

Registered Number: 3353454

Registered office
20 Bank Street
Canary Wharf
London E14 4AD

V2 MUSIC (HOLDINGS) LIMITED

Report and financial statements

31 December 2010



V2 MUSIC (HOLDINGS) LIMITED

CONTENTS	PAGE
Directors' report	1
Independent auditors' report	7
Profit and loss account	9
Balance sheet	10
Notes to the financial statements	11

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 17) for V2 Music (Holdings) Limited (the "Company") for the year ended 31 December 2010

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £1,431,000 (2009 £2,079,000 profit after tax)

During the year no dividends were paid or proposed (2009 £nil)

PRINCIPAL ACTIVITY

The principal activity of the Company is to enter into financing transactions and investments

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

The profit and loss account is set out on page 9 The Company's profit for the year is £1,431,000 compared to a profit of £2,079,000 in the prior year This decrease in profit is primarily due to net interest of £218,000 being paid in the year under a Contract for Difference whereas in the previous year the Company received net income of £249,000 under the same instrument This instrument is used to swap fixed rate investment income for LIBOR cash flows from other Morgan Stanley Group undertakings

The balance sheet for the Company is set out on page 10 The Company's net asset position of £85,462,000 (2009 £84,031,000) has increased due to the net profit generated in the year

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities 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

Current market conditions

During 2010, economic conditions have remained challenging These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally Throughout the year, the Morgan Stanley Group has been focused on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources This remains an ongoing objective of the Morgan Stanley Group

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

Current market conditions (continued)

In line with this active management, in August 2010, the Morgan Stanley Group strengthened its capital position by converting \$5.6 billion of subordinated debentures issued to China Investment Corporation Limited into \$5.6 billion of equity shares. In June 2011, the Morgan Stanley Group's capital position has been further strengthened by converting its outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock with a face value of \$7.8 billion and a 10% dividend issued to Mitsubishi UFJ Financial Group Inc ("MUFG"), for 385,464,097 shares in Morgan Stanley's common stock.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Risk management

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

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Morgan Stanley Group manages credit risk exposure on a global basis as well as giving consideration to each individual legal entity, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

Liquidity risk

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

Risk management (continued)

Operational risk

Operational risk refers to the risk of financial or other loss, or damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (e.g. internal or external fraud, legal and compliance risks, damage to physical assets, etc.). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk".

The Morgan Stanley Group has established an operational risk management process which operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks.

Despite the business contingency plans the Morgan Stanley Group has in place, the Company's ability to conduct its business may also be adversely affected by a disruption in the infrastructure that supports its business and the communities in which it is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, catastrophic events, electrical, environmental, communications or other services used by the Company, its employees or third parties with whom the Company conducts business.

The business continuity management function is responsible for identifying key risks and threats to the Morgan Stanley Group's resiliency and planning to ensure a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a global basis. The key components of the disaster recovery plans include crisis management, business recovery plans, applications/data recovery, work area recovery, and other elements addressing management, analysis, training and testing.

Legal and regulatory risk

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in conjunction with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation. Legal risk also includes contractual risk such as the risk that a counterparty's performance obligations will be unenforceable. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk.

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeeping. In addition, the Morgan Stanley Group 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 legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

Risk management (continued)

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, liabilities and employee compensation as well as reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements.

Many of these reforms, if enacted, may materially affect the Company's and the Morgan Stanley Group's business, financial condition, results of operations and cash flows in the future.

DIRECTORS

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

A A Brenner

I Gonen (appointed 16 November 2010/ resigned 20 September 2011)

P K M Green (appointed 26 September 2011)

S I Merry

M Piazza (resigned 16 November 2010)

W M Sykes (resigned 31 October 2010)

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

DIRECTORS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the directors and officers of the Company

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company

POST BALANCE SHEET EVENTS

On 28 March 2011, the Company received interim dividends of £131,000 on the preference shares held in other Morgan Stanley Group companies. On the same date, the issuers of the preference shares repurchased the shares for a total consideration of £16,495,000. No gain or loss was recognised on this transaction.

