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UK registration number: FC 026606

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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and financial statements

31 December 2015

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MORGAN STANLEY SINOPE CAYMAN LIMITED

CONTENTS	PAGE
Strategic report	1
Directors' report	5
Statement of comprehensive income	7
Statement of changes in equity	8
Statement of financial position	9
Notes to the financial statements	10

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Sinope Cayman Limited (the “Company”) for the year ended 31 December 2015

PRINCIPAL ACTIVITY

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

The principal activity of the Company 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 Morgan Stanley’s other subsidiary undertakings, form the “Morgan Stanley Group”

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

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

During the first half of 2015, global growth was supported by a rebound in the United States (“US”) and firmer growth in the euro zone and the UK economies, partially offset by sluggishness in major emerging market economies. During the second half of 2015, global growth slowed as a result of the continued sluggishness of emerging market economies, declines in energy prices, and the slowdown of China’s economic growth. Global real gross domestic product growth decelerated in 2015 from 2014. Growth in emerging market economies slowed for a fourth straight year, while growth in developed market economies was steady but sluggish. Notable trends during the year included falling oil and other commodity prices, an appreciating US dollar weighing on global trade flows and increasing policy challenges in a number of major emerging market economies, most notably China. The US Federal Reserve announced a rate increase in December 2015 based on cumulative labour market progress and rising confidence in achieving its inflation target. However, with Europe and Japan still struggling and China decelerating, the European Central Bank (“ECB”), the Bank of Japan and the People’s Bank of China acted to continue their targeted monetary policy easing measures. Subsequent to 31 December 2015, the Bank of Japan announced a programme of Quantitative and Qualitative Monetary Easing (“QE”) with a Negative Interest Rate that introduced a three tier policy rate system for bank reserves with a low rate of negative 0.1%. Additionally, in March 2016 the ECB announced a further QE programme and reduced interest rates with the deposit facility rate falling from negative 0.3% to negative 0.4% and the benchmark interest rate falling from 0.05% to zero%.

On 23 June 2016, the UK electorate voted to leave the European Union (the “EU”). It is difficult to predict the future of the UK’s relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. There are several alternative models of relationship that the UK might seek to negotiate with the EU, the timeframe for which is uncertain but could take two years or more. The regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley, is expected to evolve and specific and meaningful information regarding the long-term consequences of the vote is expected to become clearer over time. Morgan Stanley will continue to evaluate various courses of action in the context of the development of the UK’s withdrawal from the EU and the referendum’s potential impact on its operations.

The statement of comprehensive income is set out on page 7. The Company’s profit for the year has increased by €1,766,000 to €6,583,000 and is primarily attributable to a decrease in the net interest expense on the Company’s loans to other Morgan Stanley Group undertakings due to a decrease in average interest rates in the year.

The statement of financial position of the Company is set out on page 9. The Company’s net assets at the end of the year were €159,235,000 compared to €152,652,000 in the prior year. The €6,583,000 increase is attributable to interest accrued on the Company’s loans to other Morgan Stanley Group companies.

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

The Company is in a net liability position. The net liability position is due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group. As discussed in the Risk Management section below, and in note 2 (Basis of preparation) to the Company's financial statements, the Company operates within the global liquidity management framework of the Morgan Stanley Group and relies on this framework to provide sufficient liquidity to meet its obligations.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the US 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 further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

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.

Risk management

Risk is an inherent part of the Company's business activity. The Company 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 Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group, and which include escalation to appropriate senior management personnel of the Company.

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities, correlations or other market factors.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the appropriate senior management personnel.

The Morgan Stanley Group manages the market risk associated with its trading activities at both a trading division and an individual product level, and includes consideration of market risk at the legal entity level.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. Its credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The Morgan Stanley Group's senior management establishes the 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 primary goal of the Morgan Stanley Group's liquidity and funding risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems, or from external events (e.g. fraud, theft, legal and compliance risks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, business disruption and system failure, damage to physical assets, and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

Legal, regulatory and compliance risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgements, damages and/or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering and terrorist financing rules and regulations.

