event would be determined by the Determination Agent on a strict application of the technical definitions set out in the section headed “Technical Definitions” in this Issue Prospectus.*

Prospective investors should note that, after the occurrence of a Company or Sovereign Credit Event, the market value of the “Bonds” or “Loans” of the Credit Event Entity are likely to be substantially less than the principal amount of those “Bonds” or “Loans” (and may be as low as zero). Accordingly, the Company or Sovereign Credit

Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Company or Sovereign Credit Event” above) payable to investors in the Notes following the occurrence of a Company or Sovereign Credit Event is likely to be substantially less than the principal amount of the Notes.

### **Mandatory Redemption Events and Issuer’s Events of Default**

The Notes will also be redeemed in respect of other events that are not Company or Sovereign Credit Events (for further details and an outline of the procedure for the redemption of the Notes following the occurrence of a Mandatory Redemption Event or an Issuer’s Event of Default, see the paragraphs headed “Mandatory Redemption” and “Issuer’s Events of Default” in the section headed “Information about the Notes” in this Issue Prospectus). In such circumstances, there is no assurance that the Issuer will have sufficient amounts to repay the principal amount due to be paid in respect of the Notes. Prospective investors should appreciate that the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date on which a Mandatory Redemption Event or, as the case may be, an Issuer’s Event of Default occurs or, if a Mandatory Redemption Event or, as the case may be, an Issuer’s Event of Default occurs prior to the first Interest Period End Date, no interest will be payable on the Notes.

### **Issuer Call Option**

In respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early the Notes of such Tranche in whole (but not in part) at any time from and including the first Interest Period End Date if the Swap Counterparty has exercised the Swap Counterparty Option in respect of such Tranche of Notes. Following the exercise by the Issuer of its irrevocable call option in relation to a Tranche of Notes, the Notes of such Tranche will be redeemed in whole at their principal amount plus accrued interest up to the relevant Call Redemption Date. Any exercise by the Issuer of an Issuer Call Option shall be irrevocable and the redemption of the relevant affected Tranche of Notes following such exercise of such Issuer Call Option will occur as described above notwithstanding the occurrence of a Mandatory Redemption Event or a Company or Sovereign Credit Event after the exercise of such Issuer Call Option. Following the exercise of an Issuer Call Option in respect of a Tranche of Notes, as such Tranche of Notes will be redeemed in whole, no interest will be payable on such Tranche of Notes after the Call Redemption Date (for further details and a description of the procedure for the redemption of Notes of any Tranche in whole following the exercise of an Issuer Call Option, see the paragraph headed “Issuer Call Option” in the Section headed “Information about the Notes” in this Issue Prospectus).

### **Are the Notes appropriate for you?**

The Notes are designed for investors who are:

- looking for fixed rate semi-annual interest income;
- in respect of the Tranche B Notes, confident about the stability in the exchange rate of USD/HKD;
- confident that none of the Companies or any Successors to such Companies will be affected by a major corporate default on its borrowings, bankruptcy or

adverse debt restructuring prior to the Scheduled Maturity Date and accept the risk that the principal amount of the Notes and any accrued interest from the immediately preceding Interest Period End Date will not be payable in such event;

- confident that the Sovereign Entity or any Successor to the Sovereign Entity will not be affected by a major default on its borrowings or an adverse debt restructuring nor will it impose a moratorium on or repudiate its borrowings and then default on such borrowings or be affected by an adverse debt restructuring in respect of such borrowings, in each case, prior to the Scheduled Maturity Date and accept the risk that the principal amount of the Notes and any accrued interest from the immediately preceding Interest Period End Date will not be payable in such event;
- willing to accept redemption of the Notes following notification of the occurrence of a Company or Sovereign Credit Event or the occurrence of a Mandatory Redemption Event or an Issuer's Event of Default, and accept that the amount available to the Issuer for payment to Noteholders under such circumstances (in the case of redemption of Notes following the occurrence of a Mandatory Redemption Event or an Issuer's Event of Default, after deducting any costs and expenses arising out of an early termination of the Swap Agreement or the Forward Agreement, as the case may be, and paying any other amounts owed by the Issuer to other parties in priority to the Noteholders) may be substantially less than the principal amount of the Notes and that any accrued interest from the immediately preceding Interest Period End Date will not be payable in such event; and
- willing to accept that the Issuer may redeem the Notes of either or both Tranches in whole early at any time from and including the first Interest Period End Date if the Swap Counterparty has exercised the Swap Counterparty Option in respect of such Tranche of Notes and confident that they may be able to reinvest the principal amount of the Notes redeemed at a rate of return comparable to that provided under the Notes.

**Prospective investors should read this Issue Prospectus and the Programme Prospectus carefully to determine if the Notes are a suitable investment for them and should not invest in the Notes if they do not fully understand all the features and risks of the Notes. Prospective investors in Notes should therefore consult their own legal, tax, accountancy or other professional advisers to assist them to determine the suitability of the Notes for them as an investment.**

## INFORMATION ABOUT THE NOTES

*The following summary of certain important terms of the Notes is qualified by reference to the full text of the Master Conditions applicable to the Notes set out in the Programme Prospectus and the Global Certificates (incorporating the provisions of the Pricing Supplements) which will represent the Notes. See “Master Conditions” below for a description of the relationship between the Master Conditions, the Pricing Supplements and the Global Certificates. Capitalised terms used in this Issue Prospectus but not defined in this Issue Prospectus shall have the meanings given to them in the Programme Prospectus. The Notes (in global and definitive form) and related terms and conditions thereof, as described in this Issue Prospectus, will be issued in the English language.*

*Please refer to the paragraph headed “Conventions” in the section headed “The Distributors” for a discussion relating to the usage of the terms “Noteholders”, “you”, “investors” and “prospective investors” in this Issue Prospectus.*

Issuer: Victoria Peak International Finance Limited (as further described in “Description of the Issuer” in the Programme Prospectus).

Issue Size: The total principal amount of Notes of a Tranche to be issued will be determined by the Arranger in its absolute discretion on the Fixing Date in light of market interest in the Notes. The Issue Size will be notified to investors as soon as practicable after the Issue Date in the manner provided under the paragraph headed “Notices” in this section below.

**Please note that the Issuer, after consultation with the Arranger, may in its absolute discretion decide on or before the Fixing Date to issue or not to issue either or both Tranche(s) in light of general market interest in the Notes.**

If the Issuer, after consultation with the Arranger, decides not to issue either or both Tranche(s), monies paid by applicants in respect of the affected Tranche(s) will be returned by the Distributors within 10 Hong Kong Business Days after the Fixing Date. See the paragraphs headed “Cancellation of the issue of any of the Tranches of Notes” and “Refund of Application Monies” in the section headed “Application Procedures” in this Issue Prospectus.

Issue Price: 100 per cent. of the principal amount of the Notes (the “**Issue Price**”).

Issue Date: The Issue Date is expected to be 25 September 2006 and may be postponed as described under “Fixing Date” and “Postponement of Issue Date” below, but will be no later than 27 November 2006.

Fixing Date: Expected to be 19 September 2006 (the “**Original Fixing Date**”). The Issuer, after consultation with the Arranger, may exercise its absolute discretion to postpone the Fixing Date to a date falling no later than 22 November 2006 (and, in any case, a date not less than two Hong Kong Business Days prior to the Issue Date as postponed as described in the paragraph below), in which case such date will be the Fixing Date. If the Issuer so postpones the Fixing Date, it will notify the Distributors of the postponed Fixing Date on or before the Original Fixing Date.

If the Issuer postpones the Fixing Date as described above, if the Issuer so requires, the expected Issue Date will also be postponed by at least the same number of Hong Kong Business Days by which the Fixing Date was postponed. The Issuer will notify the Distributors of the postponed expected Issue Date on or before the Original Fixing Date.

Postponement of Issue Date: **Notwithstanding any postponement of the Fixing Date as described above, the Issuer, after consultation with the Arranger, may exercise its absolute discretion not to issue either or both Tranche(s) in light of general market interest. If the Issuer decides not to issue either or both Tranche(s), it will notify the Distributors as soon as practicable after the Fixing Date. See the paragraphs headed “Cancellation of the issue of any of the Tranches of Notes” and “Refund of Application Monies” in the section headed “Application Procedures” in this Issue Prospectus.**

Notwithstanding the determination by the Arranger of the total principal amount of Notes of a Tranche to be issued on the Fixing Date, the Issuer, after consultation with the Arranger, may at any time between the Fixing Date and the then expected Issue Date exercise its absolute discretion to postpone the Issue Date to a date falling no later than 27 November 2006. Where both Tranches are to be issued, the Issue Date of a Tranche may be postponed independently of the Issue Date of the other Tranche. Such right to postpone the Issue Date will apply in addition to the right to postpone the Fixing Date. If the Issuer so postpones the Issue Date to issue either or both Tranche(s), it will notify the Distributors on or before the then expected Issue Date.

Interest Rate: *For Tranche A:*  
6.10 per cent. per annum from, and including, the first Interest Period to, and including, the eighth Interest Period (“**Year 1 to Year 4**”), and 7.20 per cent. per annum from the ninth Interest Period to, and including, the Interest Period ending on the Scheduled Maturity Date (“**Year 5 to 5.5**”).

*For Tranche B:*  
5.40 per cent. per annum from Year 1 to Year 4 and 6.50 per cent. per annum from Year 5 to 5.5.

Where:

**“Interest Period”** means the period beginning on and including the Issue Date and ending on but excluding the first Interest Period End Date (expected to be 25 March 2007 or, if applicable, such other date as may be six months following the Issue Date) and each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date.

**“Interest Period End Date”** means 25 March and 25 September of each year (or, if applicable, such other dates falling on every six months following the Issue Date), commencing on 25 March 2007 (or, if applicable, such other date as may be six months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Company or Sovereign Credit Event being given to Noteholders or a Mandatory Redemption Event or an Issuer’s Event of Default occurring) the Interest Period End Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Company or Sovereign Credit Event or, as the case may be, the date upon which the Mandatory Redemption Event occurs or, as the case may be, the date upon which the Issuer’s Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) the Call Redemption Date in respect of such Issuer Call Option (see “Procedure for redemption of the Notes following a Company or Sovereign Credit Event”, “Mandatory Redemption Events and Issuer’s Events of Default” and “Issuer Call Option” in the section headed “Summary — Structure and Outline” of this Issue Prospectus).

Interest Amount:

Unless (i) notice of the occurrence of a Company or Sovereign Credit Event is given to Noteholders, (ii) a Mandatory Redemption Event occurs, (iii) an Issuer’s Event of Default occurs or (iv) an Issuer Call Option is exercised in respect of the relevant Tranche of Notes:

- (a) on each Interest Payment Date relating to Year 1 to Year 4, the holders of Tranche A Notes will receive an amount of USD152.50 per Tranche A Note and the holders of Tranche B Notes will receive an amount of HKD1,080 per Tranche B Note; and
- (b) on each Interest Payment Date relating to Year 5 to 5.5, the holders of Tranche A Notes will receive an amount of USD180 per Tranche A Note and the holders of Tranche B Notes will receive an amount of HKD1,300 per Tranche B Note.

Interest Payment Dates: Interest will be payable semi-annually in arrear on 25 March and 25 September in each year (or, if applicable, such other dates falling on every six months following the Issue Date), commencing on 25 March 2007 (or, if applicable, such other date as may be six months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Company or Sovereign Credit Event being given to Noteholders or a Mandatory Redemption Event or an Issuer's Event of Default occurring) the Interest Payment Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Company or Sovereign Credit Event or, as the case may be, the date upon which the Mandatory Redemption Event occurs or, as the case may be, the date upon which the Issuer's Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) the Call Redemption Date in respect of such Issuer Call Option (see "Procedure for redemption of the Notes following a Company or Sovereign Credit Event", "Mandatory Redemption Events and Issuer's Events of Default" and "Issuer Call Option" in the section headed "Summary — Structure and Outline" of this Issue Prospectus).

If an Interest Payment Date in any year is a Saturday or a Sunday or otherwise is not a day on which commercial banks open for business and foreign exchange markets settle payments in US dollars or generally in New York City, London and Hong Kong (a "**Business Day**") then payment of the interest or principal due on that day will be made on the first Business Day after that day. No adjustment will be made to the amount of interest or principal payable in the event of such a postponed payment.

Upon (i) a notice being given to the Noteholders in respect of the occurrence of a Company or Sovereign Credit Event or (ii) a Mandatory Redemption Event occurring or (iii) an Issuer's Event of Default occurring, the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of such Company or Sovereign Credit Event or, as the case may be, the date upon which the Mandatory Redemption Event occurs or, as the case may be, the date upon which the Issuer's Event of Default occurs or, if notification of such Company or Sovereign Credit Event is given or, as the case may be, the Mandatory Redemption Event occurs or, as the case may be, the Issuer's Event of Default occurs prior to the first Interest Period End Date, no interest will be payable on the Notes.

Upon the exercise of an Issuer Call Option in respect of a Tranche of Notes, no interest will be payable on such Tranche of Notes after the Call Redemption Date in respect of such Issuer Call Option.

Interest Rate Day Count Fraction: 30/360.

Scheduled Maturity Date: 25 March 2012 (or, if applicable, such date falling 66 months after the Issue Date).

Please note that the Notes may be redeemed before or after the Scheduled Maturity Date if notice of the occurrence of a Company or Sovereign Credit Event is given to Noteholders or if a Mandatory Redemption Event or Issuer's Event of Default occurs. The relevant Tranche of Notes will be redeemed before the Scheduled Maturity Date if the Issuer exercises the Issuer Call Option in respect of such Tranche of Notes.

Redemption Amount on the Scheduled Maturity Date: 100 per cent. of the principal amount outstanding of the Notes (subject to the notification of the occurrence of a Company or Sovereign Credit Event or the occurrence of a Mandatory Redemption Event or an Issuer's Event of Default).

Note Denomination/  
Principal Amount  
per Note: *Tranche A Notes: USD5,000*  
*Tranche B Notes: HKD40,000*

Form: The Notes will be in registered global form.

For a description of how investors will hold the Notes, please see the section headed "Custody Arrangements with Distributors" in the Programme Prospectus.

Status: The Notes are secured and limited recourse obligations of the Issuer, as described below.

Swap Agreement/Swap Guarantee: To enable the Issuer to meet its payment obligations under the Notes, the Issuer will enter into a Swap Agreement (the "**Swap Agreement**") with Morgan Stanley Capital Services Inc. (the "**Swap Counterparty**"). The obligations of the Swap Counterparty will be guaranteed by Morgan Stanley (the "**Swap Guarantor**") pursuant to the swap guarantee dated 30 September 2004 (the "**Swap Guarantee**"). (See the section headed "Information about the Swap Arrangements for the Notes" in this Issue Prospectus.)

**The Notes will not be obligations of and will not be guaranteed by either the Swap Counterparty or the Swap Guarantor. The Swap Guarantee comprises a guarantee only in respect of the Swap Counterparty's payment of all amounts due and payable to the Issuer under the Swap Agreement.**

The Morgan Stanley  
Exchange Option:

Morgan Stanley & Co. International Limited has a right under the Morgan Stanley Exchange Option to exchange any or all of the Notes beneficially owned by it for a *pro-rata* amount of the Underlying Securities from the Issuer (see the section headed "Summary of the Retail Note Programme — The Morgan Stanley Exchange Option" in the Programme Prospectus).

Condition 7(i) of the Master Conditions as set out in the section headed "Master Terms and Conditions of the Notes" in the Programme Prospectus shall not apply.

Early Termination of the  
Swap Agreement:

Upon an early termination of the Swap Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of the Morgan Stanley Exchange Option) and the Swap Agreement (or the relevant part, as applicable) is not replaced by similar arrangements on or prior to such termination, (see the section headed "Description of the Swap Agreement and the Swap Guarantee" in the Programme Prospectus), a Mandatory Redemption Event will occur and the Notes will be subject to early redemption (see the section headed "Information about the Notes — Mandatory Redemption" and paragraph (iii) of such section in this Issue Prospectus) and the Issuer or the Swap Counterparty may be liable to make a termination payment to the other (regardless, if applicable, of which of such parties may have caused such termination) (please also see the paragraph headed "Termination of Swap Agreement" in the section headed "Information About the Swap Arrangements for the Notes" in this Issue Prospectus).

There is no assurance that any redemption amount payable to Noteholders following an early termination of the Swap Agreement will be sufficient to pay the principal amount and interest to be paid in respect of the Notes.

Forward Agreement/  
MS/MSIL Guarantee:

The Issuer will enter into a confirmation in respect of a contingent forward transaction under a master agreement in connection with each Tranche of Notes (together, the “**Forward Agreement**”) with Morgan Stanley & Co. International Limited (the “**Forward Counterparty**”) in connection with the issue of the Notes. The obligations of the Forward Counterparty will be guaranteed by the Swap Guarantor pursuant to a guarantee dated 29 April 2005 (the “**MS/MSIL Guarantee**”) which is in substantially the same form as the form of the Swap Guarantee set out in Appendix B to the Programme Prospectus.

If an Issuer Call Option is exercised in relation to a Tranche of the Notes, the Issuer will, pursuant to the Forward Agreement, deliver to the Forward Counterparty the Underlying Securities in respect of such Tranche of Notes and in return receive a cash amount equal to the principal amount of such Underlying Securities. The Issuer will pay to the Swap Counterparty such cash amount it receives from the Forward Counterparty and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the relevant Tranche of Notes plus any accrued interest up to the Call Redemption Date in respect of such Issuer Call Option to enable the Issuer to meet its obligations under such Notes. See the section headed “Information about the Forward Agreement” in this Issue Prospectus for further details.

Security:

Pursuant to the provisions of a principal trust deed dated 30 August 2004 as amended and restated on 29 March 2005 and as further amended and restated on 5 June 2006 (the “**Principal Trust Deed**”) entered into between the Issuer and J.P. Morgan Corporate Trustee Services Limited (in its capacity as the “**Trustee**”) and a supplemental trust deed to be dated the Issue Date (the “**Tenth Supplemental Trust Deed**”, and together with the Principal Trust Deed, the “**Trust Deed**”) to be entered into between, amongst others, the Issuer and the Trustee, the Issuer will grant the security described below to the Trustee as continuing security for (i) the payment of all sums due under the Trust Deed and the Notes and (ii) the performance by the Issuer of its obligations under the Swap Agreement and the Forward Agreement. The Trustee shall hold such security on behalf of the Beneficiaries (see the paragraph headed “The Beneficiaries” in this section below).

The following is a summary of the security (the “**Mortgaged Property**”) which will be granted by the Issuer in respect of the Notes:

- a fixed charge of its rights attaching to or relating to the Underlying Securities and all sums derived therefrom (see the section headed “Description of the Security Arrangements in respect of the Notes” in the Programme Prospectus);
- an assignment of all its rights, title and interest under the Swap Agreement, the Swap Guarantee, the Agency Agreement (as defined in the Master Conditions), the Forward Agreement and the MS/MSIL Guarantee, including all its rights against the Custodian, to the extent they relate to the Underlying Securities, including, amongst others, all rights to the delivery of such Underlying Securities against the Custodian or any applicable clearing system; and
- a fixed charge of all sums (i) received under the Swap Agreement, the Swap Guarantee, the Forward Agreement and the MS/MSIL Guarantee and (ii) held by the Principal Paying Agent, the Custodian or the Registrar to meet payments due in respect of the Notes.

Additional documents creating security interests specified as such in the Tenth Supplemental Trust Deed may be entered into by the Issuer where relevant.

The Beneficiaries:

The claims of the Trustee, the Custodian, the Principal Paying Agent, the Registrar, the Swap Counterparty and the Forward Counterparty against the Issuer shall rank prior to the claims of the Noteholders under the Notes in the application of all monies received in connection with the realisation or enforcement of the Mortgaged Property (please see further the paragraph headed “Order of Priorities” in this section below). In realising the Mortgaged Property, in certain circumstances the Trustee is obliged to act in accordance with the directions of the Swap Counterparty (provided that sums are due to the Swap Counterparty).

Order of Priorities:

“Derivatives Counterparty Priority” shall apply. Accordingly, all monies received by the Trustee in respect of the Mortgaged Property for the Notes will be applied in the following order of priorities:

- (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 under the notes and the Trust Deed (including any taxes required to be paid, the costs of realising or enforcing any security and the Trustee’s remuneration);

- (b) Secondly, rateably in meeting the claims (if any) of the Swap Counterparty under the Swap Agreement and the Forward Counterparty under the Forward Agreement (which for this purpose shall include any claim of the Custodian for reimbursement in respect of payments made to the Swap Counterparty under the Swap Agreement or the Forward Counterparty under the Forward Agreement, as the case may be, and relating to sums receivable on the Underlying Securities);
- (c) Thirdly, rateably in meeting the claims (if any) of the holders of Notes and Coupons (as defined in the Master Conditions in the Programme Prospectus) (which for this purpose will include any claim of the Custodian, the Principal Paying Agent and the Registrar for reimbursement in respect of payment of principal and interest made to holders of Notes and/or Coupons); and
- (d) Fourthly, in payment of the balance (if any) to the Issuer.

Limited Recourse:

Claims against the Issuer by the Trustee, the Noteholders, the Swap Counterparty, the Forward Counterparty, the Principal Paying Agent, the Registrar and the Custodian will be limited to the Mortgaged Property (as described in the paragraph headed “Security” in this section above). If the net proceeds of the enforcement or realisation of the security constituting the Mortgaged Property are not sufficient to make all payments due in respect of the Notes, no other assets of the Issuer will be available to meet such shortfall and all claims in respect of such shortfall shall be extinguished. See the paragraph headed “Order of Priorities” in this section above for a description of how the claims of the secured parties, including the Noteholders, would rank in the case of any such shortfall.

Underlying Securities:

“Standard Underlying Securities” as specified in Condition 3 of the Master Conditions in the section headed “Master Terms and Conditions of the Notes” in the Programme Prospectus) shall apply. The Issuer, using the proceeds received from the issue of the Notes, will on the Issue Date invest such proceeds in a principal amount of securities (including, without limitation, liquidity funds or money market funds or similar investment vehicles), or in a deposit, denominated in US dollars that satisfy the criteria set out in Condition 3(e) in the section headed “Master Terms and Conditions of the Notes” in the Programme Prospectus. Such securities or deposits are referred to in this Issue Prospectus as the “**Original Underlying Securities**”.

Information about which Original Underlying Securities are to be invested in will not be available at the time investors decide to purchase the Notes. However, the Issuer will, as soon as practicable after the Issue Date, notify the Noteholders (via the clearing systems) details (including the issuer(s) and rating(s)) of the Original Underlying Securities (or the rating(s) of the issuer(s) or obligor(s) thereof). Information about the issuer(s) and the rating(s) of the Original Underlying Securities (or the rating(s) of the issuer(s) or obligor(s) thereof) will also be made available for inspection in accordance with the paragraph headed “Display Documents” in the section headed “Additional Information About the Offering” from the Issue Date. See also the paragraph headed “Discretion of the Issuer to invest in the Underlying Securities” in the section headed “Risk Factors” in the Programme Prospectus.

