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Registration No. 88369

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MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

Report and financial statements

Period from 1 December 2007 to 31 December 2008

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MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 17) for Morgan Stanley Cheshire Investments Limited (the "Company") for the thirteen month period from 1 December 2007 to 31 December 2008

The Company changed its accounting reference date from 30 November to 31 December on 10 December 2008, resulting in the current accounting period being extended from 30 November 2008 to 31 December 2008

RESULTS AND DIVIDENDS

The profit for the period after tax was £108,714,000 (year ended 30 November 2007 £98,328,000)

During the period, £56,310,000 of dividends were paid or proposed (year ended 30 November 2007 £75,020,000)

PRINCIPAL ACTIVITY

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 (the "Group")

The principal activity of the Company is the provision of financial services to financial institutions and /or individual investors

There have not been any significant changes in the Company's principal activity in the period under review and no significant change in the Company's principal activity is expected

BUSINESS REVIEW

The profit and loss account for the year is set out on page 5 The Company's profit for the period was £108,714,000 (year ended 30 November 2007 £98,328,000) The profit for the period was driven by interest receivable on preference shares from Morgan Stanley Cumbria Investments

The balance sheet for the Company is on page 7 of the financial statements shows that the Company's net assets at the end of the period were £1,856,620,000 (2007 £1,804,204,000), an increase of 2 9% over the prior year This increase was primarily driven by an increase in the intercompany debtor balance with Morgan Stanley group undertakings

The performance of the Company is included in the results of the Group which are disclosed in the Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission The 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

The Company and the Group are operating under difficult market conditions These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above In addition, the risk management section below sets out the Company's and the Group's policies for the management of liquidity and cash flow risk and other significant business risks

During the period under review, the Group has been involved in a number of initiatives to respond to the stresses experienced in global financial markets and to strengthen the Group's overall capital and liquidity position These include the following

- On 21 September 2008, Morgan Stanley obtained approval from the Board of Governors of the Federal Reserve System to become a bank holding company upon conversion of its subsidiary, Morgan Stanley Bank (Utah) to a national bank On 23 September 2008, Morgan Stanley Bank (Utah) was authorised to operate as a national bank and Morgan Stanley became a financial holding company,
- On 13 October 2008, Morgan Stanley announced that Mitsubishi UFJ Financial Group ("MUFG") had closed a \$9 billion equity investment that gives MUFG a 21% ownership interest in Morgan Stanley on a fully diluted basis, and

Current market conditions (Continued)

On 3 October 2008, the Emergency Economic Stabilization Act of 2008 (initially introduced as the Troubled Asset Relief Program ("TARP")) was enacted by the US Government On 14 October 2008, the US Government announced that, among other steps to restore confidence in financial markets, it would be making direct capital investments in major financial institutions under the TARP Capital Purchase Program ("CPP") On 26 October 2008, under the terms of the CPP, the US Treasury purchased $10 billion in preferred shares and warrants to purchase up to 65,245,759 of Morgan Stanley common stock (the "TARP investment")

Since the end of the period the Group has continued to actively manage its capital and liquidity position, and during May and June 2009 raised over $6 billion of equity and $5 5 billion of debt capital As a result of its strong capital position, on 9 June 2009 Morgan Stanley received approval from the US Treasury to repay the TARP investment Morgan Stanley redeemed the preferred shares on 17 June 2009 In August 2009, having reached agreement with the US Treasury under the terms of the CPP, Morgan Stanley repurchased the warrants

Taking all of these factors into consideration, the Directors have no reason to believe that the Company will not 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

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 on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio

The Group manages the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level

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, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements

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 fall 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

Despite difficult market conditions, this liquidity and funding risk management framework continues to provide sufficient liquidity to the Group and to the Company, and the Company's capital and liquidity position is satisfactory

DIRECTORS

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

G Adams
A N Chrishan (appointed 17 June 2009)
I Gonen (appointed 13 August 2009)
G S Solomon (resigned 2 April 2008)
B J J Walker

