MORGAN STANLEY ASIA PRODUCTS LIMITED

Interim Financial Report

Six months ended 30 June 2022

MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM FINANCIAL REPORT
Six months ended 30 June 2022

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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 flow and related notes, 1 to 19) of Morgan Stanley Asia Products Limited (the "Company") for the six months period ended 30 June 2022.

RESULTS AND DIVIDENDS

The result for the period, after tax, was US$Nil (30 June 2021: US$Nil).

During the period, no dividends were paid or proposed (30 June 2021: US$Nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments, with a 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 is facing headwinds from monetary policy tightening, lingering geopolitical tensions and continued strict Covid containment policy in China. In particular, recessions risks in developed markets have risen materially in recent months. In the United States ("US"), aggressive Federal Reserve ("Fed") tightening has led to significant tightening in financial conditions, slowing activity in interest-rate-sensitive segments of the economy such as the housing sector. Rising interest rates and elevated prices have also crimped household expenditure. That said, lack of private sector balance sheet misallocation mean that the current downturn is likely to be a shallower one than previous cycles. In the Euro Area, rising risks of a full and abrupt Russian gas cut-off scenario has weighed on growth, and we expect the region to enter into a mild recession in the fourth quarter of 2022.

In-line with weaker global growth, global trade momentum has also moderated. Global manufacturing sector activity has slowed, as evident by global Purchasing Managers' Index ("PMI") new orders now contracting for the second consecutive month. Overall, we expect global growth to reach 2.5% in 2022 (vs. 6.1% in 2021), below the pre-Covid trend of 3.5% year on year.

In terms of policy, core Personal consumption expenditure ("PCE") inflation has reached multi-year highs due to elevated commodity and core goods prices. This has evoked a hawkish response from policymakers, and the Federal Open Market Committee ("FOMC") has in turn delivered successive 75 basis points ("bps") rate hikes in the last two meetings. Similarly in Europe, with inflation running well above target, the European Central Bank ("ECB") also lifted off with a larger-than-expected 50bps rate hike at its July meeting. To guard against "unwarranted and disorderly" widening in periphery spreads, the central bank has also unveiled the Transmission Protection Instrument as its anti-fragmentation tool.

BUSINESS REVIEW (CONTINUED)

Global market and economic conditions (Continued)

In Asia, policymakers in China have taken up sizable easing on multiple fronts to support domestic demand, but still relatively strict Covid containment measures and sluggish property sector activity continue to be key drags to the economy. In this context, we expect a more robust recovery to take hold from the turn of the year only when China transitions towards living with Covid. In the region excluding China, policymakers have continued with policy normalization as inflation has risen and the recovery has progressed amid reopening. We expect further normalization from Asian central banks but not for policy rates to enter into deeply restrictive territory. This is given Asia's inflation has been more cost-push, peaking inflation risks and still manageable wage pressures at the aggregate level. Specifically in India, the Reserve Bank of India ("RBI") has now lifted policy rates above pre-Covid levels while withdrawing excess liquidity in the banking system. We expect the rate hike cycle to continue, bringing the repo rate to 6.5% by the end of April 2023. In Hong Kong, the Hong Kong Monetary Authority ("HKMA") has lifted the base rate in tandem with the Fed, while on the fiscal front the government has rolled out consumption vouchers to support domestic consumption.

Overview of financial results

The condensed statement of comprehensive income for the period is set out on page 10. 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. Net trading expense of US$143,000 (30 June 2021: US$336,000) represents net fair value movement on listed and bilateral OTC derivative contracts classified as trading financial assets or liabilities. 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 12. The Company's financial position at the end of the period shows that the total assets and total liabilities were US$29,289,000 (31 December 2021: US$16,652,000) and US$29,239,000 (31 December 2021: US$16,602,000) respectively, an increase of 76% from the prior period. The increase during the period is primarily due to increase in issuances/ trading of the listed derivative contracts.

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. More detailed qualitative and quantitative disclosures about the Company's management and exposure to financial risks are included in Note 14 to the condensed financial statements.

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

INTERIM MANAGEMENT REPORT (CONTINUED)

BUSINESS REVIEW (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 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, have 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 14.

