Morgan Stanley

# Fourth Addendum to the Base Listing Document dated 18 March 2024 relating to Non-collateralised Structured Products

## Issuer

## Morgan Stanley Asia Products Limited

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

## Guarantor

## Morgan Stanley

*(Incorporated in the State of Delaware, United States of America)*

## Manager

## Morgan Stanley Asia Limited

*(Incorporated in Hong Kong)*

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This document, for which we and the Guarantor accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Stock Exchange's Listing Rules**") for the purpose of giving information with regard to the Issuer, the Guarantor and the warrants, callable bull/bear contracts ("**CBBCs**") and any other structured products (together, "**our structured products**") referred to in this document. The Issuer and the Guarantor, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document, our base listing document dated 18 March 2024 ("**Base Listing Document**"), our first addendum to the Base Listing Document dated 18 April 2024 ("**First Addendum**"), our second addendum to the Base Listing Document dated 28 May 2024 ("**Second Addendum**") and our third addendum to the Base Listing Document dated 26 August 2024 ("**Third Addendum**") is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or these documents, when read together, misleading. This document should be read together with the Base Listing Document, the First Addendum, the Second Addendum and the Third Addendum.

We, the Issuer of our structured products, are publishing this document in order to obtain a listing on the Stock Exchange of our structured products.

**The structured products are complex products. You should exercise caution in relation to them. Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in the Base Listing Document and, where necessary, seek professional advice, before they invest in the structured products.**

**The structured products constitute general unsecured contractual obligations of the Issuer and of no other person and the guarantee constitutes the general unsecured contractual obligations of the Guarantor and of no other person and will rank equally among themselves and with all our and the Guarantor's other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products, you are relying upon the creditworthiness of the Issuer and the Guarantor, and have no rights under the structured products against (a) the company which has issued the underlying securities, (b) the fund which has issued the underlying securities or its trustee (if applicable) or manager, or (c) the index sponsor of any underlying index or any other person. If the Issuer becomes insolvent or default on its obligations under the structured products or the Guarantor becomes insolvent or defaults on its obligations under the guarantee, you may not be able to recover all or even part of the amount due under the structured products (if any).**

The structured products are not bank deposits or protected deposits for the purposes of the Deposit Protection Scheme in Hong Kong and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation ("**FDIC**"), or any other governmental agency. The structured products are guaranteed by Morgan Stanley and the guarantee will rank *pari passu* with all other direct, unconditional, unsecured and unsubordinated indebtedness of Morgan Stanley.

The distribution of this document, the Base Listing Document, the First Addendum, the Second Addendum, the Third Addendum, the relevant launch announcement and supplemental listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in the Base Listing Document. The structured products have not been approved or disapproved by the SEC or any state securities commission in the United States or regulatory authority, nor has the SEC or any state securities commission or any regulatory authority passed upon the accuracy or the adequacy of this document. Any representation to the contrary is a criminal offence. **The structured products and the guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended ("Securities Act"), and the structured products may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act).**

Dated 30 September 2024

## IMPORTANT

If you are in doubt as to the contents of this document, you should obtain independent professional advice.

This document contains the extracts of the Issuer's interim financial report for the six months ended 30 June 2024. You should read this document, the Base Listing Document, the First Addendum, the Second Addendum, the Third Addendum and the relevant launch announcement and supplemental listing document published by us in relation to the particular series of structured products you are considering for investment to understand our structured products before deciding whether to buy our structured products.

Copies of this document, the Base Listing Document, the First Addendum, the Second Addendum, the Third Addendum and the relevant launch announcement and supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's and Guarantor's documentation?" in the Base Listing Document are available on the website of the Stock Exchange at www.hkexnews.hk and the Issuer's website at www.mswarrants.com.hk.

本文件、基本上市文件、第一份增編、第二份增編、第三份增編及相關發行公佈及補充上市文件(及以上各份文件的英文本)連同基本上市文件的「本人從何處可查閱發行人及擔保人的文件副本？」一節所列的其他文件，可於香港交易所披露易網站(www.hkexnews.hk)以及發行人網站(www.mswarrants.com.hk)瀏覽。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

Our Guarantor's long term credit ratings (as of the day immediately preceding the date of this document) are: A1 (Stable) by Moody's Investors Service, Inc. and A- (Stable) by S&P Global Ratings.

Save as disclosed in the Base Listing Document, the First Addendum, the Second Addendum, the Third Addendum and this document, the Issuer and our Guarantor are not aware, to the best of our and our Guarantor's knowledge and belief, of any litigation or claims of material importance pending or threatened against us or our Guarantor.

Save as disclosed in Annex 5 and Annex 6 to the Base Listing Document, the First Addendum, the Second Addendum, the Third Addendum and this document, there has been no material adverse change in the Issuer's and our Guarantor's financial or trading position since the date of the most recently published audited consolidated financial statements of the Issuer and our Guarantor that would have a material adverse effect on the Issuer's and our Guarantor's ability to perform their respective obligations in respect of the structured products.

## CONTENTS

# EXTRACT OF THE ISSUER'S INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2024

This information set out in the following pages has been extracted from the Issuer's interim financial report for the six months ended 30 June 2024. References to page numbers in this extract are to the pages in the Issuer's interim financial report for the six months 30 June 2024 and not to the pages in this document.