The Original Underlying Securities or, where applicable, each Original Underlying Securities (or the issuer(s) or obligor(s) thereof) will on the Issue Date (other than that part of the Original Underlying Securities in the form of Cash Deposits) be rated at least “Aaa”, “Aa2/P-1” (in the case of Medium Term Notes), “P-1” or “MR1+” (as the case may be) by Moody’s and/or at least “AAA”, “AA/A-1” (in the case of Medium Term Notes), “A-1” or “AAAm” (as the case may be) by S&P and/or at least “AAA”, “AA/F1” (in the case of Medium Term Notes), “F1” or “AAA/V1+” (as the case may be) by Fitch (and will not be subject to a negative outlook). The Original Underlying Securities or, where applicable, each Original Underlying Securities (other than that part of the Original Underlying Securities in the form of Cash Deposits) (or the issuer(s) or obligor(s) thereof) will be rated by at least one rating agency as of the Issue Date.

Please refer to Condition 3(e) in the section headed “Master Terms and Conditions of the Notes” in the Programme Prospectus and the section headed “Information about the Underlying Securities” in this Issue Prospectus for details relating to the redemption or repayment of the Original Underlying Securities and the reinvestment of the proceeds of such redemption.

Any such redemption, repayment or reinvestment in accordance with Condition 3(e) of the Notes will be notified to the Noteholders by the Issuer in accordance with Condition 16 of the Notes.

Eligible Investments:

As defined in Condition 3(e) in the section headed “Master Terms and Conditions of the Notes” of the Programme Prospectus.

Mandatory Redemption: The Notes shall be subject to mandatory redemption by the Issuer upon the occurrence of any of the following events (each, a “**Mandatory Redemption Event**”)

(i) if:

(A) there has been a payment default in respect of any of the Underlying Securities (without regard to any grace period applicable with respect to such payments); or

(B) the outstanding principal amount of any of the Underlying Securities is reduced or otherwise written down in accordance with their terms, or if any of the Underlying Securities are redeemed early or otherwise becomes repayable early in whole or in part by the issuer of such Underlying Securities prior to their scheduled dates of maturity (if any) for any reason whatsoever at a principal amount less than the outstanding principal amount the subject of such redemption or repayment, or if the payment of any principal in respect of any of the Underlying Securities is deferred beyond the scheduled maturity date (if any) of such Underlying Securities in accordance with the terms of such Underlying Securities (an “**Underlying Securities Writedown Event**”)

(where each of (A) and (B) is an “**Underlying Securities Default Event**”); or

(ii) if:

(A) 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 (including but not limited to its income in respect of any of the Underlying Securities) or payments made to it under the Swap Agreement and/or the Forward Agreement or would receive net of tax any payments in respect of any of the Underlying Securities or payments made to it under the Swap Agreement and/or the Forward Agreement so that it would be unable to make payment of the full amount due on the Notes (and it is unable to arrange for the substitution of a company incorporated in another jurisdiction which would not impose such requirement as the principal obligor in respect of the Notes); or

(B) any exchange controls or other currency exchange or transfer restrictions are imposed on the Issuer or any payments to be made to or by the Issuer or for any reason the cost to the Issuer of complying with its obligations under or in connection with the Notes or the Trust Deed would (in the sole opinion of the Issuer) be materially increased, and the Issuer, having used its best endeavours, is unable to arrange for the substitution of a company incorporated in another jurisdiction in which the relevant exchange control or currency exchange or transfer restrictions do not apply before the next payment is due in respect of the Notes

(where each of (A) and (B) is a “**Tax Event**”); or

(iii) if any of the Swap Agreement or the Forward Agreement is terminated in whole or in part for any reason (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option) and the Swap Agreement or the Forward Agreement, as the case may be, (or the relevant part, as applicable) is not replaced on or prior to such termination (see the section headed “Description of the Swap Agreement and the Swap Guarantee” in the Programme Prospectus and the sections headed “Information about the Swap Arrangements for the Notes” and “Information about the Forward Agreement” in this Issue Prospectus for further details); or

(iv) if the terms and conditions of any of the Underlying Securities are amended such that the issuer of (or account bank in respect of) such Underlying Securities shall no longer be obliged to pay the same amounts on the same days as contemplated in the terms and conditions of such Underlying Securities as of the date invested in by the Issuer (a “**Restructuring of Underlying Securities Event**”).

Conditions 7(b), 7(c)(i) and 7(c)(ii) of the Master Conditions as set out in the section headed “Master Terms and Conditions of the Notes” in the Programme Prospectus shall not apply.

The Issuer will notify the Trustee and the Noteholders (via the clearing systems) of the Mandatory Redemption Event promptly after the date on which the Determination Agent, acting for and on behalf of the Issuer, determines in its sole and absolute discretion acting in good faith that a Mandatory Redemption Event has occurred and the Issuer will redeem the Notes by payment of the applicable Mandatory Redemption Amount (as described in the paragraphs headed “Mandatory Redemption Amount following an Underlying Securities Default Event”, “Mandatory Redemption Amount following Tax Event”, “Mandatory Redemption Amount following a Restructuring of Underlying Securities Event”, and “Mandatory Redemption Amount following termination of the Swap Agreement and/or the Forward Agreement” all in this section of this Issue Prospectus below) on or prior to the 10th Business Day after the relevant date on which the Underlying Securities have been sold or realised (the “**Mandatory Redemption Date**”). The pro-rata share of the applicable Mandatory Redemption Amount payable to holders of the Tranche B Notes will be converted into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the relevant Mandatory Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith.

The Notes so redeemed will cease to bear any interest from the Interest Period End Date immediately preceding the date upon which such Mandatory Redemption Event occurs (or if such Mandatory Redemption Event occurs prior to the first Interest Period End Date, no interest will be payable on the Notes).

All amounts received in respect of the Underlying Securities by the Issuer, after deduction of costs and expenses and adjusted for the Swap Settlement Amount (if any) payable to or by the Issuer under the Swap Agreement and/or the Forward Agreement, as the case may be, will be paid to the Noteholders pro-rata to their holdings of Notes. Following application of such net sale proceeds together with the Swap Settlement Amount (if any) under the Swap Agreement and/or the Forward Agreement, as the case may be, no further amounts will be available to meet any remaining claims of the Noteholders and any such claims will be extinguished.

“**Swap Settlement Amount**” means the early termination amount or close out payment (as determined by the Swap Counterparty or the Forward Counterparty, as the case may be) receivable or payable (expressed as a negative amount) by the Swap Counterparty or Forward Counterparty or the Issuer under the Swap Agreement or the Forward Agreement, as the case may be, which has terminated early or otherwise closed out (other than as a result of an Underlying Securities Writedown Event, the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option).

If a potential Mandatory Redemption Event occurs at or about the same time that a Company or Sovereign Credit Event occurs, whether the Notes redeem in accordance with the description set out under the section headed “Mandatory Redemption” or in accordance with the description in the section headed “Company or Sovereign Credit Event Redemption Amount following a Company or Sovereign Credit Event” will depend on whether the Determination Agent, acting for and on behalf of the Issuer, exercises its discretion to determine that a Mandatory Redemption Event has occurred before the Issuer receives notice of a credit event in respect of a Company or Sovereign Entity from the Swap Counterparty under the Swap Agreement. If so, then the Notes will redeem in accordance with the description set out under the section headed “Mandatory Redemption”. If not, and notice of the occurrence of a Company or Sovereign Credit Event is given to the Noteholders by the Determination Agent acting for and on behalf of the Issuer, the Notes will be redeemed in accordance with the description in the section headed “Company or Sovereign Credit Event Redemption Amount following a Company or Sovereign Credit Event”.

Issuer Call Option:

In respect of each Tranche of Notes, the Issuer has the right, but not the obligation, to early redeem the Notes of such Tranche in whole (but not in part) at any time from and including the first Interest Period End Date by giving at least five Business Days’ prior written notice to the Noteholders (via the clearing systems) (such date of redemption, the “**Call Redemption Date**”), provided that the Issuer shall only exercise such right if the Swap Counterparty has exercised the Swap Counterparty Option in respect of such Tranche of Notes.

Upon exercise by the Issuer of an Issuer Call Option in respect of a Tranche of the Notes, the Issuer shall redeem such Tranche of the Notes in whole (but not in part) at their principal amount plus accrued interest up to the relevant Call Redemption Date.

Any exercise by the Issuer of an Issuer Call Option shall be irrevocable and the redemption of the relevant affected Tranche of Notes following the exercise of such Issuer Call Option will occur as described above notwithstanding the occurrence of a Mandatory Redemption Event or a Company or Sovereign Credit Event after such exercise of such Issuer Call Option.

Following the exercise of an Issuer Call Option in respect of a Tranche of Notes, as such Tranche of Notes will redeem in whole, no interest will be payable on such Tranche of Notes after the Call Redemption Date in respect of such Issuer Call Option.

**“Swap Counterparty Option”** means, in respect of each Tranche of Notes, the option of the Swap Counterparty, as provided in the Swap Agreement, to terminate the Swap Agreement in respect of the relevant notional amount of such Tranche of the Notes in whole (but not in part) at any time from and including the first Interest Period End Date, by giving not less than five Business Days’ notice to the Issuer.

Company or Sovereign  
Credit Event:

A Company or Sovereign Credit Event means the occurrence of one of the following events:

(A) with respect to a Company and its Successors:

- (i) Bankruptcy;
- (ii) Failure to Pay;
- (iii) Restructuring;

(B) with respect to the Sovereign Entity and its Successors:

- (i) Failure to Pay;
- (ii) Restructuring;
- (iii) Repudiation/Moratorium.

**Each of the above Company or Sovereign Credit Events is fully defined in the section headed “Technical Definitions” in this Issue Prospectus. Such definitions are based on (with certain modifications) technical definitions current in the professional credit derivative market. Prospective investors should remember that the actual occurrence of a Company or Sovereign Credit Event would be determined by the Determination Agent, acting for and on behalf of the Issuer, on a strict application of the technical definitions set out in the section headed “Technical Definitions” in this Issue Prospectus.**

In the event that any Company or the Sovereign Entity is subject to a Succession Event (as defined in the section headed “Technical Definitions” in this Issue Prospectus), the Issuer shall notify the Trustee and the Noteholders (via the clearing systems) of such Succession Event and the identities and a brief description of the relevant Successors.

Company or Sovereign  
Credit Event  
Redemption Amount  
following a Company or  
Sovereign Credit Event:

Upon notice of the occurrence of a Company or Sovereign Credit Event being given to the Noteholders, the Tranche A Notes will be redeemed by the Issuer on the Company or Sovereign Credit Event Redemption Date. The holders of the Tranche A Notes will receive their pro-rata share of the Company or Sovereign Credit Event Redemption Amount plus or minus, as the case may be, their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following a sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Company or Sovereign Credit Event Redemption Date. The amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.

Upon notice of the occurrence of a Company or Sovereign Credit Event being given to the Noteholders, the Tranche B Notes will be redeemed by the Issuer on the Company or Sovereign Credit Event Redemption Date. The holders of the Tranche B Notes will receive the sum of the following amounts, after conversion into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Company or Sovereign Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith: (i) their pro-rata share of the Company or Sovereign Credit Event Redemption Amount, plus or minus, as the case may be, (ii) their pro-rata share of any

appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Company or Sovereign Credit Event Redemption Date (see further the paragraph headed “Procedure for redemption of the Notes following a Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus). The amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.

In addition, the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date on which the Issuer gives notice to the Noteholders of the occurrence of the Company or Sovereign Credit Event (or, if notice of the occurrence of the Company or Sovereign Credit Event is given prior to the first Interest Period End Date, no interest will be payable on the Notes).

For the avoidance of doubt, no Swap Settlement Amount is payable under the Swap Agreement or the Forward Agreement in connection with notice of the occurrence of a Company or Sovereign Credit Event being given to the Noteholders by the Determination Agent acting for and on behalf of the Issuer.

Mandatory Redemption  
Amount following an  
Underlying Securities  
Default Event:

Following an Underlying Securities Default Event, the Notes will be redeemed on the Mandatory Redemption Date at the Mandatory Redemption Amount. The Mandatory Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities (as defined in the paragraph headed “Determining Deliverable Obligations” in the section headed “Technical Definitions” in this Issue Prospectus) and/or any proceeds received in respect of the Underlying Securities (including any amounts received as a direct result of the reduction or writedown in the principal amount of the Underlying Securities) on or prior to the Mandatory Redemption Date plus or minus (as the case may be) the Swap Settlement Amount payable by the Swap Counterparty and/or the Forward Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement or the Forward Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities. The Mandatory Redemption Amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.

<p>Mandatory Redemption Amount following Tax Event:</p>	<p>Following a Tax Event, the Notes will be redeemed on the Mandatory Redemption Date at the Mandatory Redemption Amount. The Mandatory Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty and/or the Forward Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement or the Forward Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities. The Mandatory Redemption Amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.</p>
<p>Mandatory Redemption Amount following a Restructuring of Underlying Securities Event:</p>	<p>Following a Restructuring of Underlying Securities Event the Notes will be redeemed on the Mandatory Redemption Date at the Mandatory Redemption Amount. The Mandatory Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities, plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty and/or the Forward Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement or the Forward Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities. The Mandatory Redemption Amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.</p>
<p>Mandatory Redemption Amount following termination of the Swap Agreement and/or the Forward Agreement:</p>	<p>Following a termination of the Swap Agreement or the Forward Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley &amp; Co. International Limited of a Morgan Stanley Exchange Option) and the Swap Agreement or the Forward Agreement, as the case may be, (or the relevant part, as applicable) is not replaced on or prior to such termination, the Notes will be redeemed on the Mandatory Redemption Date at the Mandatory Redemption Amount. The Mandatory Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities, plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty and/or the Forward Counterparty or the Issuer</p>

(as the case may be) on the termination of the Swap Agreement or the Forward Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities. The Mandatory Redemption Amount which investors will receive upon redemption of such Notes as described may be substantially less than the principal amount of the Notes invested.

Issuer's 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 the Noteholders, shall (subject in each case to being indemnified to its satisfaction) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount in any of the following events (each an "**Event of Default**" and, where the Trustee has given notice to the Issuer that the Notes are, and they have accordingly forthwith become, immediately due and repayable at their principal amount such Event of Default, an "**Issuer's Event of Default**"):

- (a) default is made by the Issuer for a period of 14 days or more in the case of interest payments or 7 days or more in the case of principal payment 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 being remedied 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 or an order is made for the Issuer's bankruptcy (or any analogous proceedings) save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms previously approved in writing by the Trustee; or
- (d) if (i) any other proceedings are initiated against the Issuer under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws (but excluding the presentation of any application for an administration order) and such proceedings are not being disputed in good faith, or (ii)

an administrative receiver or other receiver, administrator or other similar official (not being an administrative receiver or other receiver or manager appointed by the Trustee pursuant to the Principal Trust Deed) is appointed in relation to the Issuer or in relation to the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer or (iii) an encumbrancer (not being the Trustee or any receiver or manager appointed by the Trustee) shall take possession of the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer or (iv) a distress or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer (other than, in any such case, by the Trustee) and in any of the foregoing cases (other than in relation to the circumstances described in (ii) where no grace period shall apply) such order, appointment, possession or process (as the case may be) is not discharged or stayed or does not cease to apply within 14 days; or

- (e) if the Issuer initiates or consents to judicial proceedings relating to itself (except in accordance with the proviso in paragraph (c) above) under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or
- (f) if the Issuer becomes insolvent or is adjudicated or found bankrupt.

Notices:

So long as the Notes are represented by the Global Certificates which are registered in the name of a nominee for the common depositary for Euroclear and/or Clearstream, Luxembourg, notices required to be given to Noteholders may be given by their being delivered to the Paying Agents and the relevant clearing system for communication to entitled accountholders. The Distributors will be the accountholders for the purpose of delivery of notices to the Noteholders through the clearing systems, and investors will therefore need to rely on their Distributors to communicate such notices to them. A copy of each notice given by the Issuer in respect of the Notes will be made available for inspection as set out under the paragraph headed “Display Documents” under the section headed “Additional Information about the Offering” in this Issue Prospectus.

Listing of the Notes:	The Notes will not be listed on any stock exchange.
Rating of the Notes:	The Notes will not be rated by any rating agency.
Governing law of the Notes:	English law.
Proposals and Advice:	On or about 2 August 2006, the Arranger proposed to the Issuer for its consideration the issue of this Series of Notes and the Swap Agreement, the Forward Agreement and the acquisition of the Underlying Securities in connection with this Series of Notes. The Board of Directors of the Issuer considered and approved the proposal by the Arranger and the issue of this Series of Notes by resolutions passed on 23 August 2006.
Selling Restrictions:	See the section headed “Subscription and Sale — Selling Restrictions” in the Programme Prospectus for a discussion of certain restrictions on the offering of the Notes and the distribution of offering materials in various jurisdictions.
Master Conditions:	<p>The description of the terms and conditions of the Notes set out in this Issue Prospectus is a summary only. The full terms and conditions of the Notes can be reviewed by reading together the following:</p> <ul style="list-style-type: none"> <li>(i) the Master Conditions, which comprise the basis of all Notes to be issued under the Programme, and which are set out in full in the Programme Prospectus; and</li> <li>(ii) the Pricing Supplement for each Tranche of the Notes to be issued on the Issue Date of the Notes, which applies and/or disapplies and/or supplements or amends the Master Conditions in the manner required to reflect the particular terms and conditions applicable only to the relevant Tranche of Notes described in this Issue Prospectus. The Pricing Supplements will be available for inspection as described under the paragraph headed “Display Documents” under the section headed “Additional Information about the Offering” in this Issue Prospectus.</li> </ul>
Amendment to the Programme Prospectus:	<p>The names of the Directors of the Issuer listed under the heading “Directors” under the section headed “Description of the Issuer” on page 80 of the Programme Prospectus is amended to read as follows:</p> <p>“Liam Jones Mark Wanless Steven Wilderspin”</p>

For so long as the Notes are held through Euroclear and/or Clearstream, Luxembourg, for the purposes of delivery of payments and notices required to be made by the Issuer to investors, such payments and notices will be given by the Issuer to the relevant clearing system for communication and delivery by it to entitled accountholders. For the purposes of delivery of any payments or notices required to be made by investors to the Issuer, such payments or notices will be given by accountholders to the clearing system for communication and delivery by it to the Issuer. The Distributors (as direct or indirect participants in the clearing system) will be the accountholders for the purposes of delivery of such payments and notices to the Issuer or the Noteholders. Accordingly, investors will have to rely on their Distributor to credit their respective accounts with payments credited to it and/or to distribute to them notices which it receives through the clearing system from the Issuer. Similarly investors will have to rely on their Distributor, to pass on any payment or notices to be given by them to the Issuer to the clearing system. See also the following sections in the Programme Prospectus: “Custody Arrangements with Distributors” and “Settlement, Clearance and Custody”.

**Other parties involved in the offering of the Notes:**

<b>Arranger, Initial Subscriber and Market Agent:</b>	Morgan Stanley & Co. International Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.
<b>Arranger’s agent:</b>	Morgan Stanley Dean Witter Asia Limited, 30th Floor, Three Exchange Square, Central, Hong Kong.
<b>Co-ordinating Distributor:</b>	ICEA Capital Limited, 26th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
<b>Trustee:</b>	J.P. Morgan Corporate Trustee Services Limited, Trinity Tower, 9 Thomas More Street, London E1W 1YT, United Kingdom.
<b>Principal Paying Agent, Registrar, Calculation Agent and Custodian:</b>	JPMorgan Chase Bank, N.A., Trinity Tower, 9 Thomas More Street, London E1W 1YT, United Kingdom.
<b>Determination Agent:</b>	Morgan Stanley & Co. International Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.
<b>Legal advisers to the Issuer as to Cayman Islands law:</b>	Maples and Calder, 1504 One International Finance Centre, 1 Harbour View Street, Hong Kong.
<b>Legal advisers to the Arranger as to English and Hong Kong law:</b>	Clifford Chance, 29th Floor, Jardine House, One Connaught Place, Hong Kong.

## TECHNICAL DEFINITIONS

### Company or Sovereign Credit Events

#### *Definition of Company or Sovereign Credit Event*

“**Company or Sovereign Credit Event**” means the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith having the right (but not the obligation) to declare the occurrence of a Company or Sovereign Credit Event upon the occurrence of one or more of the following events or conditions with respect to:

(1) a Company or Obligations of a Company, which event or condition occurs on or after the Issue Date:

- (i) Bankruptcy;
- (ii) Failure to Pay;
- (iii) Restructuring; or

(2) the Sovereign Entity or Obligations of the Sovereign Entity, which event or condition occurs on or after the Issue Date:

- (i) Failure to Pay;
- (ii) Restructuring;
- (iii) Repudiation/Moratorium.

If an occurrence would otherwise constitute a Company or Sovereign Credit Event, such occurrence will constitute a Company or Sovereign Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon: (a) any lack or alleged lack of authority or capacity of a Company or, as the case may be, the Sovereign Entity to enter into any Obligation, or as applicable, an Underlying Obligor to enter into any Underlying Obligation, (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation however described, (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described, or (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

For these purposes:

“**European Entity**” means SCB.

“**Asian Entity**” means each of BEA, CNOOC and Swire.

“**Singaporean Entity**” means DBS.

“**North American Entity**” means each of GS and Lehmans.

**“Bankruptcy”** means in respect of a Company that the Company (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof; (e) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within thirty calendar days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

**“Failure to Pay”** means in respect of a Company or the Sovereign Entity that after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by the Company or, as the case may be, the Sovereign Entity to make, when and where due, any payments in an aggregate amount of not less than USD1,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated) (the **“Payment Requirement”**), as of the occurrence of the relevant Failure to Pay, under one or more Obligations, in accordance with the terms of such Obligations at the time of such failure.

**“Repudiation/Moratorium”** means in respect of the Sovereign Entity, the occurrence of both of the following events: (i) an authorised officer of the Sovereign Entity or a Governmental Authority (x) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated) (the **“Default Requirement”**) or (y) declares or imposes a moratorium, standstill, roll-over or deferral, whether de facto or de jure, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement (being USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated)) and (ii) a Failure to Pay, determined without regard to the Payment Requirement (being USD1,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated)), or a Restructuring, determined without regard to the Default Requirement (being USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated)), with respect to any such Obligation occurs on or prior to the day which is two Business Days prior to the Scheduled Maturity Date.

“**Restructuring**” means in respect of a Company or the Sovereign Entity that:

- (a) with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement (being USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated)), any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between the Company or, as the case may be, the Sovereign Entity or a Governmental Authority and a sufficient number of holders of such Obligation to bind all holders of the Obligation or is announced (or otherwise decreed) by the Company or, as the case may be, the Sovereign Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of the Issue Date and the date as of which such Obligation is issued or incurred:
  - (i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;
  - (ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
  - (iii) a postponement or other deferral of a date or dates for either (A) the payment or accrual of interest or (B) the payment of principal or premium;
  - (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation; or
  - (v) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency.
- (b) Notwithstanding the provisions of (a) above, none of the following shall constitute a Restructuring:
  - (i) the payment in euros of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
  - (ii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
  - (iii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of a Company or, as the case may be, the Sovereign Entity.

