

Registration No. 3061140

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

QUILTER HOLDINGS LIMITED

Report and Accounts

30 November 2006



QUILTER HOLDINGS LIMITED

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QUILTER HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 30 November 2006.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £817,000 (2005: £1,058,000).

During the year, no dividends were paid (2005: £Nil) to the holders of the ordinary shares.

Dividends of £696,150 (2005: £835,380) were paid to the holders of the 7% cumulative preference shares during the year.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of Quilter Holdings Limited (the "Company") is to act as an intermediate holding company.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Company and its other subsidiary undertakings, form the Morgan Stanley Group (the "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 business is expected.

The profit and loss account for the year is set out on page 6. The Company's operating loss has increased by 33% over the prior year and loss has similarly increased from £3,000 to £4,000.

The balance sheet on page 7 of the financial statements shows that the Company's net assets at the end of the year were £22,683,000, an increase of 0% from the prior year.

The performance of the Company is included in the results of the Group which are discussed in the Group's Annual Report. The Group manages its key performance indicators on a global basis. For this reason, the Company's Directors believe that providing performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

Risk Management

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Group's business activities. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities, in accordance with defined policies and procedures.

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor is unable to meet its financial obligations.

The Group manages credit risk exposure in consideration of each individual legal entity, but on a global basis, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, and escalating risk concentrations to appropriate senior management.

QUILTER HOLDINGS LIMITED

DIRECTORS' REPORT (Continued)

Liquidity and cash flow risk

The Group's senior management establishes the overall liquidity and capital policies of the Group. The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Group and the Company may be unable to access adequate financing to service its financial obligations when they come due without material, adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

DIRECTORS

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

M Baines	
D Brocato	(resigned 15 August 2006)
M Durbin	(resigned 1 May 2006)
T Harms	
D Nicol	
S Vakil	
C van Aeken	(appointed 31 May 2006)

DIRECTORS' INTERESTS

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

POST BALANCE SHEET EVENTS

On 12 December 2006, the shareholders of Quilter Holdings Limited entered into a definitive agreement for the sale of Quilter Holdings Limited and its subsidiaries to Citibank Investments Limited. The transaction is subject to shareholder and regulatory approval and is expected to be completed in the first quarter of 2007.

AUDITORS

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.

Statement as to disclosure of information to auditors

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

QUILTER HOLDINGS LIMITED

DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

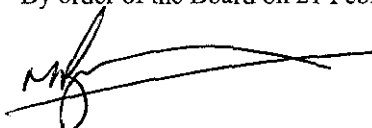
The Directors are responsible for preparing their report and the financial statements. The Directors have prepared the financial statements for the Company in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the 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 financial statements comply with the Companies Act 1985. They are also responsible 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 on 21 February 2007.



M Baines
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUILTER HOLDINGS LIMITED

We have audited the financial statements of Quilter Holdings Limited for the year ended 30 November 2006 which comprise the profit and loss account, balance sheet and notes 1 to 14. 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 auditors' 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions 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 or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

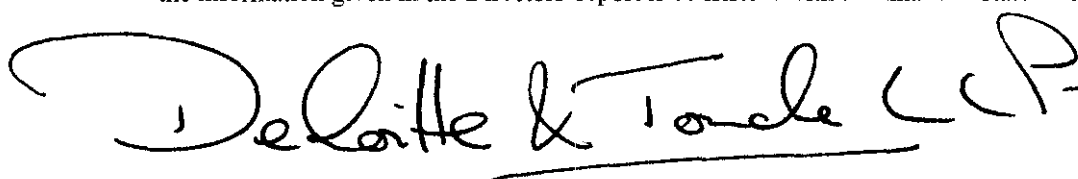
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
QUILTER HOLDINGS LIMITED (Continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

A large, stylized handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style with a horizontal line underneath the main text.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

Date

21 February 2007

QUILTER HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 November 2006

	Note	2006 £'000	2005 £'000
Administrative expenses		(4)	(3)
OPERATING LOSS		<u>(4)</u>	<u>(3)</u>
Income from shares in Group undertakings		768	900
Interest receivable and similar income	5	172	160
Amounts written off investments		(68)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>868</u>	<u>1,057</u>
Tax on profit on ordinary activities	6	(51)	1
PROFIT FOR THE FINANCIAL YEAR	11	<u><u>817</u></u>	<u><u>1,058</u></u>

All operations were continuing in the current and prior year.

