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Lancashire Trading B.V.

Annual Report and Accounts

30 November 2005



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DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 30 November 2005.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £3,072,000 (period ended 30 November 2004: £319,000 profit). During the year, no dividends were paid (period ended 30 November 2004: £nil). £3,072,000 (period ended 30 November 2004: £319,000 profit) will be carried to reserves. The profit of £3,072,000 (period ended 30 November 2004: £319,000 profit) shall be at the disposal of the management board, in accordance with the Articles of Association.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of Lancashire Trading B.V. (the "Company") is the issuance and trading of securities.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Company and its other subsidiary undertakings, form the Morgan Stanley Group (the "Group").

The profit and loss account for the year is set out on page 2. Both the level of business during the year and the financial position at the end of the year were satisfactory. No significant change in the Company's principal business activity is expected.

The Company was incorporated on 31 August 2004 in the Netherlands. From the date of incorporation, the management and control of the Company has been in the UK and thus the Company is liable to UK Corporation Tax on its taxable profits.

On 31 March 2005 the Company acquired the whole of the issued share capital of the newly incorporated Morgan Stanley Equity Financing SAS (at par) for £25,000. On 25 April 2006 the Company sold the whole of its interest in the share capital of Morgan Stanley Equity Financing SAS for £26,000.

DIRECTORS

The following Directors held office throughout the year:

C.E.C Hood

B. Walker

DIRECTORS' INTERESTS

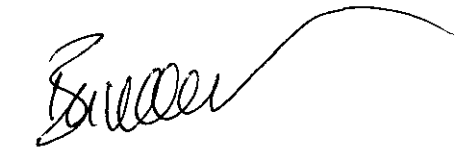
The Directors had no disclosable interests in the share and loan capital of any Group company at the beginning of the year, or at the end of the year.

By order of the Board on 27 April 2006

Directors



C.E.C. Hood



B. Walker

PROFIT AND LOSS ACCOUNT
Year ended 30 November 2005

			16 September to 30 November 2004
	Note	2005 £'000	£'000
Interest receivable and similar income	5	3,080	456
Interest payable and similar charges	6	<u>(8)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,072	456
Tax on profit on ordinary activities	7	<u>-</u>	<u>(137)</u>
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u><u>3,072</u></u>	<u><u>319</u></u>

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 has been prepared in note 13 to the accounts.

The notes on page 4 to 10 form an integral part of the accounts.

Lancashire Trading B.V.

BALANCE SHEET
30 November 2005

Before appropriation of net results

	Note	30 November 2005 £'000	30 November 2004 £'000
FIXED ASSETS			
Investments	8	<u>25</u>	<u>-</u>
CURRENT ASSETS			
Financial instruments	9	15	15
Debtors	10	<u>63,537</u>	<u>60,475</u>
		63,552	60,490
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	11	<u>(152)</u>	<u>(137)</u>
NET CURRENT ASSETS		<u>63,400</u>	<u>60,353</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>63,425</u>	<u>60,353</u>
CAPITAL AND RESERVES			
Called up share capital	12	30	30
Share premium account	13	200,004	200,004
Retained earnings	13	(139,681)	(140,000)
Profit for the period	13	3,072	319
EQUITY SHAREHOLDERS' FUNDS		<u>63,425</u>	<u>60,353</u>

These accounts were approved by the Board on 27 April 2006

Signed on behalf of the Board

Directors


C.E.C. Hood B Walker

The notes on pages 4 to 10 form an integral part of the accounts.

NOTES TO THE ACCOUNTS

30 November 2005

1. GENERAL

The Company, having its legal seat in Amsterdam, the Netherlands, currently operating from 25 Cabot Square, Canary Wharf, London, United Kingdom is engaged in the issuance and trading of securities.

The company is a wholly owned subsidiary of Morgan Stanley Investment Holdings Jersey Limited. The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and its other subsidiary undertakings, form the Group.

