

Company Registration No. 2605715

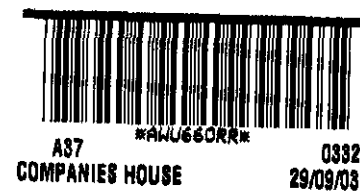
**Registered Office:
25 Cabot Square
Canary Wharf
London
E14 4QA**

MS LEASING UK LIMITED

Report and Accounts

30 November 2002

**Deloitte & Touche LLP
London**



MS LEASING UK LIMITED

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MS LEASING UK LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 30 November 2002.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$7,796,000 (2001: \$182,973,000).

During the year, no dividends (2001: \$47) were paid to the holders of ordinary shares on the register.

The Directors do not recommend the payment of a final dividend (2001: \$nil) to the holders of ordinary shares on the register.

No preference dividends (2001: \$84,210,953) were paid during the year.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of MS Leasing UK Limited (the "Company") is to lease fixed assets to other group undertakings. See note 17 for change in principal activities post year end.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley (formerly Morgan Stanley Dean Witter & Co.) ("MS") which together with its other subsidiary undertakings, form the MS Group (the "Group").

The profit and loss account for the year is set out on page 4. Both the level of business during the year and the financial position at the end of the year were satisfactory.

DIRECTORS

The following Directors held office throughout the year, (except where otherwise shown):

A C Fawcett

D A McHugh (resigned 30/04/2003)

J R Pellet (appointed 25/09/2002)

R S Rosenthal

S A Souchon (appointed 25/09/2002)

DIRECTORS' INTERESTS

The Directors had no disclosable interests in the share and loan capital of any Group company at the beginning or at the end of the year.

POST BALANCE SHEET EVENTS

Since the balance sheet date, the Directors have agreed to sell the asset leasing business to Morgan Stanley Services (UK) Limited at its net book value. This is currently estimated between \$170,000,000 and \$200,000,000.

AUDITORS

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP. Accordingly the accounts have been signed in the name of Deloitte & Touche LLP.

The Company has in place an elective regime to dispense with the need to hold annual general meetings, lay reports and accounts before the shareholders at a general meeting, and the requirement to re-appoint the auditors, Deloitte & Touche LLP, annually.

MS LEASING UK LIMITED

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

UK company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control and for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board of Directors on ²⁵ September 2003



Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MS LEASING UK LIMITED

We have audited the financial statements of MS Leasing UK Limited ended 30 November 2002 which comprise the profit and loss account, balance sheet and notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom company law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 November 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP, London

Chartered Accountants and Registered Auditors

DeLille & Touche LLP.
25 Sept 2003

MS LEASING UK LIMITED

PROFIT AND LOSS ACCOUNT

Year Ended 30 November 2002

	Note	2002 \$'000	2001 \$'000
NET REVENUE	2	100,279	83,634
Other operating income		-	1,880
Other operating charges		(93,436)	(70,564)
OPERATING PROFIT	4	6,843	14,950
Loss on disposal of tangible fixed assets		(159)	-
Income from shares in group undertakings		19	140,017
Other interest receivable and similar income	5	51	51,972
Interest payable and similar charges	6	(6,039)	(22,162)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		715	184,777
Tax on profit on ordinary activities	7	7,081	(1,804)
PROFIT FOR THE FINANCIAL YEAR		7,796	182,973
Dividends on preference shares	8	-	(84,211)
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u>7,796</u>	<u>98,762</u>

All operations were continuing in the current and prior year.

There were no recognised gains or losses during the current year or prior year other than those disclosed above. Accordingly no statement of total recognised gains and losses has been prepared.

A reconciliation of the movement in shareholders' funds has been prepared in note 15 to the accounts.

The notes on page 6 to 14 form an integral part of the accounts.


