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**UK registration number: FC 26607**

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**MORGAN STANLEY HIMALIA CAYMAN LIMITED**

**Report and financial statements**

**31 December 2010**



# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

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# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

## **DIRECTORS' REPORT**

The Directors present their report and consolidated financial statements of Morgan Stanley Himalia Cayman Limited (the "Company") and all of its subsidiary undertakings (together the "Group"), together with the Company's balance sheet and related notes for the year ended 31 December 2010. The Group's consolidated financial statements have been prepared in accordance with applicable Cayman Islands law and United Kingdom accounting standards.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year, after tax, was €99,000 (2009: €89,000 profit after tax).

During the year, no dividends were paid or proposed (2009: €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 Group and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

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

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

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

## **BUSINESS REVIEW**

The Group's profit and loss account for the year is set out on page 5. The Group's profit for the year has increased by €10,000 from the prior year. This increase can be attributed to a net decrease in the Euro floating interest rate paid on loans to Morgan Stanley Group undertakings.

The Group balance sheet is set out on page 6. The Group's net assets at the end of the year were €6,975,000, an increase in net assets from the prior period of €99,000. This can be attributed to the profit for the year.

The performance of the Group 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 Group's Directors believe that providing performance indicators for the Group itself would not enhance an understanding of the development, performance or position of the business of the Group.

### **Current market conditions**

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

During the year ended 31 December 2010, Morgan Stanley has continued to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. In August 2010, the Morgan Stanley Group strengthened its capital position by converting \$5.6 billion of subordinated debentures issued to China Investment Corporation Limited into \$5.6 billion of equity shares. Throughout the year, the Morgan Stanley Group has been focused on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources. This remains an ongoing objective of the Morgan Stanley Group.

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 HIMALIA CAYMAN LIMITED

## DIRECTORS' REPORT

### **Risk Management**

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities

The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities

#### *Credit risk*

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

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

#### *Liquidity risk*

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

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

#### *Operational risk*

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

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

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

The business continuity management function is responsible for identifying key risks and threats to the Morgan Stanley Group's resiliency and planning to ensure a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a global basis

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## DIRECTORS' REPORT

### **Risk Management (continued)**

The key components of the disaster recovery plans include crisis management, business recovery plans, applications/data recovery, work area recovery, and other elements addressing management, analysis, training and testing

#### *Legal and regulatory risk*

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

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeeping. In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

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

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

### **DIRECTORS**

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

P K M Falk (formerly registered as "PKM Green")

S I Merry

# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

## **DIRECTORS' REPORT**

### **DIRECTORS' LIABILITY INSURANCE**

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

### **QUALIFYING THIRD PARTY INDEMNITY PROVISIONS**

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 up to and including the date of the Director's report for the benefit of the Directors of the Group

### **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 and the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and the Group and their suppliers, providing that all trading terms and conditions have been complied with

As at 31 December 2010 the Company and the Group had no trade creditors (2009 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 Group 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

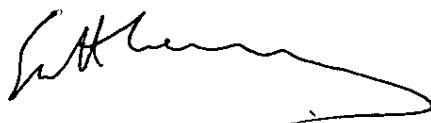
The Directors are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and Group for that period. In preparing those financial statements, the Directors are required 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

Director



# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Interest income	2	9,588	12,903
Interest expense	3	(9,458)	(12,764)
Other expense	4	(31)	(50)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>99</b>	<b>89</b>
Tax on profit on ordinary activities	6	-	-
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>99</b>	<b>89</b>

All operations were continuing in the current year and prior year

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 10 to the financial statements

The notes on pages 7 to 11 form an integral part of the financial statements

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**

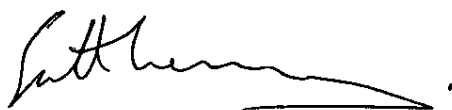
Registered Number MC161513

**CONSOLIDATED BALANCE SHEET****As at 31 December 2010**

	Note	2010 €'000	2009 €'000
<b>CURRENT ASSETS</b>			
Debtors	7	464,166	474,719
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	8	<u>(457,191)</u>	<u>(467,843)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>6,975</u>	<u>6,876</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	9	4,782	4,782
Profit and loss account	10	2,193	2,094
<b>SHAREHOLDERS' FUNDS</b>		<u>6,975</u>	<u>6,876</u>