POST BALANCE SHEET EVENTS

On 30 June 2009, the Company redeemed the 1,750 fixed rate preference shares of £1 each held in Morgan Stanley Cumbria Investments, issued at a premium of £999,999 per share for £1,750,000,000 and the cash was returned to the Company as the holder of the fixed rate preference shares Prior to the redemption of the fixed rate preference shares, the Company received a fixed rate dividend of £7,982,877 from Morgan Stanley Cumbria Investments On 30 June 2009, the Company lent £1,757,982,877 to Morgan Stanley Durham Investments Limited being the proceeds from the redemption of the preference shares in Morgan Stanley Cumbria Investments Limited and the dividend received from Morgan Stanley Cumbria Investments Limited

AUDITORS

The Directors have obtained a waiver to dispense with Annual General Meetings of members of the Company Under Jersey Law, Deloitte LLP will remain in office until formally removed

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Jersey 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 applicable Jersey law and United Kingdom Generally Accepted Accounting Practice The financial statements are required by law to 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

(a) select suitable accounting policies and then apply them consistently,
(b) make judgments and estimates that are reasonable and prudent,
(c) state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and
(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 that 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 (Jersey) Law 1991 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 AINSLEY CHRISHAN
28 September 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

We have audited the financial statements of Morgan Stanley Cheshire Investments Limited for the period from 1 December 2007 to 31 December 2008, which comprises of the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 17 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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 (Jersey) Law 1991 We also report to you if in our opinion the information given in 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 period 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

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 31 December 2008 and of its profit for the period from 1 December 2007 to 31 December 2008, and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991

Deloitte LLP

Deloitte LLP
Chartered Accountants
St Helier, Jersey

5 October 2009

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT
For the period from 1 December 2007 to 31 December 2008

	Note	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Interest income	2	108,688	98,317
Interest expense	3	(11)	-
Other income	4	44	16
Other expense	5	(7)	(5)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		108,714	98,328
Tax on profit on ordinary activities	7	-	-
PROFIT FOR THE FINANCIAL PERIOD/YEAR		108,714	98,328

All operations were continuing in the current period and prior year

A reconciliation of the movement in shareholders' funds is disclosed in note 12 to the financial statements

The notes on pages 8 to 22 form an integral part of the financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the period from 1 December 2007 to 31 December 2008

	Note	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
PROFIT FOR THE FINANCIAL PERIOD/YEAR		108,714	98,328
Fair value reserve			
Net change in fair value of available-for-sale assets recognised directly in equity	12	12	2
Net current tax on items taken directly to equity		(3)	-
Group relief received on items taken directly to equity		3	-
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD/YEAR		108,726	98,330

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

BALANCE SHEET
As at 31 December 2008

	Note	31 December 2008 £'000	30 November 2007 £'000
FIXED ASSETS			
Investments			
- Available-for-sale financial assets	8	260	248
- Subsidiary and associated undertakings	8	1,750,000	1,750,000
		1,750,260	1,750,248
CURRENT ASSETS			
Loans and receivables			
- Cash at bank		8	-
- Debtors	9	109,678	53,977
		109,686	53,977
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	10	(3,326)	(21)
NET CURRENT ASSETS		106,360	53,956
TOTAL ASSETS LESS CURRENT LIABILITIES		1,856,620	1,804,204
CAPITAL AND RESERVES			
Called up share capital	11	1,000	1,000
Share premium account	12	1,750,000	1,750,000
Fair value reserve	12	14	2
Profit and loss account	12	105,606	53,202
SHAREHOLDERS' FUNDS		1,856,620	1,804,204

These financial statements were approved by the Board and authorised for issue on 28 September 2009
Signed on behalf of the Board

AINSLEY CHRISHAN
Director

The notes on pages 8 to 22 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the period from 1 December 2007 to 31 December 2008

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(e) below, and in accordance with applicable Jersey law and United Kingdom accounting standards

