

Issue Prospectus

IMPORTANT

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

This Issue Prospectus has been prepared for the purpose of giving information in respect of the issue by Victoria Peak International Finance Limited (the "Issuer") of the notes described herein pursuant to its Retail Note Programme (the "Programme"). The offering of the Notes is made pursuant to this Issue Prospectus and the programme prospectus dated 29 March 2005 issued by the Issuer (the "Programme Prospectus"). Prospective investors should read the Programme Prospectus, which includes important information about the Issuer and the Programme, together with this Issue Prospectus in order to understand the offer to which the documents relate, in particular before making an application in response to the offer.

Octave Notes Series 6

US Dollar Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2011 ("Tranche A Notes")
US Dollar Credit-Linked Secured Callable Fixed Rate with Equity Bonus Coupon Notes due 2011 ("Tranche B Notes")
HK Dollar Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2011 ("Tranche C Notes")
HK Dollar Credit-Linked Secured Callable Fixed Rate with Equity Bonus Coupon Notes due 2011 ("Tranche D Notes")
(each a "Tranche" and the notes of any and all Tranches, the "Notes")

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

pursuant to its Retail Note Programme

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| Offer Period: | From 9.00 a.m. on 13 July 2005 to 4.30 p.m. on 3 August 2005 or such earlier or later date as may be determined by the Arranger in its absolute discretion. |
| Issue Price: | 100 per cent. of the principal amount of the Notes |
| Issue Size: | In order to maintain flexibility with respect to the aggregate principal amount of the Notes to be issued, the actual aggregate principal amount of each Tranche of Notes to be issued shall be determined by Morgan Stanley & Co. International Limited (in such capacity, the "Arranger") in its absolute discretion on the Fixing Date in light of general market interest following distribution of this Issue Prospectus. Please note that the Issuer after consultation with the Arranger may decide on the Fixing Date to issue one or more Tranche(s) or may decide not to issue certain Tranche(s) in light of general market interest in the Notes. |
| Interest Rate: | <i>Tranche A Notes:</i> 4.60 per cent. per annum from Year 1 to Year 4 and 5.60 per cent. per annum from Year 5 to 5.5 <i>Tranche B Notes:</i> 4.30 per cent. per annum. <i>Tranche C Notes:</i> 4.30 per cent. per annum from Year 1 to Year 4 and 5.30 per cent. per annum from Year 5 to 5.5 <i>Tranche D Notes:</i> 4.00 per cent. per annum. The definition of the terms "Year 1 to Year 4" and "Year 5 to 5.5", are set out in the section headed "Information about the Notes — Interest Rate" at page 14 of this Issue Prospectus. Interest on all Tranches will be payable semi-annually in arrear on 15 February and 15 August in each year. Interest ceases to be payable in certain circumstances - see the section headed "Information about the Notes — Interest Payment Dates". |
| Equity Bonus Coupon: | In addition: (i) in respect of the Tranche B Notes, an Equity Bonus Coupon of 5.70 per cent. per annum; (ii) in respect of the Tranche D Notes, an Equity Bonus Coupon of 5.00 per cent. per annum, is payable on each Equity Bonus Payment Date, in each case if the Equity Bonus Condition is fulfilled in respect of such Equity Bonus Payment Date. The Equity Bonus Payment in respect of the Tranche B Notes and Tranche D Notes will be payable annually in arrear on 15 August in each year and on the Scheduled Maturity Date, provided that the Equity Bonus Condition is fulfilled in respect of such payment date. The definitions of the terms "Equity Bonus Coupon", "Equity Bonus Payment Date", "Equity Bonus Payment" and "Equity Bonus Condition" are set out in the section headed "Information about the Notes — Equity Bonus Coupon" of this Issue Prospectus. The Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes ceases to be payable in certain circumstances — see the section headed "Information about the Notes — Equity Bonus Payment Dates". Tranche A Notes: USD5,000, Tranche B Notes: USD5,000, Tranche C Notes: HKD40,000, Tranche D Notes: HKD40,000 |
| Note Denomination/ Principal Amount per Note: | |
| Fixing Date: | Expected to be 5 August 2005, on which date the Issue Size will be determined. |
| Issue Date: | Expected to be 15 August 2005, but will not be later than 15 September 2005. |
| Issuer Call Options: | In respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early the Notes of such Tranche (in whole and not in part) on any Interest Payment Date falling on or after the first anniversary of the Issue Date. |
| Scheduled Maturity Date: Payment on Scheduled Maturity Date: | 15 February 2011 (see the section headed "Information about the Notes — Scheduled Maturity Date"). 100 per cent. of the principal amount of the Notes. However, the Notes will be redeemed at an amount which may be substantially less than their outstanding principal amount upon the occurrence of certain events, such as the giving of a notice to the Noteholders of a Credit Event in respect of a Reference Entity. Such redemption may occur prior to or even, in certain circumstances, following the Scheduled Maturity Date. |
| Security For The Notes: | (i) The underlying securities which comprise the Original Underlying Securities, any Reinvested Eligible Investments and the proceeds of redemption of the Original Underlying Securities and any Reinvested Eligible Investments (collectively the "Underlying Securities") (see the section headed "Information about the Underlying Securities" in this Issue Prospectus for the meaning of such capitalised terms); (ii) the swap arrangements entered into with the Swap Counterparty referred to herein; (iii) the contingent forward transactions entered into with the Forward Counterparty referred to herein and (iv) the equity option transactions entered into with the Equity Option Counterparty referred to herein. |
| Listing: | The Notes will not be listed on any exchange. |

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

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

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

Arranger

Morgan Stanley & Co. International Limited

Distributors

Bank of China (Hong Kong) Limited
Chiyu Banking Corporation Limited
Core Pacific — Yamaichi International (H.K.) Limited
Liu Chong Hing Bank Limited
Shanghai Commercial Bank Limited
Wing Hang Bank, Ltd.

Bank of Communications, Hong Kong Branch
CITIC Ka Wah Bank Limited
ICEA Securities Ltd
Nanyang Commercial Bank, Limited
Tai Fook Securities Co. Ltd.
Wing Lung Bank Limited

The date of this Issue Prospectus is 12 July 2005.

THE DISTRIBUTORS

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

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

| Distributors | “Hotline” 熱線 | Distributors | “Hotline” 熱線 |
|---|-----------------|--|-----------------|
| Bank of China (Hong Kong) Limited | 2291 8000 | ICEA Securities Ltd | 3102 5606 |
| Bank of Communications, Hong Kong Branch | 2269 9699 | Liu Chong Hing Bank Limited | 2161 6888 |
| Chiyu Banking Corporation Limited | 2232 3633 | Nanyang Commercial Bank, Limited | 2622 2633 |
| CITIC Ka Wah Bank Limited | 2287 6788 | Shanghai Commercial Bank Limited | 2818 0282 |
| Core Pacific - Yamaichi International (H.K.) Limited | 2826 0857 | Tai Fook Securities Co. Ltd | 2213 8888 |
| | | Wing Hang Bank, Ltd | 3199 9182 |
| | | Wing Lung Bank Limited | 2526 5555 |

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

Additional distributors may be appointed by the Arranger after the date of this Issue Prospectus. The identities and “hotlines” of any such additional distributors will be made available to prospective investors upon request during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the offices of the Arranger’s agent specified on page 40 of this Issue Prospectus. References herein to “Distributor(s)” shall be deemed to include any such additional distributor(s) appointed after the date of this Issue Prospectus.

Marketing Materials

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

References to websites

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

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

Conventions

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

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

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

THE PROGRAMME PROSPECTUS AND THE ISSUE PROSPECTUS

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

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

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

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

- **During the Offer Period:** from each of the Distributors described above and from the office of the Arranger's agent specified on page 40 of this Issue Prospectus.
- **After the Offer Period and for so long as any Notes remain outstanding:** upon request, from the office of the Arranger's agent specified on page 40 of this Issue Prospectus.

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

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

- **發售期內：** 在上文所述的各分銷商及本發行章程第40頁所述的安排人的代理的辦事處。
- **發售期後及只要有任何債券仍未償還：** 向本發行章程第40頁所述的安排人的代理的辦事處要求索取。

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

The Programme Prospectus contains important information about:

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

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

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SUMMARY

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

Structure and Outline

The Issuer of the Notes

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

The Notes

The key features of the Notes are:

- (i) the Issuer will issue the Notes under the Programme on the Issue Date to raise funds to purchase an equal aggregate principal amount of the Original Underlying Securities. In the event that the Original Underlying Securities are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer(s) of the Original Underlying Securities prior to the Scheduled Maturity Date, the proceeds of redemption 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 in Eligible Investments (any Eligible Investments acquired shall herein be referred to as “**Reinvested Eligible Investments**”). If the Reinvested Eligible Investments are themselves redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms by their issuer(s) prior to the Scheduled Maturity Date, the proceeds of redemption will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing) and the Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption of such Reinvested Eligible Investments in other Eligible Investments. This process can be repeated any number of times if applicable. Neither the redemption, in whole or in part, of the Original Underlying Securities or any Reinvested Eligible Investments at their outstanding principal amount including any accrued interest in accordance with their terms as described above nor the acquisition of Eligible Investments using the proceeds of redemption of Original Underlying Securities or Reinvested Eligible Investment as described in this paragraph will in itself impact on the Noteholders or the terms of the Notes. See the section headed “Information about the Underlying Securities” in this Issue Prospectus for the meaning of “Underlying Securities”;

- (ii) pursuant to the Swap Agreement, the Issuer will pay an amount equal to any interest received in respect of the Underlying Securities (if any) to the Swap Counterparty and the Swap Counterparty will pay the Issuer an amount equal to the interest (calculated as described below) due to be paid by the Issuer on the Notes (excluding, for the avoidance of doubt, any Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes). Under the Equity Option Agreement, the Equity Option Counterparty will pay the Issuer an amount equal to any Equity Bonus Payment due to be paid by the Issuer on the Tranche B Notes or the Tranche D Notes, as the case may be. Where necessary the Issuer will enter into interest rate and currency swap agreements to ensure interest and currency payment amounts match;
- (iii) if a Credit Event occurs (as further described below) during the term of the Notes and the Issuer gives notice to the Noteholders of the occurrence of such Credit Event, the Notes will be redeemed on the Credit Event Redemption Date at the Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Credit Event” in this section below), being an amount which may be substantially less than the principal amount of the Notes. In addition, the Notes will cease to bear any interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) from the Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment) immediately preceding the date on which the Issuer gives notice to the Noteholders of the occurrence of the Credit Event (or, if notice of the occurrence of the Credit Event is given prior to the first Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment), no interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) will be payable on the Notes);
- (iv) in respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early in whole (but not in part) the Notes of such Tranche on any Interest Payment Date falling on or after the first anniversary of the Issue Date (as further described in the paragraph headed “Issuer Call Options” in the section headed “Information about the Notes” in this Issue Prospectus). Following the exercise of an Issuer Call Option in respect of a Tranche of Notes, as such Tranche of Notes will redeem in whole, no interest will be payable on such Tranche of Notes after the Interest Payment Date on which such Issuer Call Option is exercised. If such Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is also an Equity Bonus Payment Date, an Equity Bonus Payment may be payable in respect of such Tranche of Notes if the Equity Bonus Condition is fulfilled. If such Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is not also an Equity Bonus Payment Date, no Equity Bonus Payment is due or payable in respect of such Tranche of Notes on such Interest Payment Date. No Equity Bonus Payment will be payable on the Tranche B Notes or the Tranche D Notes after the Interest Payment Date on which the Issuer Call Option is exercised;
- (v) the Notes may also be redeemed early upon the occurrence of an Early Redemption Event (as further described in the paragraph headed “Early Redemption” in the section headed “Information about the Notes” in this Issue Prospectus) or an Issuer’s Event of Default (as further described in the paragraph headed “Issuer’s Events of Default” in the section headed “Information about the Notes” in this Issue Prospectus). In either case, the Notes will cease to bear any interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) from the Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment) immediately preceding the date on which the Early Redemption Event occurs or, as the case may be, the Issuer’s Event of Default occurs (or, if the Early Redemption Event occurs or, as the case may be, the Issuer’s Event of Default occurs prior to the first Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment), no interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) will be payable on the Notes); and

- (vi) provided the Notes are not redeemed as a result of notice being given in respect of a Credit Event, the occurrence of an Early Redemption Event, the exercise by the Issuer of the Issuer Call Option in relation to the relevant Tranche of Notes or the occurrence of an Issuer's Event of Default, the Issuer will apply the redemption monies receivable in respect of the Underlying Securities (and, where necessary, using the swap arrangements to ensure interest and currency payments match) in repayment of the Notes. In such circumstances, the Notes will be redeemed at their principal amount on the Scheduled Maturity Date.

Security in respect of the Notes

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

A Credit Event

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

- HSBC Bank PLC and its Successors ("**HSBC**");
- CLP Holdings Limited and its Successors ("**CLP**");
- MTR Corporation Limited and its Successors ("**MTRC**");
- Sun Hung Kai Properties Limited and its Successors ("**Sun Hung Kai**"); and
- Cheung Kong (Holdings) Limited and its Successors ("**Cheung Kong**"),

(each a "**Reference Entity**" and collectively referred to in this Issue Prospectus as the "**Reference Entities**").

Procedure for redemption of the Notes following a Credit Event

- The Issuer notifies the Trustee and the Noteholders (via the clearing systems) that (1) a Credit Event has occurred in respect of one of the Reference Entities (specifying the applicable Credit Event and the Early Redemption Credit Event Entity (as defined in the section headed "Technical Definitions — Credit Terms" in this Issue Prospectus) on or promptly after the Credit Event Determination Date and (2) the Notes have ceased to bear interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) from the Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment) immediately preceding the date upon which notice is given to the Noteholders of the occurrence of such Credit Event (or, if such notification is given prior to the first Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment), no interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) will be payable on the Notes) and will be redeemed on the Credit Event Redemption Date at the Credit Event Redemption Amount as adjusted (as more fully described below). The notice setting out the occurrence of a Credit Event will include a brief description of the relevant event and the Public Source of such information and an explanation of how it fits the definition of a Credit Event.

- In practice, prior to notifying the Trustee and the Noteholders as described above, the Issuer would have received a notice from the Swap Counterparty notifying the Issuer that a Credit Event has occurred in respect of one of the Reference Entities. The Early Redemption Credit Event Entity notified to the Trustee and Noteholders as described above will be the same as the Reference Entity notified by the Swap Counterparty to the Issuer under the Swap Agreement. If a Credit Event occurs in respect of more than one Reference Entity at or about the same time, and notice of a Credit Event is given to the Noteholders, the Early Redemption Credit Event Entity as set out in the Credit Event Notice will be the same as the Reference Entity selected by the Swap Counterparty and notified to the Issuer under the Swap Agreement.
- On or prior to the Valuation Date (as defined below) after the Credit Event Determination Date, the Swap Counterparty will identify at its sole and absolute discretion certain borrowing obligations of the Early Redemption Credit Event Entity which are “Bonds” or “Loans” which meet the criteria for Deliverable Obligations, provided that the Swap Counterparty may at its discretion on or prior to the Valuation Date change one or more of the “Bonds” or “Loans” it has identified. In practice, the same “Bonds” or “Loans” will be identified as Deliverable Obligations under the provisions of the Swap Agreement.
- The aggregate principal amount of “Bonds” or “Loans” so identified (or its equivalent in United States dollars calculated by reference to the relevant spot exchange rate at the time the quotation is being obtained on the Valuation Date in the case of “Bonds” or “Loans” which are not denominated in United States dollars. In practice, the spot exchange rate(s) used will be the same as the spot exchange rate(s) used by the calculation agent under the Swap Agreement) will be equal to the principal amount of the Tranche A Notes, Tranche B Notes, Tranche C Notes and Tranche D Notes outstanding on the Credit Event Determination Date.
- On any date (the “**Valuation Date**”) falling on or after the 52nd Business Day to and including the 125th Business Day following the Credit Event Determination Date, as selected by the Swap Counterparty at its sole and absolute discretion, the Swap Counterparty will obtain firm bid prices for the purchase of the Deliverable Obligations identified as described above from five Dealers as selected by the Determination Agent, acting for and on behalf of the Issuer (which Dealers will not be affiliated to each other and may include the Arranger or any of its Affiliates). If firm bid prices from five Dealers cannot be obtained, the Swap Counterparty will determine such bid price for the purchase of the Deliverable Obligations at its sole and absolute discretion, following which the Determination Agent, acting for and on behalf of the Issuer, will also determine the Credit Event Redemption Amount (which amount is then adjusted to allow for adjustments in respect of the pro rata share of changes in the value of the Underlying Securities (as more fully described below)). The determination of the Credit Event Redemption Amount may fall after the Scheduled Maturity Date.
- The Credit Event Redemption Amount will be an amount equal to the amount determined for the Deliverable Obligations of the Early Redemption Credit Event Entity in accordance with the previous paragraph.
- The Credit Event Redemption Amount will reflect the fall in value of the Deliverable Obligations of the Early Redemption Credit Event Entity.
- The holders of the Tranche A Notes and the Tranche B Notes will receive their pro-rata share of the Credit Event Redemption Amount plus or minus, as the case may be, their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Credit Event Redemption Date.

- The holders of the Tranche C Notes and the Tranche D Notes will receive the sum of the following amounts, after conversion into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith: (i) their pro-rata share of the Credit Event Redemption Amount, plus or minus, as the case may be, (ii) their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, prior to the Credit Event Redemption Date.
- Prospective investors should appreciate that the market value of the Deliverable Obligations used to determine the Credit Event Redemption Amount as described above may be subject to certain deductions relating to the costs associated with the holding and/or handling and/or sale and/or valuation of the “Bonds” or “Loans” and will be paid net of any required withholding and deductions (such amount is referred to in this Issue Prospectus as the “net cash equivalents of the Deliverable Obligations”). The pro-rata share of such net cash equivalents of the Deliverable Obligations will be paid to holders of the Tranche C Notes and Tranche D Notes in Hong Kong dollars converted at the USD/HKD exchange rate prevailing on or about the Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, and after making certain adjustments as described in the previous two bullet points. Therefore, investors in the Tranche C Notes and Tranche D Notes will be exposed to an additional exchange conversion risk which, depending on the prevailing exchange rate, may or may not have an adverse impact on the return of the investment in their Tranche C Notes or Tranche D Notes, as the case may be.
- Prospective investors should also appreciate that the credit risk borne by investors under the Notes is not allocated to any Reference Entity in any proportion.

Credit Event

A “Credit Event” includes any of the following events:

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

- a change in currency or other composition of interest or principal payment (in certain defined circumstances)

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

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

Prospective investors should note that, after the occurrence of a Credit Event, the market value of the “Bonds” or “Loans” of the Early Redemption Credit Event Entity are likely to be substantially less than the principal amount of those “Bonds” or “Loans” (and may be as low as zero). Accordingly, the Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for redemption of the Notes following a Credit Event” above) payable to investors in the Notes following the occurrence of a Credit Event is likely to be substantially less than the principal amount of the Notes.

