

Programme Prospectus

IMPORTANT

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

Victoria Peak International Finance Limited *(incorporated with limited liability in the Cayman Islands)*

US\$5,000,000,000 Retail Note Programme

Under the Retail Note Programme described in this Programme Prospectus (the “**Programme**”), Victoria Peak International Finance Limited (the “**Issuer**”) may from time to time incur indebtedness in the form of notes (“**Notes**”), which will be issued to the public in Hong Kong. Notes will be issued on the terms set out herein, and as described in a prospectus to be issued by the Issuer in connection with each issue of Notes (each, an “**Issue Prospectus**”).

Notes will be issued in Series (as defined in the section headed “Summary of the Retail Note Programme” on page 8 of this Programme Prospectus) and each Series will be secured by a charge on and/or assignment of and/or other security interest over or in respect of certain transferable securities or other assets (“**Underlying Securities**”) and may also be secured by an assignment of the Issuer’s rights under an interest rate and/or currency exchange agreement (including any applicable guarantee, a “**Swap**”), a contract under which the Issuer may agree to buy or sell securities or enter into other contractual relations (including securities lending) (a “**Securities Agreement**”) and a credit support document (a “**Credit Support Document**”), together with such additional security, if any, as may be described in the relevant Issue Prospectus. The Notes will also be secured by a charge over all sums held by the Principal Paying Agent and/or the Custodian (each as defined herein) to meet payments due in respect of the Notes and by an assignment of the Issuer’s rights under the Agency Agreement (as defined herein). All of the Issuer’s assets which are subject to the security constituted by each Supplemental Trust Deed (as defined herein) are referred to in this Programme Prospectus as “**Mortgaged Property**”. The obligations of the Issuer under a Swap, a Securities Agreement and/or any other agreement under which the Issuer may incur indebtedness, grant options or incur other obligations (a “**Contract**”), as the case may be, together with claims (if any) by the Custodian and/or the Principal Paying Agent in respect of payments made on behalf of the Issuer, will also be secured by certain assets comprised in the Mortgaged Property. Claims against the Issuer by holders of the Notes of a particular Series (the “**Noteholders**”) and, if applicable, the counterparty to the relevant Swap, Securities Agreement or Contract, the Custodian and the Principal Paying Agent, will be limited to the Mortgaged Property applicable to that Series.

Prospective investors in Notes should note that there are many different types of retail notes or bonds in the market place, many of which will have unique and distinctive features and not all retail notes or bonds are principal protected. Prospective investors in any Notes to be issued under the Programme should ensure that they understand the nature of the Notes and should carefully study the matters set out in this Programme Prospectus and the relevant Issue Prospectus (in particular, the sections headed “Risk Factors” in both documents) before they invest in the Notes.

The Notes will not be listed on any stock exchange. The relevant Issue Prospectus will describe the market making arrangements (if any) to be implemented in connection with an issue of Notes. Prospective investors are therefore advised to read the relevant Issue Prospectus for a description of the circumstances in which prospective investors will be able to sell their Notes, or if applicable, purchase further Notes, after the relevant Issue Date (as defined in the relevant Issue Prospectus). Any market making arrangements do not, however, assure an active trading market for the Notes.

A copy of this Programme 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 Programme Prospectus or any other documents delivered for registration. SFC authorization does not imply SFC’s endorsement or recommendation of the Notes.

Arranger of the Programme

Morgan Stanley & Co. International Limited

The date of this Programme Prospectus is 5 June 2006.

The directors of the Issuer collectively and individually accept full responsibility for the accuracy of the information contained in this Programme Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading in any material respect.

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 Programme Prospectus and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading in any material respect.

This Programme Prospectus, the relevant Issue Prospectus and any other information which may be supplied by the Issuer and/or the Arranger and/or the Trustee (as defined herein) in connection with the Notes should not be considered as a recommendation by the Issuer, the Arranger or the Trustee that any recipient of this Programme Prospectus, the relevant Issue Prospectus or such other information supplied in connection with the Notes, should invest in any of the Notes. Each prospective investor contemplating investing in or holding any of the Notes should make its own analysis of the Notes, the Underlying Securities and of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, Morgan Stanley, Morgan Stanley & Co. International Limited and Morgan Stanley Capital Services Inc. so as to evaluate the merits and risks of any investment in or the holding of or dealing in the Notes. Information in this Programme Prospectus relating to each of Morgan Stanley, Morgan Stanley & Co. International Limited and Morgan Stanley Capital Services Inc. has been supplied by the relevant entity. 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.

The Notes are offered to the public in Hong Kong solely on the basis of the information contained and representations made in this Programme Prospectus, the relevant Issue Prospectus and any supplement thereto. No person has been authorised to give any information or to make any representation other than those contained in this Programme Prospectus or the relevant Issue Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger or the Trustee nor will the Issuer, the Arranger or the Trustee be responsible for any losses arising from such information or representation.

Neither the delivery of this Programme Prospectus and/or the relevant Issue Prospectus nor any sale made in connection therewith will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, Morgan Stanley, Morgan Stanley & Co. International Limited or Morgan Stanley Capital Services Inc. since the date hereof or the date of the relevant Issue Prospectus or that there has been no adverse change in the financial position of the Issuer, Morgan Stanley, Morgan Stanley & Co. International Limited or Morgan Stanley Capital Services Inc. since the date hereof or the date of the relevant Issue Prospectus 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 Issuer intends to re-issue this Programme Prospectus (updated where necessary or appropriate), and to register the same with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance, by no later than the first anniversary of the date of this Programme Prospectus.

*The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). The Notes will be offered outside the United States in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered or sold within the United States or to, or for the account of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notes may be issued in bearer form or registered form. Each Series of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**” and each temporary Global Note or permanent Global Note, a “**Global Note**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes (as defined in the section headed “Summary of the Retail Note Programme” on page 8 of this Programme Prospectus) of each Tranche of one Series. Global Notes and Certificates may be deposited on the issue date of the relevant Notes (the “**Issue Date**”) with a common depository on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) or a depository on behalf of another clearing system as specified in the relevant Issue Prospectus. Definitive bearer Notes (“**Definitive Notes**”), or definitive certificates representing Registered Notes (“**Individual Certificates**”), will not be issued to individual holders of Notes except in very limited circumstances. No arrangements have been made to enable the Notes to be admitted to either the Central Clearing and Settlement System (“**CCASS**”) or to the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “**CMU Service**”) for deposit, clearance or settlement.*

The distribution of this Programme Prospectus and any Issue Prospectus and the offering or sale of the Notes may, in certain jurisdictions, be restricted by law. The Issuer and the Arranger require persons into whose possession this Programme Prospectus and any Issue Prospectus come to inform themselves of, and observe, all such restrictions. A further description of certain restrictions on offering and sale of Notes and distribution of this Programme Prospectus and any Issue Prospectus is provided under the section headed “Subscription and Sale” commencing on page 98 of this Programme Prospectus.

None of this Programme Prospectus, any Issue Prospectus or any other information supplied in connection with the Notes is intended to provide the sole basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger or the Trustee that any recipient of this Programme Prospectus, any Issue Prospectus or any other information supplied in connection with the Notes should purchase any of the Notes.

Prospective investors in Notes should conduct such additional investigation and analysis regarding the Issuer, the Notes and the security arrangements relating to the Notes (including, without limitation, regarding the Underlying Securities, the issuer and any guarantor thereof and any other Mortgaged Property) as they deem appropriate to evaluate the merits and risks of any investment in the Notes.

Except as otherwise stated in this Programme Prospectus, the Arranger and the Trustee have not separately verified the information contained herein and accordingly neither the Arranger nor the Trustee makes any 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 do not accept any responsibility or liability therefor. The Arranger and the Trustee do not undertake to review the financial condition or affairs of the Issuer, the issuer or guarantor of any Underlying Securities or any other relevant entity during the life of the arrangements contemplated by this Programme Prospectus and any Issue Prospectus and the Arranger does not undertake to advise any investor or potential investor in the Notes of any information coming to the attention of the Arranger.

A certificate of exemption relating to this Programme Prospectus has been issued, subject to certain conditions, by the SFC under Section 342A(1) of the Companies Ordinance in respect of sections 44A(2), 44A(6), 342(1)(a)(i), 342(1)(a)(ii), 342(1)(b) and 342(7) of, and paragraphs 3, 10, 11, 25, 26(a), 27 and 31 of the Third Schedule to, the Companies Ordinance.

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 to the Companies Ordinance is exempted in relation to this Programme Prospectus.

In this Programme Prospectus and (if applicable) the relevant Issue Prospectus, unless otherwise specified or the context otherwise requires, references to “US dollars”, “US\$” and “USD” are to United States dollars, references to “Hong Kong dollars”, “HK\$” and “HKD” are to Hong Kong dollars and references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China.

This Programme Prospectus is available in separate Chinese and English language versions. Copies of both the Chinese and English language versions of this Programme Prospectus will be available for collection as described under “Where to Obtain Copies of the Programme Prospectus and Issue Prospectus” below.

本計劃章程分別備有中英文本。本計劃章程的中英文本均可在下文「Where to Obtain Copies of the Programme Prospectus and Issue Prospectus」一節所列地點索取。

ADDENDA TO THE PROGRAMME PROSPECTUS

The Issuer may from time to time after the date of this Programme Prospectus register one or more addenda to this Programme Prospectus with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. All such addenda to this Programme Prospectus will be read in conjunction with this Programme Prospectus, and all references herein to this Programme Prospectus will be deemed to include all such addenda. Each Issue Prospectus will identify and briefly indicate the content of any addendum or addenda to this Programme Prospectus as of the date of that Issue Prospectus. Copies of such addenda will be available as described under “Where to Obtain Copies of the Programme Prospectus and Issue Prospectus” below.

WHERE TO OBTAIN COPIES OF THE PROGRAMME PROSPECTUS AND ISSUE PROSPECTUS

Hard copies of this Programme Prospectus (including any addendum or supplement in respect thereof) and the relevant Issue Prospectus (all available in separate English and Chinese language versions) may be collected free of charge during normal business hours on any day (Saturdays, Sundays and public holidays excepted) as follows:

- **During the offer period of any Notes to be issued under the Programme:** from each of the Distributors as described under the section headed “**The Distributors**” in the relevant Issue Prospectus and from the offices of the Arranger’s agent at:

Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

- **After the offer period of any Notes to be issued under the Programme and for so long as any Notes remain outstanding:** from the offices of the Arranger’s agent as stated above.

本計劃章程的印製本(包括有關的任何附錄或補充)及有關發行章程(均備有獨立英文及中文版本), 可於任何一日(星期六, 星期日及公眾假期除外)的一般辦公時間內, 於下列地點免費索取:

- **於根據計劃發行任何債券的申購期內:** 在有關發行章程「分銷商」一節所述的各分銷商及於安排人的代理人的辦事處索取, 該安排人的代理人辦事處地址為:

摩根士丹利添惠亞洲有限公司
香港中環
交易廣場三座30樓

- **於根據計劃發行任何債券的申購期後及只要仍有任何債券仍未償還:** 於上列安排人的代理人的辦事處索取。

Notes may not be purchased from the Issuer. If you wish to purchase any Notes, you must purchase them in accordance with the procedures described under the section headed “Application Procedures” commencing on page 18 below and as further described in the relevant Issue Prospectus.

債券不可向發行人購買。閣下如有意購買債券, 必須按照下文第18頁起「Application Procedures」所述及有關的發行章程所詳述的手續辦理。

References to “Noteholders”

Prospective investors should be aware that where the Notes are represented by a Global Note or a Global Certificate and held through Euroclear, Clearstream, Luxembourg and/or any other clearing system, the term “Noteholders” in this Programme Prospectus and the Issue Prospectus will mean the common depositary for Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system (in the case of Notes represented by a Global Note), or the registered nominee (in the case of Notes represented by a Global Certificate) for the common depositary for Euroclear, Clearstream, Luxembourg and/or any other relevant clearing systems, as the case may be, as the legal holder of the 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. Investors have no right of direct action against the Issuer and will need to rely upon 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 may be very different from those of another Distributor or broker 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 upon such party to act on their behalf.

References to Websites

Reference to any website in this Programme Prospectus and the relevant Issue Prospectus is intended to assist prospective investors to access further information relating to the subject as 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 part of this Programme Prospectus and/or the relevant Issue Prospectus. The Issuer accepts no 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 this Programme Prospectus and/or the relevant Issue Prospectus.

The offer of Notes issued under the Programme by the Issuer is made solely on the basis of the information contained in this Programme Prospectus and the relevant Issue Prospectus and prospective investors should exercise an appropriate degree of caution when assessing the value of other information which may appear on such websites.

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SUMMARY OF THE RETAIL NOTE PROGRAMME

*The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Programme Prospectus. To determine the terms and conditions which apply to any Series of Notes, it is necessary to read the general terms and conditions (the “**Master Conditions**”) (see the section headed “**Master Terms and Conditions of the Notes**” commencing on page 42 of this Programme Prospectus) together with the relevant Pricing Supplement which will be summarised in the relevant Issue Prospectus. The Pricing Supplement for any Series of Notes will apply, disapply, supplement and/or amend the Master Conditions in the manner required to reflect the particular terms and conditions applicable to a particular Series of Notes. Words and expressions defined in the section headed “**Master Terms and Conditions of the Notes**” in this Programme Prospectus will have the same meanings in this summary.*

- Issuer: Victoria Peak International Finance Limited, a thinly capitalised special purpose company incorporated in the Cayman Islands with limited liability, the shares of which are legally owned by the Share Trustee (as defined in the section headed “Description of the Issuer” on page 80 of this Programme Prospectus) and held on behalf of a charitable trust. See the section headed “Description of the Issuer” on page 80 of this Programme Prospectus.
- Description: US\$5,000,000,000 Retail Note Programme. See the paragraph headed “Description of the Programme” on page 16 of this Programme Prospectus.
- Trustee: J.P. Morgan Corporate Trustee Services Limited, which has power to enforce the rights of the Noteholders under the Notes.
- Registrar: JPMorgan Chase Bank, N.A., which will maintain a register for each Series of Registered Notes issued under the Programme.
- Principal Paying Agent: JPMorgan Chase Bank, N.A., or such other party or parties as set out in the relevant Issue Prospectus who is responsible for payment of interest, principal or redemption amounts to the holders of Notes and certain other administrative duties incidental to such functions.
- Arranger: Morgan Stanley & Co. International Limited is the Arranger of the Programme and Morgan Stanley & Co. International Limited or such other party or parties as set out in the relevant Issue Prospectus will act as Arranger of each Series of Notes to be issued under the Programme. Pursuant to a proposals and advice agreement dated 8 September 2005 between the Issuer and Morgan Stanley & Co. International Limited in its capacity as Arranger of the Programme and the Arranger of each Series of Notes to be issued under the Programme (the “**Proposals and Advice**”

Agreement”), Morgan Stanley & Co. International Limited in such capacity may from time to time make proposals and, upon the request of the Issuer, give advice to the Issuer, in each case, in relation to the Programme. The issue of each Series will be subject to the prior approval of the Board of Directors of the Issuer.

Morgan Stanley & Co. International Limited has appointed Morgan Stanley Dean Witter Asia Limited to act as its agent in connection with the Programme and the Notes. In such capacity, Morgan Stanley Dean Witter Asia Limited will (amongst others) assist Morgan Stanley & Co. International Limited in conducting certain market making arrangements (if any) and provide a location in Hong Kong where certain documents in connection with the offering of Notes under the Programme can be inspected.

- Custodian: JPMorgan Chase Bank, N.A. or such other party or parties as set out in the relevant Issue Prospectus will hold the Underlying Securities in respect of the Notes in favour of the Trustee.
- Calculation Agent: JPMorgan Chase Bank, N.A. or such other party or parties as set out in the relevant Issue Prospectus who is responsible for the calculation of any rate or amount (including but not limited to interest rates and interest amounts) in relation to the Notes.
- Determination Agent: Morgan Stanley & Co. International Limited or such other party or parties as set out in the relevant Issue Prospectus who is responsible for the determination of whether certain specified events (including but not limited to a Company or Sovereign Credit Event or a Mandatory Redemption Event (as such term may be used and defined in the relevant Issue Prospectus)) have occurred in respect of the Notes and certain payment determination (including but not limited to redemption amounts) in connection with the Notes, as more particularly described in the relevant Issue Prospectus.
- Initial Subscriber: Unless otherwise specified in the relevant Issue Prospectus, Morgan Stanley & Co. International Limited will be the sole initial subscriber for the entire issue of each Series of Notes.
- Distributors: The Initial Subscriber will enter into arrangements with one or more distributors (the “**Distributors**”) for the purpose of the on-sale of each Series of Notes to prospective investors. See the paragraph headed “Application Procedures” on page 18 of this Programme Prospectus for further details.
- Co-ordinating Distributor: The Arranger may appoint a coordinating distributor (the “**Co-ordinating Distributor**”) to co-ordinate the activities of the Distributors.

- Mortgaged Property:** The Notes of each Series will be secured in the manner set out in Condition 4 of the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus, including by a charge on and/or assignment of and/or other security interest over or in respect of the Collateral and the Agency Agreement and all sums held from time to time by the Custodian and the Principal Paying Agent insofar as such sums relate to that Series. Each Series may also be secured on such additional security as may be described in the relevant Issue Prospectus. References in this Programme Prospectus to “Security” are to the security constituted for a Series of Notes by the relevant Supplemental Trust Deed and/or such other security document referred to in the Supplemental Trust Deed.
- Limited Recourse:** Claims against the Issuer by the Swap Counterparty (if any) and the Noteholders will be limited to the Mortgaged Property (as described above). If the net proceeds from the realisation of the Mortgaged Property (whether or not any Security granted in respect thereof has been enforced) are not sufficient to make all payments due in respect of, among other things, the Swap Agreement (if any) and the Notes, the obligations of the Issuer will be limited to such net proceeds of realisation and no other assets of the Issuer will be available to meet such shortfall and no debt will be owed by the Issuer in respect of such shortfall. See the paragraph “Status of Notes” below for a description of how the claims of the secured parties, including the Noteholders, would rank in the case of any shortfall.
- Method of Issue:** The Notes may be issued on a syndicated or non-syndicated basis. However, unless otherwise specified in the relevant Issue Prospectus, the Notes will be issued on a non-syndicated basis to Morgan Stanley & Co. International Limited, which will enter into arrangements with one or more Distributors for the on-sale of the Notes subscribed by it to the public in Hong Kong. See the paragraph headed “Application Procedures” on page 18 of this Programme Prospectus and the provisions of the relevant Issue Prospectus for further details.
- Issuance in Series:** The Notes will be issued in series (each a “**Series**”) having one or more Issue Dates. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different Issue Dates. The Notes of each Tranche are intended to be interchangeable with all other Notes of that Tranche. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions) will be set out in the relevant Issue Prospectus.

- Issue Prospectus: An Issue Prospectus will be issued by the Issuer in connection with each Series of Notes. The terms and conditions applicable to each Series of Notes are the Master Conditions, as supplemented, amended and/or replaced by the relevant Pricing Supplement(s) applicable to such Series as described in the relevant Issue Prospectus. This Programme Prospectus must be read in conjunction with the relevant Issue Prospectus.
- Issue Price: Notes may be issued at their nominal amount or at a discount or premium to their nominal amount (as set out in the relevant Issue Prospectus).
- Form of Notes: The Notes may be issued in bearer form only (“**Bearer Notes**”), in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) or in registered form only (“**Registered Notes**”). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their Issue Date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in the paragraph “Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Tranche. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**”. Permanent Global Notes and Global Certificates will be exchangeable, in whole but not in part, for Definitive Notes or Individual Certificates (as the case may be) only in very limited circumstances, including (i) by the Issuer giving notice to the Principal Paying Agent or Registrar, as the case may be, the Trustee and the Noteholders of its intention to effect such exchange; (ii) if an Event of Default (as defined in Condition 10 of the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus) has occurred and is continuing; (iii) the Issuer has been notified that Euroclear or Clearstream, Luxembourg or any other relevant clearing system has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so; or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes (represented by the Global Note or Global Certificate) in definitive form. Definitive Notes (if issued) will, if interest-bearing, have coupons attached.