MS LEASING UK LIMITED

BALANCE SHEET

30 November 2002

	Note	2002 \$'000	2001 \$'000
FIXED ASSETS			
Tangible assets	9	203,316	224,930
Investments	10	1,155,446	1,155,401
		<u>1,358,762</u>	<u>1,380,331</u>
CURRENT ASSETS			
Debtors	11	119,278	6,817
Cash		1,474	819
		<u>120,752</u>	<u>7,636</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	12	<u>(367,425)</u>	<u>(76,543)</u>
		<u>(367,425)</u>	<u>(76,543)</u>
NET CURRENT LIABILITIES		<u>(246,673)</u>	<u>(68,907)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,112,089	1,311,424
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	13	-	(7,131)
		<u>1,112,089</u>	<u>1,304,293</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,100,001	1,300,001
Profit and loss account	15	7,796	-
Other capital and reserves	15	<u>4,292</u>	<u>4,292</u>
		<u>1,112,089</u>	<u>1,304,293</u>
SHAREHOLDERS' FUNDS			
Analysed as:			
Equity		12,089	4,293
Non-equity		<u>1,100,000</u>	<u>1,300,000</u>
		<u>1,112,089</u>	<u>1,304,293</u>

These accounts were approved by the Board on 15 September 2003
Signed on behalf of the Board


Director

The notes on page 6 to 14 form an integral part of the accounts.

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

1 ACCOUNTING POLICIES

a. Accounting convention

The accounts are prepared under the historical cost convention, and in accordance with applicable United Kingdom company law and accounting standards.

The Company is not required to prepare consolidated accounts by virtue of the exemption under section 228 of the Companies Act 1985. The results of the Company are included within the accounts of Morgan Stanley International Limited a company incorporated in England and Wales, which will prepare consolidated accounts for the year to 30 November 2002. The accounts therefore present information about the Company as an individual entity and not about its group.

b. Functional currency

The accounts are prepared in US dollars, the currency of the primary economic environment in which the Company operates.

c. 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 balance sheet date. Transactions in currencies other than US dollars are recorded at the rates ruling at the dates of the transactions. Translation differences are taken through the profit and loss account.

d. Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment in value.

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Furniture	- 5 or 7 years
Fixtures and fittings	- 5,10,15 or 20 years or the life of the lease up to a maximum of 39 years
Computer and telecommunication equipment	- 3,5 or 8 years

Assets in the course of construction are not depreciated until the construction is complete and the asset is ready for use. Interest that is directly attributable to the construction of the asset is capitalised as a cost of the asset.

e. Fixed asset investments

Fixed asset investments are stated at cost, less provision for any impairment in value. Fixed asset investments considered to be monetary are revalued where appropriate as described in note 1(c).

f. Taxation

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

g. Netting

All assets and liabilities have been disclosed gross unless the Company's ability to insist on net settlement is assured beyond doubt.

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

1 ACCOUNTING POLICIES (CONTINUED)

h. Cash flow statement

The Company's ultimate parent undertaking produces a cash flow statement. Accordingly, the Company, which is a wholly owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (Revised 1996) Cash Flow Statements and not produce a cash flow statement.

2 NET REVENUE

Revenue represents rental income receivable from operating leases and is recorded on an accrual basis.

3 SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, the UK.

4 OPERATING PROFIT

	2002 \$'000	2001 \$'000
Operating profit is stated after charging :		
Depreciation on owned assets	<u>77,001</u>	<u>70,455</u>
Impairment provision (note 9)	<u>14,087</u>	<u>-</u>
Auditors' remuneration - audit fees	<u>4</u>	<u>-</u>

The Company employed no staff during the year (2001: nil).

The audit fee was borne by another group company in the prior year.

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2001: \$nil).

5 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 \$'000	2001 \$'000
Foreign exchange gains on monetary fixed asset investments	45	37,267
Interest receivable from group undertakings	6	14,652
Other interest receivable	-	53
	<u>51</u>	<u>51,972</u>

As explained in note 10, the fixed asset investment held by the Company in sterling preference shares has been translated into US dollars at the rate prevailing at the balance sheet date.

