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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and Accounts

30 November 2007

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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 accounts for Morgan Stanley Sinope Cayman Limited (the "Company") for year ended 30 November 2007.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was €944,000 (for the period from 25 January 2006 to 30 November 2006: €1,316,000 loss).

During the year, no dividends were paid.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Company is an exempt Company incorporated under the laws of the Cayman Islands and its principal activity is to act as an intermediate holding company.

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").

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 business is expected.

The profit and loss account for the year is set out on page 4. The Company's loss has decreased from €1,316,000 in the prior period to €944,000 in the current year. This is mainly due to a decrease in the loss on the financial instrument of €534,000.

The balance sheet on page 5 of the financial statements shows that the Company's financial position at the end of the year is €132,740,000, a decrease of 1% from the prior year.

There have been no significant events after the balance sheet date.

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.

Risk Management

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Group's business activities. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities, in accordance with defined policies and procedures.

Market risk

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

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

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor is unable to meet its financial obligations.

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

Liquidity and cash flow risk

The Group's senior management establishes the overall liquidity and capital policies of the Group. The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Group and the Company may be unable to access adequate financing to service its financial obligations when they fall due without material adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

A Coull (appointed 24 November 2008)
B Gill (appointed 16 January 2007) (resigned 18 November 2008)
S I Merry
L A Nash (resigned 1 May 2008)
M Slingo (resigned 20 December 2006)

AUDITORS

Deloitte & Touche LLP have expressed their willingness to be appointed as auditors of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Statement as to disclosure of information to auditors

Each of the persons who are Directors of the Company at the date when this report is approved confirm that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing their report and the financial statements. The Directors have prepared the financial statements for the Company in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Company was incorporated, as an exempt company in the Cayman Islands under the laws of the Cayman Islands. The Directors and the Company's shareholder require the financial statements of the Company to be prepared in accordance with Part VII of the Companies Act 1985 of the United Kingdom (the "Companies Act 1985") and drawn up in Euros.

The Directors are required to prepare such 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:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with Part VII of the Companies Act 1985. 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.

By order of the Board on *3 December 2008*



Director

MORGAN STANLEY SINOPE CAYMAN LIMITED

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF MORGAN STANLEY SINOPE CAYMAN LIMITED

We have audited the non-statutory financial statements of Morgan Stanley Sinope Cayman Limited for the year ended 30 November 2007 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

As explained in the Statement of Directors' responsibilities, these financial statements have been prepared in accordance with the requirements of the Company's Articles of Association, to be in accordance with Part VII of the United Kingdom Companies Act 1985 ("UK Companies Act 1985"), that would have applied had they been statutory accounts under the Act, and are solely for the use of the Directors.

Our report is prepared solely for the confidential use of the Directors of Morgan Stanley Sinope Cayman Limited and solely for the purpose of assisting the Directors in their stewardship of the Company. Our report must not be made available or copied in whole or in part to any other party save for the Financial Services Authority ("FSA") where there is a statutory obligation to do so and may not be relied upon by any other party for any purpose whatsoever. Notwithstanding that a copy of our Report will be provided to the FSA, no-one (including, without limitation the FSA) other than the Directors is entitled to rely on our report for any purpose whatsoever and we accept no duty of care or liability to any other party (including without limitation, the FSA), who is shown or gains access to this report.

Respective responsibilities of Directors and auditors

As stated in the Statement of Directors' responsibilities and in accordance with the Articles of Association, the Company's Directors are responsible for the preparation of the financial statements in accordance with Part VII of the UK Companies Act 1985, which permits the use of UK accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Part VII of the UK Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of the financial statements. As the company was exempt from audit in the prior period, we have not audited the corresponding amounts for that period.

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2007 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the provisions of Part VII of the UK Companies Act 1985 that would have applied had they been statutory accounts under that Act; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP
Deloitte LLP

Chartered Accountants
London, United Kingdom

Date

5th December, 2008

On 1 December 2008 the Company's auditors changed their name from Deloitte & Touche LLP to Deloitte LLP. Accordingly, they have signed the report in their new name.

MORGAN STANLEY SINOPE CAYMAN LIMITED

PROFIT AND LOSS ACCOUNT Year ended 30 November 2007

	Note	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
NET REVENUE	3	(554)	(1,088)
Administrative expenses	4	(8)	-
OPERATING LOSS		<u>(562)</u>	<u>(1,088)</u>
Other interest receivable and similar items	6	10,886	7,308
Interest payable and similar charges	7	<u>(11,268)</u>	<u>(7,536)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(944)	(1,316)
Tax on loss on ordinary activities	8	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR/PERIOD		<u><u>(944)</u></u>	<u><u>(1,316)</u></u>

All operations were continuing in the current year and prior period.