- (c) For purposes of paragraphs (a) and (b) above, the term “Obligation” shall be deemed to include Underlying Obligations for which, in respect of any North American Entity, it is acting as provider of a Qualifying Affiliate Guarantee and in respect of any European Entity, Asian Entity, Singaporean Entity or the Sovereign Entity, as the case may be, it is acting as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to a Company or the Sovereign Entity, as the case may be, in paragraph (a) of this definition shall be deemed to refer to the Underlying Obligor and the reference to a Company or the Sovereign Entity, as the case may be, in paragraph (b) of this definition shall continue to refer to such Company or the Sovereign Entity, as the case may be.

“**Permitted Currency**” means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership); or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Cooperation and Development and has a local currency long-term debt rating of either AAA or higher assigned to it by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof (“**S&P**”), Aaa or higher assigned to it by Moody’s Investors Service, Inc. or any successor to the rating business thereof (“**Moody’s**”) or AAA or higher assigned to it by Fitch Ratings or any successor to the rating business thereof (“**Fitch**”).

#### *Occurrence of a Company or Sovereign Credit Event*

Upon the occurrence of a Company or Sovereign Credit Event (i) the Issuer shall have the right to notify the Trustee and the Noteholders via Euroclear or Clearstream, Luxembourg of the Company or Sovereign Credit Event (including reasonable details of the Publicly Available Information confirming such Company or Sovereign Credit Event) promptly after the Company or Sovereign Credit Event Determination Date; (ii) the Notes will cease to bear any interest from the Interest Period End Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of such Company or Sovereign Credit Event or, if notification of such Company or Sovereign Credit Event is given prior to the first Interest Period End Date, no interest will be payable on the Notes; (iii) the Deliverable Obligations shall be identified by the Swap Counterparty with an Initial Principal Amount equal to the principal amount of the Notes; and (iv) the Issuer will redeem the Notes by payment of the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus) on the Company or Sovereign Credit Event Redemption Date, being an amount which may be substantially less than principal amount of the Notes.

The notice setting out the occurrence of a Company or Sovereign Credit Event will include a brief description of the relevant event and the Public Source of such information and an explanation of how it fits the definition of a Company or Sovereign Credit Event.

For these purposes:

**“Publicly Available Information”** means (a) information that reasonably confirms any of the facts relevant to the determination that the Company or Sovereign Credit Event has occurred and which (i) has been published in or on not less than the number of Public Sources (as defined herein) specified in the Swap Agreement (or, if a number is not so specified, two), regardless of whether the reader or user thereof pays a fee to obtain such information; provided that, if any of the Swap Counterparty or its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Swap Counterparty or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation; (ii) is information received from or published by (A) a Company the subject of the Company or Sovereign Credit Event or a Sovereign Agency in respect of the Sovereign Entity, or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation, (iii) is information contained in any petition or filing instituting a proceeding described in paragraph (d) in the definition of “Bankruptcy” above against or by a Company or (iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

(b) In relation to any information of the type described in paragraphs (a)(ii), (iii) and (iv) above, the party receiving such information may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the party delivering such information has not taken any action or entered into any agreement or understanding with the Company or any Affiliate of the Company or, as the case may be, the Sovereign Entity that would be breached by, or would prevent, the disclosure of such information to third parties.

(c) Publicly Available Information need not state that such occurrence (A) has met the requirement of being an aggregate amount of not less than USD1,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated) in the case of a “Failure to Pay” or USD10,000,000 (or its equivalent in the relevant currency or currencies in which an Obligation is denominated) in the case of a “Restructuring”, (B) is the result of exceeding any applicable Grace Period or (C) has met the subjective criteria specified in the Company or Sovereign Credit Events.

**“Public Source”** means each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos and the Australian Financial Review (and successor publications), the main source(s) of business news, in respect of the Sovereign Entity, in the Sovereign Entity or, in respect of a Company, in the country in which the Company is organised and any other internationally recognised published or electronically displayed news sources.

### *Company or Sovereign Credit Event Redemption Amount*

The “**Company or Sovereign Credit Event Redemption Amount**” shall be an amount equal to the market value of Deliverable Obligations on the Valuation Date offered by the five Dealers selected by the Determination Agent, acting for and on behalf of the Issuer (which Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates), less the costs and expenses, as determined by the Swap Counterparty, of effecting the relevant market valuation and/or sale.

For these purposes:

“**Initial Principal Amount**” means a principal or nominal amount of Deliverable Obligations identified by the Swap Counterparty after the Company or Sovereign Credit Event Determination Date equal to the principal amount of the Notes outstanding on the Company or Sovereign Credit Event Determination Date.

“**Liquidation Proceeds**” means, following a Company or Sovereign Credit Event, the US dollar amount realisable upon the sale of the Underlying Securities, at the highest clean firm bid price obtained by the Swap Counterparty upon the solicitation of five Dealers selected by the Determination Agent, acting for and on behalf of the Issuer (which Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates), less the costs and expenses, as determined by the Determination Agent, acting for and on behalf of the Issuer of effecting the relevant market valuation and/or sale on the day which is three Business Days after the Company or Sovereign Credit Event Determination Date.

### *Determining Deliverable Obligations*

“**Deliverable Obligation**” means, subject to the application, if relevant, of the Restructuring Maturity Limitation and Fully Transferable Obligation Provisions and the Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Provisions below:

- (a) any obligation of the Credit Event Entity (either directly or, in respect of any European Entity, Asian Entity, Singaporean Entity or the Sovereign Entity, as provider of any Qualifying Guarantee or, in respect of any North American Entity, as provider of any Qualifying Affiliate Guarantee) determined pursuant to the Method For Determining Deliverable Obligations that (i) is payable in an amount equal to its outstanding principal balance excluding any accrued interest, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in (a)-(d) of the definition of Company or Sovereign Credit Event) or right of set off by or of the Credit Event Entity or any applicable Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date, of immediate assertion or demand by or on behalf of the holder or holders against the Credit Event Entity for an amount at least equal to the outstanding principal balance excluding any accrued interest being valued apart from the giving of any notice of nonpayment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement;
- (b) subject to the second paragraph of the definition of Not Contingent, each Reference Obligation applicable to such Credit Event Entity; and

- (c) solely in relation to a Restructuring Credit Event applicable to the Sovereign Entity, any Sovereign Restructured Deliverable Obligation that (i) is payable in amount equal to its outstanding principal balance excluding any accrued interest, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in (a)-(d) of the definition of Company or Sovereign Credit Event) or right of set off by or of the Sovereign Entity or, as applicable, as Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date, of immediate assertion or demand by or on behalf of the holder or holders against the Sovereign Entity for an amount at least equal to the outstanding principal balance excluding any accrued interest being valued apart from the giving of any notice of nonpayment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement.

**“Accreting Obligation”** means any obligation (including, without limitation, a Convertible Obligation or an Exchangeable Obligation), the terms of which expressly provide for an amount payable upon acceleration equal to the original issue price (whether or not equal to the face amount thereof) plus an additional amount or amounts (on account of original issue discount or other accruals of interest or principal not payable on a periodic basis) that will or may accrete, whether or not (A) payment of such additional amounts is subject to a contingency or determined by reference to a formula or index, or (B) periodic cash interest is also payable.

**“Assignable Loan”** means a Loan that is capable of being assigned or novated to, at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of organisation) that are not then a lender or a member of the relevant lending syndicate, without the consent of the Company or, as the case may be, the Sovereign Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if the Company or, as the case may be, the Sovereign Entity is guaranteeing such Loan) or any agent.

**“Company or Sovereign Credit Event Notice”** means the notice of the occurrence of a Company or Sovereign Credit Event in respect of one or more of the Companies and/or the Sovereign Entity which is provided to, amongst others, the Noteholders.

**“Consent Required Loan”** means a Loan that is capable of being assigned or novated with the consent of the Credit Event Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if a Credit Event Entity is guaranteeing such Loan) or any agent.

**“Convertible Obligation”** means any obligation that is convertible, in whole or in part, into Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

**“Dealers”** means dealers in Bonds or Loans of the Company or, as the case may be, the Sovereign Entity from which quotations on the market value of the Bonds or Loans are to be obtained or dealers in the Underlying Securities.

**“Deliverable Obligation Characteristics”:**

(1) in respect of any Asian Entity and the Sovereign Entity, means each of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Law, Not Contingent, Not Domestic Issuance, Assignable Loan, Transferable, Maximum Maturity and Not Bearer;

(2) in respect of any Singaporean Entity means each of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Contingent, Assignable Loan, Transferable, Maximum Maturity and Not Bearer; and

(3) in respect of any European Entity or North American Entity, means each of Not Subordinated, Specified Currency, Not Contingent, Assignable Loan, Consent Required Loan, Transferable, Maximum Maturity and Not Bearer.

**“Credit Event Entity”** means the Company or, as the case may be, the Sovereign Entity specified in the Company or Sovereign Credit Event Notice and selected by the Determination Agent, acting for and on behalf of the Issuer, as the Credit Event Entity.

**“Equity Securities”** means:

(A) in the case of a Convertible Obligation, equity securities (including options and warrants) of the issuer of such obligation or depositary receipts representing those equity securities of the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time; and

(B) in the case of an Exchangeable Obligation, equity securities (including options and warrants) of a person other than the issuer of such obligation or depositary receipts representing those equity securities of a person other than the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time.

**“Exchangeable Obligation”** means any obligation that is exchangeable, in whole or in part, for Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

**“Maximum Maturity”** means an obligation that has a remaining maturity from the Company or Sovereign Credit Event Redemption Date of not greater than 30 years.

**“Method for Determining Deliverable Obligations”** means any Bond or Loan of the Credit Event Entity having as of the Valuation Date each of the Deliverable Obligation Characteristics specified to apply to that Company, or as the case may be, the Sovereign Entity in the definition of “Deliverable Obligation Characteristics” as at the Valuation Date.

**“Not Bearer”** means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via the Euroclear system, Clearstream, Luxembourg or any other internationally recognized clearing system.

**“Not Contingent”** means any obligation having as of the Valuation Date and all times thereafter an outstanding principal balance or, in the case of obligations that are not Borrowed Money, an outstanding principal balance excluding any accrued interest,

that pursuant to the terms of such obligation may not be reduced as a result of the occurrence or nonoccurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall satisfy the Not Contingent Deliverable Obligation Characteristic if such Convertible Obligation, Exchangeable Obligation or Accreting Obligation otherwise meets the requirements of the preceding sentence so long as, in the case of a Convertible Obligation or an Exchangeable Obligation, the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised or may exercise the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date.

If a Reference Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Reference Obligation may be included as a Deliverable Obligation only if the rights referred to in clauses (A) and (B) of this Section definition have not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date.

**“Not Domestic Issuance”** means any obligation other than an obligation that was, at the time the relevant obligation was issued (or reissued, as the case may be) or incurred, intended to be offered for sale primarily in the domestic market of the Company or, as the case may be, the Sovereign Entity. Any obligation that is registered or qualified for sale outside the domestic market of the Company or, as the case may be, the Sovereign Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the Company or, as the case may be, the Sovereign Entity) shall be deemed not to be intended for sale primarily in the domestic market of the Company or, as the case may be, the Sovereign Entity.

**“Not Domestic Law”** means any obligation that is not governed by the laws of the jurisdiction of organisation of the Company or, as the case may be, the Sovereign Entity.

**“Not Sovereign Lender”** means any obligation that is not primarily owed to a Sovereign or Supranational Organisation, including, without limitation, obligations generally referred to as “Paris Club debt”.

**“Not Subordinated”** means an obligation that is not Subordinated to the outstanding senior, unsecured or secured obligations of the Company or, as the case may be, Sovereign Entity in priority of payment.

**“Notice Delivery Period”** means the period from and including the Issue Date to and including the second Business Day prior to the Scheduled Maturity Date.

**“Sovereign Restructured Deliverable Obligation”** means in respect of the Sovereign Entity an Obligation of the Sovereign Entity (a) in respect of which a Restructuring that is the subject of the relevant Company or Sovereign Credit Event Notice has occurred and (b) is a Bond or Loan, and, subject to subsection (b) under paragraph “Interpretation of Provisions” of this section “Technical Definitions” below, having each of the Deliverable Obligation Characteristics specified to apply in the definition of Deliverable Obligation Characteristics in each case, immediately preceding the date on which such Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring without regard to whether the obligation would satisfy such Deliverable Obligation Category or Deliverable Obligation Characteristics after such Restructuring.

“**Singapore dollars**” means the lawful currency of the Republic of Singapore.

“**Specified Currency**” means an obligation that is payable in any of the lawful currencies of Canada, Japan, Switzerland, United Kingdom and the United States of America and the euro (and any successor currency to any of the aforementioned currencies, which currencies may be referred to collectively as the “Specified Currencies”) and, in the case of any Singaporean Entity, also Singapore dollars.

“**Transferable**” means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction, provided that none of the following shall be considered contractual, statutory or regulatory restrictions:

- (A) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation); or
- (B) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds.

### *Definitions*

The following other definitions are used in relation to the determination of a Company or Sovereign Credit Event:

“**Affiliate**” means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, “control” of any entity or person means ownership of a majority of the voting power of the entity or person.

“**Best Available Information**” means:

(i) in the case of a Company which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Determination Agent, acting for and on behalf of the Issuer, makes its determination for the purposes of the definition of “Successor”, other relevant information that is contained in any written communication provided by the Company to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or

(ii) in the case of the Sovereign Entity or a Company which does not file with its primary securities regulators or primary stock exchange, and which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Determination Agent, acting for and on behalf of the Issuer, to allow it to make a determination for the purposes of the definition of “Successor”.

Information which is made available more than fourteen calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information.

“**Bond**” means Borrowed Money that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certified debt security or other debt security and shall not include any other type of Borrowed Money.

“**Borrowed Money**” means, any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal) for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit).

“**Company or Sovereign Credit Event Determination Date**” means any date on which the Determination Agent, acting for and on behalf of the Issuer, gives notice that in its sole and absolute discretion acting in good faith a Company or Sovereign Credit Event has occurred.

“**Company or Sovereign Credit Event Redemption Date**” means the day which is 2 Business Days after the Valuation Date.

“**Domestic Currency**” shall be the lawful currency and any successor currency of the jurisdiction in which the Company or, as the case may be, the Sovereign Entity is organised. In no event shall Domestic Currency include any successor currency if such successor currency is the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro (or any successor currency to any such currency).

“**Governmental Authority**” means any de facto or de jure government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Company or, as the case may be, the Sovereign Entity or of the jurisdiction of organisation of a Company or, as the case may be, the Sovereign Entity.

“**Grace Period**” means the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Issue Date and the date as of which such Obligation is issued or incurred. Any Obligation with no grace period specified or a grace period of less than 3 Grace Period Business Days shall be deemed to have a grace period of 3 Grace Period Business Days provided that the deemed Grace Period shall expire no later than the second Business Day prior to the Scheduled Maturity Date.

“**Grace Period Business Day**” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation and if a place or places are not so specified, in the jurisdiction of the currency or currencies in which an Obligation is denominated.

“**Loan**” means any Borrowed Money that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money.

**“Mandatory Redemption Liquidation Proceeds”** means following a Mandatory Redemption Event the US dollar amount realisable upon the sale of the Underlying Securities, at the highest clean firm bid price, obtained by the Determination Agent, acting for and on behalf of the Issuer, on the relevant day on which the Underlying Securities have been sold or realised upon solicitation of five Dealers selected by the Determination Agent, acting for and on behalf of the Issuer, (which Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates) less the costs and expenses, as determined by the Determination Agent, acting for and on behalf of the Issuer, of effecting the sale.

**“Obligation”** means:

(1) in respect of any Asian Entity, Singaporean Entity and the Sovereign Entity, an obligation of such entity which is a Bond or Loan (either directly or as provider of a Qualifying Guarantee, and having each of the Obligation Characteristics specified in the definition of “Obligation Characteristics”); and

(2) in respect of any European Entity and North American Entity, any obligation of such entity which is Borrowed Money (either directly or, in respect of any European Entity, as provider of a Qualifying Guarantee and, in respect of any North American Entity, as provider of a Qualifying Affiliate Guarantee), and having each of the Obligation Characteristics specified in the definition of “Obligation Characteristics”; and

(3) in respect of each Company or, as the case may be, the Sovereign Entity, each obligation of such entity which is specified or determined to be a Reference Obligation of such entity.

**“Obligation Characteristics”**:

(a) in respect of any Asian Entity and the Sovereign Entity, means each of Not Subordinated, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law and Not Domestic Issuance;

(b) in respect of any Singaporean Entity, means each of Not Subordinated, Specified Currency and Not Sovereign Lender; and

(c) in respect of all other entities, no Obligation Characteristics shall apply.

**“Not Domestic Currency”** means any obligation that is payable in any currency other than the Domestic Currency;

**“Qualifying Guarantee”** means an arrangement evidenced by a written instrument pursuant to which a Company or, as the case may be, the Sovereign Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the **“Underlying Obligation”**) for which another party is the obligor (the **“Underlying Obligor”**). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement; or (ii) pursuant to the terms of which the payment obligations of the Company or, as the case may be, the Sovereign Entity can be discharged, reduced, assigned or otherwise

altered (other than by operation of law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being delivered together with the Delivery of the Underlying Obligation.

**“Qualifying Affiliate Guarantee”** means a Qualifying Guarantee provided by a Company or, as the case may be, the Sovereign Entity in respect of an Underlying Obligation of a Downstream Affiliate of the Company or, as the case may be, the Sovereign Entity.

**“Downstream Affiliate”** means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 percent owned, directly or indirectly, by a Company or, as the case may be, the Sovereign Entity.

**“Voting Shares”** shall mean those shares or other interests that have the power to elect the board of directors or similar governing body of an entity.

**“Reference Obligation”** means, in respect of:

- (a) BEA, The Bank of East Asia, Limited 5.625% subordinated notes due 13 December 2015 (ISIN: XS0236298799);
- (b) DBS, DBS Bank Ltd. 7.125% subordinated notes due 15 May 2011 (ISIN: USY20337AJ30);
- (c) SCB, Standard Chartered Bank 5.375% subordinated notes due 6 May 2009 (ISIN: XS0097105661);
- (d) GS, The Goldman Sachs Group, Inc. 6.60% notes due 15 January 2012 (ISIN: US38141GBU76);
- (e) Lehmans, Lehman Brothers Holdings Inc. 6.625% notes due 18 January 2012 (ISIN: US52517PSC67);
- (f) Swire, Swire Pacific MTN Financing Ltd 5.625% notes guaranteed by Swire Pacific Limited due 30 March 2016 (ISIN: XS0247747081);
- (g) CNOOC, CNOOC Finance 2002 Ltd 6.375% notes guaranteed by CNOOC Limited due 8 March 2012 (ISIN: USU17469AA25); and
- (h) The People’s Republic of China, The People’s Republic of China 6.8% notes due 23 May 2011 (ISIN: XS0129936331).

In the event that any of the Reference Obligations is redeemed before the Scheduled Maturity Date or is no longer an Obligation of the relevant Company or Sovereign Entity, a substitute Reference Obligation will be identified by the Determination Agent, acting for and on behalf of the Issuer. In practice, the substitute Reference Obligation will be the same as that selected by the calculation agent under the credit default swaps under the Swap Agreement.

**“Relevant Obligation”** means the Obligations constituting Bonds or Loans of the Company or, as the case may be, the Sovereign Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Company or, as the case may be, the Sovereign Entity and

any of its Affiliates, as determined by the Determination Agent, acting for and on behalf of the Issuer. The Determination Agent, acting for and on behalf of the Issuer, will determine the entity which succeeds to such Relevant Obligations on the basis of the Best Available Information. If the date on which the Best Available Information becomes available or is filed precedes the legally effective date of the relevant Succession Event, any assumptions as to the allocation of obligations between or among entities contained in the Best Available Information will be deemed to have been fulfilled as of the legally effective date of the Succession Event, whether or not this is in fact the case.

“**Sovereign**” means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof.

“**Sovereign Agency**” means any agency, instrumentality, ministry, department or other authority (including without limiting the foregoing, the central bank) of a Sovereign.

“**Subordination**” means, with respect to an obligation (the “**Subordinated Obligation**”) and another obligation of the Company or, as the case may be, the Sovereign Entity to which such obligation is being compared (the “**Senior Obligation**”), a contractual, trust or similar arrangement providing that:

- (i) upon the liquidation, dissolution, reorganisation or winding up of the Company or, as the case may be, the Sovereign Entity (as applicable), claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation; or
- (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Company or, as the case may be, the Sovereign Entity at any time that the Company or, as the case may be, the Sovereign Entity is in payment arrears or is otherwise in default under the Senior Obligation. “**Subordinated**” will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account in respect of the Sovereign Entity.

“**Succession Event**” means an event such as a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event in which one entity succeeds to the obligations of another entity, whether by operation of law or pursuant to any agreement. Notwithstanding the foregoing, “**Succession Event**” shall not include an event in which the holders of obligations of the Company or, as the case may be, the Sovereign Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connection with a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event.

“**Successor**” means in relation to a Company, the entity or entities, if any, determined as set forth below:

- (a) If one entity directly or indirectly succeeds to 75 per cent. or more of the Relevant Obligations of such Company by way of a Succession Event, that entity will be the sole Successor.
- (b) If one entity directly or indirectly succeeds to more than 25 per cent. (but less than 75 per cent.) of the Relevant Obligations of such Company by way of a Succession Event and not more than 25 per cent. of the Relevant Obligations of such Company remains with such Company, the entity that succeeds to more than 25 per cent. of the Relevant Obligations will be the sole Successor.
- (c) If more than one entity each directly or indirectly succeed to more than 25 per cent. of the Relevant Obligations of such Company by way of a Succession Event, and not more than 25 per cent. of the Relevant Obligations of such Company remains with such Company, the entities that succeed to more than 25 per cent. of the Relevant Obligations will each be a Successor.
- (d) If one or more entities each directly or indirectly succeed to more than 25 per cent. of the Relevant Obligations of such Company by way of a Succession Event and more than 25 per cent. of the Relevant Obligations of such Company remains with such Company, each such entity and the Company will be a Successor.
- (e) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of such Company by way of a Succession Event, but no entity succeeds to more than 25 per cent. of the Relevant Obligations of such Company and such Company continues to exist, there will be no Successor and the Company will not be changed in any way.
- (f) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of such Company by way of a Succession Event, but no entity succeeds to more than 25 per cent. of the Relevant Obligations of the Company and the Company ceases to exist, the entity which succeeds to the greatest percentage of the Relevant Obligation (or, if two or more entities succeed to an equal percentage of the Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations of the Company) will be the sole Successor.

The Determination Agent, acting for and on behalf of the Issuer, will be responsible for determining as soon as reasonably practicable after it becomes aware of the relevant Succession Event (but no earlier than 14 days after the legally effective date of the Succession Event) and with effect from the legally effective date of the Succession Event whether the relevant thresholds set forth above have been met, or which entity qualifies under (f) above, as applicable. In calculating the percentages used to determine whether the relevant thresholds set forth above have been met, or which entity qualifies under (f) above, as applicable, the Determination Agent, acting for and on behalf of the Issuer, shall use in respect of each Relevant Obligation included in such calculation, the amount of the liability in respect of such Relevant Obligation listed in the Best Available Information.