Early Redemption Events and Issuer’s Events of Default

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

Issuer Call Options

In respect of each Tranche of Notes, the Issuer may exercise its irrevocable call option to redeem early the Notes of such Tranche in whole (but not in part) on any Interest Payment Date falling on or after the first anniversary of the Issue Date. Following the exercise by the Issuer of its irrevocable call option in relation to a Tranche of Notes, the Notes of such Tranche will redeem. Any exercise by the Issuer of an Issuer Call Option shall be irrevocable and the redemption of the relevant affected Tranche of Notes following such exercise of such Issuer Call Option will occur as described above notwithstanding the occurrence of an Early Redemption Event or a Credit Event after the exercise of such Issuer Call Option. Following the exercise of an Issuer Call Option in respect of a Tranche of Notes, as such Tranche of Notes will redeem in whole, no interest will be payable on such Tranche of Notes after the Interest Payment Date on which such Issuer Call Option is exercised. If such Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is also an Equity Bonus Payment Date, an Equity Bonus Payment may be payable in respect of such Tranche of Notes if the Equity Bonus Condition is fulfilled. If an Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is not also an Equity Bonus Payment Date, no Equity Bonus Payment is due or payable in

respect of such Tranche of Notes on such Interest Payment Date. No Equity Bonus Payment will be payable on the Tranche B Notes or the Tranche D Notes after the Interest Payment Date on which the Issuer Call Option is exercised (for further details and a description of the procedure for the redemption of Notes of any Tranche in whole following the exercise of an Issuer Call Option, see the paragraph headed “Issuer Call Options” in the Section headed “Information about the Notes” in this Issue Prospectus).

Are the Notes appropriate for you?

The Notes are designed for investors who are:

- looking for fixed rate semi-annual interest income and are confident that the current interest rate environment will not improve;
- in respect of the Tranche B Notes and the Tranche D Notes, looking for fixed rate semi-annual interest income and an exposure to the performance of the Shares of the Basket Companies (see the section headed “Information about the Notes - Interest Rate” for more information);
- in respect of the Tranche B Notes and the Tranche D Notes, willing to accept that the Equity Bonus Payment will not be payable if the Equity Bonus Condition is not fulfilled, including as a result of the delivery of a Cancellation Notice following the occurrence of an Extraordinary Event;
- in respect of the Tranche C Notes and the Tranche D Notes, confident about the stability in the exchange rate of USD/HKD;
- confident that none of the Reference Entities or any Successors to such Reference Entities will be affected by a major corporate default on its borrowings, bankruptcy or adverse debt restructuring prior to the Scheduled Maturity Date and accept the risk that the principal amount of the Notes and any accrued interest will not be payable in such event;
- willing to accept redemption of the Notes following notification of the occurrence of a Credit Event or the occurrence of an Early Redemption Event or an Issuer’s Event of Default, and accept that the amount available to the Issuer for payment to Noteholders under such circumstances (in the case of redemption of Notes following the occurrence of an Early Redemption Event or an Issuer’s Event of Default, after deducting any costs and expenses arising out of an early termination of the Swap Agreement, the Forward Agreement or the Equity Option Agreement, as the case may be) and paying any other amounts owed by the Issuer to other parties in priority to the Noteholders, may be substantially less than the principal amount of the Notes and that any accrued interest will not be payable in such event; and
- willing to accept that the Issuer may choose to redeem the Notes of any or all Tranches in whole early from and including the Interest Payment Date falling on or after the first anniversary of the Issue Date and confident that they may be able to reinvest the principal amount of the Notes redeemed at a rate of return comparable to that provided under the Notes.

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

INFORMATION ABOUT THE NOTES

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

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

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

Issue Size: The total principal amount of Notes of a Tranche to be issued will be determined by the Arranger in its absolute discretion on the Fixing Date in light of market interest in the Notes. The Issue Size will be notified to investors as soon as practicable after the Issue Date in the manner provided under the paragraph headed “Notices” in this section below. The Issuer after consultation with the Arranger may exercise its absolute discretion not to issue the Notes of any or all Tranches in the event it deems that there is insufficient interest in the Notes during the Offer Period.

Please note that the Issuer, after consultation with the Arranger, may decide to issue certain Tranche(s) but not the other Tranche(s), or may decide on the Fixing Date (expected to be 5 August 2005) not to issue any or all of the Tranche(s), in the circumstances described above.

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

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

Issue Date: The Issue Date is expected to be 15 August 2005, and will be no later than 15 September 2005.

Interest Rate:

For Tranche A:

4.60 per cent. per annum from the Issue Date to, and including, the eighth Interest Period (“**Year 1 to Year 4**”) and, from the ninth Interest Period to the Scheduled Maturity Date (“**Year 5 to 5.5**”), 5.60 per cent. per annum.

For Tranche B:

4.30 per cent. per annum.

For Tranche C:

4.30 per cent. per annum for Year 1 to Year 4 and 5.30 per cent. per annum from Year 5 to 5.5

For Tranche D:

4.00 per cent. per annum.

Where:

“**Interest Period**” means the period beginning on and including the Issue Date and ending on but excluding the first Interest Period End Date and each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date.

“**Interest Period End Date**” means 15 February and 15 August of each year (or, if applicable, such other dates falling on every six months following the Issue Date), commencing on 15 February 2006 (or, if applicable, such other date as may be six months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Credit Event being given to Noteholders or an Early Redemption Event or an Issuer’s Event of Default occurring) the Interest Payment Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Credit Event or, as the case may be, the date upon which the Early Redemption Event occurs or, as the case may be, the date upon which the Issuer’s Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) the Interest Payment Date on which such Issuer Call Option is exercised (see “Procedure for redemption of the Notes following a Credit Event”, “Early Redemption Events and Issuer’s Events of Default” and “Issuer Call Options” in the section headed “Summary — Structure and Outline” of this Issue Prospectus).

Interest Amount:

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

- (a) on each Interest Payment Date relating to Year 1, Year 2, Year 3 and Year 4, the holders of Tranche A Notes will receive an amount of USD115 per Tranche A Note and the holders of Tranche C Notes will receive an amount of HKD860 per Tranche C Note;
- (b) on each Interest Payment Date relating to Year 5 and Year 5.5, the holders of Tranche A Notes will receive an amount of USD140 per Tranche A Note and the holders of Tranche C Notes will receive an amount of HKD1,060 per Tranche C Note; and
- (c) on each Interest Payment Date, the holders of the Tranche B Notes will receive an amount of USD107.50 per Tranche B Note and the holders of Tranche D Notes will receive an amount of HKD800 per Tranche D Note.

Where:

"Year 1" means each of the first and second Interest Periods;

"Year 2" means each of the third and fourth Interest Periods;

"Year 3" means each of the fifth and sixth Interest Periods;

"Year 4" means each of the seventh and eighth Interest Periods;

"Year 5" means each of the ninth and tenth Interest Periods;
and

"Year 5.5" means the eleventh Interest Period.

Interest Payment Dates:

Interest will be payable semi-annually in arrear on 15 February and 15 August in each year (or, if applicable, such other dates falling on every six months following the Issue Date), commencing on 15 February 2006 (or, if applicable, such other date as may be six months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Credit Event being given to Noteholders or an Early Redemption Event or an Issuer's Event of Default occurring) the Interest Payment Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Credit Event or, as the case may be, the date upon which the Early Redemption Event occurs or, as the case may be, the date upon which the Issuer's Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) the Interest Payment Date on which such Issuer Call Option is exercised (see "Procedure for redemption of the Notes following a Credit Event", "Early Redemption Events and Issuer's Events of Default" and "Issuer Call Options" in the section headed "Summary — Structure and Outline" of this Issue Prospectus).

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

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

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

Interest Rate Day Count Fraction:

30/360.

Equity Bonus Coupon:

For Tranche B:

5.70 per cent per annum, provided that the Equity Bonus Payment will only be payable if the Equity Bonus Condition is fulfilled in respect of the relevant Equity Bonus Payment Date.

For Tranche D:

5.00 per cent per annum, provided that the Equity Bonus Payment will only be payable if the Equity Bonus Condition is fulfilled in respect of the relevant Equity Bonus Payment Date.

No Equity Bonus Coupon applies to, and accordingly no Equity Bonus Payment is payable in respect of, the Tranche A Notes and the Tranche C Notes.

Where:

The “**Equity Bonus Condition**” is fulfilled in respect of an Equity Bonus Payment Date where the Determination Agent, acting for and on behalf of the Issuer, determines (in its sole discretion) that with respect to the Observation Dates immediately preceding such Equity Bonus Payment Date, the Final Price of each Share is equal to or greater than its Target Price. For the avoidance of doubt, if the Final Price of any one or more Shares is less than its or their respective Target Price(s), the Equity Bonus Condition shall not be fulfilled. The Equity Bonus Condition shall be deemed not to be fulfilled with respect to each Equity Bonus Payment Date falling on or after the date of a Cancellation Notice given following the occurrence of an Extraordinary Event (see the section headed “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus).

“**Basket Company**” means each company described as a “Basket Company” in the section headed “Information about the Basket Companies and the Shares” in this Issue Prospectus. For the avoidance of doubt, the Basket Companies and the Reference Entities may be comprised of different legal entities.

“**Closing Price**” means, in respect of a Share, the official closing share price of the Share on the Relevant Stock Exchange.

“**Equity Bonus Period**” means the period beginning on and including the Issue Date and ending on but excluding the first Equity Bonus Period End Date and each successive period beginning on and including an Equity Bonus Period End Date and ending on but excluding the next succeeding Equity Bonus Period End Date.

“Equity Bonus Period End Date” means 15 August of each year (or, if applicable, such other dates falling on every twelve months following the Issue Date), commencing on 15 August 2006 (or, if applicable, such other date as may be twelve months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Credit Event being given to Noteholders or an Early Redemption Event or an Issuer’s Event of Default occurring) the Equity Bonus Payment Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Credit Event or, as the case may be, the date upon which the Early Redemption Event occurs or, as the case may be, the date upon which the Issuer’s Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) (where an Equity Bonus Payment Date falls on the Interest Payment Date on which such Issuer Call Option is exercised) the Equity Bonus Payment Date on which such Issuer Call Option is exercised or (where an Equity Bonus Payment Date does not fall on the Interest Payment Date on which such Issuer Call Option is exercised) the Equity Bonus Payment Date immediately preceding the Interest Payment Date on which such Issuer Call Option is exercised (see “Procedure for redemption of the Notes following a Credit Event”, “Early Redemption Events and Issuer’s Events of Default” and “Issuer Call Options” in the section headed “Summary — Structure and Outline” of this Issue Prospectus).

“Final Price” means, in relation to each Equity Bonus Payment Date and in respect of each Share, the arithmetic mean of the Closing Prices of such Share on the Observation Dates immediately preceding such Equity Bonus Payment Date, rounded to two decimal places (with HKD0.005 and above being rounded upward).

“Initial Spot Price” means, in respect of a Share of a Basket Company, the Closing Price of such Share on the Target Price Fixing Date.

“Observation Dates” means the sixteenth (16th) Business Day prior to each Equity Bonus Payment Date (the **“First Observation Date”**) and the two Business Days following the First Observation Date (or, if any such date is not a Scheduled Trading Day, such date will be postponed to the next following Scheduled Trading Day) provided that if any such date is a Disrupted Day, such Observation Date will be determined in accordance with the provisions set out in the section headed “Technical Definitions — Equity Terms” in this Issue Prospectus.

“Relevant Stock Exchange” means, in respect of a Share of a Basket Company, the stock exchange as specified in respect of such Share in the section headed “Information about the Basket Companies and the Shares” in this Issue Prospectus, any successor to such exchange or any substitute exchange or quotation system to which trading in the Share of such Basket Company has temporarily relocated (provided that the Determination Agent, acting for and on behalf of the Issuer, has determined that there is comparable liquidity relative to such Share on such temporary substitute exchange or quotation system as on the original Relevant Stock Exchange).

“Share” means, in respect of a Basket Company, an ordinary share of such Basket Company.

“Target Price” means, in respect of a Share of a Basket Company, 110% of the Initial Spot Price of such Share, rounded to two decimal places (with HKD0.005 and above being rounded upwards).

“Target Price Fixing Date” means the Fixing Date (as defined on the cover page of this Issue Prospectus) (or, if the Fixing Date is not a Scheduled Trading Day, the Target Price Fixing Date will be postponed to the next following Scheduled Trading Day) provided that if any such date is a Disrupted Day, the Target Price Fixing Date will be determined in accordance with the provisions set out in the section headed “Technical Definitions — Equity Terms” in this Issue Prospectus.

The terms of the Tranche B Notes and the Tranche D Notes in respect of the Equity Bonus Coupon and the Equity Bonus Payment (including the Target Price of a Share and/or the identity of the original Basket Companies) are subject to adjustment following the occurrence of certain events. See the sections headed “Technical Definitions — Equity Terms — Potential Adjustment Events” and “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus. Accordingly, references to “Basket Company”, “Target Price” and “Relevant Stock Exchange” include any entity replacing an original Basket Company or such replacement entity, any adjusted Target Price or any replacement exchange, respectively, pursuant to any such adjustment.

The Issuer shall use its best efforts to notify the Noteholders holding the Tranche B Notes and the Tranche D Notes, by no later than the fifth (5th) Business Day before each Equity Bonus Payment Date, whether any Equity Bonus Payment is payable on such Equity Bonus Payment Date.

The Initial Spot Price and the Target Price of the Shares of each Basket Company will not be available at the time investors decide to purchase the Notes. However, the Issuer will, as soon as practicable after the Issue Date, notify the Noteholders holding the Tranche B Notes and the Tranche D Notes (via the clearing systems) the Initial Spot Price and the Target Price of such Shares. Please see the sections headed “Risk Factors — Equity Bonus Payment and the Basket Companies and their Shares” and “Risk Factors — Fluctuations in the price of the Shares” and “Risk Factors — Target Price to be determined on the Target Price Fixing Date”.

Equity Bonus Payment:

Unless (i) notice of the occurrence of a Credit Event is given to Noteholders, (ii) an Early Redemption Event occurs, (iii) an Issuer’s Event of Default occurs or (iv) an Issuer Call Option is exercised in respect of the relevant Tranche of Notes, and provided that the Equity Bonus Condition is fulfilled with respect to the relevant Equity Bonus Payment Date:

- (a) on each Equity Bonus Payment Date (other than the Equity Bonus Payment Date falling on the Scheduled Maturity Date), the holders of Tranche B Notes will receive an amount of USD285 per Tranche B Note and the holders of Tranche D Notes will receive an amount of HKD2,000 per Tranche D Note; and
- (b) on the Equity Bonus Payment Date falling on the Scheduled Maturity Date, the holders of the Tranche B Notes will receive an amount of USD142.50 per Tranche B Notes and the holders of Tranche D Notes will receive an amount of HKD1,000 per Tranche D Note,

each such payment, an “**Equity Bonus Payment**”.

No Equity Bonus Payment will be paid on an Equity Bonus Payment Date if the Equity Bonus Condition is not fulfilled in respect of such Equity Bonus Payment Date.

Equity Bonus Payment Dates:

The Equity Bonus Payment will be payable annually in arrear on 15 August in each year (or, if applicable, such other dates falling on every twelve months following the Issue Date), commencing on 15 August 2006 (or, if applicable, such other date as may be twelve months following the Issue Date) up to and including the Scheduled Maturity Date, or, if applicable, (in the case of notice of the occurrence of a Credit Event being given to Noteholders or an Early Redemption Event or an Issuer's Event of Default occurring) the Equity Bonus Payment Date immediately preceding the date upon which notice is given to the Noteholders of the occurrence of a Credit Event or, as the case may be, the date upon which the Early Redemption Event occurs or, as the case may be, the date upon which the Issuer's Event of Default occurs or (in the case of the exercise of an Issuer Call Option in respect of the relevant Tranche of Notes) (where an Equity Bonus Payment Date falls on the Interest Payment Date on which such Issuer Call Option is exercised) the Equity Bonus Payment Date on which such Issuer Call Option is exercised or (where an Equity Bonus Payment Date does not fall on the Interest Payment Date on which such Issuer Call Option is exercised) the Equity Bonus Payment Date immediately preceding the Interest Payment Date on which such Issuer Call Option is exercised (see "Procedure for redemption of the Notes following a Credit Event", "Early Redemption Events and Issuer's Events of Default" and "Issuer Call Options" in the section headed "Summary — Structure and Outline" of this Issue Prospectus).

If an Equity Bonus Payment Date in any year is a Saturday or a Sunday or otherwise is not a Business Day then payment of the Equity Bonus Payment due on that day will be made on the next following such Business Day. No adjustment will be made to the amount of Equity Bonus Payment payable in the event of such a postponed payment.

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

Upon the exercise of an Issuer Call Option in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is also an Equity Bonus Payment Date, an Equity Bonus Payment may be payable in respect of such Tranche of Notes if the Equity Bonus Condition is fulfilled. Upon the exercise of an Issuer Call Option in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is not also an Equity Bonus Payment Date, no Equity Bonus Payment is due or payable in respect of such Tranche of Notes on such Interest Payment Date. No Equity Bonus Payment will be payable on the Tranche B Notes or the Tranche D Notes after the Interest Payment Date on which the Issuer Call Option is exercised.

Equity Bonus Day Count
Fraction:

$\frac{1}{4}$, other than in respect of the Equity Bonus Payment (if any) payable on the Equity Bonus Payment Date falling on the Scheduled Maturity Date, in which case it is $\frac{1}{2}$.

Final Equity Bonus Payment:

If, following the occurrence of an Extraordinary Event, an equity option transaction under the Equity Option Agreement is terminated and a cancellation payment is payable by the Equity Option Counterparty to the Issuer in connection with such termination, the Issuer shall pay a pro rata amount of such cancellation payment to the holders of the Tranche B Notes (if such equity option transaction relates to the Tranche B Notes) or the Tranche D Notes (if such equity option transaction relates to the Tranche D Notes), as the case may be, on the fifth Business Day following the date of delivery of the Cancellation Notice. See the section headed “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus.

No cancellation payment is payable by the Equity Option Counterparty to the Issuer and accordingly no payment is payable by the Issuer to the holders of the Tranche B Notes or the Tranche D Notes in connection with the termination of the Equity Option Agreement as a result of the exercise of an Issuer Call Option in respect of the Tranche B Notes or the Tranche D Notes, as the case may be.

Scheduled Maturity Date:

15 February 2011

Please note that the Notes may redeem before or after 15 February 2011 if notice of the occurrence of a Credit Event is given to Noteholders or if an Early Redemption Event or Issuer’s Event of Default occurs. The relevant Tranche of Notes may redeem before 15 February 2011 if the Issuer exercises the Issuer Call Option in respect of such Tranche of Notes.

Redemption Amount on the
Scheduled Maturity Date:

100 per cent. of the principal amount outstanding of the Notes (subject to the notification of the occurrence of a Credit Event or the occurrence of an Early Redemption Event or an Issuer’s Event of Default).

| | |
|--|--|
| Note Denomination/Principal Amount per Note: | <p><i>Tranche A Notes:</i> USD5,000 <i>Tranche B Notes:</i> USD5,000 <i>Tranche C Notes:</i> HKD40,000 <i>Tranche D Notes:</i> HKD40,000</p> |
| Form: | <p>The Notes will be in registered global form.</p> <p>For a description of how investors will hold the Notes, please see “Custody Arrangements with Distributors” on page 20 of the Programme Prospectus.</p> |
| Status: | <p>The Notes are secured and limited recourse obligations of the Issuer, as described below.</p> |
| Swap Agreement/Swap Guarantee: | <p>To enable the Issuer to meet its payment obligations under the Notes, the Issuer will enter into a Swap Agreement (the “Swap Agreement”) with Morgan Stanley Capital Services Inc. (the “Swap Counterparty”). The obligations of the Swap Counterparty will be guaranteed by Morgan Stanley (the “Swap Guarantor”) pursuant to the swap guarantee dated 30 September 2004 (the “Swap Guarantee”). (See the section headed “Information about the Swap Arrangements for the Notes” in this Issue Prospectus.)</p> <p>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.</p> |
| The Morgan Stanley Exchange Option: | <p>Morgan Stanley & Co. International Limited has a right under the Morgan Stanley Exchange Option to exchange any or all of the Notes beneficially owned by it for a <i>pro-rata</i> amount of the Underlying Securities from the Issuer (see the section headed “Summary of the Retail Note Programme — The Morgan Stanley Exchange Option” in the Programme Prospectus).</p> |
| Early Termination of the Swap Agreement: | <p>Upon an early termination of the Swap Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of the Morgan Stanley Exchange Option) and the Swap Agreement (or the relevant part, as applicable) is not replaced on or prior to such termination, (see the section headed “Description of the Swap Agreement and the Swap Guarantee” in the Programme Prospectus), an Early Redemption Event will occur and the Notes will be subject to early redemption (see the section headed “Information about the Notes — Early Redemption” and paragraph (iii) of such section in this Issue Prospectus) and</p> |

the Issuer or the Swap Counterparty may be liable to make a termination payment to the other (regardless, if applicable, of which of such parties may have caused such termination) (please also see the paragraph headed “Termination of Swap Agreement” in the section headed “Information About the Swap Arrangements for the Notes” in this Issue Prospectus).