There were no recognised gains or losses during the current 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 11 to the accounts.

The notes on pages 8 to 14 form an integral part of the accounts.

QUILTER HOLDINGS LIMITED

BALANCE SHEET

30 November 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Investments	7	<u>18,045</u>	<u>19,110</u>
CURRENT ASSETS			
Debtors	8	4,612	3,459
Cash at bank		<u>34</u>	<u>183</u>
		4,646	3,642
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(8)	(166)
NET CURRENT ASSETS		<u>4,638</u>	<u>3,476</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>22,683</u>	<u>22,586</u>
CAPITAL AND RESERVES			
Called up share capital	10	12,053	12,053
Share premium account	11	9,900	9,900
Other reserves	11	-	24
Profit and loss account	11	730	609
SHAREHOLDERS' FUNDS		<u>22,683</u>	<u>22,586</u>
Analysed as:			
Equity			10,652
Non-equity			11,934
			<u>22,586</u>

These accounts were approved by the Board on 21 February 2007.

Signed on behalf of the Board



M Baines
Director

The notes on pages 8 to 14 form an integral part of the accounts.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

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 no longer required to present dividends in the profit and loss account as previously required by Schedule 4 paragraph 3(7) of the Companies Act 1985. Therefore both current and prior period dividends are treated as distributions of equity.

The Company has elected to take advantage of transitional provisions within FRS 25 and not restate comparative information under FRS 25. Where comparative information has been prepared on the basis of the Company's previous accounting policies, the accounting policies applied for 2005 and 2006 are disclosed separately to the extent that they differ.

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 registered in England and Wales, which will prepare consolidated accounts for the year to 30 November 2006. 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 sterling, the currency of the primary economic environment in which the Company operates.

All currency amounts in the Directors' Report, the accounts and the notes are rounded to the nearest thousand pounds sterling.

c) Fixed asset investments

Fixed asset investments are stated at cost, less provision for any impairment.

d) 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.

e) 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 present a cash flow statement.

f) Employee Share Ownership Plan (ESOP)

In accordance with UITF38, the assets of the Quilter Holdings Employee Share Ownership Plan have been included in these accounts.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

2. SEGMENTAL REPORTING

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

3. OPERATING LOSS

The audit fee has been borne by another Group company in both the current and prior year.

4. STAFF COSTS

The Company employed no staff during the year (2005: Nil).

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2005: £Nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £'000	2005 £'000
Interest receivable from Group undertakings	168	155
Other interest receivable	4	5
	<u>172</u>	<u>160</u>

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge/(credit) in the year	2006 £'000	2005 £'000
UK corporation tax at 30% (2005: 30%)		
- Current year	51	-
- Adjustment in respect of prior years	-	(1)
Tax on profit on ordinary activities	51	(1)

Factors affecting the tax charge/(credit) for the year

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 30% (2005: 30%). The main differences are explained below:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	868	1,057
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	260	317
Effects of:		
Dividends received from UK companies	(230)	(270)
Current year group relief received for nil consideration	-	(47)
Adjustments to the tax charge in respect of previous periods	-	(1)
Write down of fixed asset investments	21	-
Other	-	-
Current tax charge/(credit) for the year	51	(1)

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

7. FIXED ASSET INVESTMENTS

(a) Subsidiary undertakings

	Subsidiary undertakings £'000
Cost	
At 1 December 2005	19,110
Impairment losses due to the revaluation of Foster & Braithwaite Ltd	(1,065)
At 30 November 2006	<u>18,045</u>

During the year a subsidiary undertakings of the Company, Foster & Braithwaite Ltd, was liquidated. The Company wrote down its investment in this company to nil, resulting in an expense charged to the profit and loss account of £68,000.

