

Registration No. 3061140

Registered Office:

25 Cabot Square

Canary Wharf

London E14 4QA

QUILTER HOLDINGS LIMITED

Report and Accounts

30 November 2003

Deloitte & Touche LLP

London



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 2003.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £548,000 (2002: £1,047,000). During the year, no dividends were paid (2002: Nil) on the ordinary shares.

Dividends of £835,380 (2002: £835,380) were paid to the holders of the 7% cumulative preference shares during the year.

£287,000 (2002: £212,000 carried) will be charged to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of Quilter Holdings Limited (the "Company") is to act as an intermediate holding company. The profit and loss account for the year is set out on page 4. No significant change in the Company's principal business activity is expected.

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").

DIRECTORS

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

M Baines	(appointed 31 March 2003)
D Brocato	(appointed 27 August 2003)
B Catchpole	(resigned 27 March 2003)
M Durbin	
T Harms	
M Hay	
R Sculthorpe	(resigned 11 November 2003)
S Vakil	(appointed 27 August 2003)

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.

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.

QUILTER HOLDINGS LIMITED

DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 year. 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 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 accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 17 February 2004.



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 2003 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 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Deloitte & Touche LLP, London
Chartered Accountants and Registered Auditors

17 February 2004

QUILTER HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 November 2003

	Note	2003 £'000	2002 £'000
Administration expenses		(5)	(4)
OPERATING LOSS	3	<u>(5)</u>	<u>(4)</u>
Income from shares in Group undertakings		500	1,000
Interest receivable and similar income	5	60	58
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>555</u>	<u>1,054</u>
Tax on profit on ordinary activities	6	(7)	(7)
PROFIT FOR THE FINANCIAL YEAR		<u>548</u>	<u>1,047</u>
Dividends on preference shares	7	(835)	(835)
(LOSS)/PROFIT RETAINED FOR THE FINANCIAL YEAR		<u><u>(287)</u></u>	<u><u>212</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 12 to the accounts.

The notes on pages 6 to 11 form an integral part of the accounts.

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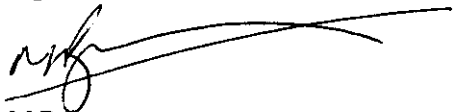
BALANCE SHEET

30 November 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	8	<u>21,729</u>	<u>21,729</u>
		21,729	21,729
CURRENT ASSETS			
Debtors	9	6	403
Cash at bank		<u>1,354</u>	<u>1,222</u>
		1,360	1,625
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(198)	(176)
NET CURRENT ASSETS		<u>1,162</u>	<u>1,449</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>22,891</u></u>	<u><u>23,178</u></u>
CAPITAL AND RESERVES			
Called up share capital	11	12,053	12,053
Share premium account	12	9,900	9,900
Other reserves	12	795	795
Profit and loss account	12	143	430
SHAREHOLDERS' FUNDS		<u><u>22,891</u></u>	<u><u>23,178</u></u>
Analysed as:			
Equity		10,957	11,244
Non-equity		11,934	11,934
		<u><u>22,891</u></u>	<u><u>23,178</u></u>

These accounts were approved by the Board on 17 February 2004.

Signed on behalf of the Board



M Baines
Director

The notes on pages 6 to 11 form an integral part of the accounts.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2003

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 registered in England and Wales, which will prepare consolidated accounts for the year to 30 November 2003. 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.

c) **Fixed asset investments**

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

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 produce a cash flow statement.

f) **Employee Share Ownership Plan**

In accordance with UITF13, 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 2003

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

	2003 £'000	2002 £'000
Operating loss is stated after charging:		
Auditors' remuneration - audit fees	<u>1</u>	<u>1</u>

4. STAFF COSTS

The Company employed no staff during the year (2002: Nil).

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2002: £Nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Interest receivable from Group undertakings	34	32
Other interest receivable	26	26
	<u>60</u>	<u>58</u>

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2003

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year	2003 £'000	2002 £'000
UK corporation tax at 30% (2002: 30%)		
- Current year	17	16
- Adjustment in respect of prior years	(10)	(9)
Tax on profit on ordinary activities	<u>7</u>	<u>7</u>

Factors affecting the tax charge for the year

The current year UK taxation charge is lower than the standard UK corporation tax rate of 30%. The main differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>555</u>	<u>1,054</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	167	316
Effects of:		
Dividends received from UK companies	(150)	(300)
Adjustments to the tax charge in respect of previous period	(10)	(9)
Current tax charge for the year	<u>7</u>	<u>7</u>

7. DIVIDENDS

	2003 £'000	2002 £'000
Dividends on 7% cumulative preference non-equity shares	835	835
	<u>835</u>	<u>835</u>

Dividends of £417,690 and £417,690 were paid on 17 April 2003 and 1 October 2003 to the holders of the preference shares for the half years ending 31 March 2003 and 30 September 2003 respectively.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2003

8. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000
Cost	
At 1 December 2002	21,729
At 30 November 2003	<u>21,729</u>

All of the above investments are unlisted.

Details of the investments 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 2003, are as follows:

The Company holds 100% of the share capital of the following companies:

Name of Company	Nature of Business
Quilter & Co. Limited	Financial services
Foster & Braithwaite Ltd	Non-trading

Shares held in Quilter & Co. Ltd are £1 ordinary shares, and shares held in Foster & Braithwaite Ltd are 1p ordinary shares.

The Company owns 100% of the voting rights of the above companies.

The above companies are registered in England and Wales.

9. DEBTORS

	2003 £'000	2002 £'000
Amounts due from Group undertakings	4	398
Corporation tax	2	-
Other debtors	-	5
	<u>6</u>	<u>403</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Amounts owing to Group undertakings	184	139
Corporation tax	-	3
Other creditors	14	13
Accruals and deferred income	-	21
	<u>198</u>	<u>176</u>

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2003

11. CALLED UP SHARE CAPITAL

	2003 Number	2002 Number (restated)
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
	<u>11,934,000</u>	<u>11,934,000</u>
Non-equity shares		
11,934,000 7% cumulative preference shares of £1 each	11,934,000	11,934,000
	<u>11,934,000</u>	<u>11,934,000</u>
	2003 £'000	2002 £'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	-	-
	<u>119</u>	<u>119</u>
Non-equity shares		
11,934,000 7% cumulative preference shares of £1 each	11,934	11,934
	<u>12,053</u>	<u>12,053</u>

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.

QUILTER HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2003

12. 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 2001	12,053	9,900	795	218	22,966
Profit for the year	-	-	-	1,047	1,047
Dividends	-	-	-	(835)	(835)
At 1 December 2002	12,053	9,900	795	430	23,178
Profit for the year	-	-	-	548	548
Dividends	-	-	-	(835)	(835)
At 30 November 2003	12,053	9,900	795	143	22,891

13. 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*.

During the year, two (2002: one) Directors and their families have used the share dealing service which is available to all staff and is charged at an amount below that charged to non-staff clients. These transactions amounted to a total consideration of £291,574 (2002: £1,845,564) and a total benefit, calculated as the difference between the actual amount of commission charged at staff rates and what would have been charged had the transaction been charged at non-staff rates, of £3,726 (2002: £18,062).

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.