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

Forward Agreement/MS/MSIL
Guarantee:

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

If an Issuer Call Option is exercised in relation to a Tranche of the Notes, the Issuer will, pursuant to the Forward Agreement, deliver to the Forward Counterparty the Underlying Securities in respect of such Tranche of Notes and in return receive a cash amount equal to the principal amount of such Underlying Securities. The Issuer will pay to the Swap Counterparty such cash amount it receives from the Forward Counterparty and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the relevant Tranche of Notes plus any accrued interest up to the Interest Payment Date on which the Issuer Call Option is exercised (excluding, for the avoidance of doubt, any Equity Bonus Payment payable on the Tranche B Notes and the Tranche D Notes) to enable to Issuer (together with, where applicable, amounts receivable by the Issuer under the Equity Option Agreement in respect of any Equity Bonus Payment payable in respect of the Tranche B Notes and the Tranche D Notes) to meet its obligations under such Notes. See the section headed “Information about the Forward Agreement” in this Issue Prospectus for further details.

Equity Option Agreement/
MS/MSIL Guarantee:

The Issuer will enter into a master agreement together with a confirmation in respect of an equity option transaction in connection with each of the Tranche B Notes and the Tranche D Notes (if such Tranche of Notes is issued) (together, the “**Equity Option Agreement**”) with Morgan Stanley & Co. International Limited (the “**Equity Option Counterparty**”) in connection with the issue of the Tranche B Notes and the Tranche D Notes. The obligations of the Equity Option Counterparty will be guaranteed by the Swap Guarantor pursuant to the MS/MSIL Guarantee.

Under the Equity Option Agreement, (a) the Issuer will on the Issue Date pay or procure to be paid to the Equity Option Counterparty a premium the amount of which will be determined on or prior to the Issue Date (the “**Tranche B Equity Option Premium**”) in respect of the equity option transaction in connection with Tranche B Notes and a premium the amount of which will be determined on or prior to the Issue Date (the “**Tranche D Equity Option Premium**”) in respect of the equity option transaction in connection with the Tranche D Notes; and (b) if the Equity Bonus Condition is fulfilled in respect of an Equity Bonus Payment Date, the Equity Option Counterparty will pay the Issuer an amount equal to any Equity Bonus Payment due to be paid by the Issuer on the Tranche B Notes and/or the Tranche D Notes, as the case may be, to enable the Issuer to meet its payment obligations on such Equity Bonus Payment Date under such Tranche or Tranches of Notes.

Security:

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

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

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

- a fixed charge of all sums (i) received under the Swap Agreement, the Swap Guarantee, the Forward Agreement, the Equity Option Agreement and the MS/MSIL Guarantee and (ii) held by the Principal Paying Agent, the Custodian or the Registrar to meet payments due in respect of the Notes.

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

The Beneficiaries:

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

Order of Priorities:

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

- (a) First, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in preparing and executing the trusts under the notes and the Trust Deed (including any taxes required to be paid, the costs of realising or enforcing any security and the Trustee’s remuneration);
- (b) Secondly, rateably in meeting the claims (if any) of the Swap Counterparty under each Swap Agreement, the Forward Counterparty under the Forward Agreement and the Equity Option Counterparty under the Equity Option Agreement (which for this purpose shall include any claim of the Custodian for reimbursement in respect of payments made to the Swap Counterparty under the Swap Agreement, the Forward Counterparty under the Forward Agreement or the Equity Option Counterparty under the Equity Option Agreement, as the case may be, and relating to sums receivable on the Underlying Securities);

- (c) Thirdly, rateably in meeting the claims (if any) of the holders of Notes and Coupons (as defined in the Master Conditions in the Programme Prospectus) (which for this purpose will include any claim of the Custodian, the Principal Paying Agent and the Registrar for reimbursement in respect of payment of principal and interest made to holders of Notes and/or Coupons); and
- (d) Fourthly, in payment of the balance (if any) to the Issuer.

Limited Recourse:

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

Underlying Securities:

The Issuer, using the proceeds received from the issue of the Notes, will on the Issue Date invest in an aggregate principal amount equal to the total principal amount of the Notes of USD denominated securities that satisfy the criteria set out in the section headed “Information about the Underlying Securities” in this Issue Prospectus. Such securities are referred to in this Issue Prospectus as the “**Original Underlying Securities**”.

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

The Original Underlying Securities will on the Issue Date be rated not less than Aaa by Moody’s and/or AAA by S&P (and will not be subject to a negative outlook). The Original Underlying Securities will be rated by at least one rating agency as of the Issue Date.

In the event that the Original Underlying Securities are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer(s) of the Original Underlying Securities prior to the Scheduled Maturity Date, the proceeds of redemption 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 in Eligible Investments. The Eligible Investments which are so acquired are referred to in this Issue Prospectus as “**Reinvested Eligible Investments**”. If the Reinvested Eligible Investments are themselves redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms by their issuer(s) prior to the Scheduled Maturity Date, the proceeds of redemption 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 of such Reinvested Eligible Investments in other Eligible Investments. This process can be repeated any number of times if applicable. The expression “Underlying Securities” in this Issue Prospectus comprises the Original Underlying Securities, the Reinvested Eligible Investments and the proceeds of redemption in respect of the Original Underlying Securities and any Reinvested Eligible Investments.

In the event that the Original Underlying Securities or any Reinvested Eligible Investments are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms as described above, the Issuer will notify the Noteholders (via the clearing systems) of such redemption. The Issuer will notify the Noteholders (via the clearing systems) as soon as practicable after acquiring Reinvested Eligible Investments of details of such acquisition, including the issuer(s) and rating(s) of the Reinvested Eligible Investments. Information about the issuer(s) and rating(s) of the Reinvested Eligible Investments will also be made available for inspection in accordance with the paragraph headed “Display Documents” in the section headed “Additional Information About the Offering” from the date of notice by the Issuer to the Noteholders of such acquisition.

Neither the redemption, in whole or in part, of the Original Underlying Securities or the Reinvested Eligible Investments at their outstanding principal amount including any accrued interest in accordance with their terms as described above nor the acquisition of Eligible Investments using the proceeds of redemption of the Original Underlying Securities or the Reinvested Eligible Investments, as the case may be, as described above will in itself impact on the Noteholders or the terms of the Notes.

Eligible Investments:

Any of the following as determined by the Determination Agent, acting for and on behalf of the Issuer, at its sole and absolute discretion:

- (i) 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); and/or
- (ii) any United States dollar denominated securities rated “Aaa” by Moody’s or “AAA” by S&P that have a scheduled maturity date falling on or prior to the Scheduled Maturity Date of the Notes, which may include Asset-Backed Securities, CDO Squared Securities and Synthetic CDO Securities and which is not subject to any negative CreditWatch of S&P or on review for possible downgrade on Moody’s Watchlist at the time of its acquisition (see the section headed “Information about the Underlying Securities” for definitions of the terms “Asset-Backed Security”, “CDO Squared Security” and “Synthetic CDO Security”); and/or
- (iii) any United States dollar denominated Commercial Paper or Certificate of Deposit rated at least “P-1” by Moody’s and/or “A-1” by S&P or issued by an entity rated at least “P-1” by Moody’s and/or “A-1” by S&P and have a scheduled maturity date falling on or prior to the Scheduled Maturity Date of the Notes and which is not subject to any negative CreditWatch of S&P or on review for possible downgrade on Moody’s Watchlist at the time of its acquisition.

where:

“**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.

Early Redemption:

The Notes shall be subject to early redemption by the Issuer upon the occurrence of any of the following events (each, an “**Early Redemption Event**”)

- (i) if there has been a payment default in respect of the Underlying Securities (without regard to any grace period applicable with respect to such payments), or if the outstanding principal amount of the Underlying Securities is reduced or otherwise written down in accordance with their terms or if the Underlying Securities are redeemed early or otherwise becomes repayable early in whole or in part by the issuer(s) of the Underlying Securities prior to their scheduled dates of maturity for any reason whatsoever at a principal amount less than the outstanding principal amount the subject of such redemption or repayment (each an “**Underlying Securities Default Event**”); or

- (ii) if:
 - (A) the Issuer on the occasion of the next payment due in respect of the Notes would be required by law to withhold or account for tax or would suffer tax in respect of its income (including but not limited to its income in respect of the Underlying Securities) or payments made to it under the Swap Agreement and/or the Forward Agreement and/or the Equity Option Agreement or would receive net of tax any payments in respect of the Underlying Securities or payments made to it under the Swap Agreement and/or the Forward Agreement and/or the Equity Option Agreement so that it would be unable to make payment of the full amount due on the Notes (and it is unable to arrange for the substitution of a company incorporated in another jurisdiction which would not impose such requirement as the principal obligor in respect of the Notes); or
 - (B) any exchange controls or other currency exchange or transfer restrictions are imposed on the Issuer or any payments to be made to or by the Issuer or for any reason the cost to the Issuer of complying with its obligations under or in connection with the Notes or the Trust Deed would (in the sole opinion of the Issuer) be materially increased, and the Issuer, having used its best endeavours, is unable to arrange for the substitution of a company incorporated in another jurisdiction in which the relevant exchange control or currency exchange or transfer restrictions do not apply before the next payment is due in respect of the Notes

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

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

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

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

The Notes so redeemed will cease to bear any interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) from the Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment) immediately preceding the date upon which such Early Redemption Event occurs (or if such Early Redemption Event occurs prior to the first Interest Payment Date (or Equity Bonus Payment Date in the case of any Equity Bonus Payment), no interest (including, in the case of the Tranche B Notes and the Tranche D Notes, any Equity Bonus Payment) will be payable on the Notes).

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

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

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

Issuer Call Options:

In respect of each Tranche of Notes, the Issuer has the right, but not the obligation, to redeem the Notes of such Tranche in whole (but not in part) on any Interest Payment Date falling on or after the first anniversary of the Issue Date. In respect of each Tranche of Notes, upon exercise by the Swap Counterparty of the Swap Counterparty Option (as defined below) in respect of such Tranche of the Notes, the Issuer shall redeem the relevant affected Tranche of the Notes in whole (but not in part), at their principal amount plus accrued interest on any Interest Payment Date which falls on or after the first anniversary of the Issue Date (including, in the case of the Tranche B Notes and Tranche D Notes, where such Interest Payment Date is also an Equity Bonus Payment Date, any Equity Bonus Payment payable on the Tranche B Notes and the Tranche D Notes on such Equity Bonus Payment Date) by giving not less than five Business Days’ prior written notice to the Noteholders (via the clearing systems). Any exercise by the Issuer of an Issuer Call Option shall be irrevocable and the redemption of the relevant affected Tranche of Notes following the exercise of such Issuer Call Option will occur as described above notwithstanding the occurrence of an Early Redemption Event or a Credit Event after such exercise of such Issuer Call Option.

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

If such Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is also an Equity Bonus Payment Date, an Equity Bonus Payment may be payable in respect of such Tranche of Notes if the Equity Bonus Condition is fulfilled. No Equity Bonus Payment will be payable on the Tranche B Notes or the Tranche D Notes after the Interest Payment Date on which the Issuer Call Option is exercised.

If an Issuer Call Option is exercised in respect of the Tranche B Notes or the Tranche D Notes on an Interest Payment Date which is not also an Equity Bonus Payment Date, no Equity Bonus Payment is due or payable in respect of such Tranche of Notes on or after such Interest Payment Date.

“**Swap Counterparty Option**” means, in respect of each Tranche of Notes, the option of the Swap Counterparty, as provided in the Swap Agreement, to terminate the Swap Agreement in respect of the relevant notional amount of such Tranche of the Notes in whole (but not in part) on any Interest Payment Date falling on or after the first anniversary of the Issue Date, by giving not less than five Business Days’ notice to the Issuer.

Credit Event:

A Credit Event means the occurrence of one of the following events:

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

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

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

Credit Event Redemption Amount following a Credit Event:

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

Upon notice of the occurrence of a Credit Event being given to the Noteholders, the Tranche C Notes and the Tranche D Notes will be redeemed by the Issuer on the Credit Event Redemption Date. The holders of the Tranche C Notes and the Tranche D Notes will receive the sum of the following amounts, after conversion into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Credit Event Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith: (i) their pro-rata share of the Credit Event Redemption Amount, plus or minus, as the case may be, (ii) their pro-rata share of any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities, as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Credit Event Redemption Date (see further the paragraph headed “Procedure for redemption of the Notes following a Credit Event” in the section headed “Summary” in this Issue Prospectus).

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

Early Redemption Amount
following an Underlying
Securities Default Event:

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

Early Redemption Amount
following Tax Event:

Following a Tax Event, the Notes will be redeemed on the Early Redemption Date at the Early Redemption Amount. The Early Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty, the Forward Counterparty and/or the Equity Option Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement, the Forward Agreement or the Equity Option Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities.

Early Redemption Amount
following a Restructuring of
Underlying Securities Event:

Following a Restructuring of Underlying Securities Event the Notes will be redeemed on the Early Redemption Date at the Early Redemption Amount. The Early Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities, plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty, the Forward Counterparty and/or the Equity Option Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement, the Forward Agreement or the Equity Option Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities.

Early Redemption Amount following termination of the Swap Agreement, Forward Agreement and/or the Equity Option Agreement:

Following a termination of the Swap Agreement, the Forward Agreement or the Equity Option Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of the Morgan Stanley Exchange Option or, in the case of the Equity Option Agreement, as a result of an Extraordinary Event) and the Swap Agreement, the Forward Agreement or the Equity Option Agreement, as the case may be, (or the relevant part, as applicable) is not replaced on or prior to such termination, the Notes will be redeemed on the Early Redemption Date at the Early Redemption Amount. The Early Redemption Amount will be an amount equal to the Mandatory Redemption Liquidation Proceeds of the Underlying Securities, plus or minus (as the case may be) the Swap Settlement Amount (if any) payable by the Swap Counterparty, Forward Counterparty and/or the Equity Option Counterparty or the Issuer (as the case may be) on the termination of the Swap Agreement, the Forward Agreement or the Equity Option Agreement, as the case may be. The Mandatory Redemption Liquidation Proceeds will be subject to certain deductions relating to the costs and expenses associated with the sale of the Underlying Securities.

Issuer's Events of Default:

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the outstanding Notes, or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject in each case to being indemnified to its satisfaction) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount in any of the following events (each an “**Event of Default**” and, where the Trustee has given notice to the Issuer that the Notes are, and they have accordingly forthwith become, immediately due and repayable at their principal amount such Event of Default, an “**Issuer's Event of Default**”):

- (a) default is made by the Issuer for a period of 14 days or more in the case of interest payments or 7 days or more in the case of principal payment due in respect of the Notes or any of them; or
- (b) the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (unless such failure is, in the opinion of the Trustee, incapable of being remedied in which case no such notice as is referred to in this paragraph shall be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

- (c) any order shall be made by any competent court or any resolution passed for the winding-up or dissolution of the Issuer or an order is made for the Issuer's bankruptcy (or any analogous proceedings) save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms previously approved in writing by the Trustee; or
- (d) if (i) any other proceedings are initiated against the Issuer under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws (but excluding the presentation of any application for an administration order) and such proceedings are not being disputed in good faith, or (ii) an administrative receiver or other receiver, administrator or other similar official (not being an administrative receiver or other receiver or manager appointed by the Trustee pursuant to the Principal Trust Deed) is appointed in relation to the Issuer or in relation to the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer or (iii) an encumbrancer (not being the Trustee or any receiver or manager appointed by the Trustee) shall take possession of the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer or (iv) a distress or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer (other than, in any such case, by the Trustee) and in any of the foregoing cases (other than in relation to the circumstances described in (ii) where no grace period shall apply) such order, appointment, possession or process (as the case may be) is not discharged or stayed or does not cease to apply within 14 days; or
- (e) if the Issuer initiates or consents to judicial proceedings relating to itself (except in accordance with the proviso in paragraph (c) above) under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or
- (f) if the Issuer becomes insolvent or is adjudicated or found bankrupt.

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| Notices: | So long as the Notes are represented by the Global Certificates which are registered in the name of a nominee for the common depositary for Euroclear, Clearstream International and/or any other clearing system, notices required to be given to Noteholders may be given by their being delivered to the Paying Agents and the relevant clearing system for communication to entitled accountholders. The Distributors will be the accountholders for the purpose of delivery of notices to the Noteholders through the clearing systems, and investors will therefore need to rely on their Distributors to communicate such notices to them. A copy of each notice given by the Issuer in respect of the Notes will be made available for inspection as set out under the paragraph headed “Display Documents” under the section headed “Additional Information about the Offering” in this Issue Prospectus. |
| Listing of the Notes: | The Notes will not be listed on any stock exchange. |
| Rating of the Notes: | The Notes will not be rated by any rating agency. |
| Governing law of the Notes: | English law. |
| Selling Restrictions: | See the section headed “Subscription and Sale — Selling Restrictions” in the Programme Prospectus for a discussion of certain restrictions on the offering of the Notes and the distribution of offering materials in various jurisdictions provided that the sub-section headed “United Kingdom” in this section will be replaced with the following: “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.”

Master Conditions:

The description of the terms and conditions of the Notes set out in this Issue Prospectus is a summary only. The full terms and conditions of the Notes can be reviewed by reading together the following:

- (i) the Master Conditions, which comprise the basis of all Notes to be issued under the Programme, and which are set out in full in the Programme Prospectus; and
- (ii) the Pricing Supplement for each Tranche of the Notes to be issued on the Issue Date of the Notes, which applies and/or disappplies and/or supplements or amends the Master Conditions in the manner required to reflect the particular terms and conditions applicable only to the relevant Tranche of Notes described in this Issue Prospectus. The Pricing Supplements will be available for inspection as described under the paragraph headed “Display Documents” under the section headed “Additional Information about the Offering” in this Issue Prospectus.

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

Other parties involved in the offering of the Notes:

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| Arranger, Initial Subscriber and Market Agent: | Morgan Stanley & Co. International Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom. |
| Arranger's agent: | Morgan Stanley Dean Witter Asia Limited, 30th Floor, Three Exchange Square, Central, Hong Kong. |
| Co-ordinating Distributor: | ICEA Capital Limited, 42nd Floor, Jardine House, 1 Connaught Place, Hong Kong. |
| Trustee: | J.P. Morgan Corporate Trustee Services Limited, Trinity Tower, 9 Thomas More Street, London E1W 1YT, United Kingdom. |
| Principal Paying Agent, Registrar, Calculation Agent and Custodian: | JPMorgan Chase Bank, N.A., Trinity Tower, 9 Thomas More Street, London E1W 1YT, United Kingdom. |
| Determination Agent: | Morgan Stanley & Co. International Limited, 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom. |
| Legal advisers to the Issuer as to Cayman Islands law: | Maples and Calder, 1504 One International Finance Centre, 1 Harbour View Street, Hong Kong. |
| Legal advisers to the Arranger as to English and Hong Kong law: | Clifford Chance, 29th Floor, Jardine House, One Connaught Place, Hong Kong. |

TECHNICAL DEFINITIONS

CREDIT TERMS

Credit Events

Definition of Credit Event

“**Credit Event**” means the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion acting in good faith having the right (but not the obligation) to declare the occurrence of a Credit Event upon the occurrence of one or more of the following events or conditions with respect to a Reference Entity or Obligations of a Reference Entity, which event or condition occurs on or after the Issue Date:

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

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

For these purposes:

“**Asian Entity**” means any of CLP and MTRC.