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME
**Six months ended 30 June 2024**

| | Notes | Six months ended 30 June 2024 US$'000 (unaudited) | Six months ended 30 June 2023 US$'000 (unaudited) |
|---|---|---|---|
| Net trading expense | 2 | (540) | (667) |
| Other revenue | 3 | 2,728 | 2,971 |
| Total non-interest revenues | | 2,188 | 2,304 |
| Interest income | 4 | 489 | 584 |
| Net revenues | | 2,677 | 2,888 |
| Non-interest expense: | | | |
| Other expense | 5 | (2,677) | (2,888) |
| **RESULT BEFORE INCOME TAX** | | — | — |
| Income tax | 6 | — | — |
| **RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | — | — |

All results were derived from continuing operations.

The notes on pages 14 to 40 form an integral part of the condensed financial statements.

## CONDENSED STATEMENT OF CHANGES IN EQUITY
**Six months ended 30 June 2024**

| | Share capital US$'000 | Retained earnings US$'000 | Total equity US$'000 |
|---|---|---|---|
| **Balance at 1 January 2024** | 50 | — | 50 |
| Result and total comprehensive income for the period | — | — | — |
| **Balance at 30 June 2024 (unaudited)** | 50 | — | 50 |
| | | | |
| **Balance at 1 January 2023** | 50 | — | 50 |
| Result and total comprehensive income for the period | — | — | — |
| **Balance at 30 June 2023 (unaudited)** | 50 | — | 50 |

The notes on pages 14 to 40 form an integral part of the condensed financial statements.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### CONDENSED STATEMENT OF FINANCIAL POSITION
**As at 30 June 2024**

| | Notes | 30 June 2024 US$'000 (unaudited) | 31 December 2023 US$'000 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 823 | 692 |
| Trading financial assets | 8 | 449 | 278 |
| Trade and other receivables | 9 | 20,978 | 13,052 |
| **TOTAL ASSETS** | | **22,250** | **14,022** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| | | | |
| **LIABILITIES** | | | |
| Trading financial liabilities | 8 | 22,152 | 13,325 |
| Trade and other payables | 10 | 48 | 647 |
| **TOTAL LIABILITIES** | | **22,200** | **13,972** |
| | | | |
| **EQUITY** | | | |
| Share capital | 11 | 50 | 50 |
| Retained earnings | | — | — |
| **Equity attributable to owner of the Company** | | **50** | **50** |
| | | | |
| **TOTAL EQUITY** | | **50** | **50** |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | **22,250** | **14,022** |

These condensed financial statements were approved by the Board and authorised for issue on 20 SEP 2024

Signed on behalf of the Board

Director: Young Lee

The notes on pages 14 to 40 form an integral part of the condensed financial statements.

## CONDENSED STATEMENT OF CASH FLOWS
**Six months ended 30 June 2024**

| | Notes | 30 June 2024 US$'000 (unaudited) | 30 June 2023 US$'000 (unaudited) |
|---|---|---|---|
| **NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES** | 12b | 3,687 | (8,875) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from loan repayment by other Morgan Stanley Group undertakings | | — | 9,147 |
| Issuance of loan to other Morgan Stanley Group undertakings | | (4,045) | — |
| Interest received | | 489 | 584 |
| **NET CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES** | | (3,556) | 9,731 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 131 | 856 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | | 692 | 769 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 12a | 823 | 1,625 |

The notes on pages 14 to 40 form an integral part of the condensed financial statements.

## 1. BASIS OF PREPARATION

**Accounting policies**

The Company prepares its annual financial statements in accordance with IFRSs issued by the IASB and Interpretations issued by the IFR Interpretations Committee ("IFRIC"). The condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 '*Interim Financial Reporting*'.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2023.

**New standards and interpretations adopted during the period**

The following amendments to standards relevant to the Company's operations were adopted during the period. These amendments to standards did not have a material impact on the Company's financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements':* Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020 and October 2022, for retrospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted.

Amendments to IAS 1 *'Presentation of Financial Statements':* Non-current liabilities with Covenants were issued by the IASB in October 2022 for application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted.

There were no other standards, amendments to standards or interpretations relevant to the Company's operations which were adopted during the period.

**New standards and interpretations not yet adopted**

At the date of authorisation of these financial statements,the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2024. The Company does not expect that the adoption of the following amendments to standards will have a material impact on the Company's financial statements.

The IASB issued a new standard – IFRS 18, *'Presentation and Disclosure in Financial Statements'*, in April 2024, with effective date of Annual periods beginning on or after 1 January 2027.

Amendments to IFRS 9 *'Financial Instruments'* ("IFRS 9") and IFRS 7 *'Financial Instruments: Disclosures'* ("IFRS 7") was issued by the IASB in May 2024 for retrospective application in annual periods beginning on or after 1 January 2026. Earlier application is permitted.

## 1. BASIS OF PREPARATION (CONTINUED)

**Basis of measurement**

The condensed financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as given in note 7.

**Critical accounting judgements and key sources of estimation uncertainty**

In preparing the condensed financial statements, the Company makes judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Company's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the condensed financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

No critical accounting judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the condensed financial statements.

