

MORGAN STANLEY ASIA PRODUCTS LIMITED

Reports and financial statements

Year ended 31 December 2023

MORGAN STANLEY ASIA PRODUCTS LIMITED

REPORTS AND FINANCIAL STATEMENTS

Year ended 31 December 2023

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MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT

The Directors present their report, responsibility statement and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, and the related notes, 1 to 22) of Morgan Stanley Asia Products Limited (the "Company") for the year ended 31 December 2023.

RESULTS AND DIVIDENDS

The result for the year, after tax, was US\$Nil (2022: US\$Nil).

During the year, no dividends were paid or proposed (2022: 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 year 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 higher real rates in developed markets and debt-deflation challenge in China. In the United States ("US"), higher real policy rates amid moderating inflation is leading to weaker growth. In the Euro Area, monetary policy tightening is also dragging on domestic growth, with manufacturing sector activity also weighed down by softer global growth and trade conditions. Indeed, the global new orders index within purchasing manager index ("PMIs") has continued to stay in contraction territory in the past nine months. Overall, we expect global growth to reach 2.8% year on year in 2024 (vs. 3.1% in 2023), below the pre-Covid trend of 3.5% year on year.

That said, cooling inflation and a gradual slowdown in labour market suggest the Federal Reserve ("Fed") could begin its rate cut cycle in Jun-24 in our base case. In Europe, inflation has also been on a moderating trend and we expect the European Central Bank ("ECB") to also begin its rate cut cycle from Jun-24.

In Asia, China's debt-deflation challenge has persisted as deleveraging pressures in the property developers and local government balance sheets have weighed on aggregate demand. Policy easing has remained reactive thus far, and while we expect the augmented fiscal deficit to widen by 1.5pp to 13.2% of Gross domestic product ("GDP"), this would not be sufficient to decisively lift the economy out of deflation. As such, we expect growth to reach 4.2% year on year in 2024 (vs. 2022-23 average of 4.1% year on year).

In the region excluding China, domestic demand-oriented economies such as India and Indonesia have continued to grow at a robust pace. Central banks in the region have paused their rate hike cycles amid moderating inflation. Specifically in India, we now expect Reserve bank of India ("RBI") to take up rate cuts from late second quarter of 2024 to keep real policy rates from rising to restrictive territory. On the fiscal front, we expect slow-paced fiscal consolidation in financial year 2025, with the consolidated deficit narrowing to 8% of GDP (vs. 9% of GDP in financial year 2024). In Hong Kong, the Hong Kong Monetary Authority ("HKMA") has been on hold in tandem with the Federal Reserve, while on the fiscal front the government has guided that a return to budget surplus may take longer than originally estimated in financial year 2026.

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

Overview of 2023

The statement of comprehensive income for the year is set out on page 12. The result for the year was US\$Nil which is consistent with the Company's function and the prior year. 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\$1,234,000 (2022: US\$528,000) represent 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 statement of financial position for the Company is set out on page 14. The Company's financial position at the end of the year shows that the total assets and total liabilities were US\$14,022,000 (2022: US\$32,310,000) and US\$13,972,000 (2022: US\$32,260,000) respectively, a decrease of 57% from the prior year. The decrease during the year is primarily due to decrease in issuances / trading of listed derivative contracts with lower market demand.

Risk management

Risk is an inherent part of the Company's business activity. The Company 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 leverages the risk management policies and procedures 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 of and exposure to financial risks are included in note 17 to the financial statements.

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 loan in the event the Company needs funds to fulfil its obligations and liabilities under its issuance program.

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

Risk management (Continued)

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.

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

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group.

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. 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.

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 17.

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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

Risk management (Continued)

Liquidity risk (Continued)

The maturity analysis provided in Note 17 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 31 December 2023, the Company has a payable of US\$11,379,000 (31 December 2022: US\$27,519,000) 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 31 December 2023, the Company has financial assets of US\$13,812,000 (2022: US\$31,489,000) 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 or systems, 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 and appropriate senior management personnel. The framework is continually evolving to reflect changes in the Company and to respond to the changing regulatory and business environment.

