MERCHANT SECURITIES

25 NOVEMBER 2008

The Merchant Securities Income Note

This Structured Note has been designed to take advantage of the current high levels of income available through capitalising upon current market volatility, while aiming to preserve your capital.

A significant benefit of this Investment is that your income will be fixed from the start, set against the background of the expectation that deposit, bond and equity income are likely to fall over the coming year.

Objective	Income & Capital Preservation
Underlying	Euro Stoxx 50.
Offer Price	100p
Nominal Value	100p
Denomination	£ sterling
Minimum investment	£1,000
Secondary market size	£1,000
Initial valuation date	25th November 2008
Note issue date	25th November 2008
Maturity date	25th November 2011
Term	3 years
Index initial valuation	2385.90
Index yield	11.05%
Issuer	Morgan Stanley

Investment objective

The Merchant Securities Income Note offers investors a high level of income for the fixed term of the investment. The Note is based on DJ Euro Stoxx 50 Index. Your capital will be returned at the end of the 3-year term, unless the Euro Stoxx 50 Index has fallen below 50% of the strike level and if this happens your capital is at risk on a 1:1 basis in line with the performance of the index. The tables on page 2 highlight the circumstances in which your capital contribution will either be at risk or protected.

Our view

We have recently experienced one of the most volatile markets in history following a crisis in confidence within the banking sector. Market commentators are now forecasting lower world wide interest rates and this is likely to result in a reduction in bond yields and company earnings investment income. Therefore, we believe there is the need to consider alternative options to generate investment income within portfolios.

We have designed this Note to provide investors with a high level of investment income to supplement the expected reduction in portfolio yields over the coming period. The Note is also structured to reduce the risk of the loss of your initial capital investment.

The Structure

The Merchant Securities Income Note is an option-based structured investment. The Note consists of a zero-coupon bond which aims to minimise the risk of any capital loss and an option strategy to provide the income.

You will receive an annual income of 11.05% paid half-yearly based on the initial investment price of £1 per unit and fixed at this rate for the term of the contract.

The Note has a 3-year term and the issuer will aim to provide a market in the Note so you can trade in and out of their investment within the 3-year term period.

Capital and Income: Risk and Returns

If the underlying index remains **above 50%** (the barrier) of the initial strike level over the 3 year term of the Note your capital is **100% protected** over the term.

If, at any time, the underlying index falls **beneath 50%** of the initial strike level over the 3 year term of the Note your capital is **at risk.** If this happens, the value of your capital investment on maturity will directly track the performance of the Euro Stoxx 50 Index on a 1:1 basis over the period and is not protected, although the income will continue to be paid.

The tables below set out the potential returns with the first table setting out the returns based on the barrier not being breached and the second table identifies the returns if the DJ Euro Stoxx 50 index falls by 50.1% or more from the initial strike price.

Total redemption at maturity from £1,000 invested if 50% barrier has NOT been broken

Final index level as a % of initial index level	Capital return at maturity	Income over term @ 11.05%	Total return at maturity
50%	£1,000	£331.50	£1,331.50
75%	£1,000	£331.50	£1,331.50
100%	£1,000	£331.50	£1,331.50
120%	£1,000	£331.50	£1,331.50
130%	£1,000	£331.50	£1,331.50
140%	£1,000	£331.50	£1,331.50
150%	£1,000	£331.50	£1,331.50

Source: Merchant Securities

Total redemption at maturity from £1,000 invested if 50% barrier HAS been broken

Final index level as a % of initial index level	Capital return at maturity	Income over term @ 11.05%	Total return at maturity
40%	£400	£331.50	£731.50
60%	£600	£331.50	£931.50
80%	£800	£331.50	£1,131.50
100%	£1,000	£331.50	£1,331.50
120%	£1,000	£331.50	£1,331.50
130%	£1,000	£331.50	£1,331.50
140%	£1,000	£331.50	£1,331.50

Source: Merchant Securities

At maturity, the zero-coupon bond will have appreciated in value to 100% of nominal capital over the 3-year term.

Trading the Merchant Securities Income Note

The issuer undertakes to provide a secondary market in the Note so that the investment can be traded (bought or sold) at any point prior to maturity, although in exceptional market conditions it may not be possible for the issuer to make a market or if so they may widen the bid offer spread.

If you wish to trade this Note, subject to market liquidity and on a best efforts basis, before the end of the term, you should speak to your financial advisor or your usual Merchant Securities' contact.

Risk Factors

You should expect a structured Note based on options to under perform in the beginning of its life. Because the Note is constructed using long-dated options, the full leverage does not kick in at the start of the Note. Leverage gradually builds up during the life of the Note. The level of underperformance during the build-up to full gearing is dependent on the option's delta, that is, the sensitivity of the option's price to the underlying financial instrument.

[It is emphasised that the value of the Note will not, therefore, track the DJ Euro Stoxx Index in the early stages of its life. Before the Note reaches its maturity, its price is a function of the zero-coupon bond and the option. The zero-coupon is bought at a deep discount and appreciates over the life of the product to 100% of the initial capital invested. The performance of the option is dependent upon the underlying index value, volatility, interest rates and time to maturity.]

General risks

The value of any securities or financial instruments mentioned in this brochure can fall as well as rise and therefore, upon withdrawal, you may receive back less than the full amount invested.