The key sources of estimation uncertainty are the valuation of certain financial instruments. For further details on the assumptions and estimation uncertainties in determining the fair value of certain assets and liabilities, see note 16.

The Company evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

**The going concern assumption**

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the interim management report on pages 1 to 7. In addition, the notes to the condensed financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the interim management report retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

Taking the above factors into consideration, the Directors believe that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim report and condensed financial statements.

## 2. NET TRADING EXPENSE

| | 30 June 2024 US$'000 | 30 June 2023 US$'000 |
|---|---|---|
| Net trading expense on bilateral OTC derivative contracts | (5,156) | (39,549) |
| Net trading income on issued listed derivative contracts | 3,827 | 39,032 |
| Net trading income / (expense) on other listed derivative contracts | 789 | (150) |
| | (540) | (667) |

## 3. OTHER REVENUE

Other revenue predominantly represents management charges to the Company's direct parent undertaking for recovery of 'Other expense', see note 5 below.

## 4. INTEREST INCOME

All interest income relates to financial assets at amortised cost and is calculated using the effective interest rate method.

## 5. OTHER EXPENSE

| | 30 June 2024 US$'000 | 30 June 2023 US$'000 |
|---|---|---|
| Fees paid | 2,677 | 2,888 |

The Company issues derivative contracts listed on the Stock Exchange. Fees paid in the above table represents amounts paid to the Stock Exchange and other Morgan Stanley Group undertakings for listing and issuance of derivatives on the Stock Exchange.

## 6. INCOME TAX

The Government of the Cayman Islands, has not, under existing legislation, imposed any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company.

Hong Kong Profits Tax is calculated at 16.5% (2023: 16.5%) of the estimated assessable profit arising in Hong Kong.

No provision for taxation has been made as the Company does not have any taxable income during the period ended 30 June 2024 and 30 June 2023.

The Company has no current tax exposure in relation to the OECD Pillar Two Model Rules because the Pillar Two legislation is not effective at the reporting date. The Company has applied the exception to deferred tax disclosure as provided in the amendments to IAS 12 'Income Taxes': International Tax Reform – Pillar Two Model Rules. Based on preliminary assessments of potential future exposure, the financial impact is expected to be immaterial.

## 7. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities presented in the Company's condensed statement of financial position by the IFRS 9 classifications as at 30 June 2024 and at 31 December 2023 .

| **30 June 2024** | **FVPL (mandatorily)** | **Amortised cost** | **Total** |
|---|---|---|---|
| | **US$'000** | **US$'000** | **US$'000** |
| Cash | — | 823 | 823 |
| Trading financial assets | 449 | — | 449 |
| Trade and other receivables | — | 20,978 | 20,978 |
| Total financial assets | 449 | 21,801 | 22,250 |
| Trading financial liabilities | 22,152 | — | 22,152 |
| Trade and other payables | — | 48 | 48 |
| Total financial liabilities | 22,152 | 48 | 22,200 |

| **31 December 2023** | **FVPL (mandatorily)** | **Amortised cost** | **Total** |
|---|---|---|---|
| | **US$'000** | **US$'000** | **US$'000** |
| Cash | — | 692 | 692 |
| Trading financial assets | 278 | — | 278 |
| Trade and other receivables | — | 13,052 | 13,052 |
| Total financial assets | 278 | 13,744 | 14,022 |
| Trading financial liabilities | 13,325 | — | 13,325 |
| Trade and other payables | — | 647 | 647 |
| Total financial liabilities | 13,325 | 647 | 13,972 |

## 8. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

| | 30 June 2024 | | 31 December 2023 | |
|---|---|---|---|---|
| | Assets US$'000 | Liabilities US$'000 | Assets US$'000 | Liabilities US$'000 |
| Derivatives- Equity contracts | | | | |
| Bilateral OTC derivative contracts | 93 | 6,437 | 228 | 2,758 |
| Issued listed derivative contracts | — | 15,715 | — | 10,567 |
| Other listed derivative contracts | 356 | — | 50 | — |
| | **449** | **22,152** | **278** | **13,325** |

## 9. TRADE AND OTHER RECEIVABLES

| | 30 June 2024 US$'000 | 31 December 2023 US$'000 |
|---|---|---|
| **Trade and other receivables (amortised cost)** | | |
| Trade receivables | 7,000 | 2,790 |
| Other receivables | | |
| Amounts due from the Company's direct parent undertaking | 13,978 | 10,262 |
| | 20,978 | 13,052 |

## 10. TRADE AND OTHER PAYABLES

| | 30 June 2024 US$'000 | 31 December 2023 US$'000 |
|---|---|---|
| **Trade and other payables (amortised cost)** | | |
| Trade payables | 2 | 537 |
| Other payables | | |
| Amounts due to other Morgan Stanley Group undertakings | 43 | 44 |
| Other amounts payables | 3 | 66 |
| | 48 | 647 |

## 11. EQUITY

| | Ordinary shares of US$1 each |
|---|---|
| | Number |
| **Authorised** | |
| At 1 January 2023, 31 December 2023 and 30 June 2024 | 50,000 |

| | Ordinary shares of US$1 each | |
|---|---|---|
| | Number | US$'000 |
| **Issued and fully paid** | | |
| At 1 January 2023, 31 December 2023 and 30 June 2024 | 50,000 | 50 |

The holder of ordinary shares is entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of shareholders of the Company. All shares rank equally with regard to the Company's residual assets.