“**Domestic Asian Entity**” means any of Sun Hung Kai and Cheung Kong.

“**European Entity**” means HSBC.

“**Bankruptcy**” means in respect of a Reference Entity that the Reference Entity (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof; (e) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian

or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within thirty calendar days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

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

“Restructuring” means in respect of a Reference Entity that:

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

- (iii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of a Reference Entity.
- (c) For purposes of paragraphs (a) and (b) above, the term “Obligation” shall be deemed to include Underlying Obligations for which a Reference Entity is acting as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to a Reference Entity in paragraph (a) of this definition shall be deemed to refer to the Underlying Obligor and the reference to a Reference Entity in paragraph (b) of this definition shall continue to refer to such Reference Entity.

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

Occurrence of a Credit Event

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

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

For these purposes:

“**Publicly Available Information**” means (a) information that reasonably confirms any of the facts relevant to the determination that the Credit Event has occurred and which (i) has been published in or on not less than the number of Public Sources (as defined herein) specified in the Swap Agreement (or, if a number is not so specified, two), regardless of whether the reader or user thereof pays a fee to obtain such information; provided that, if any of the Swap Counterparty or its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Swap Counterparty or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation; (ii) is information received from or published by (A) a Reference Entity the subject of the Credit Event, or (B) a trustee, fiscal agent, administrative agent, clearing agent or

paying agent for an Obligation, (iii) is information contained in any petition or filing instituting a proceeding described in paragraph (d) in the definition of “Bankruptcy” above against or by a Reference Entity or (iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

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

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

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

Credit Event Redemption Amount

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

For these purposes:

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

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

Determining Deliverable Obligations

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

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

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

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

“Credit Event Notice” means the notice of the occurrence of a Credit Event in respect of one or more of the Reference Entities which is provided to, amongst others, the Noteholders.

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

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

“Dealers” means dealers in Bonds or Loans from which quotations on the market value of the Bonds or Loans are to be obtained or dealers in the Underlying Securities.

“Deliverable Obligation Characteristics”:

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

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

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

“Early Redemption Credit Event Entity” means the Reference Entity specified in the Credit Event Notice and selected by the Determination Agent, acting for and on behalf of the Issuer, as the Early Redemption Credit Event Entity.

“Equity Securities” means:

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

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

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

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

“Method for Determining Deliverable Obligations” means any Bond or Loan of the Early Redemption Credit Event Entity having as of the Valuation Date each of the Deliverable Obligation Characteristics specified to apply to that Reference Entity in the definition of “Deliverable Obligation Characteristics” as at the Valuation Date.

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

“Not Contingent” means any obligation having as of the Valuation Date and all times thereafter an outstanding principal balance or, in the case of obligations that are not Borrowed Money, an outstanding principal balance excluding any accrued interest, that pursuant to the terms of such obligation may not be reduced as a result of the occurrence or nonoccurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall satisfy the Not Contingent Deliverable Obligation Characteristic if such Convertible Obligation, Exchangeable Obligation or Accreting Obligation otherwise meets the requirements of the preceding sentence so long as, in the case of a Convertible Obligation or an

Exchangeable Obligation, the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised or may exercise the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date.

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

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

“Not Domestic Law” means any obligation that is not governed by the laws of the jurisdiction of organisation of the Reference Entity.

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

“Not Subordinated” means an obligation that is not Subordinated to the outstanding senior, unsecured or secured obligations of the Reference Entity in priority of payment.

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

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

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

Definitions

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

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

“Best Available Information” means the unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Determination Agent, acting for and on behalf of the Issuer, makes its determination for the purposes of the definition of “Successor”, other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required. Information which is made available more than fourteen calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information.

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

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

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

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

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

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

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

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

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

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

“Obligation” means:

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

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

(3) in respect of each Reference Entity, each obligation of such entity which is specified or determined to be a Reference Obligation of such entity.

“Obligation Characteristics”:

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

(b) in respect of any Domestic Asian Entity, Not Subordinated and Not Sovereign Lender; and

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

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

“Qualifying Guarantee” means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the **“Underlying Obligation”**) for which another party is the obligor (the **“Underlying Obligor”**). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement; or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced, assigned or otherwise altered (other than by operation of law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being delivered together with the Delivery of the Underlying Obligation.

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

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

“Reference Obligation” means, in respect of:

(a) CLP, CLP Power Hong Kong Financing Limited 6.25% notes guaranteed by CLP Holdings Limited due 8 May 2012 (ISIN: XS0146769020);

(b) HSBC, HSBC Bank PLC 4.25% subordinated notes due 18 March 2016 (ISIN: XS0164883992);

(c) MTRC, MTR Corporation (C.I.) Limited 4.75% notes guaranteed by MTR Corporation Limited due 21 January 2014 (ISIN: XS0184198157);

(d) Sun Hung Kai, Sun Hung Kai Properties (Capital Markets) Limited 5.75% notes guaranteed by Sun Hung Kai Properties Limited due 18 July 2012 (ISIN: HK0000022290); and

(e) Cheung Kong, Cheung Kong Finance Cayman Ltd 8.38% notes guaranteed by Cheung Kong (Holdings) Ltd due 12 January 2010 (ISIN: HK0000016631).

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

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

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

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

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

- (i) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity (as applicable), claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation; or
- (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. “Subordinated” will be construed accordingly. For purposes of

determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account.

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

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

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

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

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

Where:

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

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

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

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

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

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

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

Interpretation of Provisions

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

Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Provisions

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

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

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

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

EQUITY TERMS

Target Price Fixing Date, Observation Dates and Disrupted Days

“**Target Price Fixing Date**” means the Fixing Date (or, if the Fixing Date is not a Scheduled Trading Day, the Target Price Fixing Date will be postponed to the next following Scheduled Trading Day), provided that if any such day is a Disrupted Day, then the Target Price Fixing Date for each Share not affected by the occurrence of a Disrupted Day shall be the Scheduled Target Price Fixing Date, and such Target Price Fixing Date for each Share affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight (8) Scheduled Trading Days immediately following the Scheduled Target Price Fixing Date is a Disrupted Day. In that case, (i) that eighth (8th) Scheduled Trading Day shall be deemed to be the Target Price Fixing Date for the relevant Share, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Determination Agent, acting for and on behalf of the Issuer, shall determine its good faith estimate of the value for that Share as of the Valuation Time of the Relevant Stock Exchange on that eighth (8th) Scheduled Trading Day.

“**Observation Dates**” means the sixteenth (16th) Business Day prior to each Equity Bonus Payment Date (the “**First Observation Date**”) and the two Business Days following the First Observation Date (or, if any such date is not a Scheduled Trading Day, such date will be postponed to the next following Scheduled Trading Day), provided that if any such day is a Disrupted Day, then such Observation Date for each Share not affected by the occurrence of a Disrupted Day shall be the Scheduled Observation Date, and such Observation Date for each Share affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the five (5) Scheduled Trading Days immediately following the Scheduled Observation Date is a Disrupted Day. In that case, (i) that fifth (5th) Scheduled Trading Day shall be deemed to be the Observation Date for the relevant Share, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Determination Agent, acting for and on behalf of the Issuer, shall determine its good faith estimate of the value for that Share as of the Valuation Time of the Relevant Stock Exchange on that fifth (5th) Scheduled Trading Day.

For these purposes:

“**Disrupted Day**” means any Scheduled Trading Day on which a Relevant Stock Exchange or Related Exchange fails to open for trading during its regular trading sessions or on which a Market Disruption Event has occurred.

“**Early Closure**” means the closure on any Exchange Business Day of the Relevant Stock Exchange or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Related Stock Exchange or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Related Stock Exchange or Related Exchange(s) on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Related Stock Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

“**Exchange Business Day**” means any Scheduled Trading Day on which the Relevant Stock Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Relevant Stock Exchange or Related Exchange closing prior to its Scheduled Closing Time.

“**Exchange Disruption**” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Determination Agent, acting for and on behalf of the Issuer) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Share on the Relevant Stock Exchange or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Share on any Related Exchange.

“Market Disruption Event” means, in respect of a Share, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Determination Agent, acting for and on behalf of the Issuer, determines is material, at any time during the one hour period that ends at the relevant Valuation Time, or (iii) an Early Closure.

“Related Exchange” means, in respect of a Share, each primary exchange on which options or futures on the relevant Share are traded, any successor to such exchange or any substitute exchange or quotation system to which trading in futures or option contracts relating to such Share has temporarily relocated (provided that the Determination Agent, acting for and on behalf of the Issuer, has determined that there is comparable liquidity relative to the futures or option contracts relating to such Share on such temporarily substitute exchange or quotation system as on the original Related Exchange).

“Scheduled Closing Time” means, in respect of a Relevant Stock Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Relevant Stock Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

“Scheduled Observation Date” means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been an Observation Date.

“Scheduled Target Price Fixing Date” means the original date that, but for the occurrence of an event causing a Disrupted Day, would have been the Target Price Fixing Date.

“Scheduled Trading Day” means any day on the respective Relevant Stock Exchange and Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Trading Disruption” means any suspension of or limitation imposed on trading by the Relevant Stock Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or Related Exchange or otherwise (i) relating to the Share on the Relevant Stock Exchange, or (ii) in futures or option contracts relating to the Share on any relevant Related Exchange.

“Valuation Time” means the Scheduled Closing Time on the Relevant Stock Exchange on the relevant Observation Date in relation to the Share to be valued.

Potential Adjustment Events

Following each Potential Adjustment Event (as defined below), the Determination Agent, acting for and on behalf of the Issuer, shall, in its sole and absolute discretion, determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Share and, if so, will in its sole and absolute discretion determine the appropriate adjustment, if any, to be made to the terms of the Tranche B Notes and the Tranche D Notes in respect of the Equity Bonus Payment (including the Target Price of the relevant Share) to account for the diluting or concentrative effect of the Potential Adjustment Event, such adjustment to be effective as of the date determined by the Determination Agent, acting for and on behalf of the Issuer.

The Determination Agent, acting for and on behalf of the Issuer, may (but need not) determine the appropriate adjustment(s) by reference to the adjustment(s) in respect of such Potential Adjustment Event made by an options exchange to options on the relevant Shares traded on such options exchange.

The Determination Agent, acting for and on behalf of the Issuer, shall, as soon as practicable following the occurrence of a Potential Adjustment Event notify the Noteholders holding the Tranche B Notes and the Tranche D Notes of any determinations and/ or adjustments (including the details of such Potential Adjustment Event and the details and the effective date of such adjustments) as the case

may be. Such notices will be given to such Noteholders in the manner described in the section headed “Information about the Notes - Notices” of this Issue Prospectus. No such adjustments will be made to the Tranche A Notes or the Tranche C Notes following the occurrence of a Potential Adjustment Event.

For these purposes, “**Potential Adjustment Event**” means the declaration by a Basket Company of the terms of any of the following:

- (i) a subdivision, consolidation or reclassification of the relevant Shares (unless resulting in a Merger Event (as defined below)) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue; or
- (ii) a distribution, issue or dividend to existing holders of the relevant Shares of (a) such Shares or (b) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Basket Company equally or proportionately with such payments to holders of such Shares or (c) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Basket Company as a result of a spin-off or other similar transaction or (d) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Determination Agent, acting for and on behalf of the Issuer; or
- (iii) an extraordinary dividend (where the characterization of a dividend or portion thereof as an extraordinary dividend shall be determined by the Determination Agent in its sole and absolute discretion); or
- (iv) a call by the Basket Company in respect of the relevant Shares that are not fully paid;
- (v) a repurchase by the Basket Company or any of its subsidiaries of relevant Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (vi) in respect of the Basket Company, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of the Basket Company pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value, as determined by the Determination Agent, acting for and on behalf of the Issuer, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (vii) any other event that may have a diluting or concentrative effect on the theoretical value of such Shares.

Extraordinary Events

If, in respect of any Basket Company, any of the following events (each an “**Extraordinary Event**”) occurs on or prior to the Scheduled Maturity Date:

- (i) a Merger Event;
- (ii) a Tender Offer;
- (iii) a Nationalization;
- (iv) an Insolvency;

(v) a Delisting; or

(vi) a Change in Law,

then, the Determination Agent, acting for and on behalf of the Issuer, may either (i)(A) make such adjustment to the terms of the Tranche B Notes and the Tranche D Notes in respect of the Equity Bonus Payment (including replacing one or more original Basket Companies with another or other entities and/or amending the Target Price of the Shares of one or more Basket Companies) as the Determination Agent, acting for and on behalf of the Issuer, determines appropriate to take into account the economic effect of such Extraordinary Event (including adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the Equity Option Agreement); and (B) determine the effective date of that adjustment; or (ii) in its sole discretion determine that the Equity Bonus Payment shall forthwith cease to be payable (the notice referred to below to the Noteholders holding the Tranche B Notes and the Tranche D Notes (via the clearing systems) in respect of such determination, a “**Cancellation Notice**”). With effect from the date of such Cancellation Notice, the Equity Bonus Condition shall be deemed not to be fulfilled in respect of each Equity Bonus Payment Date falling on or after such Cancellation Notice.

The Determination Agent, acting for and on behalf of the Issuer, may (but need not) determine the appropriate adjustment(s) by reference to the adjustment(s) in respect of such Extraordinary Event, made by an options exchange to options on the relevant Shares traded on such options exchange.

The Determination Agent, acting for and on behalf of the Issuer, shall, as soon as practicable following the occurrence of an Extraordinary Event notify the Noteholders holding the Tranche B Notes and the Tranche D Notes of any determinations and/ or adjustments (including the details of such Extraordinary Event and the details and the effective date of such adjustments) as the case may be. Such notices will be given to such Noteholders in the manner described in the section headed “Information about the Notes — Notices” of this Issue Prospectus. No such adjustments will be made to the Tranche A Notes or the Tranche C Notes following the occurrence of an Extraordinary Event.

If, following the occurrence of an Extraordinary Event, an equity option transaction under the Equity Option Agreement is terminated and a cancellation payment is paid by the Equity Option Counterparty to the Issuer in connection with such termination, the Issuer shall pay a pro rata amount of such cancellation payment to the holders of the Tranche B Notes (if such equity option transaction relates to the Tranche B Notes) or the Tranche D Notes (if such equity option transaction relates to the Tranche D Notes), as the case may be, (a “**Final Equity Bonus Payment**”).

For these purposes:

“**Change in Law**” means that, on or after the Issue Date (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Determination Agent, acting for and on behalf of the Issuer, determines in good faith that (X) it has become illegal to hold, acquire or dispose of the Shares of any Basket Company, or (Y) either the Equity Option Counterparty or the Issuer will incur a materially increased cost in performing its obligations under the Equity Option Agreement (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position).

“Delisting” means that, in respect of the Shares of a Basket Company, the Relevant Stock Exchange in respect of such Shares announces that pursuant to the rules of such Relevant Stock Exchange, such Shares cease (or will cease) to be listed, traded or publicly quoted on such Relevant Stock Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Relevant Stock Exchange (or, where the Relevant Stock Exchange is within the European Union, in any member state of the European Union).

“Insolvency” means that, in respect of a Basket Company, by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting such Basket Company, (A) all the Shares of that Basket Company are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Shares of that of such Basket Company become legally prohibited from transferring them.

“Merger Date” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Determination Agent, acting for and on behalf of the Issuer.

“Merger Event” means, in respect of the Shares of a Basket Company, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of the Basket Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Basket Company is the continuing entity and which does not result in a reclassification or change of all of such Shares outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Shares of the Basket Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Basket Company or its subsidiaries with or into another entity in which the Basket Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Shares immediately following such event (a **“Reverse Merger”**), in each case if the Merger Date is on or before the final Observation Date.

“Nationalization” means that, in respect of a Basket Company, all the Shares of such Basket Company or all or substantially all the assets of such Basket Company are nationalized, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof.

“Tender Offer” means, in respect of a Basket Company, a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10% and less than 100% of the outstanding voting shares of the Basket Company, as determined by the Determination Agent, acting for and on behalf of the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Determination Agent, acting for and on behalf of the Issuer, deems relevant.

INFORMATION ABOUT THE UNDERLYING SECURITIES

The “**Underlying Securities**” shall comprise the Original Underlying Securities, the Reinvested Eligible Investments and any proceeds of redemption of the Original Underlying Securities and any Reinvested Eligible Investments.

On the Issue Date, the Issuer shall invest the proceeds received from the issue of the Notes in the purchase or subscription of a principal amount of securities denominated in US dollars equal to the total principal amount of the Notes. Such securities shall be the “**Original Underlying Securities**” and shall meet the following criteria at the Issue Date:

- (a) be rated not less than Aaa by Moody’s and/or AAA by S&P;
- (b) not be subject to any negative CreditWatch of S&P or on review for possible downgrade on Moody’s Watchlist;
- (c) have a maximum maturity not later than the Scheduled Maturity Date; and
- (d) be acceptable to the Swap Counterparty as a funding source for the obligations of the Issuer under the Swap Agreement.

It is anticipated that the Original Underlying Securities will consist of, or include Synthetic CDO Securities and/or CDO Squared Securities.

“**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 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.

“**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.

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

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

In the event that the Original Underlying Securities are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer(s) of the Original Underlying Securities prior to the Scheduled Maturity Date, the proceeds of redemption 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 in Eligible Investments (see the section headed “Information about the Notes — Eligible Investments”. Any Eligible Investments acquired will be referred to herein as “**Reinvested Eligible Investments**”). If the Reinvested Eligible Investments are themselves redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms by their issuer(s) prior to the Scheduled Maturity Date, the proceeds of redemption will be paid into the account of the Issuer with the Custodian (which may or may not be interest bearing) and the Determination Agent, acting for and on behalf of the Issuer, may in its sole and absolute discretion reinvest the proceeds of redemption in other Eligible Investments. This process can be repeated any number of times if applicable. The expression “Underlying Securities” comprises the Original Underlying Securities, any Reinvested Eligible Investments and any proceeds of redemption of the Original Underlying Securities and any Eligible Investments.

In the event that the Underlying Securities are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms as described above, the Issuer will notify the Noteholders (via the clearing systems) of such redemption. The Issuer will notify the Noteholders (via the clearing systems) as soon as practicable after acquiring Reinvested Eligible Investments details of such acquisition, including the issuer(s) and rating(s) of the Reinvested Eligible Investments.

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

Neither the redemption, in whole or in part, of the Original Underlying Securities or the Reinvested Eligible Investments at their outstanding principal amount including any accrued interest in accordance with their terms as described above nor the acquisition of Reinvested Eligible Investments using the proceeds of redemption of Underlying Securities as described above will in itself impact on the Noteholders or the terms of the Notes.

The Reinvested Eligible Investments and any proceeds of redemption of the Original Underlying Securities and any Reinvested Eligible Investments will be deposited by the Issuer with the Custodian on or about the date of acquisition or redemption (as the case may be) pursuant to the provisions of (i) the Agency Agreement, (ii) the Sixth Supplemental Trust Deed and, where relevant, (iii) any additional documents creating security interests specified as such in the Sixth Supplemental Trust Deed.

