

**MORGAN STANLEY ASIA PRODUCTS LIMITED**

**Interim financial report**

**For the six months ended 30 June 2021**

# **MORGAN STANLEY ASIA PRODUCTS LIMITED**

## **INTERIM FINANCIAL REPORT**

**Six months ended 30 June 2021**

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## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **INTERIM MANAGEMENT REPORT**

The Directors present their interim management report, responsibility statement and condensed financial statements (which comprise the condensed statement of comprehensive income, condensed statement of changes in equity, condensed statement of financial position, condensed statement of cash flows and the related notes, 1 to 20) of Morgan Stanley Asia Products Limited (the “Company”) for the six months period ended 30 June 2021.

#### **RESULTS AND DIVIDENDS**

The result for the period, after tax, was US\$Nil (30 June 2020: US\$Nil).

During the period, no dividends were paid or proposed (30 June 2020: US\$Nil).

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company is the issuance of financial instruments with primary focus on the Asia markets and the hedging of the obligations arising pursuant to such issuances.

The Company’s ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley’s other subsidiary undertakings, form the “Morgan Stanley Group”.

There have not been any significant changes in the Company’s principal activity in the period under review and no significant change in the Company’s principal activity is expected.

#### **BUSINESS REVIEW**

##### **Global market and economic conditions**

The global economy has continued to recover from the Covid pandemic, underpinned by strong support from fiscal and monetary policy as well as reopening of economies amid progress in vaccinations. Policymakers have underwritten private sector losses arising from the exogenous growth shock, leaving firms and households with relatively healthy balance sheets and the capacity to spend as economies reopen. This demand surge has boosted global trade momentum, with strong spillover to capex recovery, lifting global Gross Domestic Product (‘GDP’) above its pre-Covid path in the third quarter of 2021. Overall, we expect global growth to accelerate to 6.5% in 2021, vs. -3.2% in 2020. In terms of policy, the Federal Reserve has kept policy rates on hold and continued with its asset purchase programme. It also indicated that the economy has made progress towards its maximum employment and price stability goals and that the Federal Open Market Committee (‘FOMC’) would continue to assess progress in coming meetings. This new guidance can now be adjusted at upcoming meetings to guide expectations for when tapering will begin. In Europe, the European Central Bank (‘ECB’) signaled a more dovish tilt in its policy rates guidance in July following the shift to a symmetric 2% inflation target as part of its strategy review, while keeping its quarter end programme unchanged. Turning to Asia, Chinese policymakers have shifted to a modest policy easing stance since July amid softer growth, by announcing a 50bp broad-based reserve requirement ratio cut and calling for more effective fiscal policy via local government special bond issuance for construction activities. In India, the Reserve Bank of India (‘RBI’) has maintained its accommodative monetary policy stance by holding policy rates at a record low and undertaking liquidity management measures, to help to mitigate the Covid impact on growth and financial conditions. In June, the Indian government also announced extensions to credit provision schemes and free food and employment benefits programmes. In Hong Kong, the Hong Kong Monetary Authority (‘HKMA’) also kept the base rate at a historical low, while the government ramped up fiscal spending via disbursement of consumption vouchers to residents to help to support local spending.

## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **INTERIM MANAGEMENT REPORT (CONTINUED)**

#### **Covid-19 pandemic**

Since its onset, the COVID-19 pandemic has had a significant impact on global economic conditions and the environment in which the businesses operate, and it may continue to do so in the future. Though many employees have been working from home for some time, the Group is preparing for employees to return to work in the Group's offices in certain locations. The Group continues to be fully operational, with the majority of employees working from home. Recognising that local conditions vary for offices around the world and that the trajectory of the virus continues to be uncertain, the Group may adjust its plans for employees returning to offices as deemed necessary.

#### **Overview of financial results**

The condensed statement of comprehensive income for the year is set out on page 11. The result for the period was US\$Nil which is consistent with the Company's function and the prior period. The Company hedges its issuances with bilateral over-the-counter ("OTC") derivative contracts classified as trading financial assets or liabilities, loans designated at fair value through profit or loss ("FVPL") and prepaid equity securities contracts. Net trading expense of US\$336,000 (2020: US\$252,000) represents net fair value movement on listed and bilateral OTC derivative contracts classified as trading financial assets or liabilities. Net income from other financial instruments held at fair value of US\$Nil (2020: US\$26,000) represents net fair value movement on issued warrants, structured notes and their hedging financial instruments classified as prepaid equity securities contracts and loans respectively. All issued warrants, structured notes listed on Irish Stock Exchange and corresponding prepaid equity securities contracts and loans have been matured during the year ended 31 December 2020. Issued listed derivative contracts on The Stock Exchange of Hong Kong Limited ("Stock Exchange") have underlying securities predominantly in the Hong Kong market.

The condensed statement of financial position for the Company is set out on page 13. The Company's financial position at the end of the year shows that the total assets and total liabilities were US\$36,730,000 (2020: US\$62,195,000) and US\$36,680,000 (2020: US\$62,145,000) respectively, a decrease of 41% from the prior year. The decrease during the year is primarily due to decrease in issuance/ trading of the listed derivative contracts due to US sanctions.

#### **Risk management**

Risk is an inherent part of both Morgan Stanley 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's own risk management policies and procedures are consistent with those of the Morgan Stanley Group. The risk management policy framework includes escalation to appropriate senior management of the Company.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. Note 15 to the condensed financial statements provides more detailed quantitative disclosures as well as qualitative information on the Company's financial risk management.