## 12. ADDITIONAL CASH FLOW INFORMATION

### a. Cash and cash equivalents

For the purposes of the condensed statement of cash flows, cash and cash equivalents comprise cash, which have less than three months maturity from the date of acquisition.

## 12. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

### b. Reconciliation of cash flows from/ (used in) operating activities

| | 30 June 2024 US$'000 | 30 June 2023 US$'000 |
|---|---|---|
| Result for the period | — | — |
| *Adjustments for:* | | |
| Interest income | (489) | (584) |
| Operating cash flows before changes in operating assets and liabilities | (489) | (584) |
| | | |
| Changes in operating assets | | |
| (Increase) / decrease in trading financial assets | (171) | 999 |
| Increase in trade and other receivables | (3,881) | (1,074) |
| | (4,052) | (75) |
| | | |
| Changes in operating liabilities | | |
| Increase / (decrease) in trading financial liabilities | 8,827 | (7,285) |
| Decrease in trade and other payables | (599) | (931) |
| | 8,228 | (8,216) |
| | | |
| **Net cash flows from / (used in) operating activities** | 3,687 | (8,875) |

## 13. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business and geographical segments are based on the Company's management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions.

*Business segment*

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities which includes the issuance of derivative contracts and the hedging of the obligations arising pursuant to such issuance.

Of the Company's total revenue, 41% (30 June 2023: 8%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the Related Party Disclosures note 19.

*Geographical segment*

The Company operates in one geographic region, Asia. The basis for attributing external revenue and total assets to one geographic region is determined by trading desk location.

## 14. FINANCIAL RISK MANAGEMENT

**Risk management procedures**

Risk is an inherent part of both the Morgan Stanley Group's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

The principal activity of the Company continues to be the issuance of financial instruments under an Issuance Programme and the economic hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk as a result of its issuance activities. On the issuance of each financial instrument, the Company enters into economic hedges of its obligations by purchasing financial instruments from another Morgan Stanley Group entity and from the market.

Significant risks faced by the Company resulting from its issuance activities and hedging strategies are set out below.

**Credit risk**

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company.

**Credit risk management**

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

The Company may incur credit risk in its derivatives business through a variety of activities, including, but not limited to, the following:

- entering into derivative contracts under which counterparties may have obligations to make payments to the Company;
- providing short or long-term funding to Morgan Stanley Group undertakings;

The Company hedges all of its financial liabilities by entering into bilateral OTC derivative contracts with other Morgan Stanley Group undertakings and other derivative contracts. Except for cash and other derivative contracts, the Company enters into all of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Exposure to credit risk**

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2024 is disclosed below, based on the carrying amounts of the financial assets which the Company believes are subject to credit risk. The table includes financial instruments subject to Expected Credit Loss ("ECL") and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECLs are subsequently measured at fair value. The table below does not include trade receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant. Where the Company enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed in note 15 'Financial Assets and Financial Liabilities Subject to Offsetting'.

The Company does not have any exposure arising from items not recognised on the balance sheet.

The Company does not hold financial assets considered to be credit-impaired.

**Credit quality**

**Exposure to credit risk by internal rating grades**

Internal credit ratings, as below, are derived using methodologies generally consistent with those used by external agencies:

Investment grade: AAA - BBB
Non-investment grade: BB - CCC
Default: D

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

**Six months ended 30 June 2024**

### 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit quality (Continued)**

**Exposure to credit risk by internal rating grades (Continued)**

The table below shows gross carrying amount by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown:

**30 June 2024**

| | Gross credit exposure(1)(2) US$'000 | Counterparty | Rating | Credit Grade |
|---|---|---|---|---|
| **Subject to ECL(3):** | | | | |
| Cash | 11 | Standard Chartered Bank | A | Investment Grade |
| | 71 | Standard Chartered Bank (Hong Kong) Limited | BBB | Investment Grade |
| | 51 | ANZ Bank New Zealand Limited | A | Investment Grade |
| | 79 | HSBC Bank Australia Limited | A | Investment Grade |
| | 548 | HSBC Bank (Mauritius) Limited | BBB- | Investment Grade |
| | 63 | Sumitomo Mitsui Banking Corporation | A | Investment Grade |
| Total Cash | 823 | | | |
| Trade and other receivables | 13,978 | Morgan Stanley Asia Securities Products LLC | BBB | Investment Grade |
| | 6,570 | Morgan Stanley & Co. International plc | A | Investment Grade |
| Total trade and other receivables (4) | 20,548 | | | |
| **Not subject to ECL(5):** | | | | |
| Trading financial assets | 94 | Morgan Stanley & Co. International plc | A | Investment Grade |
| | 329 | Korea Investment & Securities Asia Ltd. | NR | |
| | 17 | Guotai Junan Securities (Hong Kong) Limited | BB | Non-investment Grade |
| | 7 | UBS AG | A | Investment Grade |
| | 2 | B.V. | NR | |
| Total trading financial assets | 449 | | | |

1. The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
2. Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$6,438,000 to be offset in the ordinary course of business and/ or in the event of default as given in note 15.
3. There is a minimal ECL of US$1,000 on trade and other receivables.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit quality (Continued)**

**Exposure to credit risk by internal rating grades (Continued)**

4. Trade and other receivables include cash collateral pledged against the payable on OTC derivative positions. These derivative liabilities are included within trading financial liabilities in the statement of financial position. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.
5. Financial assets measured at FVPL are not subject to ECL.