The Company has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk appetite established 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 such activities include continuous enhancement of defences against cyber-attacks; 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 Management Framework requires, among other things, the proper recording and verification of a large number of transactions and events as set out in the policies and procedures. The trading risk management strategies and techniques seek to balance our ability to profit from trading positions with our exposure to potential losses.

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

Risk management (Continued)

Operational risk (Continued)

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department provides independent oversight of operational risk and assesses, measures and monitors operational risk against appetite. 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 Company.

The Operational Risk Department's scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention program and third party risk management (supplier and affiliate risk oversight and assessment) program. 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 Company's advanced measurement approach for operational risk capital.

The Company's critical processes and businesses could be disrupted by events including cyber attacks, failure or loss of access to technology and/or associated data, military conflicts, acts of terror, natural disasters, severe weather events and infectious disease. The Company maintains a resilience program designed to provide for operational resilience and enable it to respond to and recover critical processes and supporting assets in the event of a disruption impacting the Company's people, technology, facilities and third parties. The key elements of the Company's resilience program include business continuity and technical recovery planning, and testing both internally and with critical third parties to validate recovery capability in accordance with business requirements. Business units within the Morgan Stanley Group maintain business continuity plans, including identifying processes and strategies to continue business critical processes during a business continuity incident. The business units also test the documented preparation to provide a reasonable expectation that, during a business continuity incident, the business unit will be able to continue its critical business processes and limit the impact of the incident to the Morgan Stanley Group and its clients. Technical recovery plans are maintained for critical technology assets and detail the steps to be implemented to recover from a disruption impacting the assets' primary location. Disaster recovery testing is performed to validate the recovery capability of these critical technology assets.

The Company maintains a programme that oversees our cyber and information security risks leveraging the Morgan Stanley Group wide program. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Company's information assets 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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

Risk management (Continued)

Operational risk (Continued)

In connection with its ongoing operations, the Company utilises third-party suppliers, and anticipates that such usage will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company's risk-based approach to managing exposure to these services includes the execution of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of third-party suppliers' performance. The Company maintains a third-party risk program which is designed to align with its risk tolerance and meet regulatory requirements. The program includes governance, policies, procedures, and enabling technology. The third-party risk program includes the adoption of appropriate risk management controls and practices throughout the third-party management lifecycle to manage the risk of service failure, risk of data loss and reputational risk, among others.

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, limitations on our business, 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 our 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 Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services and banking industries globally presents a continuing business challenge for the Company.

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 our 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

DIRECTORS' 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. The Morgan Stanley Group's Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee, are the senior management committees that oversee the Morgan Stanley-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 year compensation and/or prior year compensation.

DIRECTORS

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

Adrian Priddis
Jack Clein
Richard Smerin
Scott Honey
Young Lee

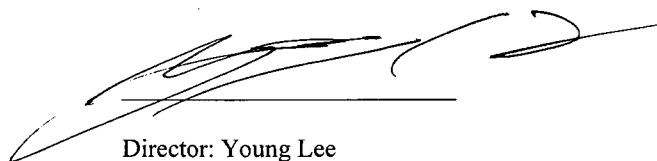
EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDITOR

Deloitte Touche Tohmatsu, Hong Kong have expressed their willingness to continue in office as auditor of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf



Director: Young Lee

Date: 28 MAR 2024

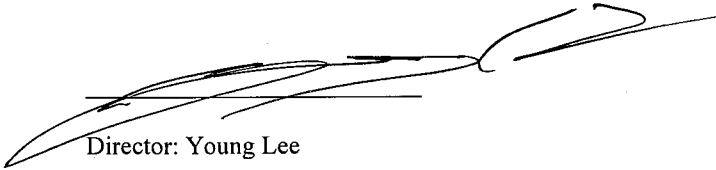
MORGAN STANLEY ASIA PRODUCTS LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

