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**MORGAN STANLEY HIMALIA CAYMAN LIMITED**

**Report and Accounts**

**For the period from 1 December 2007 to 31 December 2008**



# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

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# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

## **DIRECTORS' REPORT**

The Directors present their report and accounts (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 15) for Morgan Stanley Himalia Cayman Limited (the "Company") for the thirteen month period from 1 December 2007 to 31 December 2008.

The Company changed its accounting reference date from 30 November to 31 December on 17 December 2008, resulting in the current accounting period being extended from 30 November 2008 to 31 December 2008.

## **RESULTS AND DIVIDENDS**

The loss for the period, after tax, was €9,111,000 (2007: €6,006,000 loss after tax).

During the period, no dividends were paid or proposed (2007: €Nil).

## **PRINCIPAL ACTIVITY**

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 Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group (the "Group").

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

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

## **BUSINESS REVIEW**

The profit and loss account for the period is set out on page 4. The Company's loss has increased from €6,006,000 in the prior year to €9,111,000. This is due to an increase in intercompany interest payable.

The balance sheet on page 5 of the financial statements shows that the Company's net liabilities at the end of the period were €13,240,000, an increase in net liability from the prior year of €9,111,000 (net liabilities at 30 November 2007: €4,129,000). This can primarily be attributed to net losses the Company incurred in the period.

The performance of the Company is included in the results of the Group which are discussed in the Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

### **Current market conditions**

The Company and the Group are operating under difficult market conditions. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. In addition, the risk management section below sets out the Company's and the Group's policies for the management of liquidity and cash flow risk and other significant business risks.

During the period under review, the Group has been involved in a number of initiatives to respond to the stresses experienced in global financial markets and to strengthen the Group's overall liquidity position. These include the following:

On 21 September 2008, Morgan Stanley obtained approval from the Board of Governors of the Federal Reserve System to become a bank holding company upon conversion of its subsidiary, Morgan Stanley Bank (Utah) to a national bank. On 23 September 2008, Morgan Stanley Bank (Utah) was authorised to operate as a national bank and Morgan Stanley became a financial holding company;

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## DIRECTORS' REPORT

On 13 October 2008, Morgan Stanley announced that Mitsubishi UFJ Financial Group ("MUFG") had closed a \$9 billion equity investment that gives MUFG a 21% ownership interest in Morgan Stanley on a fully diluted basis; and

On 3 October 2008, the Emergency Economic Stabilization Act of 2008 (initially introduced as the Troubled Asset Relief Program ("TARP")) was enacted by the US Government. On 14 October 2008, the US Government announced that, among other steps to restore confidence in financial markets, it would be making direct capital investments in major financial institutions under the TARP Capital Purchase Program ("CPP"). On 26 October 2008, under the terms of the CPP, the US Treasury purchased \$10 billion in preferred shares and warrants to purchase up to 65,245,759 of Morgan Stanley common stock (the "TARP investment").

Since the end of the period the Group has continued to actively manage its capital and liquidity position, and during May and June 2009 raised over \$6 billion of equity and \$5.5 billion of debt capital. As a result of its strong capital position, on 9 June 2009 Morgan Stanley received approval from the US Treasury to repay the TARP investment and Morgan Stanley announced its intention to pay back the funds.

Taking all of these factors into consideration, the Directors have no reason to believe that the Company will not 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.

### **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 on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities.

#### *Credit risk*

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor 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, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

#### *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 HIMALIA CAYMAN LIMITED

## DIRECTORS' REPORT (Continued)

### DIRECTORS

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

A Coull (appointed 10 December 2008, resigned 11 June 2009)

B Gill (resigned 18 November 2008)

P K M Green (appointed 11 June 2009)

L A Nash (resigned 1 May 2008)

### POST BALANCE SHEET EVENTS

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

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing their report and financial statements in accordance with applicable law and United Kingdom Accounting Standards.

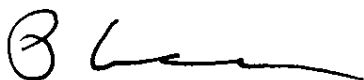
The Company was incorporated as an exempt company in the Cayman Islands under the laws of the Cayman Islands. The Directors and Company shareholders require the financial statements of the Company to be prepared in accordance with 4 Part VII of the Companies Act 1985 of the United Kingdom (the "Companies 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (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.

