REGISTRATION DOCUMENT

Morgan Stanley

MORGAN STANLEY & CO. INTERNATIONAL plc
(Incorporated with limited liability in England and Wales)

This Registration Document (the "**Registration Document**") has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") which is the Luxembourg competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in Luxembourg as a registration document issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purposes of providing the information with regard to Morgan Stanley & Co. International plc (the "**Issuer**" or "**MSI plc**") as issuer of debt or derivative securities during the period of twelve months after the date of publication of this Registration Document. This document constitutes a Registration Document for the purposes of the Prospectus Directive.

Certain risk factors relating to the Issuer are set out in "Risk Factors" on page 4 of this Registration Document.

The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge of the Issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

MORGAN STANLEY

29 May 2007

Important Notices

The distribution of this Registration Document and the offering, sale and delivery of debt or derivative securities in certain jurisdictions may be restricted by law. Persons into whose possession this Registration Document comes are required by the Issuer to inform themselves about and to observe any of those restrictions.

This Registration Document should be read and construed with any supplement thereto together with, in relation to any issue of debt or derivative securities of the Issuer in relation to which this Registration Document forms part of a prospectus (a "Prospectus") prepared in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom, all other parts of such Prospectus and, where appropriate, the final terms containing information with respect to such debt or derivative securities (the "Final Terms").

This Registration Document does not constitute an offer of or an invitation to subscribe for or purchase any debt or derivative securities and should not be considered as a recommendation by the Issuer that any recipient of this Registration Document should subscribe for or purchase any debt or derivative securities. Each recipient of this Registration Document will be taken to have made its own investigation and appraisal of the Issuer and of the particular terms of any offered debt or derivative securities.

All references in this Registration Document to "Sterling" and "£" are to the lawful currency of the United Kingdom, all references to "U.S. dollars," "U.S.$" and "$" are to the lawful currency of the United States of America.

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RISK FACTORS

Prospective investors should read the entire Registration Document (and where appropriate, any relevant Summary, Securities Note and Final Terms). Investing in securities involves certain risks. Prospective investors should consider, among other things, the following:

There are substantial inter-relationships between MSI plc and other companies in the Morgan Stanley Group.

The ultimate parent undertaking of Morgan Stanley & Co. International plc is Morgan Stanley, a company incorporated under the laws of the State of Delaware in the United States of America. Morgan Stanley is a global financial services group. MSI plc is one of the principal operating companies in the Morgan Stanley group. MSI plc itself provides a wide range of financial and securities services. There are substantial inter-relationships between MSI plc and Morgan Stanley as well as other companies in the Morgan Stanley group, including the provision of funding, capital, services and logistical support to or by MSI plc, as well as common or shared business or operational platforms or systems, including employees. As a consequence of such inter-relationships, and of the participation of both MSI plc and other Morgan Stanley group companies in the global financial services sector, factors which could affect the business and condition of Morgan Stanley or other companies in the Morgan Stanley group may also affect the business and condition of MSI plc. Any such effect could be direct, for example, where economic or market factors directly affect the markets in which MSI plc and other companies in the Morgan Stanley group operate, or indirect, for example where any factor affects the ability of other companies in the Morgan Stanley group to provide services or funding or capital to MSI plc or, directly or indirectly, to place business with MSI plc. Similarly, any development affecting the reputation or standing of Morgan Stanley or other companies in the Morgan Stanley group may have an indirect effect on MSI plc. Such inter-relationships should therefore be taken into account in any assessment of MSI plc. Accordingly, certain of the risk factors specified below identify factors relevant both to MSI plc itself and to the Morgan Stanley group as a whole.

Liquidity Risk

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

Liquidity is essential to MSI plc's and Morgan Stanley's businesses and they rely on sources external to Morgan Stanley to finance a significant portion of their respective operations.

Liquidity is essential to MSI plc's and Morgan Stanley's businesses. MSI plc's and Morgan Stanley's liquidity could be substantially negatively affected by an inability on the part of MSI plc or Morgan Stanley to raise funding in the long-term or short-term debt capital markets or an inability to access the secured lending markets. Factors that neither MSI plc nor Morgan Stanley can control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair their ability to raise funding. In addition, their ability to raise funding could be impaired if lenders develop a negative perception of their long-term or short-term financial prospects. Such negative perceptions could develop if MSI plc or Morgan Stanley incur large trading losses, they are downgraded or put on negative watch by the rating agencies, either of them suffers a decline in the level of their business activity, or if regulatory authorities take significant action against either of them, or either of them discovers serious employee misconduct or illegal activity, among other reasons. If MSI plc or Morgan Stanley are unable to raise funding using the methods described above, they would likely need to liquidate unencumbered assets, such as its investment and trading portfolios, to meet maturing liabilities. MSI plc or Morgan Stanley may be unable to sell some of their assets, or they may have to sell assets at a discount from market value, either of which could adversely affect their result of operations.

MSI plc's and Morgan Stanley's borrowing costs and access to the debt capital markets depend significantly on their credit ratings.

The cost and availability of unsecured financing generally are dependent on MSI plc's and Morgan Stanley's short-term and long-term credit ratings. Factors that are significant to the determination of MSI plc's or Morgan Stanley's credit ratings or otherwise affect their ability to raise short-term and long-term financing include the level and volatility of their earnings; their relative competitive position in the markets in which they operate; their geographic and product diversification; their ability to retain key personnel; their risk management policies; their cash liquidity; their capital adequacy; their corporate lending credit risk; and legal and regulatory developments. A deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade MSI plc's or Morgan Stanley's credit ratings, thereby increasing their cost of obtaining unsecured funding.

MSI plc's and Morgan Stanley's debt ratings may also have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business, MSI plc or other members of Morgan Stanley group would be required to provide additional collateral to certain counterparties in the event of a downgrade by either Moody's Investor Service or Standard and Poor's.

Morgan Stanley is a holding company and depend on payments from our subsidiaries.

Morgan Stanley depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Regulatory and other legal restrictions may limit Morgan Stanley's ability to transfer funds freely, either to or from its subsidiaries. In particular, many of Morgan Stanley's subsidiaries, including its broker-dealer subsidiaries, are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder Morgan Stanley's ability to access funds that it may need to make payments on its obligations.

If MSI plc's or Morgan Stanley's liquidity and funding policies are not adequate, they may be unable to access sufficient financing.

MSI plc's and Morgan Stanley's liquidity and funding policies have been designed to ensure that they maintain sufficient liquid financial resources to continue to conduct their business for an extended period in a stressed liquidity environment. If MSI plc's or Morgan Stanley's liquidity and funding policies are not adequate or they do not adhere to the policies, they may be unable to access sufficient financing to service their financial obligations when they come due, which could have a material adverse franchise or business impact.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices of commodities or securities, 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.

MSI plc and Morgan Stanley's results of operations may be materially affected by market fluctuations and by economic and other factors.

The amount, duration and range of MSI plc's and Morgan Stanley's market risk exposures have been increasing over the past several years, and may continue to do so. MSI plc's and Morgan Stanley's results of operations may be materially affected by market fluctuations due to economic factors. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; and investor sentiment and confidence in the financial markets. In addition, there have been legislative, legal and regulatory developments related to MSI plc's and Morgan Stanley's businesses that potentially could increase costs, thereby affecting future results of operations. These factors also may have an impact on MSI plc's and Morgan Stanley's ability to achieve MSI plc's and Morgan Stanley's strategic objectives.

The results of MSI plc's and Morgan Stanley's Institutional Securities business, particularly results relating to their involvement in primary and secondary markets for all types of financial products, are subject to substantial fluctuations due to a variety of factors, such as those enumerated above that MSI plc and Morgan Stanley cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from MSI plc's and Morgan Stanley's principal investments.