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

- a. the financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and result of the Company; and
- b. the Directors' report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf on



Director: Young Lee

Date:

28 MAR 2024

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Morgan Stanley Asia Products Limited (the "Company") set out on pages 12 to 50, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows the handwritten signature of Deloitte, written in a cursive style.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2024

MORGAN STANLEY ASIA PRODUCTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2023

	Notes	2023 US\$'000	2022 US\$'000
Net trading expense	4	(1,234)	(528)
Other revenue	5	5,399	8,035
Total non-interest revenues		<u>4,165</u>	<u>7,507</u>
Interest income	6	1,063	385
Net revenues		<u>5,228</u>	<u>7,892</u>
Non-interest expense:			
Other expense	7	(5,228)	(7,892)
RESULT BEFORE INCOME TAX		<u>—</u>	<u>—</u>
Income tax	8	—	—
RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>—</u>	<u>—</u>

All results were derived from continuing operations.

The notes on pages 16 to 50 form an integral part of the financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2023

	Share capital US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2022	50	—	50
Result and total comprehensive income for the year	—	—	—
Balance at 31 December 2022	50	—	50
Result and total comprehensive income for the year	—	—	—
Balance at 31 December 2023	50	—	50

The notes on pages 16 to 50 form an integral part of the financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

STATEMENT OF FINANCIAL POSITION

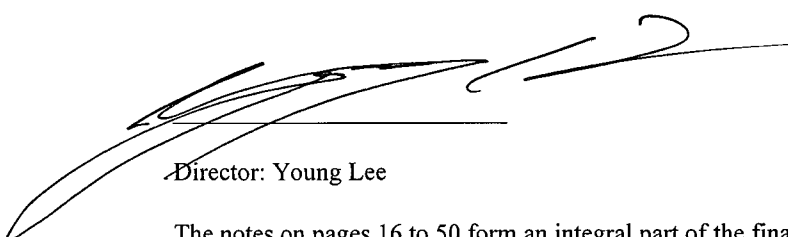
As at 31 December 2023

	Notes	2023 US\$'000	2022 US\$'000
ASSETS			
Cash		692	769
Trading financial assets	10	278	1,429
Trade and other receivables	11	13,052	30,112
TOTAL ASSETS		14,022	32,310
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	10	13,325	31,240
Trade and other payables	12	647	1,020
TOTAL LIABILITIES		13,972	32,260
EQUITY			
Share capital	13	50	50
Retained earnings		—	—
Equity attributable to owner of the Company		50	50
TOTAL EQUITY		50	50
TOTAL LIABILITIES AND EQUITY		14,022	32,310

These financial statements were approved by the Board and authorised for issue on

28 MAR 2024

Signed on behalf of the Board



Director: Young Lee

The notes on pages 16 to 50 form an integral part of the financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 US\$'000	2022 US\$'000
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	14b	(15,429)	16,425
INVESTING ACTIVITIES			
Proceeds from loan repayment by other Morgan Stanley Group undertakings		14,289	—
Issuance of loan to other Morgan Stanley Group undertakings		—	(17,113)
Interest received		1,063	385
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		<u>15,352</u>	<u>(16,728)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(77)</u>	<u>(303)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>769</u>	<u>1,072</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14a	<u><u>692</u></u>	<u><u>769</u></u>

The notes on pages 16 to 50 form an integral part of the financial statements.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

1. CORPORATE INFORMATION

Morgan Stanley Asia Products Limited (the “Company”) is an exempt company incorporated and domiciled in the Cayman Islands with limited liability, at the following registered address c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104, Cayman Islands. The Company is engaged in the issuance of financial instruments and the hedging of obligations pursuant to such issuances.

The Company’s immediate parent undertaking is MSASP which is incorporated in the Cayman Islands.