Approved by the Board and signed on its behalf by



Director

P. Green

17 November 2009

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## PROFIT AND LOSS ACCOUNT

Period ended 31 December 2008

|                                                        | Note | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|--------------------------------------------------------|------|-------------------------------------------------|-----------------------------------------|
| Interest income                                        | 2    | 1,685                                           | 327                                     |
| Interest expense                                       | 3    | (10,798)                                        | (6,324)                                 |
| Other income                                           | 4    | 2                                               | -                                       |
| Other expense                                          | 5    | -                                               | (9)                                     |
| <b>LOSS ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> |      | <b>(9,111)</b>                                  | <b>(6,006)</b>                          |
| Tax on loss on ordinary activities                     | 7    | -                                               | -                                       |
| <b>LOSS FOR THE FINANCIAL PERIOD</b>                   |      | <b>(9,111)</b>                                  | <b>(6,006)</b>                          |

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

There were no recognised gains or losses during the current period or prior 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 is disclosed in note 12 to the financial statements.

The notes on pages 6 to 12 form an integral part of the accounts.

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## BALANCE SHEET

As at 31 December 2008

|                                                           | Note | 31 December 2008<br>€'000 | 30 November 2007<br>€'000 |
|-----------------------------------------------------------|------|---------------------------|---------------------------|
| <b>FIXED ASSETS</b>                                       |      |                           |                           |
| Investments                                               | 8    | 135,000                   | 135,000                   |
| <b>CURRENT ASSETS</b>                                     |      |                           |                           |
| Debtors                                                   | 9    | 8,660                     | 268,875                   |
| <b>CREDITORS: AMOUNTS FALLING DUE<br/>WITHIN ONE YEAR</b> | 10   | (156,900)                 | (408,004)                 |
| <b>NET CURRENT LIABILITIES</b>                            |      | (148,240)                 | (139,129)                 |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>              |      | (13,240)                  | (4,129)                   |
| <b>CAPITAL AND RESERVES</b>                               |      |                           |                           |
| Called up share capital                                   | 11   | 4,782                     | 4,782                     |
| Profit and loss account                                   | 12   | (18,022)                  | (8,911)                   |
| <b>SHAREHOLDERS' FUNDS</b>                                |      | (13,240)                  | (4,129)                   |

These accounts were approved by the Board and authorised for issue on 17 November 2009  
Signed on behalf of the Board



Director  
P. Green

The notes on pages 6 to 12 form an integral part of the accounts.

**NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 31 December 2008**

**1. ACCOUNTING POLICIES**

**a) Accounting convention**

The accounts are prepared under the historical cost convention 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 format of the Company's profit and loss account has been adapted to better align with the accounting requirements of the Group. In the opinion of the Directors, this revised format results in clearer reporting of the Company's performance and improves comparability with other companies both within and outside the Group.

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

The Company has changed its accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. This change has resulted in a reporting period of thirteen months to 31 December 2008. The comparative figures reflected in the financial statements are for a twelve month period to 30 November 2007 and therefore are not entirely comparable with the amounts shown for the current period.

**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 prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account.

**d) Recognition of income and expense**

**i) Interest income and expense**

Interest income and interest expense are recognised on an accruals basis.

**e) Fixed asset investments**

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

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

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

### 1. ACCOUNTING POLICIES (Continued)

#### f) 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 using 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.

#### g) Cash flow statement

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

### 2. INTEREST INCOME

|                                         | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|-----------------------------------------|-------------------------------------------------|-----------------------------------------|
| Interest income from Group undertakings | <u>1,685</u>                                    | <u>327</u>                              |

### 3. INTEREST EXPENSE

|                                                | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|------------------------------------------------|-------------------------------------------------|-----------------------------------------|
| Interest expense payable to Group undertakings | <u>10,798</u>                                   | <u>6,324</u>                            |

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Period ended 31 December 2008

### 4. OTHER INCOME

|                        | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|------------------------|-------------------------------------------------|-----------------------------------------|
| Foreign exchange gains | <u>2</u>                                        | <u>-</u>                                |

### 5. OTHER EXPENSE

|                                     | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|-------------------------------------|-------------------------------------------------|-----------------------------------------|
| Auditors' remuneration - audit fees | <u>-</u>                                        | <u>9</u>                                |

The audit fee of has been borne by another Group company in the current period.

