

## VICTORIA PEAK INTERNATIONAL FINANCE LIMITED

To the Distributors of the Notes:

Bank of China (Hong Kong) Limited	Chong Hing Bank Limited
Bank of Communications Co., Ltd. Hong Kong Branch	Nanyang Commercial Bank, Limited
Chiyu Banking Corporation Limited	Shanghai Commercial Bank Limited
Core Pacific-Yamaichi International (H.K.) Limited	The Bank of East Asia, Limited
Fubon Bank (Hong Kong) Limited	Wing Hang Bank, Ltd.
ICEA Securities Ltd.	Wing Lung Bank Limited

### Octave Notes Series 7

**USD Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2011 (ISIN: XS0232216910) ("Tranche A Notes")**

**USD Credit-Linked Secured Callable Variable Rate Notes due 2011 (ISIN: XS0232215862) ("Tranche B Notes")**

**HKD Credit-Linked Secured Callable Step-up Fixed Rate Notes due 2011 (ISIN: XS0232215193) ("Tranche C Notes")**

**HKD Credit-Linked Secured Callable Variable Rate Notes due 2011 (ISIN: XS0232217645) ("Tranche D Notes")**

(each a "Tranche" and the notes of any or all Tranches, the "Notes") issued by Victoria Peak International Finance Limited pursuant to its Retail Note Programme (the "Programme")

We refer to our notices to distributors of the Notes dated 1 December 2008, 8 December 2008, 19 January 2009, 23 January 2009, 5 February 2009, 11 February 2009, 2 April 2009, 9 April 2009, 16 April 2009, 21 April 2009, 7 May 2009, 8 June 2009, 10 June 2009, 12 June 2009, 2 July 2009, 13 July 2009, 3 August 2009, 9 December 2009, 13 April 2010, 25 June 2010 and 14 January 2011 informing you of recent credit events which have occurred in relation to the Underlying Securities for the Notes and the related loss calculations where available.

As previously, although we are under no obligation to provide information in respect of the Notes or the Underlying Securities beyond that specified in the Offering Documents, in the present exceptional circumstances we believe it may be helpful to write to all Distributors to provide this further written information in relation to the Notes.

As at the date of this notice, the Underlying Securities for the Notes consist of Series 2005-22 Secured Floating Rate Notes due 2011 issued by Morgan Stanley ACES SPC acting for the account of the Series 2005-22 Segregated Portfolio (the "Underlying Securities"). The Underlying Securities are CDO Squared Securities referenced to the Master Swap Transaction which references two credit default basket reference transactions labeled "A" and "B" (each specifying 100 Reference Entities and referred to as a "Reference Transaction"), each as

further described in the Private Placement Memorandum Supplement of the Underlying Securities dated 14 October 2005 (the "PPMS").

As set out in our notice to distributors dated 14 January 2011, a Credit Event has occurred in respect of Ambac Financial Group, Inc. Whilst this is not a Company under the Notes, it is a Reference Entity (as defined under the PPMS for the Underlying Securities) under the Reference Transactions which are referenced by the Master Swap Transaction for the Underlying Securities.

We are now in a position to provide you with further written information on the consequences of this Credit Event.

As of the date of this notice, the occurrence of the Credit Event referred to above has not resulted in an Underlying Securities Default Event or an Early Redemption Event in relation to the Notes. The Issuer can give no assurance as to whether an Underlying Securities Default Event or an Early Redemption Event will or will not occur in relation to the Notes in the future.

We have set out in Part A of the Annex below the following information in relation to the loss calculations in respect of the two Reference Transactions following the occurrence of the Credit Event referred to above: (a) the relevant Reference Entities which were referenced under each Reference Transaction and in respect of which Credit Events have occurred since the issue date of the Underlying Securities; (b) the Reference Entity Notional Amount which applies to each Reference Entity; (c) the Weighted Average Final Price and the Loss Amount in respect of each of the Credit Events which have occurred in relation to each Reference Transaction where such amounts have been determined; and (d) the Aggregate Loss Amount in respect of each Reference Transaction, in each case as at the date of this notice. As set out in the PPMS for the Underlying Securities, the Loss Amount with respect to a Credit Event is equal to (100% minus the Weighted Average Final Price for that Credit Event) multiplied by the Reference Entity Notional Amount for that Reference Entity.

We have set out in Part B of the Annex below, as at the date of this notice:

- a) the Aggregate Loss Amounts under each Reference Transaction, being the sum of the Loss Amounts determined in respect of each of the Credit Events which have occurred in relation to each Reference Transaction since the issue date of the Underlying Securities where such Loss Amounts have been determined; and
- b) the remaining threshold amount of each Reference Transaction (also sometimes referred to as the remaining subordination amount) after taking into account the occurrence of the Credit Events in respect of the above Reference Entities and the related loss calculations.

