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# MORGAN STANLEY SINOPE CAYMAN LIMITED

## Report and financial statements

## 31 December 2009

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# MORGAN STANLEY SINOPE CAYMAN LIMITED

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# MORGAN STANLEY SINOPE CAYMAN LIMITED

## DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 15 for Morgan Stanley Sinope Cayman Limited (the "Company") for the year ended 31 December 2009

### RESULTS AND DIVIDENDS

The profit for the year, after tax, was €2,858,000 (Period from 1 December 2007 to 31 December 2008 €5,598,000 loss after tax)

During the year, no dividends were paid or proposed (Period from 1 December 2007 to 31 December 2008 €Nil)

### PRINCIPAL ACTIVITY

The Company is an exempt company incorporated under the laws of the Cayman Islands

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 management and control of the Company is in the United Kingdom, and the entity is liable to UK Corporation Tax on its taxable profits

The principal activity of the Company is to act as an intermediate holding company

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 period is set out on page 4 The Company's profit for the period has increased by €8,456,000 The increase can be attributed to the decrease in the Euro proxy rate payable on loans from Morgan Stanley Group undertakings

The balance sheet for the Company is set out on page 5 The Company's net assets at the end of the year were €130,000,000, an increase of €2,858,000 This movement is due to profit for the year

The performance of the Company is included in the results of the Morgan Stanley Group which are discussed 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

# 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)

P K M Green (appointed 11 June 2009)
S I Merry
A Coull (resigned 11 June 2009)

## DIRECTORS' LIABILITY INSURANCE

Qualifying indemnity provisions (as defined in section 234 of the Companies Act 2006 of the United Kingdom (the "Companies Act 2006")) were in force during the year and at the date of the Directors' report for the benefit of all the Directors of the Company under a Directors' and Officers' Liability Insurance policy taken out by Morgan Stanley, the Company's ultimate parent company

# MORGAN STANLEY SINOPE CAYMAN LIMITED

## DIRECTORS' REPORT (CONTINUED)

### POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date

### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with

As at 31 December 2009 the Company had no trade creditors (2008 €Nil)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing their report and the non-statutory financial statements in accordance with applicable law and regulations

The Company was incorporated as an exempt company in the Cayman Islands under the Laws of the Cayman Islands The Directors and Company shareholders require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 (that would have applied had these been statutory accounts under the Companies Act 2006) and drawn up in Euros

The Directors are required to prepare financial statements for each financial year, which 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 those 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 Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Approved by the Board and signed on its behalf by

SI Merry
Director
12 October 2010

## PROFIT AND LOSS ACCOUNT
## Year ended 31 December 2009

| | Note | Year ended 31 December 2009 €'000 | 1 December 2007 to 31 December 2008 €'000 |
|---|---|---|---|
| Interest income | 2 | 10,887 | 11,842 |
| Interest Expense | 3 | (8,028) | (17,442) |
| Other income | 4 | - | 2 |
| Other expense | 5 | (1) | - |
| **PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 2,858 | (5,598) |
| Tax on profit/(loss) on ordinary activities | 7 | - | - |
| **PROFIT/(LOSS) FOR THE FINANCIAL YEAR / PERIOD** | | 2,858 | (5,598) |

All operations were continuing in the current year and prior period

There were no recognised gains or losses during the current year or prior period other than those disclosed above Accordingly no statement of total recognised gains and losses has been prepared

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

The notes on pages 6 to 12 form an integral part of the financial statements

## MORGAN STANLEY SINOPE CAYMAN LIMITED
Registered Number MC161501

## BALANCE SHEET
## As at 31 December 2009

| | Note | 2009 €'000 | 2008 €'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments | | | |
| - Subsidiary and associated undertakings | 8 | 403,320 | 403,320 |
| **CURRENT ASSETS** | | | |
| Loans and receivables | | | |
| - Debtors | 9 | 22,729 | 11,842 |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | | | |
| Financial liabilities at amortised cost | 10 | (296,049) | (288,020) |
| **NET CURRENT LIABILITIES** | | (273,320) | (276,178) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 130,000 | 127,142 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 11 | - | - |
| Share premium account | 12 | 135,000 | 135,000 |
| Profit and loss account | 12 | (5,000) | (7,858) |
| **SHAREHOLDERS' FUNDS** | | 130,000 | 127,142 |

These financial statements were approved by the Board and authorised for issue on 12 October 2010.
Signed on behalf of the Board

SI Merry
Director

The notes on pages 6 to 12 form an integral part of the financial statements

## 1. ACCOUNTING POLICIES

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

### a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(e) below, and in accordance with applicable United Kingdom company law and United Kingdom accounting standards The Company is incorporated under Cayman law, which permits the use of United Kingdom company law and the use of United Kingdom accounting standards in the preparation of financial statements

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

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 is not required to prepare consolidated financial statements by virtue of the exemption under Section 400 of the Companies Act 2006 The results of the Company are included within the financial statements of Morgan Stanley Himalia Cayman Limited, a company incorporated in the Cayman Islands which will prepare consolidated financial statements for the year to 31 December 2009 The financial statements therefore present information about the Company as an individual entity and not about its group