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. 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.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared 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”).

New standards and interpretations adopted during the year

The following amendment to standard relevant to the Company’s operations were adopted during the year. These amendments to standard did not have a material impact on the Company’s financial statements.

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.

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.

Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules were issued by the IASB in May 2023, for application in accounting periods beginning on or after 1 January 2023.

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

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 2023. 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: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020 and October 2022, for retrospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

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

Basis of measurement

The 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 explained in the accounting policies below.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the 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 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 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 notes 3(d) and 19.

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

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Directors' Report on pages 1 to 7. In addition, the notes to the 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 Director's report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements are rounded to the nearest thousand US dollars, unless otherwise stated.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income.

Exchange differences recognised in the statement of comprehensive income are presented in 'Other revenue' or 'Other expense', except where noted in note 3(c) below.

c. Financial instruments

i) Financial instruments mandatorily at fair value through profit and loss (FVPL)

Trading financial instruments

Trading financial instruments comprising of issued listed and bilateral OTC derivative contracts, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net trading expense'. Realised interest is included within 'Interest income' or 'Interest expense'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. For all trading financial instruments, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial assets and financial liabilities at amortised cost

Financial assets at amortised cost include cash and trade and other receivables.

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are sole payment of principal and interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value, see note 3(d) and subsequently measured at amortised cost less expected credit loss ("ECL") allowance. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Financial assets and financial liabilities at amortised cost (continued)

Financial liabilities classified at amortised cost include trade and other payables.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value, see note 3(d) below and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the EIR method. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

d. Fair value

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities

Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments, block discounts and discounts for equity-specific restrictions that would not transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement

- Level 2 - Valuation techniques using observable inputs

Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuation techniques with significant unobservable inputs

Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

d. Fair value (Continued)

Fair value measurement (continued)

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation techniques

Many OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk and funding in order to arrive at fair value.

Adjustments for liquidity risk adjust model-derived mid-market amounts of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

d. Fair value (Continued)

Valuation techniques (continued)

For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure, the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Company also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

Valuation process

Valuation Control ("VC") within Finance is responsible for ensuring that the inventory carried at fair value in the Group and Company's financial statements and associated disclosures is presented in accordance with applicable accounting standards. VC is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's inventory. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

Model Control

VC, in conjunction with the Model Risk Management Department ("MRM"), which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews valuation models. VC is responsible for reviewing that the model valuation methodology is appropriate, model inputs and valuations are consistent with accounting standards and an independent price verification can be performed. The Company generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

Independent Price Verification

The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VC performs an independent review of the valuation in the books and records by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above. External pricing data used to validate the valuation must meet minimum quality standards set by VC.

The results of this independent price verification and any adjustments made to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

d. Fair value (Continued)

Independent Price Verification (Continued)

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both Finance and MRM must approve the fair value of the trade that is initially recognised.

Gains and losses on inception

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income but is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data become observable, maturity or disposal of the instrument.

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/loss previously recognised in equity, are recognised in the statement of comprehensive income within 'Net trading expense' and 'Net gains/(losses) on derecognition of financial assets measured at amortised cost', when applicable.

The Company derecognises financial liabilities when the Company's obligations are discharged or cancelled or when they expire.

f. Impairment of financial instruments

The Company recognises loss allowances for ECL for financial assets measured at amortised cost.

Measurement of ECL

The Company applies a three stage approach to measuring ECLs based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring.
- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments (Continued)

Measurement of ECL (Continued)

- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Assessment of significant increase in credit risk

When assessing SICR, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

The determination of a SICR is generally based on changes in the probability of default ("PD"), in conjunction with a rebuttable presumption that a SICR has occurred if a financial asset is more than 30 days past due.