During the period ended 30 June 2021, the Company redeemed warrants valuing US\$Nil (30 June 2020: US\$111,775,000) and issued new warrants of US\$Nil (30 June 2020: US\$117,176,000). The redemptions were mainly driven by retirement and maturity of the warrants and structured notes. However, the Company had sufficient financial assets in the form of prepaid equity securities contracts, redeeming at the same time to meet the redemption obligations of the issued warrants listed on Irish stock exchange. Further, all issuances of financial liabilities are guaranteed by Morgan Stanley. The Company hedges all of its financial liabilities by entering into prepaid OTC contracts with its immediate parent and 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.

## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **INTERIM MANAGEMENT REPORT (CONTINUED)**

#### **Risk management (continued)**

The Company has also entered into a financial support agreement with its immediate parent, Morgan Stanley Asia Securities Products LLC ("MSASP") and with Morgan Stanley Hong Kong 1238 Limited ("MSHK 1238"), whereby MSASP and MSHK 1238 agree to provide financial support by way of funds injection in the form of equity capital or shareholders loan in the event the Company needs funds to fulfil its obligations and liabilities under its issuance program.

#### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, spreads, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Company is subject to market price risk exposure for its issuances, however, for each issuance, the Company enters into risk-mirroring contracts to fully hedge each type of market risk arising from its issuances. Accordingly, the Company has no net exposure to market risk.

The Morgan Stanley Group manages the market risk associated with its trading activities on a global basis, at both a trading division and an individual product level and includes consideration of market risk at the legal entity level.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the appropriate senior management personnel.

It is the policy and objective of the Company not to be exposed to market risk on a net basis as a result of its issuance activities.

#### *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 exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

#### *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 also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The framework is further described in Note 15.

The Company hedges all of its financial liabilities arising from issuance of listed derivative contracts, warrants and structured notes by entering into risk mirroring contracts with its immediate parent and other Morgan Stanley Group undertakings.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### INTERIM MANAGEMENT REPORT (CONTINUED)

#### Risk management (continued)

##### *Liquidity risk (continued)*

The maturity analysis provided in Note 15 reflects the liquidity risk arising from the financial assets and the 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. As at 30 June 2021, the Company has a payable of US\$24,140,000 (31 December 2020: US\$49,844,000) within one year from the date of the condensed financial statements. As a result of the Company's hedging strategy, the Company has adequate financial assets to meet the settlement of this obligation. As at 30 June 2021, the Company had financial assets of US\$36,272,000 (31 December 2020: US\$59,895,000) expected to be maturing within one year from the date of the condensed financial statements.

##### *Operational risk*

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

The Company, through the Morgan Stanley Group, has established an operational risk framework to identify, measure, monitor and control risk. It includes escalation to the Company's Board of Directors and appropriate senior management personnel. The Morgan Stanley Group employs a variety of risk processes and mitigates to manage its operational risk exposures. These include a governance framework, a comprehensive risk management programme and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance reviewed and confirmed by the Board and are prioritised accordingly. The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include continuous enhancement of defenses against cyberattacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

The Operational Risk Department provides independent oversight of operational risk and assesses measures and monitors operational risk against tolerance. The Operational Risk Department works with the business divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Morgan Stanley Group.

The Operational Risk Department scope includes oversight of the technology risk, cybersecurity risk, information security risk and data risk management programme (e.g. cybersecurity), fraud risk management and prevention programme and third party risk management (supplier and affiliate risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Morgan Stanley Group's advanced measurement approach for operational risk capital.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### INTERIM MANAGEMENT REPORT (CONTINUED)

#### Risk management (continued)

##### *Operational risk (continued)*

Business Continuity Management maintains programmes for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the Morgan Stanley Group during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Morgan Stanley Group's people, operations, technology, suppliers and/or facilities. The business continuity management programme's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Morgan Stanley Group's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Morgan Stanley Group.

The Morgan Stanley Group maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Morgan Stanley Group's information asset against unauthorised disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response, and recovery planning.

##### *Legal, regulatory and compliance risk*

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to the Company's business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations.

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are followed globally.

##### *Culture, values and conduct of employees*

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, Commit to Diversity and Inclusion, and Giving Back*. The Morgan Stanley Group's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of the Morgan Stanley Group's clients, shareholders, regulators, Board of Directors and the public. The Morgan Stanley Group is committed to reinforcing and confirming adherence to the core values through our governance framework, tone from the top management oversight, risk management and controls, and a three lines of defence structure (business, control functions such as Risk management and Compliance, and Internal Audit).

## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **INTERIM MANAGEMENT REPORT (CONTINUED)**

#### **Risk management (continued)**

##### *Culture, values and conduct of employees (continued)*

The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct, as set forth in the Morgan Stanley Group's Corporate Governance Policies. The Morgan Stanley Group's Culture, Values and Conduct Committee is the senior management committee that oversees the Firm-wide culture, values and conduct program. A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code of Conduct.

The annual employee performance evaluation process includes an evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically require managers to consider whether their employees effectively managed and/or supervised risk control practices during the performance year. Management committees from control functions periodically meet to discuss employees whose conduct does not meet the Morgan Stanley Group's standards. These results are incorporated in the employees' performance evaluation.

#### **Planned Replacement of London Interbank Offered Rate and Replacement or Reform of Other Interest Rates**

Central banks around the world have commissioned committees and working groups of market participants and official sector representatives to replace London Interbank Offered Rate ("LIBOR") and replace or reform other interest rate benchmarks. The Company is not a party to contracts linked to LIBOR or other discontinuing interest rate benchmarks.



## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **INTERIM MANAGEMENT REPORT (CONTINUED)**

#### **DIRECTORS**

The following Directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

Adrian Priddis

Jason Yates (Resigned 18 March 2021)

Jack Clein (Appointed 18 March 2021)

Richard Smerin

Scott Honey

Young Lee

#### **EVENTS AFTER THE REPORTING DATE**

There have been no significant events since the reporting date.

Approved by the Board and signed on its behalf



Director

Date **21 SEP 2021**

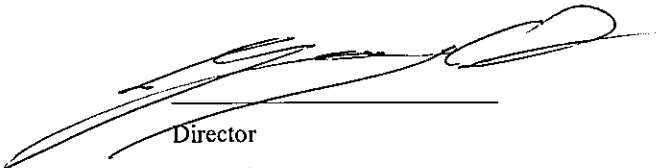
## MORGAN STANLEY ASIA PRODUCTS LIMITED

### DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, the names of whom are set out above, confirm that to the best of their knowledge:

- (a) the condensed financial statements, which have been prepared in accordance with International Accounting Standard ("IAS") 34 '*Interim Financial Reporting*', give a true and fair view of the assets, liabilities, financial position and result of the Company; and
- (b) the interim management report includes a fair review of the important events that have occurred during the period and their impact on the condensed financial statements and provides a description of the principal risks and uncertainties for the remaining six months of the financial year.

Approved by the Board and signed on its behalf on

  
\_\_\_\_\_  
Director

Date **21 SEP 2021**

**REPORT ON REVIEW OF CONDENSED FINANCIAL STATEMENTS****To the Board of Directors of Morgan Stanley Asia Products Limited****Introduction**

We have reviewed the condensed financial statements of Morgan Stanley Asia Products Limited (the "Company") set out on pages 11 to 42, which comprises the condensed statement of financial position as of 30 June 2021 and the related condensed statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in accordance with the Company's usual accounting policies and procedures, which is International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the IFRS Interpretations Committee. The directors of the Company are responsible for the preparation and presentation of these condensed financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the IASB. Our responsibility is to express a conclusion on these condensed financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IASB. A review of these condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **REPORT ON REVIEW OF CONDENSED FINANCIAL STATEMENTS**

**To the Board of Directors of Morgan Stanley Asia Products Limited - continued**

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

### **Other Matter**

The comparative condensed statement of comprehensive income, statement of changes in equity and statement of cash flow for the six-month period ended 30 June 2020 and the relevant explanatory notes included in these condensed financial statements were extracted from the interim financial information of the Company for the six-month period ended 30 June 2020 reviewed by another auditor who expressed an unmodified conclusion on the interim financial information on 18 September 2020. The comparative condensed statement of financial position as at 31 December 2020 were extracted from the financial statements of the Company for the year ended 31 December 2020 audited by the same auditor who expressed an unmodified opinion on those statements on 14 April 2021.



Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

**21 SEP 2021**

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2021

		Six months ended 30 June 2021 US\$'000 (unaudited)	Six months ended 30 June 2020 US\$'000 (unaudited)
	Note		
Net trading expense	2	(336)	(252)
Net income from other financial instruments held at fair value	3	-	26
Other revenue	4	4,894	4,371
Total non-interest revenues		<u>4,558</u>	<u>4,145</u>
Interest income	5	336	226
Net revenues		<u>4,894</u>	<u>4,371</u>
Non-interest expense:			
Other expense	6	(4,894)	(4,371)
<b>RESULT BEFORE INCOME TAX</b>		<u>-</u>	<u>-</u>
Income tax	7	<u>-</u>	<u>-</u>
<b>RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u>-</u>	<u>-</u>

All results were derived from continuing operations.

The notes on pages 15 to 42 form an integral part of the condensed financial statements.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### CONDENSED STATEMENT OF CHANGES IN EQUITY Six months ended 30 June 2021

	Share capital US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2020	50	-	50
Result and total comprehensive income for the period	-	-	-
<b>Balance at 30 June 2020 (unaudited)</b>	<b>50</b>	<b>-</b>	<b>50</b>
Balance at 1 January 2021	50	-	50
Result and total comprehensive income for the period	-	-	-
<b>Balance at 30 June 2021 (unaudited)</b>	<b>50</b>	<b>-</b>	<b>50</b>

The notes on pages 15 to 42 form an integral part of the condensed financial statements.

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021 US\$'000 (unaudited)	31 December 2020 US\$'000 (audited)
	Note		
<b>ASSETS</b>			
Cash		1,412	575
Trading financial assets	9	1,026	7,934
Trade and other receivables	10	34,292	53,686
<b>TOTAL ASSETS</b>		<b>36,730</b>	<b>62,195</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Trading financial liabilities	9	34,219	61,692
Trade and other payables	11	2,461	453
<b>TOTAL LIABILITIES</b>		<b>36,680</b>	<b>62,145</b>
<b>EQUITY</b>			
Share capital	12	50	50
Retained earnings		-	-
<b>Equity attributable to owner of the Company</b>		<b>50</b>	<b>50</b>
<b>TOTAL EQUITY</b>		<b>50</b>	<b>50</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>36,730</b>	<b>62,195</b>

These condensed financial statements were approved by the Board and authorised for issue on: **21 SEP 2021**

Signed on behalf of the Board



Director

The notes on pages 15 to 42 form an integral part of the condensed financial statements.

