

# OCTAVE NOTES

## SERIES 20

### FREQUENTLY ASKED QUESTIONS

18 JANUARY 2012

These Frequently Asked Questions have been prepared by Victoria Peak International Finance Limited for the distributors of the Octave Notes, Series 20 in Hong Kong. Any questions from investors should be raised with the institution who sold them the Notes in Hong Kong.

*Please read the important notice at the end of this document.*

#### 1. Which Octave Notes are affected?

The following notes (referred to herein as the "**Notes**") issued by Victoria Peak International Finance Limited (the "**Issuer**") are affected:

<i>Series</i>	<i>Notes</i>	<i>Issue Date</i>
Octave Series 20	USD Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2013 (ISIN: XS0315041557) (" <b>Tranche A Notes</b> ")	9 August 2007
Octave Series 20	HKD Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2013 (ISIN: XS0315042282) (" <b>Tranche B Notes</b> ")	9 August 2007

#### 2. What has happened to the Notes?

A mandatory redemption event has occurred with respect to the Notes because of a reduction of the outstanding principal amount of the Underlying Securities held by the Issuer in accordance with their terms ("**Principal Writedown**").

The Underlying Securities are Synthetic CDO Securities which are held as collateral by the Issuer for its obligations to holders of the Notes and to other secured creditors in respect of the Notes. The Underlying Securities were rated "AAA" as at the issue date of the Notes by Fitch, the internationally recognised rating agency. As a result of the recent unprecedented events in the financial markets, the rating of the Underlying Securities has been downgraded by Fitch to "Csf" with a Recovery Rating of "Zero".

### **3. Why did a Principal Writedown occur?**

A Principal Writedown occurred in relation to the Underlying Securities because, following the recent unprecedented events in the financial markets, credit events have occurred for each of the following reference entities in the reference portfolio of the Underlying Securities:

- Federal Home Loan Mortgage Corporation;
- Federal National Mortgage Association;
- Lehman Brothers Holdings Inc.;
- Washington Mutual, Inc.;
- Syncora Guarantee Inc.;
- Financial Guaranty Insurance Company;
- Ambac Assurance Corporation;
- Ambac Financial Group, Inc.; and
- The PMI Group, Inc.

The aggregate loss calculations arising from these credit events exceeded the specified threshold amount in respect of the Underlying Securities, resulting in a Principal Writedown of the Underlying Securities in accordance with their terms.

### **4. What are the consequences of this mandatory redemption event?**

On 17 January 2012, the Determination Agent for the Notes, Morgan Stanley & Co. International plc, notified the Issuer of the Notes that a Principal Writedown had occurred in relation to the Underlying Securities. Thereafter the Notes became subject to mandatory redemption as set out in the offering documents for the Notes and as summarised below.

As set out in the offering documents for the Notes, following the Principal Writedown of the Underlying Securities, the Underlying Securities will be sold in accordance with the terms of the Notes. This process will involve the valuation and sale of the Underlying Securities by reference to bids obtained from market makers. Thereafter, the mandatory redemption amount of the Notes will be calculated as further set out below.

### **5. What is the process for the sale of the Underlying Securities for the Notes following the mandatory redemption event in respect of the Notes?**

As set out in the offering documents for the Notes, following the writedown of the principal amount of the Underlying Securities which are held by the Issuer as collateral for its obligations in respect of the Notes and the resulting occurrence of a mandatory redemption event in respect of the Notes, Morgan Stanley & Co. International plc, as the Determination Agent for the Notes, acting as agent for the Issuer, will arrange for and administer the sale of the Underlying Securities for the Notes in accordance with the terms of the Notes. As set out in the offering documents for the Notes, the Underlying Securities will be sold at the highest firm bid price obtained by the Determination Agent

for the Notes upon the solicitation of five market makers selected by it acting for and on behalf of the Issuer.