Calculation of ECL

ECL is calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the date of default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

When measuring ECLs, the Company considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above. ECL on certain trade receivables are calculated using a 'matrix' approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancement, it may be determined that the ECL for a financial instrument is de minimis (highly immaterial) and it may not be necessary to recognise the ECL.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments (Continued)

The Company measures ECL on an individual asset basis and has no purchased or originated credit-impaired (“POCI”) financial assets.

More information on measurement of ECL is provided in note 17 Financial risk management.

Presentation of ECL

ECL is recognised in the statement of comprehensive income within ‘Net impairment loss on financial instruments’.

Credit-impaired financial instruments

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with the Credit Risk Management Department’s policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

Definition of Default

In assessing the impairment of financial instruments under the ECL model, the Company defines default in accordance with the Credit Risk Management Department’s policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Company in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption that a financial asset which is more than 90 days past due has defaulted.

Write-offs

Receivables are written off (either partially or in full) when they are deemed uncollectible. Financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due.

g. Cash and cash equivalents

For the purposes of the statement of cash flows, Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

h. Offsetting of financial assets and financial liabilities

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

4. NET TRADING EXPENSE

	2023	2022
	US\$'000	US\$'000
Losses on bilateral OTC derivative contracts	(58,305)	(22,506)
Gains on issued listed derivative contracts	57,297	23,216
Losses on other listed derivative contracts	(226)	(1,238)
	<u>(1,234)</u>	<u>(528)</u>

5. OTHER REVENUE

Other revenue predominantly represents management charges to the Company's direct parent undertaking for recovery of 'Other expense', see note 7 below.

6. INTEREST INCOME

All interest income relates to financial assets at amortised cost and is calculated using the EIR method. (See note 3(c)(ii)).

7. OTHER EXPENSE

	2023	2022
	US\$'000	US\$'000
Fees paid	<u>(5,228)</u>	<u>(7,892)</u>

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

8. 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% (2022: 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 year ended 31 December 2023 and 31 December 2022.

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

9. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as presented in the statement of financial position by the IFRS 9 measurement classifications.

31 December 2023	FVPL (mandatorily) US\$'000	Amortised cost US\$'000	Total US\$'000
Cash	—	692	692
Trading financial assets	278	—	278
Trade and other receivables	—	13,052	13,052
Total financial assets	278	13,744	14,022
Trading financial liabilities	13,325	—	13,325
Trade and other payables	—	647	647
Total financial liabilities	13,325	647	13,972
31 December 2022	FVPL (mandatorily) US\$'000	Amortised cost US\$'000	Total US\$'000
Cash	—	769	769
Trading financial assets	1,429	—	1,429
Trade and other receivables	—	30,112	30,112
Total financial assets	1,429	30,881	32,310
Trading financial liabilities	31,240	—	31,240
Trade and other payables	—	1,020	1,020
Total financial liabilities	31,240	1,020	32,260

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2023

10. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

	2023		2022	
	Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000
Derivatives- Equity contracts :				
Bilateral OTC derivative contracts	228	2,758	942	5,709
Issued listed derivative contracts	—	10,567	—	25,531
Other listed derivative contracts	50	—	487	—
	<u>278</u>	<u>13,325</u>	<u>1,429</u>	<u>31,240</u>

11. TRADE AND OTHER RECEIVABLES

	2023 US\$'000	2022 US\$'000
Trade and other receivables (amortised cost)		
Trade receivables	2,790	5,025
Other receivables		
Amounts due from Company's direct parent undertaking	10,262	25,087
	<u>13,052</u>	<u>30,112</u>

12. TRADE AND OTHER PAYABLES

	2023 US\$'000	2022 US\$'000
Trade and other payables (amortised cost)		
Trade payables	537	654
Other payables		
Amounts due to other Morgan Stanley Group undertakings	44	45
Other amounts payable	66	321
	<u>647</u>	<u>1,020</u>

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2023

13. EQUITY

	Ordinary shares of US\$1 each Number	
Authorised		
At 1 January 2022, 31 December 2022 and 31 December 2023		<u>50,000</u>
	Ordinary shares of US\$1 each	
	Number	US\$'000
Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>50,000</u>	<u>50</u>

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.

14. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

14. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

b. Reconciliation of cash flows from operating activities

	2023	2022
	US\$'000	US\$'000
Result for the year	—	—
<i>Adjustments for:</i>		
Interest income	(1,063)	(385)
Operating cash flows before changes in operating assets and liabilities	<u>(1,063)</u>	<u>(385)</u>
Changes in operating assets		
Decrease / (increase) in trading financial assets	1,151	(1,271)
Decrease in trade and other receivables	2,771	2,423
	<u>3,922</u>	<u>1,152</u>
Changes in operating liabilities		
(Decrease) / increase in trading financial liabilities	(17,915)	14,918
(Decrease) / increase in trade and other payables	(373)	740
	<u>(18,288)</u>	<u>15,658</u>
Net cash flows (used in) / from operating activities	<u><u>(15,429)</u></u>	<u><u>16,425</u></u>

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

15. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2023	Less than or equal to twelve months US\$'000	More than twelve months US\$'000	Total US\$'000
ASSETS			
Cash	692	—	692
Trading financial assets	68	210	278
Trade and other receivables	13,052	—	13,052
	<u>13,812</u>	<u>210</u>	<u>14,022</u>
LIABILITIES			
Trading financial liabilities	10,732	2,593	13,325
Trade and other payables	647	—	647
	<u>11,379</u>	<u>2,593</u>	<u>13,972</u>
At 31 December 2022	Less than or equal to twelve months US\$'000	More than twelve months US\$'000	Total US\$'000
ASSETS			
Cash	769	—	769
Trading financial assets	608	821	1,429
Trade and other receivables	30,112	—	30,112
	<u>31,489</u>	<u>821</u>	<u>32,310</u>
LIABILITIES			
Trading financial liabilities	26,499	4,741	31,240
Trade and other payables	1,020	—	1,020
	<u>27,519</u>	<u>4,741</u>	<u>32,260</u>

16. 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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

16. SEGMENT REPORTING (CONTINUED)

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

Of the Company's total revenue, 10% (2022: 28%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the Related Party Disclosures note 22.

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.

17. 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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (Continued)

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 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.

Exposure to credit risk

The maximum exposure to credit risk (“gross credit exposure”) of the Company as at 31 December 2023 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 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 18 ‘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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows gross carrying amount and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown:

Exposure to credit risk by internal rating grades (Continued)

2023	Gross credit exposure ⁽¹⁾⁽²⁾ US\$'000	Counterparty	Rating	Credit Grade
Subject to ECL⁽³⁾:				
Cash	11	Standard Chartered Bank	A	Investment Grade
		Standard Chartered Bank (Hong Kong) Limited	BBB	Investment Grade
	48	ANZ Bank Limited	A	Investment Grade
	51	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	509	Sumitomo Mitsui Banking Corporation	A	Investment Grade
	73			
Total Cash	692			
Trade and other receivables	10,262	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	2,326	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables ⁽⁵⁾	12,588			
Not subject to ECL⁽⁴⁾:				
Trading financial assets	229	Morgan Stanley & Co. International plc	A	Investment Grade
	42	The Hongkong and Shanghai Banking Corporation Limited	A	Investment Grade
	7	J.P. Morgan Structured Products B.V.	UR	
Total Trading financial assets	278			

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk by internal rating grades (Continued)

1. The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.
2. Of the gross credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional US\$3,018,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in note 18 financial assets and financial liabilities subject to offsetting.
3. There is minimal ECL of US\$1,000 on trade and other receivables.
4. Financial assets measured at FVPL are not subject to ECL.
5. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.