During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets may also decrease, which would negatively impact the results of Morgan Stanley's Global Wealth Management Group business. In addition, fluctuations in global market activity could impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact Morgan Stanley's Asset Management business. Furthermore, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of Morgan Stanley's Discover business.

Holding large and concentrated positions may expose MSI plc and Morgan Stanley to losses.

Concentration of risk may reduce revenues or result in losses in MSI plc's and Morgan Stanley's market-making, proprietary trading, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements. MSI plc and Morgan Stanley have committed substantial amounts of capital to these businesses, which often require them to take large positions in the securities of, or make large loans to, a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities, and MSI plc and Morgan Stanley expect this trend to continue.

The profitability of certain of Morgan Stanley's commodities marketing activities depends on the availability of supplies of petroleum products. A significant decrease in available supplies for any reason could adversely affect the sales and results of operations of certain businesses within Morgan Stanley's commodities activities.

The success of Morgan Stanley's marketing and distribution in their commodities business depends on their ability to generate positive margins on sales of refined petroleum products. In addition, Morgan Stanley's terminal, tug and barge business depends on an active market for refined petroleum products to create demand for terminal services. The availability of supplies of refined petroleum products is essential to Morgan Stanley's pipeline, transport and terminal operations. A material disruption in the flow of refined petroleum product supplies could adversely affect Morgan Stanley's revenues from rack spot and contract sales, as well as throughput and storage fees. Among such risks are “force majeure” conditions caused by natural disasters, adverse weather conditions, terrorist attacks and other events beyond Morgan Stanley's control. These conditions also may adversely affect the pipeline and marine operations as well as the shipping and terminaling operations in Morgan Stanley's commodities business.

Morgan Stanley may incur significant losses in the real estate sector.

Morgan Stanley finance and acquire principal positions in a number of real estate and real estate-related products for our their account, for investment vehicles managed by affiliates in which they also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets, and originate loans secured by commercial and residential properties. Morgan Stanley also securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. These businesses could be adversely affected by a downturn in the real estate sector.

Credit Risk

Credit risk refers to the risk of loss arising from the default by a borrower, counterparty or other obligor when it is unable or unwilling to meet its obligations to MSI plc or a member of Morgan Stanley group.

MSI plc and Morgan Stanley are exposed to the risk that third parties that are indebted to them will not perform their obligations.

MSI plc incurs and Morgan Stanley, through its International Securities business, incurs significant, "single-name" credit risk exposure. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to MSI plc or a member of Morgan Stanley group and by extending credit to clients through various credit arrangements. Morgan Stanley incurs “individual consumer” credit risk in the Global Wealth Management Group business through margin loans to individual investors and loans to small businesses, both of which are generally collateralized. Morgan Stanley incurs “consumer portfolio” credit risk in the Discover business primarily through cardholder receivables. Credit risk in a pool of cardholder receivables is generally highly diversified, without significant individual exposures, and, accordingly, is managed on a portfolio and not a single-name basis.

The amount, duration and range of such credit exposures have been increasing over the past several years, and may continue to do so. In recent years, both MSI plc and Morgan Stanley have significantly expanded their use of swaps and other derivatives and may continue to do so. Corporate clients are increasingly seeking loans or lending commitments in connection with investment banking and other assignments. In addition, MSI plc and Morgan Stanley have experienced, due to competitive factors, increased pressure to assume longer-term credit risk, to extend credit against less liquid collateral and to price derivatives instruments more aggressively based on the credit risks being taken. MSI plc and Morgan Stanley finance customer positions and they regularly review their credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

Defaults by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which MSI plc and Morgan Stanley interact on a daily basis, and therefore could adversely affect Morgan Stanley.

Operational Risk.

Operational risk refers to the risk of financial or other loss, or potential damage to a firm's reputation, arising from inadequate or failed internal processes, people, resources and systems or from external events (e.g. external or internal fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational risk across its full scope of business activities, including revenue generating activities (e.g. sales and trading) and support functions (e.g. information technology and facilities management). As such, Morgan Stanley may incur operational risk in each of its businesses, as well as within the control groups.

MSI plc is subject to operational risk and an operational event could adversely affect its businesses.

MSI plc's business is highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions it processes are increasingly complex. MSI plc performs the functions required to operate its different businesses either by itself or through agreements with third parties. MSI plc relies on the ability of its employees, its internal systems and systems at technology centers operated by third parties to process a high volume of transactions. MSI plc also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate its securities transactions. In the event of a breakdown or improper operation of its or third party's systems or improper action by third parties or employees, MSI plc could suffer financial loss, an impairment to their liquidity, a disruption of their businesses, regulatory sanctions or damage to their reputation.

Despite the business contingency plans MSI plc has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its business and the communities where it are located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, electrical, communications or other services used by MSI plc, its employees or third parties with whom it conducts business.

Legal Risk.

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable.

The financial services industry faces substantial litigation and regulatory risks, and MSI plc and Morgan Stanley may face damage to their reputation and legal liability.

MSI plc and Morgan Stanley have been named, from time to time, as defendants in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with their activities as global diversified financial services institutions. Certain of the actual or threatened legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

MSI plc or Morgan Stanley may also be involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding their business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry. MSI plc and Morgan Stanley are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against MSI plc or Morgan Stanley could materially adversely affect their business, financial condition or results of operations or cause significant reputational harm to them, which could seriously harm their business.

MSI plc and Morgan Stanley are subject to extensive regulation in the jurisdictions in which they conduct their businesses.

MSI plc and Morgan Stanley are subject to extensive regulation globally and face the risk of significant intervention by regulatory authorities in the jurisdictions in which they conduct their businesses. Among other things, MSI plc or Morgan Stanley could be fined, prohibited from engaging in some of their business activities or subject to limitations or conditions on their business activities. Significant regulatory action against either MSI plc or Morgan Stanley could have material adverse financial effects, cause significant reputational harm to MSI plc and Morgan Stanley, or harm their business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to MSI plc's or Morgan Stanley's clients may also adversely affect their business.

MSI plc's commodities activities subject it to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose them to significant costs and liabilities.

In connection with the commodities activities in MSI plc's business or Morgan Stanley's Institutional Securities business, MSI plc and Morgan Stanley engage in the production, storage, transportation, marketing and trading of several commodities including metals (base and precious), crude oil, oil products, natural gas, electric power, emission credits, coal and related products. As a result of these activities, MSI plc and Morgan Stanley are subject to extensive and evolving energy, environmental, safety and other governmental laws and regulations. MSI plc's commodities business also exposes it to the risk of unforeseen and catastrophic events, including leaks, spills and terrorist attacks.

Although MSI plc has attempted to mitigate its pollution and other environmental risks by, among other measures, adopting appropriate policies and procedures for power plant operations, monitoring the quality of petroleum storage facilities and transport vessels and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds from insurance recovery, if any, may not be adequate to cover liabilities with respect to particular incidents. As a result, MSI plc's financial condition and results of operations may be adversely affected by these events.

MSI plc also expects the other laws and regulations affecting its energy business to increase in both scope and complexity. During the past several years, intensified scrutiny of the energy markets by federal, state and local authorities and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which MSI plc is engaged. MSI plc may incur substantial costs in complying with current or future laws and regulations and its overall businesses and reputation may be adversely affected by the current legal environment.

Pipeline, Marine Transport and Terminal Operations. The risk of substantial environmental costs and liabilities is inherent in pipeline, marine transport and terminal operations. As is the case with respect to Morgan Stanley's other commodities activities, both U.S. and international environmental laws are or may be applicable, including U.S. and foreign oil spill anti-pollution statutes. Liability may be incurred without regard to fault under federal laws and regulations and analogous state laws for the remediation of contaminated areas.