BUSINESS REVIEW (CONTINUED)

Risk management (Continued)

Liquidity risk (Continued)

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

The maturity analysis provided in Note 14 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 2022, the Company has a payable of US$22,382,000 (31 December 2021: US$10,451,000) within one year from the date of the 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 2022, the Company has financial assets of US$28,763,000 (31 December 2021: US$16,539,000) expected to be maturing within a year from the date of the 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.

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 ("Board") 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.

BUSINESS REVIEW (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

Employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Put Clients First, Do the Right Thing, Lead with Exceptional Ideas, Commit to Diversity and Inclusion, and Give 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 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).

BUSINESS REVIEW (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. The Morgan Stanley Group's Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee are the senior management committees that oversees the Firm-wide culture, values and conduct program, report regularly to the Morgan Stanley Group Board; and complement ongoing business and region-specific culture initiatives. 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 is required to attest to their understanding of and adherence to the Code of Conduct.

Morgan Stanley's remuneration policies and practices ensure that there is an alignment between reward, risk, culture and conduct. Conduct, culture, and core values are considered in the employee annual performance evaluation process. The performance review process also includes 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 period compensation and/or prior period 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.

Replacement of London Interbank Offered Rate and replacement or reform of other interest rate benchmarks

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
Jack Clein
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: Young Lee

Date: 21 OCT 2022

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: Young Lee

Date: 21 OCT 2022

Deloitte. 德勤

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REPORT ON REVIEW OF CONDENSED FINANCIAL STATEMENTS

To the Board of Directors of Morgan Stanley Asia Products Limited
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the condensed financial statements of Morgan Stanley Asia Products Limited (the "Company") set out on pages 10 to 40, which comprise the condensed statement of financial position as of 30 June 2022 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 onsequently 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.

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.

Deloitte.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 OCT 2022

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2022

	Notes	Six months ended 30 June 2022 US$'000 (unaudited)	Six months ended 30 June 2021 US$'000 (unaudited)
Net trading expense	2	(143)	(336)
Other revenue	3	3,618	4,894
Total non-interest revenues		3,475	4,558
Interest income	4	99	336
Net revenues		3,574	4,894
Non-interest expense:			
Other expense	5	(3,574)	(4,894)
RESULT BEFORE INCOME TAX		—	—
Income tax	6	—	—
RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		—	—

All results were derived from continuing operations.

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2022

	Share capital US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2021	50	—	50
Result and total comprehensive income for the period	—	—	—
Balance at 30 June 2021 (unaudited)	50	—	50
Balance at 1 January 2022	50	—	50
Result and total comprehensive income for the period	—	—	—
Balance at 30 June 2022 (unaudited)	50	—	50

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022

	Notes	30 June 2022 US$'000 (unaudited)	31 December 2021 US$'000 (audited)
ASSETS			
Cash		2,047	1,072
Trading financial assets	8	1,051	158
Trade and other receivables	9	26,191	15,422
TOTAL ASSETS		**29,289**	**16,652**
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	8	28,510	16,322
Trade and other payables	10	729	280
TOTAL LIABILITIES		**29,239**	**16,602**
EQUITY			
Share capital	11	50	50
Retained earnings		—	—
Equity attributable to owner of the Company		**50**	**50**
TOTAL EQUITY		**50**	**50**
TOTAL LIABILITIES AND EQUITY		**29,289**	**16,652**

These condensed financial statements were approved by the Board and authorised for issue on 21 OCT 2022

Signed on behalf of the Board

Director: Young Lee

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2022

	Notes	30 June 2022 US$'000 (unaudited)	30 June 2021 US$'000 (unaudited)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES	12b	12,870	(18,609)
INVESTING ACTIVITIES			
Proceeds from loan repayment by other Morgan Stanley Group undertakings		—	19,211
Issuance of loan to other Morgan Stanley Group undertakings		(11,992)	—
Interest received		97	235
NET CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES		(11,895)	19,446
NET INCREASE IN CASH AND CASH EQUIVALENTS		975	837
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,072	575
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12a	2,047	1,412

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

1. BASIS OF PREPARATION

Accounting policies

The Company prepares its annual financial statements in accordance with 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 2021.