The formats of the Company's profit and loss account and balance sheet have been adapted to better align with the accounting requirements of FRS 26 In the opinion of the Directors, these revised formats result in clearer reporting of the Company's performance and financial position and improve comparability with other companies both within and outside the Group

Certain other limited format changes have been made to prior year amounts to conform to the current period presentation

The Company has changed its accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley This change has resulted in a reporting period of thirteen months to 31 December 2008 The comparative figures reflected in the financial statements are for a twelve month period to 30 November 2007 and therefore are not entirely comparable with amounts shown for the current period

The Company is not required to prepare consolidated accounts by virtue of the exemption as a small Company under Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings" The results of the Company are included within the accounts of MSDW Investment Holdings (UK) Limited, a company registered in England and Wales, which will prepare consolidated accounts for the 13 month period to 31 December 2008 The accounts therefore present information about the Company as an individual entity and not about its group

b) 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

c) 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 All translation differences are taken through the profit and loss account

d) Financial instruments

The Company classifies its financial assets into the following categories on initial recognition available-for-sale fixed asset investments, other fixed asset investments and loans and receivables

The Company classifies its financial liabilities into the following categories on initial recognition financial liabilities at amortised cost

1. **ACCOUNTING POLICIES (Continued)**

d) Financial instruments (Continued)

i) Available-for-sale fixed asset investments

Fixed asset investments categorised as available-for-sale are recorded on trade date and are initially recognised and subsequently measured at fair value

For debt instruments, interest calculated using the effective interest method (see note 1(d)(iii) below), impairment losses and reversals of impairment losses, and foreign exchange differences on the amortised cost of the financial asset are recorded in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in available-for-sale financial assets' For equity instruments, dividend income and impairment losses are recorded in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in available-for-sale financial assets' All other gains and losses on debt and equity instruments classified as available-for-sale are recognised in the 'Fair value reserve' in equity, including reversals of impairments on equity instruments

On disposal of an available-for-sale fixed asset investment, the cumulative gain or loss in the 'Fair value reserve' is transferred to and recognised in the profit and loss account and reported in 'Net gains/ (losses) on fixed asset investments in available-for-sale financial assets'

ii) Investments in subsidiary and associated undertakings

Investments in subsidiary and associated undertakings outside the scope of FRS 26 *Financial instruments recognition and measurement* ("FRS 26"), are recorded within 'Investments in subsidiary and associated undertakings' and are stated at cost, less provision for any impairment Interest recognised on an accruals basis, dividend income recognised when the Company's right to receive payment is established, impairment losses and reversals of impairment losses, and foreign exchange differences on monetary investments are reported in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary and associated undertakings'

All other investments in group undertakings are classified as available-for-sale fixed asset investments and accounted for as described in note 1(d)(i)

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets categorised as loans and receivables are initially recognised on settlement date at fair value and subsequently measured at amortised cost less allowance for impairment Interest is recognised in the profit and loss account using the effective interest rate method in interest income

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or financial liability The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

Impairment losses, reversals of impairment losses and foreign exchange differences on financial assets classified as loans and receivables are recognised in the profit and loss account in either 'Other expense' or 'Other income' as appropriate

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value and subsequently measured at amortised cost Interest is recognised in the profit and loss account in 'Interest expense' using the effective interest rate method as described above Foreign exchange differences on financial liabilities held at amortised cost are recognised in the profit and loss account in 'Other income' or 'Other expense' as appropriate

1 ACCOUNTING POLICIES (Continued)

d) Financial instruments (Continued)

iii) Loans and receivables and financial liabilities at amortised cost (continued)

In the course of financing its business the Company enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given Cash balances and accrued interest arising under repurchase agreements and securities lending arrangements are classified as 'Financial liabilities at amortised cost' and the related securities, where owned by the Company, are included in 'Financial assets held for trading' Cash balances and accrued interest arising under resale agreements and securities borrowing arrangements are classified as debtors within 'Loans and receivables' Securities received by the Company under resale arrangements and securities borrowing arrangements are generally not recognised on the balance sheet

e) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction

In determining fair value, the Company uses various valuation approaches depending on how observable the inputs to the valuation are The Company maximises the use of observable inputs and minimises the use of unobservable inputs by using the most observable inputs available Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments

The fair values of many financial instruments, including over-the-counter ("OTC") financial instruments, are derived using pricing models Pricing models take into account the contract terms (including the maturity), as well as multiple inputs, including where applicable, equity prices, interest rate yield curves, credit curves, the creditworthiness of the counterparty, option volatility and currency rates The Company subjects all valuations and models to a review process on a periodic basis

Depending on the product and the terms of the transaction, the fair value of OTC financial instruments can be modelled using a series of techniques, including closed-form analytic formulae such as the Black-Scholes option pricing model, simulation models or a combination thereof Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets In the case of more established financial instruments, the pricing models used by the Company are widely accepted by the financial services industry

NOTES TO THE FINANCIAL STATEMENTS
For the period from 1 December 2007 to 31 December 2008

1. **ACCOUNTING POLICIES (Continued)**

e) Fair value of financial instruments (continued)

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i e the fair value of the consideration given or received) In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets When such evidence exists, the Company recognises a gain or loss on inception of the transaction

When unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial change in fair value indicated by the valuation technique as at the transaction date is not recognised immediately in the profit and loss account and it is recognised instead when the market data becomes observable

f) Impairment of financial assets

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets classified as available-for-sale fixed asset investments, other fixed asset investments or loans and receivables Impairment losses are recognised if there is an adverse impact expected to the future cash flows of an asset and the expected impact can be reliably estimated

Impairment losses on available-for-sale fixed asset investments are measured as the difference between cost (net of any principal repayment and amortisation) and the current fair value When a decline in the fair value of an available-for-sale financial asset has been recognised through the statement of total recognised gains and losses and there is evidence that the asset is impaired, the cumulative loss that had been recognised through the statement of total recognised gains and losses is removed from reserves and recognised in the profit and loss account within 'Net gains and losses on fixed asset investments in available-for-sale financial assets'

Impairment losses on fixed asset investments in subsidiary and associated undertakings, measured as the difference between cost and the current estimated recoverable amount, are recognised within the profit and loss account in 'Net gains and losses on fixed asset investments in subsidiary and associated undertakings' and are reflected against the carrying amount of the impaired asset on the balance sheet

Impairment losses on loans and receivables carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the asset's original effective interest rate Such impairment losses are recognised in the profit and loss account within 'Other expenses' and reflected against the carrying amount of the impaired asset on the balance sheet Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 1(d)(i and iii)

g) Fees and commissions

Fees and commissions classified within 'Other income' in the profit and loss account include account servicing fees, investment management fees, sales commissions, placement fees, advisory fees and syndication fees

Fees and commissions classified within 'Other expense' include transaction and service fees These amounts are recognised as the related services are performed or received respectively

h) 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

The Company has been granted exempt status under Article 123A of the Income Tax (Jersey) Law 1961 and for the 2008 year of assessment In order to hold exempt status, an annual fee of £600 is payable This fee has not been included as an expense in the profit and loss account as it is borne by another group company Exempt company status was abolished and a general zero rate of Jersey corporate income tax introduced as from 1 January 2009 This rate will first apply to any account periods ending on or after this date

i) 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

2. INTEREST INCOME

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Interest income from loans to Group undertakings	108,688	98,317

Included in interest income from loans to Group undertakings is £105,640,000 (2007 £97,125,000) of preference share dividends

3. INTEREST EXPENSE

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Interest expense from loans from Group undertakings	11	-

4. OTHER INCOME

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Fees and commission income	44	16

NOTES TO THE FINANCIAL STATEMENTS
For the period from 1 December 2007 to 31 December 2008

5 OTHER EXPENSE

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Auditors' remuneration - audit fees	7	5

6. STAFF COSTS

The Company employed no staff during the period (2007 Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the period (2007 £Nil)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the period/year