Prior owners, tenants or users of properties now owned by Morgan Stanley or its subsidiaries may have disposed of or released hydrocarbons or solid wastes on or under such assets. Additionally, the acquired pipeline, transport and terminal operations are located near current or former refining and terminal operations. There is a risk that contamination, if ever present, has migrated or could migrate from those properties. Increasingly strict environmental laws, regulations and enforcement policies and claims for damages and other similar developments could result in substantial costs and liabilities.

Certain operations in Morgan Stanley's commodities business are subject to the hazards inherent in the transportation and storage of volatile and sometimes toxic petroleum products, including explosions, the release of toxic substances, fires and accidents on land and at sea that could result in personal injuries, loss of life and suspension of operations. These operations also are subject to risks associated with natural disasters, adverse weather conditions, terrorist attacks and other events beyond Morgan Stanley's control. Although we maintain substantial insurance coverage, catastrophic events of this kind could exceed such coverage.

Power Generation Facilities. The power generation facilities Morgan Stanley own are subject to wide-ranging U.S. federal, state and local environmental laws and regulations in the U.S. and abroad relating to air quality, water quality and hazardous and solid waste management. They also are regulated under U.S. health and safety regulations. These laws may require capital expenditures as well as remediation where the facility has failed to comply with environmental, health or safety rules or has released pollutants into the environment. Additionally, the owners of such facilities may be subject to fines or penalties for failure to comply with environmental, health or safety rules.

Oil Trading Activities. The U.S. and foreign water pollution laws and numerous specific oil spill anti-pollution statutes apply to MSI plc's and Morgan Stanley's oil trading activities to the extent MSI plc and Morgan Stanley own petroleum in storage or during waterborne or overland transit or they arrange for transportation or storage. In the event of an oil spill, one or more entities MSI plc or Morgan Stanley own could be held responsible for remediation as well as property and natural resource damages. Other U.S. federal and state laws apply to the specifications of the gasoline and diesel fuel that MSI plc and Morgan Stanley blend and import and provide for substantial penalties in the event of non-compliance. Oil pollution laws in non-U.S. jurisdictions also apply to MSI plc and Morgan Stanley in certain instances when MSI plc and Morgan Stanley trade petroleum internationally and/or charter vessels. Like the U.S. statutes, these laws often provide for penalties and damage assessments should a spill event occur.

Conflicts of interest are increasing and a failure to appropriately deal with conflicts of interest could adversely affect MSI plc's businesses.

MSI plc's reputation and Morgan Stanley's reputation are one of their most important assets. As Morgan Stanley and MSI plc have expanded the scope of their businesses and their client base, they increasingly have to address potential conflicts of interest, including those relating to their proprietary activities. For example, conflicts may arise between MSI plc's position as a financial advisor in a merger transaction and a principal investment it holds in one of the parties to the transaction. In addition, hedge funds and private equity funds are an increasingly important portion of MSI plc's and Morgan Stanley's client base, and also compete with MSI plc and Morgan Stanley in a number of their businesses. MSI plc and Morgan Stanley have procedures and controls that are designed to address conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and MSI plc's and Morgan Stanley's reputation could be damaged if either fails, or appears to fail, to deal appropriately with conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions. It is possible that the regulatory scrutiny of, and litigation in connection with, conflicts of interest will make MSI plc's or Morgan Stanley's clients less willing to enter into transactions in which such a conflict may occur, and will adversely affect their businesses.

MSI plc is subject to tax contingencies that could adversely affect reserves.

MSI plc is subject to the income tax laws of the United Kingdom and those of the foreign jurisdictions in which MSI plc has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. MSI plc must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and must also make estimates about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit.

Competitive Environment

MSI plc and Morgan Stanley face strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect their revenue and profitability.

The financial services industry, including all of MSI plc's and Morgan Stanley's businesses, is intensely competitive, and MSI plc expects them to remain so. MSI plc and Morgan Stanley compete with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in Europe, globally and through the Internet. MSI plc and Morgan Stanley compete on the basis of several factors, including transaction execution, capital or access to capital, their products and services, innovation, reputation and price. Over time, certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services have been acquired by or merged into other firms. This convergence could result in MSI plc's or Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. MSI plc and Morgan Stanley may experience pricing pressures as a result of these factors and as some of their competitors seek to increase market share by reducing prices.

MSI plc's and Morgan Stanley's ability to retain and attract qualified employees is critical to the success of its business and the failure to do so may materially adversely affect its performance.

MSI plc's people and Morgan Stanley's people are their most important resource, and competition for qualified employees is intense. In order to attract and retain qualified employees, MSI plc and Morgan Stanley must compensate such employees at market levels. Typically, those levels have caused employee compensation to be MSI plc's and Morgan Stanley's greatest expense as compensation is highly variable and moves with performance. If either MSI plc or Morgan Stanley is unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain MSI plc's and Morgan Stanley's competitive position, or if compensation costs required to attract and retain employees become more expensive, its performance, including their competitive position, could be materially adversely affected.

International Risk

MSI plc and Morgan Stanley are subject to numerous political, economic, legal, operational and other risks as a result of their international operations that could adversely affect its business in many ways.

MSI plc and Morgan Stanley are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for MSI plc or Morgan Stanley to determine the exact requirements of local laws in every market. MSI plc's inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on its businesses in that market but also on its reputation generally. MSI plc is also subject to the enhanced risk that transactions it structures might not be legally enforceable in all cases.

MSI plc and Morgan Stanley have expanded, and continue to look at opportunities to expand, in the emerging markets. In the last several years, various emerging market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies, capital and currency exchange controls and low or negative growth rates in their economies. These conditions could adversely impact MSI plc's and Morgan Stanley's businesses and increase volatility in financial markets generally.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair MSI plc's and Morgan Stanley's ability to manage their businesses around the world.

Acquisition Risk

MSI plc and Morgan Stanley may be unable to fully integrate future acquisitions or joint ventures into its businesses and systems.

MSI plc and Morgan Stanley expect to grow in part through acquisitions and joint ventures. To the extent MSI plc makes acquisitions or enter into combinations or joint ventures, it faces numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In the case of joint ventures, MSI plc is subject to additional risks and uncertainties in that it may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under its control. In addition, conflicts or disagreements between MSI plc and its joint venture partners may negatively impact the benefits to be achieved by the joint venture. There is no assurance that MSI plc's and Morgan Stanley's recent acquisitions or any business MSI plc and Morgan Stanley acquire in the future will be successfully integrated and result in all of the positive benefits anticipated. If MSI plc and Morgan Stanley are not able to integrate successfully MSI plc's and Morgan Stanley's past and future acquisitions, there is a risk that their results of operations may be materially and adversely affected.

Credit Card Risk.

Our Discover business subjects us to risks that impact the credit card industry.

The performance of Morgan Stanley's Discover business is subject to numerous risks that impact the credit card industry, including rising cost of funds pressuring spreads; slow industry growth with rising payment rates; future loan loss rate uncertainty, especially given bankruptcy reform and changing minimum payment requirements; and a consolidating industry with competitive pressures and increasing marketing constraints. Changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence, consumer spending and consumer debt may substantially affect consumer loan levels and credit quality. Morgan Stanley's financial condition and results of operations may be adversely affected by these factors.

Risk Management.

MSI plc and Morgan Stanley's hedging strategies and other risk management techniques may not be fully effective in mitigating their risk exposure in all market environments or against all types of risk.