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Company 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 heightened legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, and Giving Back*. The Morgan Stanley Group is committed to establishing a strong culture anchored in these core values, and in its governance framework, which includes management oversight, effective risk management and controls, training and development programs, policies, procedures, and defined roles and responsibilities. The Morgan Stanley Group's Code of Conduct (the "Code") establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code. The annual employee performance appraisal process includes an evaluation of adherence to the Code and the Morgan Stanley Group's core values. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether their employees effectively managed and/or supervised risk control practices during the performance year. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where an employee's act or omission (including with respect to direct supervisory responsibilities) causes a restatement of the Morgan Stanley Group's consolidated financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenues associated with a position on which the employee was paid and the employee operated outside of internal control policies.

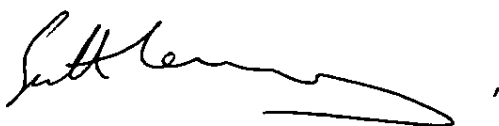
Going Concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. 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 Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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.

Approved by the Board and signed on its behalf by **SCOTT MERRY**



Director

26 OCTOBER 2016

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 14) for the Company for the year ended 31 December 2015

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €6,583,000 (2014 €4,817,000 profit after tax)

During the year, no dividends were paid or proposed (2014 €nil)

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

Information regarding risk management and future developments has been included in the Strategic report

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report

S I Merry

B M L Young

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company and its subsidiary undertakings

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006 of the UK (the "Companies Act 2006")) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company and its subsidiary undertakings

EVENTS AFTER THE REPORTING DATE

On 26 May 2016, the Company received an interim dividend of €10,917,000, consisting of €7,308,000 of accrued dividends as at 31 December 2015 and €3,609,000 for the period 1 January 2016 to 30 April 2016 on the Class A Redeemable Preference Shares from Morgan Stanley Adrastea Netherlands B V

CHANGE IN ACCOUNTING FRAMEWORK

The Financial Reporting Council has revised financial reporting in the UK and the Republic of Ireland to fundamentally reform United Kingdom Generally Accepted Accounting Practices ("UK GAAP") Under the new framework, from 1 January 2015, the Company has transitioned to Financial Reporting Standard ("FRS") 101 *Reduced Disclosure Framework* ("FRS 101") There were no adjustments to any period presented, on adoption of FRS 101, other than the reclassification of certain items in order to conform to the current presentation

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with FRS 101. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether FRS 101 has been followed, 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 Part 15 of 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 **SCOTT MERRY**



26 OCTOBER 2016

Director

MORGAN STANLEY SINOPE CAYMAN LIMITED**STATEMENT OF COMPREHENSIVE INCOME**
Year ended 31 December 2015

	Note	2015 €'000	2014 €'000
Interest income	4	13 953	14,808
Interest expense	4	(7,370)	(9,991)
PROFIT BEFORE TAXATION		<u>6,583</u>	<u>4,817</u>
Income tax	6	-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>6,583</u></u>	<u><u>4,817</u></u>

All operations were continuing in the current and prior year

The notes on pages 10 to 19 form an integral part of the financial statements

MORGAN STANLEY SINOPE CAYMAN LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital €'000	Share premium €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2014	-	135,000	12,835	147,835
Total comprehensive income	-	-	4,817	4,817
Balance at 31 December 2014	-	135,000	17,652	152,652
Total comprehensive income	-	-	6,583	6,583
Balance at 31 December 2015	-	135,000	24,235	159,235

The notes on pages 10 to 19 form an integral part of the financial statements

MORGAN STANLEY SINOPE CAYMAN LIMITED*Registered number MC 161501***STATEMENT OF FINANCIAL POSITION****As at 31 December 2015**

	Note	2015 €'000	2014 €'000
ASSETS			
Loans and receivables			
Other receivables	7	189,479	184,586
Investments in subsidiaries	8	403,320	403,320
TOTAL ASSETS		<u>592,799</u>	<u>587,906</u>
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost			
Other payables	9	433,564	435,254
TOTAL LIABILITIES		<u>433,564</u>	<u>435,254</u>
EQUITY			
Share capital	10	-	-
Share premium account		135,000	135,000
Retained earnings		24,235	17,652
Equity attributable to owners of the Company		<u>159,235</u>	<u>152,652</u>
TOTAL EQUITY		<u>159,235</u>	<u>152,652</u>
TOTAL LIABILITIES AND EQUITY		<u>592,799</u>	<u>587,906</u>

These financial statements were approved by the Board and authorised for issue on 26 OCTOBER 2016

Signed on behalf of the Board

Director



SCOTT MEARY

The notes on pages 10 to 19 form an integral part of the financial statements

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1. CORPORATE INFORMATION

The Company is incorporated and domiciled Cayman Islands, at the following registered address PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is an exempted company with limited liability. The registered number of the Company is MC-161501.