New standards and interpretations adopted during the period

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

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9, 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. The amendments are effective from and have been applied for the period beginning on an after 1 January 2022 .

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2022. 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 financial statements.

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

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.

1. BASIS OF PREPARATION (Continued)

Basis of measurement

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

The Company evaluates the critical accounting judgements and accounting estimates on an ongoing basis and believes that these are reasonable.

The going concern assumption

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

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

The Company's capital and liquidity is deemed sufficient to deal with both a normal and in a stressed market environment for the foreseeable future, including the impact of the current and potential stresses of the war in Ukraine, continued inflation and rising interest rates.

The existing and potential effects on the business of the Company have been considered as part of the going concern analysis, including impact on the operational capacity of the business, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. The Company has access to further Morgan Stanley Group capital and liquidity as required.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2022

2. NET TRADING EXPENSE

	30 June 2022 US$'000	30 June 2021 US$'000
Net trading expense on bilateral OTC derivative contracts	(6,188)	(27,416)
Net trading income on issued listed derivative contracts	6,340	27,396
Net trading expense on other listed derivative contracts	(295)	(316)
	(143)	(336)

3. OTHER REVENUE

Other revenue represents management charges to the Company's direct parent undertaking for recovery of 'Other expense' given in note 5.

4. INTEREST INCOME

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

5. OTHER EXPENSE

	30 June 2022 US$'000	30 June 2021 US$'000
Fees paid (Note)	3,574	4,812
Other	—	82
	3,574	4,894

Note: The Company issues derivative contracts listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Fees paid in the above table represents amounts paid to the Stock Exchange and other Morgan Stanley Group undertakings for listing and issuance of derivatives on the Stock Exchange.

6. INCOME TAX

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

Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profit arising in Hong Kong.

No provision for taxation has been made as the Company does not have any taxable income during the period ended 30 June 2022 and 30 June 2021.

7. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2022 and at 31 December 2021 presented in the condensed statement of financial position. Measurement in Fair Value through Profit and Loss ("FVPL") and Amortised cost category is classified by the IFRS 9 measurement classifications.

30 June 2022	**FVPL (mandatorily) US$'000**	**Amortised cost US$'000**	**Total US$'000**
Cash	—	2,047	2,047
Trading financial assets	1,051	—	1,051
Trade and other receivables	—	26,191	26,191
Total financial assets	1,051	28,238	29,289
Trading financial liabilities	28,510	—	28,510
Trade and other payables	—	729	729
Total financial liabilities	28,510	729	29,239

31 December 2021	**FVPL (mandatorily) US$'000**	**Amortised cost US$'000**	**Total US$'000**
Cash	—	1,072	1,072
Trading financial assets	158	—	158
Trade and other receivables	—	15,422	15,422
Total financial assets	158	16,494	16,652
Trading financial liabilities	16,322	—	16,322
Trade and other payables	—	280	280
Total financial liabilities	16,322	280	16,602

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2022

8. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

	30 June 2022		31 December 2021	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Derivatives- Equity contracts				
Bilateral OTC derivative contracts	526	7,630	113	5,919
Issued listed derivative contracts	—	20,880	—	10,403
Other listed derivative contracts	525	—	45	—
	1,051	**28,510**	**158**	**16,322**

9. TRADE AND OTHER RECEIVABLES

	30 June 2022 US$'000	31 December 2021 US$'000
Trade and other receivables (amortised cost)		
Trade receivables	6,604	7,403
Other receivables		
Amounts due from Company's direct parent undertaking	19,587	8,019
	26,191	15,422

10. TRADE AND OTHER PAYABLES

	30 June 2022 US$'000	31 December 2021 US$'000
Trade and other payables (amortised cost)		
Trade payables	613	229
Other payables		
Amounts due to other Morgan Stanley Group undertakings	45	48
Other amounts payables	71	3
	729	280

11. EQUITY

	Ordinary shares of US$1 each
	Number
Authorised	
At 1 January 2021, 31 December 2021 and 30 June 2022	50,000