MSI plc and Morgan Stanley have devoted significant resources to develop their risk management policies and procedures and expect to continue to do so in the future. Nonetheless, their hedging strategies and other risk management techniques may not be fully effective in mitigating their risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of MSI plc's and Morgan Stanley's methods of managing risk are based upon their use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

No guarantee

Securities issued by MSI plc will not be guaranteed by Morgan Stanley. Although Morgan Stanley has in the past provided financial support to MSI plc through capital injection, there is no assurance that it will do so in the future.

DESCRIPTION OF THE ISSUER

History and Development

The Issuer's legal and commercial name is Morgan Stanley & Co. International plc.

The Issuer was incorporated in England and Wales with registered number 2068222 on 28 October 1986.

The Issuer was incorporated as a company limited by shares under the Companies Act 1985 and operates under the Companies Act 1985. The Issuer was re-registered as a public limited company on 13 April 2007. The Issuer's registered office is at 25 Cabot Square, Canary Wharf, London E14 4QA and the telephone number of its registered office is +44 20 7425 8000.

The Issuer's principal objects, as set out in its memorandum of association, are, *inter alia*, to acquire, hold, dispose of, subscribe for, issue, underwrite, place, manage assets belonging to others which include, advise on, enter into contracts or transactions in relation to or involving and in any other way deal with or arrange dealings with or perform any service or function in relation to shares, stocks, debentures, loans, bonds, certificates of deposit and other instruments creating or acknowledging indebtedness, government, public or other securities, warrants, certificates representing securities or other obligations, units in collective investment schemes, options, futures, contracts for differences or other investments or obligations, interest rates, currencies, precious metals or other commodities, any index, any right to, any right conferred by or any interest or any obligation in relation to any of the foregoing and any other financial instrument or product of any nature whatsoever and any financial instrument or product deriving from or in any other way relating to any of the foregoing, including any rate swap transaction, basis swap, forward rate transaction, commodity or commodity index swap or option, equity or equity index swap or option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit swap or credit derivative transaction, repurchase agreement, reverse repurchase agreement, futures or forward contract transaction, securities lending or borrowing transaction and any other transaction similar to the foregoing, (including any option with respect to any of the foregoing), any combination of the foregoing, any other financial instrument or product of any nature whatsoever approved by the directors and any transaction which may seem to be convenient for hedging any of, or any combination of, the foregoing.

The Group

The Issuer’s ultimate parent undertaking is Morgan Stanley. Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. Morgan Stanley conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the United States and its principal offices in

London, Tokyo, Hong Kong and other world financial centers. At November 30, 2006, Morgan Stanley had 55,310 employees worldwide.

Morgan Stanley maintains significant market positions in each of its business segments—Institutional Securities, Global Wealth Management Group, Asset Management and Discover.

On 19 December 2006, Morgan Stanley announced that its Board of Directors had approved the spin-off of Discover (a credit card business which also offers related consumer products and services) in order to enhance shareholder value (the "Discover Spin-off"). The Discover Spin-off will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Services, Global Wealth Management Group and Asset Management business segments. The Discover Spin-off is subject to regulatory approval and other customary conditions, and is expected to take place in the third quarter of 2007.

Recent Events

No recent event particular to MSI plc has occurred which is to a material extent relevant to the evaluation of its solvency.

Investments

So far as MSI plc is aware, there have been no material investments since the date of its last published financial statements and there are no principal future investments to which MSI plc's management have already made firm commitments.

Business of Morgan Stanley & Co. International plc

The principal activity of MSI plc is the provision of a wide range of financial and securities services which includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; research; and global wealth management.

MSI plc provides its products and services to corporations, governments, financial institutions and individual investors. MSI plc operates globally with a particular focus in Europe. It operates branches in Korea, France, Greece, the Netherlands, New Zealand, the Dubai International Financial Centre and Qatar Financial Centre.

All aspects of MSI plc's businesses are highly competitive and MSI plc expects them to remain so. MSI plc competes in Europe and globally for clients, market share and human talent in all aspects of its business segments. MSI plc's competitive position depends on its reputation, the quality of its products, services and advice. MSI plc's ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation costs.

Management of Morgan Stanley & Co. International plc

Directors of the Issuer

Name	*Principal outside activity*
Colin Bryce	Director of Morgan Stanley International Limited, Morgan Stanley Capital Group Limited and Morgan Stanley Commodities Trading (China) Limited
May Chien Busch	Director of Morgan Stanley International Limited and Member of the Supervisory Board of OOO City Mortgage Bank
Jonathan Chenevix-Trench	Chairman of Morgan Stanley International Limited and OOO Morgan Stanley Bank, Director of Ashdown Funding Limited and Morgan Stanley Bank International Limited and Member of the Supervisory Board of Morgan Stanley Bank AG and Navron Investments Limited
Keith Clark	Director of Morgan Stanley International Limited
Roberto Hoornweg	Director of Morgan Stanley International Limited, Morgan Stanley Bank International Limited and OOO Morgan Stanley Bank
Mats Jerker Johansson	Director of Morgan Stanley Capital International Inc., Strategic Investments I, Inc., Morgan Stanley International Ltd, Morgan Stanley Securities Limited, Morgan Stanley Fund Services (UK) Limited, Morgan Stanley JY Limited and Morgan Stanley JY Holdings Limited and Member of the Supervisory Board of Morgan Stanley Bank AG
Dagmar Kollmann	Chairman of Management Board of Morgan Stanley Bank AG, Member of the Advisory Board of L-Bank (Germany), Member of the Exchange Council of Eurex and Director of Morgan Stanley International Limited
David Nicol	Director of Euroclear PLC, Euroclear SA/NV, European Securities Forum, Securities and Investment Institute, Morgan Stanley Spanish Holdings SL, Morgan Stanley International Limited, Morgan Stanley UK Group, Morgan Stanley UK Limited and OOO Morgan Stanley Bank and Member of the Supervisory Board of Morgan Stanley Bank AG
Franck Petitgas	Director of Morgan Stanley International Limited and Morgan Stanley & Co Limited and OOO Morgan Stanley Bank
Domenico Siniscalco	Vice-Chairman of Morgan Stanley International Limited

Chris Van Aeken	Director of Morgan Stanley SV SA, Morgan Stanley International Limited and Morgan Stanley Bank International Limited

The business address of the Directors (with the exception of Dagmar Kollman) is 25 Cabot Square, Canary Wharf, London E14 4QA. The business address of Dagmar Kollman is Junghofstrasse 13-15, Frankfurt 60311.

Each of the directors of the Issuer is employed within the Morgan Stanley group of companies. Subject to any interests they may have as Morgan Stanley group employees, the Issuer does not believe that there are conflicts of interest between any duties to the Issuer of the directors and their private interest and/or other duties.

Morgan Stanley International Limited ("**MSI**"), the Issuer's ultimate UK parent undertaking, established an audit committee (the "**Audit Committee**") in September 2003 to assist the Boards of MSI, the Issuer and other MSI's regulated subsidiaries in monitoring: (i) the integrity of their financial statements, (ii) the efficacy of their systems of internal controls, (iii) the performance of Morgan Stanley’s internal and external auditors, and (iv) the efficacy of Morgan Stanley’s policies and structures for conflict management in Europe. The Audit Committee reports to the Board of MSI on a quarterly basis. The Audit Committee comprises May Chien Busch, Keith Clark, Colin Fisher, Nicholas Herne, David Nicol, Edward Ocampo, Dawn Prideaux de Lacy, Sir Adam Ridley, Jonathan Roberts and Mary Ellen Semmelhaack. Colin Fisher and Sir Adam Ridley are independent members of the Audit Committee.