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

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

INFORMATION ABOUT THE SWAP ARRANGEMENTS FOR THE NOTES

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

The Swap Agreement

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

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

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

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

- (i) where applicable, on or about each interest payment date in respect of the Notes, the Issuer will pay to the Swap Counterparty a sum in US dollars equal to the interest, if any, receivable by it in respect of such Underlying Securities during the interest period ending on such interest payment date;
- (ii) on each interest payment date in respect of the Notes, the Swap Counterparty will pay to the Issuer a sum in US dollars (for Tranche A Notes and Tranche B Notes) and in HK dollars (for Tranche C Notes and Tranche D Notes) equal in aggregate to the interest due to be paid by the Issuer on the Notes (excluding, for the avoidance of doubt, any Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes);
- (iii) on the Issue Date, the Swap Counterparty will pay an amount equal to the Tranche B Equity Option Premium and/or the Tranche D Equity Option Premium (if any) to the Issuer (or to its order);

- (iv) upon the notification of the occurrence of a Credit Event, the Issuer will, pursuant to the Swap Agreement, pay to the Swap Counterparty an amount equal to the Liquidation Proceeds of the Underlying Securities and in return will receive a cash amount equal to the Credit Event Redemption Amount plus or minus any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities (after converting the pro-rata share of such net cash equivalents of the Deliverable Obligations payable to holders of the Tranche C Notes and the Tranche D Notes into Hong Kong dollars at the USD/HKD exchange rate prevailing on or about the Credit Event Redemption Date, as determined by the Determination Agent), acting for and on behalf of the Issuer; and
- (v) if an Issuer Call Option is exercised in relation to any or all Tranche(s) of the Notes, the Issuer will pay to the Swap Counterparty the cash amount it receives from the Forward Counterparty (which will be equal to the principal amount of the Underlying Securities in respect of such affected Tranche(s) of Notes) and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the affected Tranche(s) of Notes plus any accrued interest up to the Interest Payment Date on which the Issuer Call Option is exercised (excluding, for the avoidance of doubt, any Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes) to enable the Issuer (together with amounts receivable by the Issuer under the Equity Option Agreement in respect of any Equity Bonus Payment payable in respect of the Tranche B Notes and the Tranche D Notes) to meet its obligations under such Notes.

Termination of Swap Agreement

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

The Programme Prospectus contains a summary of the circumstances in which the Swap Agreement may be terminated prior to the Scheduled Maturity Date. Upon an early termination of the Swap Agreement (in whole or in part) (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of the Morgan Stanley Exchange Option), and if the Swap Agreement (or the relevant part, as applicable) is not replaced on or prior to such termination, an Early Redemption Event will occur and the Notes will be subject to early redemption (see the section headed “Information about the Notes — Early Redemption” and paragraph (iii) of such section in this Issue Prospectus). Furthermore, upon an early termination (in whole or in part) of the Swap Agreement (other than as a result of the exercise by the Swap Counterparty of one or more Swap Counterparty Options or the giving of notice of the occurrence of a Credit Event to the Noteholders or following the exercise by the Issuer of one or more Issuer Call Options or the exercise by Morgan Stanley & Co. International Limited of the Morgan Stanley Exchange Option), the Issuer or the Swap Counterparty may be liable to make a termination payment (determined in accordance with the Swap Agreement and as described below) to the other (regardless, if applicable, of which of such parties may have caused such termination). There is no assurance that the proceeds from the sale of the Underlying Securities plus (if such payment is owed to the Issuer) or minus (if such payment is owed

by the Issuer) such termination payment and taking into account any termination payments under the Forward Agreement and/or the Equity Option Agreement will be sufficient to pay the principal amount and/or interest due to be paid in respect of the Notes. The claims of the Swap Counterparty against the Issuer under the Swap Agreement shall rank prior to the claims of the Noteholders under the Notes in the application of all monies received in connection with the realisation or enforcement of the security in respect of the Notes.

The termination payment following an early termination of the Swap Agreement (in whole or in part) as described in the paragraph above will be calculated and made in US dollars. The amount of any such termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Swap Agreement and the termination payment would typically take into account the market value of the terminated Swap Agreement based on market quotations of the cost of entering into a swap transaction with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties. Any such termination payment could, depending on fluctuations in exchange rates and/or the interest rate environment, be substantial.

INFORMATION ABOUT THE FORWARD AGREEMENT

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

The Forward Agreement

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

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

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

- (i) if an Issuer Call Option is exercised in relation to a Tranche of the Notes, the Issuer will, pursuant to the Forward Agreement, deliver to the Forward Counterparty the Underlying Securities in respect of the relevant Tranche of Notes; and
- (ii) the Forward Counterparty will pay to the Issuer a cash amount equal to the principal amount of such Underlying Securities. The Issuer will pay to the Swap Counterparty such cash amount it receives from the Forward Counterparty and the Swap Counterparty will pay to the Issuer an amount equal to the principal amount of the relevant Tranche of Notes plus any accrued interest up to the Interest Payment Date on which such Issuer Call Option is exercised (excluding, for the avoidance of doubt, any Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes) to enable the Issuer (together with amounts receivable by the Issuer under the Equity Option Agreement in respect of any Equity Bonus Payment payable in respect of the Tranche B Notes and the Tranche D Notes) to meet its obligations under such Notes.

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

Termination of Forward Agreement

Morgan Stanley & Co. International Limited shall, in connection with the issue of the Notes, be granted the Morgan Stanley Exchange Option by the Issuer, pursuant to which it will be granted the right, with respect to the Notes that it beneficially owns, to exchange any or all of such Notes for a pro-rata amount of the relevant Underlying Securities from the Issuer (see “Summary of the Retail Note Programme - The Morgan Stanley Exchange Option” in the Programme Prospectus for further

details). If Morgan Stanley & Co. International Limited exercises the Morgan Stanley Exchange Option, a pro-rata amount of the Forward Agreement corresponding to that proportion of the Notes to be exchanged will be terminated without any termination payment being due from the Issuer or the Forward Counterparty.

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

The termination payment following an early termination of the Forward Agreement (in whole or in part) as described in the paragraph above will be calculated and made in US dollars. The amount of any such termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Forward Agreement and the termination payment would typically take into account the market value of the terminated Forward Agreement based on market quotations of the cost of entering into a contingent forward transaction with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties. Any such termination payment could, depending on fluctuations in exchange rates and/or the interest rate environment, be substantial.

INFORMATION ABOUT THE EQUITY OPTION AGREEMENT

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

The Equity Option Agreement

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

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

The arrangements contemplated by the Equity Option Agreement will enable the Issuer to receive in respect of an Equity Bonus Payment Date from the Equity Option Counterparty an amount equal to any Equity Bonus Payment payable under the Tranche B Notes and/or the Tranche D Notes, as the case may be, on such Equity Bonus Payment Date, if in respect of such Equity Bonus Payment Date the Equity Bonus Condition is fulfilled, and accordingly enable the Issuer to meet its payment obligations in respect of such Equity Bonus Payment under such Tranche or Tranches of Notes.

The following is a summary of the respective obligations of the Issuer and the Equity Option Counterparty under the Equity Option Agreement:

- (a) the Issuer will on the Issue Date pay or procure to be paid to the Equity Option Counterparty the Tranche B Equity Option Premium in respect of the equity option transaction in connection with Tranche B Notes and the Tranche D Equity Option Premium in respect of the equity option transaction in connection with the Tranche D Notes; and
- (b) if in relation to an Equity Bonus Payment Date the Equity Bonus Condition is fulfilled, the Equity Option Counterparty will pay the Issuer an amount equal to any Equity Bonus Payment payable by the Issuer on the Tranche B Notes and/or the Tranche D Notes, as the case may be, to enable the Issuer to meet its payment obligations in respect of such Equity Bonus Payment under such Tranche or Tranches of Notes.

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

Termination of Equity Option Agreement

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

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

The termination payment following an early termination of the Equity Option Agreement (in whole or in part) as described in the paragraph above will be calculated and made in US dollars. The amount of any such termination payment will reflect the total losses and costs and/or gains incurred in the termination of the Equity Option Agreement and the termination payment would typically take into account the market value of the terminated Equity Option Agreement based on market quotations of the cost of entering into an equity option 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 vary, depending on fluctuations in the price of the Shares of the Basket Companies, exchange rates and/or the interest rate environment.

INFORMATION ABOUT THE REFERENCE ENTITIES

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

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

Information in relation to each Reference Entity and its operations and financial condition can be viewed on the website operated by it, which can be accessed as described below.

| Reference Entity | Website |
|---------------------------------------|----------------------------|
| CLP Holdings Limited | www.chinalightandpower.com |
| HSBC Bank PLC | www.hsbc.com |
| MTR Corporation Limited | www.mtr.com.hk |
| Sun Hung Kai Properties Limited | www.shkp.com.hk |
| Cheung Kong (Holdings) Limited | www.ckh.com.hk |

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

CLP Holdings Limited, MTR Corporation Limited, Sun Hung Kai Properties Limited and Cheung Kong (Holdings) Limited are listed on the Stock Exchange of Hong Kong Limited (“SEHK”). While HSBC Bank PLC is not listed, its holding company, HSBC Holdings PLC, is listed on the SEHK, the London Stock Exchange and the New York Stock Exchange (see the paragraphs below).

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

The London Stock Exchange imposes requirements on the provision of up-to-date material information which would enable the public to appraise the position of HSBC Holdings PLC (the holding company of HSBC Bank PLC).

As stated above, HSBC Holdings PLC (the holding company of HSBC Bank PLC) is listed on the New York Stock Exchange. This stock exchange imposes requirements on the provision of up-to-date material information which would enable the public to appraise the position of HSBC Holdings PLC.

Additional information in respect of CLP Holdings Limited, MTR Corporation Limited, Sun Hung Kai Properties Limited, Cheung Kong (Holdings) Limited and HSBC Holdings PLC (the holding company of HSBC Bank PLC) can also be found by viewing the website of the SEHK at www.hkex.com.hk.

Additional information in respect of HSBC Holdings PLC (the holding company of HSBC Bank PLC) can be found by viewing the website of the New York Stock Exchange at www.nyse.com, the website of the U.S. Securities and Exchange Commission at www.sec.gov and the website of the London Stock Exchange at www.londonstockexchange.com.

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

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

As at 4 July 2005, each of the Reference Entities and their respective Reference Obligation has the credit ratings set out in the following table.

| | <u>Moody’s Rating¹</u> | <u>S&P Rating²</u> |
|--|-----------------------------------|-----------------------------------|
| HSBC Bank PLC | | |
| <i>Long-term subordinated debt</i> | Aa3 | A+ |
| <i>Reference Obligation</i> | Aa3 | A+ |
| CLP Holdings Limited | | |
| <i>Long-term senior unsecured debt</i> | A1 | A+ |
| <i>Reference Obligation</i> | A1 | A+ |
| MTR Corporation Limited | | |
| <i>Long-term senior unsecured debt</i> | A1 | A+ |
| <i>Reference Obligation</i> | A1 | A+ |
| Sun Hung Kai Properties Limited | | |
| <i>Long-term senior unsecured debt</i> | A1 | A |
| <i>Reference Obligation</i> | A1 | A |
| Cheung Kong (Holdings) Limited | | |
| <i>Long-term senior unsecured debt</i> | N/A | A- |
| <i>Reference Obligation</i> | N/A | A- |

| <u>Reference Entity</u> | <u>Reference Obligation</u> |
|-------------------------------|---|
| CLP Holdings Limited | CLP Power Hong Kong Financing Limited 6.25% notes guaranteed by CLP Holdings Limited due 8 May 2012 (ISIN: XS0146769020) |
| HSBC Bank PLC | HSBC Bank PLC 4.25% subordinated notes due 18 March 2016 (ISIN: XS0164883992) ³ |
| MTR Corporation Limited | MTR Corporation (C.I.) Limited 4.75% notes guaranteed by MTR Corporation Limited due 21 January 2014 (ISIN: XS0184198157) |

| Reference Entity | Reference Obligation |
|---------------------------------------|---|
| Sun Hung Kai Properties Limited | Sun Hung Kai Properties (Capital Markets) Limited 5.75% notes guaranteed by Sun Hung Kai Properties Limited due 18 July 2012 (ISIN: HK0000022290) |
| Cheung Kong (Holdings) Limited | Cheung Kong Finance Cayman Ltd 8.38% notes guaranteed by Cheung Kong (Holdings) Ltd due 12 January 2010 (ISIN: HK0000016631) |

- 1 The “**Moody’s Rating**” is the credit rating published by Moody’s Investors Service, Inc. (“**Moody’s**”) as at 4 July 2005.
- 2 The “**S&P Rating**” is the credit rating published by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“**S&P**”) as at 4 July 2005.
- 3 This Reference Obligation is a subordinated obligation of the relevant Reference Entity which is subordinate in right of payment to other senior and unsubordinated obligations of such Reference Entity. The Deliverable Obligations will not be subordinated to this Reference Obligation but may be subordinated to other senior and unsubordinated obligations of the relevant Reference Entity.

None of the ratings of the Reference Obligation of the relevant Reference Entity is subject to “CreditWatch” by S&P or “Watchlists” by Moody’s as at 4 July 2005. Please see Appendix A for guidelines issued by S&P and Moody’s on what each of their ratings, “CreditWatch” and “Watchlists” means.

The Reference Obligations set out above provide a benchmark in that the Deliverable Obligations in respect of any Reference Entity will not, in the insolvency of that Reference Entity (other than by operation of law), rank for payment after the Reference Obligation of that Reference Entity (i.e. will not be Subordinated to that Reference Obligation (see the paragraph headed “Definitions” in the section headed “Technical Definitions — Credit Terms” in this Issue Prospectus)). See the definition of “Reference Obligation” in the section headed “Technical Definitions — Credit Terms — Determining Deliverable Obligations” for information on substitute Reference Obligations.

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

Up-to-date information on the ratings of the Reference Entities can be obtained from S&P (please see “contact us” at www.standardandpoors.com for up-to-date contact details) and from Moody’s (please see “Key Contacts in Asia” at www.moodysasia.com for up-to-date contact details).

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

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

INFORMATION ABOUT THE BASKET COMPANIES AND THE SHARES

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

In respect of the information set out below none of the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty, the Equity Option Counterparty nor the Determination Agent will keep the Noteholders and/or investors informed of developments relating to any of the Basket Companies or the Shares thereof, although the Determination Agent will inform the Noteholders if a Potential Adjustment Event or an Extraordinary Event occurs (see the sections headed “Technical Definitions — Equity Terms — Potential Adjustment Event” and “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus).

The following are the “**Basket Companies**”, the Bloomberg Code of such Basket Companies and the “**Relevant Stock Exchange**” in respect of the Shares of such Basket Companies in connection with Equity Bonus Payment applying to the Tranche B Notes and the Tranche D Notes:

| Basket Company | Bloomberg Code | Relevant Stock Exchange |
|---------------------------------------|-----------------------|---|
| HSBC Holdings plc | 0005.HK | The Stock Exchange of Hong Kong Limited |
| CLP Holdings Limited | 0002.HK | The Stock Exchange of Hong Kong Limited |
| MTR Corporation Limited | 0066.HK | The Stock Exchange of Hong Kong Limited |
| Sun Hung Kai Properties Limited | 0016.HK | The Stock Exchange of Hong Kong Limited |
| Cheung Kong (Holdings) Limited | 0001.HK | The Stock Exchange of Hong Kong Limited |

The references to “**Basket Company**” and “**Relevant Stock Exchange**” include any entity replacing an original Basket Company or such replacement entity or any replacement exchange, respectively, pursuant to any adjustment made by the Determination Agent following any Potential Adjustment Event or Extraordinary Event (see the sections headed “Technical Definitions — Equity Terms — Potential Adjustment Event” and “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus).

The Basket Companies and the Reference Entities may be comprised of different legal entities.

The Equity Bonus Payment does not apply to the Tranche A Notes and the Tranche C Notes and accordingly the terms “Basket Company” and “Relevant Stock Exchange” do not apply to the Tranche A Notes and the Tranche C Notes.

The profiles of the Basket Companies and historical performance of the Shares of each Basket Company are set out below. The profile of the Basket Companies and historical performance of the Shares of each Basket Company has been included to give a description of the past performance of such Shares and is not an indication of future performance. An investor’s return on the Tranche B Notes and the Tranche D Notes depends in part on the performance of the price of the Shares. Whether the holders of the Tranche B Notes and the Tranche D Notes receive the Equity Bonus Payment in respect of the relevant Tranche of Notes on an Equity Bonus Payment Date will be determined by reference to the Closing Price of the Shares of the Basket Companies on each of the three Observation Dates immediately preceding such Equity Bonus Payment Date (see the section headed “Information on the Notes — Equity Bonus Coupon” in this Issue Prospectus). The price of the Shares of each Basket Company as at 4 July 2005 has been included in this Issue Prospectus for information purposes only. These prices should not be confused with the Target Price of the relevant Shares to be determined on the Target Price Fixing Date (see the section headed “Information about the Notes — Equity Bonus Coupon” in this Issue Prospectus).

The historical performance of the Shares has been provided for information purposes only and has been extracted from information published by Bloomberg L.P. on 4 July 2005. None of the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty, the Equity Option Counterparty or the Determination Agent or any of their Affiliates assumes any responsibility for the accuracy of such information or its suitability to prospective investors.

Prospective investors should note that the price performance of the Shares of a Basket Company in any future period may not mirror their past performance.

No undertaking is given by the Issuer, the Arranger, the Trustee, the Swap Counterparty, the Forward Counterparty, the Equity Option Counterparty or the Determination Agent or any of their Affiliates to inform Noteholders and/or investors of any matters and/or relay any information it may possess or have access to relating to the Basket Companies or the Shares thereof, although the Determination Agent will inform the Noteholders if a Potential Adjustment Event or an Extraordinary Event occurs (see the sections headed “Technical Definitions — Equity Terms — Potential Adjustment Event” and “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus). This will be the case irrespective of whether or not such matters and/or information may affect or impact upon the price of the Shares.

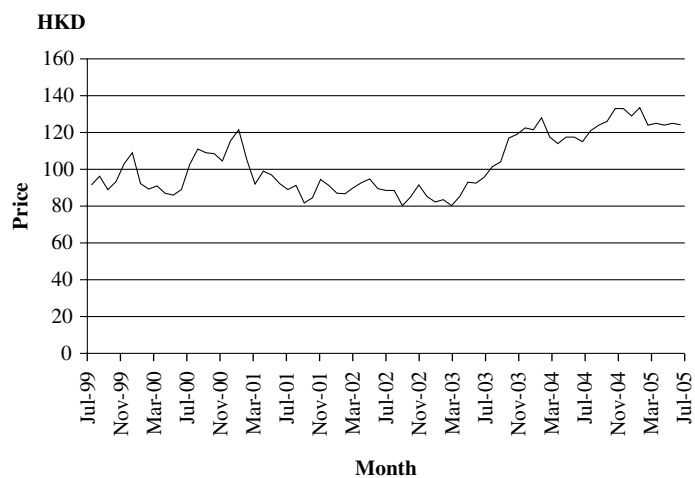
Name of Basket Company

HSBC Holdings plc

Profile of the Basket Company

HSBC Holdings plc is the holding company for the HSBC Group. HSBC Holdings plc provides a variety of international banking and financial services, including retail and corporate banking, trade, trusteeship, securities, custody, capital markets, treasury, private and investment banking, and insurance. The HSBC Group operates worldwide.

Historical Performance of the Shares



Closing price of the Shares of the Basket Company as of 4 July 2005: HKD124.20

(Source: Bloomberg L.P.)