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	\$'000	\$'000
Interest payable on bank loans	-	2
Interest payable to group undertakings	6,039	22,160
	<u>6,039</u>	<u>22,162</u>

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of credit in the year

	2002	2001
	\$'000	\$'000
UK corporation tax at 30% (2001 – 30%)		
- Current year	-	-
- Adjustment in respect of prior years	<u>50</u>	<u>200</u>
Total current tax	50	200
Deferred taxation (note 13)		
- Current year	(7,131)	(1,369)
- Adjustment in respect of prior years	<u>-</u>	<u>2,973</u>
Tax on profit on ordinary activities	<u>(7,081)</u>	<u>1,804</u>

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

7 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The current year UK taxation credit differs from the standard UK corporation tax rate of 30%.

The main differences are explained below:

	2002 \$'000	2001 \$'000
Profit on ordinary activities before tax	<u>715</u>	<u>184,777</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	215	55,433
Effects of:		
Non taxable UK dividends	(6)	(42,005)
Loss on sale of fixed assets	48	-
Group relief received for nil consideration	(13,506)	(9,108)
Foreign exchange differences on revaluation of preference shares	(14)	(11,180)
Expenses not deductible for tax purposes	7,588	5,491
Capital allowances for the year in excess of depreciation	5,675	1,369
Adjustments to the tax charge in respect of previous periods	50	200
Current tax charge for the year	<u><u>50</u></u>	<u><u>200</u></u>

8 DIVIDENDS

	2002 \$'000	2001 \$'000
Dividends paid on preference shares	-	84,211
	<u><u>-</u></u>	<u><u>84,211</u></u>

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

9 TANGIBLE FIXED ASSETS

Year ended 30 November 2002

	Furniture, fixtures and equipment \$'000
Cost	
At 1 December 2001	488,044
Additions	69,910
Disposals	(96,677)
Transfers	(364)
At 30 November 2002	<u>460,913</u>
Depreciation	
At 1 December 2001	(263,114)
Charge for the year	(77,001)
Impairment provision	(14,087)
Disposals	96,518
Transfers	87
At 30 November 2002	<u>(257,597)</u>
Net book value	
At 30 November 2001	<u>224,930</u>
At 30 November 2002	<u>203,316</u>

Interest capitalised on assets in the course of construction included within additions during the year amounted to \$573,226 (2001: \$198,172). The cumulative amount of interest capitalised in the total cost above amounts to \$771,398 (2001: \$198,172). The interest capitalisation rate is based on the internal Group funding rates.

During the year an impairment provision was made against tangible fixed assets constituting part of the fit out of a building the lease on which is considered as onerous. The lease is held by a group undertaking, Morgan Stanley UK Group.

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

10 FIXED ASSET INVESTMENTS

	Subsidiary undertakings
	\$'000
Cost	
At 1 December 2001	1,155,401
Foreign exchange revaluation	45
At 30 November 2002	<u>1,155,446</u>

Details of the investments in which the Company holds more the 20% of the nominal value of any class of share capital, or investments with a book value greater than 20% of the Company's own assets at 30 November 2002, are as follows:

Name of company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of Business
Morgan Stanley Finance (CI) Limited	Great Britain	100%	Ordinary shares	100%	Holding company
Morgan Stanley Group (Europe)	Great Britain	1.17%	Preference shares	1.17%	Holding company

In accordance with FRS 4, Capital Instruments, sterling preference share investments have been translated in to US dollars at the rate prevailing at the balance sheet date and any translation differences are included in Other interest receivable (see note 5) and Interest payable and similar charges (see note 6).

The preference share holding in Morgan Stanley Group (Europe) entitles the Company to receive a LIBOR based dividend at the rates defined in the issuing company's Articles of Association.