On 2 September 2011, the Company received an interim dividend of £1,543,000 from V2 Music Publishing (Holdings) Limited ("V2"). On the same date, V2 reduced its share capital by cancelling 53,906 £0.02 ordinary shares held by the Company and also reduced its share premium account by £789,000. The Company subsequently received a second interim dividend of £791,000. On 26 September 2011, V2 entered into members' voluntary liquidation.

AUDITORS

Following the resignation of Grant Thornton UK LLP, Deloitte LLP were appointed as auditors of the Company with effect from 28 February 2011.

Deloitte LLP have expressed their willingness to continue in office as auditors of the Company and, under sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

Statement as to disclosure of information to auditors

Each of the persons who are Directors of the Company at the date when this report is approved confirms that

- 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 section 418 of the Companies Act 2006.

V2 MUSIC (HOLDINGS) LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

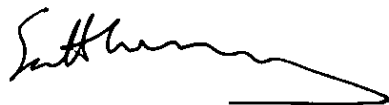
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Approved by the Board and signed on its behalf by



Director
S Merry
28 September 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF V2 MUSIC (HOLDINGS) LIMITED

We have audited the financial statements of V2 Music (Holdings) Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

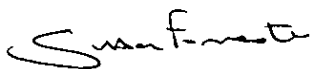
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
V2 MUSIC (HOLDINGS) LIMITED (CONTINUED)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Susan Forrester CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Edinburgh, United Kingdom

28 September 2011

V2 MUSIC (HOLDINGS) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net gains on fixed asset investments	2	404	404
Interest income	3	1,523	1,966
Interest expense	4	(233)	-
Other income	5	202	-
Other expense	6	(465)	(291)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,431	2,079
Tax on profit on ordinary activities	8	-	-
PROFIT FOR THE FINANCIAL YEAR		1,431	2,079

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 is disclosed in note 13 to the financial statements.

The notes on pages 11 to 18 form an integral part of the financial statements.

V2 MUSIC (HOLDINGS) LIMITED

Registered number 3353454

BALANCE SHEET**As at 31 December 2010**

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Investments	9	16,495	16,495
CURRENT ASSETS			
Debtors	10	67,908	65,918
Cash at bank		2,806	1,879
		<u>70,714</u>	<u>67,797</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(1,747)	(261)
NET CURRENT ASSETS		<u>68,967</u>	<u>67,536</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		85,462	84,031
NET ASSETS		<u>85,462</u>	<u>84,031</u>
CAPITAL AND RESERVES			
Called up share capital	12	212,376	212,376
Shares to be issued	12	-	1,340
Share premium account	13	34,420	34,420
Other reserves	13	102,280	102,280
Profit and loss account	13	(263,614)	(266,385)
SHAREHOLDERS' FUNDS		<u>85,462</u>	<u>84,031</u>

These financial statements were approved by the Board and authorised for issue on *28 September 2011*
Signed on behalf of the Board



Director
S Merry

The notes on pages 11 to 18 form an integral part of the financial statements

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding year

a) Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards

Certain presentational changes have been made to the profit and loss account comparatives to conform to the presentation in the current year. The current year profit and loss account includes 'net gains on fixed asset investments' which represent income from preference share investments in other group undertakings. This income was previously disclosed within 'interest income'. Note 3 to the profit and loss account has separated out 'other interest income' relating to net interest received on a Contract for Difference held with another group undertaking, from 'interest income from loans to Morgan Stanley Group Undertakings', which were previously disclosed together.

The Company is not required to prepare consolidated financial statements by virtue of the exemption under Section 400 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley International Limited, a company registered in England and Wales, which will prepare consolidated financial statements for the year to 31 December 2010. The financial statements therefore present information about the Company as an individual entity and not about its group.

b) 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 Business Review section of the Directors' report on pages 1 to 4.