**31 December 2023**

| | Gross credit exposure[(1)(2)] US$'000 | Counterparty | Rating | Credit Grade |
|---|---|---|---|---|
| **Subject to ECL[(3)]:** | | | | |
| Cash | 11 | Standard Chartered Bank | A | Investment Grade |
| | 48 | Standard Chartered Bank (Hong Kong) Limited | BBB | Investment Grade |
| | 51 | ANZ Bank Limited | A | Investment Grade |
| | 509 | The Hong Kong and Shanghai Banking Corporation Limited | A | Investment Grade |
| | 73 | Sumitomo Mitsui Banking Corporation | A | Investment Grade |
| Total Cash | 692 | | | |
| Trade and other receivables | 10,262 | Morgan Stanley Asia Securities Products LLC | BBB | Investment Grade |
| | 2,326 | Morgan Stanley & Co. International plc | A | Investment Grade |
| Total trade and other receivables [(5)] | 12,588 | | | |
| **Not subject to ECL[(4)]:** | | | | |
| Trading financial assets | 229 | Morgan Stanley & Co. International plc | A | Investment Grade |
| | 42 | The Hong Kong and Shanghai Banking Corporation Limited | A | Investment Grade |
| | 7 | J.P. Morgan Structured Products B.V. | UR | |
| Total Trading financial assets | 278 | | | |

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit quality (Continued)**

**Exposure to credit risk by internal rating grades (Continued)**

1. The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
2. Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$3,018,000 to be offset in the ordinary course of business and/ or in the event of default as given in note 15.
3. There is a minimal ECL of US$1,000 on trade and other receivables.
4. Financial assets measured at FVPL are not subject to ECL.
5. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.

**Liquidity risk**

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity risk as a result of its trading, lending and investing activities.

The Company's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group. The primary goal of Morgan Stanley Group's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Company to fulfil its financial obligations and support the execution of its business strategies.

The following principles guide the Morgan Stanley Group's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Liquidity Stress Tests should account for stressed liquidity requirements and the amount of liquidity held should be greater than those stressed requirements.

The Company hedges all of its financial liabilities by entering into OTC derivative contracts with other Morgan Stanley Group undertakings. In general, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Liquidity Resources (as defined below).

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk (Continued)

*Required Liquidity Framework*

The Required Liquidity Framework establishes the amount of liquidity the Morgan Stanley Group must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

*Liquidity Stress Tests*

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and market stress events of different severity and duration. The methodology, implementation, production and analysis of the Liquidity Stress Tests are important components of the Required Liquidity Framework.

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries. In addition to the assumptions underpinning the Liquidity Stress Tests, the Morgan Stanley Group takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financial activities.

Since the Company hedges the risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major operating subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event that it was unable to access adequate financing to service its financial liabilities when they become payable.

The Required Liquidity Framework and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/Liability Management Committee, and other appropriate risk committees.

*Liquidity Resources*

The Morgan Stanley Group maintains sufficient liquidity resources, which consist of unencumbered highly liquid securities and cash deposits with banks (including central banks) ("Liquidity Resources") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The Company actively manages the amount of Liquidity Resources considering the following components: unsecured debt maturity profile; balance sheet size and composition; funding needs in a stressed environment inclusive of contingent cash outflows; and collateral requirements. The amount of Liquidity Resources within the Morgan Stanley Group is based on the Morgan Stanley Group's risk tolerance and is subject to change depending on market and firm-specific events. Unencumbered highly liquid securities consist of netted trading assets, investment securities and securities received as collateral.

The Morgan Stanley Group's Liquidity Resources, to which the Company has access, is held within Morgan Stanley and its major operating subsidiaries and is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Liquidity risk (Continued)**

*Liquidity Resources* (Continued)

Eligible unencumbered highly liquid securities include US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

Liquidity Resources may fluctuate from period to period based on the overall size and composition of the balance sheet, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in its Liquidity Resources can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the resources.

*Funding management*

The Morgan Stanley Group manages its funding in a manner that reduces the risk of disruption to the Morgan Stanley Group's and the Company's operations. The Morgan Stanley Group pursues a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempts to ensure that the tenor of the Morgan Stanley Group's, and the Company's, liabilities equals or exceeds the expected holding period of the assets being financed.

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity. These sources include the Morgan Stanley Group's equity capital, long-term borrowing, securities sold under agreements to repurchase, securities lending, deposits, letters of credit and lines of credit. The Morgan Stanley Group has active financing programmes for both standard and structured products targeting global investors and currencies.