	Ordinary shares of US$1 each	
	Number	US$'000
Issued and fully paid		
At 1 January 2021, 31 December 2021 and 30 June 2022	50,000	50

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

12. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

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

12. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

b. Reconciliation of cash flows from operating activities

	30 June 2022 US$'000	30 June 2021 US$'000
Result for the period	—	—
Adjustments for:		
Net trading expense	143	336
Interest income	(99)	(336)
Other revenue	(3,618)	(4,894)
Other expense	3,574	4,894
Operating cash flows before changes in operating assets and liabilities	—	—
Changes in operating assets		
(Increase) / decrease in trading financial assets	(893)	6,908
Decrease / (increase) in trade and other receivables	1,126	(52)
	233	6,856
Changes in operating liabilities		
Increase / (decrease) in trading financial liabilities	12,188	(27,473)
Increase in trade and other payables	449	2,008
	12,637	(25,465)
Net cash flows from / (used in) operating activities	12,870	(18,609)

13. SEGMENT REPORTING

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

Business segment

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

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

Geographical segment

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

14. FINANCIAL RISK MANAGEMENT

Risk management procedures

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

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

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

Credit risk

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

Credit risk management

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

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

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

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2022 is disclosed below, based on the carrying amounts of the financial assets which the Company believes are subject to credit risk. The table includes financial instruments subject to Expected Credit Loss ("ECL") and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECLs are subsequently measured at fair value. The table below does not include trade receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant. Where the Company enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed in note 15 'Financial Assets and Financial Liabilities Subject to Offsetting'.

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

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

Credit quality

Exposure to credit risk by internal rating grades

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

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

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality (Continued)

Exposure to credit risk by internal rating grades (Continued)

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

30 June 2022

	Gross credit exposure(1)(2) US$'000	Counterparty	Rating	Credit Grade
Subject to ECL(3)(4):				
Cash	1,158	Standard Chartered Bank	BBB	Investment Grade
	46	ANZ Bank Limited	A	Investment Grade
	630	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	213	Sumitomo Mitsui Banking Corporation	A	Investment Grade
Total Cash	2,047			
Trade and other receivables	19,587	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	5,149	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables (6)	24,736			
Not subject to ECL(5):				
Trading financial assets	526	Morgan Stanley & Co. International plc	A	Investment Grade
	134	Guotai Junan Securities (Hong Kong) Limited	BB	Non-investment Grade
	94	The Hongkong and Shanghai Banking Corporation Limited	A	Investment Grade
	94	Citigroup Global Markets Europe AG	BBB	Investment Grade
	83	SG Issuer	UR	
	18	Goldman Sachs Structured Products (Asia) Limited	UR	
	71	UBS AG	A	Investment Grade
	15	Macquarie Bank Limited	A	Investment Grade
	16	Others	UR	
	1,051			

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality (Continued)

Exposure to credit risk by internal rating grades (Continued)

1. The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
2. Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$6,288,000 to be offset in the ordinary course of business and/ or in the event of default as given in note 15.
3. Both cash and trade and other receivables are at Stage 1.
4. There is no charge or reversal of ECL on trade and other receivables.
5. Financial assets measured at FVPL are not subject to ECL.
6. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.

31 December 2021

	Gross credit exposure(1)(2) US$'000	Counterparty	Rating	Credit Grade
Subject to ECL(3)(4):				
Cash	117	Standard Chartered Bank	BBB	Investment Grade
	50	ANZ Bank Limited	A	Investment Grade
	655	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	250	Sumitomo Mitsui Banking Corporation	A	Investment Grade
Total Cash	1,072			
Trade and other receivables	8,019	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	7,383	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables (6)	15,402			
Not subject to ECL(5):				
Trading financial assets	113	Morgan Stanley & Co. International plc	A	Investment Grade
	34	Macquarie Bank Limited	A	Investment Grade
	6	Haitong International Securities Company Limited	BB	Non-investment Grade
	5	Others	UR	
Total Trading financial assets	158			

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality (Continued)

Exposure to credit risk by internal rating grades (Continued)

1. The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
2. Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US$5,939,000 to be offset in the ordinary course of business and/ or in the event of default as given in note 15.
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.
6. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.