As set out in the Directors' report, the Company operates within the global liquidity management framework of the Morgan Stanley Group. Throughout the difficult market conditions, this framework has continued to provide sufficient liquidity to the Morgan Stanley Group and to the Company, and the Company's capital and liquidity position is satisfactory.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume 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.

c) Functional currency

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

All currency amounts in the Directors' report and the financial statements are rounded to the nearest thousand Pounds Sterling.

d) Foreign currencies

All monetary assets and liabilities denominated in currencies other than Pounds Sterling are translated into Pounds Sterling at the rates ruling at the balance sheet date. Transactions in currencies other than Pounds Sterling are recorded at the rates prevailing at the dates of the transactions. Foreign exchange differences on monetary fixed asset investments are taken through the profit and loss account and are presented in 'Net gains on fixed asset investments'. All other translation differences are taken through the profit and loss account and are presented in 'Other income' or 'Other expense'.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

e) Recognition of income and expense

i) Net gains on fixed asset investments

Net gains on fixed asset investments includes interest, dividend income, impairment losses, reversal of impairment losses on fixed asset investments and foreign exchange differences on monetary fixed asset investments, as described in note 1(f)

Dividend income from fixed asset investments is recognised when the Company's right to receive payment is established

ii) Interest income and expense

Interest income and interest expense are recognised on an accruals basis within 'Interest income' and 'Interest expense' in the profit and loss account, with the exception of interest from fixed asset investments as described in note 1(f)

f) Fixed asset investments

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

Interest, dividend income, impairment losses, reversal of impairment losses on fixed asset investments and foreign exchange differences on monetary fixed asset investments are reported in the profit and loss account in 'Net gains on fixed asset investments'

g) 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 at the balance sheet date

i) Cash flow statement

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available. Accordingly, the Company, which is a wholly owned subsidiary, has elected to avail itself of the exemption provided in Financial Reporting Standard ("FRS") 1 (Revised 1996) *Cash Flow Statements* and not present a cash flow statement

2. NET GAINS ON FIXED ASSET INVESTMENTS

	2010 £'000	2009 £'000
Income from other fixed asset investments (see note 9)	404	404

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

3. INTEREST INCOME

	2010 £'000	2009 £'000
Interest income from loans to Morgan Stanley Group undertakings	1,523	1,717
Other interest income (note 9)	-	249
	<u>1,523</u>	<u>1,966</u>

Other interest income represents net interest received on contracts for difference held with other Morgan Stanley Group undertakings (the "Contracts for Difference") (see note 9)

4. INTEREST EXPENSE

	2010 £'000	2009 £'000
Interest expense on loans from Morgan Stanley Group undertakings	15	-
Other interest expense (note 9)	218	-
	<u>233</u>	<u>-</u>

Other interest expense represents interest paid on Contracts for Difference (see note 9)

5. OTHER INCOME

Other income in 2010 represents income received on behalf of an indirect subsidiary that was subsequently sold during the year

6. OTHER EXPENSE

	2010 £'000	2009 £'000
Consulting fees	174	157
Auditors' remuneration (Grant Thornton) - fees for audit of statutory accounts	-	15
Other expenses	291	119
	<u>465</u>	<u>291</u>

The Company employed no staff during the year (2009 Nil)

The Deloitte LLP fee for the audit of the Company's statutory accounts of £5,000 has been borne by another Morgan Stanley Group undertaking in the current year

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

7. DIRECTORS' BENEFITS

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2009 £nil)

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2010 £'000	2009 £'000
UK corporation tax at 28% (2009 28%)	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting the tax charge for the year

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 28% (2009 28%). The main differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	1,431	2,079
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	401	582
Effects of:		
Expenses not deductible for tax purposes	36	82
Utilisation of tax losses	(437)	(664)
Current tax charge for the year	<u>-</u>	<u>-</u>

The Finance (No 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. In the Budget announcement on 23 March 2011, a further 1% reduction in the rate of UK corporation tax to 26% was announced and subsequently substantively enacted on 29 March 2011. The combined 2% reduction in the tax rate will impact the current tax charge in 2011. Finance Act 2011 received Royal Assent on 19 July 2011 and also enacted an additional 1% reduction to the UK corporation tax rate to 25% with effect from April 2012. This further 1% reduction in the tax rate will impact the current tax charge in 2012.