Details of the parent and ultimate parent of the group are disclosed in the Related party disclosures note 13.

2. BASIS OF PREPARATION

The Company is incorporated under the laws of the Cayman Islands, which permits the use of UK company law and the use of UK accounting standards in the preparation of financial statements.

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley which has prepared consolidated financial statements for the year ended 31 December 2015, has its registered office at c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, The United States of America and is incorporated in the state of Delaware, in the United States of America. The financial statements therefore present information about the Company as an individual entity and not about its group.

Statement of compliance

The financial statements have been prepared in accordance with FRS 101 and therefore the Company has adopted the following standards issued by the Financial Reporting Council, with effect from 1 January 2015:

- FRS 100 *Application of Financial Reporting Requirements* ("FRS 100")
- FRS 101 (as issued in August 2014)
- Amendments to FRS 101 2014/15 cycle review and other minor amendments

Included within the amendments to FRS 101 above are amendments arising for consistency with company law which have been early adopted with effect from 1 January 2015.

The Company meets the definition of a qualifying entity as defined in FRS 100 and has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of International Financial Reporting Standard ("IFRS") 7 *Financial Instruments Disclosures*
- (b) The requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- (c) The requirement in paragraph 38 of International Accounting Standard ("IAS") 1 *Presentation of Financial Statements* ("IAS 1") to present comparative information in respect of Paragraph 79(a)(iv) of IAS 1
- (d) The requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 111 and 134-136 of IAS 1
- (e) The requirements of IAS 7 *Statement of Cash Flows*
- (f) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- (g) The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures* ("IAS 24")
- (h) The requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- (i) The requirements of paragraphs 6 and 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

2. BASIS OF PREPARATION (CONTINUED)

Statement of compliance (continued)

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 13.

New standards and interpretations adopted during the year

As noted in the Statement of compliance above, the Company has adopted FRS 101 for the first time in the current year.

There were no adjustments to any period presented on adoption of FRS 101, other than the reclassification of certain items in order to conform to the current presentation.

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable accounting standards and UK company law.

The Company is incorporated under the laws of the Cayman Islands, which permits the use of UK company law and the use of UK accounting standards in the preparation of financial statements.

Use of estimates and sources of uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions regarding matters that affect the financial statements and related disclosures. The Company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

For further details on the judgements used in determining fair value of certain assets and liabilities, see note 3(d).

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Strategic report on pages 1 to 4.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. 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 fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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 financial statements, Strategic report and Directors' report are rounded to the nearest thousand Euros

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All other translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other income' or 'Other expense'.

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: investments in subsidiaries, undertakings and loans and receivables.

The Company classifies its financial liabilities as financial liabilities at amortised cost on initial recognition.

More information regarding these classifications is included below.

i) Investments in subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are stated at cost, less provision for any impairment (see note 3(f) below). Dividends, impairment losses and reversals of impairment losses are recognised in the statement of comprehensive income in 'Net gains/ (losses) from investments in subsidiaries'.

ii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the statement of comprehensive income in 'Other expense'.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Loans and receivables and financial liabilities at amortised cost (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. 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 instrument.

d. Fair value

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.

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).

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as either loans and receivables or investments in subsidiaries. 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 investment in subsidiaries are measured as the difference between cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment is recognised within the statement of comprehensive income in 'Net gains/ (losses) on investment in subsidiaries' and is reflected against the carrying amount of the impaired asset on the statement of financial position.

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. 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 3(c). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Income tax

The tax expense represents the sum of the tax currently payable

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before income tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

h. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income.

5. OTHER EXPENSE

The Company employed no staff during the year (2014: nil).

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related party disclosures (note 13).