There were no recognised gains or losses during the year 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 15 to the accounts.

The notes on pages 6 to 17 form an integral part of the accounts.

MORGAN STANLEY SINOPE CAYMAN LIMITED

BALANCE SHEET 30 November 2007

		30 November 2007 €'000	Unaudited 30 November 2006 €'000
	Note		
FIXED ASSETS			
Investments	9	403,320	403,320
CURRENT ASSETS			
Debtors	12	-	7,308
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments	10	-	(1,088)
Other creditors	12	(270,580)	(275,856)
		(270,580)	(276,944)
NET CURRENT LIABILITIES		(270,580)	(269,636)
TOTAL ASSETS LESS CURRENT LIABILITIES		132,740	133,684
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Share premium	15	135,000	135,000
Profit and loss account	15	(2,260)	(1,316)
SHAREHOLDERS' FUNDS		132,740	133,684

These accounts were approved by the Board on **3 December 2008**

Signed on behalf of the Board


Director

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2007

1. ACCOUNTING POLICIES

a) Accounting convention

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

The Company is not required to prepare consolidated accounts by virtue of the exemption under section 247 of the Companies Act 1985. The accounts therefore present information about the Company as an individual entity and not about its group.

The comparatives for the period ending 30 November 2006 are unaudited as the company was exempt in the prior period.

Changes in accounting policies

The Company has adopted FRS 23: *The effects of changes in foreign exchange rates* and FRS 26: *Financial instruments: Recognition and measurement* with effect from 1 December 2006. The Company has elected to take advantage of transitional provisions within FRS 26 and not restate comparative information. Where comparative information has been prepared on the basis of the Company's previous accounting policies, the accounting policies applied for the prior and current year are disclosed separately to the extent that they differ.

The main adjustment that would make prior year information compliant with FRS 26 would be the reclassification of financial instruments into FRS 26 categories. There was no impact on the opening net assets of the Company as a result of the adoption of FRS 26.

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 25: *Financial Instruments: Disclosure and presentation* and from the requirements of FRS 29.

b) Functional currency

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

All currency amounts in the Directors' report, the accounts and the notes are rounded to the nearest thousand Euros.

c) 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 ruling at the dates of the transactions. All other translation differences are taken through the profit and loss account.

d) Recognition of income and expense

i) Net gains and losses on financial instruments held for trading

Net gains and losses on financial instruments held for trading (consisting only of derivatives used for risk management purposes) include all related realised and unrealised fair value changes, interest income and expense, fees and commissions, dividends, and foreign exchange differences.

NOTES TO THE ACCOUNTS
Year ended 30 November 2007

1. ACCOUNTING POLICIES (CONTINUED)

d) Recognition of income and expense (continued)

ii) Interest

Interest income and interest expense on financial assets and financial liabilities not at fair value is recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial 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.

e) Determination of fair value

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

The price transparency of a particular product will determine the degree of judgement 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 product. Products for which actively quoted prices or market data are available or for which fair value is derived from actively quoted prices or market data will generally have a higher degree of price transparency. By contrast, products that are thinly traded or not quoted will generally have little or no price transparency.

A substantial percentage of the fair value of the Company's financial instruments held at fair value through profit or loss is based on observable market prices, observable market data, or is derived from such prices or data. The availability of observable market prices and market data can vary from product to product. Where available, observable market prices and market data in a product (or a related product) may be used to derive a price without requiring significant judgement.

In certain markets, observable market prices or market data are not available for all products, and fair value is determined using valuation techniques appropriate for each particular product. These valuation techniques involve some degree of judgement. The transparency of market prices and/or market data will determine the degree of judgement involved in determining the fair value of the Company's financial instruments.

The fair values of many financial instruments, including over-the-counter (OTC) financial instruments, are derived primarily using valuation techniques, which may require multiple market data as inputs. The Company also uses valuation techniques to manage the risks introduced by OTC financial instruments. Depending on the product and the terms of the valuation technique the fair value of the OTC financial instrument 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 financial instruments, the valuation techniques used by the Company are widely accepted by the financial services industry. Valuation techniques take into account the contract terms including the maturity, as well as market data such as interest rates, volatility and the creditworthiness of the counterparty.

f) Fixed asset investments

Investments in group undertakings are stated at cost, less provision for any impairment.

g) Offsetting of financial assets and financial liabilities

Where there is a legally enforceable right to set off the recognised amounts and an intention to settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the balance sheet. All other amounts are presented on a gross basis.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

1. ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments - financial assets and financial liabilities held for trading