For your convenience, we have also set out in Part B of the Annex below the Loss Threshold Amount for each Reference Transaction (which are extracted from the PPMS for the Underlying Securities).

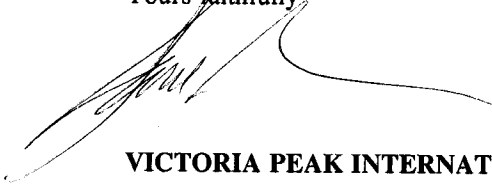
Taking into account the Credit Events which have occurred in relation to each Reference Transaction since the issue date of the Underlying Securities where the relevant Loss Amounts

have been determined, as at the date of this notice, the Total Loss Amount under the Master Swap Transaction is USD10,983,562.20. The remaining subordination amount (also sometimes referred to as the remaining threshold amount) of the Master Swap Transaction as at the date of this notice is USD41,396,437.80 (being the difference between the Subordination Amount of USD52,380,000 and the Total Loss Amount of USD10,983,562.20). For your convenience, we have set out in Part C of the Annex below the Subordination Amount for the Master Swap Transaction in respect of the Underlying Securities (which is extracted from the PPMS for the Underlying Securities) and the Total Loss Amount for the Master Swap Transaction as at the date of this notice.

We would encourage you to provide the information contained in this notice to your customers who invested in the Notes. If you have any questions or queries regarding this notice or the Notes, please consult your own legal, tax, accountancy or other professional adviser as you may see fit.

Capitalised terms used but not otherwise defined in this notice or otherwise specified shall have the meanings ascribed thereto in the Issue Prospectus relating to the Notes dated 12 September 2005 or the PPMS. The Issue Prospectus, the PPMS and certain other documents and information in relation to the Notes can be viewed on the following website: [www.morganstanley.com/octavenotes](http://www.morganstanley.com/octavenotes).

Yours faithfully



**VICTORIA PEAK INTERNATIONAL FINANCE LIMITED**

By: **Kareem Robinson**

17 January 2011

OCTAVE NOTES SERIES 7

ANNEX TO NOTICE TO DISTRIBUTORS DATED 17 January 2011

Part A

The Reference Transactions under the Master Swap Transaction which reference one or more of the Reference Entities referred to above, the Reference Entity Notional Amount, Weighted Average Final Price and Loss Amount in relation to each Reference Entity under the relevant Reference Transaction and the Aggregate Loss Amount in relation to each Reference Transaction, in each case as at the date of this notice

Reference Transaction	Reference Entity	Reference Entity Notional Amount (USD)	Weighted Average Final Price	Loss Amount in relation to Reference Entity (USD)	Aggregate Loss Amount in respect of Reference Transaction (USD)
A	Federal Home Loan Mortgage Corporation	4,190,400	100%	0	10,983,562.20
	Federal National Mortgage Association	4,190,400	100%	0	
	Idearc Inc.	2,095,200	1.875%	2,055,915	
	CIT Group Inc.	4,190,400	69%	1,299,024	
	Ambac Assurance Corporation	4,190,400	4.75%	3,991,356	
	Ambac Financial Group, Inc.	4,190,400	13.2%	3,637,267.20	
B	Tembec Industries Inc.	52,380,000	66%	17,809,200	528,116,112
	Dana Corporation	52,380,000	75%	13,095,000	
	Calpine Corporation	52,380,000	30.25%	36,535,050	
	Dura Operating Corp. (Subordinated)	52,380,000	3.5%	50,546,700	
	Lyondell Chemical Company	52,380,000	28.25%	37,582,650	
	Smurfit-Stone Container Enterprises, Inc.	52,380,000	8.625%	47,862,225	
	Abitibi-Consolidated Inc.	52,380,000	3.5%	50,546,700	
	Charter Communications Holdings, LLC	52,380,000	0.5%	52,118,100	
	Bowater Incorporated	52,380,000	11.5%	46,356,300	
	Visteon Corporation	52,380,000	6.01%	49,231,962	

	General Motors Corporation	52,380,000	10.125%	47,076,525	
	Six Flags, Inc.	52,380,000	11.5%	46,356,300	
	Lear Corporation	52,380,000	37%	32,999,400	

**Part B**

**In respect of each Reference Transaction under the Master Swap Transaction: the Loss Threshold Amount, Aggregate Loss Amount and remaining threshold amount as at the date of this notice**

Reference Transaction	Loss Threshold Amount (USD)	Aggregate Loss Amount (USD)	Remaining threshold amount (USD)
A	0	10,983,562.20	0
B	1,047,600,000	528,116,112	519,483,888

**PART C**

**In respect of the Master Swap Transaction: the Subordination Amount, the Total Loss Amount and the remaining subordination amount, in each case as at the date of this notice**

Subordination Amount (USD)	Total Loss Amount (USD)	Remaining subordination amount (USD)
52,380,000	10,983,562.20	41,396,437.80