A potential deferred tax asset of £14,331,000 (2009 £15,300,000) relating to carried forward losses has not been recognised due to uncertainty regarding the level of taxable income that may arise in the Company.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

9. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000	Other fixed asset investments £'000
Cost and net book value		
At 1 January 2010 and 31 January 2010	-	16,495

Fixed asset investments of £16,495,000 are in relation to the Company's preference share investments in certain Morgan Stanley Group undertakings. These shares carry dividends of 2.5% per annum which are swapped for LIBOR cash flows from other Morgan Stanley Group undertakings under a contract for difference. The dividends are reported in the profit and loss account in 'Net gains on fixed asset investments' and the cash flows under the Contracts for Difference are recognised as interest within the profit and loss account.

The fair value of the Contracts for Difference at 31 December 2010, which is not recorded on the balance sheet, was an asset of £73,000 (2009: asset of £242,000).

During 2011, the fixed asset investments in preference shares have been redeemed and the Contracts for Difference were settled (see note 16).

Fixed asset investments are all unlisted.

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2010, are as follows:

Name of Company	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights	Nature of business
V2 Music Publishing (Holdings) Limited	England and Wales	Ordinary	100%	100%	Holding company

At 31 December 2010 the cost and net book value of the Company's investment in V2 Music Publishing (Holdings) Limited was £2. On 26 September 2011, V2 Music Publishing (Holdings) Limited entered into members' voluntary liquidation.

10. DEBTORS

	2010 £'000	2009 £'000
Amounts due from Morgan Stanley Group undertakings	67,908	65,814
Other debtors	-	104
	<u>67,908</u>	<u>65,918</u>

Included in amounts due from Morgan Stanley Group undertakings is £36,000 (2009: £34,000) relating to accrued income on the fixed asset investment in preference shares held by the Company (see note 9).

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Amounts owed to Morgan Stanley Group undertakings	1,472	-
Accruals and deferred income	275	261
	<u>1,747</u>	<u>261</u>

Included in amounts owed to Morgan Stanley Group undertakings is £14,000 (2009 £17,000) relating to the Contracts for Difference (see note 9)

12. CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
Called up and fully paid		
84,950,158,826 ordinary shares of £0.0025 each	<u>212,376</u>	<u>212,376</u>
Shares to be issued	<u>-</u>	<u>1,340</u>

In the prior period, in accordance with FRS 25 *Financial Instruments Presentation* the net proceeds of issue of the remaining warrants (£1,340,000), that the Company had issued in 1998, continued to be included within shareholders' funds as shares to be issued. The period within which the warrants could be exercised has now expired and accordingly, £1,340,000 has been transferred to the profit and loss account.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2009	212,376	1,340	34,420	102,280	(268,464)	81,952
Profit for the financial year	-	-	-	-	2,079	2,079
At 1 January 2010	212,376	1,340	34,420	102,280	(266,385)	84,031
Expiration of warrants (note 12)	-	(1,340)	-	-	1,340	-
Profit for the financial year	-	-	-	-	1,431	1,431
At 31 December 2010	212,376	-	34,420	102,280	(263,614)	85,462

During 2008, Morgan Stanley & Co Incorporated (now Morgan Stanley & Co LLC) waived payment of receivables from the Company totaling £102,261,000. This waiver has been recognised as a capital contribution included in other reserves. During 2002, the Company repurchased its deferred shares as part of the financial restructuring that took place in that year, resulting in a balance of £19,000 included in other reserves.

14. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, Europe, Middle East and Africa (EMEA).

15 RELATED PARTY TRANSACTIONS

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

16. POST BALANCE SHEET EVENTS

On 28 March 2011, the Company received interim dividends of £131,000 on the preference shares held in other Morgan Stanley Group companies. On the same date, the issuers of the preference shares repurchased the shares for a total consideration of £16,495,000. No gain or loss was recognised on this transaction.

On 2 September 2011, the Company received an interim dividend of £1,543,000 from V2 Music Publishing (Holdings) Limited ("V2"). On the same date, V2 reduced its share capital by cancelling 53,906 £0.02 ordinary shares held by the Company and also reduced its share premium account by £789,000. The Company subsequently received a second interim dividend of £791,000. On 26 September 2011, V2 entered into members' voluntary liquidation.

V2 MUSIC (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

17. PARENT UNDERTAKINGS

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 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 Company's immediate controlling party is Morgan Stanley Angel Limited, which is registered in the Cayman Islands. 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.

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.