2. ACCOUNTING POLICIES

a) Accounting convention

The accounts are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value, and in accordance with applicable United Kingdom accounting standards as permitted by Article 362.1 of Title 9 of Book 2 of the Netherlands Civil Code, on the basis of the Company's international connections.

b) Functional currency

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

All currency amounts in the Accounts and the Notes to the Accounts are rounded to the nearest thousand Pound Sterling.

c) Foreign currencies

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

d) Current assets - financial instruments

Financial instruments, including cash and derivative products, used in the Company's trading activities are recorded on trade date and are recorded at fair value. Subsequent changes in fair value are reflected in net revenue in the profit and loss account. Fair value is the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The price transparency of a particular product will determine the degree of judgment involved in determining the fair value of the financial instrument. Price transparency is affected by a wide range of factors, including, for example, the type of product, whether it is a new product and not yet established in the marketplace and the characteristics particular to the transaction. Products for which actively quoted prices or pricing parameters are available or for which fair value is derived from actively quoted prices or pricing parameters will generally have a higher degree of price transparency. By contrast, products that are thinly traded or not quoted generally have little or no price transparency.

A substantial percentage of the fair value of the Company's financial instruments is based on observable market prices or observable market parameters, or is derived directly from such prices or parameters. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing parameters in a product (or a related product) may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

The fair value of over-the-counter ("OTC") derivative contracts is derived primarily from pricing models, which may require multiple market input parameters. Where appropriate, valuation adjustments are made to account for credit quality and market liquidity. These adjustments are applied on a consistent basis and are based upon observable market data where available. The Company also uses pricing models to manage the risks introduced by these transactions. The term "model" typically refers to a mathematical calculation methodology based on accepted financial theories. Depending on the product and the terms of the transaction,

NOTES TO THE ACCOUNTS

30 November 2005

2. ACCOUNTING POLICIES (CONTINUED)

d) Current assets - financial instruments (continued)

the fair value of OTC derivative products 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, applied consistently. In the case of more established derivative products, the pricing models used by the Company are in line with those widely accepted by the financial services industry. Pricing models take into account the contract terms, including the maturity, as well as quoted market parameters such as interest rates, volatility and the creditworthiness of the counterparty.

e) 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.

f) Cash flow statement

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

3. SEGMENTAL REPORTING

The Directors are of the opinion that it would be seriously prejudicial to the interests of the Company to give separate disclosure in respect of each geographical market within which it operates. The Company has only one class of business, as described in the Directors' Report.

4. STAFF COSTS

The Company employed no staff during the year (period ended 30 November 2004: nil).

The Directors did not receive any remuneration for their qualifying services to the Company during the year (period ended 30 November 2004: £nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £'000	16 September to 30 November 2004 £'000
Interest receivable from Group undertakings	3,080	456

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000	16 September to 30 November 2004 £'000
Interest payable to Group undertakings	8	-

NOTES TO THE ACCOUNTS
30 November 2005

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge/ (credit) in the year

	2005 £'000	16 September to 30 November 2004 £'000
UK corporation tax at 30% (period ended 30 November 2004 30%)		
- Current year	-	137
Tax on profit on ordinary activities	<u>-</u>	<u>137</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 30% (period ended 30 November 2004: 30%). The main differences are explained below:

	2005 £'000	16 September to 30 November 2004 £'000
Profit on ordinary activities before tax	<u>3,072</u>	<u>456</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	922	137
Effects of:		
Group relief received for nil consideration	(922)	
Current tax charge for the year	<u>-</u>	<u>137</u>

8. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000	Total £'000
Cost		
As at 1 December 2004	-	-
As at 30 November 2005	<u>25</u>	<u>25</u>
Net book value		
As at 30 November 2005	<u>25</u>	<u>-</u>

Fixed asset investments are all unlisted.

NOTES TO THE ACCOUNTS
30 November 2005

8. FIXED ASSET INVESTMENTS (CONTINUED)

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, or investments with a book value greater than 20% of the Company's own assets at 30 November 2005, are as follows:

Name of Company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Equity Financing SAS	France	100%	Ordinary	100%	Financial Services

9. FINANCIAL INSTRUMENTS

Financial instruments owned comprise Pound Sterling denominated corporate bonds.

MATURITY PROFILE

The maturity profile of the financial instruments owned is set out below:

	Within one year	Between one and two years	Between two and five years	More than five years	Total
30 November 2005					
Financial Instruments owned	-	15	-	-	15

INTEREST RATE RISK

	Total	Floating rate	Fixed rate	Non-interest bearing	Weighted average interest rate	Weighted average period for which the rate is fixed	Weighted average period until maturity
	£'000	£'000	£'000	£'000	%	Years	Years
Financial Assets							
At 30 November 2004							
Financial instruments owned	15	-	15	-	4.125%	2	-
At 30 November 2005							
Financial instruments owned	15	-	15	-	4.125%	1	-

NOTES TO THE ACCOUNTS

30 November 2005

9. FINANCIAL INSTRUMENTS (CONTINUED)

	Fair and Book Value 30 November 2005 £'000	Fair and Book Value 30 November 2004 £'000
Financial instruments owned	<u>15</u>	<u>15</u>

As all financial instruments are recorded at fair value, there are no unrecognised gains and losses on hedges and, consequently, an analysis of unrecognised gains and losses has not been provided.