**MORGAN STANLEY ASIA PRODUCTS LIMITED**

**CONDENSED STATEMENT OF CASH FLOWS**  
**Six month ended 30 June 2021**

		<b>30 June 2021 US\$'000 (unaudited)</b>	<b>30 June 2020 US\$'000 (unaudited)</b>
	<b>Note</b>		
<b>NET CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES</b>	13b	(18,609)	8,976
<b>INVESTING ACTIVITIES</b>			
Purchase of OTC derivative contracts		-	(28)
Proceeds from sale and maturity of prepaid equity securities contracts		-	111,775
Proceeds from loan repayment by other Morgan Stanley Group undertakings		19,211	490
Issuance of loan to other Morgan Stanley Group undertakings		-	(8,697)
Interest received		235	7
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>19,446</u>	<u>103,547</u>
<b>FINANCING ACTIVITIES</b>			
Redemption of issued structured notes		-	(469)
Redemption of issued warrants		-	(111,775)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	13c	<u>-</u>	<u>(112,244)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>837</u>	<u>279</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<u>575</u>	<u>600</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	13a	<u><u>1,412</u></u>	<u><u>879</u></u>

The notes on pages 15 to 42 form an integral part of the condensed financial statements.



## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 1. BASIS OF PREPARATION

##### Accounting policies

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the IFRS 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 2020.

##### 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 condensed financial statements.

*Interest Rate Benchmark Reform Phase 2* amendments to IFRS 9 '*Financial Instruments*', IAS 39 '*Financial Instruments: Recognition and Measurement*' and IFRS 7 '*Financial Instruments: Disclosures*', were issued by the IASB in August 2020. The amendments outline the accounting and disclosure requirements for the financial instruments which are transitioned to alternative benchmark rates. The amendments are applicable retrospectively and are effective from and will be applied for annual periods beginning on or after 1 January 2021.

There were no other 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 condensed financial statements, the following amendments to standards relevant to the Company's operations has been issued by the IASB but were not mandatory for accounting periods beginning 1 January 2021. Except where otherwise stated, the Company does not expect that the adoption of the following amendments to standards will have a material impact on the Company's condensed financial statements.

Amendments to IAS 1 '*Presentation of Financial Statements*': Classification of Liabilities as Current or Noncurrent were issued by the IASB in January 2020 and revised in July 2020, for retrospective application in accounting periods beginning on or after 1 January 2023.

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 '*Financial Instruments*', relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. Early application is permitted.

Amendments to IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*': Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

Amendments to IAS 1 '*Presentation of Financial Statements*': Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 1. BASIS OF PREPARATION (CONTINUED)

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

In applying the Company's accounting policies, the judgements made by management that have the most significant effect on the amounts recognised in the condensed financial statements are valuation of certain financial instruments. The Company believes that the judgements utilised in preparing the condensed financial statements are reasonable, relevant and reliable. There are no key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial period.

##### The going concern assumption

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Group. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Group's strategy. In particular, the Group's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 pandemic for the foreseeable future. The existing and potential effects of COVID-19 on the business of the Group have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. The Group has access to further Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Group 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 annual reports and financial statements.

#### 2. NET TRADING EXPENSE

	30 June 2021 US\$'000	30 June 2020 US\$'000
Net trading expense on bilateral OTC derivative contracts	(27,416)	(13,834)
Net trading income on issued and other listed derivative contracts	27,080	13,582
	<u>(336)</u>	<u>(252)</u>

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 3. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	30 June 2021 US\$'000	30 June 2020 US\$'000*
Net losses on:		
Non-trading financial assets at FVPL		
Prepaid equity securities contracts	-	(14,811)
Net gains/ (losses) on:		
Financial liabilities designated at FVPL		
Issued warrants	-	14,811
Issued structured notes	-	(3)
Financial assets designated at FVPL		
Loans		
Fair value gain	-	22
Interest income	-	7
	<u>-</u>	<u>14,837</u>
	<u>-</u>	<u>26</u>

All issued warrants, structured notes listed on Irish Stock Exchange and corresponding prepaid equity securities contracts and loans have been matured during the year ended 31 December 2020.

\*Refer note 8 for the nature of financials assets and liabilities designated at FVPL.

#### 4. OTHER REVENUE

Other revenue represents management charges to the Company's direct parent undertaking for recovery of 'Other expense' given in note 6.

#### 5. INTEREST INCOME

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

#### 6. OTHER EXPENSE

	30 June 2021 US\$'000	30 June 2020 US\$'000
Fees paid	4,812	4,371
Others	82	-
	<u>4,894</u>	<u>4,371</u>

The Company lists and issues derivative contracts on 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.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 7. 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.

#### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2021 and at 31 December 2020 as presented in the condensed statement of financial position by IFRS 9 classifications.

30 June 2021	FVPL (mandatorily) US\$'000	Amortised cost US\$'000	Total US\$'000
Cash	-	1,412	1,412
Trading financial assets	1,026	-	1,026
Trade and other receivables	-	34,292	34,292
Total financial assets	<u>1,026</u>	<u>35,704</u>	<u>36,730</u>
Trading financial liabilities	34,219	-	34,219
Trade and other payables	-	2,461	2,461
Total financial liabilities	<u>34,219</u>	<u>2,461</u>	<u>36,680</u>

31 December 2020	FVPL (mandatorily) US\$'000	Amortised cost US\$'000	Total US\$'000
Cash	-	575	575
Trading financial assets	7,934	-	7,934
Trade and other receivables	-	53,686	53,686
Total financial assets	<u>7,934</u>	<u>54,261</u>	<u>62,195</u>
Trading financial liabilities	61,692	-	61,692
Trade and other payables	-	453	453
Total financial liabilities	<u>61,692</u>	<u>453</u>	<u>62,145</u>

#### Financial assets and financial liabilities designated at FVPL

All issued warrants, structured notes listed on Irish Stock Exchange and corresponding prepaid equity securities contracts and loans, which were designated at FVPL, matured during the year ended 31 December 2020. Details are as follows:

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

*Loans* – These are loans to other Morgan Stanley Group undertakings that, along with OTC derivative contracts which are classified as trading financial assets or liabilities, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. Loans are designated at FVPL because the designation at FVPL eliminates or significantly reduces an accounting mismatch which would otherwise arise.