The Company's ultimate parent undertaking, Morgan Stanley Himalia Cayman 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 3

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 Although the Company is in a net current liability position, the Company is performing in line with expectations and the net current liability position is due to amounts owing to fellow Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Group

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will not be required to meet its debts without the Company having 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 Euros, 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 Euros

### d) Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the balance sheet date Transactions in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions All translation differences are taken through the profit and loss account

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

1 ACCOUNTING POLICIES (CONTINUED)

**e) Financial instruments**

The Company classifies its financial assets into the following categories on initial recognition financial assets classified as held for trading, financial assets designated at fair value through profit or loss, other fixed asset investments and loans and receivables

The Company classifies its financial liabilities into the following categories on initial recognition financial liabilities classified as held for trading, financial liabilities designated at fair value through profit or loss and financial liabilities at amortised cost

More information regarding these classifications is included below

*i)* **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'

*ii)* **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

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

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

## 1. ACCOUNTING POLICIES (CONTINUED)

### 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 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)

### 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 and ii)

### 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

### 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

| | Year ended 31 December 2009 €'000 | 1 December 2007 to 31 December 2008 €'000 |
|---|---|---|
| Interest income from loans to Morgan Stanley Group undertakings | 10,887 | 11,842 |

Included in "Interest income on loans from Morgan Stanley Group undertakings" is €10,887,000 (2008 €11,842,000) of preference share dividends

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

### 3. 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 | 8,028 | 17,441 |
| Other interest expense | - | 1 |
| | 8,028 | 17,442 |

### 4. OTHER INCOME

| | Year ended 31 December 2009 €'000 | 1 December 2007 to 31 December 2008 €'000 |
|---|---|---|
| Foreign exchange gains | - | 2 |

### 5. OTHER EXPENSE

| | Year ended 31 December 2009 €'000 | 1 December 2007 to 31 December 2008 €'000 |
|---|---|---|
| Foreign exchange losses | 1 | - |

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

### 6 DIRECTORS' BENEFITS

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

### 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

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/(loss) on ordinary activities** | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

### 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

**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/(Loss) on ordinary activities before tax | 2,858 | (5,598) |
| Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28 62%) | 800 | (1,602) |
| **Effects of:** | | |
| Group relief surrendered for nil consideration | 2,248 | 4,991 |
| Non taxable dividends on preference shares shown as interest income | (3,048) | (3,389) |
| **Current tax charge for the year / period** | - | - |

### 8. FIXED ASSET INVESTMENTS

**Fixed asset investments in subsidiary undertakings**

| | Subsidiary undertakings €'000 |
|---|---|
| **Net book value** | |
| At 31 December 2008 | 403,320 |
| At 31 December 2009 | 403,320 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

**8. FIXED ASSET INVESTMENTS (CONTINUED)**

**Subsidiaries and significant holdings**

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2009, are as follows

| Name of Company | Country of incorporation | Holding | Type of shares held | Proportion of voting rights | Nature of Business |
|---|---|---|---|---|---|
| Morgan Stanley Adrastea Netherlands B V | The Netherlands | 100% | Ordinary Shares | 23 529% | Financial services |
| Morgan Stanley Adrastea Netherlands B V | The Netherlands | 100% | Class A Redeemable Preference shares | 76 469% | Financial services |
| Morgan Stanley Adrastea Netherlands B V | The Netherlands | 100% | Class B Redeemable Preference shares | 0 001% | Financial services |
| Morgan Stanley Adrastea Netherlands B V | The Netherlands | 100% | Class C Redeemable Preference shares | 0 001% | Financial services |

**9. DEBTORS**

| | 2009 €'000 | 2008 €'000 |
|---|---|---|
| **Debtors classified within loans and receivables at amortised cost** | | |
| Amounts due from Morgan Stanley Group undertakings | 22,729 | 11,842 |

**10. FINANCIAL LIABILITIES AT AMORTISED COST**

| | 2009 €'000 | 2008 €'000 |
|---|---|---|
| **Financial liabilities at amortised cost falling due within one year** | | |
| Amounts owing to Morgan Stanley Group undertakings | 296,049 | 288,020 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2009

### 11. CALLED UP SHARE CAPITAL

| | 2009 €'000 | 2008 €'000 |
|---|---|---|
| **Allotted and fully paid:** | | |
| **Equity shares** | | |
| 101 ordinary shares of $1 each | - | - |

**Equity shares**

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

### 12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | Called up share capital €'000 | Share premium account €'000 | Profit and loss account €'000 | Total €'000 |
|---|---|---|---|---|
| At 1 December 2007 | - | 135,000 | (2,260) | 132,740 |
| Loss for the financial period | - | - | (5,598) | (5,598) |
| At 1 January 2009 | - | 135,000 | (7,858) | 127,142 |
| Profit for the financial year | - | - | 2,858 | 2,858 |
| At 31 December 2009 | - | 135,000 | (5,000) | 130,000 |

### 13. SEGMENTAL REPORTING

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

### 14. 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

### 15. 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 Himalia Cayman Limited, which is registered in the Cayman Islands Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