Credit Support:	Notes may be issued with the benefit of monoline guarantees or other forms of credit enhancement. A description of any form of credit enhancement relevant to an issue of Notes will be included in the relevant Issue Prospectus.
Clearing Systems:	Clearstream, Luxembourg, Euroclear and/or any other clearing system as may be specified in the relevant Issue Prospectus.
Currencies:	Notes may be issued in any currency as set out in the relevant Issue Prospectus.
Maturities:	Notes may be issued with any maturity as set out in the relevant Issue Prospectus.
Denomination:	Definitive Notes will be in such denominations as may be specified in the relevant Issue Prospectus.
Early Redemption:	Early redemption will be permitted for taxation reasons and, subject to all relevant legal and regulatory requirements, will otherwise be permitted at the option of the Issuer or a Noteholder to the extent specified in the relevant Issue Prospectus.
Redemption:	Notes may be redeemed at par or at such other redemption amount above or below par as may be determined by the Issuer and as indicated in the relevant Issue Prospectus.
Mandatory Redemption:	Unless otherwise specified in the terms and conditions of the Notes, if all or some of the Underlying Securities relating to a Series become repayable prior to their stated maturity or there is a payment default in respect of any such Underlying Securities, the Notes of that Series will become repayable in whole or in part. See Condition 7(b) in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the Issue Date and the Maturity Date of the relevant Series as set out in the relevant Issue Prospectus.

Status of Notes:	The Notes will be secured, limited recourse obligations of the Issuer ranking <i>pari passu</i> without any preference among themselves and secured in the manner described in Condition 4 in the section headed “Master Terms and Conditions of the Notes” on page 42. Recourse in respect of any Series will be limited to the Mortgaged Property relating to that Series. Claims of Noteholders and, if applicable, any counterparty to a Swap (including any Swap Counterparty), Securities Agreement and/or Contract (together, “ Other Creditors ”), the Trustee, the Custodian and the Principal Paying Agent will rank in accordance with the priorities specified in the Trust Deed. Unless otherwise specified in the relevant Issue Prospectus, the claims of the Trustee, the Custodian, the Principal Paying Agent and any Other Creditors against the Issuer will rank prior to the claims of the Noteholders under the Notes in the application of all moneys received in connection with the realisation or enforcement of the Security.
Negative Pledge/ Restrictions:	So long as any of the Notes remain outstanding, the Issuer will not, without the consent of the Trustee and the Noteholders, incur any other indebtedness for borrowed moneys or engage in any business (other than issues of Notes pursuant to the Programme and certain other related activities), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property, consolidate or merge with any other person, convey or transfer its properties or assets substantially as an entity to any person (other than as contemplated by the Master Conditions and the Trust Deed) or issue any shares (other than those which were in issue on 30 August 2004) or make any distribution to its shareholders. However, the Issuer may issue further notes and create and incur further obligations relating to such notes, provided that such further notes and obligations satisfy certain requirements specified in the Conditions. See Condition 5 in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus.
Modification:	The Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions) of any of the Conditions or any of the provisions of the Trust Deed (amongst others) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, or to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or to correct a manifest error. See Condition 13(b) in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus. Other modifications must be approved by an extraordinary resolution of the Noteholders according to detailed provisions set out in the Trust Deed.

- Waiver:** The Trustee may agree, without the consent of the Noteholders, to waive or authorise any breach or proposed breach by the Issuer of the Conditions or any of the provisions of the Trust Deed (amongst others), or determine that an Event of Default or Potential Event of Default shall not be treated as such, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby. See Condition 13(c) in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus.
- Withholding Tax:** All payments of principal and interest by the Issuer in respect of the Notes and Coupons will be made subject to any withholding or deduction for, or on account of, any Cayman Islands or Jersey taxation. However, under Cayman Islands law and Jersey law existing as at the date of this Programme Prospectus, payments in respect of the Notes will not be subject to taxation in the Cayman Islands or Jersey and no withholding will be required on such payments to any Noteholder. See the sub-sections headed “The Cayman Islands” and “Jersey” in the section headed “Taxation” on page 94 of this Programme Prospectus for further details.
- In the event of the imposition of any such taxes, the Trustee may require the Issuer to use its best endeavours to procure the substitution as principal obligor under the Trust Deed and the Notes of another company incorporated in another jurisdiction, failing which it will redeem the Notes, subject to certain exceptions set out in Condition 7(c) in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus.
- Notices:** So long as any Notes are represented by a Global Note or a Global Certificate which is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices required to be given to Noteholders will be validly given by the delivery of the relevant notice to the relevant clearing system for communication by it 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 in paragraph 6 under the section headed “General Information” on page 101 of this Programme Prospectus. The procedures of how notices from the Noteholders to the Issuer (if such are required for a particular Series) should be given will be set out in the relevant Issue Prospectus.
- Rating:** The Notes will not be rated by any rating agency.
- Listing:** The Notes will not be listed on any exchange.

Governing Law: All contractual documentation for the Programme and the Notes will be governed by, and construed in accordance with, English law (except the Swap Guarantee, which will be governed by and construed in accordance with the laws of the State of New York).

Selling Restrictions: See the section headed “Subscription and Sale” on page 98 of this Programme Prospectus for a discussion of certain restrictions on the offering of the Notes and the distribution of offering materials in various jurisdictions.

Notes in bearer form will be issued in compliance with US Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) unless (i) the relevant Issue Prospectus states that Notes are issued in compliance with US Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Issue Prospectus as a transaction to which TEFRA is not applicable.

Description of the Swap Agreement and the Swap Guarantee

The Issuer has entered into an ISDA Master Agreement (Multicurrency-Cross Border) and Schedule thereto dated as of 30 September 2004 with Morgan Stanley Capital Services Inc. as Swap Counterparty (the ISDA Master Agreement (Multicurrency-Cross Border) together with the relevant Schedule thereto, the “**Master Agreement**”) in connection with the establishment of the Programme. In connection with an issue of Notes under the Programme, the Issuer may execute one or more confirmations (each, a “**Confirmation**”) confirming the terms of one or more transactions that will be governed by the Master Agreement. Each Confirmation will specify an effective date as of the relevant Issue Date in respect of the relevant Series of Notes. In respect of a relevant Series of Notes only, the relevant Confirmation(s) in respect of that Series, together with the Master Agreement, create a single agreement and are together referred to in this Programme Prospectus as the “**Swap Agreement**”.

Execution by the Issuer of a Swap Agreement in connection with an issue of Notes, and the interest rate and currency swap transactions and other transactions as may be contemplated by the Swap Agreement, will enable the Issuer to make the payments due to be made on a Series of Notes where the amount, terms and/or currency payments due on the Underlying Securities forming part of the Mortgaged Property for such Series of Notes do not correspond with the payments due to be made on the Notes. A summary of the relevant Swap Agreement as it relates to a particular Series of Notes will be included in the relevant Issue Prospectus.

In connection with the entry into by the Issuer and the Swap Counterparty of the Master Agreement, Morgan Stanley as Swap Guarantor has executed a Swap Guarantee (as defined below). The form of the Swap Guarantee executed by the Swap Guarantor is reproduced in Appendix B to this Programme Prospectus.

Pursuant to the provisions of the Swap Guarantee, the Swap Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of all amounts payable by the Swap Counterparty to the Issuer under each Swap Agreement.

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.

Description of the Programme

The Issuer established its Retail Note Programme on 30 August 2004. The Master Conditions applicable to Notes issued under the Programme are set out in the section headed “Master Terms and Conditions of the Notes” commencing on page 42 of this Programme Prospectus, a summary of which is set out in the section headed “Summary of the Retail Note Programme” on page 8 of this Programme Prospectus.

The Programme enables the Issuer to issue multiple Series of Notes from time to time to the public in Hong Kong in accordance with all applicable laws and regulations. The terms specific to each Series of Notes are set out in a “Pricing Supplement” relating to those Notes, the provisions of which will be summarised in the relevant Issue Prospectus. As and when issued, the Notes of each Series are to be secured on certain

assets of the Issuer applicable to the relevant Series of Notes only. Such security is to be effected on a limited recourse basis, such that the assets of the Issuer secured in connection with one Series of Notes will not be used to make any payment owing by the Issuer in connection with another Series of Notes.

In relation to the terms and conditions of any Series of Notes, to the extent that there is an inconsistency between the Master Conditions and the provisions which appear in the relevant Pricing Supplement, the provisions which appear in the Pricing Supplement will prevail.

Application Procedures

Unless otherwise specified in the relevant Issue Prospectus, Morgan Stanley & Co. International Limited will be the sole initial subscriber (the “**Initial Subscriber**”) for the entire issue of the Notes of a Series on the relevant Issue Date. The Initial Subscriber, the Arranger and any Market Agent (as defined below) will enter into arrangements with one or more Distributors in connection with each issue of Notes of a Series for the purpose of the on-sale of the Notes to the investors. If you wish to purchase any Notes of a Series as part of the offering pursuant to this Programme Prospectus and any Issue Prospectus, you must contact one of the Distributors for the relevant Series.

Information in respect of the procedures by which any Series of Notes will be offered to the public in Hong Kong will be included in the relevant Issue Prospectus. The Issue Prospectus will include information on the offer period during which applications for Notes may be made, the amount of the purchase price for Notes (or the method by which it will be fixed), the method and timing of payment of the purchase price of the Notes and other relevant information as to application procedures and allocation of Notes.

When prospective investors apply 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 (whose contact details will appear in the relevant Issue Prospectus) for further details of any such handling fee which may be levied. The handling fees payable to one Distributor may differ from those payable to another Distributor.

Prospective investors are advised that arrangements for the purchase by them of any Notes as part of the initial issue of a Series of Notes (including, without limitation, arrangements regarding the time and method of payment of the purchase price for the Notes, the amount of the charges to be levied by a Distributor, the opening and closing dates and times (if any) for placing an order for the Notes and the arrangements for refund or payment of additional sums) will be as separately agreed between the prospective investors and the relevant Distributor and will be subject to the relevant Distributor’s terms and conditions relating to such arrangements. Each Distributor may impose different arrangements relating to the purchase of the Notes and prospective investors should contact the Distributors for information relating to such arrangements.

It is important that prospective investors familiarise themselves with, and ensure that they understand and accept, the terms and conditions imposed by their chosen Distributor.

The identities and respective contact details of the Distributors will also be made available to prospective investors upon request at the offices of the Arranger’s agent in Hong Kong (the address of which is set out on page 5 of this Programme Prospectus) during normal business hours on any day (Saturdays, Sundays and public holidays excepted) for so long as any Notes remain outstanding.

The relevant Issue Prospectus will also include a summary of the circumstances in which the Notes will not be issued.

Market Making Arrangements

The relevant Issue Prospectus will describe the market making arrangements (if any) to be implemented in connection with an issue of Notes, including the identity of any person (the “**Market Agent**”) who will conduct such market making activities and the extent thereof. Prospective investors are therefore advised to read the relevant Issue Prospectus for a description of the circumstances in which you will be able to sell their Notes or, if applicable, purchase further Notes after the Issue Date. Any market making arrangements do not, however, assure an active trading market for the Notes.

The Morgan Stanley Exchange Option

Unless otherwise disclosed in the applicable Issue Prospectus, Morgan Stanley & Co. International Limited will, in connection with each issue of Notes of a Series, be granted the right (the “**Morgan Stanley Exchange Option**”) from time to time and on one or more occasions, with respect to Notes that it beneficially owns, to exchange any or all of such Notes of a Series for a pro rata amount of the relevant Underlying Securities (where such Notes of a Series and the relevant Underlying Securities are denominated in different currencies, by converting the principal amount of such Notes into the currency of denomination of the Underlying Securities at the applicable exchange rate prevailing 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 and, where the respective denominations of the Notes (converted as aforesaid where relevant) and the relevant Underlying Securities are not equal, by rounding down such pro rata amount of the relevant Underlying Securities to the nearest denomination of the Underlying Securities) from the Issuer, on giving not less than three Hong Kong, London and New York Business Days’ notice to the Issuer, the Trustee, the Custodian and the Principal Paying Agent and/or the Registrar (as the case may be).

There will as a result of each exercise of the Morgan Stanley Exchange Option be a proportionate reduction in the principal amount of the Notes outstanding. See the section headed “Risk Factors — Risks Relating to the Notes — Market, Liquidity and Yield Considerations; the Morgan Stanley Exchange Option; Sale Procedure” on page 32 of this Programme Prospectus. The Issuer will notify the Noteholders of the exercise of the Morgan Stanley Exchange Option by Morgan Stanley & Co. International Limited if, following such exercise, the outstanding principal amount of the Notes decreases to an amount less than 50 per cent., 30 per cent. and 10 per cent., respectively, of the original principal amount thereof. Each such notice will specify the amount of Notes being exchanged and will be given as soon as practicable thereafter and in any event will be given no later than five Hong Kong, London and New York Business Days after such exercise.

Any Notes owned by Morgan Stanley & Co. International Limited which are subject to the Morgan Stanley Exchange Option will be surrendered to the Principal Paying Agent or the Registrar (as the case may be) or to its order for cancellation and the corresponding amount of the relevant Underlying Securities (calculated as aforesaid) will be released from the Security created in respect thereof. The Issuer will procure that the Custodian deliver and transfer free of all encumbrances such principal amount of the relevant Underlying Securities to or to the order of Morgan Stanley & Co. International Limited in the manner customary for the settlement of securities similar to the Underlying Securities, in each case on the date specified in the notice of the exercise of the Morgan Stanley Exchange Option, provided that Morgan Stanley & Co. International Limited will be liable to pay all taxes, duties and expenses that are incurred in connection with the delivery and transfer of such Underlying Securities.

If Morgan Stanley & Co. International Limited exercises the Morgan Stanley Exchange Option, a pro rata notional amount of the relevant transactions to the Swap Agreement (if any) corresponding to that proportion of the Notes to be exchanged (where such Notes and the relevant notional amount are denominated in different currencies, by converting the principal amount of such Notes into the currency of denomination of the relevant notional amount at the applicable exchange rate prevailing 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) will be terminated without any termination payment being due from either the Issuer or the Swap Counterparty.

The Morgan Stanley Exchange Option applies to Notes beneficially owned by Morgan Stanley & Co. International Limited. Notes may be acquired by Morgan Stanley & Co. International Limited after the relevant Issue Date of the Notes pursuant to the market making arrangements (if any) to be implemented in connection with the issue of the Notes, or otherwise. The extent to which the Morgan Stanley Exchange Option will be exercised will depend on the principal amount of Notes acquired by Morgan Stanley & Co. International Limited from time to time after the relevant Issue Date.

THE DISTRIBUTORS AND INVESTORS CONFIRMATIONS

Distributors

The Distributors for the Notes will be appointed pursuant to the distributor appointment agreements entered into between the Distributors, the Arranger, the Initial Subscriber and the Co-ordinating Distributor (if any) (the “**Distributor Appointment Agreements**”). The Co-ordinating Distributor (if any) is responsible for co-ordinating the selling of the Notes by the Distributors during the relevant Offer Period.

The Distributors may be acting as principal or agent when they procure purchasers for the Notes. The capacity in which your Distributor acts could, in some situations, affect your legal remedies against your Distributor, the Issuer and the Initial Subscriber. If your Distributor is acting as principal, no contractual relationship with respect to the purchase contract for the Notes will arise between you and the Issuer or the Initial Subscriber at the time of application. Your relationship with your Distributor is governed by the customer agreement you sign with your Distributor and is not related to or controlled by the Issuer or the Arranger or by anything in this Programme Prospectus for the relevant Issue Prospectus. Please ask your Distributor if you require further information in respect of the above.

The Distributor Appointment Agreements set out, amongst other things, the need for the Distributors to comply with the section headed “Subscription and Sale — Selling Restrictions” commencing on page 98 of this Programme Prospectus and all relevant laws, regulations and guidelines or codes issued by the relevant regulatory authority including but not limited to the Code of Conduct for Persons Licensed By or Registered with the SFC (the “**SFC Code of Conduct**”). In particular, some or all of the following undertakings and any additional undertakings as set out in the relevant Issue Prospectus, depending on the circumstances of the relevant Series of Notes, will be given by the Distributors:

- Copies of this Programme Prospectus and the relevant Issue Prospectus (the “**Offering Documents**”) (each in separate English and Chinese language versions) will be made available or 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 received or 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 at that Relevant Location. If either the English or the Chinese language version of any of the Offering Documents runs out or ceases to be available or distributed 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 both the English and the Chinese language versions of all of the Offering Documents are again made available or distributed to the public at such Relevant Location.

- Notes will not be sold on the basis of any information that is inconsistent with this Programme Prospectus and the relevant Issue Prospectus.
- Distributors will inform prospective investors that copies of the documents listed in paragraph 6 of the section headed “General Information” on page 101 of this Programme Prospectus are available for inspection at the offices of the Arranger’s agent specified on page 5 of this Programme Prospectus unless specified to the contrary in the relevant Issue Prospectus.
- Each prospective investor will be required to confirm that he has read and understood or has been given an opportunity to read and/or assistance to understand the confirmations as applicable as set out on pages 24-26 of this Programme Prospectus.
- Any notices received from the Arranger during the relevant Offer Period (including but not limited to a notice of an extension or early closure of the relevant Offer Period) will immediately be relayed to prospective investors in the manner provided in the relevant Issue Prospectus.
- Distributors will describe to each prospective investor the operating procedures for payment and/or refund in respect of an application for Notes and provide details of all charges levied by them for opening and maintaining 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 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.

Advertising or promotional materials in respect of the Notes (the “marketing materials”) may be issued and/or distributed by parties other than the Issuer, the Arranger and the Initial Subscriber. 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. The Arranger, the Initial Subscriber and the Issuer make no representation whatsoever that the contents of any such marketing materials are complete, not misleading, accurate and/or true and no responsibility whatsoever is accepted in relation to any such marketing materials by any person who is responsible for the Programme Prospectus and/or the relevant Issue Prospectus.

Confirmations to be given by investors

The detailed procedures for allocation to and purchase by prospective investors of Notes of a particular Series 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, you will be deemed to confirm to your chosen Distributor, the Arranger and the Issuer that, amongst other things, you:

- **understand** that the Notes may or may not be principal protected by the Issuer and accept such risks associated with a financial product, the return of which may not be guaranteed by the Issuer;
- **undertake** and **agree** to accept the Notes of the relevant Series applied for, or any lesser number (provided such number is not less than the minimum denomination of a Note) allocated to you;
- **undertake** and **agree** to pay in full the Issue Price of the Notes of the relevant Series allocated to you;
- **authorise** the Distributor to which you give your application instructions to credit any Notes of the relevant Series allocated to you to your investment account with it and understand that no certificates of title will be available for your Notes and your interest in your Notes will be in book-entry form only;
- **agree** that if you are not allocated any Notes or your application is successful only in part or if the Notes are not issued for any reason, the whole or an appropriate portion of the purchase monies paid by you will be returned to you in the relevant currency as specified in the relevant Issue Prospectus without interest and at your own risk and that any interest earned will be retained for the benefit of the Distributor;
- **understand** that the Notes of the relevant Series will be held through a clearing system which means that you will have to rely on the Distributor selected by you to credit your account with that Distributor with payments credited to it through the clearing system and to distribute notices to you which it receives through the clearing system from the Issuer and to distribute your notices to the Issuer where applicable;
- **have read** or been given an opportunity to read and/or assistance to understand the terms and conditions and application procedures set out in this Programme Prospectus and the relevant Issue Prospectus **and agree** to be bound by them;
- have either **received** a copy of this Programme Prospectus and the relevant Issue Prospectus (in your preferred language version of English or Chinese) or **have been afforded** sufficient opportunity to obtain a copy of this Programme Prospectus and the relevant Issue Prospectus (in your preferred language version of English or Chinese) prior to submitting an application for the Notes;

- **understand** that subject to the terms and conditions of the Notes of the relevant Series, the principal amount of the Notes of the relevant Series will only be payable in respect of those Notes which are held until the Maturity Date or when the Issuer exercises the Issuer Call Option (as defined in the relevant Issue Prospectus) in respect of the Notes, and that interest will only be payable in respect of the Notes in issue on the relevant Interest Payment Date;
- **understand** that you are buying the Notes of the relevant Series from the Distributor and that where your Distributor acts as principal no contractual relationship with respect to the purchase contract for the Notes will arise between you and the Issuer or the Initial Subscriber at the time of application;
- **understand** and accept that neither the Issuer nor the Arranger (except, where it is also a Distributor, in its capacity as a Distributor) 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 your Notes in accordance with the terms and conditions of the operation of your cash account/investment account with them;
- **understand** that until you pay in full to the relevant Distributor the Issue Price in respect of the Notes allocated to you (for example because there are insufficient monies in your cash account for such payment), the Distributor may do, amongst other things, the following under the terms and conditions of the operation of your cash account and/or investment account with such Distributor:
 - (i) have a security interest in, or otherwise impose other restrictions on, your Notes for repayment of the amount of the unpaid purchase monies under the terms and conditions of the operation of your investment account with such Distributor such that you may not be able to transfer or otherwise dispose of your Notes; or
 - (ii) exercise a lien, right of set off or similar claim against you in respect of monies held in any of your accounts maintained with such Distributor to secure any amounts which may be owing by you to it; or
 - (iii) charge interest on the amount of the unpaid purchase monies; or
 - (iv) deduct the amount of the unpaid purchase monies from payment of interest or principal on your Notes; or
 - (v) sell your Notes to recoup the amount of the unpaid purchase monies or other sale expenses, duties and interest costs;

- **understand** that any action you wish to take against the Issuer in accordance with the terms and conditions of the Notes will require the co-operation of the Noteholders and/or the Trustee and that you have no right of direct action against the Issuer and will need to rely on your Distributor or broker to contact the Noteholders and/or the Trustee on your behalf. The terms of business of your Distributor or broker govern the circumstances in which you may rely upon such party to act on your behalf;
- **confirm** that you 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 your Distributor;
- **understand** that you are deemed to have notice of the terms of the contractual documentation for the Programme, including the Proposals and Advice Agreement, the Principal Trust Deed, the Agency Agreement, the Master Conditions and the relevant Pricing Supplement which supplements, amends or replaces the Master Conditions applicable to a Series of Notes, the Swap Agreement and the Swap Guarantee, copies of which are/will be available for inspection as set out under paragraph 6 of the section headed “General Information” on page 101 of this Programme Prospectus and in the relevant 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 you and that you understand the nature and risks of investing in the Notes.