Liquidity risk

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

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

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

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

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

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Required Liquidity Framework

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

Liquidity Stress Tests

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

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

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

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

Liquidity Resources

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

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Liquidity Resources (Continued)

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

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

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

Funding management

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

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

Balance sheet management

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

Maturity analysis

In the following maturity analysis, trading financial assets and liabilities are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial assets and financial liabilities are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2022 and 31 December 2021. 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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Maturity analysis (Continued)

30 June 2022	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets						
Cash	2,047	—	—	—	—	2,047
Trading financial assets-derivatives	—	160	358	7	526	1,051
Trade and other receivables(1)	7,359	—	—	—	18,832	26,191
Total financial assets	**9,406**	**160**	**358**	**7**	**19,358**	**29,289**
Financial liabilities						
Trading financial liabilities-derivatives	—	487	9,559	11,607	6,857	28,510
Trade and other payables	729	—	—	—	—	729
Total financial liabilities	**729**	**487**	**9,559**	**11,607**	**6,857**	**29,239**

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Maturity analysis (Continued)

31 December 2021	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets						
Cash	1,072	—	—	—	—	1,072
Trading financial assets	—	—	45	—	113	158
Trade and other receivables[1]	8,487	—	—	—	6,935	15,422
Total financial assets	9,559	—	45	—	7,048	16,652
Financial liabilities						
Trading financial liabilities	—	569	2,415	7,187	6,151	16,322
Trade and other payables	280	—	—	—	—	280
Total financial liabilities	280	569	2,415	7,187	6,151	16,602

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

Market risk

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

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

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

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

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2022 and 31 December 2021 respectively.

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

	Impact on Total Comprehensive Income Gains/(losses)	
	30 June 2022	31 December 2021
	US$'000	US$'000
Bilateral OTC derivative contracts	(8,511)	(4,261)
Issued listed derivative contracts	8,511	4,261
	—	—

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

Interest rate risk

Interest rate risk is defined by IFRS 7 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 point increase or decrease, calculated until the next reset date, to these positions, would result in a net gain or loss of approximately US$372 (31 December 2021: US$229) in the condensed statement of comprehensive income.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

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

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

The following tables present information about offsetting of financial instruments.

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

30 June 2022	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
Assets			
Trading financial assets	1,051	—	1,051
Trade and other receivables	54,828	(28,637)	26,191
TOTAL	55,879	(28,637)	27,242
Liabilities			
Trading financial liabilities	28,510	—	28,510
Trade and other payables	29,366	(28,637)	729
TOTAL	57,876	(28,637)	29,239

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

30 June 2022	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position[1]		
		Financial instruments	Cash collateral[2]	Net exposure
	US$'000	US$'000	US$'000	US$'000
Assets				
Morgan Stanley & Co. International plc	5,675	(526)	(5,149)	—
Morgan Stanley Asia Securities Products LLC	19,587	—	—	19,587
Morgan Stanley Hong Kong Securities Limited	1,455	(613)	—	842
Others	525	—	—	525
TOTAL	**27,242**	**(1,139)**	**(5,149)**	**20,954**
Liabilities				
Morgan Stanley & Co. International plc	7,630	(5,675)	—	1,955
Morgan Stanley Hong Kong Securities Limited	613	(613)	—	—
Morgan Stanley & Co. LLC	45	—	—	45
Others	20,951	—	—	20,951
TOTAL	**29,239**	**(6,288)**	**—**	**22,951**

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

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

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

31 December 2021	Gross amounts	Amounts offset in the condensed statement of financial position	Net amounts presented in the condensed statement of financial position
	US$'000	US$'000	US$'000
Assets			
Trading financial assets	158	—	158
Trade and other receivables	35,389	(19,967)	15,422
TOTAL	35,547	(19,967)	15,580
Liabilities			
Trading financial liabilities	16,322	—	16,322
Trade and other payables	20,247	(19,967)	280
TOTAL	36,569	(19,967)	16,602