For the purposes of this definition of “Successor”, “**succeed**” means, with respect to a Company and its Relevant Obligations (or, as applicable, obligations), that a party other than such Company (a) assumes or becomes liable for such Relevant Obligations (or, as applicable, obligations) whether by operation of law or pursuant to any agreement or (b) issues Bonds that are exchanged for Relevant Obligations (or, as applicable, obligations), and in either case such Company is no longer an obligor (primarily or secondarily) or guarantor with respect to such Relevant Obligations (or, as applicable, obligations). The determinations required pursuant to the above shall be made, in the case of an exchange offer, on the basis of the outstanding principal balance of Relevant Obligations tendered and accepted in the exchange and not on the basis of the outstanding principal balance of Bonds for which Relevant Obligations have been exchanged.

Where:

- (i) in respect of a Reference Obligation for a Company;
- (ii) one or more Successors to the Company have been identified; and
- (iii) any one or more Successors have not assumed the Reference Obligation,

a substitute Reference Obligation will be determined by the Determination Agent, acting for and on behalf of the Issuer, with respect of each such Successor.

Where the effect of these Successor provisions within this definition would be that a Company is specified more than once, that Company shall be deemed to be specified once only for the purposes of the Notes.

Where any Company (the “**First Company**”) would be a Successor to any other Company (the “**Second Company**”) in accordance with this “Successor” definition, the First Company shall be deemed not to be a Successor to the Second Company and a further Company (the “**Replacement Company**”) shall be selected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion, to be a Successor to the Second Company.

The Issuer will, as soon as practicable thereafter, notify the Noteholders via the clearing systems details including the name and ratings of any Successor.

In practice, any Successor will be the same under the Swap Agreement.

“**Supranational Organisation**” means any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development.

“**Successor**” in respect of the Sovereign Entity means any direct or indirect successor(s) to the Sovereign Entity irrespective of whether such successor(s) assume(s) any obligations of the Sovereign Entity.

### **Interpretation of Provisions**

- (a) (i) In the Deliverable Obligation Characteristics the term “Not Bearer” shall be construed as only applying to Bonds; (ii) in the Deliverable Obligation

Characteristics the term “Transferable” shall be construed as only applying to Deliverable Obligations that are not Loans; and (iii) in the Deliverable Obligation Characteristics “Assignable Loan” or “Consent Required Loan” shall only apply to Loans;

- (b) The Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics which are Assignable Loan or Consent Required Loan and need not satisfy all such Deliverable Obligation Characteristics specified to apply to that Credit Event Entity; and
- (c) In the event that an Obligation or a Deliverable Obligation is a Qualifying Guarantee, the following will apply:
  - (i) For purposes of the application of the Obligation Category or the Deliverable Obligation Category, the Qualifying Guarantee shall be deemed to satisfy the same category or categories as those that describe the Underlying Obligation.
  - (ii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified to apply to such Credit Event Entity from the following list: Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency and Not Domestic Law. For these purposes, (A) the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America and the euro shall not be a Domestic Currency and (B) the laws of England and the laws of the State of New York shall not be a Domestic Law.
  - (iii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified to apply to such Credit Event Entity from the following list: Not Contingent, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Transferable, Maximum Maturity and Not Bearer.
  - (iv) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Credit Event Entity shall be deemed to refer to the Underlying Obligor.
  - (v) The terms “outstanding principal balance” (as used herein), when used in connection with Qualifying Guarantees are to be interpreted to be the then “outstanding principal balance” of the Underlying Obligation which is supported by a Qualifying Guarantee.

## Restructuring Maturity Limitation and Fully Transferable Obligation Provisions

When the Credit Event Entity is a North American Entity, the following provisions shall apply:

- (a) If Restructuring is the only Company or Sovereign Credit Event specified in a Company or Sovereign Credit Event Notice, then a Deliverable Obligation may be selected only if it (i) is a Fully Transferable Obligation and (ii) has a final maturity date not later than the Restructuring Maturity Limitation Date.
- (b) **“Fully Transferable Obligation”** means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition.

For purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of Fully Transferable Obligation, such determination shall be made as of the Valuation Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Determination Agent.

- (c) **“Restructuring Maturity Limitation Date”** means the date that is the earlier of (x) thirty months following the Restructuring Date and (y) the latest final maturity date of any Restructured Bond or Loan, provided, however, that under no circumstances shall the Restructuring Maturity Limitation Date be earlier than the Scheduled Maturity Date or later than thirty months following the Scheduled Maturity Date and if it is, it shall be deemed to be the Scheduled Maturity Date or thirty months following the Scheduled Maturity Date, as the case may be.
- (d) **“Restructuring Date”** means, with respect to a Restructured Bond or Loan, the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring.
- (e) **“Restructured Bond or Loan”** means an Obligation which is a Bond or Loan and in respect of which a Restructuring that is the subject of the Company or Sovereign Credit Event Notice has occurred.
- (f) **“Eligible Transferee”** means each of the following:
  - (i) (A) any bank or other financial institution;
  - (B) an insurance or reinsurance company;
  - (C) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in clause (iii)(A) of this definition below); and
  - (D) a registered or licensed broker or dealer (other than a natural person or proprietorship);

provided, however, in each case that such entity has total assets of at least USD500,000,000;

- (ii) an Affiliate of an entity specified in the preceding clause (i);
- (iii) each of a corporation, partnership, proprietorship, organisation, trust or other entity
  - (A) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (1) has total assets of at least USD100,000,000 or (2) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least USD100,000,000;
  - (B) that has total assets of at least USD500,000,000; or
  - (C) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support or other agreement by an entity described in clauses (i), (ii), (iii)(B) or (iv) of this definition; and
- (iv) a Sovereign, Sovereign Agency or Supranational Organisation.

All references in this definition to USD include equivalent amounts in other currencies.

### **Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Provisions**

When the Credit Event Entity is a European Entity, the following provisions shall apply:

- (a) If Restructuring is the only Company or Sovereign Credit Event specified in a Company or Sovereign Credit Event Notice then a Deliverable Obligation may be selected only if it (i) is a Conditionally Transferable Obligation and (ii) has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date.
- (b) **“Conditionally Transferable Obligation”** means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, provided, however, that a Deliverable Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Credit Event Entity or the guarantor, if any, of a Deliverable Obligation other than Bonds (or the consent of the relevant obligor if a Credit Event Entity is guaranteeing such Deliverable Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Deliverable Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition.

For purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of Conditionally Transferable Obligation, such determination shall be made as of the Valuation Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Determination Agent.

- (c) “**Modified Restructuring Maturity Limitation Date**” means, with respect to a Deliverable Obligation, the date that is the later of (x) the Scheduled Maturity Date and (y) 60 months following the Restructuring Date in the case of a Restructured Bond or Loan, or 30 months following the Restructuring Date in the case of all other Deliverable Obligations.
- (d) “**Restructuring Date**” means, with respect to a Restructured Bond or Loan, the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring.
- (e) “**Restructured Bond or Loan**” means an obligation which is a Bond or Loan and in respect of which a Restructuring that is the subject of a Company or Sovereign Credit Event Notice has occurred.
- (f) “**Modified Eligible Transferee**” means any bank, financial institution or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities and other financial assets.

## INFORMATION ABOUT THE UNDERLYING SECURITIES

On the Issue Date, the Issuer shall invest the proceeds received from the issue of the Notes in a principal amount of securities (including, without limitation, liquidity funds or money market funds or similar investment vehicles), or in a deposit, denominated in US dollars equal to the total principal amount of the Notes (or, in respect of Notes not denominated in US dollars, an equivalent amount in US dollars by reference to the prevailing USD/HKD exchange rate on or about the Issue Date as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion). Such securities or deposits shall be the “**Original Underlying Securities**” and shall satisfy the requirements of Condition 3(e) in the section headed “Master Terms and Conditions of the Notes” in the Programme Prospectus.

The Original Underlying Securities will consist of one or more Eligible Investments, which may consist of or include (but shall not be limited to) Synthetic CDO Securities and/or CDO Squared Securities and/or Medium Term Notes and/or Liquidity Funds and/or Cash Deposits.

The Original Underlying Securities will be delivered to or paid into an account of the Custodian by or on behalf of the Issuer on or about the Issue Date pursuant to the provisions of (i) the Agency Agreement, (ii) the Tenth Supplemental Trust Deed and, where relevant, (iii) any additional documents creating security interests specified as such in the Tenth Supplemental Trust Deed.

The Issuer will, as soon as practicable after the Issue Date, notify the Noteholders (via the clearing systems) details (including the issuer(s) and rating(s) (if any)) of the Original Underlying Securities (or the rating(s) of the issuer(s) or obligor(s) thereof). Information about the Original Underlying Securities will also be made available for inspection as set out in the paragraph headed “Display Documents” in the section headed “Additional Information about the Offering” in this Issue Prospectus. Such information will include (a) evidence of the rating(s) assigned to the Original Underlying Securities (or the issuer(s) or obligor(s) thereof) as at the Issue Date (if any); (b) the terms and conditions of the Original Underlying Securities; and (c) information memorandum or memoranda or other offering document(s) relating to the Original Underlying Securities (if such documents have been prepared).

In the event that any of the Original Underlying Securities are redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer of such Original Underlying Securities (or, in the case of Original Underlying Securities in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity Date, the proceeds of redemption or repayment will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing). The Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption or repayment in Eligible Investments (see the section headed “Information about the Notes — Eligible Investments”). Any Eligible Investments invested in will be referred to herein as “**Reinvested Eligible Investments**”).

If any of the Reinvested Eligible Investments are themselves redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms by the issuer of such Reinvested Eligible Investments (or, in the case of Reinvested Eligible Investments in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) prior to

the Scheduled Maturity Date, the proceeds of redemption or repayment will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing). The Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption or repayment in Eligible Investments. This process can be repeated any number of times if applicable. The expression “Underlying Securities” comprises the Original Underlying Securities, any Reinvested Eligible Investments and any proceeds of redemption or repayment of the Original Underlying Securities and any Reinvested Eligible Investments.

In the event that any of the Underlying Securities are redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms as described above (or, in the case of Original Underlying Securities or Reinvested Eligible Investments in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)), the Issuer will notify the Noteholders (via the clearing systems) of such redemption or repayment. The Issuer will notify the Noteholders (via the clearing systems) as soon as practicable after investing in Reinvested Eligible Investments details of such investment, including the issuer(s) and rating(s) (if any) of the Reinvested Eligible Investments (or the rating(s) of the issuer(s) or obligor(s) thereof).

Information about the Reinvested Eligible Investments invested in will also be made available for inspection as set out in the paragraph headed “Display Documents” in the section headed “Additional Information about the Offering” in this Issue Prospectus with effect from the date of notice by the Issuer to the Noteholders of such investment. Such information will include (a) evidence of the rating(s) assigned to such Reinvested Eligible Investments (or the issuer(s) or obligor(s) thereof) (if any); (b) the terms and conditions of such Reinvested Eligible Investments; and (c) information memorandum or memoranda or other offering document(s) relating to such Reinvested Eligible Investments (if such documents have been prepared).

Neither the redemption, in whole or in part, of any of the Original Underlying Securities or Reinvested Eligible Investments at or above their outstanding principal amount including any accrued interest in accordance with their terms (or, in the case of Original Underlying Securities or Reinvested Eligible Investments in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) as described above nor the investment in Reinvested Eligible Investments using the proceeds of redemption or repayment of Underlying Securities as described above will in itself impact on the Noteholders or the terms of the Notes. However, investors should note that the monetary value of such proceeds of redemption or repayment of Underlying Securities could be lower than the market value of the Underlying Securities which were redeemed or repaid to yield such proceeds. Similarly, the market value of any Underlying Securities invested in using such proceeds of redemption or repayment of previously redeemed or repaid Underlying Securities could be lower than the market value of the Underlying Securities which were redeemed or repaid to yield such proceeds, and this could have an adverse impact on the investors’ return of the investment in the Notes.

The Reinvested Eligible Investments and any proceeds of redemption or repayment of the relevant Original Underlying Securities and any Reinvested Eligible Investments will be deposited by the Issuer with the Custodian on or about the date of investment or redemption or repayment (as the case may be) (or, in the case of Reinvested Eligible

Investments in the form of Cash Deposits, held by the Issuer) pursuant to the provisions of (i) the Agency Agreement, (ii) the Tenth Supplemental Trust Deed and, where relevant, (iii) any additional documents creating security interests specified as such in the Tenth Supplemental Trust Deed.

The Underlying Securities may include securities in respect of which Morgan Stanley and/or any of its affiliates acts as arranger, swap counterparty, swap guarantor and/or an agent on behalf of the issuer of such Underlying Securities. The Underlying Securities will in any event not be obligations of, and will not be guaranteed by, Morgan Stanley. See the section headed “Risk Factors — Exposure to the Companies and Sovereign Entity and the Underlying Securities” in this Issue Prospectus.

If there is a payment default in respect of any of the Underlying Securities (without regard to any grace period applicable with respect to such payments), or if the outstanding principal amount of any of the Underlying Securities is reduced or otherwise written down in accordance with their terms or if any of the Underlying Securities are redeemed early or otherwise becomes repayable early in whole or in part by the issuer of such Underlying Securities prior to their scheduled dates of maturity (if any) for any reason whatsoever at a principal amount less than the outstanding principal amount the subject of such redemption or repayment, or if the payment of any principal in respect of any of the Underlying Securities is deferred beyond the scheduled maturity date (if any) of such Underlying Securities in accordance with the terms of such Underlying Securities or if the terms and conditions of any of the Underlying Securities are amended such that the issuer of (or account bank in respect of) such Underlying Securities shall no longer be obliged to pay the same amounts on the same days as contemplated in the terms and conditions of such Underlying Securities as of the date invested in by the Issuer, the Notes will be mandatorily redeemed. See the section headed “Information about the Notes — Mandatory Redemption” in this Issue Prospectus.

## INFORMATION ABOUT THE SWAP ARRANGEMENTS FOR THE NOTES

*The following description is a summary only of the Swap Agreement and is subject in all respects to the terms of the Swap Agreement. Prospective investors are advised to review the provisions of the Programme Prospectus, in particular the section headed “Description of the Swap Agreement and the Swap Guarantee”, Appendix A “Derivatives” and Appendix B “Form of Swap Guarantee” in the Programme Prospectus, for further information. A copy of the Swap Agreement and the Swap Guarantee is available for inspection as set out under the section headed “Additional Information about the Offering” in this Issue Prospectus.*

### **The Swap Agreement**

The Issuer has entered into a swap Master Agreement with Morgan Stanley Capital Services Inc. as Swap Counterparty in connection with the establishment of the Programme. In connection with the issue of each Tranche of Notes the Issuer will execute two Confirmations to the Master Agreement (which in respect of the Tranche A Notes will consist of an interest rate swap and a credit default swap and in respect of the Tranche B Notes will consist of a cross currency and interest rate swap and a credit default swap), the effective date of each will be the Issue Date of the Notes. All Confirmations, together with the Master Agreement, are referred to in this Issue Prospectus as the “Swap Agreement”. The obligations of the Swap Counterparty under the Swap Agreement will be guaranteed by Morgan Stanley as Swap Guarantor pursuant to the provisions of the Swap Guarantee.

*For further information in respect of the Swap Counterparty and/or the Swap Guarantor, see the sections headed “Description of Morgan Stanley Capital Services Inc.” and “Description of Morgan Stanley”, respectively, in the Programme Prospectus.*

**The obligations of the Swap Counterparty under the Swap Agreement will be guaranteed by the Swap Guarantor. However, prospective investors are advised that the Notes will not be obligations of and will not be guaranteed by either the Swap Counterparty or the Swap Guarantor.** The Swap Guarantee comprises a guarantee only in respect of the Swap Counterparty’s payment of all amounts due and payable to the Issuer under the Swap Agreement. Neither the Swap Counterparty nor the Swap Guarantor is obliged to make any payment under the Swap Agreement if there has been an Underlying Securities Default Event, unless the Swap Agreement is terminated at the election of the non-defaulting party, in which case either party may be liable to make a termination payment to the other, as described below.

The arrangements contemplated by the Swap Agreement (together with the Forward Agreement) will enable the Issuer to meet its payment and other obligations under the Notes. The following is a summary of the respective obligations of the Issuer and the Swap Counterparty under the Swap Agreement:

- (i) where applicable, on or about each interest payment date in respect of the Notes, the Issuer will pay to the Swap Counterparty a sum in US dollars equal to the interest, if any, receivable by it in respect of the relevant Underlying Securities during the interest period ending on or about such interest payment date;

- (ii) on or about each interest payment date in respect of the Notes, the Swap Counterparty will pay to the Issuer a sum in US dollars (for Tranche A Notes) and in HK dollars (for Tranche B Notes) equal in aggregate to the interest due to be paid by the Issuer on the Notes;
- (iii) upon the notification of the occurrence of a Company or Sovereign Credit Event, the Issuer will, pursuant to the Swap Agreement, pay to the Swap Counterparty an amount equal to the Liquidation Proceeds of the Underlying Securities and in return will receive a cash amount equal to the Company or Sovereign Credit Event Redemption Amount plus or minus any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities (after converting the pro-rata share of such net cash equivalents of the Deliverable Obligations payable to holders of the Tranche B Notes into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Company or Sovereign Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer); and
- (iv) if an Issuer Call Option is exercised in relation to either or both Tranche(s) of the Notes, the Issuer will pay to the Swap Counterparty the cash amount it receives from the Forward Counterparty (which will be equal to the principal amount of the Underlying Securities in respect of such affected Tranche(s) of Notes) and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the affected Tranche(s) of Notes plus any accrued interest up to the Call Redemption Date in respect of such Issuer Call Option to enable the Issuer to meet its obligations under such Notes.

### **Termination of Swap Agreement**

Morgan Stanley & Co. International Limited shall, in connection with the issue of the Notes, be granted the Morgan Stanley Exchange Option by the Issuer, pursuant to which it will be granted the right, with respect to the Notes that it beneficially owns, to exchange any or all of such Notes for a pro-rata amount of the relevant Underlying Securities from the Issuer (see “Summary of the Retail Note Programme — The Morgan Stanley Exchange Option” in the Programme Prospectus for further details). If Morgan Stanley & Co. International Limited exercises the Morgan Stanley Exchange Option, a pro-rata amount of the Swap Agreement corresponding to that proportion of the Notes to be exchanged will be terminated without any termination payment being due from the Issuer or the Swap Counterparty.

The Programme Prospectus contains a summary of the circumstances in which the Swap Agreement may be terminated prior to the Scheduled Maturity Date. Upon an early termination of the Swap Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option), and if the Swap Agreement (or the relevant part, as applicable) is not replaced on or prior to such termination, a Mandatory Redemption Event will occur and the Notes will be subject to mandatory redemption (see the section headed “Information about the Notes — Mandatory Redemption” and paragraph (iii) of such section in this Issue Prospectus). Furthermore, upon an early termination (in whole or in part) of the Swap Agreement (other than as a result of an Underlying Securities Writedown Event, the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the

Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option), the Issuer or the Swap Counterparty may be liable to make a termination payment (determined in accordance with the Swap Agreement and as described below) to the other (regardless, if applicable, of which of such parties may have caused such termination). There is no assurance that the proceeds from the sale of the Underlying Securities plus (if such payment is owed to the Issuer) or minus (if such payment is owed by the Issuer) such termination payment and taking into account any termination payments under the Forward Agreement will be sufficient to pay the principal amount and/or interest due to be paid in respect of the Notes. The claims of the Swap Counterparty against the Issuer under the Swap Agreement shall rank prior to the claims of the Noteholders under the Notes in the application of all monies received in connection with the realisation or enforcement of the security in respect of the Notes.

The termination payment following an early termination of the Swap Agreement (in whole or in part) as described in the paragraph above will be calculated and made in US dollars. The amount of any such termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Swap Agreement and the termination payment would typically (but not necessarily) take into account the market value of the terminated Swap Agreement based on market quotations of the cost of entering into a swap transaction with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties. Any such termination payment could, depending on fluctuations in exchange rates and/or the interest rate environment, be substantial.

## INFORMATION ABOUT THE FORWARD AGREEMENT

*The following description is a summary only of the Forward Agreement and is subject in all respects to the terms of the Forward Agreement. A copy of the Forward Agreement and the MS/MSIL Guarantee will be available for inspection as set out under the section headed “Additional Information about the Offering” in this Issue Prospectus.*

### **The Forward Agreement**

The Issuer will enter into a Forward Agreement with Morgan Stanley & Co. International Limited as Forward Counterparty in connection with the issue of the Notes. In connection with the issue of each Tranche of Notes, the Issuer will enter into a contingent forward transaction. Each confirmation in respect of such contingent forward transaction together with the master agreement between the Issuer and the Contingent Forward Counterparty are referred to in this Issue Prospectus as the “Forward Agreement”. The obligations of the Forward Counterparty under the Forward Agreement will be guaranteed by the Swap Guarantor pursuant to the provisions of the MS/MSIL Guarantee.

*For further information in respect of the Forward Counterparty and/or the Swap Guarantor, see the sections headed “Description of Morgan Stanley & Co. International Limited” and “Description of Morgan Stanley”, respectively, in the Programme Prospectus.*

The arrangements contemplated by the Forward Agreement will enable the Issuer to liquidate the Underlying Securities in respect of the relevant Tranche(s) of Notes upon the exercise of the Issuer Call Option(s) in respect of such Tranche(s) of Notes and to enable the Issuer to meet its payment and other obligations under the Notes. The following is a summary of the respective obligations of the Issuer and the Forward Counterparty under the Forward Agreement:

- (i) if an Issuer Call Option is exercised in relation to a Tranche of the Notes, the Issuer will, pursuant to the Forward Agreement, deliver to the Forward Counterparty the Underlying Securities in respect of the relevant Tranche of Notes; and
- (ii) the Forward Counterparty will pay to the Issuer a cash amount equal to the principal amount of such Underlying Securities. The Issuer will pay to the Swap Counterparty such cash amount it receives from the Forward Counterparty and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the relevant Tranche of Notes plus any accrued interest up to the Call Redemption Date in respect of such Issuer Call Option to enable the Issuer to meet its obligations under such Notes.

**The obligations of the Forward Counterparty will be guaranteed by the Swap Guarantor. However, prospective investors are advised that the Notes will not be obligations of, and will not be guaranteed by, the Forward Counterparty or the Swap Guarantor.**

## Termination of Forward Agreement

Morgan Stanley & Co. International Limited shall, in connection with the issue of the Notes, be granted the Morgan Stanley Exchange Option by the Issuer, pursuant to which it will be granted the right, with respect to the Notes that it beneficially owns, to exchange any or all of such Notes for a pro-rata amount of the relevant Underlying Securities from the Issuer (see “Summary of the Retail Note Programme — The Morgan Stanley Exchange Option” in the Programme Prospectus for further details). If Morgan Stanley & Co. International Limited exercises the Morgan Stanley Exchange Option, a pro-rata amount of the Forward Agreement corresponding to that proportion of the Notes to be exchanged will be terminated without any termination payment being due from the Issuer or the Forward Counterparty.