**6. How is the mandatory redemption amount calculated following a mandatory redemption event?**

As set out in the offering documents for the Notes, the amount that each investor will receive on the mandatory redemption of the Notes will be equal to that investor's pro-rata share of:

- a) the proceeds of the sale of the Underlying Securities; minus
- b) the costs, expenses and disbursements associated with the sale of the Underlying Securities; plus or minus, as the case may be
- c) any payments which are owed by the Issuer to the Swap Counterparty (which will reduce the mandatory redemption amount) or by the Swap Counterparty to the Issuer (which will increase the mandatory redemption amount), as the case may be, under the credit default swap transaction which the Issuer entered into on the issue date of the Notes (as described in the offer documents) as a consequence of the early termination of that credit default swap transaction following the occurrence of the mandatory redemption event.

As the Tranche B Notes are denominated in Hong Kong dollars, the mandatory redemption amount for the Tranche B Notes will be converted into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the date on which the Notes are redeemed.

It is not currently anticipated that there will be any material costs, expenses and disbursements associated with the sale of the Underlying Securities.

**7. How much will investors receive when the Notes are redeemed?**

Given the current market values of the Underlying Securities and the credit default swap transaction, we anticipate that investors will lose all or substantially all of their original principal investment.

If further credit events occur in respect of one or more reference entities in the reference portfolio of the Underlying Securities before the Underlying Securities are sold, the proceeds of sale of the Underlying Securities (if any) and therefore the mandatory redemption amount of the Notes (if any) may be reduced.

**8. When will the Notes be redeemed?**

The Issuer will redeem the Notes after the sale proceeds of the Underlying Securities have been received and the process for the determination of the mandatory redemption amount has been completed. Holders of the Notes will be notified of the date of redemption and the mandatory redemption amount (if any) in accordance with the

offering documents for the Notes. We expect that the Issuer will be in a position to redeem the Notes within approximately four to seven weeks from the date hereof.

**9. Will the Notes pay any interest after the mandatory redemption event?**

No. As set out in the offering documents for the Notes, the Notes ceased to bear interest from the interest payment date immediately preceding the mandatory redemption event.

**10. Who can answer any questions I may have?**

You should contact the distributor in Hong Kong that sold you the Notes at the contact telephone number set out below.

<b>Distributor</b>	<b>Contact Number</b>
Bank of Communications Co., Ltd. Hong Kong Branch	2269 9611
CITIC Bank International Limited	2287 6070
Chong Hing Bank Limited	3768 6888
Core Pacific-Yamaichi International (H.K.) Limited	2826 0857
Dah Sing Bank, Limited	2507 8997
ICEA Securities Ltd./Tung Shing Securities (Brokers) Limited	3101 8386
MEVAS Bank Limited	2507 8821
Public Bank (Hong Kong) Limited	2851 9803
Wing Hang Bank, Ltd.	2852 5585
Wing Lung Bank Limited	2526 5555

*IMPORTANT NOTICE*

This document is a summary of some of the terms of the Notes which are relevant to the questions above and is subject to the full terms of the Notes which are described in the relevant offering documentation in respect of the Notes. Investors should refer to the Programme Prospectus dated 25 June 2007 and the Issue Prospectus dated 25 June 2007 produced by the Issuer in relation to the offering of the relevant Notes (together referred to in these Frequently Asked Questions as the offering documents for the Notes) for further information. Investors should also refer to the Pricing Supplements in respect of the Notes. These documents and certain other documents in relation to the Notes can be accessed at [www.morganstanley.com/octavenotes](http://www.morganstanley.com/octavenotes).

Although Victoria Peak International Finance Limited is under no obligation to provide information in respect of the Notes or the Underlying Securities relating to the Notes beyond that specified in the offering documents for the Notes, in the present unprecedented market conditions Victoria Peak International Finance Limited believes that it may be helpful to provide these Frequently Asked Questions relating to the Notes. Except as specified in the offering documents for the Notes, Victoria Peak International Finance Limited is not under any obligation to provide further information in relation to the Notes or to update the information contained in these Frequently Asked Questions.

This document only contains general information in relation to the Notes and does not constitute legal, financial or any other advice. Investors should seek independent advice where necessary. Capitalised terms used in this document but not otherwise defined herein have the meaning given in the offering documents for the relevant Notes.