You will be required to confirm that you have read and understood these confirmations when you apply to a Distributor to purchase Notes. If you do not understand the meaning or the reasons why you are being asked to give these confirmations, you should seek assistance from your chosen Distributor.

CUSTODY ARRANGEMENTS WITH DISTRIBUTORS

Definitive Notes or Individual Certificates will not be issued to individual holders of Notes (except in the very limited circumstances described in the section headed “Summary of Retail Note Programme — Form of Notes” on page 11 of this Programme Prospectus). Global Notes or Global Certificates, each representing the total principal amount of each Series of Notes, will instead on the Issue Date of the Notes be deposited with, or will be registered in the name of a nominee for, a common depository for Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system. Notes, in the form of interests in a Global Note or as represented by the Global Certificate, will be credited by the Initial Subscriber to the accounts of the Distributors with Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. See the section headed “Settlement, Clearance and Custody” on page 92 of this Programme Prospectus. For so long as any of the Notes are represented by a Global Note or a Global Certificate held through a clearing system, the Distributors, as participants in the relevant clearing system, will be treated as holders of the Notes for all purposes other than with respect to the payment of principal or interest on the Notes, the right to which will be vested solely in the bearer of the Global Note or, as the case may be, the registered holder of the Global Certificate.

Accordingly, to invest in the Notes, you must already have, or you must open a cash account and an investment account with your chosen Distributor to which your Notes can be credited.

If you do not currently have a cash account and an investment account with a Distributor, in order to invest in the Notes, you must arrange to open a cash account and an investment account in good time before placing your order.

Some important points about opening, and holding your Notes in, an investment account are as follows:

- Applications to open an investment account with a Distributor will be processed by the Distributor according to its normal procedures and criteria for acceptance. These criteria may include proof of income, creditworthiness, and other personal details. There may also be restrictions and certification or other requirements as to nationality and/or place of residence. United States or Canadian persons, for example, may not be eligible to open an investment account for securities laws compliance reasons. If your application to open an investment account is refused for any reason, you will be unable to order the Notes from that Distributor. Neither the Issuer nor the Arranger accepts any responsibility for the account opening process of any Distributor or for any consequences of, or resulting from, such an application by you.
- Investment account and other custody services with respect to the Notes will be supplied by the Distributors subject to their standard terms and conditions for the provision of such services. You should familiarise yourself with, and ensure you understand and accept, the terms and conditions of operation of the investment account before making your application to open an investment account. Neither the Issuer nor the Arranger accepts any responsibility for the provision of custody services by the Distributors or for any consequences of, or arising from, the use of the investment account or custody services.
- The Distributors may charge fees for the opening and operating of an investment account: you should check with the Distributor with which you intend to open an investment account what fees will be chargeable. Fees may

be charged in respect of individual transactions, such as transfers of Notes; on a periodic basis for safe custody; and on payments of interest and principal when they are received. You should check with the Distributor with which you intend to open an investment account on what basis fees will be charged in respect of your Notes.

- You should ask for and read carefully the standard terms and conditions which govern the operation of an investment account with your Distributor as these will determine your rights and obligations with such party. The terms and conditions thereunder may permit the Distributor to take a security interest in, or to impose other restrictions on, the Notes credited to your investment account or to exercise a lien, right of set off or similar claim against you in respect of monies held in any of your accounts maintained with it to secure any amounts which may be owing by you to the Distributor. The Issuer, the Arranger and the Trustee accept no responsibility for any claims any Distributor may have against you in respect of or as a consequence of, or arising from the use of the Distributor's services.
- For so long as any of the Notes are represented by a Global Note or a Global Certificate held through a clearing system, (i) notices required to be given to the Noteholders will be validly given by the delivery of the relevant notice to the Paying Agents and the clearing system and (ii) if notices are required to be given by the Noteholder to the Issuer, the procedures of how such notices should be given will be set out in the relevant Issue Prospectus. Investors in the Notes will have to rely on their Distributor (as a direct or indirect participant in the clearing system) to distribute notices to them which it receives through the clearing system from the Issuer and where applicable, the investors in the Notes may have to rely on their Distributor or the Paying Agents to deliver any notices that are required to be served on the Issuer. The Issuer and the Arranger accept no responsibility for any failure or delay on the part of the Distributors in doing so. If investors wish to receive information in respect of their Notes, they should contact the Distributor through which they purchased the Notes. See the section headed "General Information" on page 101 for details of where copies of all such notices may be available for inspection.
- For so long as any of the Notes are represented by a Global Note or a Global Certificate held through a clearing system, (i) payments required to be made by the Issuer to the Noteholders will be made by delivering such sums to the relevant clearing system or the Paying Agents and such payment will be deemed to have been duly given to investors in the Notes upon receipt of the same by the relevant clearing system or upon payment by the Paying Agents to the holder of the Global Note and (ii) the procedures of how payments required to be made by the Noteholders to the Issuer will be set out in the relevant Issue Prospectus. Investors in the Notes will have to rely on their Distributor (as a direct or indirect participant in the clearing system) to credit their account with payments credited to the Distributor through the clearing system from the Issuer. The Issuer and the Arranger accept no responsibility for any failure or delay on the part of the Distributors in doing so.
- For the purposes of any notices to be given and any payments to be made by an investor in respect of any of the Notes and for so long as such Notes are represented by a Global Note or a Global Certificate held through a clearing system, investors will have to rely upon their Distributor to pass on such notices and payments through the clearing system to the relevant party.

RISK FACTORS

Prior to making an investment decision, you should carefully consider, along with the other information set out in this Programme Prospectus and the relevant Issue Prospectus, the following matters. In particular, the Issue Prospectus may contain additional risk factors which you should consider, prior to making an investment decision in respect of the relevant Series of Notes. The Notes are sophisticated instruments and can involve a high degree of risk. You are strongly recommended to consult with your financial adviser before making any investment decision.

The information set out herein is included for the purpose of enabling prospective investors and their advisers 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. The risk factors set out in this Programme Prospectus and the relevant Issue Prospectus cannot disclose or foresee all risks of the Notes. Prospective investors should not rely on the information set out herein and in the relevant Issue Prospectus as the sole basis for any investment decision in relation to the Notes but should seek appropriate and relevant advice concerning the appropriateness of an investment in the Notes for their particular circumstances.

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 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.

Risks Relating to the Notes

Suitability of the Notes

The purchase of the Notes involves certain risks. This Programme Prospectus and the relevant Issue Prospectus are not and do not purport to be investment advice. You should conduct such additional independent investigation and analysis regarding the Notes and the other assets on which the obligations of the Issuer under the Notes are secured as you deem appropriate. You should make an investment only after you have determined that such investment is suitable for your financial investment objectives.

Risk of Fluctuations in Value of the Notes

The Issue Prospectus relating to any particular Series of Notes will state whether or not the Notes of that Series are principal protected. The value of any Notes which are not principal protected can be additionally volatile and their value may be subject to considerable fluctuations (assuming there is a secondary market in the Notes) and other risks inherent in investing in securities. There can be no assurance that any appreciation in their value will occur or that principal value will be preserved. The value of the Notes may therefore fall as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the value of any Underlying Securities to the Notes, dividends and interest rates and the creditworthiness of the issuers of the Underlying Securities.

Priority of Claims and Potential for Insufficient Security on Sale of Underlying Securities and/or on Enforcement

In the event that any Underlying Securities are required to be sold pursuant to the Master Conditions or the Security constituted by the Trust Deed becomes enforceable, the net sums realised could be insufficient to pay all the amounts due, amongst others, to the Noteholders under the Notes. Unless otherwise stated in the Issue Prospectus, the sums realised from any such sale of the Underlying Securities will be subject to deduction of the costs and expenses associated with such sale. In addition, all costs and expenses incurred by the Trustee in realising the Underlying Securities and, as the case may be, enforcing any Security will be deducted from the proceeds of such realisation or, as the case may be, enforcement before such proceeds are paid to, amongst others, the Noteholders. After realising the Underlying Securities and/or, as the case may be, taking action to enforce the Security as provided in the Master Conditions, the Trustee will not be entitled to take any further steps against the Issuer to recover any sum still unpaid and no debt will be owed by the Issuer in respect of such sum. In particular, no Noteholder or investor may petition or take any other step for the winding-up of the Issuer nor will any of them have any claim in respect of any sum over or in respect of any assets of the Issuer which are security for other liabilities of the Issuer.

As described under the section headed “Description of the Swap Agreement and the Swap Guarantee” on page 85, the Issuer has entered into the Master Agreement in connection with the establishment of the Programme. In connection with certain issues of Notes under the Programme (and as will be set out in the Issue Prospectus), the Issuer will collateralise its obligations under the relevant Swap Agreement by, amongst others, granting security to the Trustee over the relevant Underlying Securities pursuant to the Supplemental Trust Deed. Unless otherwise specified in the Issue Prospectus, the interest of the Swap Counterparty in the proceeds of realisation of the Mortgaged Property (together with the interests of the Trustee, the Custodian, the Principal Paying Agent and any Other Creditors) will rank prior to the interest of the Noteholders in the proceeds of realisation of the Mortgaged Property. As a result, if the Swap Counterparty or Issuer defaults or either party is otherwise unable to perform its obligations under the Swap Agreement and the Swap Agreement is terminated prior to the Maturity Date of the Notes, the Mortgaged Property may be liquidated to satisfy the claims of the Swap Counterparty (and any Other Creditors), thereby reducing or eliminating the Mortgaged Property. Accordingly, there can be no assurance that the net proceeds, if any, realised from the liquidation of the Mortgaged Property or any enforcement of the Security for the Notes will be sufficient for the Noteholders to recover the principal of, and interest on, the Notes and any other amounts payable under the Notes.

Any remedies available to the Trustee to realise the Mortgaged Property or enforce the Security on behalf of the Noteholders could involve delays. If any such delay occurs, there will be a corresponding delay in making payment to the Noteholders of sums realised or recovered. In realising the Security, and unless otherwise specified in the Issue Prospectus, 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). The Trustee will have no responsibility for any loss, liability, cost, claim, action, demand or expense incurred by any Noteholder by reason of so acting.

The Swap Agreement

If a Swap Agreement is entered into in connection with any issue of Notes and if terminated in whole or in part (except under certain circumstances, such as upon the exercise of the Morgan Stanley Exchange Option, as specified in this Programme Prospectus and/or the relevant Issue Prospectus), the Notes will be redeemed in whole or, in certain circumstances, in part. Derivative contracts (such as the Swap Agreement) have special risks associated with them, including possible default by the counterparty to the transaction(s) (which make up the derivative contract) which could result in the early termination of the derivative contract. Also the value of a transaction can be volatile and in the case of an early termination of any derivatives contract (including any Swap Agreement), the value of the transactions terminated could result in significant losses to the Issuer. See the sections headed “Description of the Swap Agreement and the Swap Guarantee” on pages 85 and “Derivatives” in Appendix A to this Programme Prospectus.

The Issuer may enter into swap arrangements with a counterparty for the account of a Series of Notes on a net basis, that is, the payment stream derived from the Underlying Securities and the payment stream to be made in respect of a Series of Notes (where payable on the same day) will be netted out into a single cash amount on that payment date specified in the transactions, with the Issuer receiving or, as the case may be, paying only the net amount of the two payments. The Issuer will not enter into any swap, cap, floor, collar, option, equity swap, credit default swap, swaption or other derivative transaction for the account of a Series of Notes unless the counterparty is deemed creditworthy. If a counterparty defaults, the Issuer may have contractual remedies pursuant to the agreements related to the transaction. Structured swaps, equity swaps, credit default swaps and certain caps, floors, collars and swaptions are illiquid transactions and consequently, it may be difficult for the Issuer to find replacement counterparties who will pay the market value of the related swap transaction, which in turn will affect the income attributable to a Series of Notes and the Issuer’s ability to satisfy its payment obligations to the Noteholders in respect of the Notes.

Losses resulting from the use of derivatives will reduce the value of the assets underlying a Series of Notes, and may also reduce the income attributable to the Series of Notes. Any losses suffered by investors in respect of the Notes can be significantly greater than if derivatives had not been used in connection with the Notes.

If there is an early termination of the Swap Agreement (except under certain circumstances such as an early termination in part following exercise of the Morgan Stanley Exchange Option as described under the paragraph headed “The Morgan Stanley Exchange Option” on page 20 of this Programme Prospectus), the Issuer or the Swap Counterparty may be liable to make a termination payment (determined in accordance with the Swap Agreement) to the other (regardless, if applicable, of which of such parties may have caused such termination). If there is an early termination of the Swap Agreement and consequently an early redemption of the Notes occurs (by the operation of Condition 7(c) in the Master Conditions), there is no assurance that the net proceeds from the liquidation of the Mortgaged Property plus (if the termination payment is due to the Issuer) or minus (if the termination payment is due to the Swap Counterparty) such termination payment will be sufficient to repay the principal amount due to be paid in respect of the Notes and any other amounts in respect thereof that are due.

The termination payment following any such early termination of the Swap Agreement will be calculated and made in US dollars or such other currency as may be specified in the Swap Agreement. The amount of any termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Swap Agreement and 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 that would have the effect of preserving the economic equivalent of any payment or delivery obligations of the parties. Any such termination payment could be substantial.

Security Arrangements whilst the Underlying Securities are held in a Clearing System

As described in the section headed “Description of the Security Arrangements in respect of the Notes” on page 82 of this Programme Prospectus, a first fixed charge will be granted by the Issuer over its rights relating to any Underlying Securities, which is intended to create a property interest in the Underlying Securities in favour of the Trustee to secure the Issuer’s liabilities. However, unless otherwise described in the Issue Prospectus, the Underlying Securities will be held by or through the Custodian through a clearing system and the Underlying Securities will not be delivered in definitive form except in very limited circumstances and neither the Issuer nor the Custodian will be the holder of the Underlying Securities themselves. The interests which the Custodian holds on behalf of the Issuer and which are traded in the clearing system will not therefore be the physical Underlying Securities themselves but a number of contractual rights.

These rights consist of (i) the Issuer’s rights against the Custodian, (ii) the Custodian’s rights as an account holder against the relevant clearing system, (iii) the rights of the clearing system against the holder of the Underlying Securities in global form (being a depository for the relevant clearing system(s) or, if applicable, the nominee of such depository) and (iv) the rights of such depository or nominee against the issuer of the Underlying Securities. As a result, where and for so long as the Underlying Securities are held in a clearing system, the security will take the form of an assignment of the Issuer’s rights against the Custodian under the Agency Agreement, rather than a charge over the Underlying Securities themselves. Investors should appreciate that the Trustee’s rights in respect of the Underlying Securities will be limited to the above contractual rights, and that certain rights and remedies (including enforcement rights relating to charges) which may otherwise be available to a physical holder of the Underlying Securities will not be available to the Trustee (or the investors).

Liquidity of the Underlying Securities

If the security in respect of the Notes becomes enforceable for any reason and the Trustee takes steps to realise the security, the extent to which the claims of Noteholders will be met will depend in part on the amount of the net proceeds received by the Trustee in connection with the sale of the Underlying Securities. The price obtainable for the Underlying Securities will depend on the liquidity of the Underlying Securities. No assurance can be given by any of the Issuer, the Trustee or the Arranger as to any of these matters, or in respect of the amount of the liquidation proceeds of any other part of the Mortgaged Property.

Market, Liquidity and Yield Considerations; the Morgan Stanley Exchange Option; Sale Procedure

The Notes may not have an established trading market when issued. There can be no assurance of a secondary market for the Notes or the liquidity of such market if one

develops. Indeed, the Notes could be traded in the secondary market at prices that may be higher or lower than the initial subscription price or purchase price depending on many factors, including prevailing interest rates and prevailing interest rates expectations, the Issuer's perceived credit quality and the market for any similar securities. Consequently, you may not be able to sell your Notes readily or at prices that will enable you to realise a yield comparable to that of similar instruments (if any) with a developed secondary market.

The Issue Prospectus will describe the market making arrangements (if any) to be implemented in connection with an issue of Notes. If the Issue Prospectus discloses that a Market Agent intends to make a market in the Notes, it may not be under any obligation to do so, and in such case there can therefore be no assurance that it will do so, or if it does so, that it will continue to do so. Accordingly, there can be no assurance that members of the public or Noteholders will have access to a firm bid price or a firm offer price for Notes which they wish to purchase or sell. You are therefore advised to read the Issue Prospectus for a description of the circumstances in which you will be able to sell your Notes, or if applicable purchase further Notes, after the Issue Date.

The Notes will not be listed on any stock exchange and accordingly, investors will not have the option to buy or sell any Notes through a stock exchange platform. 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.

Unless otherwise disclosed in the applicable Issue Prospectus, Morgan Stanley & Co. International Limited will, in connection with each issue of Notes, be granted the Morgan Stanley Exchange Option, pursuant to which it will be granted the right, with respect to Notes that it beneficially owns, to exchange any or all of such Notes for a pro rata amount of the relevant Underlying Securities (if relevant, after converting the principal amount of such Notes into the currency of denomination of the Underlying Securities and/or rounding down such pro rata amount of the Underlying Securities to the nearest denomination of the Underlying Securities) from the Issuer. See the section headed "Summary of the Retail Note Programme — the Morgan Stanley Exchange Option" on page 20 of this Programme Prospectus for further details. If Morgan Stanley & Co. International Limited exercises the Morgan Stanley Exchange Option, on one or more occasions and in the circumstances described above, there will as a result of such exercise be a proportionate reduction in the principal amount of the Notes outstanding with effect from the date of such exercise. There can be no assurance that any such exercise and any such consequent reduction will not have an adverse effect on the liquidity of the market for the Notes and/or the market price of the Notes.

On any mandatory redemption of the Notes for any reason, the redemption monies payable to the Noteholders, and consequently the yield on the Notes, will depend in part on the proceeds of sale of the Underlying Securities in the over-the-counter market. The amount of such proceeds will depend on the liquidity of the Underlying Securities, as to which see "Liquidity of the Underlying Securities" in this section. Furthermore, prospective investors are also advised that the Calculation Agent (or such other party appointed for this purpose) may exercise its discretion pursuant to the sale of the Underlying Securities, including with respect to the identity of the parties from whom bids for the Underlying Securities may be solicited and the evaluation of these bids. There can be no assurance that the exercise of discretion by the Calculation Agent (or such other party, as the case may be) in either of these circumstances will not have an adverse effect on the yield realised in respect of the Notes.

Description of the Transaction Documents

The descriptions of the Master Conditions, the Swap Agreement and the Trust Deed contained in this Programme Prospectus are summaries only and investors in the Notes are deemed to have notice of all the provisions of such documents. The full text of these documents is or, as the case may be, will be available for inspection as set out under the section headed “General Information” on page 101 of this Programme Prospectus and in the relevant Issue Prospectus.

Programme Prospectus to be read together with Issue Prospectus; descriptions of the Programme and the Notes are summaries only

Notes will be offered from time to time under the Programme on the basis of the information set out in this Programme Prospectus and any addenda or supplement hereto, read together with the relevant Issue Prospectus to be issued by the Issuer in connection with each issue of Notes. Prospective investors will have to read the relevant Issue Prospectus together with this Programme Prospectus (and any addenda or supplement hereto) to obtain full details regarding an investment in the Notes.