The Audit Committee is appointed by the Board of Directors of MSI.

The Issuer is not required to comply with external corporate governance codes or polices.

Organisational Structure

The Issuer's ultimate UK parent undertaking is Morgan Stanley International Limited and the Issuer's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Issuer and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group (the "**Group**").

There are substantial inter-relationships between MSI plc and Morgan Stanley as well as other companies in the Morgan Stanley group, including the provision of funding, capital, services and logistical support to or by MSI plc, as well as common or shared business or operational platforms or systems, including employees. As a consequence of such inter-relationships, and of the participation of both MSI plc and other Morgan Stanley group companies in the global financial services sector, factors which could affect the business and condition of Morgan Stanley or other companies in the Morgan Stanley group may also affect the business and condition of MSI plc. Any such effect could be direct, for example, where economic or market factors directly affect the markets in which MSI plc and other companies in the Morgan Stanley group operate, or indirect, for example where any factor affects the ability of other companies in the Morgan Stanley group to provide services or funding or capital to MSI plc or, directly or indirectly, to place business with MSI plc. Similarly, any development affecting the reputation or standing of Morgan Stanley or other companies in the Morgan Stanley group may have an indirect effect on MSI plc. Such inter-relationships should therefore be taken into account in any assessment of MSI plc.

Capital Structure

The Issuer has the following authorised share classes:

(i) £107,615,107 divided into 107,615,107 ordinary shares of £1 par value each of which 17,615,107 have been issued and are fully paid (the "**GBP Ordinary Shares**"). Each GBP Ordinary Share is entitled to one vote.

(ii) U.S.$3,998,332,648 divided into 3,998,332,648 ordinary shares of U.S.$1 par value each of which 2,998,332,648 have been issued and are fully paid (the "**USD Ordinary Shares**"). Each USD Ordinary Share is not entitled to any vote.

(iii) U.S.$1,400,000,000 divided into 1,400,000,000 class B non-cumulative preference shares of U.S.$1 par value each of which 785,772,500 have been issued and are fully paid (the "**USD Class B Non-Cumulative Preference Shares**"). Each USD Class B Non-Cumulative Preference Share is not entitled to any vote.

Major Shareholders

The Issuer's share capital is owned as follows:

Share Class	**Shareholder**	**Shares Held (% of Class)**
GBP Ordinary Shares	Morgan Stanley UK Group	107,615,106 (99.999994%)
GBP Ordinary Shares	Morgan Stanley Group (Europe)	1 (0.000006%)
USD Ordinary Shares	Morgan Stanley UK Group	2,998,332,648 (100%)
USD Class B Non-Cumulative Preference Shares	Morgan Stanley UK Group	785,772,500 (100%)

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since the last twelve months a significant effect on the Issuer and/or its financial position or profitability.

Credit Rating

The Issuer has been assigned a long-term credit rating of Aa3 and short-term credit rating of P-1 by Moody's Investor Services Limited ("**Moody's**") and a long-term credit rating of AA- and a short-term credit rating of A-1+ by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("**S&P**").

Selected Financial Information relating to Morgan Stanley & Co. International plc

The Issuer's financial statements for the financial years ended 30 November 2006 and 2005 respectively have been audited by Deloitte and Touche LLP of Stonecutter Court, 12 Stonecutter Street, London EC4A 4TR.

The following tables set out in summary form balance sheet and profit and loss statement information relating to MSI plc. Such information is derived from the audited consolidated financial statements of the Issuer as at and for the years ended 30 November 2006 and 30 November 2005. The financial statements of the Issuer are prepared in accordance with United Kingdom Generally Accepted Accounting Practice. Such financial statements are included in the Appendices to this Registration Document. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

BALANCE SHEETS		**As at 30 November**	
		2006	**2005**
	Note	**$'000**	**$'000**
FIXED ASSETS			
Tangible Assets		16,598	10,075
Investments		288,091	146,085
		304,689	156,160
CURRENT ASSETS			
Financial instruments used in trading activities		149,391,058	77,710,629
Debtors		383,281,904	330,234,073
Cash at bank		14,322,348	13,176,568
		546,995,310	421,121,270
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial Instruments used in trading activities		(130,542,887)	(65,675,345)
Other Creditors		(399,074,595)	(345,652,139)
		(529,617,482)	(411,327,484)
NET CURRENT ASSETS		17,377,828	9,793,786
TOTAL ASSETS LESS CURRENT LIABILITIES		17,682,517	9,949,946
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		(10,957,100)	(5,565,149)
PROVISIONS FOR LIABILITIES AND CHARGES		(5,299)	(2,219)
		6,720,118	4,382,578
CAPITAL AND RESERVES			
Called up share capital		3,027,779	1,563,552
Share premium account		512,516	512,516
Capital redemption reserve		149,675	149,675
Foreign currency revaluation reserve		(7,176)	(7,500)
Capital contribution reserve		2,812	2,812
Profit and loss account		3,034,512	2,161,523
		6,720,118	4,382,578

EQUITY SHAREHOLDERS' FUNDS		
Analysed as:		
Equity		4,096,805
Non-equity		285,773
		4,382,578

PROFIT AND LOSS ACCOUNT **Year ended 30 November**

	2006	2005
	$'000	**$'000**
NET REVENUE	4,906,012	4,033,924
Administrative expenses	(4,139,925)	(2,972,318)
OPERATING PROFIT	766,087	1,061,606
Income from other fixed asset investments	22,622	32
Other interest receivable and similar income	382,169	-
Interest payable and similar charges	(36,193)	(43,152)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,134,685	1,018,486
Tax on profit on ordinary activities	(261,696)	(274,530)
PROFIT FOR THE FINANCIAL YEAR	872,989	743,956

GENERAL INFORMATION

1. Material Adverse Change

As at the date of this Registration Document there has been no material adverse change in the prospects of the Issuer, or significant change in the financial or trading position of the Issuer, since 30 November 2006 (the date of the latest financial statements of the Issuer).

2. Auditors

The Issuer's financial statements for the financial years ended 30 November 2006 and 2005 respectively have been audited by Deloitte and Touche LLP of Stonecutter Court, 12 Stonecutter Street London EC4A 4TR who are a firm of registered auditors and a member firm of the Institute of Chartered Accountants in England and Wales for institute by-laws purposes.

3. Documents available for Inspection

The following documents shall be available during normal office hours at the office of the Issuer set out at the end of this Registration Document:

(i) upon publication, the most recently published annual report and accounts of the Issuer from time to time (including the annual report and accounts for the financial years ended 30 November 2006 and 30 November 2005); and

(ii) the memorandum and articles of association of the Issuer.

APPENDIX A-1

Financial Statements of the Issuer

Morgan Stanley & Co. International plc

Year ended 30 November 2006

MORGAN STANLEY & CO. INTERNATIONAL LIMITED

Report and Accounts

30 November 2006

CONTENTS

The Directors present their report and accounts for the year ended 30 November 2006.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was $872,989,000 (2005: $743,956,000 profit).

During the year, no dividends were paid on the ordinary shares (2005: $nil). No final dividend is proposed (2005: $nil)

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of Morgan Stanley & Co. International Limited (the "Company") is the provision of financial services to corporations, governments, financial institutions and individual investors. The Company operates branches in Korea, France, Greece, the Netherlands, the Dubai International Financial Centre and the Qatar Financial Centre. The Dubai and Qatar branches were opened during the year, on 15 January 2006 and 12 September 2006 respectively. A further branch was opened in New Zealand on 20 December 2006. The Company's branch in Taipei converted to a subsidiary of the Company on 3 October 2006. The Company is authorised and regulated by the Financial Services Authority ("FSA").