Information in relation to HSBC Holdings plc and its operations and financial condition can be viewed on the website operated by it, which can be accessed as follows:

www.hsbc.com

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

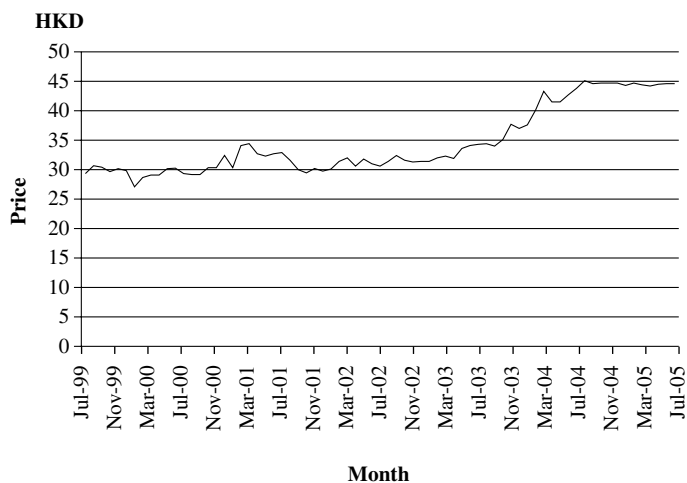
Name of Basket Company

CLP Holdings Limited

Profile of the Basket Company

CLP Holdings Limited, through its subsidiaries, generates and supplies electricity. CLP Holdings Limited also develops and invests in power projects and invests in properties.

Historical Performance of the Shares



Closing price of the Shares of the Basket Company as of 4 July 2005: HKD44.60

(Source: Bloomberg L.P.)

Information in relation to CLP Holdings Limited and its operations and financial condition can be viewed on the website operated by it, which can be accessed as follows:

www.chinalightandpower.com

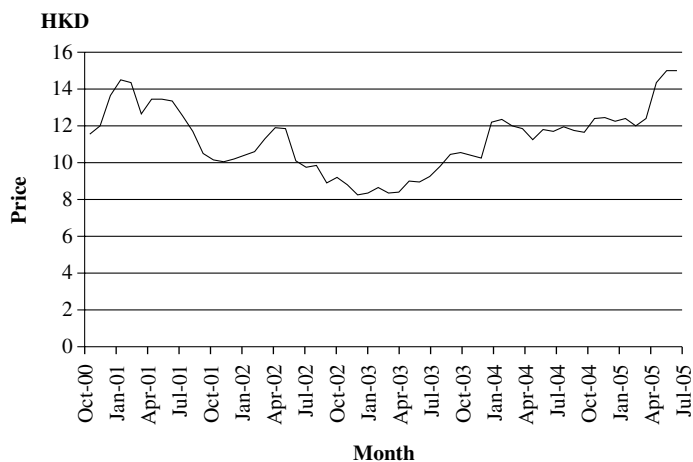
Please refer to the paragraph headed “References to websites” in the section headed “The Distributors” in this Issue Prospectus for a warning statement and a disclaimer relating to the usage of information contained in websites referred to above.

Name of Basket Company

MTR Corporation Limited

Profile of the Basket Company

MTR Corporation Limited provides public transport services in Hong Kong. MTR Corporation Limited owns and operates the Mass Transit Railway. MTR Corporation Limited also develops, sells, and manages residential and commercial properties. In addition, MTR Corporation Limited leases commercial facilities and provides services along the Mass Transit Railway, such as advertising, telecommunication facilities, and provides consultancy services.

Historical Performance of the Shares¹

Closing price of the Shares of the Basket Company as of 4 July 2005: HKD15.00

(Source: Bloomberg L.P.)

Information in relation to MTR Corporation Limited and its operations and financial condition can be viewed on the website operated by it, which can be accessed as follows:

www.mtr.com.hk

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

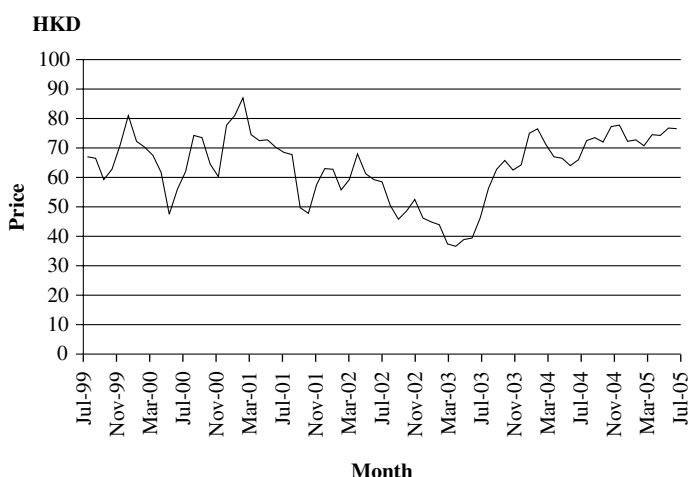
¹ The Shares of MTR Corporation Limited have only been listed since October 2000.

Name of Basket Company

Sun Hung Kai Properties Limited

Profile of the Basket Company

Sun Hung Kai Properties Limited, through its subsidiaries, develops and invests in properties. Sun Hung Kai Properties Limited also operates hotels, manages properties, car parking and transportation infrastructure. In addition, Sun Hung Kai Properties Limited operates logistics business, construction, financial services, telecommunication Internet infrastructure and enabling services.

Historical Performance of the Shares

Closing price of the Shares of the Basket Company as of 4 July 2005: HKD76.55

(Source: Bloomberg L.P.)

Information in relation to Sun Hung Kai Properties Limited and its operations and financial condition can be viewed on the website operated by it, which can be accessed as follows:

www.shkp.com.hk

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

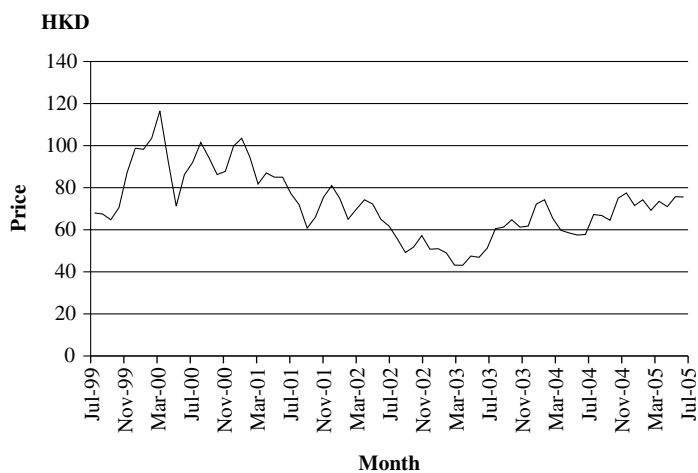
Name of Basket Company

Cheung Kong (Holdings) Limited

Profile of the Basket Company

Cheung Kong (Holdings) Limited, through its subsidiaries, develops and invests in real estate. Cheung Kong (Holdings) Limited also provides real estate agency and management services, operates hotels, and invests in securities.

Historical Performance of the Shares



Closing price of the Shares of the Basket Company as of 4 July 2005: HKD75.55

(Source: Bloomberg L.P.)

Information in relation to Cheung Kong (Holdings) Limited and its operations and financial condition can be viewed on the website operated by it, which can be accessed as follows:

www.ckh.com.hk

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

RISK FACTORS

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

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

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

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

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

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

The market making arrangements described in the section headed “Market Making Arrangements” in this Issue Prospectus are limited and do not assure an active trading market for the Notes. There can be no assurance that the Market Agent will make a market in the Notes, or if it does so, that it will continue to do so. Accordingly, there can be no assurance that investors or members of the public will have access to a firm bid price or a firm offer price for the Notes in a principal amount which they may wish to purchase or sell.

Suitability of the Notes for prospective investors

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

Consequence of the Notes being in global form

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

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

Exposure to the Reference Entities and the Underlying Securities

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

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

The Underlying Securities may consist of Synthetic CDO Securities, CDO Squared Securities and Asset-Backed Securities. Synthetic CDO Securities, CDO Squared 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 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 securities. Where the Underlying Securities consist of Synthetic CDO Securities and/or CDO Squared 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 such debt securities could lose all their value. Payments of interest on 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 or CDO Squared 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 principal amount of any CDO Squared Security 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 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, and that of such CDO Squared Security. Whilst the occurrence of credit events or potential credit events may not always lead to a reduction in the principal amount of such Synthetic CDO Securities or CDO Squared Securities, it may nevertheless adversely affect the market value of the Underlying Securities. The Synthetic CDO Securities and/or CDO Squared Securities comprising the Underlying Securities may be linked to the same reference entities or reference entities which are of the same industry or business type. If so, the occurrence of credit events or potential credit events in respect of such reference entities may have a greater impact on the market value of the Underlying Securities. Likewise, any of the Reference Entities or their respective Successor may be reference entities, or of the same industry or business type as reference entities, to which such Synthetic CDO Securities and/or CDO Squared Securities are linked. In such a case, the occurrence of a Credit Event would not only give rise to the right of the Issuer to give notice of the occurrence of a Credit Event, but could also adversely affect the market value of the Underlying Securities. There can be no assurance that, considering the nature of Synthetic CDO Securities and CDO Squared Securities as described, the inclusion of Synthetic CDO Securities and/or CDO Squared Securities as Underlying Securities will not adversely affect the market value of the Underlying Securities and, in turn, the performance of the Notes. Where the Underlying Securities are securities in respect of which Morgan Stanley acts as arranger, swap counterparty or swap guarantor, prospective investors should appreciate that the ability of the issuer of the Underlying Securities to meet its obligations to pay principal of, and any interest or premium on, such Underlying Securities will be

dependant on the receipt by, or on behalf of, such issuer of moneys due to it under the contracts and/or assets upon which such Underlying Securities are secured, including any swap agreement (where Morgan Stanley acts as swap counterparty or swap guarantor) between Morgan Stanley and such issuer or (where Morgan Stanley acts as swap guarantor) between the relevant swap counterparty and such issuer where the obligations of such swap counterparty to such issuer are guaranteed by Morgan Stanley.

Determination of a Credit Event

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

First-to-Default Credit Linked Notes

Prospective investors should be aware that the Notes are linked to the credit of the Reference Entities on a “first-to-default” basis. This means that the relevant Credit Event that triggers the credit linked redemption of the Notes is the first default of any of the Reference Entities. In the event that a Credit Event occurs in respect of any one of the Reference Entities, the redemption value of the Notes will be reduced by the fall in the value of the Deliverable Obligations of the Early Redemption Credit Event Entity (as adjusted by any appreciation or depreciation, as the case may be, in the market value of the Underlying Securities following the sale of the Underlying Securities as effected by the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion prior to the Credit Event Redemption Date). The credit risk that prospective investors bear under the Notes is not allocated to any particular Reference Entity in any proportion. After the declaration of a Credit Event, the value of the Notes is likely to reduce substantially.

Deliverable Obligations

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

In the event that a Reference Obligation is redeemed in full or otherwise ceases to be an Obligation (as defined in the section headed “Technical Definitions — Credit Terms” in this Issue Prospectus) of a Reference Entity, the Determination Agent acting for and on behalf of the Issuer will identify one or more Obligations which preserve the economic equivalent of the delivery and payment obligations of the Issuer to be a substitute Reference Obligation. In practice, the substitute Reference Obligation will be the same as that selected by the calculation agent under the credit default swaps under the Swap Agreement. The substitute Reference Obligation will be an equivalent senior Obligation of such Reference Entity. The identity of such substitute Reference Obligation will not be known to prospective investors when they commit to purchase the Notes.

Discretion of the Determination Agent and Calculation Agent

For the purposes of the Notes, the Determination Agent has the sole and absolute discretion to determine (amongst others) whether a Credit Event, an Underlying Securities Default Event or other Early Redemption Event has occurred and in making calculations as described in this Issue Prospectus and the Pricing Supplement. In practice, the Determination Agent will not select an Early Redemption Credit Event Entity which is not the same as that notified by the Swap Counterparty to the Issuer under the Swap Agreement. In respect of the Tranche B Notes and the Tranche D Notes, the Determination Agent has the sole discretion to determine (amongst other things) whether the Equity Bonus Condition has been fulfilled in respect of an Equity Bonus Payment Date, any adjustments to the terms of the Tranche B Notes and the Tranche D Notes relating to the Equity Bonus Payment following a Potential Adjustment Event or Extraordinary Event and whether the Equity Bonus Payment shall cease to be payable following an Extraordinary Event. Although each of the Calculation Agent and the Determination Agent has a general duty to act in good faith, the Master Conditions do not impose any express contractual duty on the Calculation Agent and the Determination Agent to do so and prospective investors should be aware that any decision made by the Calculation Agent and/or the Determination Agent may have an unforeseen adverse impact on the financial return of the Notes. Any such discretion exercised by, or any calculation or determination made by, the Calculation Agent and/or the Determination Agent (in the absence of manifest error) shall be binding on the Issuer and all investors.

Determination of Early Redemption Credit Event Entity

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

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

Discretion of the Issuer to invest in the Underlying Securities

The Issuer will use the proceeds received from the issue of the Notes to invest in securities which satisfy the criteria set out in the section headed “Information about the Underlying Securities” in this Issue Prospectus. The Determination Agent, acting for and on behalf of the Issuer, has the sole and absolute discretion to determine which securities will be invested in so long as the criteria are met. Information about which Underlying Securities are to be purchased 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 meet the specified criteria.

The composition of the Underlying Securities may change if the Original Underlying Securities or any Reinvested Eligible Investments are redeemed, in whole or in part, at 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 Securities, as the case may be, prior to the Scheduled Maturity Date. The proceeds of redemption will be held in the account of the Issuer with the Custodian pending any reinvestment of such proceeds of redemption in Eligible Investments. Such account may or may not be interest bearing. Whether such proceeds of redemption 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 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 acquired will not be known to prospective investors when they commit to purchase the Notes.

Neither the redemption, in whole or in part, of the Original Underlying Securities or the Reinvested Eligible Investments at their outstanding principal amount including any accrued interest in accordance with their terms as described above nor the acquisition of Reinvested Eligible Investments using the proceeds of redemption of Underlying Securities as described above will in itself impact on the Noteholders or the terms of the Notes.

Credit Rating, Liquidity and Valuation of the Underlying Securities

The Original Underlying Securities will be rated Aaa or above by Moody's and/or AAA or above by S&P on the Issue Date (and will not be subject to a negative outlook). Investors should note that the Original Underlying Securities' credit rating(s) may change after the Issue Date.

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

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

Investors should also note that following the occurrence of an Early Redemption Event, the value of the Notes is linked to the value of the Underlying Securities and, in the case of the Tranche C Notes and the Tranche D Notes, the USD/HKD exchange rate prevailing on or about the relevant Early Redemption Date, as determined by the Determination Agent, acting for and on behalf of the Issuer. In lieu of making the full repayment on the Notes on the Scheduled Maturity Date, the Issuer will pay to investors the applicable Early Redemption Amount on the relevant Early Redemption Date, which date may fall after the Scheduled Maturity Date. In the context of an Underlying Securities Default

Event, it is likely that the proceeds of sale will be substantially less than the principal amount of the Underlying Securities sold. Furthermore, the Swap Counterparty is able to exercise its sole and absolute discretion in selecting which Dealers it will approach to obtain quotations for the sale of the Underlying Securities.

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

The Swap Guarantee and the MS/MSIL Guarantee are governed by New York law and the courts of New York will have non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee and the MS/MSIL Guarantee respectively. New York law may be materially different from the equivalent Hong Kong law in its application to the Swap Guarantee or the MS/MSIL Guarantee, as the case may be. If prospective investors are in any doubt as to the implication of New York law being the governing law in respect of the Swap Guarantee and the MS/MSIL Guarantee or the courts of New York having non-exclusive jurisdiction in respect of disputes involving the Swap Guarantee or the MS/MSIL Guarantee, as the case may be, they should consult their solicitors and other professional advisers.

Equity Bonus Payment and the Basket Companies and their Shares

Whether holders of the Tranche B Notes and the Tranche D Notes receive an Equity Bonus Payment on an Equity Bonus Payment Date depends on whether the Equity Bonus Condition is fulfilled with respect to such Equity Bonus Payment Date. This in turn depends on the Closing Price of the Shares of each of the Basket Companies on the three Observation Dates immediately preceding such Equity Bonus Payment Date and whether the resulting Final Price of the Shares of each Basket Company, calculated using such Closing Prices, exceeds its corresponding Target Price. Accordingly, the return of the investment in the Tranche B Notes and the Tranche D Notes depends in part on the performance of the Shares of the Basket Companies.

The performance of the Shares of a Basket Company will depend on a number of factors which may affect the price of such Shares including, amongst other things, the credit-worthiness, financial condition, performance and other characteristics of such Basket Company, the social, political and economic events, developments and trends in any particular industry or region within which such Basket Company operates, the conditions of any relevant domestic and international financial markets, as well as changes in prevailing interest rates and other general economic conditions and outlook. There can be no assurance that such factors will not adversely affect the credit-worthiness of a Basket Company, its relative financial performance or prospects and/or the Closing Prices of its Shares and, in turn, the performance of the Tranche B Notes and the Tranche D Notes.

The Equity Bonus Payment ceases to be payable if the Determination Agent, acting for and on behalf of the Issuer, serves a Cancellation Notice following the occurrence of an Extraordinary Event (see the section headed “Technical Definitions — Equity Terms — Extraordinary Events” in this Issue Prospectus). Accordingly, investors in the Tranche B Notes and the Tranche D Notes bear the risk of the occurrence of an Extraordinary Event in respect of the Shares of a Basket Company or a Basket Company and the risk that following such an event, the Equity Bonus Payment ceases to be payable.

Prospective investors who consider purchasing the Tranche B Notes and/or the Tranche D Notes should reach an investment decision only after carefully considering the suitability of such Notes in light of their particular circumstances, particularly the risks associated with each Basket Company and the Shares.

Fluctuations in the price of the Shares

Investors contemplating an investment in the Tranche B Notes and the Tranche D Notes should recognise that the price of the Shares of a Basket Company can fluctuate and may not always reflect their underlying value. Investors should be aware that price performance of the Shares in any future period may not mirror their past performance. The prices of the Shares may go down as well as up and may fluctuate over the term of the Notes.

Target Price to be determined on Target Price Fixing Date

The Target Price in respect of the Shares of each Basket Company will only be determined on the Target Price Fixing Date after the close of the Offer Period. Investors in the Tranche B Notes and the Tranche D Notes are therefore required to commit to the purchase of such Notes before the Target Prices are known. Upon the occurrence of a Market Disruption Event, the Target Prices in respect of the Shares of each Basket Company may not be fixed on the same day.

An investment in the Notes is not the same as an investment in the Shares

(a) Payment of dividends on the Shares

Any dividend paid on the Shares or any other distribution received by a holder of such Shares shall not be determinative of the payment of, or reflected in the amount of, any Equity Bonus Payment in respect of the Tranche B Notes and the Tranche D Notes. Accordingly, the investment yield realised by holding such Notes may be different from the investment yield which would be realised by holding the Shares.

(b) The Basket Companies do not constitute a basket or an index

An investment in the Tranche B Notes and the Tranche D Notes is not the same as an investment in the Shares of each Basket Company or an investment which is linked to an index or basket reflecting the aggregate prices of the Shares of each Basket Company. In particular, any increase in the price of the Shares of one Basket Company above the relevant Target Price will not compensate for a drop in the price of the Shares of any other Basket Company and, in respect of each Equity Bonus Payment Date, the Final Prices of all Basket Companies must be equal to or exceed the corresponding Target Prices in order for the Equity Bonus Condition to be fulfilled. If the Final Price of the Shares of any one or more Basket Companies is below the Target Price, the Equity Bonus Payment will not be payable in respect of the relevant Equity Bonus Payment Date. In addition, you should note that the price of the Shares of each Basket Company is just one factor which may impact on the market value of such Notes, and this impact has to be considered along with a number of other factors which may also affect the market value of such Notes, including (without limitation) the Reference Entities, the Underlying Securities, prevailing interest rates, prevailing interest rates expectations and the general market conditions.