The descriptions of the Programme and the Notes included in this Programme Prospectus and the relevant Issue Prospectus are summaries only. The full terms and conditions of the Notes can be reviewed by reading together the following: (i) the Master Conditions as set out in full in this Programme Prospectus in the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus which constitutes the basis of all Notes to be offered under the Programme, and (ii) the relevant Pricing Supplement (as summarised in the relevant Issue Prospectus) which applies, disapplies, supplements and/or amends the Master Conditions in the manner required to reflect the particular terms and conditions applicable to the relevant Series of Notes (or tranche thereof). It is expected that the relevant Pricing Supplement will be dated on or about the relevant Issue Date. Copies of the legal documentation relating to this Programme are available for inspection as described in paragraph 6 under the section headed “General Information” on page 101 of this Programme Prospectus. As and when a Series of Notes (or tranches thereof) is issued, copies of the relevant Pricing Supplement and the relevant Issue Prospectus will be available for inspection in the manner and form set out in the relevant Issue Prospectus.

The Notes are governed by English law and the courts of England have non-exclusive jurisdiction in respect of the Notes

The Notes are governed by English law and the courts of England will have non-exclusive jurisdiction in respect of disputes involving the Notes. English law may be materially different from the equivalent Hong Kong law in its application to the Notes. If prospective investors are in any doubt as to the implication of English law being the governing law in respect of the Notes and the courts of England having non-exclusive jurisdiction in respect of disputes involving the Notes, they should consult their solicitors and other professional advisers.

The Swap Guarantee is governed by New York law

The Swap Guarantee is governed by New York law and the courts of New York will have non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee. New York law may be materially different from the equivalent Hong Kong law in its application to the Swap Guarantee. 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 or the courts of New York having non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee, they should consult their solicitors and other professional advisers.

Tax consequences of holding the Notes

Prospective investors should consider the tax consequences of investing in the Notes and consult their tax adviser about their own tax situation.

Consequences of Non-availability of Definitive Notes or Individual Certificates in respect of Notes

Unless otherwise specified in the relevant Issue Prospectus, each Series of Notes will be in the form of one or more Global Notes or, as the case may be, Global Certificates, and no Definitive Notes or, as the case may be, Individual Certificates will be issued under any circumstances unless it becomes impractical, impossible or illegal to hold the Notes in global form. Your ability to pledge your interest in the Notes to any person who is not an accountholder at Euroclear or Clearstream, Luxembourg or any other relevant clearing system or otherwise to take action in respect of your interest, may be affected by the lack of any Definitive Notes or Individual Certificates in respect of any Series. The standard terms and conditions of the investment account of any of the Distributors may permit the Distributor to take a security interest in, or to impose other restrictions on, the Notes credited to the account or to exercise a lien, right of set off or similar claim against you in respect of monies held in any of your accounts maintained with it to secure any amounts which may be owing by you to it. See the section headed “Custody Arrangements with Distributors” on page 27 of this Programme Prospectus.

As a result of the custody arrangements with the Distributors and having to rely on your Distributor in the circumstances set out thereunder (in particular your exposure to the operational system of your Distributor for the relaying of notices to and from you and any relevant/appropriate party and the credit and debit of appropriate payments to and from your accounts held with it), you will be exposed to the credit risks and other default risks of your Distributor. The Issuer, the Arranger and the Paying Agent accept no responsibility for any failure or delay on the part of the Distributors in performing their contractual duties to you.

Exposure to the Underlying Securities where Underlying Securities consist of Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities

Where “Standard Underlying Securities” is specified to apply in the applicable Pricing Supplement, the Underlying Securities may consist of Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities. Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities are typically issued by thinly-capitalised special purpose companies established for the purpose of issuing one or more series of such securities. The only assets of an issuer of such debt securities are typically its issued share capital, transaction fees, if any, and those assets on which the relevant securities are secured, if any. Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities are usually limited recourse securities, and the claims against the issuer of such debt securities in respect of such debt securities are limited to the net proceeds from the realisation of the underlying collateral in respect of the relevant securities. Where the Underlying Securities consist of Synthetic

CDO Securities and/or CDO Squared Securities and/or Credit Commodity Linked Securities and/or Asset-Backed Securities, prospective investors should be aware that such debt securities are subject to a high degree of complex risks and prospective investors should appreciate that they may bear the risk that the market value of such debt securities may decline significantly, possibly to zero. Payments of interest and principal on such debt securities may be subordinated to the payment of certain other amounts payable by the relevant issuer to other parties under the terms of such debt securities.

Prospective investors should note that if the Underlying Securities consist of or include Synthetic CDO Securities, CDO Squared Securities or Credit Commodity Linked Securities, the market value of the Underlying Securities will, amongst other things, depend on the occurrence of credit events or potential credit events in respect of the reference entities to which such securities are linked.

Whether the principal amount of any Synthetic CDO Security is reduced or otherwise written down will depend on whether one or more credit events in respect of the underlying reference entities of such Synthetic CDO Security occur (and whether any other applicable conditions are satisfied) as well as whether any loss calculations in connection with such credit event(s) exceed any relevant threshold amount. Whether the payment of the principal amount of any Synthetic CDO Security is subject to any deferment beyond the scheduled maturity date of such Synthetic CDO Security will depend on whether one or more credit events in respect of the underlying reference entities of such Synthetic CDO Security occur (and whether any other applicable conditions are satisfied), in certain cases without reference to whether any loss calculations in connection with such credit event(s) exceed any relevant threshold amount.

Whether the principal amount of any CDO Squared Security or Credit Commodity Linked Securities is reduced or otherwise written down will depend on whether one or more credit events in respect of the underlying reference entities of the Synthetic CDO Securities referenced under such CDO Squared Security or Credit Commodity Linked Securities occur (and whether any other applicable conditions are satisfied) as well as whether any loss calculations in connection with such credit event(s) exceed any relevant threshold amount of such affected Synthetic CDO Securities referenced under such CDO Squared Security or Credit Commodity Linked Securities, and that of such CDO Squared Security or Credit Commodity Linked Securities. Whether the payment of the principal amount of any CDO Squared Security or Credit Commodity Linked Securities is subject to any deferment beyond the scheduled maturity date of such CDO Squared Security or Credit Commodity Linked Securities will depend on whether one or more credit events in respect of the underlying reference entities of the Synthetic CDO Securities referenced under such CDO Squared Security or Credit Commodity Linked Securities occur (and whether any other applicable conditions are satisfied), in certain cases without reference to whether any loss calculations in connection with such credit event(s) exceed any relevant threshold amounts.

Whilst the occurrence of credit events or potential credit events may not always lead to a reduction in, or deferment in the payment of, the principal amount of such Synthetic CDO Securities, CDO Squared Securities or Credit Commodity Linked Securities, it may nevertheless adversely affect the market value of the Underlying Securities. Further, in the event that the Underlying Securities are required to be sold or realised in accordance with the terms of the Notes and such Underlying Securities are at the time of such sale or realisation subject to any payment deferment, the market value of such Underlying

Securities may be substantially less than the market value of such Underlying Securities if such sale or realisation had taken place at a later point in time when such Underlying Securities are no longer subject to any such payment deferment, or as little as zero if there is no buyer for such Underlying Securities at such time.

Prospective investors should note that if the Underlying Securities consist of or include Asset-Backed Securities, or CDO Squared Securities or Credit Commodity Linked Securities which reference Asset-Backed Securities, the market value of the Underlying Securities will, amongst other things, depend on the ability of the underlying obligors of the relevant underlying assets of such Asset-Backed Securities to meet their obligations thereunder, and the cash flow generated by the underlying assets being sufficient to ensure payment when due, or at all, of principal and interest due on such Asset-Backed Securities. In the event that the underlying obligors default on their payment obligations under the relevant underlying assets of such Asset-Backed Securities, the issuer's ability to make payments on such Asset-Backed Securities when due may be adversely affected. This may have an adverse impact on the market value of the Asset-Backed Securities, or CDO Squared Securities or Credit Commodity Linked Securities, as the case may be.

Exposure to Underlying Securities consisting of Credit Commodity Linked Securities

Prospective investors should note that if the Underlying Securities consist of or include Credit Commodity Linked Securities, the market value of the Underlying Securities will, amongst other things, depend on the price level of the underlying commodities (constituting the portfolio of commodity risks of the debt security) on the relevant 'observation date' with respect to the price triggers set on the initial pricing date(s) through one or more commodity derivatives swaps which the issuer of such debt security has entered into with one or more counterparties. Please refer to the fourth 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" above for a description of the risks arising where Underlying Securities consist of Credit Commodity Linked Securities which reference Synthetic CDO Securities.

Prospective investors should note that commodity markets generally are subject to greater risks than other markets, including potentially significant legal risks. Commodities are often produced in emerging market countries, which are more exposed to the risk of swift political change and economic downturns than their industrialised counterparts, which may affect investor confidence and in turn have a negative impact on the value of commodities.

The price of commodities is highly volatile and may be influenced by, among other things, interest rates, changing market supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and U.S. and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention is often intended directly to influence prices and may, together with other factors, cause such markets to move rapidly.

Commodities may be difficult to buy or sell, particularly during adverse market conditions. This will affect the availability of quotations for the commodities underlying the Credit Commodity Linked Securities, which may in turn have an adverse effect on an investor's return on the Notes.

Discretion of the Issuer to invest in the Underlying Securities

Where “Standard Underlying Securities” is specified to apply in the applicable Pricing Supplement, the Issuer will use the proceeds received from the issue of the Notes to invest in Eligible Investments. The Determination Agent, acting for and on behalf of the Issuer, has the sole and absolute discretion to determine what assets will be invested in so long as such assets are Eligible Investments. Information about which Underlying Securities are to be invested in will not be available at the time investors decide to purchase the Notes and accordingly investors must be prepared to purchase the Notes on the terms only that the Underlying Securities will comprise of Eligible Investments.

Where “Standard Underlying Securities” is specified to apply in the applicable Pricing Supplement, the composition of the Underlying Securities may change if 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(s) 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 Cash Deposits or Liquidity Funds, 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 held in the account of the Issuer with the Custodian pending any reinvestment of such proceeds of redemption or repayment in Eligible Investments. Such account may or may not be interest bearing.

Whether such proceeds of redemption or repayment are reinvested in Eligible Investments and the identity of such Reinvested Eligible Investments will be determined by the Determination Agent in its sole and absolute discretion acting for and on behalf of the Issuer. If any such proceeds of redemption or repayment are not reinvested, the Underlying Securities or the relevant portion thereof will comprise of cash in the account of the Issuer with the Custodian (which may or may not be interest bearing). The composition of the Underlying Securities from time to time and the identity of any Reinvested Eligible Investments invested in will not be known to prospective investors when they commit to purchase the Notes.

Neither the redemption, in whole or in part, of any of the Original Underlying Securities or Reinvested Eligible Investments at 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 Cash Deposits or Liquidity Funds, redeemed or repaid for any reason whatsoever (as the case may be)) as described above nor the investment in Reinvested Eligible Investments using such proceeds of redemption or repayment 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, and this could have an adverse impact on the investors’ return of the investment in the Notes.

Credit Rating of the Underlying Securities

Where “Standard Underlying Securities” is specified to apply in the applicable Pricing Supplement, the, 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 have the requisite rating as specified in the definition of “Eligible Investments” on the date of investment therein (in other words, the Issue Date). Investors should note that such Original Underlying Securities’ credit rating(s) (or those of its issuer(s) or obligor(s)) (if any) may change after the Issue Date.

Where “Standard Underlying Securities” is specified to apply in the applicable Pricing Supplement, the Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion in certain circumstances reinvest the proceeds of redemption or repayment of Underlying Securities in Eligible Investments. Such Eligible Investments (or the issuer(s) or obligor(s) thereof) (other than Eligible Investments in the form of Cash Deposits) will have the requisite rating as specified in the definition of “Eligible Investments” on the date of investment. Investors should note that the Underlying Securities’ credit rating(s) (or those of its issuer(s) or obligor(s)) (if any) may change after the date of investment therein.

If the credit rating of any Underlying Securities (or the issuer(s) or obligor(s) thereof) falls, this could potentially affect the market value of the Underlying Securities, which may in turn have an adverse impact on the investors’ return of the investment in the Notes.

Risks Relating to the Issuer and other Transaction Parties

Special Purpose Company

The Issuer is a special purpose company established for the purpose of issuing multiple Series of secured Notes under the Programme. The Issuer is a thinly-capitalised entity whose only assets are its issued share capital and transaction fees and those assets on which each Series of Notes is secured. Should any unforeseen expenses or liabilities (which have not been provided for) arise, the Issuer may be unable to meet them, leading to an Event of Default under the Series of Notes.

There is no certainty that investors will recover any amounts payable under the Notes. Due to the “limited recourse” nature of the Notes, claims in respect of the Notes are limited to the net proceeds from the realisation of the Mortgaged Property (whether or not any Security granted in respect thereof has been enforced) (see the paragraph headed “Issuer’s Ability to Meet its Obligations Under the Notes — Limited Recourse” below). In addition, if a claim is brought against the Issuer (whether under statute, common law or otherwise) which is not subject to such contractual limited recourse provisions, the only assets available to meet such claim will be the issued share capital of the Issuer, being US\$250 and the transaction fees. The only other material assets of the Issuer will be the assets on which each Series of Notes is secured, which will be subject to the prior security interests of the Noteholders and any other secured parties under that Series of Notes.

Issuer’s Ability to Meet its Obligations Under the Notes — Limited Recourse

The Notes will be limited recourse obligations of the Issuer secured on the Mortgaged Property (including any Underlying Securities comprised therein) and are not or will not be (as the case may be) obligations or responsibilities of, or guaranteed by,

any other person or entity. **For the avoidance of doubt, none of the Trustee, the Arranger, the Issuer, the Swap Counterparty, the Swap Guarantor, the issuer or guarantor of any Underlying Securities and any other entity on whose condition the payments on the Notes are dependent has any obligation to any Noteholder or investor for payment of any amount by the Issuer in respect of the Notes. There is no guarantee from any entity to any Noteholders or investors that they will recover any amounts payable under the Notes.**

The ability of the Issuer to meet its obligations to pay principal of, and any interest or premium on, the Notes will be dependent on the receipt by, or on behalf of, the Issuer of moneys due to it under the Mortgaged Property (including any Underlying Securities comprised therein). The Noteholders or investors will have no recourse to the Issuer beyond the moneys derived by or on behalf of the Issuer in respect of the Mortgaged Property. To the extent therefore that the issuer and/or the guarantor (as appropriate) of any Underlying Securities fails to make payments in respect of the Underlying Securities held by the Issuer, the Issuer will have insufficient funds available to meet its obligations in respect of any Swap Agreement and/or the Notes. In such event, the Notes will mandatorily redeem and the Mortgaged Property will be realised and distributed in accordance with priorities specified in the Master Conditions. Any shortfall would be borne by the Noteholders in accordance with the priorities specified in the Master Conditions. See the section headed “Summary of the Retail Note Programme — Status of Notes” on page 13 of this Programme Prospectus for a description of such priorities.

Liability for the Obligations of Other Series

The Issuer has undertaken not to incur any obligation with respect to any other Series of Notes (including obligations with respect to any related swap arrangements) unless recourse in respect of such obligations is limited to the net proceeds of realisation of the Mortgaged Property in respect of the applicable Series of Notes and, if applicable, the enforcement of the security over the assets of the Issuer on which such obligations are secured (which assets will exclude the Mortgaged Property securing any other Series of Notes). To incur any such obligation with respect to any other Series of Notes would require the passing of an Extraordinary Resolution by the holders of the Notes. Nevertheless, to the extent there are any creditors of the Issuer whose recourse is not so limited, holders of the Notes of one Series may be exposed to risks incurred for the account of another Series.

Return on an investment in Notes will be affected by charges incurred by investors

The Issue Prospectus in respect of an issue of Notes will describe the interest, principal and other applicable payments which may be made under the relevant Notes. However, investors’ total return on an investment in any Notes will also be affected by fees charged by their Distributors or others. Fees may be charged by the Distributors for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Investors are therefore advised to consult their Distributors to ascertain the basis on which fees will be charged by the Distributors on their Notes.

Potential and Actual Conflicts of Interest between Noteholders and Morgan Stanley

Morgan Stanley and its subsidiaries and affiliates may, in connection with any issue of Notes, act in a number of capacities, including (without limitation), as Arranger, Initial Subscriber, Determination Agent, Swap Counterparty, Swap Guarantor and Market Agent. The economic interests of Morgan Stanley and/or its subsidiaries and affiliates in

each such capacity may be adverse to the interests of the Noteholders and potential and actual conflicts of interest may arise from the different roles played by Morgan Stanley and its subsidiaries and affiliates. As a result, Noteholders will be exposed not only to the credit risk of Morgan Stanley and/or its subsidiaries and affiliates, but also to the operational risks arising from the lack of independence of Morgan Stanley and/or its subsidiaries and affiliates in assuming their duties and obligations under the Notes and as potential provider of the hedging instrument.

In addition, Morgan Stanley and any of its subsidiaries and affiliates, in connection with their other business activities, may from time to time engage in business with or possess or acquire material information about the issuer or guarantor of any Underlying Securities or any other entity on whose condition the payments on the Notes are dependent (each, a “**Relevant Entity**”). Such activities and information may cause consequences adverse to the Noteholders. Such actions 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 any of its subsidiaries and affiliates have no obligation to disclose such information about any such Relevant Entity. Morgan Stanley and any of its subsidiaries and affiliates and its or their respective officers and directors may engage in any such activities without regard to the Notes of any Series or the effect that such activities may directly or indirectly have on any Note of any single Series and owe no duty to Noteholders to avoid such conflicts of interests.

Prospective investors should seek independent advice as they deem appropriate to evaluate the risk of these potential conflicts of interest. The Issuer, the Arranger, Initial Subscriber and Morgan Stanley owe no duty or responsibility to any investor in the Notes of any Series to avoid such conflicts.

MASTER TERMS AND CONDITIONS OF THE NOTES

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

The Notes (in global and definitive form) and related terms and conditions will be issued in the English language. Copies of the Trust Deed and Agency Agreement (each as defined below) will be available for inspection as set out in the section headed “General Information” on page 101.

The Notes are constituted and secured by a supplemental trust deed dated the Issue Date (the “**Supplemental Trust Deed**”) and made between the Issuer, the Trustee and, if applicable, the persons specified therein as a counterparty (each a “**Counterparty**”) and/or a derivatives counterparty (each a “**Derivatives Counterparty**”), which is supplemental to the trust deed (the “**Principal Trust Deed**”, which expression will include any amendments or supplements thereto) dated 30 August 2004 as amended or supplemented from time to time and made between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**”), which expression will include all persons for the time being acting as the trustee or trustees under the Trust Deed), as trustee for the holders of the Notes. The Principal Trust Deed and the Supplemental Trust Deed are referred to together as the “**Trust Deed**”. These Terms and Conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the agency agreement (the “**Agency Agreement**”, which expression includes any amendments or supplements thereto) dated 30 August 2004 as amended or supplemented from time to time and made between the Issuer, the Trustee and JPMorgan Chase Bank, N.A. as registrar (the “**Registrar**”), principal paying agent (the “**Principal Paying Agent**”), transfer agent and custodian (the “**Custodian**” which expression will include any substitute or additional Custodians appointed in accordance with the Agency Agreement) and the paying agents (the “**Paying Agents**”, which expression will include the Principal Paying Agent and any substitute or additional paying agents appointed in accordance with the Agency Agreement) and the transfer agents (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the “**Transfer Agents**”) named therein and JPMorgan Chase Bank, N.A. as calculation agent (the “**Calculation Agent**” which expression will include any substitute or additional Calculation Agent appointed in accordance with the Agency Agreement) and Morgan Stanley & Co. International Limited as determination agent (the “**Determination Agent**” which expression will include any substitute or additional Determination Agent appointed in accordance with the Agency Agreement), are available for inspection at the principal office of the Trustee, being the date hereof at Trinity Tower, 9 Thomas More Street, London E1W 1YT, United Kingdom and at the specified office of each of the Paying Agents. The Noteholders (as defined below), the holders of the interest coupons

(the “**Coupons**”) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the instalment receipts (the “**Receipts**”) appertaining to the payment of principal by instalments are deemed to have notice of, and will be bound by all of the provisions of, the Trust Deed and, to the extent applicable to them, the Agency Agreement insofar as they relate to the relevant Notes.

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

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

All capitalised items which are not defined in the Conditions will have the meanings given to them in the Principal Trust Deed and/or the relevant Supplemental Trust Deed. References in the Conditions to something as “shown” or “specified” will mean such matter as is specified in the relevant Supplemental Trust Deed.

