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MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

Report and financial statements

31 December 2009

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

CONTENTS

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 16) for Morgan Stanley Cheshire Investments Limited (the "Company") for the year ended 31 December 2009

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £79,067,000 (from 1 December 2007 to 31 December 2008 £108,714,000 profit after tax)

During the year no dividends were paid or proposed (2008 £56,310,000)

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 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 year 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 on page 4 of the financial statements The Company's profit for the year has decreased by 26 57% from the previous period due to the Company receiving proxy on its loan with Morgan Stanley Durham Investments rather than a fixed rate preference share dividend from Morgan Stanley Cumbria Investments

The balance sheet of the Company is on page 6 of the financial statements The net assets of the Company increased to £1,935,673,000 (2008 £1,856,620,000), due to interest received on intercompany loans and the preference share dividends being lent to another Morgan Stanley Group Company

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 the second half of 2009, global market and economic conditions improved and global capital markets began to recover from the severe downturn that occurred at the end of 2008 Economic conditions however continue to be challenging These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future

During the year ending 31 December 2008, the Morgan Stanley Group took certain steps to respond to the stresses experienced in the global financial markets at the end of 2008 and to strengthen the Morgan Stanley Group's overall capital and liquidity position, including participation in the US Government's Troubled Asset Relief Program ("TARP") In mid 2009, as a result of its strong capital position, Morgan Stanley received approval from the US Treasury to repay the £10 billion TARP investment received in 2008 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, including its subsidiary entities 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

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

DIRECTORS' REPORT (CONTINUED)

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

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 Morgan Stanley 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 does not meet its obligations

The Morgan Stanley 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 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 capital policies of the Morgan Stanley Group The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Morgan Stanley Group and the Company may be unable to access adequate financing to service its financial obligations without material franchise or business impact The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Morgan Stanley Group's and the Company's business strategies while ensuring sufficient liquidity through the business cycle and during periods of stressed market conditions The Morgan Stanley Group has established regional committees to oversee the activities of its subsidiaries from a regional perspective

DIRECTORS

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

G Adams
A N Chrishan (appointed 17 June 2009)
I Gonen (appointed 13 August 2009)
B J J Walker

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and 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 Under Jersey 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, subject to any material departures disclosed and explained in the financial statements, 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 (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

Gordon Adams

Director

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2009

	Note	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Net gains on fixed asset investments			
- Available-for-sale financial assets	2	17	-
Interest income	3	79,050	108,688
Interest expense	4	-	(11)
Other income	5	-	44
Other expense	6	-	(7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		79,067	108,714
Tax on profit on ordinary activities	8	-	-
PROFIT FOR THE FINANCIAL YEAR/ PERIOD		79,067	108,714

All operations were continuing in the current year and prior period

A reconciliation of the movement in shareholders' funds is disclosed in note 13 to the financial statements

The notes on pages 7 to 16 form an integral part of the financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2009

	Note	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
PROFIT FOR THE FINANCIAL YEAR		79,067	108,714
Fair value reserve			
Net change in fair value of available-for-sale financial assets recognised directly in equity	13	(4)	12
Net amount transferred to profit and loss account		(10)	-
Net current and deferred tax			
- on items taken directly to equity		4	(3)
- group relief received on items taken directly to equity		(4)	3
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR/ PERIOD		79,053	108,726

MORGAN STANLEY CHESHIRE INVESTMENTS LIMITED

Registered Number 88369

BALANCE SHEET
As at 31 December 2009

	Note	2009 £'000	2008 £'000
FIXED ASSETS			
Investments			
- Available-for-sale financial assets	9	-	260
- Subsidiary and associated undertakings	9	-	1,750,000
		-	1,750,260
CURRENT ASSETS			
Loans and receivables			
- Debtors	10	1,935,684	109,678
- Cash at bank		-	8
		1,935,684	109,686
CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	11	(11)	(3,326)
NET CURRENT ASSETS		1,935,673	106,360
TOTAL ASSETS LESS CURRENT LIABILITIES		1,935,673	1,856,620
CAPITAL AND RESERVES			
Called up share capital	12	1,000	1,000
Share premium account	13	1,750,000	1,750,000
Fair value reserve	13	-	14
Profit and loss account	13	184,673	105,606
SHAREHOLDERS' FUNDS		1,935,673	1,856,620