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
UK corporation tax at 28 62% (2007 30%)		
- Current period/year	-	-
Tax on profit on ordinary activities	-	-

Factors affecting the tax charge for the period/year

The current period UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 28 62% (2007 30%) The main differences are explained below

	1 December 2007 to 31 December 2008 £'000	Year ended 30 November 2007 £'000
Profit on ordinary activities before tax	108,714	98,328
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28 62% (2007 30%)	31,114	29,498
Effects of:		
Group relief received for nil consideration	(880)	(360)
Non taxable UK dividends	(30,234)	(29,138)
Current tax charge for the period/year	-	-

8. FIXED ASSET INVESTMENTS

Financial asset investments classified as available-for-sale

Fixed asset investments classified as available-for-sale are summarised in the table below

	31 December 2008 £'000	30 November 2007 £'000
Fair value		
Gilts	260	248

Movements in fixed asset investments classified as available-for-sale during the year are as follows

	2008 £'000
Fair value	
At 1 December 2007	248
Changes in fair value	
- recognised in equity	12
At 31 December 2008	260
Net book value	
At 30 November 2007	248
At 31 December 2008	260

All investments classified as available-for-sale financial assets are unlisted

Investments in subsidiary and associated undertakings

	Subsidiary undertakings £'000
Cost	
At 1 December 2007 and 31 December 2008	1,750,000
Net book value	
At 30 November 2007 and 31 December 2008	1,750,000

On 30 June 2009, the Company redeemed the 1,750 fixed rate preference shares of £1 each held in Morgan Stanley Cumbria Investments, issued at a premium of £999,999 per share for £1,750,000,000 and the cash was returned to the Company as the holder of the fixed rate preference shares

NOTES TO THE FINANCIAL STATEMENTS
For the period from 1 December 2007 to 31 December 2008

8. FIXED ASSET INVESTMENTS (Continued)

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 31 December 2008, are as follows

Name of company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Cumbria Investments	England and Wales	100%	Preference	5%	Financial services

9. DEBTORS

	31 December 2008 £'000	30 November 2007 £'000
Debtors classified within loans and receivables at amortised cost		
Other amounts due from Group undertakings	109,678	53,977

10. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2008 £'000	30 November 2007 £'000
Financial liabilities at amortised cost falling due within one year		
Other amounts owing to Group undertakings	3,326	21

11. CALLED UP SHARE CAPITAL

	31 December 2008 Number	30 November 2007 Number
Authorised:		
Equity shares		
Ordinary shares of £1 each	1,000,000	1,000,000
Non-redeemable Class A preference shares of £0 01 each	1,500	1,500
Redeemable Class B preference shares of £0 01 each	500	500

	31 December 2008 £'000	30 November 2007 £'000
Allotted and fully paid:		
Equity shares		
1,000,000 ordinary shares of £1 each	1,000	1,000
1,500 Non-redeemable Class A preference shares of £0 01 each	-	-
250 Redeemable Class B preference shares of £0 01 each	-	-
	1,000	1,000

The holders of ordinary shares are not entitled to be paid any dividends, whilst there are any class B preference shares in issue

The Class A preference shares are not redeemable at the option of the holder or the Company The holders of the Class A preference shares are only entitled to receive, on the dividend payment dates, at the discretion of the Directors a non-cumulative preference dividend of an amount determined by the Directors The dividend shall not exceed an amount defined in the Articles of Association of the Company

The Class B preference shares are not redeemable at the option of the holder but are redeemable by the Company under the terms of the Articles of Association of the Company The holders of the Class B preference shares are only entitled to receive, on the dividend payment dates, at the discretion of the Directors, a non-cumulative preference dividend of an amount determined by the Directors The dividend shall not exceed an amount defined in the Articles of Association of the Company

On distribution of the assets of the Company on a winding up or other return of capital, the holders of the

(i) Class A preference shares have priority over the holders of the Class B preference shares and ordinary shares They are entitled to receive an amount equal to the Class A Preference Share Liquidation Amount, as defined in the Articles of Association of the Company,