(c) No claim against Basket Companies

Each of the Tranche B Notes and the Tranche D Notes do not represent a claim against any of the Basket Companies and neither the Issuer nor any holder of such Notes will have any recourse under such Notes to any Basket Company.

(d) Tax consequences

An investment in Tranche B Notes and the Tranche D Notes may have different tax consequences from an investment in the Shares. Investors should consult their own tax advisers prior to the purchase of such Notes.

(e) *Synthetic Exposure*

The Tranche B Notes and the Tranche D Notes are linked to but not obligations of the Basket Companies. The exposure to the Shares is created synthetically through the Equity Option Agreement. The Issuer will only have a contractual relationship with the Equity Option Counterparty under the Equity Option Agreement and will not own any Shares of the Basket Companies. The Equity Option Agreement does not constitute a purchase or other acquisition or assignment of any interest in any Shares of the Basket Companies, and the Issuer and the holders of such Notes will not acquire any voting interests or other shareholder rights that would be acquired with a direct investment in the Shares. In addition, the Issuer may not receive all of the information and reports to holders of the Shares which the Issuer would otherwise receive with a direct investment in the Shares.

Prospective investors should also note that the Equity Option Counterparty is not required to own any of the Shares or have any risk to any of the Basket Companies. If the Equity Option Counterparty were to own any Share, it is under no obligation to account to the Issuer for any amount it may receive through such ownership or recover from the sale or other transfer thereof.

Impact of a Market Disruption Event on a Target Price Fixing Date and an Observation Date

If a Market Disruption Event in respect of the Shares of any Basket Company has occurred on a Scheduled Trading Day, the Target Price Fixing Date or the applicable Observation Date, as the case may be, in respect of such Shares will be postponed. If eight (8) Scheduled Trading Days (in the case of a Target Price Fixing Date) or five (5) Scheduled Trading Days (in the case of an Observation Date) after the occurrence of the Market Disruption Event that Market Disruption Event is still continuing, then such eighth (8th) Scheduled Trading Day (in the case of a Target Price Fixing Date) or fifth (5th) Scheduled Trading Day (in the case of an Observation Date) shall be deemed to be a Target Price Fixing Date or the applicable Observation Date, as the case may be, in respect of such Shares, and the Determination Agent, acting for and on behalf of the Issuer, shall determine in good faith the Closing Price of such Shares.

Adjustment following a Potential Adjustment Event

If a Potential Adjustment Event occurs and the Determination Agent, acting for and on behalf of the Issuer, in its sole and absolute discretion, determines that such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Share, the Determination Agent may determine to make certain adjustments to the terms of the Tranche B Notes and the Tranche D Notes in respect of the Equity Bonus Payment (including to the Target Price of the relevant Share) to account for the diluting or concentrative effect of the Potential Adjustment Event. The terms of the Tranche B Notes and the Tranche D Notes in respect of the Equity Bonus Payment, including the Target Price of the relevant Share, in each case if adjusted will not be known to the investors in the Tranche B Notes and the Tranche D Notes when they commit to the purchase of such Notes.

Adjustment or cancellation following an Extraordinary Event

If an Extraordinary Event occurs in respect of a Basket Company, the Determination Agent, acting for and on behalf of the Issuer, may determine to make certain adjustments, including substituting one or more Basket Companies with another or other entities to take into account the economic effect of such Extraordinary Event. The identity of the new Basket Company or Basket Companies and the Target Prices of the Shares of the existing Basket Companies if adjusted or new Basket Company or Basket Companies, as the case may be, will not be known to the investors in the Tranche B Notes and the Tranche D Notes when they commit to the purchase of such Notes. Alternatively, the Determination Agent, acting for and on behalf of the Issuer, may in its sole discretion determine that the Equity Bonus Payment shall cease to be payable by giving a Cancellation Notice.

Exchange Rate Risks

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

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

Business Dealings of Morgan Stanley and its Affiliates in respect of the Reference Entities and their respective Successors, the Basket Companies and the issuer of the Underlying Securities

Morgan Stanley and its Affiliates may presently or in the future engage in business activities with any Reference Entity or any of its Successors, any Basket Company or the issuer of the Underlying Securities, including entering into loans, making investments and providing investment advisory services. In addition, Morgan Stanley and its Affiliates may also from time to time buy or sell or otherwise acquire or dispose of any interest in or exposure to any Reference Entity and its Successors, any Basket Company or the issuer of Underlying Securities or obligations which might comprise Obligations or Deliverable Obligations. Morgan Stanley and its Affiliates also trade in the Shares of the Basket Companies as part of their general business. Such business dealings may directly or indirectly affect the creditworthiness of such Reference Entity or its Successors or the issuer of the Underlying Securities and accordingly may, in certain cases, result in the occurrence of a Credit Event or an Early Redemption Event in relation to the Underlying Securities or directly or indirectly affect the Closing Prices of the Shares of such Basket Company and accordingly may, in certain cases, result in or be a contributory factor towards the Equity Bonus Condition not being fulfilled on an Equity Bonus Payment Date in respect of the Tranche B Notes and/or the Tranche D Notes. Morgan Stanley and its Affiliates take no responsibility for such consequences and is under no obligation to consult with the Noteholders in respect thereof. Furthermore, Morgan Stanley and its Affiliates may have acquired, or during the term of the Notes may acquire, confidential information regarding a Reference Entity or its Successors, a Basket Company and/or the issuer of the Underlying Securities. Morgan Stanley and its Affiliates are under no obligation to make such information available to Noteholders.

APPLICATION PROCEDURES

Procedural Information

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

Offer Period

From 9.00 a.m. on 13 July 2005 to 4:30 p.m. on 3 August 2005 or such earlier date on which the Arranger announces (without prior notice) that the offering of the Notes has closed. However the Arranger reserves the right to extend the Offer Period in its absolute discretion. Any extension will be announced on or before 3 August 2005 in a manner to be determined by the Arranger.

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

Issue Price

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

Minimum Investment

USD5,000 for Tranche A Notes. USD5,000 for Tranche B Notes. HKD40,000 for Tranche C Notes. HKD40,000 for the Tranche D Notes.

Method and Timing of Payment of Issue Price

The Issue Price for the Notes to be purchased by a prospective investor will be payable to the Distributor in the manner and/or to the account as separately designated by the Distributor to prospective investors in accordance with its normal operational procedures. Prospective investors will only be required to pay for Notes which have been allocated to them by the Distributors after the Distributors have been allocated such Notes by the Arranger on or about the Fixing Date. Such moneys shall be payable by the prospective investor no earlier than the time of allocation to it of Notes in accordance with the foregoing and by no later than the Issue Date. Each Distributor will be required to undertake to provide each prospective investor with details relating to the payment of the Issue Price for the Notes.

Payment Procedures

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

Handling Fees

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

Cancellation of the issue of any of the Tranches of Notes

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

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

Refund of Application Monies

If any application monies are to be refunded in any of the circumstances described in this Issue Prospectus, payment will be made by the Distributors to the applicants in accordance with the relevant Distributor’s normal operating procedures without interest and at the risk of the applicants. Such payment will be made in the currency in which the Notes are denominated by bank transfer or by cheque, unless otherwise agreed between the relevant applicant and his Distributor. Repayments shall be made as soon as practicable following a decision by the Issuer not to issue the Notes of any Tranche and within 10 Hong Kong Business Days after the Fixing Date in accordance with this Issue Prospectus.

Confirmations to be given by investors

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

- **undertake and agree** to accept the Notes applied for, or any lesser number (provided such number is not less than a Note of USD5,000 for Tranche A Notes, a Note of USD5,000 for Tranche B Notes, a Note of HKD40,000 for Tranche C Notes and a Note of HKD40,000 for Tranche D Notes) allocated to them;

- **understand** that in respect of the Tranche B Notes and the Tranche D Notes, whether an Equity Bonus Payment is payable on such Tranche of Notes will be dependent on whether the Equity Bonus Condition is fulfilled in respect of the relevant Equity Bonus Payment Date (which in turn is dependent on the performance of the Shares of the Basket Companies and whether a Cancellation Notice has been given following the occurrence of an Extraordinary Event), as determined in accordance with the terms and conditions of the Notes;
- **understand** that in respect of the Tranche C Notes and the Tranche D Notes, the applicable Early Redemption Amount payable to Noteholders on the occurrence of an Early Redemption Event or the Credit Event Redemption Amount as adjusted (as more fully described in the paragraph headed “Procedure for the redemption of the Notes following a Credit Event” in the section headed “Summary” of this Issue Prospectus) payable to Noteholders following the giving of notice to the Noteholders of the occurrence of a Credit Event, as the case may be, will be subject to an exchange conversion risk arising from the conversion of such redemption amounts into Hong Kong dollars at the prevailing USD/HKD exchange rate as determined by the Determination Agent, acting for and on behalf of the Issuer;
- **undertake** and **agree** to pay in full the Issue Price of the Notes allocated to them;
- **authorise** the Distributor to which they give their application instructions to credit any Notes allocated to them to their investment account with it and understand that no certificates of title will be available for their Notes and their interest in their Notes will be in book-entry form only;
- **understand** that the Notes will be held through a clearing system which means that they will have to rely on the Distributor selected by them to credit or debit their account with that Distributor with payments credited to it or to be made by them to the Issuer through the clearing system and to distribute notices received by it or to be made by them to the Issuer through the clearing system;
- **understand** there will be a time delay between the Determination Agent’s declaration of a Credit Event and the payment of the Credit Event Redemption Amount. Such payment may occur after the Scheduled Maturity Date;
- have **read** the terms and conditions and application procedures set out in the Offering Documents and agree to be bound by them;
- have either **received** a copy of each of the Offering Documents (in their preferred language version of English or Chinese) or have been afforded sufficient opportunity to obtain a copy of each of the Offering Documents (in their preferred language version of English or Chinese) prior to submitting an application for the Notes;
- **understand** that the Notes will not be capital protected or guaranteed by the Issuer or any other party and accept the risk that (i) (subject to the terms and conditions of the Notes) the principal of the Notes will only be payable in respect of those Notes which are held until the Scheduled Maturity Date or in respect of those Tranche(s) of Notes the Issuer has exercised the Issuer Call Option relating to such Tranche(s) of Notes, (ii) interest will only be payable in respect of the Notes in issue on the relevant Interest Payment Dates, (iii) any Equity Bonus Payment will only be payable in respect of the Tranche B Notes and the Tranche D Notes in issue on the relevant Equity Bonus Payment Date and provided that the Equity Bonus Condition is fulfilled in respect of such Equity Bonus Payment Date (which in turn is dependent on the performance of the Shares of the Basket Companies and whether a Cancellation Notice has been given following the occurrence of an Extraordinary Event),

and (iv) the redemption amounts payable to them following notice of the occurrence of a Credit Event or the occurrence of an Issuer's Event of Default or an Early Redemption Event (as the case may be) is likely to be substantially less than the principal amount of their Notes;

- **understand** that in the event that the Original Underlying Securities or any Reinvested Eligible Investments are redeemed, in whole or in part, at their outstanding principal amount including any accrued interest in accordance with their terms for any reason whatsoever by the issuer(s) of the Original Underlying Securities or any Reinvested Eligible Investments, as the case may be, prior to the Scheduled Maturity Date, the proceeds of redemption will be paid into the account of the Issuer with the Custodian and that such account may or may not be interest bearing. The Determination Agent, acting for and on behalf of the Issuer, may at its sole and absolute discretion reinvest the proceeds of redemption in other Eligible Investments;
- **understand** that they are buying the Notes from the Distributors and that no contractual relationship with respect to the purchase contract for the Notes will arise between them and the Issuer or the Initial Subscriber at the time of application;
- **understand** that any action they may wish to take against the Issuer in accordance with the terms and conditions of the Notes will require the cooperation of the Noteholder and/or the Trustee (as the case may be). Investors have no right of direct action against the Issuer and will need to rely on their Distributor to contact the Noteholder and/or the Trustee on their behalf. The business terms of their Distributor (or any party they intend to engage in maintaining an investment account for their Notes) govern the circumstances in which they may rely on such party to act on their behalf;
- **understand** and accept that neither the Issuer nor the Arranger accepts any responsibility for the provision of bank services and custody services by the Distributors or for any consequences of, or arising from the use of, the cash account and investment account or custody services of any of the Distributors;
- **agree** that none of the Distributors, the Arranger or the Issuer, or their respective directors, officers, agents and nominees will be liable to any persons in any way for any loss which may be suffered as a result of the sale by the Distributors of their Notes in accordance with the terms and conditions of the operation of their cash account/investment account with them;
- **confirm** that they are not located within the United States and are not a US Person within the meaning of Regulation S under the Securities Act (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States);
- **understand**, are familiar with, and accept the terms and conditions applying to the use of investment services provided by their Distributor;
- **understand** that they are deemed to have notice of the terms of the contractual documentation for the Programme and in respect of the Notes, including the Trust Deed, the Agency Agreement, the Master Conditions and the relevant Pricing Supplement which supplements, amends or replaces the Master Conditions applicable to this Series of Notes, the Swap Agreement, the Swap Guarantee, the Forward Agreement, the Equity Option Agreement and the MS/MSIL Guarantee, copies of which are/will be available for inspection as set out under "Display Documents" in the section headed "Additional Information About the Offering" in this Issue Prospectus; and

- **understand** that under the SFC Code of Conduct, the Distributors are required to ensure that the Notes are a suitable investment for them and that they understand the nature and risks of investing in the Notes.

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

Prospective investors should note the following:

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

DISTRIBUTION ARRANGEMENTS

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

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

- Copies of the Offering Documents (each in separate English and Chinese language versions) will be made available and distributed to prospective investors in the manner described in the Offering Documents and only at the locations (the “**Relevant Locations**”) notified in writing by the Distributors to the Arranger as being the distribution points of the Offering Documents and no application for Notes may be accepted from a prospective investor who has not had the opportunity to receive and read a copy of all of these documents in his preferred language (photocopies of any of these documents may not be substituted for the original printed version).
- Each Distributor must not sell Notes at any of its Relevant Locations unless copies of the Offering Documents in both the English and Chinese language versions are available for distribution to prospective investors. If either the English or the Chinese language version of any of the Offering Documents runs out or ceases to be available for distribution at any Relevant Location during the Offer Period, then none of the Offering Documents should be made available or distributed at that Relevant Location until such time as the English and the Chinese language versions of all of the Offering Documents are again made available for distribution to the public at such Relevant Location.
- Notes will not be sold on the basis of any information that is inconsistent with the Offering Documents.
- Each Distributor will inform prospective investors that copies of the documents listed in paragraph 6 of the section headed “General Information” in the Programme Prospectus and under “Display Documents” in the section headed “Additional Information about the Offering” on pages 99 to 100 of this Issue Prospectus are available for inspection at the offices of the Arranger’s agent specified on page 40 of this Issue Prospectus.
- Each prospective investor will be required to confirm that he has read and understood the confirmations set out on pages 90 to 93 of this Issue Prospectus (and if he is not able to so confirm the Distributor will give him an opportunity to read and/or give him assistance to understand the confirmations).
- Any notices received from the Arranger during the Offer Period (including but not limited to a notice of an extension or early close of the Offer Period) will immediately be relayed to prospective investors.
- Each Distributor will describe to each prospective investor the operating procedures for payment and/or refund in respect of an application for Notes and shall provide details of all charges levied by it for opening and maintaining a cash account and an investment account for the Notes.

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

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

MARKET MAKING ARRANGEMENTS

Morgan Stanley & Co. International Limited in its capacity as Market Agent intends, but is under no obligation, through its agent, Morgan Stanley Dean Witter Asia Limited, to make a market in the Notes by quoting to the Distributors only on a once-weekly (expected to be Friday) best efforts basis an indicative price (a “**bid**” price) at which it would be willing to purchase the Notes from the Distributors. Such market-making activities by the Market Agent are expected to commence with effect from the date falling three months following the Issue Date. Depending on the available inventory of Notes held by the Market Agent and its affiliates, the Market Agent also intends to quote from time to time, upon request from a Distributor, a price at which it would be willing to sell the Notes (an “**offer**” price) to that Distributor. The prices quoted will be by reference to the Note Denomination or an integral multiple thereof and will be expressed as a percentage of the principal amount of the Notes.

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

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

The bid prices and offer prices for the Notes which may be quoted by a Distributor to any person wishing to sell or purchase the Notes, respectively, may be different to the corresponding prices quoted by the Market Agent to that Distributor, and may be different to the bid prices and offer prices quoted by another Distributor. Furthermore, if investors have purchased the Notes from a Distributor but wish to sell such Notes, or purchase further Notes, either to or from (as appropriate) a different Distributor, they will need to have, or open, an investment account with such other Distributor before they are able to do so.

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

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

ADDITIONAL INFORMATION ABOUT THE OFFERING

Responsibility for the Offering Documents

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

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

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

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

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

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

The Arranger has not separately verified the information contained herein and accordingly the Arranger makes no representation, recommendation, undertaking or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained herein or in any further information, notice or other document which may at any time be supplied in connection with the Notes or their distribution and does not accept any responsibility or liability therefor. The Arranger does not (i) undertake to review the financial condition or affairs of the Issuer,

the issuer or guarantor (if any) of the Underlying Securities, the Reference Entities or the Basket Companies during the life of the arrangements contemplated by this Issue Prospectus; nor (ii) intend to advise any investor or prospective investor in the Notes of any information coming to the attention of the Arranger.

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

Authorisations

The issue of this Series of Notes was authorised and approved by resolutions of the Board of Directors of the Issuer passed on 6 July 2005.

Use of Proceeds

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

Payments

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

Taxation

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

No Material Adverse Change — Issuer

There has been no material change in the financial position or operations of the Issuer and no material adverse change in the prospects of the Issuer, in each case since its date of incorporation on 29 June 2004. The Notes described in this Issue Prospectus are being issued as Series 6 under the Programme. As at the date of this Issue Prospectus, the amount of indebtedness of the Issuer under the Programme is HKD971,513,000 (using an exchange rate of HK dollars 7.80 (rounded to two

decimal places) per one US dollar in respect of the HK dollar denominated Notes), comprising the notes issued as Octave Notes Series 1, as Octave Notes Series 2, as Octave Notes Series 3 and as Octave Note Series 5 under the Programme. There is no issue designated as Octave Notes Series 4. Save as aforesaid, as at the date of this Issue Prospectus, the Issuer does not have any material borrowings or indebtedness in the nature of borrowings.