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

Director



The notes on pages 7 to 11 form an integral part of the financial statements



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES**

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

**a) Basis of preparation**

The Group financial statements are prepared under the historical cost convention 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

**b) Basis of consolidation**

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries made up to 31 December 2010. The financial statements for the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies. Subsidiaries are consolidated from the date that the Group gains control until the date that control ceases

**c) The going concern assumption**

The Group'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 4

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

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

**d) Functional currency**

Items included in the financial statements are measured and presented in Euros, the currency of the primary economic environment in which the Group operates

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

**e) 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 and are presented in 'Other income' or 'Other expense'

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES (CONTINUED)**

**f) Recognition of income and expense**

**i) Interest income and expense**

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

**g) Fixed asset investments**

Fixed asset investments are stated at cost, less provision for any impairment. Monetary fixed asset investments denominated in currencies other than Euros are revalued to Euros at the rates ruling at the balance sheet date, as described in note 1(d) above.

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

**h) Cash flow statement**

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

**2. INTEREST INCOME**

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Interest income from loans to Morgan Stanley Group undertakings	9,588	12,902
Other interest income	-	1
	<u>9,588</u>	<u>12,903</u>

**3. INTEREST EXPENSE**

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Interest expense on loans from Morgan Stanley Group undertakings	<u>9,458</u>	<u>12,764</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2010**

**4. OTHER EXPENSE**

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Foreign exchange losses	16	37
Auditors' remuneration – fees for audit of statutory accounts	15	11
Other Expenses	-	2
	<u>31</u>	<u>50</u>

**5. STAFF COSTS**

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

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

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

Analysis of charge in the year

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
UK corporation tax at 28% (2009 28%)		
- Current year / period	-	-
<b>Tax on loss/profit on ordinary activities</b>	<u>-</u>	<u>-</u>

**Factors affecting the tax charge for the year**

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

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Profit on ordinary activities before tax	<u>99</u>	<u>89</u>
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	28	25
<b>Effects of.</b>		
Group relief received for nil consideration	(28)	(25)
<b>Current tax charge for the year</b>	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**6 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

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

**7. DEBTORS**

	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
Amounts due from Morgan Stanley Group undertakings	<u>464,166</u>	<u>474,719</u>

**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
Amounts owing to Morgan Stanley Group undertakings	<u>457,191</u>	<u>467,843</u>

**9. CALLED UP SHARE CAPITAL**

	<b>2010</b> <b>€'000</b>
<b>Allotted and fully paid:</b>	
<b>Equity shares</b>	
1 ordinary share of \$1 each	-
4,781,582 ordinary shares of €1 each	<u>4,782</u>
	<u>4,782</u>

**Equity shares**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	<b>Called up share capital €'000</b>	<b>Profit and loss account €'000</b>	<b>Total €'000</b>
At 1 January 2009	4,782	2,005	6,787
Profit for the financial year	-	89	89
At 1 January 2010	4,782	2,094	6,876
Profit for the financial year		99	99
At 31 December 2010	4,782	2,193	6,975

**11. SEGMENTAL REPORTING**

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

**12. RELATED PARTY TRANSACTIONS**

The Group 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.

**13. PARENT UNDERTAKINGS**

The ultimate parent undertaking and controlling entity and the largest and smallest 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.

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**

Registered Number MC161513

**COMPANY BALANCE SHEET****Year ended 31 December 2010**

	<b>Note</b>	<b>2010 €'000</b>	<b>2009 €'000</b>
<b>FIXED ASSETS</b>			
Investments			
- Subsidiary and associated undertakings	3	135,000	135,000
<b>CURRENT ASSETS</b>			
- Debtors	4	9,091	8,903
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	5	<u>(164,726)</u>	<u>(161,299)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(155,635)</u>	<u>(152,396)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(20,635)</u>	<u>(17,396)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	6	4,782	4,782
Profit and loss account	7	(25,417)	(22,178)
<b>SHAREHOLDERS' FUNDS</b>		<u>(20,635)</u>	<u>(17,396)</u>