Upon an early termination of the Forward Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option), and if the Forward Agreement (or the relevant part, as applicable) is not replaced on or prior to such termination, a Mandatory Redemption Event will occur and the Notes will be subject to mandatory redemption (see the section headed “Information about the Notes — Mandatory Redemption” and paragraph (iii) of such section in this Issue Prospectus). Furthermore, upon an early termination (in whole or in part) of the Forward Agreement (other than as a result of an Underlying Securities Writedown Event, the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Company or Sovereign Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of a Morgan Stanley Exchange Option), the Issuer or the Forward Counterparty may be liable to make a termination payment (determined in accordance with the Forward Agreement and as described below) to the other (regardless, if applicable, of which of such parties may have caused such termination). There is no assurance that the proceeds from the sale of the Underlying Securities plus (if such payment is owed to the Issuer) or minus (if such payment is owed by the Issuer) such termination payment and taking into account any termination payments under the Swap Agreement will be sufficient to pay the principal amount and/or interest due to be paid in respect of the Notes. The claims of the Forward Counterparty against the Issuer under the Forward Agreement shall rank prior to the claims of the Noteholders under the Notes in the application of all monies received in connection with the realisation or enforcement of the security in respect of the Notes.

The termination payment following an early termination of the Forward Agreement (in whole or in part) as described in the paragraph above will be calculated and made in US dollars. The amount of any such termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Forward Agreement and the termination payment would typically (but not necessarily) take into account the market value of the terminated Forward Agreement based on market quotations of the cost of entering into a contingent forward transaction with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties. Any such termination payment could, depending on fluctuations in exchange rates and/or the interest rate environment, be substantial.

## INFORMATION ABOUT THE COMPANIES AND THE SOVEREIGN ENTITY

*Prospective investors must have sufficient knowledge, experience and professional advice to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Notes. Prospective investors must not rely on the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty or the Determination Agent or any of their affiliates to provide them with any information relating to, or to keep under review on their behalf, the business, financial conditions, prospects, creditworthiness, status or affairs of any of the Companies or the Sovereign Entity or conduct any investigation or due diligence with respect to any of the Companies or the Sovereign Entity.*

**In respect of the information set out below none of the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty nor the Determination Agent will keep the Noteholders and/or investors informed of developments relating to any of the Companies or the Sovereign Entity or their respective Successors although the Issuer will inform the Trustee and the Noteholders if a Company or Sovereign Credit Event occurs in respect of a Company or the Sovereign Entity and is the subject of a Company or Sovereign Credit Event Notice as described in “Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus.**

Information in relation to each Company (but not the Sovereign Entity) and its operations and financial condition can be viewed on the website operated by it, which can be accessed as described below.

<b>Company</b>	<b>Company’s Website</b>
The Bank of East Asia, Limited .....	www.hkbea.com
DBS Bank Ltd. ....	www.dbs.com
Standard Chartered Bank .....	www.standardchartered.com
The Goldman Sachs Group, Inc. ....	www.gs.com
Lehman Brothers Holdings Inc. ....	www.lehman.com
Swire Pacific Limited .....	www.swirepacific.com
CNOOC Limited .....	www.cnooc ltd.com

**Please refer to the paragraph headed “References to websites” in the section headed “The Distributors” in this Issue Prospectus for a warning statement and a disclaimer relating to the usage of information contained in websites referred to above.**

The Bank of East Asia, Limited, Swire Pacific Limited and CNOOC Limited are listed on The Stock Exchange of Hong Kong Limited (“SEHK”). While Standard Chartered Bank is not listed, its holding company, Standard Chartered PLC, is listed on the SEHK and the London Stock Exchange.

Each organisation is required under the Listing Rules of the SEHK to continuously disclose material information, including for example, information which would enable the public to appraise its position, information which is necessary to avoid the establishment of a false market in its securities and information which might reasonably be expected to materially affect market activity in and the price of its securities.

While DBS Bank Ltd. is not listed, its parent company, DBS Group Holdings Ltd., is listed on the Singapore Exchange. The Singapore Exchange imposes requirements on the provision of up-to-date material information which would enable the public to appraise the position of DBS Group Holdings Ltd.

The London Stock Exchange imposes requirements on the provision of up-to-date material information which would enable the public to appraise the position of Standard Chartered PLC, the holding company of Standard Chartered Bank.

CNOOC Limited, Lehman Brothers Holdings Inc. and The Goldman Sachs Group, Inc. are listed on the New York Stock Exchange. This stock exchange imposes requirements on the provision of up-to-date material information which would enable the public to appraise the position of CNOOC Limited, Lehman Brothers Holdings Inc. and The Goldman Sachs Group, Inc..

Additional information in respect of CNOOC Limited, Lehman Brothers Holdings Inc. and The Goldman Sachs Group, Inc. can be found by viewing the website of the New York Stock Exchange at [www.nyse.com](http://www.nyse.com) and the website of the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

Additional information in respect of The Bank of East Asia, Limited, Swire Pacific Limited and CNOOC Limited can be found by viewing the website of the SEHK at [www.hkex.com.hk](http://www.hkex.com.hk).

Additional information in respect of Standard Chartered PLC, the holding company of Standard Chartered Bank can also be found by viewing the website of the SEHK at [www.hkex.com.hk](http://www.hkex.com.hk) and the website of the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

Additional information in respect of DBS Group Holdings Ltd. (the parent company of DBS Bank Ltd.) can be found by viewing the website of the Singapore Exchange at [www.ses.com.sg](http://www.ses.com.sg).

The most recently available annual reports of each of the Companies (or its holding company as the case may be) may also be viewed on the corresponding websites referred to above.

**Please refer to the paragraph headed “References to websites” in the section headed “The Distributors” in this Issue Prospectus for a warning statement and a disclaimer relating to the usage of information contained in websites referred to above.**

As at 23 August 2006, the Reference Obligation of each of the Companies and the Sovereign Entity has the credit ratings set out in the following table.

	<b>Moody's Rating<sup>1</sup></b>	<b>S&amp;P Rating<sup>2</sup></b>	<b>Fitch Rating<sup>3</sup></b>
The Bank of East Asia, Limited .....	Baa1	BBB+	N/A
DBS Bank Ltd. ....	Aa3	A	N/A
Standard Chartered Bank ..	A3	A	A
The Goldman Sachs Group, Inc. ....	Aa3	A+	AA-
Lehman Brothers Holdings Inc. ....	A1	A+	A+
Swire Pacific Limited .....	A3	A-	A-
CNOOC Limited .....	A2	A-	A
The People's Republic of China.....	A2	A	A

<b>Company or Sovereign Entity</b>	<b>Reference Obligation</b>
The Bank of East Asia, Limited .....	The Bank of East Asia, Limited 5.625% subordinated notes due 13 December 2015 (ISIN: XS0236298799) <sup>4</sup>
DBS Bank Ltd. ....	DBS Bank Ltd. 7.125% subordinated notes due 15 May 2011 (ISIN: USY20337AJ30) <sup>4</sup>
Standard Chartered Bank .....	Standard Chartered Bank 5.375% subordinated notes due 6 May 2009 (ISIN: XS0097105661) <sup>4</sup>
The Goldman Sachs Group, Inc. ....	The Goldman Sachs Group, Inc. 6.60% notes due 15 January 2012 (ISIN: US38141GBU76)
Lehman Brothers Holdings Inc. ....	Lehman Brothers Holdings Inc. 6.625% notes due 18 January 2012 (ISIN: US52517PSC67)
Swire Pacific Limited . ....	Swire Pacific MTN Financing Ltd 5.625% notes guaranteed by Swire Pacific Limited due 30 March 2016 (ISIN: XS0247747081)
CNOOC Limited . ....	CNOOC Finance 2002 Ltd 6.375% notes guaranteed by CNOOC Limited due 8 March 2012 (ISIN: USU17469AA25)
The People's Republic of China .....	The People's Republic of China, The People's Republic of China 6.8% notes due 23 May 2011 (ISIN: XS0129936331)

1 The “**Moody's Rating**” is the credit rating published by Moody's as at 23 August 2006.

2 The “**S&P Rating**” is the credit rating published by S&P as at 23 August 2006.

3 The “**Fitch Rating**” is the credit rating published by Fitch as at 23 August 2006.

4 This Reference Obligation is a subordinated obligation of the relevant Company which is subordinate in right of payment to other senior and unsubordinated obligations of such Company. The Deliverable Obligations will not be subordinated to this Reference Obligation but may be subordinated to other senior and unsubordinated obligations of the relevant Company.

None of the ratings of the Reference Obligation of the relevant Company or the Sovereign Entity is subject to “CreditWatch” by S&P, “Watchlists” by Moody’s or “Rating Watch” by Fitch as at 23 August 2006. Please see Appendix A for guidelines issued by S&P, Moody’s and Fitch on what each of their ratings, “CreditWatch”, “Watchlists” and “Rating Watch” means.

The Reference Obligations set out above provide a benchmark in that the Deliverable Obligations in respect of any Company or the Sovereign Entity will not, in the liquidation, dissolution, reorganization or winding up of that Company (other than by operation of law) or the Sovereign Entity (as applicable), rank for payment after the Reference Obligation of that Company or the Sovereign Entity (i.e. will not be Subordinated to that Reference Obligation (see the definition of “Subordination” under the paragraph headed “Definitions” in the section headed “Technical Definitions” in this Issue Prospectus)). See the definition of “Reference Obligation” in the section headed “Technical Definitions — Determining Deliverable Obligations” for information on substitute Reference Obligations.

There can be no assurance that any stated credit rating will remain in effect for any given period or that any such rating will not be revised by the relevant rating agency in the future if, in the relevant credit rating agency’s judgement, circumstances so warrant. A downward revision of a credit rating does not of itself constitute a Company or Sovereign Credit Event.

Up-to-date information on the Companies’ and the Sovereign Entity’s ratings can be obtained from S&P (please see “contact us” at [www.standardandpoors.com](http://www.standardandpoors.com) for up-to-date contact details) from Moody’s (please see “Key Contacts in Asia” at [www.moodyasia.com](http://www.moodyasia.com) for up-to-date contact details) and from Fitch (please see “Contact us” at [www.fitchratings.com](http://www.fitchratings.com) for up-to-date contact details).

**Please refer to the paragraph headed “References to websites” in the section headed “The Distributors” in this Issue Prospectus for a warning statement and a disclaimer relating to the usage of information contained in websites referred to above.**

*None of the Issuer, its directors, the Arranger, the Market Agent or the Trustee gives any representation as to the accuracy or reliability of the credit ratings, save that the Issuer and its directors have taken reasonable care to correctly extract and/or reproduce such information from the relevant source of publicly available information.*

## RISK FACTORS

*Prior to making an investment decision, prospective investors should carefully consider the contents of this Issue Prospectus, in particular the following matters. Prospective investors are also advised that this Issue Prospectus should be read in conjunction with the Programme Prospectus, which contains important information in respect of the Programme and the Notes issued under the Programme. In particular, prospective investors should carefully study the matters set out in the section headed “Risk Factors” in the Programme Prospectus. Structured securities such as the Notes are sophisticated instruments and can involve a high degree of risk.*

*Prospective investors however should be aware that this Issue Prospectus, together with the Programme Prospectus, can only disclose the most relevant risks and cannot disclose all the risks of the Notes. The information set out herein is included for the purpose of enabling prospective investors to make an informed assessment of the terms of the Notes, general risks of investing in the Notes and the capacity of the Issuer to fulfil its obligations under the Notes. No person should purchase or deal in the Notes unless they understand the nature of the transaction and the extent of their exposure to potential loss. Prospective investors in the Notes should therefore consult their own legal, tax, accountancy and other professional advisers to assist them to determine the suitability of the Notes for them as an investment.*

*Notwithstanding its ability to understand and make independent decisions regarding investing in the Notes, by purchasing Notes, an investor in the Notes shall be treated by the Issuer as implicitly representing and warranting that he has assumed, and is willing to assume, the complexity and risks inherent in the Notes, regardless of whether or not he has disclosed the same to the Issuer.*

*Under the Code of Conduct for Persons Licensed by or Registered with the SFC (the “SFC Code of Conduct”), the Distributors as entities licensed by or registered with the SFC are required to ensure that the suitability of the Notes to a prospective investor is reasonable in all circumstances when making a recommendation with respect to the Notes to that prospective investor and to ensure that the prospective investor understands the nature and risks of investing in the Notes.*

### **Transferability of the Notes and no assurance as to an active trading market in the Notes**

There are no restrictions on the transferability of the Notes after their issue and as such investors may sell their Notes to an interested party at such price as they may agree with that party. However, no party is under any obligation to facilitate secondary market trading of the Notes, and investors are therefore advised that the circumstances in which they may be able to realise their investment may be limited. **There may be no market making arrangements in place in respect of the Notes.** As the Notes will not be listed on any stock exchange and any dealings in them are off-exchange transactions, investors will not be covered by any investor compensation fund established to provide compensation in respect of listed securities in the event of intermediary default.

The market making arrangements described in the section headed “Market Making Arrangements” in this Issue Prospectus are limited and do not assure an active trading market for the Notes. There can be no assurance that the Market Agent will make a

market in the Notes, or if it does so, that it will continue to do so. Accordingly, there can be no assurance that investors or members of the public will have access to a firm bid price or a firm offer price for the Notes in a principal amount which they may wish to purchase or sell.

### **Suitability of the Notes**

An investment in the Notes involves substantial risks including credit risk, market risk, liquidity risk, and the risk that the Issuer will be unable to satisfy its obligations under the Notes. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Notes. There is no guarantee from any entity to Noteholders that they will recover any amounts payable under the Notes. In addition, upon (i) notice of the occurrence of a Company or Sovereign Credit Event being given, (ii) the occurrence of a Mandatory Redemption Event or (iii) occurrence of an Issuer's Event of Default, investors could lose all or a substantial part of their investment in the Notes. This Issue Prospectus and the Programme Prospectus are not and do not purport to be investment advice. Prospective investors should conduct such additional investigation and analysis as they deem appropriate to evaluate the merits and risks of any investments in the Notes. Prospective investors should consider carefully whether the Notes are suitable for them in light of their experience, objectives, financial position and other relevant circumstances. Prospective investors should make an investment only after they have determined that such investment is suitable for their financial investment objectives. If prospective investors have any concerns about the Notes, or are uncertain about the suitability of the Notes for their personal circumstances, they should consult their professional adviser. The Notes are not suitable for inexperienced investors.

### **Consequence of the Notes being in global form**

For so long as the Notes are represented by the Global Certificates, the Notes will be held and traded through Euroclear and Clearstream, Luxembourg. For the purposes of payments required to be made by the Issuer to Noteholders and delivery of notices to Noteholders, the Issuer shall be deemed to have complied with its obligations to make such payments or deliver such notices, if such payments are made to, or notices delivered to, the Paying Agent and the relevant clearing systems for credit and/or delivery to the Distributors (as direct or indirect participants in the clearing systems) in accordance with the entitlement of each Distributor as shown in the records of the clearing system as a holder of a particular nominal amount of the Notes. Therefore, investors will have to rely on their rights against their Distributor to credit their accounts with payments credited to it through the clearing system and to distribute to them notices which it receives through the clearing system from the Issuer. None of the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty or the Determination Agent assumes any responsibility towards them in the event of any failure or delay by a Distributor to fulfil its obligations correctly.

Any action an investor may wish to take against the Issuer in accordance with the terms and conditions of the Notes will require the cooperation of the Noteholder and/or the Trustee (as the case may be). Investors have no right of direct action against the Issuer and will need to rely on their Distributor to contact the Noteholder and/or the Trustee on their behalf. The business terms of one Distributor to another may be very different and prospective investors are advised to read carefully the terms of business of any party they intend to engage in maintaining an investment account for their Notes, and ensure they understand the circumstances in which they may rely on such party to act on their behalf.

## **Exposure to the Companies and Sovereign Entity and the Underlying Securities**

The Notes differ from ordinary debt securities in that the amount of principal payable by the Issuer is dependent on whether (i) a notice of the occurrence of a Company or Sovereign Credit Event is given, (ii) a Mandatory Redemption Event has occurred or (iii) an Issuer's Event of Default has occurred. Payments upon redemption (whether at maturity or earlier) will depend upon, among other things, the credit performance of the Companies and their Successors (as defined in the section headed "Technical Definitions" in this Issue Prospectus) and the Sovereign Entity and its Successors (as defined in the section headed "Technical Definitions" in this Issue Prospectus). Investors should note that a Succession Event (as defined in the section headed "Technical Definitions" in this Issue Prospectus) may or may not occur during the life of the Notes and the identities of the Successors (if any) to any of the Companies or the Sovereign Entity and information about such Successors (if any) will not be available at the time investors decide to purchase the Notes. Accordingly, investors may be exposed to the additional risk that the Successors (if any) may suffer a Company or Sovereign Credit Event during the life of the Notes, which may or may not have an adverse impact on the return of their investment in the Notes.

Investors should also note that upon (i) notice of the occurrence of a Company or Sovereign Credit Event being given, (ii) the occurrence of a Mandatory Redemption Event or (iii) an Issuer's Event of Default has occurred, they could lose a substantial portion or all of their investment in the Notes. In addition, the creditworthiness and/or performance of the Companies and their Successors and of the Sovereign Entity and its Successors may be dependent upon economic, political, financial and social events both locally and globally. There can be no assurance that such factors will not adversely affect the Companies' or their Successors' and the Sovereign Entity's and its Successors' creditworthiness and/or performance and, in turn, the performance of the Notes.

The Underlying Securities may consist of Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities. Please refer to the paragraph headed "Exposure to the Underlying Securities where Underlying Securities consist of Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities" in the section headed "Risk Factors" in the Programme Prospectus for a description of the relevant risks.

Prospective investors should note that an "Underlying Securities Default Event" (which is a Mandatory Redemption Event) is defined to include the deferral of payment of principal in respect of any of the Underlying Securities beyond the scheduled maturity date of such Underlying Securities. Accordingly, an Underlying Securities Default Event, and accordingly a mandatory redemption of the Notes, could occur even though there has been no payment default in respect of, or reduction or write down in the principal amount of, the Underlying Securities and even though such deferred payment of principal could at a future date be paid in whole or in part.

Where the Underlying Securities consist of or include Medium Term Notes, the obligor(s) under the Medium Term Notes may be, or be affiliated to, one or more Companies, or be of the same industry or business type as one or more Companies. If so, the occurrence of certain default events in respect of such obligor(s) could constitute an Underlying Securities Default Event or a Restructuring of Underlying Securities Event in respect of the Underlying Securities as well as give rise to the right of the Issuer to give notice of the occurrence of a Company or Sovereign Credit Event under the Notes, and may therefore have a greater impact on the market value of the Notes than if such obligor(s) were not the same as, nor affiliated to, one or more Companies, or be of the

same industry or business type as one or more Companies. There can be no assurance that the inclusion of Medium Term Notes as Underlying Securities will not adversely affect the market value of the Underlying Securities and, in turn, the performance of the Notes.

The Synthetic CDO Securities and/or CDO Squared Securities and/or Credit Commodity Linked Securities comprising the Underlying Securities may be linked to the same reference entities or reference entities which are of the same industry or business type. If so, the occurrence of credit events or potential credit events in respect of such reference entities may have a greater impact on the market value of the Underlying Securities. Likewise, any of the Companies or the Sovereign Entity or their respective Successor may be reference entities, or of the same industry or business type as reference entities, to which such Synthetic CDO Securities and/or CDO Squared Securities and/or Credit Commodity Linked Securities are linked. In such a case, the occurrence of a Company or Sovereign Credit Event would not only give rise to the right of the Issuer to give notice of the occurrence of a Company or Sovereign Credit Event, but could also adversely affect the market value of the Underlying Securities. There can be no assurance that, considering the nature of Synthetic CDO Securities, CDO Squared Securities and Credit Commodity Linked Securities as described, the inclusion of Synthetic CDO Securities and/or CDO Squared Securities and/or Credit Commodity Linked Securities as Underlying Securities will not adversely affect the market value of the Underlying Securities and, in turn, the performance of the Notes. Where the Underlying Securities are securities in respect of which Morgan Stanley acts as arranger, swap counterparty or swap guarantor, prospective investors should appreciate that the ability of the issuer of the Underlying Securities to meet its obligations to pay principal of, and any interest or premium on, such Underlying Securities will be dependant on the receipt by, or on behalf of, such issuer of moneys due to it under the contracts and/or assets upon which such Underlying Securities are secured, including any swap agreement (where Morgan Stanley acts as swap counterparty or swap guarantor) between Morgan Stanley and such issuer or (where Morgan Stanley acts as swap guarantor) between the relevant swap counterparty and such issuer where the obligations of such swap counterparty to such issuer are guaranteed by Morgan Stanley.

Where the Underlying Securities consist of or include a Liquidity Fund, the investment manager of such Liquidity Fund may invest in securities the issuer(s) or obligor(s) of which may be, or be affiliated to, one or more Companies or the Sovereign Entity, or be of the same industry or business type as one or more Companies. If so, the occurrence of certain default events in respect of such issuer(s) or obligor(s) could affect the value of the Liquidity Fund as well as give rise to the right of the Issuer to give notice of the occurrence of a Company or Sovereign Credit Event under the Notes, and may therefore have a greater impact on the market value of the Notes than if such issuer(s) or obligor(s) were not the same as, or nor affiliated to, one or more Companies or the Sovereign Entity, or be of the same industry or business type as one or more Companies. There can be no assurance that the inclusion of such Liquidity Fund as Underlying Securities will not adversely affect the market value of the Underlying Securities and, in turn, the performance of the Notes.

In addition, a Liquidity Fund is not a fixed income security and may be redeemed at an amount which is less than the amount at which it was initially invested in.

The Underlying Securities may consist of one or more series of different types of securities and the occurrence of an Underlying Securities Default Event or a Restructuring of Underlying Securities Event in respect of any one of such securities

comprising the Underlying Securities will give rise to a Mandatory Redemption Event, notwithstanding that an Underlying Securities Default Event or a Restructuring of Underlying Securities Event has not occurred in respect of any of the other securities comprising the Underlying Securities.

The Underlying Securities may include securities in respect of which Morgan Stanley and/or any of its affiliates acts as arranger, swap counterparty, swap guarantor and/or as an agent of the issuer of the Underlying Securities. The Underlying Securities will in any event not be obligations of, and will not be guaranteed by, Morgan Stanley. Prospective investors should note however that, in its capacity as swap counterparty in connection with one or more Underlying Securities and/or as an agent of the issuer(s) of one or more Underlying Securities, Morgan Stanley or its affiliate(s) may be entitled to exercise certain rights, make determinations in its sole discretion or take any other action in its capacity as swap counterparty and/or as an agent of the issuer of the relevant Underlying Securities which may result in the redemption in whole or in part of such Underlying Securities, and, in certain circumstances, the occurrence of a Mandatory Redemption Event in relation to the Notes. Morgan Stanley and/or its affiliate(s) may benefit from a gain in these circumstances. Such circumstances could, however, affect the value of the Notes and the return received. Where such Underlying Securities are redeemed in whole or in part at or above their outstanding principal amount including any accrued interest in accordance with their terms, the proceeds of redemption may be held in the account of the Issuer with the Custodian (pending any reinvestment of such proceeds of redemption in Eligible Investments) or reinvested in Eligible Investments. See the paragraph headed “Discretion of the Issuer to invest in the Underlying Securities” in this section below.

### **Determination of a Company or Sovereign Credit Event**

When and whether to declare a Company or Sovereign Credit Event is in the sole and absolute discretion of the Determination Agent. Upon notification of an occurrence of a Company or Sovereign Credit Event being given, the Notes will be redeemed at the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully set out in the paragraph headed “Procedure for Redemption of the Notes following a Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus) on the Company or Sovereign Credit Event Redemption Date. The Company or Sovereign Credit Event Redemption Date will fall on any day between the 54th Business Day to and including the 127th Business Day following the Company or Sovereign Credit Event Determination Date and such date may fall after the Scheduled Maturity Date. Investors should be aware that there will be a time delay between the Determination Agent’s declaration of a Company or Sovereign Credit Event and the payment (as appropriate) of the relevant amount due to investors.