Display Documents

For so long as any Notes remain outstanding and with effect from the dates set out in the following paragraph, the following documents will be available during usual business hours on any weekday (Saturdays, Sundays and public holidays 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 40 of this Issue Prospectus:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the Declaration of Trust (as defined in the section headed "Description of the Issuer" in the Programme Prospectus);
- (iii) a copy of the Programme Prospectus and (with effect from the date thereof) any addenda thereto;
- (iv) a copy of this Issue Prospectus and (with effect from the date thereof) any supplements hereto;
- (v) Principal Trust Deed relating to the Programme and the Sixth Supplemental Trust Deed relating to the issue of the Notes (each document as described in the section headed "Information About the Notes" in this Issue Prospectus) and, where relevant, any additional documents creating security interests specified as such in the Sixth Supplemental Trust Deed;
- (vi) Agency Agreement relating to the Programme which sets out the obligations of the Agents and the Custodian in respect of the Notes;
- (vii) Programme Agreement and the Sixth Supplemental Programme Agreement (as defined in the Pricing Supplement) which together set out the arrangements agreed between the Issuer and the Arranger in relation to the sale of the Notes;
- (viii) Pricing Supplements which supplement the Master Conditions to form the terms and conditions of the Notes;
- (ix) Global Certificates;
- (x) Swap Agreement, Swap Guarantee, Forward Agreement, the Equity Option Agreement and MS/MSIL Guarantee (each as defined in the section headed "Information about the Notes" in this Issue Prospectus);
- (xi) information relating to the Underlying Securities including the ratings (if any), the terms and conditions, the information memorandum (if one has been prepared) and regarding where investors could obtain information relating to the performance of the issuer of the Underlying Securities on an on-going basis together with any further information which is available to, and may be disclosed by, the Arranger; and
- (xii) a copy of any notice given by the Issuer or the Arranger in respect of the Notes pursuant to the Programme or as otherwise provided for in this Issue Prospectus.

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

International Securities Identification Number and Common Code

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

Trustee’s Mandate

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

Information relating to the Issuer

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

Applicability of Certain Statutory Provisions

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

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

SFC Authorisation

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

SFC Certificates of Exemption

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

A certificate of exemption in respect of the Issuer relating to this Issue Prospectus has been issued by the SFC subject to certain conditions under section 342A(1) of the Companies Ordinance in respect of (i) sections 342(1)(a)(i) and 342(1)(a)(ii) of the Companies Ordinance on the grounds that the inclusion of information regarding the constitutional and incorporation documents of the Issuer would be irrelevant to prospective investors and would not impact on a prospective investor's decision to purchase the Notes in the context of the Issuer being a special purpose vehicle; (ii) section 342(1)(b) of the Companies Ordinance (in relation to the requirement for this Issue Prospectus to contain a Chinese translation) on the ground that such requirement is irrelevant and unduly burdensome as a separate Chinese language version of this Issue Prospectus has been prepared and on the condition that both the English and Chinese language versions of this Issue Prospectus are registered simultaneously with the Registrar of Companies and both language versions must be made available simultaneously to the public at all distribution points so that prospective investors can choose which version would best suit their circumstances; (iii) section 342(7) of the Companies Ordinance on the grounds that such requirement is irrelevant and unnecessary, since although Morgan Stanley as the Swap Guarantor technically falls within the definition of "guarantor corporation" in section 342(8) of the Companies Ordinance, the repayment of principal and payment of interest on the Notes depend on the repayment of principal and payment of interest on the Underlying Securities and no element of Morgan Stanley's financial condition or performance as Swap Guarantor impact upon the repayment of principal or payment of interest on the Underlying Securities and none of the information relating to Morgan Stanley required by section 342(7) of the Companies Ordinance would impact on a prospective investor's decision to purchase the Notes issued under the Programme; (iv) paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance ("**Third Schedule**") on the grounds that it would be unduly burdensome for the Issuer to provide such information since the Issuer is not required to publish any financial statements or auditor's report under the laws of Cayman Islands. Furthermore, the inclusion of such financial statements or auditor's report would be irrelevant in the context of the Issuer as a special purpose vehicle and would not impact on a prospective investor's decision to purchase the Notes; (v) section 44A(2) of the Companies Ordinance on the ground that this provision is unduly burdensome as the Issuer has the option to extend the Offer Period which may result in the Issue Date being later than 30 days after the date of this Issue Prospectus and in such circumstances it would be unduly burdensome for the Issuer to produce a new prospectus since such prospectus would not contain any new information and it would therefore be irrelevant to prospective investors; (vi) section 342(1)(a)(iv) and (v) and paragraphs 1, 2, 6, 10, 11, 21, 23, 24 and 30 of the Third Schedule, on the basis that inclusion of the information required under these provisions in this Issue Prospectus is irrelevant as such information has been provided in the Programme Prospectus; and (vii) paragraphs 3 and 26(a) of the Third Schedule, on the basis that inclusion of the information required under these paragraphs in this Issue Prospectus is irrelevant as such paragraphs have been satisfied by reading together this Issue Prospectus and the Programme Prospectus.

The above exemptions in respect of this Issue Prospectus are granted subject to the conditions that (i) during the Offer Period this Issue Prospectus must be made available or distributed together with the Programme Prospectus at all locations at which copies of this Issue Prospectus are made available or distributed to the public (as notified in writing by the Distributors to the Arranger) and only at such locations. If any of this Issue Prospectus or the Programme 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 the Programme Prospectus and this Issue Prospectus are made available or distributed to the public at that location; (ii) both the English and Chinese language versions of this Issue Prospectus 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 at all distribution points. If either language version runs out or ceases to be available or distributed at any distribution point, then availability or distribution of this Issue Prospectus at such distribution point should cease and should not resume until such time as both language versions of this Issue Prospectus are again made available or distributed to the public at that location; (iii) the Issuer shall require the Distributors to ensure that the application procedures for the Notes have safeguards designed to assure that prospective investors will not be able to make an application without confirming that they have received or have been afforded sufficient opportunity to receive a copy of the Programme Prospectus together with this Issue Prospectus (each in their preferred language); and (iv) this Issue Prospectus will set out particulars of the certificate of exemption.

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

A certificate of exemption in respect of the Issuer relating to the Programme Prospectus has been issued, subject to certain conditions, by the SFC under section 342A(1) of the Companies Ordinance in respect of (i) section 44A(2) of the Companies Ordinance on the ground that this provision is irrelevant as Notes will not be issued pursuant to the Programme Prospectus, but will only be issued pursuant to the relevant Issue Prospectus read in conjunction with the Programme Prospectus; (ii) sections 342(1)(a)(i) and 342(1)(a)(ii) of the Companies Ordinance on the grounds that the inclusion of information regarding the constitutional and incorporation documents of the Issuer would be irrelevant to prospective investors and would not impact on a prospective investor's decision to purchase the Notes in the context of the Issuer being a special purpose vehicle; (iii) section 342(1)(b) of the Companies Ordinance (in relation to the requirement for the Programme Prospectus to contain a Chinese translation) on the ground that such requirement is irrelevant and unduly burdensome as a separate Chinese language version of the Programme Prospectus has been prepared and on the condition that both the English and Chinese language versions of the Programme Prospectus are registered simultaneously with the Registrar of Companies and both language versions must be made available simultaneously to the public at all distribution points; (iv) section 342(7) of the Companies Ordinance on the grounds that such requirement is irrelevant and unnecessary, since although Morgan Stanley as the Swap Guarantor technically falls within the definition of "guarantor corporation" in section 342(8) of the Companies Ordinance, the repayment of principal and payment of interest on the Notes depend on the repayment of principal and payment of interest on the Underlying Securities and no element of Morgan Stanley's financial condition or performance as Swap Guarantor impact upon the repayment of principal or payment of interest on the Underlying Securities and none of the information relating to Morgan Stanley required by section 342(7) of the Companies Ordinance would impact on a prospective investor's decision to purchase the Notes issued under the Programme; (v) paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance on the basis that it would

be unduly burdensome for the Issuer to provide such information since the Issuer is not required to publish any financial statements or auditor's report under the laws of Cayman Islands. Furthermore the inclusion of the required information is irrelevant in the context of the Issuer as it is a special purpose vehicle and would not impact on a prospective investor's decision to invest in the Notes; and (vi) paragraphs 3 and 26(a) of the Third Schedule on the basis that such paragraphs are irrelevant as they would have been satisfied by reading together the Programme Prospectus with the relevant Issue Prospectus. The conditions granted by the SFC with respect to the Programme Prospectus are similar to those granted in respect of this Issue Prospectus. For further details on the conditions granted in respect of the Programme Prospectus, please refer to page 72 of the Programme Prospectus.

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

APPENDIX A CREDIT RATING

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

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

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

Investors should note that a downgrade in respect of any of the Reference Entities does not of itself equate to, or result in, the occurrence of a Credit Event.

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

S&P Long-Term Issuer Credit Ratings

AAA

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

AA

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

A

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

BBB

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

BB

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

B

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

CCC

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

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

CC

An obligor rated 'CC' is currently highly-vulnerable.

C

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

S&P Short-Term Issuer Credit Ratings

A-1

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

A-2

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

A-3

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

B

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

C

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

CreditWatch

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

Moody's Long-term Debt Ratings

Aaa

Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualised are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk in Aa-rated bonds appear somewhat larger than those securities rated Aaa.

A

Bonds which are rated A possess many favourable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa

Bonds which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba

Bonds which are rated Ba are judged to have speculative elements: their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa

Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca

Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C

Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's Short-Term Ratings

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

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

P-1

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

P-2

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

P-3

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

NP

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

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

APPENDIX B
HYPOTHETICAL EXAMPLES OF EQUITY BONUS PAYMENT
AND SCHEDULED MATURITY REDEMPTION CALCULATIONS FOR
THE TRANCHE B NOTES AND THE TRANCHE D NOTES

The following examples are purely hypothetical. We include them only to illustrate how the Equity Bonus Payment and payments on the Scheduled Maturity Date are calculated in respect of the Tranche B Notes and the Tranche D Notes, and you must not rely on them as any indication of the actual Initial Spot Prices or Target Prices or what the payout on the Tranche B Notes or the Tranche D Notes might actually be. The Equity Bonus Payment does not apply to the Tranche A Notes or the Tranche C Notes. The hypothetical examples below assume that no notice is given to the Noteholders in respect of the occurrence of a Credit Event, that no Early Redemption Event or Issuer's Event of Default occurs, that no Issuer Call Option is exercised and that no Potential Adjustment Event or Extraordinary Event occurs.

Calculation of the Initial Spot Prices and Target Prices

The Initial Spot Prices are the Closing Prices of the Shares of the Basket Companies on the Target Price Fixing Date. In this hypothetical example, the Target Price Fixing Date is 5 August 2005. The Target Prices are 110% of the Initial Spot Prices.

Assuming the following Closing Prices apply to the Shares of the Basket Companies on 5 August 2005, the Target Prices would be calculated as follows:

| Basket Company | Initial Spot Price (HKD) | Target Price (110% of respective Initial Spot Price) (HKD) |
|---------------------------------------|---------------------------------|---|
| HSBC Holdings plc | 123.50 | 135.85 |
| CLP Holdings Limited | 44.70 | 49.17 |
| MTR Corporation Limited..... | 14.95 | 16.45 |
| Sun Hung Kai Properties Limited | 72.50 | 79.75 |
| Cheung Kong (Holdings) Limited | 69.25 | 76.18 |

Calculation of the Final Prices

The Final Prices for the Shares of the Basket Companies are the average of the Closing Prices on the three Observation Dates prior to each Equity Bonus Payment Date (referred to in this hypothetical example as the "observation period"). The three Observation Dates are the sixteenth (16th), fifteenth (15th) and fourteenth (14th) Business Days prior to each Equity Bonus Payment Date, subject to adjustment if there is market disruption. One observation period will apply to each Equity Bonus Payment Date. In this hypothetical example, the Equity Bonus Payment Date is 15 August 2006 and the observation period consists of 22 July 2006, 25 July 2006 and 26 July 2006, being the sixteenth (16th), fifteenth (15th) and fourteenth (14th) Business Days, respectively, prior to such Equity Bonus Payment Date.

Example of Final Price calculation:

Assume the Closing Prices for HSBC Holdings plc during the observation period in respect of 15 August 2006 are as follows:

| Business Day | Closing Price (HKD) |
|---------------------|----------------------------|
| 22 July 2006 | 140.20 |
| 25 July 2006 | 140.60 |
| 26 July 2006 | 140.40 |

Then, the Final Price for HSBC Holdings plc for the Equity Bonus Payment Date falling on 15 August 2006 is HKD140.40 (being $\frac{1}{3} \times \text{HKD} (140.20+140.60+140.40)$).

Calculation of the Equity Bonus Payment for each Equity Bonus Payment Date (other than the Equity Bonus Payment Date falling on the Scheduled Maturity Date)

For each Equity Bonus Payment Date, the Equity Bonus Coupon of 5.70% per annum and 5.00% per annum will be paid to the holders of the Tranche B Notes and the Tranche D Notes, respectively, on such Equity Bonus Payment Date if the Final Price of the Shares of each Basket Company for such Equity Bonus Payment Date is equal to or greater than its Target Price.

Scenario 1

We assume that the Shares of the Basket Companies have the following Final Prices with respect to the Equity Bonus Payment Date (i.e. 15 August 2006):

| Basket Company | Final Price (HKD) | Target Price (HKD) |
|---------------------------------------|--------------------------|---------------------------|
| HSBC Holdings plc | 140.40 | 135.85 |
| CLP Holdings Limited | 50.25 | 49.17 |
| MTR Corporation Limited..... | 18.15 | 16.45 |
| Sun Hung Kai Properties Limited | 80.50 | 79.75 |
| Cheung Kong (Holdings) Limited | 80.25 | 76.18 |

As the Final Price of the Shares of all the Basket Companies are equal to or above their respective Target Prices, holders of the Tranche B Notes and the Tranche D Notes will receive 5.70% per annum and 5.00% per annum respectively of the principal amount of such Notes on the Equity Bonus Payment Date, i.e. 15 August 2006.

As the Equity Bonus Payment Date is also an Interest Payment Date, the holders of the Tranche B Notes and the Tranche D Notes will also receive interest payments on their Notes on such day. To summarize, the Noteholders in Scenario 1 will receive the following aggregate payment on 15 August 2006 respectively:

Tranche B Noteholders:

$$\begin{aligned} \text{Equity Bonus Payment + interest payments} &= (\text{Principal Amount} \times 5.70\% \times \frac{1}{1}) + \\ \text{on such Interest Payment Date} &= (\text{Principal Amount} \times 4.30\% \times \frac{30}{360} \times 6) \end{aligned}$$

Tranche D Noteholders:

$$\begin{aligned} \text{Equity Bonus Payment + interest payments} &= (\text{Principal Amount} \times 5.00\% \times \frac{1}{1}) + \\ \text{on such Interest Payment Date} &= (\text{Principal Amount} \times 4.00\% \times \frac{30}{360} \times 6) \end{aligned}$$

Scenario 2:

We assume that the Shares of the Basket Companies have the following Final Prices with respect to the Equity Bonus Payment Date (i.e. 15 August 2006):

| Basket Company | Final Price (HKD) | Target Price (HKD) |
|---------------------------------------|--------------------------|---------------------------|
| HSBC Holdings plc | 140.40 | 135.85 |
| CLP Holdings Limited | 50.25 | 49.17 |
| MTR Corporation Limited..... | 16.25 | 16.45 |
| Sun Hung Kai Properties Limited | 80.50 | 79.75 |
| Cheung Kong (Holdings) Limited | 80.25 | 76.18 |

As the Final Price of MTR Corporation Limited is below its Target Price, the holders of the Tranche B Notes and the Tranche D Notes will not receive any Equity Bonus Payment on the relevant Equity Bonus Payment Date, i.e. 15 August 2006.

However, as the Equity Bonus Payment Date is also an Interest Payment Date, the holders of the Tranche B Notes and the Tranche D Notes will receive interest payments payable on such day. To summarise, the Noteholders in Scenario 2 will receive the following payment on 15 August 2006 as follows:

Tranche B Noteholders:

Interest payments on such Interest Payment Date = Principal Amount x 4.30% x 30/360 x 6

Tranche D Noteholders:

Interest payments on such Interest Payment Date = Principal Amount x 4.00% x 30/360 x 6

Calculation of the Equity Bonus Payment for the Equity Bonus Payment Date falling on the Scheduled Maturity Date and payments on the Scheduled Maturity Date

Unlike the Equity Bonus Period in respect of each other Equity Bonus Payment Date which is one (1) year, the Equity Bonus Period in respect of the Equity Bonus Payment Date falling on the Scheduled Maturity Date is six (6) months. Any Equity Bonus Payment on the Equity Bonus Payment Date falling on the Scheduled Maturity Date will be calculated accordingly.

Scenario 1

We assume that the Shares of the Basket Companies have the following Final Prices with respect to the Equity Bonus Payment Date falling on the Scheduled Maturity Date:

| <u>Basket Company</u> | <u>Final Price (HKD)</u> | <u>Target Price (HKD)</u> |
|---------------------------------------|--------------------------|---------------------------|
| HSBC Holdings plc | 144.50 | 135.85 |
| CLP Holdings Limited | 56.00 | 49.17 |
| MTR Corporation Limited..... | 20.15 | 16.45 |
| Sun Hung Kai Properties Limited | 80.50 | 79.75 |
| Cheung Kong (Holdings) Limited | 80.25 | 76.18 |

As the Final Price of the Shares of all the Basket Companies are equal to or above their respective Target Prices, holders of the Tranche B Notes and the Tranche D Notes will receive 2.85% and 2.50% respectively of the principal amount of such Notes on the final Equity Bonus Payment Date, i.e. 15 February 2011, being one-half of the respective per annum rates.

As the Equity Bonus Payment Date is also an Interest Payment Date and the Scheduled Maturity Date, the holders of the Tranche B Notes and the Tranche D Notes will also receive interest payments and principal repayment on their Notes on such day. To summarize, the Noteholders in Scenario 1 will receive the following aggregate payment on 15 February 2011 as follows:

Tranche B Noteholders:

Principal Amount + Equity Bonus Payment + interest payments on such Interest Payment Date = Principal Amount + (Principal Amount x 5.70% x 1/2) + (Principal Amount x 4.30% x 30/360 x 6)

Tranche D Noteholders:

$$\begin{aligned} \text{Principal Amount + Equity Bonus Payment} & & \text{Principal Amount + (Principal Amount x} \\ \text{+ interest payments on such Interest} & = & \text{5.00\% x } \frac{1}{2}) + (\text{Principal Amount x 4.00\% x} \\ \text{Payment Date} & & \text{30/360 x 6)} \end{aligned}$$

Scenario 2:

We assume that the Shares of the Basket Companies have the following Final Prices in respect of the Equity Bonus Payment Date falling on the Scheduled Maturity Date:

| Basket Company | Final Price (HKD) | Target Price (HKD) |
|---------------------------------------|--------------------------|---------------------------|
| HSBC Holdings plc | 140.40 | 135.85 |
| CLP Holdings Limited | 48.25 | 49.17 |
| MTR Corporation Limited..... | 20.15 | 16.45 |
| Sun Hung Kai Properties Limited | 80.50 | 79.75 |
| Cheung Kong (Holdings) Limited | 80.25 | 76.18 |

As the Final Price of CLP Holdings Limited is below its Target Price, the holders of the Tranche B Notes and the Tranche D Notes will not receive the Equity Bonus Payment on the final Equity Bonus Payment Date, i.e. 15 February 2011.

However, as the Equity Bonus Payment Date is also an Interest Payment Date and the Scheduled Maturity Date, the holders of the Tranche B Notes and the Tranche D Notes will receive interest payments and principal repayment on their Notes on such day. To summarise, the Noteholders in Scenario 2 will receive the following aggregate payment on 15 February 2011 respectively:

Tranche B Noteholders:

$$\begin{aligned} \text{Principal Amount + interest payments on} & & \text{Principal Amount + (Principal Amount x} \\ \text{such Interest Payment Date} & = & \text{4.30\% x 30/360 x 6)} \end{aligned}$$

Tranche D Noteholders:

$$\begin{aligned} \text{Principal Amount + interest payments on} & & \text{Principal Amount + (Principal Amount x} \\ \text{such Interest Payment Date} & = & \text{4.00\% x 30/360 x 6)} \end{aligned}$$

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