1. Form, Denomination and Title

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

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

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

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

Title to the Bearer Notes and the Receipts, Coupons and Talons will pass by delivery. Title to the Registered Notes will pass by registration in the register which the Issuer will procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Receipt, Coupon or Talon will be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may

be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon will be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

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

2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) *Exchange of Exchangeable Bearer Notes:*

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

(b) *Transfer of Registered Notes:*

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

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes:*

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

(d) *Delivery of New Certificates:*

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

(e) *Exchange Free of Charge:*

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

(f) *Closed Periods:*

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

3. **Status, Collateral, Obligations and Non-applicability**

(a) *Status of Notes:*

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

(b) *Underlying Securities and Other Transactions:*

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

- (i) one or more letters of credit, guarantees, loan agreements evidencing loans advanced by the Issuer, options in favour of the Issuer or other credit support documents (each a “**Credit Support Document**”) made by a credit support provider (each a “**Credit Support Provider**”) in favour of the Issuer;
- (ii) one or more agreements (each an “**Underlying Agreement**”) between the Issuer and one or more persons (each a “**Counterparty**”) under which the Issuer may agree to buy or sell securities or enter into other contractual relations;
- (iii) one or more interest rate and/or currency exchange agreements or swaps or options or futures or other derivative contracts (each a “**Derivatives Contract**”) between the Issuer and one or more counterparties (each a “**Derivatives Counterparty**”);
- (iv) one or more stock borrowing agreements between the Issuer and one or more stock borrowers (each a “**Stock Borrower**”) (each a “**Stock Borrowing Agreement**”); and
- (v) one or more other agreements as may be specified in the relevant Supplemental Trust Deed (each a “**Contract**”),

each as further described in the Supplemental Trust Deed.

(c) *Collateral and Obligations:*

In these Conditions:

- (i) “**Collateral**” means the rights, title and interest (if any) of the Issuer in and under the Underlying Securities, each Credit Support Document, each Derivatives Contract, each Stock Borrowing Agreement, each Underlying Agreement and each Contract;
- (ii) “**Creditor**” means each person that is entitled to the benefit of Obligations;
- (iii) “**Obligations**” means the obligations and duties of the Issuer under the Trust Deed and each Note, Derivatives Contract, Contract and Underlying Agreement; and
- (iv) “**Obligor**” means each person that has an obligation to the Issuer pursuant to the Collateral.

Note: A summary of the terms of each Credit Support Document, Underlying Agreement, Derivatives Contract, Stock Borrowing Agreement and Contract (if any) will be set out in the relevant Issue Prospectus.

(d) *Non-applicability:*

Where no reference is made in the Supplemental Trust Deed to any Collateral or Obligation, references in these Conditions to any such Collateral or Obligation and to any related Obligor or Creditor, as the case may be, will not be applicable.

(e) *Standard Underlying Securities:*

Where the applicable Pricing Supplement for the Notes specifies that “Standard Underlying Securities” applies:

- (i) the Issuer shall, on the Issue Date (as specified) of the Notes, 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 relevant prevailing 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, the “**Original Underlying Securities**”);
- (ii) unless otherwise specified in the applicable Issue Prospectus, such Original Underlying Securities may consist of any one or more of the following (each an “**Eligible Investment**” and together “**Eligible Investments**”) as determined by the Determination Agent, acting for and on behalf of the Issuer, at its sole and absolute discretion:
 - (1) cash in the form of United States dollars held in a deposit account with a third party bank (which may or may not be interest bearing) (“**Cash Deposit**”); and/or
 - (2) any United States dollar denominated securities rated (or issued by an entity rated) at least “Aaa” or “P-1” by Moody’s Investors Service, Inc. or any successor to the rating business thereof (“**Moody’s**”) or at least “AAA” or “A-1” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof (“**S&P**”) or at least “AAA” or “F1” by Fitch Ratings or any successor to the rating business thereof (“**Fitch**”) that have a scheduled maturity date falling on or prior to the Scheduled Maturity Date (as specified) of the Notes, which may include Asset-Backed Securities, CDO Squared Securities, Credit Commodity Linked Securities and Synthetic CDO Securities, and which are not subject to any negative CreditWatch of S&P, on review for possible downgrade on Moody’s Watchlist or placed on “Rating Watch Negative” by Fitch, as applicable, at the time of its acquisition; and/or
 - (3) any United States dollar denominated Medium Term Notes rated at least “Aa2/P-1” by Moody’s or at least “AA/A-1” by S&P or at least “AA/F1” by Fitch that have a scheduled maturity date falling on or prior to the Scheduled Maturity Date (as specified) of the Notes, and which are not subject to any negative CreditWatch of S&P, on review for possible downgrade on Moody’s Watchlist or placed on “Rating Watch Negative” by Fitch, as applicable, at the time of its acquisition; and/or

- (4) any United States dollar denominated Commercial Paper or Certificate of Deposit rated at least “P-1” by Moody’s and/or at least “A-1” by S&P and/or at least “F1” by Fitch or issued by an entity rated at least “P-1” by Moody’s and/or at least “A-1” by S&P and/or at least “F1” by Fitch, that has a scheduled maturity date falling on or prior to the Scheduled Maturity Date (as specified) of the Notes and which is not subject to any negative CreditWatch of S&P, on review for possible downgrade on Moody’s Watchlist or placed on “Rating Watch Negative” by Fitch, as applicable, at the time of its acquisition; and/or
- (5) any USD denominated investment that is a money market fund or liquidity fund or similar investment vehicle that principally invests in short term fixed income obligations (“**Liquidity Fund**”), including, without limitation, any investment vehicle for which the Arranger, the Determination Agent, the Custodian or the Trustee, or an Affiliate of any of them, provides services, provided that at the time such investment is entered into, such fund has a money market fund rating of at least “Aaa/MR1+” by Moody’s and/or at least “AAAm” by S&P and/or at least AAA/V1+ by Fitch, and that such fund distributes interest or dividends on such investment on a regular basis and at least quarterly,

where:

“**Medium Term Note**” means a debt security issued by a corporate entity.

“**Asset-Backed Security**” means (a) a debt security where the holders of such debt security are (i) entitled to receive payments of interest and/or repayment of principal the timing and/or amount of which depend, amongst others, on the cash flow from a financial asset or a pool of financial assets, whether fixed, revolving or managed; or (ii) entitled to receive payments of interest and/or repayment of principal that are linked, directly or indirectly, to the credit worthiness of one or more obligors and/or value and/or price performance and/or cash flows of a financial asset or a pool of financial assets, whether fixed, revolving or managed (and whether or not such entitlement is also linked to other matters), and, in each case, that by its terms may pay an amount in cash to its holder within a finite time period, and/or with such other rights or assets designed to assure the servicing or timely distribution of proceeds to holders of the asset-backed securities; and (b) any other debt security which S&P and/or Moody’s and/or Fitch categorises as an asset-backed security.

“**CDO Squared Security**” means a debt security where the holders of such debt security are entitled to receive payments of interest and/or repayment of principal the timing and/or amount of which depend on, amongst other things, the credit worthiness of the underlying reference entities (constituting the portfolio of credit risks of each Synthetic CDO Security which is named as a reference obligation under such debt security) and/or the obligors, financial asset or pool of financial assets in respect of each Asset-Backed Security which is named as a reference obligation under such debt security.

“**Credit Commodity Linked Securities**” means a debt security where the holders of such debt security are entitled to receive payments of interest and/or repayment of principal the timing and/or amount of which depend on, amongst other things, (a) the creditworthiness of the underlying reference entities (constituting the portfolio of credit risks of each Synthetic CDO Security which is named as a reference obligation under such debt security); and/or (b) the obligors, financial asset or pool of financial assets in respect of each Asset-Backed Security which is named as a reference obligation under such debt security; and/or (c) the price level of the underlying commodities (constituting the portfolio of commodity risks of the debt security) on the relevant ‘observation date’ with respect to the price triggers set on the initial pricing date(s) through one or more commodity derivatives swaps which the issuer of such debt security has entered into with one or more counterparties. The commodities derivatives swaps containing the pre-set commodities price triggers, if struck, would require settlement under the commodities derivatives swaps which may result in losses in or delays in payment timing of principal and/or interest under such debt securities.

“**Synthetic CDO Security**” means a debt security where the holders of such debt security are entitled to receive payments of interest and/or repayment of principal the timing and/or amount of which depend on, amongst other things, the credit worthiness of a number of the underlying reference entities (constituting the portfolio of credit risks of the debt security) through one or more credit default swaps which the issuer of such debt security has entered into with one or more counterparties.

“**Commercial Paper**” means a short term secured or unsecured promise to repay a debt on a certain future date.

“**Certificate of Deposit**” means a negotiable bearer instrument evidencing a time deposit with a commercial bank.

- (iii) 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 Cash Deposits or Liquidity Funds, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity Date (as specified) of the Notes, 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 (the Eligible Investments which are so acquired, the “**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(s) of such Reinvested Eligible Investments (or, in the case of Reinvested Eligible Investments in the form of Cash Deposits or Liquidity Funds, redeemed or repaid for any reason whatsoever (as the case may be)) prior to the Scheduled Maturity

Date (as specified) of the Notes, 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. This process can be repeated any number of times if applicable. The expression “**Underlying Securities**” comprises the Original Underlying Securities, the Reinvested Eligible Investments and the proceeds of redemption or repayment in respect of the Original Underlying Securities and any Reinvested Eligible Investments;

- (iv) in the event that any of the Original Underlying Securities or any of the 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 as (or, in the case of Original Underlying Securities or Reinvested Eligible Investments in the form of Cash Deposits or Liquidity Funds, redeemed or repaid for any reason whatsoever (as the case may be)) described above, the Issuer will notify the Noteholders in accordance with Condition 16 of such redemption or repayment. The Issuer will notify the Noteholders in accordance with Condition 16 as soon as practicable after investing in Reinvested Eligible Investments of 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).

4. **Mortgaged Property**

(a) *Security:*

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

- (i) a first fixed charge or pledge in favour of the Trustee over the Underlying Securities and all the Issuer’s rights attaching to or relating to the Underlying Securities and all sums derived therefrom;
- (ii) an assignment by way of first fixed charge in favour of the Trustee all of the Issuer’s rights, title and interest against the Custodian and/or any sub-Custodian, to the extent that they relate to the Underlying Securities;
- (iii) an assignment by way of first fixed charge in favour of the Trustee of the Issuer’s rights, title and interest under each relevant Credit Support Document, Underlying Agreement, Stock Borrowing Agreement, Derivatives Contract, Secured Agreement and/or Contract and any sums received thereunder and any guarantee of any such contract;
- (iv) a first fixed charge in favour of the Trustee over (a) all sums held by the Principal Paying Agent and/or the Custodian and/or any sub-Custodian

and/or the Registrar to meet payments due in respect of the Notes and (b) any sums received under any relevant Credit Support Document, Underlying Agreement, Stock Borrowing Agreement, Secured Agreement, Derivatives Contract and/or other Contract; and

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

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

Unless otherwise specified in the Supplemental Trust Deed, the Underlying Securities will be held by the Custodian (which expression will include any additional or other Custodians from time to time appointed) on behalf of the Trustee subject to the charge referred to above. The Issuer reserves the right at any time with the prior written approval of the Trustee to change the Custodian. Notice of such change will be given to the Noteholders in accordance with Condition 16.

Under a declaration of trust dated 27 August 2004, Maples Finance Limited (the "**Share Trustee**") holds all the issued shares of the Issuer on trust for certain qualified charities.

(b) *Application of Proceeds:*

The Trustee will (subject to the provisions of the Supplemental Trust Deed and to Clauses 6.3 and 6.4 of the Principal Trust Deed) apply all moneys received by it under the provisions of the Trust Deed and the relevant Supplemental Trust Deed in connection with the realisation of the property the subject of the Security or enforcement of the Security as follows:

- (1) if "Derivatives Counterparty Priority" is specified:
 - (a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder and under 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 Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose will include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Underlying Securities);

- (c) thirdly, rateably in meeting the claims (if any) of the holders of Notes, Coupons and Receipts (which for this purpose will include any claim of the Principal Paying Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts); and
 - (d) fourthly, in payment of the balance (if any) to the Issuer.
- (2) if “Pari Passu Ranking” is specified:
 - (a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder and under 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 Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose will include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Underlying Securities) and the holders of Notes, Coupons and Receipts (which for this purpose will include any claim of the Principal Paying Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts); and
 - (c) thirdly, in payment of the balance (if any) to the Issuer.
- (3) if “Noteholder Priority” is specified:
 - (a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts hereunder and under 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 holders of Notes, Coupons and Receipts (which for this purpose will include any claim of the Principal Paying Agent for reimbursement in respect of payment of principal and interest made to holders of Notes, Coupons and Receipts);
 - (c) thirdly, rateably in meeting the claims (if any) of the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract (which for this purpose will include any claim of the Custodian for reimbursement in respect of payments made to the Counterparty and/or Derivatives Counterparty under each Underlying Agreement and/or Derivatives Contract and relating to sums receivable on the Underlying Securities); and
 - (d) fourthly, in payment of the balance (if any) to the Issuer.

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

(c) *Realisation of Security:*

If any security becomes enforceable, the Trustee may at its discretion and will:

- (i) if “Holder Request” is specified, on receipt of a request in writing by the holders of at least one-fifth in aggregate principal amount of the Notes then outstanding (as defined in the Trust Deed); or
- (ii) if “Extraordinary Resolution Direction” is specified, on receipt of a direction by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or
- (iii) if “Counterparty A Direction” is specified, and if sums are due to the Counterparty and/or Derivatives Counterparty and/or the Custodian the claims in respect of which are secured, on receipt of a direction in writing by any Counterparty or by any Derivatives Counterparty or by the Custodian (unless this would in the Trustee’s opinion be contrary to the interests of the holders of Notes, Coupons or Receipts, subject to Clauses 6.3 and 6.4 of the Principal Trust Deed); or
- (iv) if “Counterparty B Direction” is specified, and if sums are due to the Counterparty and/or Derivatives Counterparty and/or the Custodian the claims in respect of which are secured, on receipt of a direction in writing by any Counterparty or by any Derivatives Counterparty or by the Custodian,

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

(d) *Shortfall After Application of Proceeds:*

If the net proceeds of the realisation of the property the subject of the Security or the enforcement of the Security under paragraph (c) above (the “**Net Proceeds**”) are not sufficient to make all payments then due in respect of the Notes, the Coupons and the Receipts or claims of the Custodian and/or the Principal Paying Agent (if any) and for the Issuer to meet its obligations, if any, in respect of terminating the Underlying Agreement and/or Derivatives Contract (or a part of either of them), then

the obligations of the Issuer in respect of them will be limited to such Net Proceeds and the other assets of the Issuer (including, in the case of a mandatory partial redemption, the Underlying Securities other than the Repayable Assets and, in all cases, the assets on which any other obligations of the Issuer, are secured), will not be available for payment of any shortfall arising therefrom. Any such shortfall will be borne by the Noteholders and Couponholders and/or each Counterparty and/or each Derivatives Counterparty, the Trustee, the Custodian and the Principal Paying Agent according to the priorities specified in the Supplemental Trust Deed.

The Issuer will not be obliged to make any further payment in excess of the Net Proceeds and accordingly no debt will be owed by the Issuer in respect of any shortfall remaining after realisation of the security under this Condition 4 and application of the proceeds in accordance with the Trust Deed. None of the Trustee, the Counterparties, the Derivatives Counterparties, the Noteholders, the Custodian and the Principal Paying Agent may take any further action to recover such shortfall. Failure to make any payment in respect of any shortfall will in no circumstances constitute an Event of Default under Condition 10.

(e) *Substitution of Mortgaged Property:*

The Issuer may from time to time upon agreement with all the Noteholders or where the Trustee is satisfied that such substitution is not materially prejudicial to the interests of the Noteholders, upon written agreement with the Trustee, and, in either case, with the prior written consent of the Derivatives Counterparty or where so specified, with the prior written consent of only the Derivatives Counterparty, substitute alternative security for such of the Mortgaged Property as it may deem appropriate. Where the Derivatives Counterparty alone is to consent to such substitution, the Trustee will rely on the written consent of the Derivatives Counterparty without further investigation. Any such alternative Mortgaged Property will be held subject to the charges and security in favour of the Trustee as set out in the Supplemental Trust Deed and the Issuer will execute such further documentation as the Trustee may require as a condition to such substitution. If the Trustee agrees to the substitution, the Issuer will notify the Noteholders thereof in accordance with Condition 16.

5. **Restrictions**

So long as any of the Notes remains outstanding, the Issuer will not, without the consent of the Trustee or of the holders of the Notes of all Series or the relevant Series as the case may be, incur any other indebtedness for borrowed moneys or engage in any business (other than acquiring and holding the Mortgaged Property, issuing the Notes and entering into Non-Recourse Loans, acquiring, benefiting from or entering into any Credit Support Document, entering into any Underlying Agreement, any Stock Borrowing Agreement, and/or any Derivatives Contract or Contract and issuing further series of notes and entering into related transactions as described below), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed) or issue any shares (other than such shares as were in issue on 30 August 2004) or make any distribution to its shareholders.

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

- (a) secured (save in the case of such further notes forming a single series with the Notes) on assets of the Issuer other than (i) the Mortgaged Property securing another Series of Notes, (ii) the funds held from time to time by the Principal Paying Agent for payment of principal and interest on the Notes, (iii) the benefit of any Credit Support Document, Underlying Agreement and/or Derivatives Contract or Contract relating to the Notes, (iv) the assets on which any other obligations of the Issuer are secured and (v) the Issuer's share capital;
- (b) issued on terms in substantially the form contained in these Conditions which provide for the extinction of all claims in respect of such further notes and obligations or loans after application of the proceeds of the assets on which such further notes and obligations are secured and as confirmed by legal opinions (in respect of Cayman Islands and English law and any other relevant foreign law, as appropriate) in such form and with such content as will be satisfactory to the Trustee; and
- (c) in the case of such further notes forming a single series with the Notes, secured pari passu upon the Mortgaged Property and such further assets of the Issuer upon which such further notes are secured, all in accordance with Condition 15.

6. Interest and Other Calculations

(a) *Interest Rate and Accrual:*

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

Interest will cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date.

(b) *Business Day Convention:*

If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Relevant Business Day, then, if the Business Day Convention specified is (i) the Floating Rate Convention, such date will be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event (A) such date will be brought forward to the immediately preceding Relevant Business Day and (B) each subsequent such date will be the last Relevant Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date will be postponed to the next day which is a Relevant Business Day, (iii) the Modified Following Business Day Convention, such date will

be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event such date will be brought forward to the immediately preceding Relevant Business Day or (iv) the Preceding Business Day Convention, such date will be brought forward to the immediately preceding Relevant Business Day.

(c) *Interest Rate on Floating Rate Notes:*

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

- (i) if the Primary Source for the Floating Rate is a Page, subject as provided below, the Interest Rate will be:
 - (x) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (y) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

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

- (ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (i)(x) above applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (i)(y) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Interest Rate will be the arithmetic mean of the Relevant Rates which each of the Reference Banks is quoting to major banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and
- (iii) if paragraph (ii) above applies, and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Interest Rate will be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Relevant Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Relevant Currency or, if the Relevant Currency is Euro, in those member states that are participating in European economic and monetary union (the “**Euro-Zone**”) as selected by the Calculation Agent (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (x) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (y) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so

quoting to leading banks in the Principal Financial Centre, the Interest Rate will be the Interest Rate determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Interest Rate applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(d) *Interest Rate on Zero Coupon Notes:*

As from the Maturity Date, the Interest Rate for any overdue principal in respect of a Note the Interest Rate of which is specified to be Zero Coupon will be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 7(e)).

(e) *Margin, Maximum/Minimum Interest Rates, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:*

- (i) If any Margin or Rate Multiplier is specified (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment will be made to all Interest Rates, in the case of (x), or the Interest Rates for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (c) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified, then any Interest Rate, Instalment Amount or Redemption Amount will be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which will be rounded down to the nearest yen. For these purposes, "unit" means the lowest amount of such currency which is available as legal tender in the country of such currency.

(f) *Calculations:*

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

(g) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts:*

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

(h) *Determination or Calculation by Trustee:*

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

(i) *Definitions:*

In these Conditions, unless the context otherwise requires, the following defined terms will have the meanings set out below:

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

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

“**Business Day**” means:

- (i) in the case of a specified currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or
- (ii) in the case of Euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a specified currency and/or one or more specified financial centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the specified currency in the specified financial centre(s) or, if no currency is specified, generally in each of the financial centres so specified.