### **First-to-Default Credit Linked Notes**

Prospective investors should be aware that the Notes are linked to the credit of the Companies and/or Sovereign Entity on a “first-to-default” basis. This means that the relevant Company or Sovereign Credit Event that triggers the credit linked redemption of the Notes is the first default of any of the Companies or the Sovereign Entity. In the event that a Company or Sovereign Credit Event occurs in respect of any one of the Companies or the Sovereign Entity, the redemption value of the Notes will be reduced by the fall in the value of the Deliverable Obligations of the Credit Event Entity (as adjusted by any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute

discretion prior to the Company or Sovereign Credit Event Redemption Date). The credit risk that prospective investors bear under the Notes is not allocated to any particular Company or the Sovereign Entity in any proportion. After the declaration of a Company or Sovereign Credit Event, the value of the Notes is likely to reduce substantially.

### **Deliverable Obligations**

Following the declaration of a Company or Sovereign Credit Event, the value of the Notes is linked to the value of the Deliverable Obligations and, in the case of the Tranche B Notes, the USD/HKD exchange rate prevailing on or about the Company or Sovereign Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer. In lieu of making the full repayment on the Notes on the Scheduled Maturity Date, the Issuer will pay to investors the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus) on the Company or Sovereign Credit Event Redemption Date, which date may fall after the Scheduled Maturity Date. Although the Credit Event Entity may or may not have defaulted on any of its payment or other obligations under the relevant Deliverable Obligations at that time, the value of such Deliverable Obligations is likely to be substantially less than the principal amount of the relevant Deliverable Obligations and may be as low as zero. Furthermore, the Swap Counterparty is able to exercise its sole and absolute discretion in choosing which Deliverable Obligations to select and the Determination Agent, acting for and on behalf of the Issuer, is able to exercise its sole and absolute discretion in choosing which Dealers it will approach to obtain quotations for the market valuation of the Deliverable Obligations, provided that such Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates. See the definition “Deliverable Obligations” in the paragraph headed “Company or Sovereign Credit Event Redemption Amount” in the section headed “Technical Definitions” in this Issue Prospectus for further details.

In the event that a Reference Obligation is redeemed in full or otherwise ceases to be an Obligation (as defined in the section headed “Technical Definitions” in this Issue Prospectus) of a Company or Sovereign Entity, the Determination Agent acting for and on behalf of the Issuer will identify one or more Obligations which preserve the economic equivalent of the delivery and payment obligations of the Issuer to be a substitute Reference Obligation. In practice, the substitute Reference Obligation will be the same as that selected by the calculation agent under the credit default swaps under the Swap Agreement. The substitute Reference Obligation will be an equivalent Obligation of such Company or Sovereign Entity. In particular, the Reference Obligation in respect of each of DBS Bank Ltd., Standard Chartered Bank, The Goldman Sachs Group, Inc., Lehman Brothers Holdings Inc., CNOOC Limited and The People’s Republic of China has a maturity date which falls before the Scheduled Maturity Date of the Notes and such Reference Obligation will be substituted by a substitute Reference Obligation on its maturity date or when it otherwise ceases to be an Obligation of DBS Bank Ltd., Standard Chartered Bank, The Goldman Sachs Group, Inc., Lehman Brothers Holdings Inc., CNOOC Limited or The People’s Republic of China (as the case may be). The identity of such substitute Reference Obligation will not be known to prospective investors when they commit to purchase the Notes.

## **Limited Independent Information on the People’s Republic of China**

The Sovereign Entity, namely the People’s Republic of China, is not a company and as such is not subject to the same on-going regulatory disclosure obligations as the Companies which are listed on a number of stock exchanges (see the section headed “Information About the Companies and the Sovereign Entity” in this Issue Prospectus). Accordingly, you may find it difficult to obtain information on the People’s Republic of China. This will make it more difficult to observe or track any deterioration in the financial or political condition of the People’s Republic of China which may impact on its ability to service its outstanding debt obligations.

## **Discretion of the Determination Agent and Calculation Agent**

For the purposes of the Notes, the Determination Agent, acting for and on behalf of the Issuer, has the sole and absolute discretion to determine (amongst others) whether a Company or Sovereign Credit Event, an Underlying Securities Default Event or other Mandatory Redemption Event has occurred and in making calculations as described in this Issue Prospectus and the Pricing Supplement. In practice, the Determination Agent will not select a Credit Event Entity which is not the same as that notified by the Swap Counterparty to the Issuer under the Swap Agreement. Although each of the Calculation Agent and the Determination Agent has a general duty to act in good faith, the Master Conditions do not impose any express contractual duty on the Calculation Agent and the Determination Agent to do so and prospective investors should be aware that any decision made by the Calculation Agent and/or the Determination Agent may have an unforeseen adverse impact on the financial return of the Notes. Any such discretion exercised by, or any calculation or determination made by, the Calculation Agent and/or the Determination Agent (in the absence of manifest error) shall be binding on the Issuer and all investors.

## **Determination of Credit Event Entity**

In the event that a Company or Sovereign Credit Event has occurred in respect of one or more of the Companies and/or the Sovereign Entity, the Determination Agent, acting for and on behalf of the Issuer, has the sole and absolute discretion to decide which Company or the Sovereign Entity will be the Credit Event Entity. In practice, the Determination Agent will not select a Credit Event Entity which is not the same as that notified by the Swap Counterparty to the Issuer under the Swap Agreement (for further information on the Determination Agent’s discretion, see the paragraph headed “Discretion of the Determination Agent and Calculation Agent” in this section above).

The decision made by the Determination Agent in such circumstances will affect the Deliverable Obligations which are used to calculate the amount received by the investors under the Notes. A selection may be made which is less favourable to the Noteholders and this will affect the value of the Notes and the return received.

## **Credit Rating, Liquidity and Valuation of the Underlying Securities**

The Original Underlying Securities, or, where applicable, each Original Underlying Securities (or the issuer(s) or obligor(s) thereof) (other than that part of the Original Underlying Securities in the form of Cash Deposits) will be rated at least “Aaa”, “Aa2/P-1” (in the case of Medium Term Notes), “P-1” or “MR1+” (as the case may be) by Moody’s and/or at least “AAA”, “AA/A-1” (in the case of Medium Term Notes), “A-1” or “AAAm” (as the case may be) by S&P and/or at least “AAA”, “AA/F1” (in the

case of Medium Term Notes), “F1” or “AAA/V1+” (as the case may be) by Fitch on the Issue Date (and will not be subject to a negative outlook). Investors should note that the Original Underlying Securities’ credit or stability rating(s) (or the rating(s) of the issuer(s) or obligor(s) thereof) may change after the Issue Date.

Eligible Investments which are short-term investments will be rated on the basis of short-term ratings and accordingly if such Eligible Investments are acquired, the Underlying Securities or the relevant portion thereof, as the case may be, will have such short-term rating. Investors should note that the Underlying Securities’ credit rating(s) (or the rating(s) of the issuer(s) or obligor(s) thereof) may change after the date of acquisition thereof.

Following the giving of notice to the Noteholders of the occurrence of a Company or Sovereign Credit Event, the Issuer will, pursuant to the Swap Agreement, pay to the Swap Counterparty an amount equal to the Liquidation Proceeds of the Underlying Securities and in return will receive a cash amount equal to the Company or Sovereign Credit Event Redemption Amount plus or minus any appreciation or depreciation in the market value of the Underlying Securities following a sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, on or before the Company or Sovereign Credit Event Redemption Date. The principal amount of the Deliverable Obligations identified by the Swap Counterparty will be equal to the principal amount of the Notes outstanding on the Company or Sovereign Credit Event Determination Date. Investors should note that the market value of the Underlying Securities will depend on their liquidity. No assurance can be given that a secondary market for any of the Asset-Backed Securities, Synthetic CDO Securities or CDO Squared Securities comprised in the Underlying Securities will exist or if it does exist will provide sufficient liquidity for the sale thereof. The lack of liquidity may adversely affect the market value of such Asset-Backed Securities, Synthetic CDO Securities or CDO Squared Securities and, in turn, the performance of the Notes. No assurance can be given by any of the Issuer, the Trustee or the Arranger as to whether the market value of the Underlying Securities will be above or below par.

Investors should also note that following the occurrence of a Mandatory Redemption Event, the value of the Notes is linked to the value of the Underlying Securities and, in the case of the Tranche B Notes, the USD/HKD exchange rate prevailing on or about the relevant Mandatory Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer. In lieu of making the full repayment on the Notes on the Scheduled Maturity Date, the Issuer will pay to investors the applicable Mandatory Redemption Amount on the relevant Mandatory Redemption Date, which date may fall after the Scheduled Maturity Date. In the context of an Underlying Securities Default Event, it is likely that the proceeds of sale will be substantially less than the principal amount of the Underlying Securities sold. Furthermore, the Swap Counterparty is able to exercise its sole and absolute discretion in selecting which Dealers it will approach to obtain quotations for the sale of the Underlying Securities. The Swap Counterparty’s selection of the Dealers and the quotations obtained from such Dealers will have an impact on the determined value of the Underlying Securities, and accordingly will affect (and could adversely affect) the investors’ return of the investment on the Notes.

#### **The Swap Guarantee and the MS/MSIL Guarantee are governed by New York law**

The Swap Guarantee and the MS/MSIL Guarantee are governed by New York law and the courts of New York will have non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee and the MS/MSIL Guarantee respectively. New York law may be materially different from the equivalent Hong Kong law in its application to the

Swap Guarantee or the MS/MSIL Guarantee, as the case may be. If prospective investors are in any doubt as to the implication of New York law being the governing law in respect of the Swap Guarantee and the MS/MSIL Guarantee or the courts of New York having non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee or the MS/MSIL Guarantee, as the case may be, they should consult their solicitors and other professional advisers.

### **Exchange Rate Risks**

On the Issue Date, the Issuer shall invest the proceeds received from the issue of the Notes in the purchase or subscription of a principal amount of securities denominated in US dollars equal to the total principal amount of the Notes. The Original Underlying Securities may consist of one or more series of different types of securities and may consist of, or include, Synthetic CDO Securities or CDO Squared Securities. Eligible Investments acquired using the proceeds of redemption of the relevant Original Underlying Securities and any Reinvested Eligible Investments will also be denominated in United States dollars.

If there is a Mandatory Redemption Event or the Issuer gives notice of the occurrence of a Company or Sovereign Credit Event, the redemption amount payable to the Noteholders will depend on the redemption or sale proceeds of the Underlying Securities and/or the determined value of the Deliverable Obligations (as the case may be), subject also in respect of a redemption of the Notes following a Mandatory Redemption Event to adjustment in respect of the Swap Settlement Amount, which includes any early termination amounts or close out payments under the Swap Agreement and the Forward Agreement. The applicable Mandatory Redemption Amount payable following a Mandatory Redemption Event or the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Company or Sovereign Credit Event” in the section headed “Summary” in this Issue Prospectus) payable following a Company or Sovereign Credit Event (as the case may be) will be paid to the Noteholders on a pro-rata basis on the relevant Mandatory Redemption Date or the Company or Sovereign Credit Event Redemption Date (as the case may be). Such redemption amount payable in respect of the Tranche B Notes will be made in Hong Kong dollars by reference to the prevailing USD/HKD exchange rate as determined by the Determination Agent, acting for and on behalf of the Issuer, on or about the Mandatory Redemption Date or the Company or Sovereign Credit Event Redemption Date, as the case may be. Prospective investors for the Tranche B Notes should note that they may be exposed to an exchange conversion risk in these circumstances. Such risk, depending on the conversion rate determined by the Determination Agent, acting for and on behalf of the Issuer, may or may not have an adverse impact on the return of their investment in the Notes.

### **Business Dealings of Morgan Stanley and its affiliates in respect of the Companies, the Sovereign Entity and their respective Successors and the issuer(s) of the Underlying Securities**

Morgan Stanley and its affiliates may presently or in the future engage in business activities with any Company or the Sovereign Entity or any of their respective Successors or the issuer(s) of the Underlying Securities, including entering into loans, making investments and providing investment advisory services. In addition, Morgan Stanley and its affiliates may also from time to time buy or sell or otherwise acquire or dispose of any interest in or exposure to any Company or the Sovereign Entity and their respective Successors, or the issuer(s) of Underlying Securities or obligations which might comprise Obligations or Deliverable Obligations. Furthermore, Morgan Stanley

and its affiliates may have acquired, or during the term of the Notes may acquire, confidential information regarding a Company or the Sovereign Entity or their respective Successors and/or the issuer(s) of the Underlying Securities. Morgan Stanley and its affiliates are under no obligation to make such information available to Noteholders. The foregoing activities and information in relation to the Companies, the Sovereign Entity and their respective Successors or the issuer(s) of the Underlying Securities may involve or otherwise affect the Companies, the Sovereign Entity and their respective Successors or the issuer(s) of the Underlying Securities in a manner that may cause consequences adverse to the holders of the Notes or otherwise create conflicts of interests in connection with such Notes. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. Morgan Stanley and its affiliates have no obligation to disclose such activities or information. Such activities may also directly or indirectly affect the creditworthiness of such Company or the Sovereign Entity or their respective Successors or the issuer(s) of the Underlying Securities and accordingly may, in certain cases, result in the occurrence of a Company or Sovereign Credit Event or a Mandatory Redemption Event in relation to the Underlying Securities (and in such circumstances, the redemption amount of the Notes may be substantially less than the principal amount of the Notes invested). Morgan Stanley and its affiliates take no responsibility for such consequences and is under no obligation to consult with the Noteholders in respect thereof. Morgan Stanley and its affiliates and their officers and directors may engage in any such activities without regard to the issue of Notes or the effect that such activities may directly or indirectly have on any Note.

## APPLICATION PROCEDURES

### Procedural Information

The following paragraphs summarise certain matters relating to the application by prospective investors to purchase the Notes as part of their initial issue. Prospective investors should contact one of the Distributors (whose details are set out in the section headed “The Distributors” in this Issue Prospectus) if they require any further information.

### Offer Period

From 9:00 a.m. on 29 August 2006 to 4:30 p.m. on 15 September 2006 or such earlier date on which the Arranger determines in its absolute discretion (without prior notice) that the offering of the Notes has closed. However the Arranger reserves the right to extend the Offer Period in its absolute discretion. Any extension will be notified to Distributors on or before 15 September 2006 in a manner to be determined by the Arranger.

The Offer Period in respect of a Tranche may be shortened or extended as described above without triggering a similar effect on the other Tranche and therefore it is possible that the Offer Period of each Tranche will close at different times.

### Issue Price

100 per cent. of the principal amount of the Notes to be purchased (the “**Issue Price**”). In connection with the on-sale of the Notes to prospective investors, the Distributors have agreed (or, if not yet appointed, will be required to agree) that all Notes to be on-sold by them will be on-sold at 100 per cent. of their aggregate principal amount, and will not be subject to any selling or other commissions in connection with such sale, provided however that such agreement is without prejudice to the right of each Distributor to receive any commission from the Initial Subscriber or to charge fees to investors for custody services in respect of the Notes held by the Distributor on behalf of the relevant investor. **See “Handling Fees” below for details of handling fees which may be levied by the Distributors in connection with the purchase of Notes and the section headed “Settlement, Clearance and Custody” in the Programme Prospectus for a description of other charges which may be levied by the Distributors in connection with their provision to investors of their custodial, transfer and clearing services.**

### Minimum Investment

USD5,000 for Tranche A Notes. HKD40,000 for Tranche B Notes.

### Method and Timing of Payment of Issue Price

The Issue Price for the Notes to be purchased by a prospective investor will be payable to the Distributor in the manner and/or to the account as separately designated by the Distributor to prospective investors in accordance with its normal operational procedures. Prospective investors will only be required to pay for Notes which have been allocated to them by the Distributors after the Distributors have been allocated such Notes by the Arranger on or about the Fixing Date. Such moneys shall be payable by the

prospective investor no earlier than the time of allocation to it of Notes in accordance with the foregoing and by no later than the Issue Date. Each Distributor will be required to undertake to provide each prospective investor with details relating to the payment of the Issue Price for the Notes.

### **Payment Procedures**

Payments should be made to the Distributors in US dollars for Tranche A Notes or in HK dollars for Tranche B Notes.

### **Handling Fees**

**If prospective investors wish to purchase any Notes from a Distributor, they may be charged a handling fee by the Distributor in connection with such purchase. Prospective investors are advised to contact one of the Distributors for further details of any such handling fee which may be levied by that Distributor. The handling fees payable to one Distributor may differ from those payable to another Distributor. In addition, see the section headed “Settlement, Clearance and Custody” in the Programme Prospectus for a description of other charges which may be levied by the Distributors in connection with their provision to investors of their custodial, transfer and clearing services.**

### **Cancellation of the issue of any of the Tranches of Notes**

In relation to each Tranche of Notes, the Issuer may determine on the Fixing Date in its absolute discretion after consultation with the Arranger that the Notes of that Tranche should not be issued. Following any such determination, the offering of such Tranche of Notes shall be cancelled. In such event, no Notes of such Tranche shall be issued and the Arranger shall so notify the Distributors as soon as practicable after the Fixing Date and any purchase monies held in an account with a Distributor shall no longer be held for the purposes of the purchase of Notes of the relevant Tranche and the Distributors shall return such purchase monies paid by the applicants in accordance with “Refund of Application Monies” below.

For the avoidance of doubt, the cancellation of the offering of one Tranche will not affect the offering of the other Tranche.

The Distributors shall notify all affected applicants as soon as practicable upon receiving a notice from the Issuer in respect of any non-issuance of either or both Tranche(s) of the Notes.

### **Postponement of Fixing Date**

The Issuer, after consultation with the Arranger, may exercise its absolute discretion to postpone the Fixing Date to a date falling no later than 22 November 2006 (and, in any case, a date not less than two Hong Kong Business Days prior to the Issue Date as postponed as described in the paragraph below), in which case such date will be the Fixing Date. If the Issuer so postpones the Fixing Date, it will notify the Distributors of the postponed Fixing Date on or before the Original Fixing Date.

If the Issuer postpones the Fixing Date as described above, if the Issuer so requires, the expected Issue Date will also be postponed by at least the same number of Hong Kong Business Days by which the Fixing Date was postponed. The Issuer will notify the Distributors of the postponed expected Issue Date on or before the Original Fixing Date.

## **Postponement of Issue Date**

Notwithstanding any postponement of the Fixing Date as described above, the Issuer, after consultation with the Arranger, may exercise its absolute discretion not to issue either or both Tranche(s) in light of general market interest. If the Issuer decides not to issue either or both Tranche(s), it will notify the Distributors as soon as practicable after the Fixing Date.

Notwithstanding the determination by the Arranger of the total principal amount of Notes of a Tranche to be issued on the Fixing Date, the Issuer, after consultation with the Arranger, may at any time between the Fixing Date and the then expected Issue Date exercise its absolute discretion to postpone the Issue Date to a date falling no later than 27 November 2006. Where both Tranches are to be issued, the Issue Date of a Tranche may be postponed independently of the Issue Date of the other Tranche. Such right to postpone the Issue Date will apply in addition to the right to postpone the Fixing Date. If the Issuer so postpones the Issue Date to issue either or both Tranche(s), it will notify the Distributors on or before the then expected Issue Date.

The Distributors shall notify all affected applicants as soon as practicable upon receiving a notice from the Issuer in respect of any such postponement of the Fixing Date and/or the Issue Date for either or both Tranche(s) of the Notes.

## **Refund of Application Monies**

If any application monies are to be refunded in any of the circumstances described in this Issue Prospectus, payment will be made by the Distributors to the applicants in accordance with the relevant Distributor's normal operating procedures without interest and at the risk of the applicants within 10 Hong Kong Business Days after the Fixing Date. Such payment will be made in the currency in which the Notes are denominated by bank transfer or by cheque, unless otherwise agreed between the relevant applicant and his Distributor.

## **Confirmations to be given by investors**

Except as set out above, the detailed procedures for allocation to and purchase by prospective investors of Notes from the Distributors will be as separately imposed by each Distributor, and prospective investors are therefore advised to contact one of the Distributors for information relating to such arrangements. However, by giving application instructions to any Distributor for the purchase of any Notes, prospective investors will be deemed to confirm to the Distributor, the Arranger and the Issuer that, amongst other things, they:

- **undertake and agree** to accept the Notes applied for, or any lesser number (provided such number is not less than a Note of USD5,000 for Tranche A Notes and a Note of HKD40,000 for Tranche B Notes) allocated to them;
- **understand** that in respect of the Tranche B Notes, the applicable Mandatory Redemption Amount payable to Noteholders on the occurrence of a Mandatory Redemption Event or the Company or Sovereign Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed "Procedure for the redemption of the Notes following a Company or Sovereign Credit Event" in the section headed "Summary" of this Issue Prospectus) payable to Noteholders following the giving of notice to the Noteholders of the occurrence of a Company or Sovereign Credit Event, as the case may be, will

be subject to an exchange conversion risk arising from the conversion of such redemption amounts into Hong Kong dollars at the prevailing USD/HKD exchange rate as determined by the Determination Agent, acting for and on behalf of the Issuer;

- **undertake** and **agree** to pay in full the Issue Price of the Notes allocated to them;
- **authorise** the Distributor to which they give their application instructions to credit any Notes allocated to them to their investment account with it and understand that no certificates of title will be available for their Notes and their interest in their Notes will be in book-entry form only;
- **understand** that the Notes will be held through a clearing system which means that they will have to rely on the Distributor selected by them to credit or debit their account with that Distributor with payments credited to it or to be made by them to the Issuer through the clearing system and to distribute notices received by it or to be made by them to the Issuer through the clearing system;
- **understand** there will be a time delay between the Determination Agent's declaration of a Company or Sovereign Credit Event and the payment of the Company or Sovereign Credit Event Redemption Amount. Such payment may occur after the Scheduled Maturity Date;
- have **read** the terms and conditions and application procedures set out in the Offering Documents and agree to be bound by them;
- have either **received** a copy of each of the Offering Documents (in their preferred language version of English or Chinese) or have been afforded sufficient opportunity to obtain a copy of each of the Offering Documents (in their preferred language version of English or Chinese) prior to submitting an application for the Notes;
- **understand** that the Notes will not be principal protected or guaranteed by the Issuer or any other party and accept the risk that (i) (subject to the terms and conditions of the Notes) the principal of the Notes will only be payable in respect of those Notes which are held until the Scheduled Maturity Date or in respect of those Tranche(s) of Notes the Issuer has exercised the Issuer Call Option relating to such Tranche(s) of Notes, (ii) interest will only be payable in respect of the Notes in issue on the relevant Interest Payment Dates, and (iii) the redemption amounts payable to them following notice of the occurrence of a Company or Sovereign Credit Event or the occurrence of an Issuer's Event of Default or a Mandatory Redemption Event (as the case may be) is likely to be substantially less than the principal amount of their Notes;
- **understand** that in the event that any of the Original Underlying Securities or Reinvested Eligible Investments are redeemed, in whole or in part, at or above their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer of such Original Underlying Securities or Reinvested Eligible Investments, as the case may be, (or, in the case of Original Underlying Securities in the form of Liquidity Funds or Cash Deposits, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity Date, the proceeds of redemption or

repayment will be paid into the account of the Issuer with the Custodian and that such account may or may not be interest bearing. The Determination Agent, acting for and on behalf of the Issuer, may at its sole and absolute discretion reinvest the proceeds of redemption or repayment in Eligible Investments;

- **understand** that they are buying the Notes from the Distributors and that no contractual relationship with respect to the purchase contract for the Notes will arise between them and the Issuer or the Initial Subscriber at the time of application;
- **understand** that any action they may wish to take against the Issuer in accordance with the terms and conditions of the Notes will require the cooperation of the Noteholder and/or the Trustee (as the case may be). Investors have no right of direct action against the Issuer and will need to rely on their Distributor to contact the Noteholder and/or the Trustee on their behalf. The business terms of their Distributor (or any party they intend to engage in maintaining an investment account for their Notes) govern the circumstances in which they may rely on such party to act on their behalf;
- **understand** and accept that neither the Issuer nor the Arranger accepts any responsibility for the provision of bank services and custody services by the Distributors or for any consequences of, or arising from the use of, the cash account and investment account or custody services of any of the Distributors;
- **agree** that none of the Distributors, the Arranger or the Issuer, or their respective directors, officers, agents and nominees will be liable to any persons in any way for any loss which may be suffered as a result of the sale by the Distributors of their Notes in accordance with the terms and conditions of the operation of their cash account/investment account with them;
- **confirm** that they are not located within the United States and are not a US Person within the meaning of Regulation S under the Securities Act (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States);
- **understand**, are familiar with, and accept the terms and conditions applying to the use of investment services provided by their Distributor;
- **understand** that they are deemed to have notice of the terms of the contractual documentation for the Programme and in respect of the Notes, including the Trust Deed, the Agency Agreement, the Master Conditions and the relevant Pricing Supplement which supplements, amends or replaces the Master Conditions applicable to this Series of Notes, the Swap Agreement, the Swap Guarantee, the Forward Agreement and the MS/MSIL Guarantee, copies of which are/will be available for inspection as set out under “Display Documents” in the section headed “Additional Information About the Offering” in this Issue Prospectus; and
- **understand** that under the SFC Code of Conduct, the Distributors are required to ensure that the Notes are a suitable investment for them and that they understand the nature and risks of investing in the Notes.