*Issued warrants* – These are zero strike price in nature involving the payment of an initial amount which approximates the fair values of the underlying equity securities at inception. These warrants are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

*Issued structured notes* – These relate to financial liabilities which arise from selling structured products generally in the form of notes or certificates. The structured notes are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

The maximum exposure to credit risk of financial assets which are designated at FVPL as at 30 June 2021 is US\$Nil (31 December 2020: US\$Nil).

There are no significant gains or losses attributable to changes in counterparty credit risk for financial assets designated at FVPL or in own credit risk for financial liabilities designated at FVPL for the period ended 30 June 2021 (31 December 2020: US\$Nil).

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial assets and financial liabilities designated at FVPL, by first determining the fair value including the impact of counterparty credit risk or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued structured notes. The Company considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Company's own credit risk.

The carrying amount of financial liabilities designated at FVPL for which all changes in fair value are presented through the condensed statement of comprehensive income was same as the contractual amount due at maturity in the current and prior period.

At initial recognition of a specific structured note issuance program, the Company's issuance process, and any planned hedging structure related to the issuance of those structured notes, has been considered, to determine whether the presentation of fair value changes attributable to changes in the credit risk of those structured notes ("DVA") through other comprehensive income would create or enlarge an accounting mismatch in the condensed statement of comprehensive income. If financial instruments, such as derivatives/ loans, measured at fair value for which changes in fair value incorporating counterparty credit risk are reflected within the condensed statement of comprehensive income in 'Net gains/ (losses) on financial assets designated at fair value through profit or loss', are traded to economically hedge the structured note issuances in full, the fair value incorporating any counterparty credit risk ("CVA") arising on the hedging instruments may materially offset any DVA applied to structured notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, DVA of those structured notes is not reflected within other comprehensive income, and instead is presented in the condensed statement of comprehensive income in 'Net gains/ (losses) on financial liabilities designated at fair value through profit or loss'.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

The Company's hedging structure is such that the fair value movements on the derivatives and loans, including CVA, are recognised in the condensed statement of comprehensive income and offset the fair value movements including DVA on the issued structured notes. The counterparty credit risk of the hedging instruments is strongly correlated with the own credit risk of the Company, as the counterparties are members of the Morgan Stanley Group.

#### 9. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

	30 June 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
	US\$'000	US\$'000	US\$'000	US\$'000
Derivatives- Equity contracts				
Bilateral OTC derivative contracts	458	10,926	4,812	7,617
Issued listed derivative contracts	-	23,293	-	54,075
Other listed derivative contracts	568	-	3,122	-
	<u>1,026</u>	<u>34,219</u>	<u>7,934</u>	<u>61,692</u>

#### 10. TRADE AND OTHER RECEIVABLES

	30 June 2021	31 December 2020
	US\$'000	US\$'000
Trade and other receivables (amortised cost)		
Trade receivables	7,860	7,433
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	26,432	46,253
	<u>34,292</u>	<u>53,686</u>

#### 11. TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
	US\$'000	US\$'000
Trade and other payables (amortised cost)		
Trade payables	2,381	296
Other payables		
Amounts due to other Morgan Stanley Group undertakings	49	157
Other amounts payables	31	-
	<u>2,461</u>	<u>453</u>

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

### 12. EQUITY

	Ordinary shares of US\$1 each Number	
<b>Authorised</b>		
At 1 January 2020, 31 December 2020, and 30 June 2021		<u>50,000</u>
	Ordinary shares of US\$1 each Number	US\$
<b>Issued and fully paid</b>		
At 1 January 2020, 31 December 2020 and 30 June 2021	<u>50,000</u>	<u>50,000</u>

The holders of ordinary shares are 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 shareholder of the Company. All shares rank equally with regard to the Company's residual assets.

### 13. 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.

#### b. Reconciliation of cash flows from operating activities

	30 June 2021 US\$'000	30 June 2020 US\$'000
Result for the period	-	-
<i>Adjustments for:</i>		
Net trading expense	336	252
Net income from other financial instruments held at fair value	-	(26)
Interest income	(336)	(226)
Other revenue	(4,894)	(4,371)
Other expense	<u>4,894</u>	<u>4,371</u>
Operating cash flows before changes in operating assets and liabilities	<u>-</u>	<u>-</u>
Changes in operating assets		
Decrease in trading financial assets	6,908	1,320
Increase in trade and other receivables	(52)	(7,508)
Changes in operating liabilities		
(Decrease)/ increase in trading financial liabilities	(27,473)	14,053
Increase in trade and other payables	<u>2,008</u>	<u>1,111</u>
<b>Net cash flows (used in)/ from operating activities</b>	<u>(18,609)</u>	<u>8,976</u>

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 13. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

##### c. Reconciliation of liabilities arising from financing activities

	Balance at 1 January 2020	Cash flows	Non-cash changes		Balance at 30 June 2020
			Foreign exchange revaluation	Fair value changes	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Issued warrants	281,353	(111,775)	-	(19,008)	150,570
Issued structured notes	467	(469)	(1)	3	-
<b>Total liabilities from financing activities</b>	<b>281,820</b>	<b>(112,244)</b>	<b>(1)</b>	<b>(19,005)</b>	<b>150,570</b>

#### 14. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segment and geographical segment are based on the Company's management and internal reporting structure.