(ii) The holders of the Class B preference shareholders are entitled to receive an amount equal to the Class B Preference Share Liquidation Amount, as defined in the Articles of Association of the Company

(iii) If Class B preference shares are in issue, the holders of ordinary shares are entitled, in priority to the holders of the Class B preference shares, to receive an amount equal to the Ordinary Share Liquidation Amount, as defined in the Articles of Association of the Company, and

(iv) If no Class B preference shares are in issue the holders of ordinary shares are entitled to receive an amount equal to the Ordinary Share Liquidation Amount, as defined in the Articles of Association of the Company

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For the period from 1 December 2007 to 31 December 2008

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
At 1 December 2006	1,000	1,750,000	-	29,894	1,780,894
Total recognised gains and losses	-	-	-	98,328	98,328
Available-for-sale investments	-	-	2	-	2
Dividends	-	-	-	(75,020)	(75,020)
At 1 December 2007	1,000	1,750,000	2	53,202	1,804,204
Available-for-sale investments	-	-	12	-	12
Total recognised gains and losses	-	-	-	108,714	108,714
Dividends	-	-	-	(56,310)	(56,310)
At 31 December 2008	1,000	1,750,000	14	105,606	1,856,620

13. SEGMENTAL REPORTING

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

14. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

Risk is an inherent part of both Morgan Stanley's and the Company's business activity and is managed by the Company within the context of the broader Group The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures The Company's own risk management policies and procedures are consistent with those of the Group

Significant risks faced by the Company resulting from its trading activities are set out below

a) Credit risk

Credit risk refers to the risk of loss arising from a borrower or counterparty default

The Company manages credit risk exposure on a global basis, but in consideration of each individual legal entity The credit risk management policies and procedures of the Group include ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, and escalating risk concentrations to appropriate senior management Credit risk management policies and procedures for the Company are consistent with those of the Group and include escalation to appropriate key management personnel of the Company

The Company enters into all of its financial asset transactions with other Group companies, and both the Company and the other Group companies are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley Accordingly, the Company is considered to be exposed to the credit risk of Morgan Stanley

14. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the balance sheet

The entity does not have any significant exposure arising from off- balance sheet items

As a result of the implicit support that would be provided by Morgan Stanley the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Group companies that have a higher credit rating to that of Morgan Stanley

Exposure to credit risk

The maximum exposure to credit risk of the Group as at 31 December 2008 is disclosed below, based on the carrying amount of the financial assets the Group believes is subject to credit risk, without taking account of any collateral held or any other credit enhancement

Financial assets held for trading excluding derivatives are subject to traded credit risk through exposure to the issuer of the financial asset, the Group manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is incorporated within the market risk disclosure

Exposure to credit risk by class

Class	Gross Credit Exposure	
	31 December 2008 £'000	30 November 2007 £'000
Loans and receivables		
Other amounts due from Group undertakings	109,678	53,977

Maximum exposure to credit risk by credit rating

Credit rating	Gross Credit Exposure	
	31 December 2008 £'000	30 November 2007 £'000
A	109,678	53,977

Financial assets neither past due nor impaired

At 31 December 2008 all financial assets were rated A and none were past due or impaired

At 31 December 2008 there were no financial assets past due or impaired

14. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity is the risk that the entity may encounter difficulty in realising financial assets or otherwise raising funds to satisfy its financial liabilities

The Group's senior management establishes the overall liquidity and funding policies of the Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Group The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the 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 Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial difficulty

In managing both the Company's and the Group's liquidity and funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated A substantial portion of the Company and the Group's total assets consist of highly liquid marketable securities and short-term receivables arising from its Institutional Securities sales and trading activities The highly liquid nature of these assets provides the Company and the Group with flexibility in financing and managing its business