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

- (i) if “Actual/365” or “Actual/Actual - ISDA” is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day will not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February will not be considered to be lengthened to a 30-day month));
- (v) if “30E/360” or “Eurobond Basis” is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the

case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February will not be considered to be lengthened to a 30-day month); and

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

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

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

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

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

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

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

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

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

“**Page**” means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuter Monitor Money Rates

Service (“**Reuters**”) and the Dow Jones Telerate Service (“**Telerate**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

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

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

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

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

“**Relevant Date**” means, in respect of any Note, Receipt or Coupon, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 16 that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

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

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

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

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

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

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

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

(j) *Calculation Agent and Reference Banks:*

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

7. **Redemption, Purchase and Options**

(a) *Final Redemption:*

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

(b) *Mandatory Redemption:*

Unless otherwise specified, if any of the Underlying Securities forming part of the Mortgaged Property become or becomes capable of being declared repayable prior to their stated date of maturity for whatever reason or (unless the Trustee otherwise agrees) there is a payment default in respect of any of the Underlying Securities forming part of the Mortgaged Property, all such Underlying Securities together with some or all remaining Underlying Securities, as specified, forming part of the Mortgaged Property (which may or may not form obligations of the same person as those which have become repayable or in respect of which there has been such a payment default) will be deemed to have become repayable (the “**Repayable Assets**”). The Issuer will then forthwith give not more than 30 nor less than 15 days’

notice to the Trustee and the Noteholders and upon expiry of such notice will redeem each Note in whole or, as the case may be, in part on a pro rata basis in a proportion of its Redemption Amount equal to the proportion that the principal amount of the Repayable Assets which are the subject of such notice bears to the principal amount of the Underlying Securities forming part of the Mortgaged Property which have not, at the date of the giving of the notice, been the subject of that or any other such notice. Interest will continue to accrue on the part of the principal amount of Notes so redeemed until payment thereof has been made to the Trustee and notice is given in accordance with Condition 16 that such amount is available for payment. Failure to make any payment due in respect of a mandatory redemption under this Condition 7(b) of part of the principal amount of the Notes or interest thereon will not constitute an Event of Default under Condition 10.

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

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

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

If:

- (i) the Issuer, on the occasion of the next payment due in respect of the Notes, would be required by law to withhold or account for tax or would suffer tax in respect of its income so that it would be unable to make payment of the full amount due, then the Issuer will so inform the Trustee, and will use its best endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Trustee and the Derivatives Counterparties as the principal obligor and if it is unable to arrange such substitution before the next payment is due in respect of the Notes; and/or
- (ii) a Credit Support Document, an Underlying Agreement, a Derivatives Contract or a Contract is terminated in whole or in part for any reason; and/or
- (iii) a Credit Event occurs; and/or
- (iv) any other specified event occurs,

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

Notwithstanding the foregoing, if any of the taxes referred to in (c)(i) above arises (x) by reason of any Noteholder's connection with the Cayman Islands or

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

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

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

(d) *Purchases:*

The Issuer may only purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price, with the prior written consent of the Trustee.

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

- (i) The Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date, the Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 7(b) or 7(c) or upon it becoming due and payable as provided in Condition 10 will be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note will be the scheduled Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified, will be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it will be made on the basis of the Day Count Fraction shown.
- (iii) If the Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 7(b) or 7(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note will be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph will have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (as well after as before judgment) until the Relevant Date unless the Relevant

Date falls on or after the Maturity Date, in which case the amount due and payable will be the scheduled Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 6(d).

(f) *Redemption at the Option of the Issuer and Exercise of Issuer's Options:*

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

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

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

(g) *Redemption at the Option of Noteholders and Exercise of Noteholders' Options:*

If so specified, the Issuer will, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Redemption Amount together with interest accrued to the date fixed for redemption.

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

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

(h) *Redemption by Instalments:*

Unless previously redeemed, purchased and cancelled as provided in this Condition 7 or the relevant Instalment Date (being one of the dates so specified on the Notes) is extended pursuant to any Issuer's or Noteholders' Option in accordance with Condition 7(f) or (g), each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the specified Instalment Amount, whereupon the outstanding principal amount of such Note will be reduced for all purposes by the Instalment Amount.

(i) *Exchange Option:*

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

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

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

(j) *Cancellation:*

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

8. **Payments and Talons**

(a) *Bearer Notes:*

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

(b) *Registered Notes:*

- (i) Payments of principal (which for the purposes of this Condition 8(b) will include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 8(b) will include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register (or, if more than one person is shown in the Register in respect of one Certificate, to the first named person) at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of that currency.

(c) *Payments in the United States:*

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

(d) *Payments Subject to Law, etc:*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses will be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents:*

The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents, the Calculation Agent, the Determination Agent and the Custodian initially appointed by the Issuer and their respective specified offices will be specified in the Supplemental Trust Deed. The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents, the Calculation Agent, the Determination Agent and the Custodian act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar, the Transfer Agent, the Calculation Agent, the Determination Agent or the Custodian and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) a Paying Agent and, in relation to Registered Notes, a Transfer Agent having a specified office in Hong Kong, (vi) a Custodian and (vii) a Determination Agent where the Conditions so require one.

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

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 16.

(f) *Unmatured Coupons and Receipts and Unexchanged Talons:*

- (i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired

Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) If the relative Notes so provide, upon the due date for redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) will become void and no payment will be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) will become void and no Coupon will be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) will become void and no payment will be made in respect of them.
- (v) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption will be made only against the provisions of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Notes is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, will only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date will be payable on redemption on such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons:*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which have become void pursuant to Condition 9).

(h) *Non-Business Days*

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder will not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment.

In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as will be specified as “**Business Day Jurisdictions**” and:

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

9. Prescription

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

10. Events of Default

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

- (a) default is made by the Issuer for a period of 14 days or more in the case of interest payment 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 remedy in which case no such notice as is referred to in this paragraph will 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 is 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) will 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 will 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 will 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, reorganization, 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.

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

11. Enforcement

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

12. Taxation and Withholding

All payments of principal and/or interest by the Issuer in respect of the Notes and Coupons will be made subject to any withholding or deduction for, or on account of, any Cayman Islands or Jersey taxation. In the event of the imposition of any such taxes, the Issuer will, subject to the written consent of the Trustee, use all reasonable endeavours

to procure the substitution as principal debtor under the Trust Deed and the Notes of another company incorporated in another jurisdiction, or change its residence for taxation purposes, failing which it will redeem the Notes, subject to certain exceptions set out in Condition 7(c).

Note: Under Cayman Islands and Jersey laws existing as at the date of this Programme Prospectus, payments in respect of the Notes will not be subject to taxation in the Cayman Islands and Jersey and no withholding will be required on such payments to any holder of a Note.

13. Meeting of Noteholders; Modifications; Waiver; and Substitution

(a) *Meetings of Noteholders:*

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

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

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

(b) *Modification:*

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of these Conditions or any of the provisions of the Trust Deed, the relevant Underlying Agreement, the relevant Stock Borrowing Agreement, the relevant Derivatives Contract, the relevant Contract, the relevant Credit Support Document or the relevant Security Document which is (in the opinion of the Trustee) of a formal, minor or technical nature or to correct a manifest error, or which is (in the opinion of the Trustee) not materially prejudicial to the interests of the Noteholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 19 of Schedule 3 of the Principal Trust Deed. No other modification of these Conditions or any of the provisions of the Trust Deed, any Underlying Agreement, any Stock Borrowing Agreement, any Derivatives Contract, any Contract, any Credit Support Document or any Security Document may be made unless the consent of all Noteholders and Couponholders is obtained for such modification. Any such modification will, if the Trustee so requires, be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(c) *Waiver:*

The Trustee may, without the consent of the Noteholders or Couponholders and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, waive or authorise, on such terms as seem expedient to it, any breach or proposed breach by the Issuer of these Conditions, the Trust Deed, the relevant Underlying Agreement, the relevant Stock Borrowing Agreement, the relevant Derivatives Contract, the relevant Contract, the relevant Credit Support Document or the relevant Security Document, or determine that an Event of Default or Potential Event of Default shall not be treated as such, provided that the Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution. No such direction or request shall affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders. Any such modification will, if the Trustee so requires, be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(d) *Substitution:*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Noteholders or Couponholders, to the substitution of any other company in place of the Issuer or of any previous substituted company, as principal obligor under the Trust Deed and all of the Notes then outstanding. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders. Under the Trust Deed, the Trustee may require the Issuer to use its best endeavours to procure the substitution as principal obligor under the Trust Deed of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Notes.

(e) *Entitlement of the Trustee:*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee will have regard to the interests of the Noteholders as a class and will not have regard to the consequences of such exercise for individual Noteholders of such Notes or the Coupons, Receipts or Talons relating thereto and the Trustee will not be entitled to require, nor will any Noteholder or Couponholder be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders of such Notes, Coupons, Receipts or Talons.

14. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, at the specified office of the Principal Paying Agent in London (in the case of the Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders in accordance with Condition 16, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Further Issues**

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

16. Notices

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

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

So long as any Notes are represented by a Global Note or Global Certificate, and such Global Note or Global Certificate (as the case may be) is held on behalf of, or registered in the name of a nominee for, a clearing system, notices to the Noteholders of that Series may be given by delivery of the relevant notice to the relevant clearing system for communication to entitled accountholders in substitution for publication of the relevant notice or delivery of the relevant notice to the holder of the Notes (as the case may be).

17. Indemnification and Obligations of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including for the exercise of any voting rights in respect of the Mortgaged Property, for the sufficiency and enforceability (which the Trustee has not investigated) of the security created over the Mortgaged Property and for taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee and any affiliate is entitled to enter into business transactions with the Issuer, any issuer or guarantor (where applicable) of any of the Mortgaged Property, any Credit Support Provider, Counterparty or Derivatives Counterparty or any of their subsidiary, holding or associated companies without accounting to the Noteholders for profit resulting therefrom.

The Trustee is exempted from liability with respect to any loss or theft or reduction in value of the Mortgaged Property, from any obligation to insure or to procure the insuring of the Mortgaged Property and from any claim arising from the fact that the Mortgaged Property will be held in safe custody by the Custodian or any custodian selected by the Trustee (in each case, if applicable).

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

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

18. **Governing Law and Jurisdiction**

(a) *Governing Law:*

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons are governed by, and will be construed in accordance with, English law.

(b) *Jurisdiction:*

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

(c) *Agent for Service of Process:*

The Issuer irrevocably appoints Clifford Chance Secretaries Limited of 10 Upper Bank Street, London E14 5JJ, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on any of the Notes, the Receipts, the Coupons or the Talons.

19. **Contracts (Rights of Third Parties) Act 1999**

No person will have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, except where expressly provided otherwise.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Master Conditions in respect of the Notes, as set out in the section headed “Master Terms and Conditions of the Notes” commencing on page 42 of this Programme Prospectus, contemplate Notes issued pursuant to the Programme being issued in definitive form. However, the Notes will instead be represented on their issue by interests in a Global Note or (as the case may be) a Global Certificate, which will be deposited on the relevant Issue Date with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Due to the status of the Notes being in global form, definitive Notes will not be issued to Noteholders (except in the very limited circumstances described below). The following paragraphs summarise certain provisions relating to the Notes for so long as they are represented by interests in the Global Note or the Global Certificate.

Initial Issue of Notes

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) or registration of the Global Certificate in the name of Chase Nominees Limited, as nominee for JP Morgan Chase Bank, N.A. as Common Depositary on behalf of Euroclear and Clearstream, Luxembourg and the delivery of the Global Certificate to the Common Depositary on behalf of Euroclear and Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Issue Prospectus) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the registered holder of such Global Certificate, and in relation to all rights arising under the Global Note or the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg or such clearing system (as the case may be). Such persons will have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Note or the Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of the Global Note or the registered holder of the Global Certificate in respect of each amount so paid.

Exchange

The Global Note or, as the case may be, the Global Certificate will be exchangeable on or after its Exchange Date in whole but not in part for notes in definitive form (“**Definitive Notes**”) or certificates in definitive form (“**Individual Certificates**”):

- (1) by the Issuer giving notice to the Noteholders, the Principal Paying Agent or Registrar, as the case may be, and the Trustee of its intention to effect such exchange;
- (2) if an Event of Default (as defined in Condition 10 of the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus) has occurred and is continuing;
- (3) if the Issuer has been notified that both Euroclear or Clearstream, Luxembourg or any other relevant clearing system has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so; or
- (4) if the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes (represented by the Global Note or Global Certificate) in definitive form.

On or after any due date for exchange the holder of the Global Note or the Global Certificate may surrender such Global Note or Global Certificate. In exchange for the Global Note or the Global Certificate, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes and/or Individual Certificates. Definitive Notes and Individual Certificates will be printed in accordance with any applicable legal requirements in or substantially in the form set out in Schedule 2 Part A and Part B to the Principal Trust Deed respectively.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent or Registrar, as the case may be, is located and, except in the case of exchange pursuant to (3) above, in the cities in which Euroclear and/or Clearstream, Luxembourg and/or any other clearing system are located.

Amendments to Conditions

The Global Note or the Global Certificate and the Principal Trust Deed contain provisions that apply to the Notes that such Global Note or Global Certificate (as the case may be) represent or constitute, some of which modify the effect of the terms and conditions of the Notes set out in this Programme Prospectus. The following is a summary of certain of those provisions:

1. **Meetings.** The holder of the Notes represented by the Global Note or the Global Certificate will (unless the Global Note or the Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder’s holding, whether or not represented by a Global Certificate).

2. **Trustee's Powers.** In considering the interests of Noteholders while the Global Note is held on behalf of, or the Global Certificate is registered in the name of a nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or the Global Certificate.

DESCRIPTION OF THE ISSUER

General

The Issuer was registered and incorporated on 29 June 2004 under the Companies Law (2003 Revision) of the Cayman Islands, registered number MC-136537, and under the name Victoria Peak International Finance Limited. The Issuer has been incorporated for an indefinite period. The registered office of the Issuer is at PO Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The authorised share capital of the Issuer is US\$50,000 divided into 50,000 ordinary shares of par value US\$1.00 each, of which 250 ordinary shares have been issued (the “**Ordinary Shares**”). All of the issued shares are fully-paid and are in the legal ownership of Maples Finance Limited as share trustee (the “**Share Trustee**”) under the terms of a declaration of trust dated 27 August 2004 (the “**Declaration of Trust**”) under which the Share Trustee holds them on trust for certain qualified charities. Under the terms of the Declaration of Trust, the Share Trustee does not have power to dispose of or otherwise deal with the Ordinary Shares whilst any of the Notes remain outstanding. The Share Trustee will have no beneficial interest in and derive no benefit other than its fees for acting as Share Trustee from its holding of the Ordinary Shares. By the operation of the Declaration of Trust, the nature of the Issuer as a “special purpose vehicle” is preserved, by ensuring that the ultimate beneficial owner of the Issuer’s Ordinary Shares is wholly unrelated to the transactions contemplated by the Programme.

Business — Retail Note Programme

On 30 August 2004 the Issuer established its Retail Note Programme. Since 30 August 2004 the Issuer has issued Octave Series 1, Octave Series 2, Octave Series 3, Octave Series 5, Octave Series 6, Octave Series 7 and Octave Series 8 under the Programme.

Capitalisation and indebtedness of the Issuer

The authorised share capital of the Issuer is 50,000 ordinary shares of US\$1.00 par value each, of which 250 ordinary shares have been issued and are fully-paid up in cash.

As at the date of this Programme Prospectus the capitalisation amount of the Issuer is USD250.

As at the date of this Programme Prospectus, the Issuer does not have any outstanding bank overdrafts or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities.

Directors

The Directors of the Issuer as at the date of this Programme Prospectus are as follows:

Colin Borman
Liam Jones
Mark Wanless
Steven Wilderspin

The business address of the Directors is as follows:

Maples Finance Jersey Limited
2nd Floor, Le Masurier House,
La Rue Le Masurier, St Helier,
Jersey JE2 4YE, Channel Islands

Maples Finance Jersey Limited is the administrator of the Issuer. Its duties include the provision of certain management, administrative and related services. The appointment of the administrator may be terminated and the administrator may retire upon three months' notice subject to the appointment of an alternative administrator on similar terms to the existing administrator.

The Issuer has not established a place of business in Hong Kong.

Pursuant to article 121 of the Issuer's Articles of Association, the remuneration of the Directors will be determined by a resolution of the Directors. Pursuant to article 120, unless fixed by ordinary resolution of the Issuer, there is no share qualification for Directors. Unless otherwise disclosed in the relevant Issue Prospectus, the Directors will not have any interest in the Underlying Securities or any other assets of the Issuer forming part of the Mortgaged Property.

The Directors of the Issuer are independent from Morgan Stanley and its subsidiaries. Neither Morgan Stanley nor any of its subsidiaries or affiliates has any equity interest in, or any control over, the Issuer. **The Issuer's obligations are not guaranteed by Morgan Stanley or its subsidiaries.**

Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law to, and does not intend to, publish any financial statements.

DESCRIPTION OF THE SECURITY ARRANGEMENTS IN RESPECT OF THE NOTES

Introduction

The Notes will be secured, limited recourse obligations of the Issuer. The purpose of this section is to provide you with further information in respect of these important features of the Notes, which are included in the Master Conditions and the Trust Deed for the purpose of helping to protect your investment in the Notes. However, the following description is a summary only of certain aspects of the security arrangements and is subject in all respects to the terms of the Trust Deed and the Master Conditions, of which investors in Notes are deemed to have notice. Further details in respect of the security arrangements will be provided in the relevant Issue Prospectus. A copy of the Trust Deed is available for inspection as set out under the section headed “General Information” on page 101 of this Programme Prospectus.

The Issuer will, pursuant to the provisions of the Trust Deed (comprising (i) the Principal Trust Deed dated 30 August 2004 (as amended or supplemented from time to time) in relation to the Programme, and (ii) a Supplemental Trust Deed (to be dated the relevant Issue Date in respect of a Series of Notes)), grant the security described in the relevant Issue Prospectus to the Trustee as continuing security for the payment of all sums due under the Trust Deed and the Notes of that Series and the performance of its obligations under the Swap Agreement (if applicable). The Trustee will hold such security on behalf of itself, the Noteholders, the Custodian, the Swap Counterparty (if applicable) and the Principal Paying Agent.

Security Arrangements — Clearing System

The Security may include a first fixed charge over Underlying Securities which may be held by or through the Custodian through Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (each a “**clearing system**”). The charge is intended to create a property interest in the Underlying Securities in favour of the Trustee to secure the Issuer’s liabilities. However, unless otherwise stated in the relevant Issue Prospectus, the Underlying Securities will be held by or through the Custodian through a clearing system and the Underlying Securities will not be delivered in definitive form (except in limited circumstances applicable to the Underlying Securities). Consequently, neither the Issuer nor the Custodian will be the legal owner of the Underlying Securities themselves. The interests which the Custodian holds on behalf of the Issuer and which are traded in the clearing system are not therefore the physical Underlying Securities themselves but a series of contractual rights. These rights consist of (i) the Issuer’s rights against the Custodian, (ii) the Custodian’s rights as an accountholder against the clearing system, (iii) the rights of the clearing system against the common depository (or its nominee if the Underlying Securities are in registered form and are registered in the name of such nominee) and (iv) the rights of the common depository (or, if applicable, its nominee) against the issuer of the Underlying Securities. **As a result, where Underlying Securities are held in a clearing system the Security will take the form of an assignment of the Issuer’s rights against the Custodian under the Agency Agreement rather than a charge over the Underlying Securities themselves.**

Security becoming realisable or enforceable

Unless otherwise described in the relevant Issue Prospectus, the Security will become enforceable in circumstances including:

- if payment of principal in respect of the Notes is not made when due;
- on termination of the Swap Agreement (if any) with sums due to the Swap Counterparty;
- upon the occurrence of an Event of Default (as defined in Condition 10 of the section headed “Master Terms and Conditions of the Notes” on page 42 of this Programme Prospectus”; and
- in the other circumstances described in the Supplemental Trust Deed relating to the Notes.

In such circumstances and unless otherwise described in the Issue Prospectus, the Trustee may at its discretion and will if a direction in writing is given by the relevant party pursuant to Condition 4(c), realise the Underlying Securities and terminate the Swap Agreement (if any) in accordance with its terms.