By giving application instructions to any Distributor for the purchase of any Notes, prospective investors will also be deemed to have made the confirmations to the Distributor, the Arranger and the Issuer as set out under the paragraph headed “Confirmations to be given by investors” in the section headed “The Distributors and Investors Confirmations” in the Programme Prospectus.

**Prospective investors will be required to confirm that they have read and understood these confirmations and the confirmations contained in the Programme Prospectus at the time of applying to a Distributor for the Notes. If prospective investors do not understand the meaning or the reasons why they are being asked to give these confirmations and those confirmations contained in the Programme Prospectus, they should seek assistance from their Distributor.**

**Prospective investors should note the following:**

- **arrangements for the purchase of any Notes from the Distributors during the Offer Period (including, without limitation, arrangements regarding the time and method of payment of the purchase monies for the Notes, the amount of any charges to be levied by the Distributors, the opening and closing period (if any) for placing an order for the Notes and the arrangements for any refunds or payment of additional sums (if any)) will be as separately agreed between the prospective investors and the Distributors and will be subject to the relevant Distributor’s terms and conditions relating to such arrangements. Each Distributor may impose different arrangements and levy different charges relating to the purchase of the Notes and prospective investors in the Notes should contact the Distributors for information relating to such arrangements and charges. It is important that prospective investors should familiarise themselves with, and ensure they understand and accept, the terms and conditions of operation of the investment account before making an application to open an investment account. See the section headed “Custody Arrangements with Distributors” in the Programme Prospectus; and**
- **their total return on an investment in the Notes will be affected by charges levied by their Distributor or the Issuer, or otherwise. Charges may be imposed by the Issuer upon a redemption of the Notes following a Company or Sovereign Credit Event or a mandatory redemption of the Notes. Fees may be charged by their Distributor for a range of services including the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal and on the proceeds arising from any mandatory redemption of the Notes. Prospective investors are therefore advised to consult with their Distributor to ascertain the basis on which fees will be charged by their Distributor on their Notes.**

## DISTRIBUTION ARRANGEMENTS

The Distributors have been (and any additional distributor(s) will be) appointed for the Notes pursuant to one or more distributor appointment agreements entered into among such Distributors, the Initial Subscriber, the Co-ordinating Distributor and the Arranger (the “**Distributor Appointment Agreements**”).

The Distributor Appointment Agreements set out amongst other things the need for the Distributors to comply fully with the selling restrictions set out in the section headed “Subscription and Sale — Selling Restrictions” in the Programme Prospectus and with all relevant laws, regulations and guidelines or codes issued by the relevant regulatory authority, including but not limited to the SFC Code of Conduct. In particular, the following undertakings have been given by each of them:

- Copies of the Offering Documents (each in separate English and Chinese language versions) will be made available and distributed to prospective investors in the manner described in the Offering Documents and only at the locations (the “**Relevant Locations**”) notified in writing by the Distributors to the Arranger as being the distribution points of the Offering Documents and no application for Notes may be accepted from a prospective investor who has not had the opportunity to receive and read a copy of all of these documents in his preferred language (photocopies of any of these documents may not be substituted for the original printed version).
- Each Distributor must not sell Notes at any of its Relevant Locations unless copies of the Offering Documents in both the English and Chinese language versions are available for distribution to prospective investors. If either the English or the Chinese language version of any of the Offering Documents runs out or ceases to be available for distribution at any Relevant Location during the Offer Period, then none of the Offering Documents should be made available or distributed at that Relevant Location until such time as the English and the Chinese language versions of all of the Offering Documents are again made available for distribution to the public at such Relevant Location.
- Notes will not be sold on the basis of any information that is inconsistent with the Offering Documents.
- Each Distributor will inform prospective investors that copies of the documents listed in paragraph 6 of the section headed “General Information” in the Programme Prospectus and under “Display Documents” in the section headed “Additional Information about the Offering” on pages 94 to 95 of this Issue Prospectus are available for inspection at the offices of the Arranger’s agent specified on page 39 of this Issue Prospectus.
- Each prospective investor will be required to confirm that he has read and understood the confirmations set out on pages 84 to 86 of this Issue Prospectus (and if he is not able to so confirm the Distributor will give him an opportunity to read and/or give him assistance to understand the confirmations).
- Any notices received from the Arranger during the Offer Period (including but not limited to a notice of an extension or early close of the Offer Period) will immediately be relayed to prospective investors.

- Each Distributor will describe to each prospective investor the operating procedures for payment and/or refund in respect of an application for Notes and shall provide details of all charges levied by it for opening and maintaining a cash account and an investment account for the Notes.

**Under the SFC Code of Conduct, the Distributors as entities licensed by or registered with the SFC are required to ensure that the suitability of the Notes to a prospective investor is reasonable in all circumstances and to ensure that the prospective investor understands the nature and risks of investing in the Notes.**

**Following the end of the Offer Period of the Notes, any person who wishes to buy or sell Notes should contact either his Distributor or another broker to request a price from the Market Agent (see the section headed “Market Making Arrangements” in this Issue Prospectus).**

## MARKET MAKING ARRANGEMENTS

Morgan Stanley & Co. International Limited in its capacity as Market Agent will, if it elects to make a market, use reasonable endeavours (but will have no obligation) through its agent, Morgan Stanley Dean Witter Asia Limited, to make a market in the Notes by quoting to the Distributors only on a once-weekly (expected to be Friday provided that such day is a Hong Kong Business Day) basis an indicative price (a “**bid**” price) at which it would be willing to purchase the Notes from the Distributors. Such market-making activities by the Market Agent are expected to commence with effect from the date falling three months following the Issue Date. Depending on the available inventory of Notes held by the Market Agent and its affiliates, the Market Agent may also quote from time to time, upon request from a Distributor, a price at which it would be willing to sell the Notes (an “**offer**” price) to that Distributor. The Market Agent will not be required to provide a bid price if, as determined by the Market Agent in its sole and absolute discretion, an event or series of events occurs outside the Market Agent’s control (and whether or not affecting the market generally) which results in the unscheduled closing of, or any suspension or disruption in the series of, any physical or electronic trading system or market affecting the Notes or any computer, communications or other service system used by the Market Agent to generate a bid price in respect of the Notes. The prices quoted will, subject to normal market conditions (as determined by the Market Agent in its sole and absolute discretion) and the events or series of events referred to in the sentence above not having arisen, be valid for the day (which ends at 5:00 p.m. (Hong Kong time)) such prices are quoted and will be by reference to the Note Denomination or an integral multiple thereof and will be expressed as a percentage of the principal amount of the Notes. Such quotation may, at the Market Agent’s discretion, be provided orally. The Market Agent does not warrant that quotations are or will be representative of the quotations that may be provided to a Distributor by other dealers. For this reason the quotations will not establish, or constitute advice by the Market Agent concerning, a “mark-to-market” value of the Notes.

Prices quoted by the Market Agent will be determined by the Market Agent (or its agent) in its absolute discretion. Such prices, and the trading value of the Notes, may be equal to, higher or lower than the Issue Price of the Notes, and will vary depending on many factors, including (without limitation) prevailing interest rates, prevailing interest rates expectation, general market conditions, the financial conditions of the issuer(s) and the guarantor(s) (if applicable) of the Underlying Securities, the liquidity of the Underlying Securities and the market (if any) for any securities of a nature comparable to that of the Notes.

The bid prices and (depending on the available inventory of Notes held) the offer prices for the Notes will only be quoted to the Distributors upon request. The Market Agent will not provide a bid or offer price directly to any investor in the Notes under any circumstances. All bid or offer prices so provided shall be for indicative purposes only which may be different among the Distributors and no such price shall in any way be regarded as the prices at which the Issuer, the Market Agent or its agent or any other person will pay or an investor will receive on any sale or transfer of a Note.

**The bid prices and offer prices for the Notes which may be quoted by a Distributor to any person wishing to sell or purchase the Notes, respectively, may be different to the corresponding prices quoted by the Market Agent to that Distributor, and may be different to the bid prices and offer prices quoted by**

**another Distributor. Furthermore, if investors have purchased the Notes from a Distributor but wish to sell such Notes, or purchase further Notes, either to or from (as appropriate) a different Distributor, they will need to have, or open, an investment account with such other Distributor before they are able to do so.**

Investors should note that the Market Agent will not provide either a bid price or an offer price to them directly. Therefore, if investors would like to know the bid price of the Notes from time to time and/or if they would like to sell any Notes prior to their maturity and have not been able to locate a potential purchaser, they should contact one of the Distributors.

**As long as they are in global form, Notes must be held with an accountholder of Euroclear or Clearstream, Luxembourg. Although the Market Agent will only quote bid or offer prices to a Distributor, most banks and securities dealers in Hong Kong maintain, or have access to, an account with Euroclear and/or Clearstream, Luxembourg through which the Notes may be held or transferred following issue. If investors wish to trade the Notes via these banks or securities dealers in Hong Kong, they should ensure that their broker has or will have access to such an account. Investors should check if any expenses will arise on any transfer of their interest in the Notes to an investment account with a new broker. Furthermore, since the Market Agent will not quote bid/offer prices to any broker that is not a Distributor on any purchase or sale of Notes on behalf of an investor, the new broker may not have access to bid/offer prices on the same terms as investors whose interest in the Notes is held through a Distributor.**

## **ADDITIONAL INFORMATION ABOUT THE OFFERING**

### **Responsibility for the Offering Documents**

The directors of the Issuer collectively and individually accept full responsibility for the accuracy of the information contained in the Offering Documents and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, this Issue Prospectus and the Programme Prospectus, when read together, contain no untrue statement (including a statement which is misleading in the form and context in which it is included and including a material omission).

Each of Morgan Stanley, Morgan Stanley & Co. International Limited and Morgan Stanley Capital Services Inc. accepts full responsibility for the accuracy of the information relating to it contained in this Issue Prospectus and in the Programme Prospectus and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, this Issue Prospectus and the Programme Prospectus, when read together, contain no untrue statement (including a statement which is misleading in the form and context in which it is included and including a material omission) relating to it.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Issue Prospectus or the Programme Prospectus. None of the Arranger, the Market Agent or the Trustee has independently verified the information contained in this Issue Prospectus or the Programme Prospectus and none of them accept any responsibility for the accuracy or completeness thereof.

The delivery of this Issue Prospectus does not at any time imply that the information contained in the Offering Documents is correct at any time subsequent to the date of this Issue Prospectus.

The Offering Documents and any other information which may be supplied by the Issuer, the Arranger, the Initial Subscriber, the Market Agent or the Trustee in connection with the Notes should not be considered as a recommendation by any of them that any recipient of the Offering Documents or any other information supplied in connection with the Notes, should invest in any of the Notes. Each investor contemplating investing in or holding any of the Notes should make its own analysis of the terms and conditions of the Notes, the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, Morgan Stanley, Morgan Stanley & Co. International Limited, Morgan Stanley Capital Services Inc., the Companies and the Sovereign Entity, so as to evaluate the merits, the suitability of the Notes and risks of any investment in or the holding of or dealing in the Notes. Information in the Offering Documents relating to each of Morgan Stanley, Morgan Stanley & Co. International Limited and Morgan Stanley Capital Services Inc. has been supplied by the relevant entity. Information on the Companies and the Sovereign Entity has been extracted from public sources. The Issuer and its directors have taken reasonable care to correctly extract and/or reproduce such information from the relevant source of publicly available information.

Neither the delivery of this Issue Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Arranger has not separately verified the information contained herein and accordingly the Arranger makes no representation, recommendation, undertaking or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained herein or in any further information, notice or other document which may at any time be supplied in connection with the Notes or their distribution and does not accept any responsibility or liability therefor. The Arranger does not (i) undertake to review the financial condition or affairs of the Issuer, the issuer(s) or guarantor(s) (if any) of the Underlying Securities or the Companies and the Sovereign Entity during the life of the arrangements contemplated by this Issue Prospectus; nor (ii) intend to advise any investor or prospective investor in the Notes of any information coming to the attention of the Arranger.

No undertaking is given by the Issuer or the Arranger in respect of the Notes to inform Noteholders of any matters and/or relay any information it may possess or have access to relating to the Companies and the Sovereign Entity, this being the case irrespective of whether or not such matters and/or information may affect or impact upon the Companies and the Sovereign Entity.

### **Authorisations**

The issue of this Series of Notes was authorised and approved by resolutions of the Board of Directors of the Issuer passed on 23 August 2006.

### **Use of Proceeds**

The Issuer is issuing the Notes in the course of its ordinary business with the intention of providing investors with the opportunity to invest in a structured financial product that provides investors with an exposure to the Companies and the Sovereign Entity and the Underlying Securities. Morgan Stanley does not consider this transaction to amount to a fund-raising exercise for Morgan Stanley or its subsidiaries. The proceeds of issue of the Notes will be used to invest in the Original Underlying Securities.

### **Payments**

Interest payments and redemption payments of the Notes will be made in US dollars in respect of Tranche A Notes and in HK dollars in respect of Tranche B Notes. Each investor who has been allocated the Notes must make arrangements to receive payments in respect of the Notes by credit to a US dollar account in respect of Tranche A Notes and to a HK dollar account in respect of Tranche B Notes. Definitive Notes, or certificates representing the Notes, will not be issued to individual investors (except in very limited circumstances). The total principal amount of the Notes of each Tranche will initially be represented by interests in a Global Certificate, which will be registered in the name of Chase Nominees Limited as nominee for, and shall be deposited on its Issue Date with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. Accordingly, investors who have been allocated the Notes must make arrangements for their Notes to be held in custody with an accountholder (or an indirect accountholder) of Euroclear or Clearstream, Luxembourg (which initially must be one of the Distributors). No arrangements have been made to enable the Notes to be admitted to either CCASS or to the CMU Service for deposit, clearance or settlement.

## **Taxation**

Prospective investors are advised to read the section headed “Taxation” in the Programme Prospectus which contains a summary of certain taxation provisions under Hong Kong, Cayman Islands and Jersey law. Prospective investors are also advised that no Hong Kong stamp duty will be payable on the issue or subsequent transfer of any of the Notes.

The provisions in the section headed “Taxation” in the Programme Prospectus are accurate as at the date of this Issue Prospectus.

## **No Material Adverse Change — Issuer**

Other than the issue of Octave Series 1, Octave Series 2, Octave Series 3, Octave Series 5, Octave Series 6, Octave Series 7, Octave Series 8 and Octave Series 9 under the Programme, there has been no material change in the financial position or operations of the Issuer and no material adverse change in the prospects of the Issuer, in each case since its date of incorporation on 29 June 2004. The Notes described in this Issue Prospectus are being issued as Series 10 under the Programme. As at the date of this Issue Prospectus, the Issuer does not have any hire purchase commitments, guarantees or other material contingent liabilities, bank overdrafts or other similar indebtedness.

## **Display Documents**

For so long as any Notes remain outstanding and with effect from the dates set out in the following paragraph, the following documents will be available during usual business hours on any day (Saturdays, Sundays and public holidays in Hong Kong excepted), for inspection (requests for photocopies will be subject to a reasonable fee which reflects the cost of making a copy) at the offices of the Arranger’s agent specified on page 39 of this Issue Prospectus:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the Declaration of Trust (as defined in the section headed “Description of the Issuer” in the Programme Prospectus);
- (iii) a copy of the Programme Prospectus and (with effect from the date thereof) any addenda thereto;
- (iv) a copy of this Issue Prospectus and (with effect from the date thereof) any supplements hereto;
- (v) Principal Trust Deed relating to the Programme and the Tenth Supplemental Trust Deed relating to the issue of the Notes (each document as described in the section headed “Information About the Notes” in this Issue Prospectus) and, where relevant, any additional documents creating security interests specified as such in the Tenth Supplemental Trust Deed;
- (vi) Agency Agreement relating to the Programme which sets out the obligations of the Agents and the Custodian in respect of the Notes;
- (vii) Programme Agreement and the Tenth Supplemental Programme Agreement (as defined in the Pricing Supplement) which together set out the arrangements agreed between the Issuer and the Arranger in relation to the sale of the Notes;

- (viii) Pricing Supplements which supplement the Master Conditions to form the terms and conditions of the Notes;
- (ix) Global Certificates;
- (x) Swap Agreement, Swap Guarantee, Forward Agreement and MS/MSIL Guarantee (each as defined in the section headed “Information about the Notes” in this Issue Prospectus);
- (xi) information relating to the Underlying Securities including the rating(s) (if any), the terms and conditions, the information memorandum or memoranda or other offering document(s) relating to such Underlying Securities (if such documents have been prepared) and regarding where investors could obtain information relating to the performance of the issuer(s) of the Underlying Securities on an on-going basis together with any further information which is available to, and may be disclosed by, the Arranger;
- (xii) a copy of any notice given by the Issuer or the Arranger in respect of the Notes pursuant to the Programme or as otherwise provided for in this Issue Prospectus; and
- (xiii) Proposals and Advice Agreement (as defined in the section headed “Summary of the Retail Note Programme — Arranger” in the Programme Prospectus).

Copies of the documents referred to in (i), (ii), (iii), (iv) and (xiii), together with copies of the Principal Trust Deed, the Agency Agreement, the Programme Agreement, the Swap Guarantee and the MS/MSIL Guarantee, will be available for inspection as aforesaid with effect from the date of this Issue Prospectus. Copies of the Tenth Supplemental Trust Deed and the Tenth Supplemental Programme Agreement together with copies of the documents referred to in (viii), (ix), (x) (in the case of (x), the Swap Agreement and the Forward Agreement) and (xi) (in the case of (xi), in respect of the Original Underlying Securities), will be available for inspection as aforesaid with effect from the Issue Date. Copies of the documents referred to in (xi) in respect of Underlying Securities comprising Reinvested Eligible Investments will be available for inspection as aforesaid with effect from the date of notice by the Issuer to Noteholders of the acquisition of such Reinvested Eligible Investments. Copies of any addendum and/or supplement to the Offering Documents and of any notices referred to in (xii) will be available for inspection as aforesaid with effect from the respective dates of publication thereof. Except for the documents referred to in (iii) and (iv), none of the documents listed above form part of the Offering Documents.

### **International Securities Identification Number and Common Code**

Prospective investors should contact their Distributor if they wish to find out the International Securities Identification Number (the “ISIN”) and Common Code for the Notes or any of the Underlying Securities. The ISIN and the Common Code are the securities codes which identify securities for the purposes of their clearance and settlement through the international clearing systems Euroclear and Clearstream, Luxembourg.

## **Trustee's Mandate**

J.P. Morgan Corporate Trustee Services Limited, whose principal office is at Trinity Tower, 9 Thomas More Street, London, E1W 1YT, United Kingdom, has been, and has agreed to its being, appointed as Trustee pursuant to the Principal Trust Deed, and details of the scope of its mandate as Trustee and the conditions under which it may be replaced as such may be found in that Principal Trust Deed.

## **Information relating to the Issuer**

The Issuer will undertake in the Tenth Supplemental Trust Deed to keep the Noteholders informed as soon as reasonably practicable of any information relating to the Issuer which is necessary to avoid the establishment of a false market in the Notes and/or which might reasonably be expected significantly to affect the ability of the Issuer to meet its commitments under the Notes. Such information will be given by notice to Noteholders to be given in accordance with the Master Conditions.

## **Applicability of Certain Statutory Provisions**

No application form or purchase order form will be issued for the Notes. To the extent that Section 40 of the Companies Ordinance applies to the Offering Documents by virtue of Section 342E of the Companies Ordinance, Section 40 imposes civil liability on certain persons, including the directors of a company and other persons who authorise the issue of a prospectus, to pay compensation to persons who subscribe for or purchase shares or debentures of a company on the faith of a prospectus for loss or damage sustained by reason of an untrue statement in the prospectus.

The Offering Documents shall have the effect, if a purchase of Notes is made pursuant to them, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A (except section 44A(2) in respect of which the SFC has granted an exemption under section 342A(1)) and 44B of the Companies Ordinance, so far as applicable.

## **SFC Authorisation**

The SFC has authorised this Issue Prospectus for registration by the Registrar of Companies. SFC authorisation does not imply the SFC's endorsement or recommendation of any offer contained or referred to in this Issue Prospectus.

## **SFC Certificates of Exemption**

Section 342 of the Companies Ordinance prescribes the information required to be contained in a prospectus. Each of this Issue Prospectus and the Programme Prospectus must contain such required information unless the provision of such information is not applicable or exempted.