(b) Details of investments

Details of the principal undertakings in which the Company holds more than 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 2006, are as follows:

Name of Company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of Business
Quilter & Co. Limited	Great Britain	100%	£1 ordinary shares	100%	Financial services
Quilter Fund Management Ltd	Great Britain	100%*	£1 ordinary shares	100%	Non-operative

An * denotes shareholdings attributed to the Company which are not directly held by the Company.

A full list of the Company's subsidiary and associated holdings will be annexed to the Company's next annual return and filed at the Registrar of Companies.

8. DEBTORS

	2006 £'000	2005 £'000
Amounts due from Group undertakings	4,612	3,430
Other debtors	-	29
	<u>4,612</u>	<u>3,459</u>

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	£'000	£'000
Amounts owing to Group undertakings	3	162
Corporation tax	1	1
Other creditors	4	3
	<u>8</u>	<u>166</u>

10. CALLED UP SHARE CAPITAL

	2006	2005
	Number	Number
Authorised:		
Equity shares		
7,000,000 'A' ordinary shares of 1p each	7,000,000	7,000,000
2,500,000 'B' ordinary shares of 1p each	2,500,000	2,500,000
500,000 ordinary shares of 1p each	500,000	500,000
8,125,000 unclassified shares of 1p each	8,125,000	8,125,000
2,258,065 new ordinary shares of 0.8303560p each	2,258,065	2,258,065
1 deferred share of 0.1466p	1	1
11,934,000 7% cumulative preference shares of £1 each	<u>11,934,000</u>	<u>11,934,000</u>
Non-equity shares		
11,934,000 7% cumulative preference shares of £1 each		<u>11,934,000</u>

	2006	2005
	£'000	£'000
Allotted and fully paid:		
Equity shares		
7,000,000 'A' ordinary shares of 1p each	70	70
2,500,000 'B' ordinary shares of 1p each	25	25
500,000 ordinary shares of 1p each	5	5
2,258,065 new ordinary shares of 0.8303560p each	19	19
1 deferred share of 0.1466p	-	-
11,934,000 7% cumulative preference shares of £1 each	11,934	
Non-equity shares		
11,934,000 7% cumulative preference shares of £1 each		11,934
	<u>12,053</u>	<u>12,053</u>

As at 30 November 2005 the 7% cumulative preference shares of £1 each were classified as non-equity shares. These have been reclassified as equity shares as at 30 November 2006.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

10. CALLED UP SHARE CAPITAL (Continued)

The preference shares are irredeemable and dividends are payable on 31 March and 30 September. The preference shares do not entitle the holders to vote at general meetings unless the payment of a dividend is in arrears by six months or more. The holders of the preference shares are entitled to receive dividends in priority to holders of any other class of share. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividend.

Each class of ordinary share has the same voting rights and rights to participate in the profits of the Company.

The deferred share does not entitle the holder to receive dividends or vote at general meetings of the Company.

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
At 1 December 2004	12,053	9,900	-	386	22,339
Profit for the year	-	-	-	1,058	1,058
Dividends	-	-	-	(835)	(835)
ESOP undistributed amount	-	-	24	-	24
At 1 December 2005	12,053	9,900	24	609	22,586
Profit for the year	-	-	-	817	817
Dividends	-	-	-	(696)	(696)
ESOP distribution	-	-	(24)	-	(24)
At 30 November 2006	12,053	9,900	-	730	22,683

During 2006 the Quilter ESOP distributed the remaining funds available to the employees of Quilter & Co. Limited.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

12. 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.

13. POST BALANCE SHEET EVENTS

On 12 December 2006, the shareholders of Quilter Holdings Limited entered into a definitive agreement for the sale of Quilter Holdings Limited and its subsidiaries to Citibank Investments Limited. The transaction is subject to shareholder and regulatory approval and is expected to be completed in the first quarter of 2007.

14. 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. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its accounts can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

The parent undertaking of the smallest group of companies for which group accounts 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 accounts can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.