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

The profit and loss account for the year is set out on page 5. The profit for the year rose by $129,033,000, an increase of 17% over the prior period. The Company's net revenue has increased by $872,088,000, a 22% increase over the prior period. Equities rose by $228,000,000, a 14% increase over the prior period and fixed income revenues rose by $145,000,000, a 12% increase. Investment banking revenues rose by $127,000,000, a 20% increase over the prior period. Commodities revenues rose by $316,000,000, a 182% increase over the prior period, driven by significant increases on electricity and base metal products as well as energy derivatives. Administrative expenses rose by $1,167,607,000, an increase of 39% over the prior period. This was driven by increased staffing levels and increased operating costs.

The balance sheet on page 7 of the financial statements shows that the Company's net assets at the end of the year were $6,720,118,000, an increase of 53% from the prior year. Subordinanted loans increased by $4,500,000,000 and additional ordinary share capital of $1,750,000,000 was issued during the period. These increases were made to adequately capitalise the increased levels of business in the Company.

The conversion of the Taipei branch to a subsidiary has not had a material effect on the nature or focus of the Company's operations. No significant change in the Company's principal business activity is expected. There have been no significant events after the balance sheet date.

The Group manages its key performance indicators on a global basis. 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.

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 the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level.

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, 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 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.

DIRECTORS

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

R D Bandeen	
C D S Bryce	
M C Busch	(appointed 18 October 2006)
J C S Chenevix-Trench	(appointed as Chairman of the Board 1 January 2006)
K Clark	
M R Durbin	(resigned 01 May 2006)
A C Fawcett	(resigned 29 September 2006)
R Hoornweg	(appointed 21 July 2006)
M J Johansson	
T C Kelleher	(resigned 01 March 2006)
D P Kollmann	(appointed 01 March 2006)
D R Nicol	
S J Notley	(resigned 13 July 2006)
F R Petitgas	
H J Schuettler	(resigned 01 March 2006)
D Siniscalco	(appointed 21 September 2006)
C Van Aeken	(appointed 28 April 2006)
D A Walker	(resigned as a Director and as Chairman of the Board 31 December 2005)

DIRECTORS' INTERESTS

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

AUDIT COMMITTEE

Morgan Stanley International Limited ("MSI"), the Company's ultimate UK parent undertaking, established an Audit Committee in September 2003 to assist the Boards of MSI, the Company and other of MSI's regulated subsidiaries in meeting their responsibilities in ensuring an effective system of internal control and compliance, and in meeting their external financial reporting obligations. The Audit Committee reports to the Board on a quarterly basis.

AUDITORS

The Company has in place an elective regime to dispense with the need to hold annual general meetings, lay reports and accounts before the shareholders at a general meeting, and the requirement to re-appoint the auditors, Deloitte & Touche LLP, annually.

Statement as to disclosure of information to auditors

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

• 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.

Company law requires the Directors 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;

(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 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 16 February 2007

K. Clark

Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MORGAN STANLEY & CO. INTERNATIONAL LIMITED

We have audited the financial statements of Morgan Stanley & Co. International Limited for the year ended 30 November 2006 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. We also 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 year 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.

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 2006 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
16 February 2007

PROFIT AND LOSS ACCOUNT
Year ended 30 November 2006

	Note	2006 $'000	2005 $'000
NET REVENUE	2	4,906,012	4,033,924
Administrative expenses		(4,139,925)	(2,972,318)
OPERATING PROFIT	4	766,087	1,061,606
Income from other fixed asset investments		22,622	32
Other interest receivable and similar income	7	382,169	-
Interest payable and similar charges	8	(36,193)	(43,152)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,134,685	1,018,486
Tax on profit on ordinary activities	9	(261,696)	(274,530)
PROFIT FOR THE FINANCIAL YEAR		872,989	743,956

All operations were continuing in the current and prior year.

A reconciliation of the movement in shareholders' funds has been prepared in note 20 to the accounts.

The notes on pages 9 to 29 form an integral part of the accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year Ended 30 November 2006

	Note	2006 $'000	2005 $'000
PROFIT FOR THE FINANCIAL YEAR		872,989	743,956
Currency translation differences on foreign currency net investments	20	324	473
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		873,313	744,429

The notes on pages 9 to 29 form an integral part of the accounts.

BALANCE SHEET
30 November 2006

	Note	2006 $'000	2005 $'000
FIXED ASSETS			
Tangible Assets	10	16,598	10,075
Investments	11	288,091	146,085
		304,689	156,160
CURRENT ASSETS			
Financial instruments used in trading activities	12	149,391,058	77,710,629
Debtors	13	383,281,904	330,234,073
Cash at bank	14	14,322,348	13,176,568
		546,995,310	421,121,270
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments used in trading activities	12	(130,542,887)	(65,675,345)
Other creditors	16	(399,074,595)	(345,652,139)
		(529,617,482)	(411,327,484)
NET CURRENT ASSETS		17,377,828	9,793,786
TOTAL ASSETS LESS CURRENT LIABILITIES		17,682,517	9,949,946
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(10,957,100)	(5,565,149)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(5,299)	(2,219)
		6,720,118	4,382,578
CAPITAL AND RESERVES			
Called up share capital	19	3,027,779	1,563,552
Share premium account	20	512,516	512,516
Capital redemption reserve	20	149,675	149,675
Foreign currency revaluation reserve	20	(7,176)	(7,500)
Capital contribution reserve	20	2,812	2,812
Profit and loss account	20	3,034,512	2,161,523
EQUITY SHAREHOLDERS' FUNDS		6,720,118	4,382,578
Analysed as:			
Equity			4,096,805
Non-equity			285,773
			4,382,578

These accounts were approved by the Board on 16 February 2007
Signed on behalf of the Board

K. Clark
Director
The notes on pages 9 to 29 form an integral part of the accounts.

CASH FLOW STATEMENT
Year ended 30 November 2006

	Note	2006 $'000	2005 $'000
Net cash inflow from operating activities	22	4,277,748	57,933,812
Returns on investments and servicing of finance	22	345,976	(52,380)
Taxation		(447,272)	(6,414)
Capital expenditure and financial investment	22	(40,897)	(40,960)
Cash inflow before management of liquid resources and financing		4,135,555	57,834,058
Management of liquid resources	22	(12,305,052)	(57,188,929)
Financing	22	6,856,178	1,950,000
(Decrease)/increase in cash in the period		(1,313,319)	2,595,129

The notes on pages 9 to 29 form an integral part of the accounts.

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(g) below, and in accordance with applicable United Kingdom company law and accounting standards.

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

The Company is no longer required to present dividends in the profit and loss account, as previously required by Schedule 4:3(7) of the Companies Act 1985. Therefore, both current and prior period dividends are treated as distributions of equity. The Company has elected to take advantage of transitional provisions within FRS 25 and not restate comparative information under FRS 25. Where comparative information has been prepared on the basis of the Company's previous accounting policies, the accounting policies applied for 2005 and 2006 are disclosed separately to the extent that they differ.

The Company is not required to prepare consolidated accounts by virtue of the exemption under section 228 of the Companies Act 1985. The results of the Company are included within the accounts of Morgan Stanley International Limited, a company registered in England and Wales, which will prepare consolidated accounts for the year to 30 November 2006. The accounts therefore present information about the Company as an individual entity and not about its group.

b) Functional currency

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

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

c) Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Amounts in the balance sheets of the overseas branches are translated into US dollars using the closing rate method. Transactions in currencies other than US dollars are recorded at the rates ruling at the dates of the transactions, except where expenses are hedged by a matching forward contract, when the rate of exchange specified in the forward contract is used. Translation differences arising from the net investments in the overseas branches are taken to the foreign currency revaluation reserve and all other translation differences are taken through the profit and loss account.