A certificate of exemption in respect of the Issuer relating to this Issue Prospectus has been issued by the SFC subject to certain conditions under section 342A(1) of the Companies Ordinance in respect of (i) sections 342(1)(a)(i) and 342(1)(a)(ii) of the Companies Ordinance on the grounds that the inclusion of information regarding the constitutional and incorporation documents of the Issuer would be irrelevant to prospective investors and would not impact on a prospective investor's decision to purchase the Notes in the context of the Issuer being a special purpose vehicle; (ii) section 342(1)(b) of the Companies Ordinance (in relation to the requirement for this

Issue Prospectus to contain a Chinese translation) on the ground that such requirement is irrelevant and unduly burdensome as a separate Chinese language version of this Issue Prospectus has been prepared and on the condition that both the English and Chinese language versions of this Issue Prospectus are registered simultaneously with the Registrar of Companies and both language versions must be made available simultaneously to the public at all distribution points so that prospective investors can choose which version would best suit their circumstances; (iii) section 342(7) of the Companies Ordinance on the grounds that such requirement is irrelevant and unnecessary, since although Morgan Stanley as the Swap Guarantor technically falls within the definition of “guarantor corporation” in section 342(8) of the Companies Ordinance, the repayment of principal and payment of interest on the Notes depend on the repayment of principal and payment of interest on the Underlying Securities and no element of Morgan Stanley’s financial condition or performance as Swap Guarantor impact upon the repayment of principal or payment of interest on the Underlying Securities and none of the information relating to Morgan Stanley required by section 342(7) of the Companies Ordinance would impact on a prospective investor’s decision to purchase the Notes issued under the Programme; (iv) paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance (“**Third Schedule**”) on the grounds that it would be unduly burdensome for the Issuer to provide such information since the Issuer is not required to publish any financial statements or auditor’s report under the laws of Cayman Islands. Furthermore, the inclusion of such financial statements or auditor’s report would be irrelevant in the context of the Issuer as a special purpose vehicle and would not impact on a prospective investor’s decision to purchase the Notes; (v) section 44A(2) of the Companies Ordinance on the ground that this provision is unduly burdensome as the Issuer has the option to extend the Offer Period which may result in the Issue Date being later than 30 days after the date of this Issue Prospectus and in such circumstances it would be unduly burdensome for the Issuer to produce a new prospectus since such prospectus would not contain any new information and it would therefore be irrelevant to prospective investors; (vi) section 44A(6) of the Companies Ordinance on the ground that the statutory protection from revocation that sub-section affords to the Issuer is unnecessary in the context of the Notes; (vii) sections 342(1)(a)(iv) and (v) and paragraphs 1, 2, 6, 21 and 30 of the Third Schedule, on the basis that inclusion of the information required under these provisions in this Issue Prospectus is irrelevant as such information has been provided in the Programme Prospectus; (viii) paragraph 25 of the Third Schedule on the ground that the inclusion of this information in this Issue Prospectus is irrelevant to prospective investors and would not impact on a prospective investor’s decision to purchase Notes in the context of the Issuer being a special purpose vehicle and the obligations of the Issuer under the Notes being secured on the Mortgaged Property relating to such Notes; (ix) paragraphs 3 and 26(a) of the Third Schedule, on the basis that inclusion of the information required under these paragraphs in this Issue Prospectus is irrelevant as such paragraphs have been satisfied by reading together this Issue Prospectus and the Programme Prospectus; and (x) paragraphs 10 and 11 of the Third Schedule on the ground that inclusion of such information is irrelevant to prospective investors, since the grant of options over shares and debentures and the issue of shares and debentures for non-cash consideration by the Issuer would not impact on a prospective investor’s decision to purchase the Notes, in the context of the Issuer being a special purpose vehicle and the obligations of the Issuer under the Notes being secured on the Mortgaged Property relating to such Notes.

The above exemptions in respect of this Issue Prospectus are granted subject to the conditions that (i) during the Offer Period this Issue Prospectus must be made available or distributed together with the Programme Prospectus at all locations at which copies of this Issue Prospectus are made available or distributed to the public (as notified in

writing by each of the Distributors to the Arranger) and only at such locations. If either this Issue Prospectus or the Programme Prospectus runs out or ceases to be available or distributed at any such location during the Offer Period, then availability or distribution of both of these documents at that location should cease and should not resume until such time as both of the Programme Prospectus and this Issue Prospectus are made available or distributed to the public at that location; (ii) both the English and Chinese language versions of this Issue Prospectus shall be (a) certified in accordance with Section 342C(3) of the Companies Ordinance; (b) registered simultaneously with the Registrar of Companies and both language versions must be made available or distributed to the public as described in (i) above. If either language version of this Issue Prospectus runs out or ceases to be available or distributed at any such location during the Offer Period, then availability or distribution of this Issue Prospectus at the relevant location should cease and should not resume until such time as both language versions of this Issue Prospectus are again made available or distributed to the public at that location; (iii) the Issuer shall require the Distributors to ensure that the application procedures for the Notes have safeguards designed to assure that prospective investors will not be able to make an application without confirming that they have received or have been afforded sufficient opportunity to obtain a copy of the Programme Prospectus and this Issue Prospectus (each in their preferred language); and (iv) this Issue Prospectus will set out particulars of the certificate of exemption.

Notwithstanding any arrangements that may exist for the relevant documents to be available in another format, references in the above conditions to the Programme Prospectus and the Issue Prospectus shall be construed as being references to the printed copies of such documents.

In addition, pursuant to Sections 8(2) and 8(3) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L), compliance with respect to paragraphs 4, 5, 6 (in relation to the residential addresses of the directors of the Issuer), 12(1)(a), 12(1)(b), 13, 14, 15, 16, 19, 22, 26(b) and 45 of the Third Schedule is exempted in respect of the Issuer relating to this Issue Prospectus.

A certificate of exemption in respect of the Issuer relating to the Programme Prospectus has been issued, subject to certain conditions, by the SFC under section 342A(1) of the Companies Ordinance in respect of (i) sections 44A(2) and 44A(6) of the Companies Ordinance on the ground that this provision is irrelevant as Notes will not be issued pursuant to the Programme Prospectus, but will only be issued pursuant to the relevant Issue Prospectus read in conjunction with the Programme Prospectus; (ii) sections 342(1)(a)(i) and 342(1)(a)(ii) of the Companies Ordinance on the grounds that the inclusion of information regarding the constitutional and incorporation documents of the Issuer would be irrelevant to prospective investors and would not impact on a prospective investor's decision to purchase the Notes in the context of the Issuer being a special purpose vehicle; (iii) section 342(1)(b) of the Companies Ordinance (in relation to the requirement for the Programme Prospectus to contain a Chinese translation) on the ground that such requirement is irrelevant and unduly burdensome as a separate Chinese language version of the Programme Prospectus has been prepared and on the condition that both the English and Chinese language versions of the Programme Prospectus are registered simultaneously with the Registrar of Companies and both language versions must be made available simultaneously to the public at all distribution points so that prospective investors can choose which version would best suit their circumstances; (iv) section 342(7) of the Companies Ordinance on the grounds that such requirement is irrelevant and unnecessary, since although Morgan Stanley as the Swap Guarantor technically falls within the definition of "guarantor corporation" in section 342(8) of the

Companies Ordinance, the repayment of principal and payment of interest on the Notes depend on the repayment of principal and payment of interest on the Underlying Securities and no element of Morgan Stanley's financial condition or performance as Swap Guarantor impact upon the repayment of principal or payment of interest on the Underlying Securities and none of the information relating to Morgan Stanley required by section 342(7) of the Companies Ordinance would impact on a prospective investor's decision to purchase the Notes issued under the Programme; (v) paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance on the basis that it would be unduly burdensome for the Issuer to provide such information since the Issuer is not required to publish any financial statements or auditor's report under the laws of Cayman Islands. Furthermore the inclusion of the required information is irrelevant in the context of the Issuer as it is a special purpose vehicle and would not impact on a prospective investor's decision to invest in the Notes; (vi) paragraphs 3 and 26(a) of the Third Schedule on the basis that such paragraphs are irrelevant as they would have been satisfied by reading together the Programme Prospectus with the relevant Issue Prospectus; (vii) paragraphs 10 and 11 of the Third Schedule on the ground that inclusion of such information is irrelevant to prospective investors, since the grant of options over shares and debentures and the issue of shares and debentures for non-cash consideration by the Issuer would not impact on a prospective investor's decision to purchase the Notes, in the context of the Issuer being a special purpose vehicle and the obligations of the Issuer under the Notes being secured on the Mortgaged Property relating to such Notes; and (viii) paragraph 25 of the Third Schedule, on the ground that this information is irrelevant to prospective investors and would not impact on a prospective investor's decision to purchase Notes in the context of the Issuer being a special purpose vehicle and the obligations of the Issuer under the Notes being secured on the Mortgaged Property relating to such Notes. The conditions granted by the SFC with respect to the Programme Prospectus are similar to those granted in respect of this Issue Prospectus. For further details on the conditions granted in respect of the Programme Prospectus, please refer to paragraph 15 of the section headed "General Information" of the Programme Prospectus.

The Offering Documents together satisfy (subject to the exemptions granted by the SFC as aforesaid) the requirements of the Companies Ordinance for such offers. Moreover, such documents together contain sufficient particulars and information to enable a reasonable person to form, as a result thereof, a valid and justifiable opinion of the Notes and the financial condition and profitability of the Issuer as at the date of this Issue Prospectus.

## **APPENDIX A CREDIT AND STABILITY RATINGS**

### **CREDIT RATINGS**

A credit rating is a current assessment by a credit rating agency of a company's or a country's overall financial capacity (its creditworthiness) to pay its financial obligations (i.e. its debts). This assessment focuses on the company's or the country's capacity to meet its financial commitments as they become due. It does not apply to any specific financial obligation.

There can be no assurance that any stated credit rating will remain in effect for any given period or that any such rating will not be revised by the relevant rating agency in the future if, in the relevant credit rating agency's judgment, circumstances so warrant. A downward revision of a credit rating does not of itself constitute a Company or Sovereign Credit Event.

It should be noted that a credit rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor (a company or country), as the rating agencies do not comment on market price or suitability for a particular investor.

Investors should note that a downgrade in respect of any of the Companies or the Sovereign Entity does not of itself equate to, or result in, the occurrence of a Company or Sovereign Credit Event.

The following are guidelines issued by S&P, Moody's and Fitch on what each of their ratings means:

#### **S&P Long-Term Issue Credit Ratings**

Issue credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment — capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk. As such, they pertain to senior obligations of an entity. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation applies when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.) Accordingly, in the case of junior debt, the rating may not conform exactly with the category definition.

#### **AAA**

An obligation rated 'AAA' has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

## *AA*

An obligation rated ‘AA’ differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

## *A*

An obligation rated ‘A’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

## *BBB*

An obligation rated ‘BBB’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

## *BB, B, CCC, CC, and C*

Obligations rated ‘BB’, ‘B’, ‘CCC’, ‘CC’, and ‘C’ are regarded as having significant speculative characteristics. ‘BB’ indicates the least degree of speculation and ‘C’ the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

## *BB*

An obligation rated ‘BB’ is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

## *B*

An obligation rated ‘B’ is more vulnerable to nonpayment than obligations rated ‘BB’, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

## *CCC*

An obligation rated ‘CCC’ is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

## *CC*

An obligation rated ‘CC’ is currently highly vulnerable to nonpayment.

## *C*

A subordinated debt or preferred stock obligation rated 'C' is currently highly vulnerable to nonpayment. The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A 'C' also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.

*Plus (+) or minus (-)*

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

## **S&P Short-Term Issue Credit Ratings**

### *A-1*

A short-term obligation rated 'A-1' is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

### *A-2*

A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

### *A-3*

A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

## *B*

A short-term obligation rated 'B' is regarded as having significant speculative characteristics. Ratings of 'B-1', 'B-2', and 'B-3' may be assigned to indicate finer distinctions within the 'B' category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

**B-1.** A short-term obligation rated 'B-1' is regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

**B-2.** A short-term obligation rated 'B-2' is regarded as having significant speculative characteristics, and the obligor has an average speculative-grade capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

B-3. A short-term obligation rated ‘B-3’ is regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

C

A short-term obligation rated ‘C’ is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

### **S&P Long-Term Issuer Credit Ratings**

A S&P issuer credit rating is a current opinion of an obligor’s overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor’s capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The issuer credit rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor.

Counterparty credit ratings, ratings assigned under the Corporate Credit Rating Service (formerly called the Credit Assessment Service) and sovereign credit ratings are all forms of issuer credit ratings. Issuer credit ratings are based on current information furnished by obligors or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any issuer credit rating and may, on occasion, rely on unaudited financial information.

Issuer credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Issuer credit ratings can be either long term or short term. Short-term issuer credit ratings reflect the obligor’s creditworthiness over a short-term time horizon.

AAA

An obligor rated ‘AAA’ has extremely strong capacity to meet its financial commitments. ‘AAA’ is the highest issuer credit rating assigned by S&P.

AA

An obligor rated ‘AA’ has very strong capacity to meet its financial commitments. It differs from the highest rated obligors only to a small degree.

A

An obligor rated ‘A’ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

### *BBB*

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

### *BB, B, CCC, and CC*

Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

### *BB*

An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

### *B*

An obligor rated 'B' is more vulnerable than obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

### *CCC*

An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

### *Plus (+) or minus (-)*

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

### *CC*

An obligor rated 'CC' is currently highly vulnerable.

## **S&P Short-Term Issuer Credit Ratings**

### *A-1*

An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by S&P. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.

## A-2

An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

## A-3

An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

## B

An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

B-1. Obligor with a 'B-1' short-term rating have a relatively stronger capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

B-2. Obligor with a 'B-2' short-term rating have an average speculative-grade capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

B-3. Obligor with a 'B-3' short-term rating have a relatively weaker capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

## C

An obligor rated 'C' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for it to meet its financial commitments.

### *CreditWatch*

CreditWatch highlights the potential direction of a short- or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P's analytical staff. These may include mergers, recapitalisations, voter referendums, regulatory action, or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is necessary to evaluate the current rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The "positive" designation means that a rating may be raised; "negative" means a rating may be lowered; and "developing" means that a rating may be raised, lowered, or affirmed.

## **Moody's Long-term Obligation Ratings**

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

### *Aaa*

Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

### *Aa*

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

### *A*

Obligations rated A are considered upper-medium grade and are subject to low credit risk.

### *Baa*

Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

### *Ba*

Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

### *B*

Obligations rated B are considered speculative and are subject to high credit risk.

### *Caa*

Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

### *Ca*

Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

## C

Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

---

*Note:* Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

### **Moody's Issuer Ratings: Corporates and Financial Institutions**

Issuer Ratings are opinions of the ability of entities to honor senior unsecured financial obligations and contracts. Moody's rating symbols for Issuer Ratings are identical to those used to indicate the credit quality of long-term obligations.

### **Moody's Short-Term Ratings**

Moody's short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

Moody's employs the following designations to indicate the relative repayment ability of rated issuers:

#### *P-1*

Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

#### *P-2*

Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

#### *P-3*

Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

#### *NP*

Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

---

*Note:* Canadian issuers rated P-1 or P-2 have their short-term ratings enhanced by the senior-most long-term rating of the issuer, its guarantor or support-provider.

## *Watchlists*

Moody's uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

## **Fitch International Long-Term Credit Ratings**

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations.

The following rating scale applies to foreign currency and local currency ratings:

### ***Investment Grade***

#### ***AAA***

Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

#### ***AA***

Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

#### ***A***

High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

#### ***BBB***

Good credit quality. 'BBB' ratings indicate that there is currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

### ***Speculative Grade***

#### ***BB***

Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

## *B*

Highly speculative.

- For issuers and performing obligations, ‘B’ ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
- For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of ‘R1’ (outstanding).

## *CCC*

- For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions.
- For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of ‘R2’ (superior), or ‘R3’ (good) or ‘R4’ (average).

## *CC*

- For issuers and performing obligations, default of some kind appears probable.
- For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of ‘R4’ (average) or ‘R5’ (below average).

## *C*

- For issuers and performing obligations, default is imminent.
- For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of ‘R6’ (poor).

### **Fitch International Short-Term Credit Ratings**

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

## *F1*

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.

*F2*

Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

*F3*

Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.

*B*

Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

*C*

High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

#### **Notes to Fitch International Long-Term and Short-Term ratings:**

##### *Modifiers “+” or “-”*

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the ‘AAA’ Long-term rating category, to categories below ‘CCC’, or to Short-term ratings other than ‘F1’. (The +/- modifiers are only used to denote issues within the CCC category, whereas issuers are only rated CCC without the use of modifiers.)

##### *Rating Watch*

Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as “Positive”, indicating a potential upgrade, “Negative”, for a potential downgrade, or “Evolving”, if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

#### **Performance of Credit Ratings**

S&P regularly produces a default study which calculates the incidence of defaults across all rating classes over varying periods.

The S&P default events are similar (but not identical) to the Company or Sovereign Credit Events applicable in respect of the Notes as set out in the section headed “Technical Definitions” in this Issue Prospectus.

S&P records a default:

- on the first occurrence of a payment default on any financial obligation of a company or country; or

- when holders of a company's or country's debt accept substitute instruments with reduced interest, longer maturities or any other diminished financial term.

The table below (extracted from the S&P's 2005 Annual Global Corporate Default Study) shows the cumulative default history for the 4 investment grade rating categories (AAA, AA, A and BBB) from 1 to 6 years. The study is global and covers the period from 1981 to 2004.

For example, if a bond has a S&P's A rating, the statistical likelihood of default of such bond based on the cumulative historical default history of such bonds between 1981 and 2004 is 0.04 per cent. in the first year following issue, 0.13 per cent. in the second year, 0.24 per cent. in the third year, and so on. The significance of these historical default rates is that there has been a correlation between S&P's ratings and the incidence of default. That is, the higher the rating the lower the incidence of default.

### Cumulative Average Default Rates, 1981-2004 (%)

<u>Rating</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
	(in per cent.)					
AAA .....	0.00	0.00	0.03	0.06	0.10	0.17
AA .....	0.01	0.04	0.09	0.19	0.30	0.41
A .....	0.04	0.13	0.24	0.40	0.61	0.84
BBB .....	0.29	0.81	1.40	2.19	2.99	3.73

*Source: S&P 2005 Annual Global Corporate Default Study*

These historical default rates provide a measure of the historical accuracy of S&P's ratings. However, they are not necessarily, or at all, indicative of the likelihood of a Company or Sovereign Credit Event occurring to any of the Companies or the Sovereign Entity.

### FUND STABILITY RATINGS

In respect of money market funds, liquidity funds or similar investment vehicles that principally invest in short term fixed income obligations, each of S&P, Moody's and Fitch have issued guidelines on the stability ratings applicable to such funds.

#### S&P Principal Stability Fund Ratings

A S&P Principal Stability fund rating, also known as a money-market fund rating, is a current opinion of a fund's capacity to maintain stable principal or net asset value. When assigning a Principal Stability rating to a fund, S&P evaluates the creditworthiness of a fund's investments and counterparties, the market price exposure of its investments, sufficiency of the fund's portfolio liquidity, and management's ability and policies to maintain the fund's stable net asset value by limiting exposure to loss.

A principal stability fund rating (also known as a money market fund rating) is not directly comparable with a bond rating due to differences in investment characteristics, rating criteria, and creditworthiness of portfolio investments. For example, a money market fund portfolio provides greater liquidity, price stability, and diversification than a long-term bond, but not necessarily the credit quality that would be indicated by the

corresponding bond rating. Ratings are not commentaries on yield levels. A principal stability fund rating is not a recommendation to buy, sell, or hold the shares of a fund. Further, the rating may be changed, suspended, or withdrawn as a result of changes in or unavailability of information related to the fund.

*AAAm*

Fund has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks.

*AAm*

Fund has very strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks.

*Am*

Fund has strong capacity to maintain principal stability, but is somewhat more susceptible to principal losses due to adverse credit, market, and/or liquidity risks.

*BBBm*

Fund has adequate capacity to maintain principal stability. Nevertheless, adverse market conditions and/or higher levels of redemption activity are more likely to lead to a weakened capacity to limit exposure to principal loss as a result of higher exposure to credit, market and/or liquidity risks.

*BBm*

Fund has uncertain capacity to maintain principal stability, and is vulnerable to principal losses resulting from its exposures to credit, market, and/or liquidity risks.

*Dm*

Fund has failed to maintain principal stability resulting in a realized or unrealized loss of principal.

+ or - Ratings may be modified (except 'AAAm') to show relative standing within the rating categories.

**Moody's Market Risk Ratings**

Moody's Mutual Fund Market Risk ratings are opinions of the relative degree of volatility of a rated fund's net asset value (NAV). In forming an opinion on the fund's future price volatility, Moody's analysts consider risk elements that may have an effect on a fund's net asset value, such as interest rate risk, prepayment and extension risk, liquidity and concentration risks, currency risk, and derivatives risk. The ratings are not intended to reflect the prospective performance of a fund with respect to price appreciation or yield.

*MR1*

Money Market Funds and Bond Funds rated MR1 are judged to have very low sensitivity to changing interest rates and other market conditions.

## *MR2*

Money Market Funds and Bond Funds rated MR2 are judged to have low sensitivity to changing interest rates and other market conditions.

## *MR3*

Money Market Funds and Bond Funds rated MR3 are judged to have moderate sensitivity to changing interest rates and other market conditions.

## *MR4*

Money Market Funds and Bond Funds rated MR4 are judged to have high sensitivity to changing interest rates and other market conditions.

## *MR5*

Money Market Funds and Bond Funds rated MR5 are judged to have very high sensitivity to changing interest rates and other market conditions.

---

*Note:* A “+” modifier appended to the MR1 rating category denotes constant NAV money market funds and other qualifying funds.

## **Fitch Money Market Fund Ratings**

Fitch’s money market fund ratings are an assessment of the safety of invested principal and the ability to maintain a stable market value of the fund’s shares. Ratings are based on an evaluation of several factors, including credit quality, diversification, and maturity of assets in the portfolio, as well as management strength and operational capabilities.

### *AAA/VI+*

Money market funds have the highest credit quality and safety of principal. Fund management’s experience, coupled with fund policies and procedures, indicates safety is extremely strong.

### *AA/VI+*

Money market funds have very high credit quality and safety of principal. Fund management’s experience, coupled with fund policies and procedures, indicates safety is very strong.

### *A/VI+*

Money market funds have high credit quality and safety of principal. Fund management’s experience, coupled with fund policies and procedures, indicates safety is strong.

### *BBB/VI+*

Money market funds have adequate credit quality and safety of principal. Fund management’s experience, coupled with fund policies and procedures, indicates safety is acceptable.

**REGISTERED OFFICE OF THE ISSUER**

**Victoria Peak International Finance Limited**

PO Box 1093GT  
Queensgate House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

**Arranger**

**Morgan Stanley & Co. International Limited**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Trustee**

**J.P. Morgan Corporate Trustee Services Limited**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
United Kingdom

**Principal Paying Agent, Registrar,  
Transfer Agent and Custodian**

**JPMorgan Chase Bank, N.A.**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
United Kingdom

**Determination Agent**

**Morgan Stanley & Co. International Limited**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Legal Advisers**

*to the Arranger in respect of English  
and Hong Kong law*

**Clifford Chance**  
29th Floor, Jardine House  
One Connaught Place  
Hong Kong

*to the Issuer  
in respect of Cayman Islands law*

**Maples and Calder**  
1504 One International Finance Centre  
1 Harbour View Street  
Hong Kong

**Arranger's agent**

**Morgan Stanley Dean Witter Asia Limited**

30th Floor  
Three Exchange  
Square Central  
Hong Kong

**Calculation Agent**

**JPMorgan Chase Bank, N.A.**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
United Kingdom