Financial instruments categorised as held for trading, consisting only of derivatives used for risk management purposes, are initially recorded on trade date at fair value. Subsequent changes in fair value are reflected in the profit and loss account in net revenue.

i) Repurchase and resale agreements and securities borrowing and lending

In the course of financing its business (and as part of its trading activities), the Company enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given. Cash balances and accrued interest arising under repurchase agreements and securities lending arrangements are classified as financial liabilities at amortised cost and the related securities, where owned by the Company, are included in financial instruments at fair value. Cash balances and accrued interest arising under resale agreements and securities borrowing arrangements are classified as loans and receivables within current assets. Securities received by the Company under resale arrangements and securities borrowing arrangements are not recognised on the balance sheet.

j) 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.

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

k) 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. 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.

3. NET REVENUE

	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
Net losses on financial instruments categorised as held for trading	(554)	(1,088)

Financial instruments categorised as held for trading consist of derivatives used for risk management purposes. Further information relating to the use of the derivatives by the Company is included in the Risk Management section of the Directors' Report with the accounting policy for such instruments included in 1(d)(i) and 1(h).

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

4. OTHER OPERATING EXPENSES

	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
Auditor's remuneration – audit fees	<u>8</u>	<u>-</u>

The Company was not audited in the prior period therefore there is nil charge for 2006.

5. STAFF COSTS

The Company employed no staff during the year (2006: nil).

The Directors did not receive any remuneration for their qualifying services to the Company during the year. (2006: €nil).

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
Other interest receivable	<u>10,886</u>	<u>7,308</u>

Included in interest receivable from Group undertakings is €10,857,000 preference share dividends.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
Interest and similar charges payable to Group undertakings	<u>11,268</u>	<u>7,536</u>

Included in interest and similar charges payable to Group undertakings is €10,886,000 (2006: €7,308,000) of preference share dividends.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

8. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in the year

	Year to 30 November 2007 €'000	Unaudited 25 January 2006 to 30 November 2006 €'000
UK corporation tax at 30%		
- Current year/period	-	-
Tax on loss on ordinary activities	-	-

Factors affecting the tax credit for the year/period

The current period UK taxation credit is lower than that resulting from applying the standard UK corporation tax rate of 30%. The main differences are explained below:

	Year to 30 November 2007 €'000	Unaudited 25 January 2005 to 30 November 2006 €'000
Loss on ordinary activities before tax	(944)	(1,316)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(283)	(395)
Effects of:		
Non taxable dividend income	(3,266)	(2,192)
Expenses not deductible for tax purposes	164	326
Group relief surrendered for nil consideration	3,385	2,261
Current tax credit for the year/period	-	-

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2007

9. FIXED ASSET INVESTMENTS

**Subsidiary
undertakings
€'000**

Cost

At 1 December 2006 and 30 November 2007

403,320

On 24 February 2006, the Company invested in 20,000 ordinary shares in Morgan Stanley Adrastea Netherlands B.V. for €20,000. On 27 March 2006 a non-stipulated share premium contribution of €141,400,000 was made on the 20,000 ordinary shares. On this date the Company also invested in 65,000 Class A Redeemable Preference shares of €1 each in Morgan Stanley Adrastea Netherlands B.V. for a total consideration of €261,900,000.

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 2007, 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	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class A Redeemable Preference shares	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class B Redeemable Preference shares	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class C Redeemable Preference shares	100%	Financial services

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

10. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

As at 30 November 2007	Loans and Receivables at amortised cost €'000	Investment in subsidiaries held at cost €'000	Total €'000
FIXED ASSETS			
Investments	-	403,320	403,320
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	(270,580)	-	(270,580)
TOTAL NET ASSETS	(270,580)	403,320	132,740

11. FINANCIAL INSTRUMENTS

Financial instruments included at fair value

	30 November 2007 €'000	Unaudited 30 November 2006 €'000
Liabilities	-	1,088

Changes in fair value of financial instruments of €554,000 (2006: €1,088,000) have all been included in the profit and loss account as a component of net revenue.

The fair value of the Company's derivative assets and liabilities (both listed and Over-the-Counter) are summarised by class in the table below:

	<u>2007</u>		<u>Unaudited 2006</u>	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Interest rate swaps	-	-	-	1,088

There were no terms and conditions that may individually significantly affect the amount, timing and certainty of future cash flows for the Company.

12. OTHER CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 November 2007 €'000	Unaudited 30 November 2006 €'000
Securities sold under agreements to repurchase and cash collateral on stocks loaned:		
Group undertakings	-	269,207
Amounts due to group undertakings	270,580	6,649
	270,580	275,856

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

13. TRANSFERS OF FINANCIAL ASSETS, INCLUDING PLEDGES OF COLLATERAL

In the ordinary course of business, the Group enters into various transactions that result in the transfer of financial assets to third parties which for accounting purposes may not result in full derecognition of the financial asset.