2022	Gross credit exposure ⁽¹⁾⁽²⁾ US\$'000	Counterparty	Rating	Credit Grade
Subject to ECL⁽³⁾:				
Cash	10	Standard Chartered Bank	A	Investment Grade
	21	Standard Chartered Bank (Hong Kong) Limited	BBB	Investment Grade
	48	ANZ Bank Limited	A	Investment Grade
	468	The Hong Kong and Shanghai Banking Corporation Limited	A	Investment Grade
	222	Sumitomo Mitsui Banking Corporation	A	Investment Grade
Total Cash	769			
Trade and other receivables	25,087	Morgan Stanley Asia Securities Products LLC	BBB	Investment Grade
	4,739	Morgan Stanley & Co. International plc	A	Investment Grade
Total trade and other receivables ⁽⁵⁾	29,826			
Not subject to ECL⁽⁴⁾:				
Trading financial assets	942	Morgan Stanley & Co. International plc	A	Investment Grade
	16	BOCI Asia Limited	UR	
	83	Citigroup Global Markets Europe AG	BBB	Investment Grade
	216	Goldman Sachs Structured Products (Asia) Limited	UR	
	14	Guotai Junan Securities (Hong Kong) Limited	BB	Non-investment Grade
	85	The Hongkong and Shanghai Banking Corporation Limited	A	Investment Grade
	37	SG Issuer	BBB	Investment Grade
	36	Others	UR	
Total Trading financial assets	1,429			

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk by internal rating grades (Continued)

1. The carrying amount recognised in the 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\$5,967,000 to be offset in the ordinary course of business and/ or in the event of default as disclosed in note 18 financial assets and financial liabilities subject to offsetting.
3. There is minimal ECL of US\$1,000 on trade and other receivables.
4. Financial assets measured at FVPL are not subject to ECL.
5. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant.

Liquidity risk

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

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

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

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

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

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

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17. 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 appetite and is calibrated to meet various internal and regulatory requirements and to fund prospective business activities. 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.

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Liquidity Resources (Continued)

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 31 December 2023 and 31 December 2022. 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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Maturity analysis (Continued)

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

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Maturity analysis (Continued)

31 December 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	769	—	—	—	—	769
Trading financial assets-derivatives	—	57	286	265	821	1,429
Trade and other receivables ⁽¹⁾	6,063	—	—	—	24,049	30,112
Total financial assets	6,832	57	286	265	24,870	32,310
Financial liabilities						
Trading financial liabilities-derivatives	—	2,030	11,275	13,194	4,741	31,240
Trade and other payables	1,020	—	—	—	—	1,020
Total financial liabilities	1,020	2,030	11,275	13,194	4,741	32,260

⁽¹⁾ 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 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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

17. 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 31 December 2023 and 31 December 2022 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)	
	2023	2022
	US\$'000	US\$'000
Bilateral OTC derivative contracts	(4,430)	(7,876)
Issued listed derivative contracts	4,430	7,876
	<u>—</u>	<u>—</u>

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\$145 (2022: US\$411) in the statement of comprehensive income.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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18. 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 17 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 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:

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

MORGAN STANLEY ASIA PRODUCTS LIMITED

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Year ended 31 December 2023

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

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

1. These are amounts that would be offset in the ordinary course of business and/ or in the event of default according to the intercompany cross-product legally enforceable netting arrangements with the respective Morgan Stanley Group undertakings.
2. The cash collateral not offset is recognised in the statement of financial position within Trade and other receivables.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

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

31 December 2022	Gross amounts US\$'000	Amounts offset in the statement of financial position US\$'000	Net amounts presented in the statement of financial position US\$'000
Assets			
Trading financial assets	1,429	—	1,429
Trade and other receivables	53,275	(23,163)	30,112
TOTAL	54,704	(23,163)	31,541
Liabilities			
Trading financial liabilities	31,240	—	31,240
Trade and other payables	24,183	(23,163)	1,020
TOTAL	55,423	(23,163)	32,260