These financial statements were approved by the Board and authorised for issue on 13 APRIL 2010
Signed on behalf of the Board

Gordon Adams

Director

The notes on pages 7 to 16 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

1. ACCOUNTING POLICIES

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

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 company law and United Kingdom accounting standards

In the prior period the Company 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 The change resulted in the Company reporting a period of thirteen months to 31 December 2008 The comparative figures reflected in these financial statements are for the thirteen month period to 31 December 2008 as previously reported and therefore are not entirely comparable with amounts shown for the current year

The Company was not required to prepare consolidated financial statements by virtue of the exemption as a small company under FRS 2 *Accounting for Subsidiary Undertakings* The results of the Company were included within the financial statements of Morgan Stanley & Co International PLC, a company registered in England and Wales, which prepared consolidated financial statements for the thirteen month period to 31 December 2008 The financial statements therefore presented information about the Company as an individual entity and not about its group

The Company's ultimate UK parent undertaking, Morgan Stanley International Limited, presents information in accordance with FRS 29 *Financial Instruments Disclosures* Accordingly, the Company is exempt from the disclosure requirements of FRS 29

b) The going concern assumption
The Company's business activities, together with the factors likely to affect its future development performance and position are set out in the Business Review section of the Directors' report on pages 1 to 2

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 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 All other translation differences are taken through the profit and loss account Exchange differences recognised in the profit and loss account are presented in 'Other income' or 'Other expense', except where noted in 1(e) below

e) Financial instruments
The Company classifies its financial assets into the following categories on initial recognition available-for-sale fixed asset investments, 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)

More information regarding these classifications is included below

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 (see note 1(f) below)

For debt instruments, interest calculated using the effective interest method (see note 1(e)(iii) below), impairment losses and reversals of impairment losses are recorded in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in available-for-sale financial assets' Foreign exchange differences on the amortised cost of monetary financial assets are recorded in the profit and loss account in 'Net gains/losses on fixed asset investments 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

Transaction costs that are directly attributable to the acquisition of the available-for-sale fixed asset investment are added to the fair value on initial recognition

On disposal or impairment 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, reversals of impairment losses, and foreign exchange differences on monetary investments are all reported in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary and associated undertakings'

All other investments in Morgan Stanley Group undertakings are classified as available-for-sale fixed asset investments and accounted for as described in note 1(e) (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 (see note 1(f) below) and subsequently measured at amortised cost less allowance for impairment Interest is recognised in the profit and loss account in 'Interest income', using the effective interest rate method Transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are added to or deducted from the fair value on initial recognition

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 exactly 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 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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

1. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value (see note 1(f) below) 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

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 collateral balances repayable 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 classified as held for trading' Cash collateral balances receivable 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

f) Fair value of financial instruments

Fair value measurement
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i e the "exit price") in an orderly transaction between market participants at the measurement date

In determining fair value, the Company uses various valuation approaches A hierarchy of inputs is used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when 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, the liquidity of the markets 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

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

Valuation techniques
Fair value for many financial instruments, including over-the-counter ("OTC") financial instruments, is 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, correlation, creditworthiness of the counterparty, option volatility and currency rates The impact of the Company's own credit spreads is also considered when measuring the fair value of liabilities, including OTC derivative contracts Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality and model uncertainty These adjustments are subject to judgement, are applied on a consistent basis and are based upon observable inputs where available The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter

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 the Company believes market participants would use in pricing the asset or liability at the measurement date

1. ACCOUNTING POLICIES (CONTINUED)

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, as is the case for generic interest rate swap and option contracts In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry

Gains and losses on inception
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 is recognised instead when the market data becomes observable

g) 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 other fixed asset investments or loans and receivables Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated

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 are 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(e), (i), (ii) and (iii)

h) 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

i) 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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

1. ACCOUNTING POLICIES (CONTINUED)

Full provision has been made for deferred tax assets and liabilities arising from timing differences Deferred tax is measured using 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

j) 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. NET GAINS ON INVESTMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Net fair value gains transferred from the fair value reserve on disposal of asset	10	-
Interest receivable	7	-
	17	-