In the following contractual maturity analysis, derivative contracts held as part of the Company's trading activities are disclosed as on demand, financial liabilities designated at fair value are disclosed according to their earliest contractual maturity, all such amounts are presented at their fair value All other amounts represent the undiscounted cash flows payable by the Company arising from its financial liabilities to contractual maturities as at 31 December 2008 Repayments that are subject to notice are treated as if notice were given immediately and are classified as on demand This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Company

	On demand £'000
31 December 2008	
Financial liabilities	
Financial liabilities at amortised cost	
Other amounts owing to Group undertakings	3,326
Total financial liabilities	**3,326**

	On demand £'000
30 November 2007	
Financial liabilities	
Financial liabilities at amortised cost	
Other amounts owing to Group undertakings	21
Total financial liabilities	**21**

14. FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio

Sound market risk management is an integral part of the Company's and the Group's culture The Company is responsible for ensuring that market risk exposures are well-managed and prudent and more broadly for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management

To execute these responsibilities, the Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses and maintains the Value at Risk ("VaR") system A variety of limits are designed to control price and liquidity risk Market risk is monitored through various measures statistically (using VaR and related analytical measures), by measures of position sensitivity, and through routine stress testing and scenario analyses The material risks identified by these processes are summarized and reported to senior management

The Company is managed within the Group's global framework The market risk management policies and procedures of the Company are consistent with those of the Group, including reporting of material risks identified to appropriate key management personnel of the Company

The Company enters into the majority of its financial asset transactions with Group companies, where both the Company and the Group companies are wholly-owned indirect subsidiaries of the same group parent entity, Morgan Stanley

The Company is exposed to the following components of market risk

- Currency Risk, which arises from the possibility that fluctuations in foreign exchange rates will affect the value of a financial instrument
- Interest Rate Risk, which arises from the possibility that changes in interest rates will affect the value of a financial instrument
- Credit Spread Risk, which arises from the possibility that changes in credit spreads will affect the value of financial instruments Credit spreads represent the credit risk premiums required by market participants for a given credit quality

d) Interest rate risk

The entity is exposed to interest rate risks arising from changes in interest rates affecting the fair value or future cash flows of its assets and liabilities The Company's investments and funding are predominantly fixed interest rate and held at amortised cost, as such the fair value exposure to interest rate movements is not material and an interest rate sensitivity analysis has not been presented

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14. FINANCIAL RISK MANAGEMENT (Continued)

d) Interest rate risk (continued)

The following table represents risk disclosure for the entity on the basis of time bands based on the next set interest reset date or maturity depending on the instrument

31 December 2008

	Less than 1 year	More than 1 year but less than 5 years	Total
	£'000	£'000	£'000
Assets			
Investments	1,750,000	260	1,750,260
Debtors	109,678	-	109,678
Cash	8	-	8
Total assets	1,859,686	260	1,859,946
Liabilities			
Other creditors	(3,326)	-	(3,326)
Total liabilities	(3,326)	-	(3,326)

30 November 2007

	Less than 1 year	More than 1 year but less than 5 years	Total
	£'000	£'000	£'000
Assets			
Investments	-	1,750,248	1,750,248
Debtors	53,977	-	53,977
Total assets	53,977	1,750,248	1,804,225
Liabilities			
Other creditors	(21)	-	(21)
Total liabilities	(21)	-	(21)

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15. 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

16. POST BALANCE SHEET EVENTS

On 30 June 2009, the Company redeemed the 1,750 fixed rate preference shares of £1 each held in Morgan Stanley Cumbria Investments, issued at a premium of £999,999 per share for £1,750,000,000 and the cash was returned to the Company as the holder of the fixed rate preference shares Prior to the redemption of the fixed rate preference shares, the Company received a fixed rate dividend of £7,982,877 from Morgan Stanley Cumbria Investments On 30 June 2009, the Company lent £1,757,982,877 to Morgan Stanley Durham Investments Limited being the proceeds from the redemption of the preference shares in Morgan Stanley Cumbria Investments Limited and the dividend received from Morgan Stanley Cumbria Investments Limited

17. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and 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 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 MSDW Investment Holdings (UK) Ltd, 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