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

31 December 2021	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position[1]		
		Financial instruments	Cash collateral[2]	Net exposure
	US$'000	US$'000	US$'000	US$'000
Assets				
Morgan Stanley & Co. International plc	7,496	(113)	(5,806)	1,577
Morgan Stanley Asia Securities Products LLC	8,019	—	—	8,019
Morgan Stanley Hong Kong Securities Limited	20	(20)	—	—
Others	45	—	—	45
TOTAL	**15,580**	**(133)**	**(5,806)**	**9,641**
Liabilities				
Morgan Stanley & Co. International plc	5,919	(5,919)	—	—
Morgan Stanley Hong Kong Securities Limited	229	(20)		209
Morgan Stanley & Co. LLC	48	—	—	48
Others	10,406	—	—	10,406
TOTAL	**16,602**	**(5,939)**	**—**	**10,663**

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

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

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16. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

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

30 June 2022	Quoted prices in active market (Level 1) US$'000	techniques using observable inputs (Level 2) US$'000	with significant unobservable inputs (Level 3) US$'000	Total US$'000
Trading financial assets: Derivatives- Equity contracts	524	527	—	1,051
Trading financial liabilities: Derivatives- Equity contracts	30	28,480	—	28,510
31 December 2021				
Trading financial assets: Derivatives- Equity contracts	17	141	—	158
Trading financial liabilities: Derivatives- Equity contracts	6,420	9,902	—	16,322

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

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

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

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

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

During the period, the Company reclassified approximately US$1,509,000 (31 December 2021: US$8,000) of trading financial liabilities from Level 1 to Level 2. The reclassifications were due to a increase in the volume of inactively traded listed equity derivatives.

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

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

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

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

17. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

18. CAPITAL MANAGEMENT

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

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

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

In order to maintain or adjust the capital structure as described above, the Company may issue new shares or sell assets to reduce debt. The Company manages its ordinary share capital of US$50,000 (31 December 2021: 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, 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 shareholder's loan in the event the Company needs funding to fulfil its obligations and liabilities under its issuance program.

19. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

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

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

19. RELATED PARTY DISCLOSURES (CONTINUED)

Key management compensation

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

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

Transactions with related parties

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

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

Funding

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

General Funding

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

19. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (Continued)

General Funding (Continued)

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

	30 June 2022		31 December 2021	
	Interest	Balance	Interest	Balance
	US$'000	US$'000	US$'000	US$'000
Rolling 395 day term				
Amounts due from the Company's direct parent undertaking	97	18,832	366	6,935
Undated				
Amounts due from the Company's direct parent undertaking	—	755	2	1,084
Amounts due to other Morgan Stanley Group undertakings	—	45	—	48

The Company has recognised a reversal of ECL expense of US$Nil (31 December 2021: US$24,000) on the above outstanding balance from related parties.

Trading and risk management

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

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

	30 June 2022	31 December 2021
	US$'000	US$'000
Amounts due from other Morgan Stanley Group undertakings(1)	7,130	7,516
Amounts due to other Morgan Stanley Group undertakings	8,286	6,045

19. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (Continued)

Trading and risk management (Continued)

(1) Amounts due from other Morgan Stanley Group undertakings include cash collateral of US$5,149,000 (31 December 2021: US$7,383,000) pledged by the Company to Morgan Stanley & Co. International plc ("MSIP") to mitigate risk on exposures arising under derivatives contracts between the Company and MSIP. The Company has received interest of US$2,000 (31 December 2021: US$2,000) on the cash collateral pledged to MSIP.

Fees and commissions

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

	30 June 2022	30 June 2021
	US$'000	US$'000
Fees paid to other Morgan Stanley Group undertaking	244	619

Other related party transactions

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. The Company receives management charges by recharging certain expenses, including fees paid to the Stock Exchange and to the Company's direct parent undertaking. For the period ended 30 June 2022, a management charge of US$3,618,000 (30 June 2021: US$4,894,000) is recognised in the condensed statements of comprehensive income arising from such policies. An outstanding receivable relating to the management charge at reporting date is included within the general funding balances disclosed above.