*Balance sheet management*

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. The liquid nature of the marketable securities and short-term receivables arising principally from sales and trading activities in Institutional Securities business provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

*Maturity analysis*

In the following maturity analysis, trading financial assets and liabilities are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial assets and financial liabilities are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2024 and 31 December 2023. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Liquidity risk (Continued)**

*Maturity analysis (Continued)*

| 30 June 2024 | On demand | Less than 1 month | 1 month - 3 months | 3 months - 1 year | 1 year - 5 years | Total |
|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Financial assets** | | | | | | |
| Cash | 823 | — | — | — | — | 823 |
| Trading financial assets | — | — | 351 | 19 | 79 | 449 |
| Trade and other receivables[(1)] | 7,173 | — | — | — | 13,805 | 20,978 |
| **Total financial assets** | **7,996** | **—** | **351** | **19** | **13,884** | **22,250** |
| **Financial liabilities** | | | | | | |
| Trading financial liabilities | — | 2,102 | 4,670 | 8,927 | 6,453 | 22,152 |
| Trade and other payables | 48 | — | — | — | — | 48 |
| **Total financial liabilities** | **48** | **2,102** | **4,670** | **8,927** | **6,453** | **22,200** |

(1) Trade and other receivables include certain receivables due from the Company's direct parent undertaking which is dated on a rolling 395 day terms and includes a voluntary bilateral early settlement provision. Although these receivables are disclosed based on the required contractual maturity excluding the effect of voluntary bilateral early settlement provision, it is expected early repayment can be agreed with the Company's direct parent undertaking if required.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Liquidity risk (Continued)**

*Maturity analysis (Continued)*

| 31 December 2023 | On demand | Less than 1 month | 1 month - 3 months | 3 months - 1 year | 1 year - 5 years | Total |
|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Financial assets** | | | | | | |
| Cash | 692 | — | — | — | — | 692 |
| Trading financial assets | — | — | 43 | 25 | 210 | 278 |
| Trade and other receivables(1) | 3,293 | — | — | — | 9,759 | 13,052 |
| **Total financial assets** | **3,985** | **—** | **43** | **25** | **9,969** | **14,022** |
| **Financial liabilities** | | | | | | |
| Trading financial liabilities | — | 614 | 2,970 | 7,148 | 2,593 | 13,325 |
| Trade and other payables | 647 | — | — | — | — | 647 |
| **Total financial liabilities** | **647** | **614** | **2,970** | **7,148** | **2,593** | **13,972** |

(1) Trade and other receivables include certain receivables due from the Company's direct parent undertaking which is dated on a rolling 395 day terms and includes a voluntary bilateral early settlement provision. Although these receivables are disclosed based on the required contractual maturity excluding the effect of voluntary bilateral early settlement provision, it is expected early repayment can be agreed with the Company's direct parent undertaking if required.

**Market risk**

Market risk is identified by IFRS 7 *'Financial instruments: Disclosures'* ("IFRS 7") as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The issued listed derivative contracts expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollars, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the risk mirroring contracts that it purchases from other Morgan Stanley Group undertakings to match the price risk, foreign currency and other market risks associated with the issuance of listed derivative contracts, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments. Different components of market risks from the issued listed derivative contracts resulting into price movements in underlying securities, exchange rates and others will be offset by the same but opposite price movements in the risk-mirroring contracts. Due to Company's hedging strategy, the gain in the equity price sensitivity analysis as shown in table below will be hedged and offset by fair value movements into risk mirroring contracts.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

## 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Market risk (Continued)

The market price risk exposure from the financial assets is mainly equity price risk and interest rate risk, although all such risks are offset by equal and offsetting exposure to risk on the issued securities. Equity price risk refers to the risk of changes in the equity price of the assets underlying these financial assets.

*Equity price sensitivity analysis*

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2024 and 31 December 2023 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying asset values as shown in the table below.

| | Impact on Total Comprehensive Income Gains/(losses) | |
|---|---|---|
| | 30 June 2024 | 31 December 2023 |
| | US$'000 | US$'000 |
| Bilateral OTC derivative contracts | (7,229) | (4,430) |
| Issued listed derivative contracts | 7,229 | 4,430 |
| | — | — |

The Company's equity price risk is mainly concentrated on equity securities in Asia.

*Interest rate risk*

Interest rate risk is defined by IFRS 7 "Financial Instruments: Disclosures" as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of changes in the future cash flows of floating rate intercompany borrowing and loans held at amortised cost.

The application of a parallel shift in market interest rates of 50 basis point increase or decrease, calculated until the next reset date, to these positions, would result in a net gain or loss of approximately US$203 (31 December 2023: US$145) in the condensed statement of comprehensive income.

## 15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 14 for further details. Primarily in connection with the issuance and hedging activities, the Company enters into master netting arrangements and collateral arrangements with certain counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty.

In the condensed statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the assets and the liabilities simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about offsetting of financial instruments.

**Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:**

| 30 June 2024 | Gross amounts | Amounts offset in the condensed statement of financial position | Net amounts presented in the condensed statement of financial position |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **Assets** | | | |
| Trading financial assets | 449 | — | 449 |
| Trade and other receivables | 29,654 | (8,676) | 20,978 |
| **TOTAL** | **30,103** | **(8,676)** | **21,427** |
| **Liabilities** | | | |
| Trading financial liabilities | 22,152 | — | 22,152 |
| Trade and other payables | 8,724 | (8,676) | 48 |
| **TOTAL** | **30,876** | **(8,676)** | **22,200** |