Priority of Claims and Potential for Insufficient Security on Sale of Underlying Securities and/or on Enforcement

In the event that any Underlying Securities are required to be sold pursuant to the Master Conditions or the Security constituted by the Trust Deed becomes enforceable, the net sums realised could be insufficient to pay all the amounts due, amongst others, to the Noteholders under the Notes. Unless otherwise stated in the Issue Prospectus, the sums realised from any such sale of the Underlying Securities will be subject to deduction of the costs and expenses associated with such sale. In addition, all costs and expenses incurred by the Trustee in realising the Underlying Securities and, as the case may be, enforcing any Security will be deducted from the proceeds of such realisation or, as the case may be, enforcement before such proceeds are paid to, amongst others, the Noteholders. After realising the Underlying Securities and/or, as the case may be, taking action to enforce the Security as provided in the Master Conditions, the Trustee will not be entitled to take any further steps against the Issuer to recover any sum still unpaid and no debt will be owed by the Issuer in respect of such sum. In particular, no Noteholder or investor may petition or take any other step for the winding-up of the Issuer nor will any of them have any claim in respect of any sum over or in respect of any assets of the Issuer which are security for other liabilities of the Issuer.

As described under the section headed “Description of the Swap Agreement and the Swap Guarantee” on page 85, the Issuer has entered into the Master Agreement in connection with the establishment of the Programme. In connection with certain issues of Notes under the Programme (and as will be set out in the Issue Prospectus), the Issuer will collateralise its obligations under the relevant Swap Agreement by, amongst others, granting security to the Trustee over the relevant Underlying Securities pursuant to the Supplemental Trust Deed. Unless otherwise specified in the Issue Prospectus, the interest of the Swap Counterparty in the proceeds of realisation of the Mortgaged Property (together with the interests of the Trustee, the Custodian, the Principal Paying Agent and any Other Creditors) will rank prior to the interest of the Noteholders in the proceeds of

realisation of the Mortgaged Property. As a result, if the Swap Counterparty or Issuer defaults or either party is otherwise unable to perform its obligations under the Swap Agreement and the Swap Agreement is terminated prior to the Maturity Date of the Notes, the Mortgaged Property may be liquidated to satisfy the claims of the Swap Counterparty (and any Other Creditors), thereby reducing or eliminating the Mortgaged Property. Accordingly, there can be no assurance that the net proceeds, if any, realised from the liquidation of the Mortgaged Property or any enforcement of the Security for the Notes will be sufficient for the Noteholders to recover the principal of, and interest on, the Notes and any other amounts payable under the Notes.

Limited Recourse Provisions

The Trustee, the holders of the Notes, the Swap Counterparty and each of the Custodian and the Principal Paying Agent (in each case to the extent that their claims are secured) will have recourse only to the Mortgaged Property. If, the Trustee having realised the same, the net proceeds are insufficient for the Issuer to make all payments then due to all such parties, the obligations of the Issuer will be limited to such net proceeds of realisation and no other assets of the Issuer will be available to meet such shortfall; the Trustee, the Custodian, the Principal Paying Agent, the holders of Notes, the Swap Counterparty, or anyone acting on behalf of any of them will not be entitled to take any further steps against the Issuer to recover any further sum and no debt will be owed to any of such persons by the Issuer. Unless otherwise specified in the Issue Prospectus, the Swap Counterparty, the Trustee, the Custodian, the Principal Paying Agent and any Other Creditors will rank prior to the Noteholders in the application of all moneys received in connection with the realisation or enforcement of the security. In particular, none of the Trustee, the Custodian, the Principal Paying Agent, any holder of the Notes or the Swap Counterparty may petition or take any other step for the winding-up of the Issuer, and none of them will have any claim in respect of any sum arising in respect of the Mortgaged Property for any other Series.

DESCRIPTION OF THE SWAP AGREEMENT AND THE SWAP GUARANTEE

The following description is a summary only of certain aspects of the Swap Agreement and the Swap Guarantee and is subject in all respects to the terms of the Swap Agreement and the Swap Guarantee. Investors in the Notes are deemed to have notice of the terms of the Swap Agreement and 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, on pages 89 and 88 respectively of this Programme Prospectus. Capitalised terms used in this section and not defined elsewhere in this Programme Prospectus have the meanings given to them in the Swap Agreement.

You 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.

A copy of the Swap Agreement and the Swap Guarantee will be available for inspection in the circumstances set out in the section headed “General Information” on page 101 of this Programme Prospectus. The form of the Swap Guarantee executed by the Swap Guarantor is reproduced in Appendix B to this Programme Prospectus.

The Swap Agreement

The Issuer has entered into an ISDA Master Agreement (Multicurrency-Cross Border) and Schedule thereto dated as of or about 30 September 2004 with Morgan Stanley Capital Services Inc. as Swap Counterparty (the ISDA Master Agreement (Multicurrency-Cross Border) and the relevant Schedule, the “**Master Agreement**”) in connection with the establishment of the Programme. In connection with an issue of Notes under the Programme, the Issuer may execute one or more confirmations (each, a “**Confirmation**”) to a Master Agreement. Each Confirmation will have an effective date as of the relevant Issue Date in respect of the relevant Series of Notes. In respect of a relevant Series of Notes only, the relevant Confirmation(s), together with the Master Agreement, is (are) referred to in this Programme Prospectus as the “**Swap Agreement**”.

Execution by the Issuer of a Swap Agreement in connection with an issue of Notes, and the interest rate and currency swap and other arrangements as may be contemplated by the Swap Agreement, will enable the Issuer to make the payments scheduled to be made on a Series of Notes where the scheduled payments on the Underlying Securities forming part of the Mortgaged Property for such Series of Notes do not correspond with the payments due to be made on the Notes. A summary of the relevant Swap Agreement as it relates to a particular Series of Notes will be included in the relevant Issue Prospectus.

The Master Agreement is, and each Confirmation will be, governed by English law.

Termination of the Swap Agreement

The Swap Agreement will terminate on its Termination Date, unless it is terminated prior to that date on the occurrence of any of the following events (each, a “**Swap Termination Event**”):

- (a) at the election of the non-defaulting party upon an Event of Default under the terms of the Swap Agreement, including:
 - (i) the failure of the other party to make a payment or delivery when due and payable under the Swap Agreement;
 - (ii) the occurrence of certain insolvency-related events; and
 - (iii) non-compliance by the Swap Guarantor with any of its obligations under the Swap Guarantee or the ceasing of the Swap Guarantee to be in full force and effect; and
- (b) on the occurrence of certain Termination Events, including:
 - (i) it becoming illegal for either party to perform its obligations under the Swap Agreement or the Swap Guarantor to perform its obligations under the Swap Guarantee; and
 - (ii) when the Notes become due and payable (in whole but not in part) prior to their scheduled maturity date.

The Swap Agreement provides that neither the Issuer nor the Swap Counterparty will in any circumstances be under any obligation to pay to the other party any amount in respect of any liability for or on account of any Tax (as defined in the Swap Agreement). Accordingly, if any deduction or withholding is imposed on either party, the Swap Agreement may be terminated and if so terminated the Notes will become repayable as described below.

Upon any such early termination of the Swap Agreement, the Notes will become repayable in accordance with Condition 7(c) in the Master Conditions. Furthermore, the Issuer or the Swap Counterparty may be liable to make a termination payment (determined in accordance with the Swap Agreement) to the other (regardless, if applicable, of which of such parties may have caused such termination). There is no assurance that the liquidation proceeds of the relevant Mortgaged Property, including the proceeds from the sale of any Underlying Securities, plus (if such payment is owed to the Issuer) or minus (if such payment is owed by the Issuer) such termination payment will be sufficient to repay the principal amount due to be paid in respect of the Notes and any other amounts in respect thereof that are due.

As referred to above, the Issuer or the Swap Counterparty or the Swap Guarantor (as the case may be) may be liable to make a termination payment to the other. The termination payment will be calculated and made in US dollars or such other currency as a particular Series is issued in. The amount of any termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Swap Agreement and 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.

The Swap Guarantee

In connection with the entry into by the Issuer and the Swap Counterparty of a Master Agreement, Morgan Stanley as Swap Guarantor has executed a swap guarantee dated 30 September 2004 (the “**Swap Guarantee**”). The form of the Swap Guarantee executed by the Swap Guarantor is reproduced in Appendix B to this Programme Prospectus.

Pursuant to the provisions of the Swap Guarantee, the Swap Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of all amounts payable by the Swap Counterparty to the Issuer under each Swap Agreement. If the Swap Counterparty does indeed fail punctually to pay any such amounts, the Swap Guarantor will agree, upon written demand by the Issuer, to pay or cause to be paid any such amounts punctually when and as the same will become due and payable.

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 each Swap Agreement. It is not a guarantee in respect of the Notes. Upon any early termination of the Swap Agreement as described under “Termination of the Swap Agreement” above, the obligation of the Swap Guarantor will solely be to guarantee the due and punctual payment by the Swap Counterparty of the termination payment (if any) due from the Swap Counterparty to the Issuer thereunder.

The Swap Guarantee is governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF MORGAN STANLEY

It is expected that Morgan Stanley will act as guarantor of obligations in respect of certain swap and/or other derivative arrangements entered into by the Issuer and Morgan Stanley's affiliates and/or subsidiaries in connection with certain specified issues of Notes under the Programme. It may act as Swap Guarantor under the Swap Guarantee (where the Issuer enters into a Swap Agreement) or otherwise. Each Issue Prospectus will describe any such capacity in which Morgan Stanley is to act.

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its various business segments.

Morgan Stanley's common stock is listed on the New York Stock Exchange, Inc. and the Pacific Exchange and its principal executive offices are at 1585 Broadway, New York, New York 10036. It is incorporated under the laws of the State of Delaware in the United States of America.

Morgan Stanley is subject to the information and reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, and is required to file its Annual Reports on Form 10-K following the end of each of its fiscal years and its Quarterly Reports on Form 10-Q following the end of each of its quarterly interim financial periods with the U.S. Securities and Exchange Commission (the "SEC"). All filings are made in English and are not available in Chinese. Morgan Stanley's electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

Please refer to the section headed "References to websites" on page 6 of this Programme Prospectus for a warning statement and a disclaimer relating to the usage of information contained in websites referred to above.

DESCRIPTION OF MORGAN STANLEY CAPITAL SERVICES INC.

Morgan Stanley Capital Services Inc. is a Swap Counterparty pursuant to the Programme. Each Issue Prospectus will state whether or not the Issuer is to enter into a Swap Agreement with a Swap Counterparty in connection with the relevant issue of Notes.

General

Morgan Stanley Capital Services Inc. (“MSCS”) was incorporated in the State of Delaware in 1985 and has its registered office at Corporate Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware in the United States of America. MSCS is a wholly-owned subsidiary of Morgan Stanley. The primary business of MSCS is entering into over-the-counter derivative contracts with institutional clients. The principal executive offices of MSCS are at 1585 Broadway, New York, New York 10036 in the United States of America.

MSCS is a Swap Counterparty pursuant to the Programme. See the section headed “Description of the Swap Agreement and the Swap Guarantee” on page 85 of this Programme Prospectus for further details. **The Notes will not be obligations of and will not be guaranteed by MSCS.**

**DESCRIPTION OF MORGAN STANLEY & CO. INTERNATIONAL LIMITED
(THE ARRANGER AND THE DETERMINATION AGENT)**

Each of the Arranger and the Determination Agent is Morgan Stanley & Co. International Limited (“MSIL”). MSIL was incorporated under the laws of England and Wales on 28 October 1986 and has its registered offices at 25 Cabot Square, Canary Wharf, London E14 4QA. MSIL is a wholly owned subsidiary of Morgan Stanley. The principal activity of MSIL is the provision of financial services to corporations, governments, financial institutions and individual investors. It is authorised and regulated by the Financial Services Authority in the United Kingdom.

MSIL, acting in its capacity as the Arranger of the Programme, has arranged for the establishment of the Programme. In circumstances where MSIL is acting in its capacity as Arranger in respect of a Series of Notes, it will pursuant to the Proposals and Advice Agreement provide the Issuer with the proposed terms of such Series of Notes and, upon the request of the Issuer, give advice to the Issuer in relation to the Programme. Pursuant to the Master Conditions and the Agency Agreement, MSIL as the Determination Agent will determine whether certain specified events (including but not limited to a Company or Sovereign Credit Event or a Mandatory Redemption Event (as each such term may be used and defined in the relevant Issue Prospectus)) have occurred in respect of the Notes and make certain payment determinations (in respect of, including but not limited to, certain redemption amounts) in connection with the Notes.

DESCRIPTION OF JPMORGAN CHASE BANK, N.A. (THE PRINCIPAL PAYING AGENT, THE CALCULATION AGENT AND THE CUSTODIAN)

Each of the Principal Paying Agent, the Calculation Agent and the Custodian is JPMorgan Chase Bank, N.A. (“**Chase**”). Chase is regulated by the Federal Reserve Bank of New York and the State of New York. Accordingly, Chase is examined annually by examiners from both these regulators and is required to adhere to the relevant US regulations. The Federal Reserve Bank is responsible for the prudential supervision of Chase. In the United Kingdom, Chase has been authorised to accept deposits, and is regulated by, the Financial Services Authority (the “**FSA**”). In addition, Chase is regulated by the FSA in relation to the conduct of investment business.

JPMorgan Chase & Co. (“**JPMorgan**”), the parent company of Chase, has entered into an agreement with The Bank of New York Company, Inc. (“**BNY**”) pursuant to which JPMorgan intends to exchange select portions of its corporate trust business, including municipal, corporate and structured finance trusteeships and agency appointments, for BNY’s consumer, small-business and middle-market banking businesses. This transaction has been approved by both companies’ boards of directors and is subject to regulatory approvals. It is expected to close in the late third quarter or fourth quarter of 2006.

Pursuant to the Master Conditions and the Agency Agreement, (i) the Principal Paying Agent will be responsible for making any payment of principal, interest or redemption amount to the Noteholders and carrying out certain administrative duties incidental to such functions; (ii) the Calculation Agent will be responsible for the calculation of certain rates and amounts in relation to the Notes; and (iii) the Custodian will be responsible for holding the Underlying Securities in respect of the Notes in favour of the Trustee.

SETTLEMENT, CLEARANCE AND CUSTODY

Holding of the Notes through a clearing system: Settlement and Clearance of the Notes within Euroclear and Clearstream, Luxembourg

The Notes are expected to be held through Euroclear and Clearstream, Luxembourg, two large international clearing systems for securities. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. If the Notes are held through any clearing system other than Euroclear and Clearstream, Luxembourg, details of the settlement, clearing and custody arrangements for such Notes within such clearing system will be specified in the relevant Issue Prospectus.

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Beneficial ownership in Notes will be held through financial institutions, such as the Distributors, as direct or indirect participants in Euroclear and Clearstream, Luxembourg. Euroclear or Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Global Notes or Global Certificates will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Notes.

The Issuer will not impose any fees in respect of the Notes. However, holders of book-entry interests in the Global Notes or Global Certificates may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg. **The Distributors may charge holders of Notes a fee for providing such custodian and other services, as further described under “Custody Arrangements” below.**

Selling the Notes through a clearing system: Trading between Euroclear and/or Clearstream, Luxembourg participants

Investors should note that they are required to bear all the fees and charges for custodial, transfer and clearing services charged by the relevant clearing system and/or the Distributors for the holding, transfer or redemption of the Notes. Investors should contact the Distributors for further details of these fees and charges.

Secondary market sales of book-entry interests in the Global Notes or Global Certificates will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg. Neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Arranger, the Distributors or the Trustee will have any responsibility for the performance by Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Custody Arrangements

Because the Global Notes will be deposited with, and the Global Certificates representing the Notes will be registered in the name of a nominee for, the common depository for Euroclear and Clearstream, Luxembourg and further because settlement and clearance facilities will be provided by Euroclear and/or Clearstream, Luxembourg, prospective investors must make arrangements for their Notes to be held in custody with an accountholder (or indirect accountholder) of Euroclear or Clearstream, Luxembourg, as the case may be. On issue, Notes will be subscribed by the Initial Subscriber and will be sold and delivered by the Initial Subscriber to the Distributors. In order to apply for Notes you must have, or open, an investment account and a cash account with the Distributor to which you give your application instructions, each of which will be an accountholder (or indirect accountholder) of Euroclear or Clearstream, Luxembourg or otherwise have existing arrangements in place for the Notes to be held in custody with an accountholder (or indirect accountholder) of Euroclear and Clearstream, Luxembourg. The Distributors may charge a fee for the opening and operation of the investment account. Most banks and securities dealers in Hong Kong maintain, or have access to, an account with Euroclear and Clearstream, Luxembourg through which Notes may be held or transferred following issue.

Investment account and other custodian arrangements with respect to the Notes will be supplied by the Distributors (or other custody provider) subject to their standard terms and conditions for the provision of such services. None of the Issuer, the Arranger or the Trustee accepts any responsibility for the provision of such services or for any consequences of, or arising from, the use of such investment account or custody services.

See the section headed “Custody Arrangements with Distributors” on page 27 for certain additional important points about opening, and holding your Notes in, an investment account.

The Issuer will not be liable for the failure of (i) the common depository for Euroclear and Clearstream, Luxembourg to pay any Distributors, and (ii) any Distributor to pay the ultimate investors once payment has been made by the Issuer to the common depository for Euroclear and Clearstream, Luxembourg (for a further description, please refer to the section headed “Risk Factors” on page 29 of this Programme Prospectus).

TAXATION

The following summary of certain taxation provisions under Hong Kong, Cayman Islands and Jersey law is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Investors (particularly those subject to special tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

HONG KONG

Withholding Tax

Under existing Hong Kong law, payments of principal (including premia and discounts) and interest in respect of the Notes will be payable without withholding for or on account of any Hong Kong taxes.

Profits Tax

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

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

- a financial institution (as defined in the Inland Revenue Ordinance) and such interest arises through or from the carrying on by the financial institution of its business in Hong Kong;
- a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business.

In addition, Hong Kong profits tax may be chargeable on profits arising on the sale, disposal or redemption of Notes where such sale, disposal or redemption are or form part of a trade, profession or business carried on in Hong Kong.

If you are in any doubt as to whether you are carrying on a trade, profession or business in Hong Kong you should contact your own tax adviser.

Capital Gains Tax

No capital gains tax is currently levied in Hong Kong.

Estate Duty

No estate duty is levied in Hong Kong on a person who died on or after 11 February 2006.

Stamp Duty

Stamp duty is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue if the Bearer Notes are issued in Hong Kong, unless:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

The Issue Prospectus in respect of any Notes will disclose whether or not any stamp duty is payable on the issue or subsequent transfer of the Notes, and the manner in which such stamp duty will be payable. In addition, the Issue Prospectus in respect of any Notes the terms and conditions of which provide for the physical delivery of shares on redemption of the Notes will include details of any stamp duty payable on such physical delivery and the amount of such stamp duty payable by the relevant investor.

THE CAYMAN ISLANDS

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Issuer or any holder of Notes. Accordingly, payment of principal (including any premium) and interest on, and any transfer of, the Notes will not be

subject to taxation in the Cayman Islands, no Cayman Islands withholding tax will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands capital gains tax. The Cayman Islands are not party to any double taxation treaties.

The Issuer has obtained an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands (the “**Tax Concessions Law**”), for a period of 20 years from 13 July 2004, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation will apply to the Issuer or its operations and that neither the aforesaid tax nor any tax in the nature of estate duty or inheritance tax will be payable on the shares, debentures or other obligations of the Issuer or by way of withholding of any relevant payment (as defined in the Tax Concessions Law).

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25% of the face amount thereof is payable on each Note (up to a maximum of C.I.\$250 (approximately US\$305)) unless stamp duty of C.I.\$500 (approximately US\$610) has been paid in respect of the entire issue of Notes. An instrument of transfer in respect of a Note if executed in or brought within the jurisdiction of the Cayman Islands will attract a Cayman Islands stamp duty at C.I.\$100 (approximately US\$122).

JERSEY

The Issuer is deemed to be tax resident in Jersey by virtue of having board level control in Jersey. As a result, the Issuer has applied for and expects to be granted “Exempt Company” status. Jersey law provides that an Exempt Company will be:

- (i) treated for all purposes of the income tax law as not resident in Jersey; and
- (ii) exempt from income tax on the profits of a trade, unless that trade is carried on through “an established place of business” in Jersey.

Holders of Notes (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of Notes. Interest on the Notes may be paid by the Issuer without withholding or deduction for or on account of Jersey income tax.

To maintain Exempt Company status, the Issuer must make an annual filing electing such status and pay an exempt company fee currently levied at £600 per annum. Maples Finance Jersey Limited has agreed to make such filing and payment annually so as to maintain such Exempt Company status. In addition, the Issuer is prohibited from offering or selling securities to be purchased or held by persons resident for income tax purposes in Jersey.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale or other disposition of Notes.