6. INCOME TAX

Analysis of result in the year

	2015 €'000	2014 €'000
Current tax result		
UK corporation tax at 20.25% (2014: 21.49%)		
- Current year	-	-
Income tax	<u>-</u>	<u>-</u>

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

6. INCOME TAX (CONTINUED)

Reconciliation of effective tax rate

The current year income tax expense is lower (2014 lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 20.25% (2014 21.49%). The main differences are explained below

	2015 €'000	2014 €'000
Profit before income tax	6,583	4,817
Income tax using the average standard rate of corporation tax in the UK of 20.25% (2014 21.49%)	1,333	1,035
Impact on tax of Non-taxable dividends on preference shares shown as interest income	(2,205)	(2,340)
Group relief received for no cash consideration	872	1,305
Total income tax in the statement of comprehensive income	-	-

7. OTHER RECEIVABLES

	2015 €'000	2014 €'000
Amounts due from other Morgan Stanley Group undertakings	189,479	184,586

8. INVESTMENT IN SUBSIDIARIES

	Subsidiary undertakings €'000
Cost and carrying amounts At 1 January 2015 and 31 December 2015	403,320

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

8. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of all investments in subsidiaries of the Company at 31 December 2015 and 31 December 2014 are as follows

Name of Company	Address of undertaking's registered office	Type of shares held	Proportion of shares held		Proportion of voting rights held		Nature of business
			2015	2014	2015	2014	
Morgan Stanley Adrastea Netherlands B V	20 Bank Street, Canary Wharf, London, United Kingdom, E14 4AD	Ordinary	100%	100%	23 529%	23 529%	Financial services
Morgan Stanley Adrastea Netherlands B V	20 Bank Street, Canary Wharf, London, United Kingdom, E14 4AD	Class A Redeemable Preference Shares	100%	100%	76 469%	76 469%	Financial services
Morgan Stanley Adrastea Netherlands B V	20 Bank Street, Canary Wharf, London, United Kingdom, E14 4AD	Class B Redeemable Preference Shares	100%	100%	0 001%	0 001%	Financial services
Morgan Stanley Adrastea Netherlands B V	20 Bank Street, Canary Wharf, London, United Kingdom, E14 4AD	Class C Redeemable Preference Shares	100%	100%	0 001%	0 001%	Financial services

9. OTHER PAYABLES

	2015 €'000	2014 €'000
Amounts due to other Morgan Stanley Group undertakings	433,564	435,254

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

10. EQUITY

Ordinary share capital

	Ordinary shares of \$1 each Number
Authorised	
At 1 January 2015 and 31 December 2015	<u>50,000</u>

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each €'000
Allotted and fully paid		
At 1 January 2015 and 31 December 2015	<u>101</u>	<u>-</u>

Reserves

Share premium

The 'Share premium account' comprises the capital raised in an issue of shares that exceeds the nominal value of the shares

11. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled

At 31 December 2015	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
ASSETS			
Loans and receivables			
Other receivables	189,479	-	189,479
Investments in subsidiaries	-	403,320	403,320
	<u>189,479</u>	<u>403,320</u>	<u>592,799</u>
LIABILITIES			
Financial liabilities at amortised cost			
Other payables	<u>433,564</u>	<u>-</u>	<u>433,564</u>

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

11. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2014

	Less than or equal to twelve months €'000	More than or equal to twelve months €'000	Total €'000
ASSETS			
Loans and receivables			
Other receivables	184,586	-	184,586
Investments in subsidiaries	-	403,320	403,320
	<u>184,586</u>	<u>403,320</u>	<u>587,906</u>
LIABILITIES			
Financial liabilities at amortised cost			
Other payables	435,254	-	435,254
	<u>435,254</u>	<u>-</u>	<u>435,254</u>

12. SEGMENT REPORTING

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

13. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley Himalia Cayman Limited, which has its registered office at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and is registered in Cayman Islands. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

The Company's 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 which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley & Co International plc, which has its registered office at 25 Cabot Square, Canary Wharf, London E14 4QA and is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

Key management compensation

Directors' remuneration

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2014: €nil).

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

14. EVENTS AFTER THE REPORTING PERIOD

On 26 May 2016, the Company received an interim dividend of €10,917,000, consisting of €7,308,000 of accrued dividends as at 31 December 2015 and €3,609,000 for the period 1 January 2016 to 30 April 2016 on the Class A Redeemable Preference Shares from Morgan Stanley Adrastea Netherlands B V