## 15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

| 30 June 2024 | Net amounts presented in the condensed statement of financial position | Amounts not offset in the condensed statement of financial position(1) | | |
|---|---|---|---|---|
| | | Financial instruments | Cash collateral(2) | Net exposure |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Assets** | | | | |
| Morgan Stanley & Co. International plc | 6,664 | (94) | (6,343) | 227 |
| Morgan Stanley Asia Securities Products LLC | 13,978 | — | — | 13,978 |
| Morgan Stanley Hong Kong Securities Limited | 428 | (1) | — | 427 |
| Others | 357 | — | — | 357 |
| **TOTAL** | **21,427** | **(95)** | **(6,343)** | **14,989** |
| **Liabilities** | | | | |
| Morgan Stanley & Co. International plc | 6,437 | (6,437) | — | — |
| Morgan Stanley Hong Kong Securities Limited | 1 | (1) | — | — |
| Morgan Stanley & Co. LLC | 43 | — | — | 43 |
| Others | 15,719 | — | — | 15,719 |
| **TOTAL** | **22,200** | **(6,438)** | — | **15,762** |

1. These are amounts that would be offset in the ordinary course of business and/ or in the event of default according to the intercompany cross-product legally enforceable netting arrangements with the respective Morgan Stanley Group undertakings.

2. The cash collateral not offset is recognised in the condensed statement of financial position within Trade and other receivables.

## 15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

| 31 December 2023 | Gross amounts | Amounts offset in the condensed statement of financial position | Net amounts presented in the condensed statement of financial position |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **Assets** | | | |
| Trading financial assets | 278 | — | 278 |
| Trade and other receivables | 42,248 | (29,196) | 13,052 |
| **TOTAL** | **42,526** | **(29,196)** | **13,330** |
| **Liabilities** | | | |
| Trading financial liabilities | 13,325 | — | 13,325 |
| Trade and other payables | 29,843 | (29,196) | 647 |
| **TOTAL** | **43,168** | **(29,196)** | **13,972** |

## 15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

| 31 December 2023 | Net amounts presented in the condensed statement of financial position | Amounts not offset in the condensed statement of financial position[(1)] | | |
|---|---|---|---|---|
| | | Financial instruments | Cash collateral[(2)] | Net exposure |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Assets** | | | | |
| Morgan Stanley & Co. International plc | 2,554 | (228) | (2,326) | — |
| Morgan Stanley Asia Securities Products LLC | 10,262 | — | — | 10,262 |
| Morgan Stanley Hong Kong Securities Limited | 464 | (464) | — | — |
| Others | 50 | — | — | 50 |
| **TOTAL** | **13,330** | **(692)** | **(2,326)** | **10,312** |
| **Liabilities** | | | | |
| Morgan Stanley & Co. International plc | 2,758 | (2,554) | — | 204 |
| Morgan Stanley Hong Kong Securities Limited | 537 | (464) | — | 73 |
| Morgan Stanley & Co. LLC | 44 | — | — | 44 |
| Others | 10,633 | — | — | 10,633 |
| **TOTAL** | **13,972** | **(3,018)** | **—** | **10,954** |

1. These are amounts that would be offset in the ordinary course of business and /or in the event of default according to the intercompany cross-product legally enforceable netting arrangements with the respective Morgan Stanley Group undertakings.

2. The cash collateral not offset is recognised in the condensed statement of financial position within Trade and other receivables.

## 16. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

### a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

| 30 June 2024 | Quoted prices in active market (Level 1) US$'000 | Valuation techniques using observable inputs (Level 2) US$'000 | Valuation techniques with significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
|---|---|---|---|---|
| Trading financial assets: Derivatives- Equity contracts | — | 449 | — | 449 |
| Trading financial liabilities: Derivatives- Equity contracts | — | 22,152 | — | 22,152 |
| **31 December 2023** | | | | |
| Trading financial assets: Derivatives- Equity contracts | — | 278 | — | 278 |
| Trading financial liabilities: Derivatives- Equity contracts | — | 13,325 | — | 13,325 |

## 16. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

### a. Financial assets and liabilities recognised at fair value on a recurring basis (Continued)

The Company's valuation approach and fair value hierarchy categorisation for all classes of financial instruments recognised at fair value on a recurring basis is as follows:

| Asset and Liability / Valuation Technique | Valuation Hierarchy Classification |
|---|---|
| *Derivatives* | |
| Listed Derivative Contracts<br>• Listed derivatives that are actively traded are valued based on quoted prices from the exchange.<br>• Listed derivatives that are not actively traded are valued using the same techniques as those applied to derivative contracts. | • Level 1 - listed derivatives that are actively traded<br>• Level 2 - listed derivatives that are not actively traded |
| OTC Derivative Contracts<br>• OTC derivative contracts include swap and option contracts related to equity prices.<br>• Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgement, since model inputs may be observed from actively quoted markets, as is the case for equity option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. | • Generally Level 2 - OTC derivative products valued using observable inputs, or where the unobservable inputs are not deemed significant.<br>• Level 3 - OTC derivative products for which the unobservable inputs are deemed significant. |

### b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current and prior period.

### c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during current and prior period.

### d. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets or liabilities are those which are required or permitted in the condensed statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current or prior period.

## 17. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value.

## 18. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines. In the future the Morgan Stanley Group may expand or contract its capital base to address the changing needs of its businesses.

The Morgan Stanley Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the Morgan Stanley Group.

