

Jersey Company Registration No. 74794
UK Company Registration No. FC022413

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FC022413

Registered Office:
Mourant & Co. Secretaries
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St Helier
Jersey
JE4 8PX

CORNWALL FINANCING UK LIMITED

Report and Accounts

30 November 2004



CORNWALL FINANCING UK LIMITED

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CORNWALL FINANCING UK LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 30 November 2004

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$13,082,000 (2003: \$7,733,000 profit). During the year, dividends of \$638,879,000 were paid (2003: \$361,045,000) and \$13,997,000 finance costs on non-equity shares were accrued (2003: \$6,390,000). A loss of \$639,794,000 (2003:\$359,702,000) will be set against reserves.

During the year, the share premium account established in respect of the issue of the Limited Enhanced Dividend Preferred Shares was reduced by the transfer of the sum of \$517,100,500 to distributable reserves. This transfer was approved by the Royal Court of Jersey on 11 March 2004.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of Cornwall Financing UK Limited, (the "Company") is the issuance of securities and the hedging of the obligations arising pursuant to such issuances.

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").

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. No significant change in the Company's principal business activity is expected

DIRECTORS

The following Directors held office throughout the year:

G Adams
W B Hu
P J E Keime

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.

AUDITORS

The Directors have obtained a waiver to dispense with Annual General Meetings of the members of the Company. As such, under Jersey Law, Deloitte & Touche will remain in office until formally removed.

CORNWALL FINANCING UK LIMITED

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

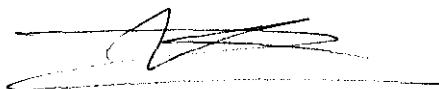
Jersey company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required 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 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 (Jersey) Law 1991. They are also responsible for the system of internal control, 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

29.09.05



Director: Ph. Keim

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CORNWALL FINANCING UK LIMITED

We have audited the financial statements of Cornwall Financing UK Limited for the year ended 30 November 2004 which comprise the profit and loss account, balance sheet and related notes 1 to 13. 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 article 110 of the Companies (Jersey) Law 1991. 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 Jersey Law and United Kingdom accounting standards. Our responsibility is to audit the financial statements in accordance with relevant Jersey legal and regulatory requirements and United Kingdom 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 (Jersey) Law 1991. 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 or if we have not received all the information and explanations we require for our audit.

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.



Deloitte & Touche
Chartered Accountants,
St Helier,
Jersey

29 Sept 2005

CORNWALL FINANCING UK LIMITED

PROFIT AND LOSS ACCOUNT Year Ended 30 November 2004

	Notes	2004 \$'000	2003 \$'000
NET REVENUE	2	14,235	4,189
Administrative expenses		<u>(6)</u>	<u>-</u>
OPERATING PROFIT	3	14,299	4,189
Interest receivable and similar income	4	<u>45</u>	<u>3,544</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		14,274	7,733
Tax on profit on ordinary activities	5	<u>(1,192)</u>	<u>-</u>
PROFIT FOR THE FINANCIAL YEAR		13,082	7,733
Non-equity finance costs accrued	6	(13,997)	(6,390)
Dividends on preference shares	6	<u>(638,879)</u>	<u>(361,045)</u>
LOSS RETAINED FOR THE FINANCIAL YEAR		<u><u>(639,794)</u></u>	<u><u>(359,702)</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 page 6 to 11 form an integral part of the accounts.