Transactions including those involving options and other derivative instruments can give rise to substantial risk and are not suitable for all investors.

The value of units in collective investment schemes that use derivatives such as options and futures may, under certain circumstances, may be more volatile than non-derivative schemes and therefore, upon withdrawal, you may receive back substantially less than the full amount invested.

Foreign-currency denominated commodity contracts and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Changes in rates of exchange may have an adverse effect on the value or price of investments in sterling terms. All investments may fluctuate in value.

Past performance is no guarantee of the future performance of investments. You should carefully consider in the light of your financial resources whether investing in stocks, shares, securities or collective investment schemes is suitable for you.

Risk

If the underlying index remains above 50% (the barrier) of the initial strike level over the 3 year term of the Note your capital is 100% protected over the term. If, at any time, the underlying index falls beneath 50% of the initial strike level over the 3 year term of the Note your capital is at risk. See the section titled "Capital and Income: Risk and Returns " on page 2.

Insolvency Risk

When Merchant Securities Group Limited ("Merchant Securities") receives your investment, it will be deposited into a client account at Pershing Securities Limited. In the event of Merchant Securities insolvency during the period that your investment monies are held with Pershing Securities Limited, your money will be protected.

There exists a counterparty risk on the zero-coupon bonds held by the Note which will be issued by one or more financial institutions which attract an A+ rating. The overall protection is provided by Morgan Stanley as the issuer who has a Aa3 Moody's/A+ S&P credit rating. However, there is a risk that Morgan Stanley will fail to meet its obligations. In the event of Morgan Stanley's insolvency your money will not be protected and you must rely on any right of recourse you have to the Financial Services Compensation Scheme. You may lose all or part of your initial capital investment. The final redemption value is calculated on the nominal value of the Note, and not on the purchase price, which may be higher or lower than the nominal value.

Exit risk

The return of capital described above will exist on the basis that the investment is held until redemption. There may be risks associated with trading on the secondary market. The secondary market price of the securities will depend on many factors, including market liquidity, the value and volatility of the underlying indices, level of the underlying indices at any time on any day and time left until the maturity of the securities, interest rates, the dividend rate on the stocks that compose the underlying indices, and the creditworthiness of the issuer. Therefore the holder may receive an amount which may be less than the then intrinsic market value of the securities and which may also be less than the amount the holder would have received had the holder held the securities through to maturity. This is because the full extent of the options are not realised until maturity, thus structured products are seen as more of a buy-and-hold investment strategy.

No interest

Unlike ordinary debt securities, the securities do not pay debt interest. On maturity, the return of only the principal amount will not compensate the holder on the securities for the effects of inflation and other factors relating to the value of money over time.

Hedging risk

On or prior to and after the trade date, each issuer, through its affiliates or others, will likely hedge its anticipated exposure under the securities by taking positions in the stocks that comprise the underlying indices, in option contracts on the stocks that compose the underlying indices or positions in any other available securities or instruments. In addition, each issuer and its affiliates trades the stocks that compose the underlying indices as part of their general businesses. Any of these activities could potentially affect the value of the underlying indices, including on the determination date, and accordingly could significantly affect the payout to holders on the securities.

Liquidity risk

The Notes will not be traded on an organised exchange. Although the dealer will make a secondary market in the Notes on a best efforts basis, the liquidity of the Notes may be limited. The liquidity of the Note reflects the liquidity of the securities that underlie the underlying equity.

Adjustment and disruption risk

The sponsor of the index can add, delete or substitute stocks constituting the respective index or make other methodological changes that could change the value of the respective index without regard to the interests of holders of the securities. Any of these decisions/determinations may adversely affect the value of the securities and may result in you receiving a return that is materially different from that received if the event had not occurred.

Underlying sponsor risk

The sponsor of each underlying index is not an affiliate of the issuer or its affiliates and is not involved with this offering in any way. Consequently, the issuer has no ability to control the actions of the sponsor of each underlying index, including rebalancing that could trigger an adjustment to the terms of the Note.

Index risk

The Note holder and prospective purchasers of the Note should conduct their own investigations and, in deciding whether or not to purchase the Note, prospective purchasers should form their own views of the merits of an investment related to the underlying indices based upon such investigations and not in reliance on any information given in the term sheet.

Note details

Secondary market

Morgan Stanley provides full intra-day secondary market with a bid-offer spread of 1%.

Taxation

It is our opinion that the return of this product will be treated as income tax. You should consult your tax and accounting advisors to the extent you deem necessary.

This Note can be used as an investment within a SIPP or SSAS structure.

Fees and expenses

Merchant Securities Group Limited ("Merchant Securities") dealing and management fees are not included and will be applied according to our standard charges for equity investments. Merchant Securities Group Limited will charge the issuer a fee for the design and set-up of the structured Note, which will be the equivalent of no more than 1.7% per annum of the issue amount. This has been taken into account in the terms of the product. Details of fees and charges are included in our standard Terms of Business.

Publication of price

To obtain the latest price of the Merchant Securities Income Note please speak to your financial advisor or your usual contact at Merchant Securities.

Information

For further information on this Note please speak to your usual contact at Merchant Securities on 0207 375 9010

Important Notice

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