3. INTEREST INCOME

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Interest income from loans to Morgan Stanley Group undertakings	79,050	108,658
Other interest income	-	30
	79,050	108,688

Included in interest income from loans to Morgan Stanley Group undertakings is £48,429,000 (2008 £105,640,000) of preference share dividends

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

4 INTEREST EXPENSE

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Interest expense on loans from Morgan Stanley Group undertakings	-	11

5. OTHER INCOME

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Fee and commission income	-	44

6 OTHER EXPENSE

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Auditors' remuneration – fees for audit of statutory accounts	-	7

7 STAFF COSTS

The Company employed no staff during the year (2008 Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2008 Nil)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

With effect from the 2007 year of assessment, a company which is incorporated in Jersey but managed and controlled and resident for tax purposes outside of Jersey in a country or territory where the highest rate at which any company may be charged to tax on any part of its income is 20% or higher, will not be regarded as resident in Jersey for tax purposes

As the Company is both managed and controlled and tax resident in the UK it will not be resident in Jersey for tax purposes In prior years the Company was exempt from taxation in Jersey under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended

The Company is managed and controlled in the UK, and is therefore subject to UK Corporation Tax

Analysis of charge in the year / period

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
UK corporation tax at 28% (2008 28 62%)		
- Current year / period	-	-
Tax on profit on ordinary activities	-	-

Factors affecting the tax charge for the year / period

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 28% (2008 28 62%) The main differences are explained below

	Year ended 31 December 2009 £'000	1 December 2007 to 31 December 2008 £'000
Profit on ordinary activities before tax	79,067	108,714
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008, 28 62%)	22,139	31,114
Effects of		
Group relief received for nil consideration	(8,579)	(880)
Non taxable UK dividends	(13,560)	(30,234)
Current tax charge for the year / period	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

9. FIXED ASSET INVESTMENTS

Fixed asset investments classified as available-for-sale

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

	2009 £'000	2008 £'000
Government debt securities	-	260

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

	2009 £'000	2008 £'000
Fair value		
At 1 January	260	248
Changes in fair value		
- recognised in the 'Fair value reserve'	(14)	12
- recognised in 'Net gains/ losses on available-for-sale financial assets' in the profit and loss account	10	-
Disposals and other settlements	(256)	-
At 31 December	-	260

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

Fixed asset investments in subsidiary and associated undertakings

	Subsidiary undertakings £'000
Cost	
At 1 January 2009	1,750,000
Disposals	(1,750,000)
At 31 December 2009	-
Net book value	
At 31 December 2008	1,750,000
At 31 December 2009	-

On 30 June 2009, Morgan Stanley Cumbria Investments redeemed its 1,750 fixed rate preference shares of £1 each held by the Company, 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
Year ended 31 December 2009

10. DEBTORS

	2009 £'000	2008 £'000
Debtors classified within loans and receivables at amortised cost		
Other amounts due from Morgan Stanley Group undertakings	1,935,684	109,678

11. FINANCIAL LIABILITIES AT AMORTISED COST

	2009 £'000	2008 £'000
Financial liabilities at amortised cost falling due within one year		
Other amounts owing to Morgan Stanley Group undertakings	11	3,326

12 CALLED UP SHARE CAPITAL

	2009 £'000	2008 £'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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

12. CALLED UP SHARE CAPITAL (CONTINUED)

(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

13 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 2007	1,000	1,750,000	2	53,202	1,804,204
Total recognised gains and losses	-	-	-	108,714	108,714
Available-for-sale investments	-	-	12	-	12
Dividends	-	-	-	(56,310)	(56,310)
At 1 January 2009	1,000	1,750,000	14	105,606	1,856,620
Total recognised gains and losses	-	-	(10)	79,067	79,057
Available-for-sale investments	-	-	(4)	-	(4)
Dividends	-	-	-	-	-
		-	-	-	-
At 31 December 2009	1,000	1,750,000	-	184,673	1,935,673

14 SEGMENTAL REPORTING

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

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 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 Morgan Stanley & Co International Plc 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