CORNWALL FINANCING UK LIMITED

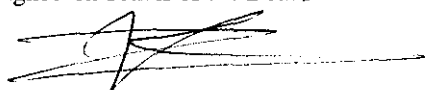
BALANCE SHEET 30 November 2004

	Notes	2004 \$'000	2003 \$'000
FIXED ASSETS			
Investments	7	425,065	1,057,072
CURRENT ASSETS			
Debtors	8	14,161	6,765
Cash at bank		<u>6</u>	<u>-</u>
		14,167	6,765
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	9	<u>(1,191)</u>	<u>-</u>
NET CURRENT ASSETS		12,976	6,765
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>438,041</u>	<u>1,063,837</u>
CAPITAL AND RESERVES			
Called up share capital	10	142	142
Share premium account	11	185	517,285
Reserve for redemption premium	11	20,387	6,390
Profit and loss account	11	417,327	540,020
		<u>438,041</u>	<u>1,063,837</u>
Analysed as:			
Equity		(619)	295
Non-equity		<u>438,660</u>	<u>1,063,542</u>
		<u>438,041</u>	<u>1,063,837</u>

These accounts were approved by the Board on

29.09.05

Signed on behalf of the Board



Director

Ph. Keime

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

NOTES TO THE ACCOUNTS
Year ended 30 November 2004

1. ACCOUNTING POLICIES

a) Accounting convention

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

b) Functional currency

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

All currency amounts in the Directors' Report, the Accounts and the Notes to the Accounts are rounded to the nearest thousand US dollars.

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, except the interest receivable on the fixed asset investment, which is recorded at the exchange rate ruling in the currency swaps as described in note d) below. 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.

In accordance with SSAP 20, the dividends paid on the UEDP and LEDP shares are recorded at the exchange rate ruling in the currency swaps that hedge the dividend flow.

d) Fixed asset investments

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

In accordance with SSAP 20, the investment in Cornwall Investments (UK) Limited preference shares is recorded at the USD equivalent of the future sterling redemption cash flows that are specified in the currency swaps.

e) Financial instruments

The company uses derivative financial instruments to manage its exposure to foreign exchange risk and interest rate risk. The company does not hold or issue derivative financial instruments for speculative purposes. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when gains and losses associated with the hedged transaction have themselves been reflected in the company's financial statements.

f) Taxation

UK corporation tax is provided at amounts expected to be paid or 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.

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.

CORNWALL FINANCING UK LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2004

1. ACCOUNTING POLICIES CONTINUED

i) Finance Costs

The UEDP and LEDP shares, which have pre-determined dividends, are classified as redeemable non-equity shares. In accordance with FRS 4 *Capital Instruments*, the finance costs associated with non-equity shares are allocated to periods over the term of the instrument at a constant rate based on the carrying amount. All finance costs are charged to the profit and loss account.

2. NET REVENUE

Net revenue represents income earned on the investment in preferred shares. Net revenue is recorded on a trade date basis.

3. OPERATING PROFIT

	2004 \$'000	2003 \$'000
Operating profit is stated after charging :		
Auditors' remuneration - audit fees	<u>6</u>	<u>-</u>

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

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 \$'000	2003 \$'000
Foreign exchange gains	32	1
Interest receivable from Group undertakings	<u>13</u>	<u>3,543</u>
	<u>45</u>	<u>3,544</u>

Interest receivable excludes interest earned on the investment in preferred shares, which is included in net revenue since it is an integral component of the Company's net revenue.

CORNWALL FINANCING UK LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2004

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2004 \$'000	2003 \$'000
UK corporation tax at 30% (2003 – 30%)		
- Current year	12	-
- Adjustment in respect of prior years	1,180	-
Tax on profit on ordinary activities	1,192	-

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 30% (2003: 30%). The main differences are explained below:

	2004 \$'000	2003 \$'000
Profit on ordinary activities before tax	14,274	7,733
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	4,283	2,320
Effects of:		
Group relief surrendered for nil consideration	-	(1,063)
Income not taxable	(4,271)	(1,257)
Adjustment in respect of prior years	1,180	-
Current tax charge for the year	1,192	-

The Company no longer has tax losses carried forward and therefore there is no potential deferred tax asset (2003: \$7,411,000).