On 3 June 2003, the European Union (“EU”) Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation with the States of Jersey. Jersey is not a member of the EU but the Policy and

Resources Committee of the State of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by the end of 2008 with a general zero rate of corporate tax. It is intended that the new corporate tax will preserve tax neutrality (and so retain the existing benefits of the exempt company regime through a revised fiscal structure). Unlike the exempt company regime, it is anticipated that the new regime will not require an annual application/election of the payment of any sum by the relevant company to acquire or maintain "exempt company" status.

SUBSCRIPTION AND SALE

Subscription of the Notes

Morgan Stanley & Co. International Limited as Initial Subscriber will subscribe for the entire issue of the Notes on the relevant Issue Date. The Initial Subscriber, the Arranger and any Market Agent will enter into arrangements with one or more Distributors to be appointed in connection with each issue of Notes for the purpose of the on-sale of the Notes to prospective investors. If you wish to purchase any Notes as part of their offering pursuant to this Programme Prospectus and any Issue Prospectus, you must contact one of the Distributors.

In consideration for the on-sale arrangements referred to above, certain commissions will be paid by the Initial Subscriber to the Distributors. Such commissions will be calculated by reference to the amount of Notes on-sold by the Distributor to investors in the Notes. The Arranger, the Initial Subscriber and any Market Agent will procure that each Distributor will undertake to comply with the selling restrictions described below. On issue, the Notes will be sold and delivered by the Initial Subscriber to the Distributors and will only be sold and delivered to investors by the Distributors and only through the clearing systems of Euroclear and Clearstream, Luxembourg and/or any other clearing system as may be specified in the relevant Issue Prospectus. In order to purchase Notes, an investor must have, or open, an investment account and a cash account with a Distributor or otherwise have existing arrangements in place for the Notes to be held in custody with an accountholder (or indirect accountholder) of Euroclear and Clearstream, Luxembourg and/or the relevant clearing system. See the section headed “Settlement, Clearance and Custody” on page 92.

The identities and respective contact details of the Distributors will be included in the relevant Issue Prospectus and will also be made available to prospective investors upon request at the offices of the Arranger’s agent in Hong Kong (the address of which is set out on page 5 of this Programme Prospectus) during normal business hours on any day (Saturdays, Sundays and public holidays excepted) for so long as any Notes remain outstanding. See “Application Procedures” in the section headed “Summary of the Retail Note Programme” on page 18 for further details.

Selling Restrictions

General

No action has been or is currently intended to be taken in any jurisdiction by the Issuer, the Arranger, the Initial Subscriber, any Market Agent or any Distributor that would permit a public offering of any of the Notes, or possession or distribution of this Programme Prospectus or any Issue Prospectus or any part thereof, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required (other than Hong Kong). Each of the Issuer, the Arranger, the Initial Subscriber, any Market Agent and the Distributors will not offer or sell any Notes and will not distribute this Programme Prospectus or any Issue Prospectus or any part thereof or any other offering or publicity material relating to the Notes, outside Hong Kong, except in accordance with all applicable laws and regulations in the relevant jurisdiction.

United States of America

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States. In addition, the Issuer has not been and will not be registered as an investment company under the Investment Company Act of 1940. Accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from the registration requirements of the Securities Act.

Each of the Arranger, the Initial Subscriber and any Market Agent will, and will procure that each Distributor will, represent and agree that, it has offered and sold the Notes and will offer and sell the Notes as part of their distribution at any time only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

United Kingdom

Each of the Arranger, the Initial Subscriber and any Market Agent will, and will procure that each Distributor will, represent, warrant and agree that:

- (i) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each of the Arranger, the Initial Subscriber and any Market Agent will, and will procure that each Distributor will, represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the

“**Relevant Implementation Date**”) it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Cayman Islands

Each of the Arranger, the Initial Subscriber and any Market Agent will, and will procure that each Distributor will, agree that no invitation may be made either directly or indirectly to the public in the Cayman Islands to subscribe for or purchase the Notes of any Series unless at the time of such invitation the Issuer is listed on the Cayman Islands Stock Exchange.

Jersey

Each of the Arranger, the Initial Subscriber and any Market Agent will, and will procure that each Distributor will, agree that no invitation may be made directly or indirectly to the public in Jersey to subscribe for or purchase the Notes of any Series.

GENERAL INFORMATION

1. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the establishment of the Programme. The establishment of the Programme was authorised by resolutions of the board of directors of the Issuer passed on 27 August 2004. The Issuer has obtained or will obtain all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes issued by it.
2. Other than the issue of Octave Series 1, Octave Series 2, Octave Series 3, Octave Series 5, Octave Series 6, Octave Series 7 and Octave Series 8 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.
3. The Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes and, so far as the Issuer is aware, no such litigation or arbitration is pending or threatened.
4. Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
5. Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number (“**ISIN**”) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes (or details of how to obtain such information) will be set out in the relevant Issue Prospectus.
6. For so long as any Notes remain outstanding, the following documents will be available (in respect of paragraphs 6.6 and 6.9 below, only with effect from the date of the relevant document), 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 5 of this Programme Prospectus:
 - 6.1 the Principal Trust Deed (as defined and more particularly described on page 42 above, and which includes the form of the Global Notes, the Definitive Notes, the Global Certificates, the Individual Certificates, the Coupons, the Receipts and the Talons);
 - 6.2 the Agency Agreement (as defined and more particularly described on page 42 above);
 - 6.3 the Proposals and Advice Agreement (as defined and more particularly described on page 8 above);
 - 6.4 the Memorandum and Articles of Association of the Issuer and the Companies Law (2003 Revision) of the Cayman Islands;
 - 6.5 a copy of this Programme Prospectus and (with effect from the date thereof) any addenda hereto;

- 6.6 a copy of the relevant Issue Prospectus and any supplements thereto, the Pricing Supplement, the Subscription Agreement (if any) and the related Supplemental Trust Deed, Global Note or Global Certificate, Securities Agreement, Contract and/or Credit Support Document and information relating to the Underlying Securities (if any) forming part of the Mortgaged Property for the relevant Series of Notes;
 - 6.7 the Master Agreement (as defined and more particularly described on page 85 above) and the Swap Guarantee (as defined and more particularly described on page 87 above);
 - 6.8 the Declaration of Trust (as defined and more particularly described on page 80 above); and
 - 6.9 a copy of any notice given by the Issuer in respect of the Notes pursuant to the Master Conditions.
7. This Programme Prospectus has been registered with the Registrar of Companies in Hong Kong.
 8. The Issuer has not published, and is not required by Cayman Islands law to publish, any financial statements. The Trust Deed requires the Issuer to provide written confirmation to the Trustee, on an annual basis, that no event of default nor other matter which is required to be brought to the Trustee's attention has occurred.
 9. No person has, or is entitled to be given, an option to subscribe for shares or debentures of the Issuer.
 10. No shares or debentures of the Issuer have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash within the two preceding years.
 11. The articles of association of the Issuer provide that the Directors of the Issuer may exercise all the powers of the Issuer to borrow money for the purposes of the Issuer. Such powers of the Directors may be exercised without limit and upon such terms as the Directors think fit.
 12. 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.
 13. No application form or purchase order form will be issued for the Notes. To the extent that Section 40 applies to this Programme Prospectus and the relevant Issue Prospectus by virtue of Section 342E of the Companies Ordinance, Section 40 of the Companies Ordinance 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.
 14. This Programme Prospectus and the relevant Issue Prospectus will 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.

15. Section 342(1) of the Companies Ordinance prescribes the information required to be contained in a prospectus. Such required information must be contained in this Programme Prospectus unless the provision of such information is either exempted or not applicable. A certificate of exemption in respect of the Issuer relating to this 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 this Programme Prospectus, but will only be issued pursuant to the relevant Issue Prospectus read in conjunction with this 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 this 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 this Programme Prospectus has been prepared and on the condition that both the English and Chinese language versions of this 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 ("**Third Schedule**") 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 this 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 certificate of exemption is issued subject to the conditions that (i) during the Offer Period this Programme Prospectus must be made available or distributed together with the relevant Issue Prospectus at all locations at which copies of the relevant 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 Programme Prospectus or the relevant Issue Prospectus runs out or otherwise ceases to be available or distributed at any such location during the Offer Period, then availability or distribution of both of these documents should cease at that location and may not resume until both this Programme Prospectus and the relevant Issue Prospectus are made available or distributed to the public at that location. This condition shall apply and have effect in respect of each subsequent Issue Prospectus in relation to the Notes to be offered and issued under the Programme during the validity of this Programme Prospectus; (ii) both the English and Chinese language versions of this Programme Prospectus are duly certified in accordance with Section 342C(3) of the Companies Ordinance and registered simultaneously with the Registrar of Companies and both language versions must be made available to the public as described in (i) above. If either language version runs out or ceases to be available or distributed at any such location during the Offer Period, then availability or distribution of this Programme Prospectus at the relevant location should cease and should not resume until such time as both language versions of this Programme Prospectus are again made available or distributed to the public at that location; (iii) the Issuer shall require the Distributors of a particular Series of Notes to ensure that the application procedures for the Notes of that Series 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 receive a copy of this Programme Prospectus together with the relevant Issue Prospectus (each in their preferred language); and (iv) this Programme Prospectus will set out the 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 this Programme Prospectus and the relevant Issue Prospectus shall be construed as being references to the printed copy of such document.

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 relation to this Programme Prospectus.

In the context of the offering of the Notes to the public in Hong Kong, this Programme Prospectus when read together with the relevant Issue Prospectus will satisfy (subject to the exemptions as aforesaid) the requirements of the Companies Ordinance for such offers. This Programme Prospectus and the relevant Issue Prospectus will 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 the relevant Issue Prospectus.

APPENDIX A

DERIVATIVES

The Issuer may enter into one or more derivatives transactions in connection with the issue of a Series of Notes under the Programme, which will be effected on or before the Issue Date of the relevant Series. Any such derivatives transaction will be entered into by the Issuer for the purpose of achieving the desired investment objective of the relevant Series of Notes, and may be effected by the relevant derivative being incorporated in the terms of any Underlying Securities, in the provisions of a Swap Agreement (if any) or otherwise. A description of any such derivative transaction will be included in the relevant Issue Prospectus. A general discussion of derivatives follows below.

General Characteristics of Options

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

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

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

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

If the Issuer writes a call option, the premium that it receives may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying security, basket of securities or instruments held by the Issuer for the account of a Series of Notes or will increase the Issuer's income attributable to the relevant Series of Notes. Similarly, the sale of put options can also provide portfolio gains.

The Issuer reserves the right to invest in options on instruments and indexes which may be developed in the future to the extent consistent with applicable law and the investment objectives of a Series of Notes.

Currency Transactions

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

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

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

Commodities Transactions

Futures Contracts

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

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

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

Forward Contracts

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

Commodity Options

The risks involved in trading commodity options are similar to those involved in trading futures contracts, in that options are speculative and highly leveraged. Specific market movements of the commodity or futures contract underlying an option cannot be predicted. Options are bought and sold on the trading floor of a commodity exchange. The purchaser of an option pays a premium and may be charged commissions and other fees. The writer of an option must make margin deposits and may be charged commissions and other fees. Exchanges provide trading mechanisms so that an option once purchased can later be sold and an option once written can later be liquidated by an offsetting purchase. However, there can be no assurance that a liquid offset market will exist for any particular option or at any particular time. In such case, it might not

be possible to effect offsetting transactions in particular options. Thus in the case of an option on a future, to realise any profit, a holder would have to exercise his option and have to comply with margin requirements for the underlying futures contract. A writer could not terminate his obligation until the option expired or he was assigned an exercise notice.

The Issuer's dealings in commodities futures, forwards and options may be for speculative or for hedging purposes.

Combined Transactions

The Issuer may enter into multiple transactions, including multiple options transactions, multiple currency transactions (including forward currency contracts), multiple interest rate swap transactions, and any combination of options, currency and interest rate transactions, instead of a single derivatives transaction, as part of a single or combined strategy for the account of a Series of Notes. A combined transaction will usually contain elements of risk that are present in each of its component transactions. Although combined transactions will normally be entered into by the Issuer based on a judgment that the combined strategies will reduce risk or otherwise more effectively achieve the desired investment objective of the Series of Notes, it is possible that the combination will instead increase the risks or hinder achievement of the portfolio management objective.

Swaps, Caps, Floors, Collars and Swaptions

The Issuer may enter into interest rate, currency, equity and index swaps, the purchase or sale of related caps, floors and collars, options and swaptions and other similar derivatives. The Issuer will enter into these transactions for the account of a Series of Notes primarily to generate income and/or capital gains from expected favourable movements in the underlying market or markets. The Issuer may also enter into swap arrangements for the account of a Series of Notes to preserve a return or spread on a particular investment or portion of its portfolio, to protect against currency fluctuations, as a duration management technique or to protect against any increase in the price of securities the Issuer anticipates purchasing for the account of the Series of Notes at a later date. Interest rate swaps involve the exchange by the Issuer with another party of their respective commitments to pay or receive interest (for example, an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal). Currency and index swaps are agreements to exchange cash flows on a notional amount based on changes in the values of the reference currencies or indexes and which involve the initial and final exchange of currencies and periodic payments on the notional amount, based on fixed or floating rates or some other index. The purchase of a cap entitles the purchaser to receive payments on a notional amount from the party selling the cap to the extent that a specified index exceeds a predetermined rate or level. The purchase of a floor entitles the purchaser to receive payments based on a notional amount from the party selling the floor to the extent that a specified index falls below a predetermined rate or amount. A collar is a combination of a cap and a floor that preserves a certain return with a predetermined range of rates or values. The purchase of a swaption entitles the purchaser to enter into the related swap transaction with the party selling the swaption. The Issuer may either be a purchaser or a seller of caps, floors, collars and swaptions for the account of a Series of Notes. Currency exchange rate swaps involve the initial and final exchange of the related currency amounts. A swap may involve non-periodic payments, such as upfront payments, or include a final exchange amount for which a counterparty may be at risk to some, all or more than all of the notional amount. It is expected that the Issuer will enter into swap transactions for the

account of a Series of Notes which are structured to take a view on one or more specific trends in the financial markets and will likely include leveraged structures that will result in either gains or losses that are greater than a comparative unleveraged structure with the same notional amount.

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

Mortgaged Property Arrangements

The Issuer may be required to pledge substantially all of the assets underlying a Series of Notes to Counterparties under a Credit Support Document and/or Swap and/or Contract and/or Securities Agreement (all as defined in the Master Conditions and each of such agreements, a “Related Contract”) to secure the Issuer’s obligations for the account of the Series of Notes under such transactions. Under the terms of these pledge arrangements, the Mortgaged Property will be liquidated if the Issuer defaults, or is otherwise unable to perform its obligations, under the Related Contracts. In addition to a default or other failure to perform its obligations under a Related Contract, the relevant Mortgaged Property may be liquidated under certain other circumstances, including the failure to deliver additional Mortgaged Property when required. Due to the type of Mortgaged Property and/or unfavourable and illiquid market conditions, the liquidation of the Mortgaged Property may reduce or eliminate the assets underlying the relevant Series of Notes or result in losses to the assets underlying the relevant Series of Notes. Moreover, if the Issuer fails to deliver additional mortgaged property to meet its obligations under any pledge agreement or other pledge arrangement, the assets underlying the relevant Series of Notes could be liquidated under market conditions which may be unfavourable.

Risk Factors

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

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

In the case of options, because option premiums paid to or received by the Issuer for the account of a Series of Notes are small in relation to the market value of the instruments underlying the options, buying and writing options can result in large

amounts of leverage. The leverage offered by trading in options could cause the value of the assets underlying a Series of Notes to be subject to frequent and wider fluctuation than would be the case if the Issuer did not trade in options for the account of the Series of Notes.

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

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

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

Generally, the value of an option declines over time due to time decay. If all the other components of option pricing remain constant, the value of an out-of-the-money option will decline to zero at maturity and the value of an in-the-money option will decline to the intrinsic value of the option.

Generally, the purchaser of an option will be adversely affected by time decay and the seller will benefit. However, it is possible that the level of the underlying instrument may move in favour of the option purchaser or writer but the value of the option may actually decrease because of time decay.

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

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

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

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

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

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

APPENDIX B

FORM OF SWAP GUARANTEE

The following is the form of the Swap Guarantee executed by Morgan Stanley in connection with the establishment of the Programme.

“Victoria Peak International Finance Limited c/o Maples Finance Limited
PO Box 1093GT
Queensgate House
South Church Street
George Town
Grand Cayman
Cayman Islands

September 30, 2004

Ladies and Gentlemen:

In consideration of that certain ISDA Master Agreement dated as of September 30, 2004 by and between Morgan Stanley Capital Services Inc., a Delaware corporation (hereinafter “MSCS”) and Victoria Peak International Finance Limited (hereinafter “Counterparty”) (such ISDA Master Agreement, together with each Confirmation exchanged between the parties pursuant thereto, hereinafter the “Agreement”), Morgan Stanley, a Delaware corporation (hereinafter “MS”), hereby irrevocably and unconditionally guarantees to Counterparty, with effect from the date of the Agreement, the due and punctual payment of all amounts payable by MSCS under the Agreement when the same shall become due and payable, whether on Scheduled Payment Dates, upon demand, upon declaration of termination or otherwise, in accordance with the terms of the Agreement and giving effect to any applicable grace period. Upon failure of MSCS punctually to pay any such amounts, and upon written demand by Counterparty to MS at its address set forth in the signature block of this Guarantee (or to such other address as MS may specify in writing), MS agrees to pay or cause to be paid such amounts; provided that delay by Counterparty in giving such demand shall in no event affect MS’s obligations under this Guarantee.

MS hereby agrees that its obligations hereunder shall be unconditional and will not be discharged except by complete payment of the amounts payable under the Agreement, irrespective of any claim as to the Agreement’s validity, regularity or enforceability or the lack of authority of MSCS to execute or deliver the Agreement; or any change in or amendment to the Agreement; or any waiver or consent by Counterparty with respect to any provisions thereof; or the absence of any action to enforce the Agreement or the recovery of any judgment against MSCS or of any action to enforce a judgment against MSCS under the Agreement; or any similar circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor generally. MS hereby waives diligence, presentment, demand on MSCS for payment or otherwise (except as provided hereinabove), filing of claims, requirement of a prior proceeding against MSCS and protest or notice, except as provided for in the Agreement with respect to amounts payable by MSCS. If at any time payment under the Agreement is rescinded or must be otherwise restored or returned by Counterparty upon the insolvency, bankruptcy, or reorganization of MSCS or MS or otherwise, MS’s obligations hereunder with respect to such payment shall be reinstated upon such restoration or return being made by Counterparty.

MS represents to Counterparty as of the date hereof, which representations will be deemed to be repeated by MS on each date on which a Transaction is entered into, that:

- (1) it is duly organized and validly existing under the laws of the jurisdiction of its incorporation and has full power and legal right to execute and deliver this Guarantee and to perform the provisions of this Guarantee on its part to be performed;
- (2) its execution, delivery and performance of this Guarantee have been and remain duly authorized by all necessary corporate action and do not contravene any provision of its certificate of incorporation or by-laws or any law, regulation or contractual restriction binding on it or its assets;
- (3) all consents, authorizations, approvals and clearances (including, without limitation, any necessary exchange control approval) and notifications, reports and registrations requisite for its due execution, delivery and performance of this Guarantee have been obtained from or, as the case may be, filed with the relevant governmental authorities having jurisdiction and remain in full force and effect and all conditions thereof have been duly complied with and no other action by, and no notice to or filing with, any governmental authority having jurisdiction is required for such execution, delivery or performance; and
- (4) this Guarantee is its legal, valid and binding obligation enforceable against it in accordance with its terms except as enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights or by general equity principles.

By accepting this Guarantee and entering into the Agreement, Counterparty agrees that MS shall be subrogated to all rights of Counterparty against MSCS in respect of any amounts paid by MS pursuant to this Guarantee, provided that MS shall be entitled to enforce or to receive any payment arising out of or based upon such right of subrogation only to the extent that it has paid all amounts payable by MSCS under the Agreement.

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York. All capitalized terms not otherwise defined herein shall have the respective meanings assigned to them in the Agreement.

Morgan Stanley

Name:
Title:
Address: 1585 Broadway,
New York, NY 10036"

REGISTERED OFFICE OF THE ISSUER

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Cayman Islands

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Trustee

J.P. Morgan Corporate Trustee Services Limited

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9 Thomas More Street
London E1W 1YT
United Kingdom

Principal Paying Agent, Registrar, Transfer Agent and Custodian

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