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment in value. Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Leasehold improvements	-	shorter of remaining lease term and 50 years
Fixtures, fittings and equipment	-	3 to 10 years

e) Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand, cash at bank and deposits repayable on demand, less segregated client money held and overdrafts. Liquid resources comprise cash placed on short-term deposits of less than one year and total securities purchased under agreements to resell and cash collateral on stocks borrowed.

1. ACCOUNTING POLICIES (CONTINUED)

f) Fixed asset investments

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

g) Current assets - financial instruments used in trading activities

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

h) Offsetting of financial assets and financial liabilities

For the year ended 30 November 2005, all assets and liabilities, with the exception of those disclosed in note 1(i) below, were disclosed gross unless the Company had the ability to insist on net settlement and this was assured beyond doubt.

From 1 December 2005, the Company implemented FRS 25. Where there is a current 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.

The main adjustment that would make this prior period information compliant with FRS 25 would be the adoption of the offsetting rules within FRS 25. With the exception of amounts disclosed in note 1(i) below, the effect of the Company implementing FRS 25 as at 30 November 2006 is an increase in assets and an increase in liabilities of $42,229,866,000.

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 recorded as liabilities 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 recorded as debtors.

For the year ended 30 November 2005, although many securities lending and borrowing and repurchase and resale activities were transacted under master netting agreements, such receivables and payables with the same counterparty were shown gross on the balance sheet.

From 1 December 2005, the Company implemented FRS 25. Where there is a current 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.

The main adjustment that would make this prior period information compliant with FRS 25 would be the adoption of the offsetting rules within FRS 25. The effect of the Company implementing FRS 25 as at 30 November 2006 for repurchase and resale agreements and securities borrowing and lending is a decrease in assets and a decrease in liabilities of $40,290,137,000.

1. ACCOUNTING POLICIES (CONTINUED)

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) Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

l) Capital instruments

For the year ended 30 November 2005, preference shares issued by the Company were classified in the balance sheet as non-equity shares with dividends on preference shares recorded as dividends in the profit and loss account.

On implementation of FRS 25 from 1 December 2005, certain preference shares have been reclassified as liabilities. Dividends on these preference shares are now recorded in the profit and loss account as interest payable.

The main adjustment that would make this prior period information compliant with FRS 25 would be the reclassification of certain preference shares as liabilities. The effect of the Company implementing FRS 25 as at 30 November 2006 for capital instruments is an increase in liabilities of $785,773,000.

Where redeemable preference shares are issued in a currency other than US dollars, they are translated into US dollars at the rate prevailing at the balance sheet date. Exchange differences arising on translation are taken to the profit and loss account and classified as interest payable.

Issue costs incurred in raising long-term financing are deducted from the gross proceeds of the borrowing and amortised in the profit and loss account over the term of the borrowing as interest payable.

2. NET REVENUE

Net revenue represents fees, commissions and trading income, for financial services provided. Trading income includes gains and losses on financial instruments and net trading interest and dividends. Net revenue is recorded on a trade date basis and is stated after the deduction of value added tax.

3. SEGMENTAL REPORTING

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

4. OPERATING PROFIT

		2006 $'000	2005 $'000
Operating profit is stated after charging:			
Operating lease rentals		2,911	4,237
Depreciation on owned assets		2,805	2,366
Auditors' remuneration	- audit fees	2,697	2,416
	- non audit fees for other services	592	851
Trading interest payable	- Group undertakings	9,736,960	4,446,953
	- external counterparties	8,344,301	4,626,648
And crediting:			
Trading interest receivable	- Group undertakings	8,899,105	3,842,119
	- external counterparties	9,812,907	5,926,690

5. STAFF COSTS

The average number of employees of the Company including the Directors, is analysed below:

	2006	2005
Company and institutional securities infrastructure	92	82
Business units and other	136	111
	228	193

The costs of the staff are analysed below:

	2006 $'000	2005 $'000
Wages and salaries	79,666	53,955
Social security costs	9,622	8,225
Pension costs	2,286	883
	91,574	63,063

In addition to the costs above, the Company incurred recharges in respect of staff costs from other Group undertakings. These recharges in respect of staff costs totalled $2,524,997,000 (2005: $1,672,796,000).

The Company paid no remuneration to its Directors during the current or prior year but incurred management charges in respect of Directors' services provided to the Company. The amount of remuneration received by Directors in respect of their services to the Company is disclosed in note 6.

6. DIRECTORS' EMOLUMENTS

	2006 $'000	2005 $'000
Total emoluments of all Directors:		
Aggregate emoluments	26,365	20,407
Company contributions to pension schemes	99	180
Disclosures in respect of the highest paid Director:		
Aggregate emoluments excluding pension contributions	7,961	4,300
Company pension contributions to a money purchase scheme	16	47

Directors Emoluments have been calculated as the sum of cash, bonuses and benefits in kind.

All Directors who are employees of the Group are eligible for shares and share options of the parent company, Morgan Stanley, awarded under the Group's equity based long term incentive schemes. In accordance with Schedule 6 paragraph 1(2)(a) of the Companies Act 1985, the above disclosures include neither the value of shares or share options awarded, nor the gains made on exercise of share options. During the year three Directors exercised share options awarded under these incentive schemes (2005: nine).

There are twelve Directors to whom retirement benefits are accruing under a money purchase scheme (2005: eleven).

Morgan Stanley UK Group operated a defined benefit pension scheme which is now closed. Three Directors have deferred defined benefits under the scheme (2005: two). In addition three Directors have benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by Morgan Stanley UK Limited (2005: none).

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 $'000	2005 $'000
Interest receivable from Group undertakings	382,169	-

Interest receivable excludes trading interest, which is included in net revenue since it is an integral component of the Company’s net trading income.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 $'000	2005 $'000
Interest payable to Group undertakings	36,193	43,152

Included in 'Interest payable to Group Undertakings' is $36,193,000 of preference share dividends.

Interest payable excludes trading interest, which is included in net revenue since it is an integral component of the Company's net trading income.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2006 $'000	2005 $'000
UK corporation tax at 30% (2005: 30%)		
- Current year	279,742	260,493
- Current year group relief payable	16,214	-
- Adjustment in respect of prior years	(37,846)	12,348
	258,110	272,841
Double taxation relief		
- Current year	(53,411)	(32,491)
- Adjustment in respect of prior years	2,206	37
Foreign Tax		
- Current year	55,531	34,325
- Adjustment in respect of prior years	(2,206)	(37)
Total current tax	260,230	274,675
Deferred taxation		
- Current year	705	111
- Adjustment in respect of prior years	761	(256)
Tax on profit on ordinary activities	261,696	274,530

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the tax charge for the year

The current year UK taxation charge is lower (2005: lower) than that resulting from applying the standard UK corporation tax rate of 30% (2005:30%). The main differences are explained below

	2006 $'000	2005 $'000
Profit on ordinary activities before tax	1,134,685	1,018,486
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	340,405	305,546
Effects of:		
Expenses not deductible for tax purposes	5,264	5,939
Capital allowances for the year in excess of depreciation	(924)	(927)
Group relief received for nil consideration	(58,701)	(32,503)
Adjustments to the tax charge in respect of previous periods	(37,846)	12,348
Timing differences relating to compensation	424	96
Higher rate tax on overseas earnings	2,120	1,834
Non taxable UK dividends	(57)	(33)
Other income not subject to UK taxes	(3,327)	(18,928)
Non-deductible preference shares shown as interest expense	10,858	-
Currency translation on tax	7,747	-
Other	(5,733)	1,303
Current tax charge for the year	260,230	274,675