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

31 December 2022	Net amounts presented in the statement of financial position	Amounts not offset in the statement of financial position ⁽¹⁾		Net exposure US\$'000
	US\$'000	Financial instruments US\$'000	Cash collateral ⁽²⁾ US\$'000	
Assets				
Morgan Stanley & Co. International plc	5,681	(942)	(4,739)	—
Morgan Stanley Asia Securities Products LLC	25,087	—	—	25,087
Morgan Stanley Hong Kong Securities Limited	286	(286)	—	—
Others	487	—	—	487
TOTAL	31,541	(1,228)	(4,739)	25,574
Liabilities				
Morgan Stanley & Co. International plc	5,709	(5,681)	—	28
Morgan Stanley Hong Kong Securities Limited	654	(286)	—	368
Morgan Stanley & Co. LLC	45	—	—	45
Others	25,852	—	—	25,852
TOTAL	32,260	(5,967)	—	26,293

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 financial position within Trade and other receivables.

MORGAN STANLEY ASIA PRODUCTS LIMITED

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19. 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)	Valuation techniques using observable inputs (Level 2)	Valuation techniques with significant unobservable inputs (Level 3)	Total
2023	US\$'000	US\$'000	US\$'000	US\$'000
Trading financial assets: Derivatives- Equity contracts	—	278	—	278
Trading financial liabilities: Derivatives- Equity contracts	—	13,325	—	13,325
2022				
Trading financial assets: Derivatives- Equity contracts	—	1,429	—	1,429
Trading financial liabilities: Derivatives- Equity contracts	—	31,240	—	31,240

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

19. 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 <ul style="list-style-type: none"> • 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 OTC derivatives. 	<ul style="list-style-type: none"> • Level 1 - listed derivatives that are actively traded • Level 2 - listed derivatives that are not actively traded
OTC Derivative Contracts <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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.

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

During 2022, the company reclassified approximately US\$212,000 of trading financial liabilities from Level 1 to Level 2 due to change in the volume of less active listed equity and OTC derivative contracts.

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 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 year.

MORGAN STANLEY ASIA PRODUCTS LIMITED

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20. 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.

21. 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 (2022: 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 MSHK 1238, whereby MSASP and MSHK 1238 agree to provide financial support by way of funds injection in the form of equity capital or loan in the event the Company needs funding to fulfil its obligations and liabilities under its issuance program.

22. 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.

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

22. 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 have been borne by another Morgan Stanley Group undertaking in both the current and prior year.

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.

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2023

22. 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 statement of comprehensive income during the year are shown in the table below:

	2023		2022	
	Interest US\$'000	Balance US\$'000	Interest US\$'000	Balance US\$'000
<i>Rolling 395 day term</i>				
Amounts due from the Company's direct parent undertaking	890	9,759	347	24,049
<i>Undated</i>				
Amounts due from the Company's direct parent undertaking	—	503	—	1,038
Amounts due to other Morgan Stanley Group undertakings	—	44	—	45

During the year, the Company has recognised ECL expense of US\$Nil (2022: US\$1,000) on the above outstanding balance from related parties.

Trading and risk management

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

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

	2023 US\$'000	2022 US\$'000
Amounts due from other Morgan Stanley Group undertakings ⁽¹⁾	3,018	5,967
Amounts due to other Morgan Stanley Group undertakings	3,296	6,359

MORGAN STANLEY ASIA PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2023

22. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

⁽¹⁾ Amounts due from other Morgan Stanley Group undertakings include cash collateral of US\$2,326,000 (2022: US\$4,739,000) 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\$169,000 (2022: US\$39,000) 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 year are as follows:

	2023	2022
	US\$'000	US\$'000
Fees paid to other Morgan Stanley Group undertaking	<u>369</u>	<u>490</u>

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 year ended 31 December 2023, a management charge of US\$5,399,000 (2022: US\$8,035,000) is recognised in the 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.