The following table presents those financial assets which have been sold or otherwise transferred, but which for accounting purposes do not qualify for derecognition and continue to be recognised.

	2007	Unaudited 2006
	€'000	€'000
Corporate and other debt	-	269,207

The financial assets that do not qualify for derecognition arise from repurchase agreements and securities lending arrangements. Under these types of transactions the Company generally retains substantially all risks and rewards of the transferred financial assets including credit risk, settlement risk, country risk and market risk.

These transactions are mostly conducted under standard agreements used by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The resulting credit exposures are controlled by daily monitoring and collateralisation of the positions.

14. CALLED UP SHARE CAPITAL

	2007 Number	Unaudited 2006 Number
Authorised:		
Equity shares		
50,000 ordinary shares of US \$1 each	50,000	50,000
	2007 €'000	2006 €'000
Allotted and fully paid:		
Equity shares		
101 ordinary shares of US \$1 each	-	-

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2007

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital €'000	Share premium account €'000	Profit and loss account €'000	Total €'000
Loss for the period	-	-	(1,316)	(1,316)
Capital subscribed	-	135,000	-	135,000
As at 1 December 2006	-	135,000	(1,316)	133,684
Loss for the year	-	-	(944)	(944)
As at 30 November 2007	-	135,000	(2,260)	132,740

16. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

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

Significant risks faced by the Group resulting from its investment activities are set out below.

a) Credit risk

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

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

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

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

As the Entity enters into all of its financial asset transactions with group entities, the Entity's credit risk related to this concentration is mitigated as both the Entity and the Group entities are wholly owned indirect subsidiaries of the same group parent entity, Morgan Stanley.

NOTES TO THE ACCOUNTS
Year ended 30 November 2007

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity and cash flow risk

Liquidity risk is the risk that the Entity may encounter difficulty in realising financial assets or otherwise raising funds to meet commitments associated with financial instruments.

The Group's senior management establishes the overall liquidity and capital policies of the Group. The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Group and the Company may be unable to access adequate financing to service its financial obligations when they come due without material, adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

The following table shows the cash flows on the Company's financial liabilities on the basis of the earliest possible contractual maturity:

	On demand	Total
	€'000	€'000
2007		
Creditors: Amounts falling due within one year		
Other creditors	270,580	270,580
Total	<u>270,580</u>	<u>270,580</u>
	Unaudited	Unaudited
	On demand	Total
	€'000	€'000
2006		
Creditors: Amounts falling due within one year		
Financial instruments	1,088	1,088
Other creditors	275,856	275,856
Total	<u>276,944</u>	<u>276,944</u>

c) Market Risk

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

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

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

The Group manages the market risk associated with its business activities in consideration of each individual legal entity, including the use of derivatives for risk management purposes by the Company, but on a global basis, at both a trading division and an individual product level.

The Company actively manages its market risk by hedging with other Group companies. The residual market risk on the entity is not material.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2007

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Interest rate risk

The table below summarises the Company's exposure to interest rate risk. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	On demand	Total
	€'000	€'000
At 30 November 2007		
Assets		
Investments	261,900	261,900
Total assets	<u>261,900</u>	<u>261,900</u>
Liabilities		
Other creditors	(270,580)	(270,580)
Total liabilities	<u>(270,580)</u>	<u>(270,580)</u>
Total interest sensitivity gap	<u>8,680</u>	<u>8,680</u>

	Unaudited On demand	Unaudited Total
	€'000	€'000
At 30 November 2006		
Assets		
Investments	261,900	261,900
Total assets	<u>261,900</u>	<u>261,900</u>
Liabilities		
Financial instruments	(1,088)	(1,088)
Other creditors	(275,856)	(275,856)
Total liabilities	<u>(276,944)</u>	<u>(276,944)</u>
Total interest sensitivity gap	<u>15,044</u>	<u>15,044</u>

The following sensitivity analysis shows the potential gain / (loss) to the income statement of a parallel increase and decrease of 50 basis points to current market interest rates:

	50 basis points increase	50 basis points decrease
At 30 November 2007	<u>(28)</u>	<u>28</u>
	50 basis points increase	50 basis points decrease
At 30 November 2006 (unaudited)	<u>(23)</u>	<u>23</u>

MORGAN STANLEY SINOPE CAYMAN LIMITED

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17. 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.

18. 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 accounts are drawn up and of which the Company is a member is Morgan Stanley.