##### *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 segment is consistent with that of Morgan Stanley.

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

##### *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.

#### 15. 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's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.



## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**Six months ended 30 June 2021**

#### **15. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk management procedures (continued)**

The principal activity of the Company continues to be the issuance of financial instruments with primary focus on the Asia markets and 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 warrant issuance 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 prepaid OTC contracts with its immediate parent, 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.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Exposure to credit risk and exposure to credit risk by internal rating grades

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2021 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 losses ("ECL") and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Where the Company enters into credit enhancements, including receiving or paying 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 16 *'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

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised financial instrument subject to ECL, based on the following internal credit rating grades:

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB - CCC

Default: internal grades D

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk and exposure to credit risk by internal rating grades (Continued)

30 June 2021

	Gross credit exposure <sup>(1)(2)</sup> US\$'000	Counterparty	Rating	Credit grade
<b>Subject to ECL <sup>(3)(4)</sup>:</b>				
Cash	110	Standard Chartered Bank	BBB	Investment Grade
	51	ANZ Bank Limited	A	Investment Grade
		The Hong Kong and Shanghai	A	Investment Grade
	994	Banking Corporation Limited		
		Sumitomo Mitsui Banking	A	Investment Grade
	257	Corporation		
Total Cash	1,412			
Trade and other receivables	26,432	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	6,654	Morgan Stanley & Co. International plc	A	Investment Grade
	1,206	Morgan Stanley Hong Kong Securities Limited	A	Investment Grade
Total trade and other receivables	34,292			
<b>Not subject to ECL <sup>(5)</sup>:</b>				
Trading financial assets	458	Morgan Stanley & Co. International plc	A	Investment Grade
	337	BNP Paribas Issuance B.V., Netherlands	A	Investment Grade
		The Hongkong and Shanghai Banking Corporation Limited,	A	Investment Grade
	15	Hong Kong Goldman Sachs Structured Products (Asia) Limited, Cayman	BB	Non- investment Grade
	15	Islands Macquarie Bank Limited,	A	Investment Grade
	201	Australia		
Total Trading financial assets	1,026			

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Exposure to credit risk and 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\$8,318,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in Note 16 financial assets and liabilities subject to offsetting.
- (3) Both cash and trade and other receivables are at stage 1.
- (4) There is a reversal of ECL of US\$24,000 on trade and other receivables.
- (5) Financial assets measured at FVPL are not subject to ECL.

31 December 2020

	Gross credit exposure <sup>(1)(2)</sup> US\$'000	Counterparty	Rating	Credit grade
<b>Subject to ECL <sup>(3)(4)</sup>:</b>				
Cash	76	Standard Chartered Bank	A	Investment Grade
	52	ANZ Bank Limited	A	Investment Grade
	172	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	275	Sumitomo Mitsui Banking Corp	A	Investment Grade
<b>Total Cash</b>	<b>575</b>			
Trade and other receivables	46,253	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	6,508	Morgan Stanley & Co. International plc	A	Investment Grade
	925	Morgan Stanley Hong Kong Securities Limited	BBB	Investment Grade
<b>Total trade and other receivables</b>	<b>53,686</b>			
<b>Not subject to ECL <sup>(5)</sup>:</b>				
Trading financial assets	4,812	Morgan Stanley & Co. International plc	A	Investment Grade
	3,122	Hong Kong Securities Clearing Company Limited	A	Investment Grade
<b>Total trading financial assets</b>	<b>7,934</b>			

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Exposure to credit risk and 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\$ 8,317,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in Note 16 financial assets and liabilities subject to offsetting.
- (3) Both cash and trade and other receivables are at stage 1.
- (4) There is minimal ECL of US\$24,000 on trade and other receivables.
- (5) Financial assets measured at FVPL are not subject to ECL.

##### 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 anticipate, and account for, periods of limited access to funding.

The Company hedges all of its financial liabilities by entering into prepaid OTC contracts with its immediate parent and 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 Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 15. 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.

##### *Liquidity Stress Tests*

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic 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.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### *Liquidity risk (continued)*

###### *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 total amount of Liquidity Resources is actively managed by the Morgan Stanley Group 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.

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 ("repurchase agreements"), 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 the Institutional Securities business provides the Morgan Stanley Group and the Company with flexibility in managing the composition and size of its balance sheet.

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity risk (continued)

##### Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, prepaid equity securities contracts, loans, issued warrants and issued structured notes 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 2021 and 31 December 2020. 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.

	On demand	Less than 1 month	1 month – 3 months	3 months – 1 year	1 year – 5 years	Total
30 June 2021	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Financial assets</b>						
Cash	1,412	-	-	-	-	1,412
Trading financial assets	-	1	-	567	458	1,026
Trade and other receivables <sup>(1)</sup>	8,570	-	-	-	25,722	34,292
<b>Total financial assets</b>	<u>9,982</u>	<u>1</u>	<u>-</u>	<u>567</u>	<u>26,180</u>	<u>36,730</u>
<b>Financial liabilities</b>						
Trading financial liabilities	-	3,794	4,833	13,052	12,540	34,219
Trade and other payables	2,461	-	-	-	-	2,461
<b>Total financial liabilities</b>	<u>2,461</u>	<u>3,794</u>	<u>4,833</u>	<u>13,052</u>	<u>12,540</u>	<u>36,680</u>
<b>31 December 2020</b>						
<b>Financial assets</b>						
Cash	575	-	-	-	-	575
Trading financial assets	-	1,867	429	3,338	2,300	7,934
Trade and other receivables <sup>(1)</sup>	8,518	-	-	-	45,168	53,686
<b>Total financial assets</b>	<u>9,093</u>	<u>1,867</u>	<u>429</u>	<u>3,338</u>	<u>47,468</u>	<u>62,195</u>
<b>Financial liabilities</b>						
Trading financial liabilities	-	8,867	12,545	27,979	12,301	61,692
Trade and other payables	453	-	-	-	-	453
<b>Total financial liabilities</b>	<u>453</u>	<u>8,867</u>	<u>12,545</u>	<u>27,979</u>	<u>12,301</u>	<u>62,145</u>

<sup>(1)</sup> Trade and other receivables include certain receivables due from the Company's direct parent undertaking which is dated on a rolling 395-day term 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 that early repayment can be agreed with the Company's direct parent undertaking if required.



## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 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, issued warrants and issued structured notes 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 the warrants and structured notes, 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 securities 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 and Morgan Stanley Group's culture. The Company is responsible for ensuring that market risk net exposures are well managed, monitored and remain flat. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

The market price risk exposure from the financial assets is mainly equity price risk, interest rate risk and currency 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 2021 and 31 December 2020 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 equity price as shown in the table below.

	<i>Impact on Total Comprehensive Income</i>	
	<i>Gains/(losses)</i>	
	<b>30 June</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Bilateral OTC derivative contracts	(13,723)	(26,000)
Listed derivative contracts	13,723	26,000
	<u>-</u>	<u>-</u>

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

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Market risk (continued)

##### *Interest rate risk*

Interest rate risk is defined by IFRS 7 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 loans held at amortised cost.

The application of a parallel shift in market interest rates of 50 basis points increase or decrease to these positions, would result in a net gain or loss of approximately US\$479 (31 December 2020: US\$741) in the condensed statement of comprehensive income.

#### 16. 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 15 for further details. Primarily in connection with the issuance of warrants and related hedging activities, the Company enters 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:**

	Gross amounts US\$'000	Amounts offset in the condensed statement of financial position US\$'000	Net amounts presented in the condensed statement of financial position US\$'000
<b>30 June 2021</b>			
<b>Assets</b>			
Trading financial assets	1,026	-	1,026
Trade and other receivables	79,716	(45,424)	34,292
<b>TOTAL</b>	<b>80,742</b>	<b>(45,424)</b>	<b>35,318</b>
<b>Liabilities</b>			
Trading financial liabilities	34,219	-	34,219
Trade and other payables	47,885	(45,424)	2,461
<b>TOTAL</b>	<b>82,104</b>	<b>(45,424)</b>	<b>36,680</b>

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

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

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

	Net amounts presented in the condensed statement of financial position US\$'000	Amounts not offset in the condensed statement of financial position <sup>(1)</sup>  Financial instruments US\$'000	Cash collateral <sup>(2)</sup> US\$'000	Net exposure US\$'000
<b>30 June 2021</b>				
<b>Assets</b>				
Morgan Stanley & Co. International plc	7,112	(458)	(6,654)	-
Morgan Stanley Asia Securities Products LLC	26,432	-	-	26,432
Morgan Stanley Hong Kong Securities Limited	1,206	(1,206)	-	-
Others	568	-	-	568
<b>TOTAL</b>	<b>35,318</b>	<b>(1,664)</b>	<b>(6,654)</b>	<b>27,000</b>
<b>Liabilities</b>				
Morgan Stanley & Co. International plc	10,926	(7,112)	-	3,814
Morgan Stanley Hong Kong Securities Limited	2,381	(1,206)	-	1,175
Morgan Stanley & Co. LLC	49	-	-	49
Others	23,324	-	-	23,324
<b>TOTAL</b>	<b>36,680</b>	<b>(8,318)</b>	<b>-</b>	<b>28,362</b>

(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 statement of condensed financial position within Trade and other receivables.

**MORGAN STANLEY ASIA PRODUCTS LIMITED**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**Six months ended 30 June 2021**

**16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING  
(CONTINUED)**

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

	<b>Gross amounts US\$'000</b>	<b>Amounts offset in the condensed statement of financial position US\$'000</b>	<b>Net amounts presented in the condensed statement of financial position US\$'000</b>
<b>31 December 2020</b>			
<b>Assets</b>			
Trading financial assets	7,934	-	7,934
Trade and other receivables	149,743	(96,057)	53,686
<b>TOTAL</b>	<b>157,677</b>	<b>(96,057)</b>	<b>61,620</b>
<b>Liabilities</b>			
Trading financial liabilities	61,692	-	61,692
Trade and other payables	96,510	(96,057)	453
<b>TOTAL</b>	<b>158,202</b>	<b>(96,057)</b>	<b>62,145</b>

# MORGAN STANLEY ASIA PRODUCTS LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

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

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

	Net amounts presented in the condensed statement of financial position US\$'000	Amounts not offset in the condensed statement of financial position <sup>(1)</sup>		
		Financial instruments US\$'000	Cash collateral <sup>(2)</sup> US\$'000	Net exposure US\$'000
<b>31 December 2020</b>				
<b>Assets</b>				
Morgan Stanley & Co. International plc	11,320	(4,812)	(2,805)	3,703
Morgan Stanley Asia Securities Products LLC	46,253	-	-	46,253
Morgan Stanley Hong Kong Securities Limited	925	(296)	-	629
Others	3,122	(404)	-	2,718
<b>TOTAL</b>	<b>61,620</b>	<b>(5,512)</b>	<b>(2,805)</b>	<b>53,303</b>
<b>Liabilities</b>				
Morgan Stanley & Co. International plc	7,617	(7,617)	-	-
Morgan Stanley & Co. LLC	49	-	-	49
Morgan Stanley Hong Kong Securities Limited	296	(296)	-	-
Others	54,183	(404)	-	53,779
<b>TOTAL</b>	<b>62,145</b>	<b>(8,317)</b>	<b>-</b>	<b>53,828</b>

(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 relating to trading financial assets and trading financial liabilities not offset is recognised in the condensed statement of financial position within Trade and other receivables.