### 6. DIRECTORS' EMOLUMENTS

The Company employed no staff during the period (2007: Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the period (2007: €nil).

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in the period

|                                           | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|-------------------------------------------|-------------------------------------------------|-----------------------------------------|
| UK corporation tax at 28.62% (2007: 30%)  |                                                 |                                         |
| - Current period                          | -                                               | -                                       |
| <b>Tax on loss on ordinary activities</b> | <b>-</b>                                        | <b>-</b>                                |

#### Factors affecting the tax credit for the period

The current period UK taxation charge is higher than that resulting from applying the standard UK corporation tax rate of 28.62% (2007: 30%). The main differences are explained below:

|                                                                                                                | 1 December 2007 to<br>31 December 2008<br>€'000 | Year ended<br>30 November 2007<br>€'000 |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------|
| Loss on ordinary activities before tax                                                                         | (9,111)                                         | (6,006)                                 |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.62% (2007: 30%) | (2,608)                                         | (1,802)                                 |
| <b>Effects of:</b>                                                                                             |                                                 |                                         |
| Group relief surrendered for nil consideration                                                                 | 2,608                                           | 1,802                                   |
| <b>Current tax credit for the period</b>                                                                       | <b>-</b>                                        | <b>-</b>                                |

### 8. FIXED ASSET INVESTMENTS

|                     | Subsidiary<br>undertakings<br>€'000 |
|---------------------|-------------------------------------|
| <b>Cost</b>         |                                     |
| At 1 December 2007  | 135,000                             |
| At 31 December 2008 | <u>135,000</u>                      |

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Period ended 31 December 2008

### 8. FIXED ASSET INVESTMENTS (Continued)

Details of the investments of the Company, including those in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2008, are as follows:

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

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

### 9. DEBTORS

|                                           | 31 December 2008<br>€'000 | 30 November 2007<br>€'000 |
|-------------------------------------------|---------------------------|---------------------------|
| Other amounts due from Group undertakings | 8,660                     | 268,875                   |

### 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                    | 31 December 2008<br>€'000 | 30 November 2007<br>€'000 |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed to Group undertakings | 156,900                   | 408,004                   |

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

### 11. CALLED UP SHARE CAPITAL

|                                      | 31 December 2008<br>Number | 30 November 2007<br>Number |
|--------------------------------------|----------------------------|----------------------------|
| <b>Authorised:</b>                   |                            |                            |
| <b>Equity shares</b>                 |                            |                            |
| Ordinary shares of \$1 each          | 50,000                     | 50,000                     |
| Ordinary shares of €1 each           | 10,000,000                 | 10,000,000                 |
|                                      | <u>10,050,000</u>          | <u>10,050,000</u>          |
|                                      |                            |                            |
|                                      | 31 December 2008<br>€'000  | 30 November 2007<br>€'000  |
| <b>Allotted and fully paid:</b>      |                            |                            |
| <b>Equity shares</b>                 |                            |                            |
| 1 ordinary share of \$1 each         | -                          | -                          |
| 4,781,582 ordinary shares of €1 each | 4,782                      | 4,782                      |
|                                      | <u>4,782</u>               | <u>4,782</u>               |

#### Equity shares

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

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

|                               | Called up<br>share<br>capital<br>€'000 | Profit and<br>loss account<br>€'000 | Total<br>€'000  |
|-------------------------------|----------------------------------------|-------------------------------------|-----------------|
| At 1 December 2006            | -                                      | (2,905)                             | (2,905)         |
| Loss for the financial year   | -                                      | (6,006)                             | (6,006)         |
| Share capital subscribed      | 4,782                                  | -                                   | 4,782           |
|                               | <u>4,782</u>                           | <u>(8,911)</u>                      | <u>(4,129)</u>  |
| At 1 December 2007            | 4,782                                  | (8,911)                             | (4,129)         |
| Loss for the financial period | -                                      | (9,111)                             | (9,111)         |
|                               | <u>4,782</u>                           | <u>(18,022)</u>                     | <u>(13,240)</u> |
| At 31 December 2008           | 4,782                                  | (18,022)                            | (13,240)        |

### 13. SEGMENTAL REPORTING

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

**NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 31 December 2008**

**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.

**15. PARENT UNDERTAKINGS**

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

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley which 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, Maindy, Cardiff CF14 3UZ.