11 DEBTORS

	2002 \$'000	2001 \$'000
Amounts due from group undertakings	112,912	211
Other debtors	6,366	6,606
	<u>119,278</u>	<u>6,817</u>

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

12 OTHER CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	\$'000	\$'000
Amounts owing to group undertakings	343,846	75,151
Other taxes and social security costs	16,701	962
Other creditors	6,878	430
	<u>367,425</u>	<u>76,543</u>

The Company maintains an unsecured loan facility up to \$100 million with Morgan Stanley International Incorporated, an affiliated company. This facility bears interest at LIBOR plus 1/8% and is repayable on a date as may be agreed between the two parties. At 30 November 2002 the amount owed to Morgan Stanley International Incorporated was \$nil (2001: \$nil).

13 DEFERRED TAX

Deferred tax is analysed as follows:

	2002	2001
	\$'000	\$'000
	<u>-</u>	<u>7,131</u>

The movement in the provision for deferred tax liability during the year is analysed as follows:

	\$'000
At December 2001	7,131
Release of provision	(7,131)
At 30 November 2002	<u>-</u>

As at 30 November 2002, the Company had a potential deferred tax asset of \$7,490,000. This has not been recognised in the Company due to uncertainty as to whether the Company will benefit from the release of this asset in future years.

14 CALLED UP SHARE CAPITAL

	2002	2001
	Number	Number
Authorised :		
Equity shares		
100 ordinary shares of £1 each	100	100
1,000,000 ordinary shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>
Non Equity shares		
1.3 billion (2001: 1.5 billion) redeemable non cumulative preference shares of \$1 each	<u>1,300,000,000</u>	<u>1,500,000,000</u>

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

14 CALLED UP SHARE CAPITAL (CONTINUED)

	2002 \$'000	2001 \$'000
Allotted, called up and fully paid :		
Equity shares		
100 ordinary shares of £1 each	-	-
600 ordinary shares of \$1 each	1	1
Non-equity shares		
1,100,000,000 (2001: 1,300,000,000) redeemable non cumulative preference shares of \$1 each	1,100,000	1,300,000
	<u>1,100,001</u>	<u>1,300,001</u>

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

On 15 August 2002, on confirmation by the High Court of Justice, the Company, under section 135 of the Companies Act 1985, cancelled and extinguished 200,000,000 issued and fully paid up preference shares of \$1 each registered in the name of Morgan Stanley International Limited. The capital reduction was funded by a loan from a fellow group undertaking.

The holders of redeemable non cumulative preference shares are entitled to receive a LIBOR based dividend as defined in the Company's Articles of Association. The preference shares carry a maximum of 10% of the voting rights in the Company.

Since 23 November 2001, being the third anniversary of the date of issue of such share, the Company has the right to redeem any redeemable non cumulative preference share at par at any time.

15 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Capital contribution reserve \$'000	Profit and loss account \$'000	Total \$'000
At 1 December 2000	1,300,001	4,292	(98,762)	1,205,531
Profit for the year	-	-	182,973	182,973
Dividends paid/accrued	-	-	(84,211)	(84,211)
At 1 December 2001	1,300,001	4,292	-	1,304,293
Profit for the year	-	-	7,796	7,796
Dividends paid/accrued	-	-	-	-
Capital Reduction	(200,000)	-	-	(200,000)
At 30 November 2002	<u>1,100,001</u>	<u>4,292</u>	<u>7,796</u>	<u>1,112,089</u>

MS LEASING UK LIMITED
NOTES TO THE ACCOUNTS
Year ended 30 November 2002

16 RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow group undertakings under paragraph 3(c) of FRS 8 Related Party Disclosures. There were no other related party transactions requiring disclosure.

17 POST BALANCE SHEET EVENTS

Since the balance sheet date, the directors have agreed to sell the asset leasing business to Morgan Stanley Services Limited at its net book value. This is currently estimated between \$170,000,000 and \$200,000,000.

18 PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group accounts are prepared is Morgan Stanley (formerly Morgan Stanley Dean Witter & Co.). Morgan Stanley is incorporated in Delaware, the United States of America and copies of its financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley International Limited which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.