These financial statements were approved by the Board and authorised for issue on **8 September 2011**  
Signed on behalf of the Board



Director  
**S. Merry**

The notes on pages 13 to 17 form an integral part of the financial statements

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES**

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

**a) Basis of preparation**

The financial statements are prepared under the historical cost convention 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

**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 3 to 4

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 liability position, the Company is performing in line with expectations and the net 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 and are presented in 'Other income' or 'Other expense'

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**1. ACCOUNTING POLICIES (CONTINUED)**

**e) Recognition of income and expense**

**i) Net revenue**

Net revenue represents fees, commissions and other income for financial services provided and is recognised as the related services are performed

**ii) Net gains/ losses on fixed asset investments**

Dividend income from fixed asset investments is recognised when the Company's right to receive payment is established and is reported within 'Net gains/ losses from fixed asset investments' as described in note 1(f)

**iii) Interest income and expense**

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

**f) Fixed asset investments**

Fixed asset investments are stated at cost, less provision for any impairment. Monetary fixed asset investments denominated in currencies other than Euros are revalued to Euros at the rates ruling at the balance sheet date, as described in note 1(d) above

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

**g) Taxation**

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or subsequently enacted at the balance sheet date

**h) Cash flow statement**

The Company's ultimate parent undertaking produces a cash flow statement. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (Revised 1996) *Cash Flow Statements* and not present a cash flow statement



**MORGAN STANLEY HIMALIA CAYMAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**2. PROFIT AND LOSS ACCOUNT OF THE COMPANY**

The Company has taken advantage of the exemption, as permitted by section 408 of the Companies Act 2006, from presenting its own profit and loss account. The Company's loss after taxation for the year ended 31 December 2010 was €3,238,000 (2009: €4,156,000). During the year, no dividends were paid (2009: €nil).

**3. FIXED ASSET INVESTMENTS**

**Fixed asset investments in subsidiary undertakings**

	<b>Subsidiary undertakings €'000</b>
<b>Cost and Net Book Value</b>	
At 1 January 2010 and 31 December 2010	<u>135,000</u>

**Subsidiaries and significant holdings**

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

<b>Name of Company</b>	<b>Country of incorporation</b>	<b>Type of shares held</b>	<b>Proportion of shares held</b>	<b>Proportion of voting rights</b>	<b>Nature of Business</b>
Morgan Stanley Sinope Cayman Limited	Cayman Islands	Ordinary Shares	100%	100%	Holding company
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Ordinary Shares	100%*	23.529%*	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class A Redeemable Preference Shares	100%*	74.469%*	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class B Redeemable Preference Shares	100%*	0.001%*	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class C Redeemable Preference Shares	100%*	0.001%*	Financial services

An \* denotes shareholdings attributed to the Company which are not all held directly by the Company.

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2010**

**4. DEBTORS**

	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
Amounts due from Morgan Stanley Group undertakings	<u>9,091</u>	<u>8,903</u>

**5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
Amounts owed to Morgan Stanley Group undertakings	<u>164,726</u>	<u>161,299</u>

**6. CALLED UP SHARE CAPITAL**

	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
<b>Allotted and fully paid:</b>		
<b>Equity shares</b>		
1 ordinary share of \$1 each	-	-
4,781,582 ordinary shares of €1 each	<u>4,782</u>	<u>4,782</u>
	<u>4,782</u>	<u>4,782</u>

**Equity shares**

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

**7. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	<b>Called up share capital €'000</b>	<b>Profit and loss account €'000</b>	<b>Total €'000</b>
At 1 January 2009	4,782	(18,022)	(13,240)
Loss for the financial year	-	(4,156)	(4,156)
At 1 January 2010	<u>4,782</u>	<u>(22,178)</u>	<u>(17,396)</u>
Loss for the financial year	-	(3,239)	(3,239)
At 31 December 2010	<u>4,782</u>	<u>(25,417)</u>	<u>(20,635)</u>

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**8. 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.

**9. PARENT UNDERTAKINGS**

The ultimate parent undertaking and controlling entity and the largest and smallest 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.