The fair value of derivative instruments has been determined using an appropriate option pricing model.

CURRENCY RISK PROFILE

The Company's functional currency is Pounds Sterling. All assets at period end are denominated in Pounds Sterling.

10. DEBTORS

	30 November 2005 £'000	30 November 2004 £'000
Amounts due from Group undertakings	<u>63,537</u>	<u>60,475</u>

11. OTHER CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 November 2005 £'000	30 November 2004 £'000
Amounts owing to Group undertakings	152	-
Corporation tax	<u>-</u>	<u>137</u>
	<u>152</u>	<u>137</u>

NOTES TO THE ACCOUNTS
30 November 2005

12. CALLED UP SHARE CAPITAL

	2005 Number	2004 Number
Authorised:		
Equity shares		
40,000 Class A shares of EUR 1.20 each	40,000	40,000
4,000,000 Class B shares of EUR 0.01 each	<u>4,000,000</u>	<u>4,000,000</u>
	30 November 2005 £'000	30 November 2004 £'000
Allotted and fully paid:		
Equity shares		
20,000 Class A shares of EUR 1.20 each	16	16
2,000,000 Class B shares of EUR 0.01 each	<u>14</u>	<u>14</u>
	<u>30</u>	<u>30</u>

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up, being EUR 0.6755:£1 on 31 August 2004 and EUR 0.6844:£1 on 15 September 2004.

The Class A shares carry 120 votes each. The Class B shares carry 1 vote each. Neither class of shares are redeemable.

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Retained reserves £'000	Profit and loss account £'000	Total £'000
As at 16 September 2004	30	200,004	-	(140,000)	60,034
Appropriation of net result	-	-	(140,000)	140,000	-
Profit for the period	-	-	-	319	319
At 1 December 2004	30	200,004	(140,000)	319	60,353
Appropriation of net result	-	-	319	(319)	-
Profit for the year	-	-	-	3,072	3,072
At 30 November 2005	<u>30</u>	<u>200,004</u>	<u>(139,681)</u>	<u>3,072</u>	<u>63,425</u>

14. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow Group undertakings under paragraph 3(c) of FRS 8 Related Party Disclosures. There were no other related party transactions requiring disclosure.

NOTES TO THE ACCOUNTS

30 November 2005

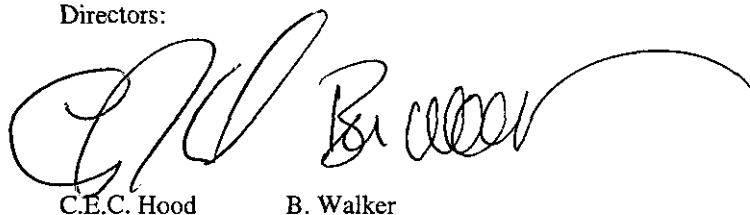
15. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group accounts are prepared is Morgan Stanley. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its accounts can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member of is MSDW Investment Holdings UK Limited which is registered in England and Wales. Copies of its accounts can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown way, Maindy, Cardiff CF 14 3UZ.

London, 27 April 2006

Directors:

The image shows two handwritten signatures in black ink. The signature on the left is for C.E.C. Hood and the one on the right is for B. Walker. Both signatures are fluid and cursive.

C.E.C. Hood

B. Walker

ADDITIONAL INFORMATION.

Statutory rules concerning appropriation of the net result

The Articles of Incorporation of the company provide that the net result for the year is at the disposition of the management board.

Appropriation of the net result for the period

Awaiting the decision by the management board, the net result for the year is separately included in the shareholder's equity as profit retained for the period.

Subsequent events

On 25 April 2006 the Company sold the whole of its interest in the share capital of Morgan Stanley Equity Financing SAS for £26,000. No other events have occurred since the balance sheet date, which would change the financial position of the Company and which would require adjustment of disclosure in the annual report now presented.

Exemption from audit

Lancashire Trading B.V. qualifies as a small sized company according to the Netherlands Civil Code which means it is exempted from auditing the financial statements. For this reason the financial statements do not include an auditor's report.