CORNWALL FINANCING UK LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2004

6. DIVIDENDS

	Date of Payment	2004 \$'000	2003 \$'000
Dividends on Limited Enhanced Dividend Preferred Shares	01/12/2003	155,762	-
	01/03/2004	104,411	-
	01/11/2004	106,014	-
Dividends on Unlimited Enhanced Dividend Preferred Shares	19/09/2003	-	361,045
	29/03/2004	272,692	-
		<u>638,879</u>	<u>361,045</u>

Finance charges in excess of dividends paid on the Unlimited Dividend Preferred Shares and the Limited Enhanced Dividend Preferred Shares of \$13,997,000 (2003: \$6,390,000) have been accrued in the accounts.

7. FIXED ASSET INVESTMENTS

	Investment in Preferred Shares \$'000
Cost and net book value	
At 1 December 2003	1,057,072
Redemptions	<u>(632,007)</u>
At 30 November 2004	<u>425,065</u>

Fixed asset investments are all unlisted.

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 2004, are as follows:

Name of Company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Cornwall Investments UK Limited	Jersey	100%	Limited Preferred Shares	None	Financial services

CORNWALL FINANCING UK LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2004

8. DEBTORS

	2004 \$'000	2003 \$'000
Amounts due from Group undertakings	1,937	2,575
Interest receivable on fixed asset investment	12,224	4,190
	<u>14,161</u>	<u>6,765</u>

9. OTHER CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 \$'000	2003 \$'000
Corporation tax	<u>1,191</u>	<u>-</u>

10. CALLED UP SHARE CAPITAL

	2004 Number	2003 Number
Authorised:		
Equity shares		
14,481 ordinary shares of \$1 each	<u>14,481</u>	<u>14,481</u>
Non-equity shares		
9,000,000 Unlimited Enhanced Dividend Preferred Shares of \$0.01 each	9,000,000	9,000,000
4,500,000 Class 1 Limited Enhanced Dividend Preferred Shares of €0.01 each	<u>4,500,000</u>	<u>4,500,000</u>
	2004 \$'000	2003 \$'000
Allotted and fully paid :		
Equity shares		
200 ordinary shares of \$1 each	-	-
Non-equity shares		
9,000,000 Unlimited Enhanced Dividend Preferred Shares of \$0.01 each	90	90
4,500,000 Class 1 Limited Enhanced Dividend Preferred Shares of €0.01 each	<u>52</u>	<u>52</u>
	<u>142</u>	<u>142</u>

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

CORNWALL FINANCING UK LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2004

10. CALLED UP SHARE CAPITAL (CONTINUED)

The Unlimited Enhanced Dividend Preferred Shares do not carry any voting rights in the Company and are not redeemable and may not be repurchased by the Company. The Limited Enhanced Dividend Preferred Shares do not carry any voting rights in the Company and may be redeemed in accordance with the articles of association.

Dividends in respect of the Limited Enhanced Dividend Preferred Shares are due to be paid on 1 November 2005 of €1.67 per share. In addition, dividends in respect of the Unlimited Enhanced Dividend Preferred Shares are due to be paid on 19 September 2005 of \$31.4928 per share.

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Share premium account \$'000	Reserve for redemption premium \$'000	Profit and loss account \$'000	Total \$'000
At 1 December 2002	-	185	-	(188)	(3)
Issuance of preference shares	142	1,417,010	-	-	1,417,152
Transfer from share premium account to retained earnings	-	(899,910)	-	899,910	-
Dividends	-	-	-	(361,045)	(361,045)
Difference between non-equity finance costs and the related dividends	-	-	6,390	(6,390)	-
Profit for the year	-	-	-	7,733	7,733
At 1 December 2003	142	517,285	6,390	540,020	1,063,837
Transfer from share premium account to retained earnings	-	(517,100)	-	517,100	-
Dividends	-	-	-	(638,879)	(638,879)
Difference between non-equity finance costs and the related dividends	-	-	13,997	(13,997)	-
Profit for the year	-	-	-	13,083	13,083
	142	185	20,387	417,327	438,041

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. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the smallest and 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 immediate parent of the company is MSDW Investment Holdings UK Limited.