# **MORGAN STANLEY ASIA PRODUCTS LIMITED**

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**Six months ended 30 June 2021**

### **17. 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.

	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
<b>30 June 2021</b>				
Trading financial assets	568	458	-	1,026
Trading financial liabilities	1,042	33,177	-	34,219
<b>31 December 2020</b>				
Trading financial assets	3,122	4,812	-	7,934
Trading financial liabilities	3,001	58,691	-	61,692

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2021

#### 17. 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
<b>Derivatives</b>	
<b>Listed Derivative Contracts</b>	
<ul style="list-style-type: none"> <li>Listed derivatives that are actively traded are valued based on quoted prices from the exchange.</li> <li>Listed derivatives that are not actively traded are valued using the same techniques as those applied to OTC derivatives.</li> </ul>	<ul style="list-style-type: none"> <li>Level 1 - listed derivatives that are actively traded</li> <li>Level 2 - listed derivatives that are not actively traded</li> </ul>
<b>OTC Derivative Contracts</b>	
<ul style="list-style-type: none"> <li>OTC derivative contracts include option contracts related to equity prices.</li> <li>Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled 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 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.</li> </ul>	<ul style="list-style-type: none"> <li>Generally, Level 2 - OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant</li> <li>Level 3 - OTC derivative products for which the unobservable input is deemed significant</li> </ul>

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

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

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

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##### *Prepaid equity securities contracts, issued warrants and issued structured notes*

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- The Company issues warrants, structured notes and trades prepaid equity securities contracts that have coupon or repayment terms linked to the performance of equity securities, indices or currencies.
- Fair value of warrants, structured notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the notes and traded prepaid equity securities contracts. These models incorporate inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and equity prices.
- Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads which are based on secondary bond market spreads.
- Generally, Level 2
- Level 3 – in instances where the unobservable inputs are deemed significant

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##### *Loans*

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- The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.
  - Generally, Level 2
- 

All issued warrants, structured notes listed on Irish Stock Exchange and corresponding prepaid equity securities contracts and loans, which were designated at FVPL, matured during the year ended 31 December 2020.

##### **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.**

During the year, the Company reclassified approximately US\$1,531,000 (31 December 2020: US\$161,000) of trading financial liabilities from Level 1 to Level 2. The reclassifications were due to a reduction in the volume of recently executed transactions and market price quotations for the listed equity derivatives.

##### **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 year.

##### **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.



## **MORGAN STANLEY ASIA PRODUCTS LIMITED**

### **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**Six months ended 30 June 2021**

#### **18. 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.

#### **19. 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 actively 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 (2020: 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.

#### **20. RELATED PARTY DISCLOSURES**

##### **Parent and subsidiary relationships**

##### *Parent and ultimate controlling entity*

The Company's immediate parent undertaking is Morgan Stanley Asia Securities Products LLC, which is registered in the Cayman Islands.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 20. RELATED PARTY DISCLOSURES *(continued)*

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](http://www.morganstanley.com/investorrelations).

##### **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.

All issuances of financial liabilities are guaranteed by Morgan Stanley.

##### *Funding*

The Company receives funding from and provides 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.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 20. RELATED PARTY DISCLOSURES (CONTINUED)

##### Transactions with related parties (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 year are shown in the table below:

	30 June 2021		31 December 2020	
	Interest US\$'000	Balance US\$'000	Interest US\$'000	Balance US\$'000
<b><i>Rolling 395 day term</i></b>				
Amounts due from:				
The Company's direct parent undertaking	235	25,722	565	45,168
<b><i>Undated</i></b>				
Amounts due from:				
The Company's direct parent undertaking	1	710	4	1,085
Amounts due to:				
Other Morgan Stanley Group undertaking	-	49	-	49

The Company has recognised a reversal of ECL expense of US\$24,000 (2020: US\$24,000 for provision of impairment relating to ECL) on the above outstanding balance from related parties.

##### *Trading and risk management*

The Company issued listed derivative contracts, issued warrants and issued structured notes 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 issued warrants, issued structured notes, derivative contracts, trade and other receivables and trade and other payables outstanding at the period-end were as follows:

	30 June 2021 US\$'000	31 December 2020 US\$'000
Amounts due from:		
Other Morgan Stanley Group undertakings <sup>(1)</sup>	8,318	12,245
Amounts due to:		
Other Morgan Stanley Group undertakings	11,233	7,617

<sup>(1)</sup> Amounts due from other Morgan Stanley Group undertakings include cash collateral of US\$6,654,000 (31 December 2020: US\$6,508,000) pledged by the Company to Morgan Stanley & Co. International plc to mitigate risk on exposures arising under derivatives contracts between the Company and Morgan Stanley & Co. International plc. The Company has received interest of US\$1,000 (2020: US\$Nil) on the cash collateral pledged to Morgan Stanley & Co. International plc.

## MORGAN STANLEY ASIA PRODUCTS LIMITED

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2021

#### 20. RELATED PARTY DISCLOSURES (CONTINUED)

##### Transactions with related parties (continued)

###### *Fees and commissions*

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

	30 June 2021 US\$'000	30 June 2020 US\$'000
Fees paid to other Morgan Stanley Group undertaking	619	970

###### *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, to the Company's direct parent undertaking. For the period ended 30 June 2021, a management charge of US\$4,894,000 (30 June 2020: US\$4,371,000) was recognised in the condensed statement 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.