In order to maintain or adjust the capital structure as described above, the Company may issue new shares or sell assets to reduce debt. The Company manages its ordinary share capital of US$50,000 (31 December 2023: US$50,000) as capital.

The issuance of securities is part of the Company's operating activities. The Company has contractual obligations to deliver cash or underlying financial instruments to holders of the issued securities. Also, these obligations will not be settled in the Company's own equity instruments. These liabilities are not subordinated and the security holders rank equally with other creditors of the Company. The issued securities are also not contracts that evidence any residual interest in the assets of the Company. The Company therefore does not regard the financial liabilities derived from its issuance activity as part of its capital.

The Company has also entered into financial support agreement with its immediate parent, MSASP and with MSHK 1238, whereby MSASP and MSHK 1238 agree to provide financial support by way of funds injection in the form of equity capital or shareholder's loan in the event the Company needs funding to fulfil its obligations and liabilities under its issuance program.

## 19. RELATED PARTY DISCLOSURES

**Parent and subsidiary relationships**

*Parent and ultimate controlling entity*

The Company's immediate parent undertaking is MSASP, which is registered in Cayman Islands.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the State of Delaware, the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

## 19. RELATED PARTY DISCLOSURES (CONTINUED)

**Key management compensation**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company.

Due to the nature of the Company's activities, key management personnel provide minimal services specific to the Company and as a result, no compensation is paid to key management personnel in respect of their services to the Company.

**Transactions with related parties**

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. All the amounts outstanding as disclosed below are unsecured and will be settled in cash or via intercompany mechanism.

Audit fees has been borne by another Morgan Stanley Group undertaking in both the current and prior period.

*Funding*

The Company receives general funding from and provides general funding to other Morgan Stanley Group undertakings in the following forms:

*General Funding*

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

## 19. RELATED PARTY DISCLOSURES (CONTINUED)

**Transactions with related parties (Continued)**

*General Funding* (Continued)

Details of the outstanding balances on these funding arrangements and the related interest income recognised in the condensed statement of comprehensive income during the period are shown in the table below:

| | 30 June 2024 | | 31 December 2023 | |
|---|---|---|---|---|
| | **Interest** | **Balance** | **Interest** | **Balance** |
| | **US$'000** | **US$'000** | **US$'000** | **US$'000** |
| ***Rolling 395 day term*** | | | | |
| Amounts due from the Company's direct parent undertaking | 420 | 13,805 | 890 | 9,759 |
| ***Undated*** | | | | |
| Amounts due from the Company's direct parent undertaking | — | 173 | — | 503 |
| Amounts due to other Morgan Stanley Group undertakings | — | 43 | — | 44 |

During the period, the Company has recognised ECL expense of US$Nil (2023: US$Nil) on the above outstanding balance from related parties.

*Trading and risk management*

The Company issues listed derivative contracts and hedges the obligations arising from the issuance by entering into derivative contracts with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company.

The total amounts receivable and payable on trading financial assets, trading financial liabilities, trade and other receivables and trade and other payables outstanding at the period-end were as follows:

| | **30 June 2024** | **31 December 2023** |
|---|---|---|
| | **US$'000** | **US$'000** |
| Amounts due from other Morgan Stanley Group undertakings[(1)] | 7,092 | 3,018 |
| Amounts due to other Morgan Stanley Group undertakings | 6,437 | 3,296 |

## 19. RELATED PARTY DISCLOSURES (CONTINUED)

**Transactions with related parties (Continued)**

*Trading and risk management* (Continued)

(1) Amounts due from other Morgan Stanley Group undertakings include cash collateral of US$6,570,000 (31 December 2023: US$2,326,000) pledged by the Company to Morgan Stanley & Co. International plc ("MSIP") to mitigate risk on exposures arising under derivatives contracts between the Company and MSIP. The Company has received interest of US$67,000 (31 December 2023: US$169,000) on the cash collateral pledged to MSIP.

*Fees and commissions*

The Company incurs fee in respect of services performed by other Morgan Stanley Group undertaking. Fees incurred during the period are as follows:

| | 30 June 2024 US$'000 | 30 June 2023 US$'000 |
|---|---|---|
| Fees paid to other Morgan Stanley Group undertaking | 200 | 211 |

*Other related party transactions*

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. The Company receives management charges by recharging certain expenses, including fees paid to the Stock Exchange and to the Company's direct parent undertaking. For the period ended 30 June 2024, a management charge of US$2,728,000 (30 June 2023: US$2,971,000) is recognised in the condensed statements of comprehensive income arising from such policies. An outstanding receivable relating to the management charge at reporting date is included within the general funding balances disclosed above.

# PARTIES

**Issuer**

Morgan Stanley Asia Products Limited
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

**Guarantor**

Morgan Stanley

*Registered Office*
The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington
DE 19801
United States of America

*Principal Executive Office*
1585 Broadway
New York
NY 10036
United States of America

**Manager**

Morgan Stanley Asia Limited
Level 46
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

**Liquidity Provider**

Morgan Stanley Hong Kong Securities Limited
Level 46
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

**Legal Advisers**
*to the Issuer and the Guarantor*

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

**Issuer's Auditor**

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

**Guarantor's Auditor**

Deloitte & Touche LLP
30 Rockefeller Plaza
New York
New York 10112
United States of America