10. TANGIBLE FIXED ASSETS

	Leasehold improvements $'000	Fixtures, fittings and equipment $'000	Total $'000
Cost			
At 1 December 2005	7,425	8,546	15,971
Additions	6,634	2,893	9,527
Disposals	(4,223)	(4,227)	(8,450)
Foreign exchange revaluation on assets held in overseas branches	801	1,076	1,877
At 30 November 2006	10,637	8,288	18,925
Depreciation			
At 1 December 2005	2,970	2,926	5,896
Charge for the year	1,406	1,399	2,805
Disposals	(4,035)	(3,511)	(7,546)
Foreign exchange revaluation on assets held in overseas branches	364	808	1,172
At 30 November 2006	705	1,622	2,327
Net book value			
At 30 November 2006	9,932	6,666	16,598
At 30 November 2005	4,455	5,620	10,075

11. FIXED ASSET INVESTMENTS

	Subsidiary undertakings $'000	Other fixed asset investments $'000	Total $'000
Cost			
At 1 December 2005	22,616	141,579	164,195
Additions	107,303	53,315	160,618
Disposals	(913)	(22,768)	(23,681)
Foreign exchange revaluation on assets held in overseas branches	-	5,069	5,069
At 30 November 2006	129,006	177,195	306,201
Impairment provisions			
At 1 December 2005 and as at 30 November 2006	(12,163)	(5,947)	(18,110)
Net book value			
At 30 November 2006	116,843	171,248	288,091
At 30 November 2005	10,453	135,632	146,085

Included in other fixed asset investments are listed investments of $2,265,000 (2005:$2,283,000). The market value on 30 November 2006 of these investments was $89,582,000 (2005:$42,669,000). If these assets were sold on 30 November 2006, capital gains tax of $26,195,100 (2005:$12,116,100) would arise on the gain.

Also included in other fixed asset investments is $151,143,000 (2005:$121,169,000) which represents the Company's membership contributions to default funds in European trading exchanges. In the event of a member default, a European trading exchange may call upon its members to cover losses incurred up to a maximum of each member's contribution to the default fund.

Included in additions to investments in subsidiary undertakings is an amount of $82,164,316 which relates to the conversion of the former Taipei branch to a subsidiary of the Company on 2 October 2006. The Company contributed the net assets of the branch to Morgan Stanley Taiwan Limited, formerly MSIL Taipei branch, in return for shares. The addition represents the net asset value of Morgan Stanley Taiwan Ltd as at the date of conversion.

In the opinion of the Directors, neither the results nor the financial position of any of the Company's subsidiary undertakings has a significant effect on the figures shown in these accounts. A full list of the Company's subsidiary and associated undertakings will be annexed to the Company's next Annual Return and filed with the Registrar of Companies.

12. FINANCIAL INSTRUMENTS USED IN TRADING ACTIVITIES

Determination of fair value

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

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

The fair value of over-the-counter ("OTC") derivative contracts is derived primarily from pricing models, which may require multiple market input parameters. Where appropriate, valuation adjustments are made to account for credit quality and market liquidity. These adjustments are applied on a consistent basis and are based upon observable market data where available. The Company also uses pricing models to manage the risks introduced by these transactions. The term "model" typically refers to a mathematical calculation methodology based on accepted financial theories. Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed form analytic formulae, such as the Black-Scholes option pricing model, simulation models, or a combination thereof, applied consistently. In the case of more established derivative products, the pricing models used by the Company are in line with those widely accepted by the financial services industry. Pricing models take into account the contract terms, including the maturity, as well as market parameters such as interest rates, volatility and the creditworthiness of the counterparty.

Financial Instruments included at fair value

	2006 $'000	2005 $'000
Financial instruments at fair value		
Assets	149,391,058	77,710,629
Liabilities	(130,542,887)	(65,675,345)
	18,848,171	12,035,284

Changes in fair value of financial instruments of $3,004,770,000 (2005 $2,723,184,000) 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 OTC) are summarised by class in the table below:

12. FINANCIAL INSTRUMENTS USED IN TRADING ACTIVITIES (CONTINUED)

	2006 Assets $'000	2006 Liabilities $'000	2005 Assets $'000	2005 Liabilities $'000
Interest rate and currency swaps and options, credit derivatives and other fixed income securities contracts	20,403,474	(20,467,207)	6,854,226	(5,251,340)
Foreign exchange forward contracts and options	13,844,386	(14,029,591)	2,539,025	(2,686,985)
Equity securities contracts (including equity swaps, warrants and options)	23,962,184	(34,705,745)	7,988,728	(11,266,831)
Commodity forwards, options and swaps	5,370,410	(4,784,197)	405,935	(175,866)
	63,580,454	(73,986,740)	17,787,914	(19,381,022)

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

The Company enters into forward foreign exchange contracts to hedge future expenditure in a currency other than US dollars. These contracts are not included at fair value. The fair value of these contracts at 30 November 2006 was an asset of $28,245,000 (2005 - a liability of $21,231,000)

13. DEBTORS

	2006 $'000	2005 $'000
Trade Debtors:		
External counterparties	60,372,666	44,244,891
Group undertakings	24,744,071	9,959,258
Securities purchased under agreements to resell and cash collateral on stocks borrowed:		
External counterparties	193,081,310	142,201,843
Group undertakings	78,784,608	117,284,133
Other amounts due from Group undertakings	24,060,051	14,905,528
Deferred taxation (see note 15)	11,104	12,210
Corporation tax	77,384	-
Other debtors	2,058,276	1,553,926
Prepayments and accrued income	92,434	72,284
	383,281,904	330,234,073

14. CASH AT BANK

Included within cash at bank is an amount of $7,170,012,000 (2005: $4,469,868,000) which represents segregated client money, held in accordance with the FSA's Client Money Rules.

15. DEFERRED TAX

Deferred tax has been fully recognised and is analysed as follows:

	2006 $'000	2005 $'000
Accelerated capital allowances	6,169	6,732
Deferred compensation	3,596	-
Other timing differences	1,339	5,478
	11,104	12,210

The movement in the provision for deferred tax/deferred tax asset during the year is analysed as follows:

	$'000
At 1 December 2005	12,210
Current year timing differences	(705)
Prior year timing differences	(6)
Foreign exchange revaluation	360
Prior year adjustment	(755)
At 30 November 2006	11,104

16. OTHER CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 $'000	2005 $'000
Bank loans and overdrafts	(811,320)	(1,084,234)
Trade creditors:		
External counterparties	(95,841,557)	(73,841,469)
Group undertakings	(16,982,573)	(5,545,627)
Securities sold under agreements to repurchase and cash collateral on stocks loaned:		
External counterparties	(147,468,459)	(103,326,881)
Group undertakings	(113,495,665)	(141,665,319)
Other amounts owing to Group undertakings	(22,028,117)	(18,320,648)
Corporation tax	(66,949)	(176,247)
Other taxes and social security costs	(30,984)	(16,981)
Other creditors	(1,640,375)	(1,436,854)
Accruals and deferred income	(708,596)	(237,879)
	(399,074,595)	(345,652,139)

Included within Other amounts owing to Group undertakings are amounts of $1,027,278,000 (2005: $2,921,579,000) representing cash collateral received as security for open trading positions held with other Group companies.

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 $'000	2005 $'000
Financial instruments issued:		
Subordinated loan agreements	10,065,149	5,565,149
Preference shares	785,773	-
Other long term creditors	106,178	-
	10,957,100	5,565,149

Subordinated loan agreements

The amounts subject to subordinated loan agreements are wholly repayable as shown below:

Counterparty	Repayment date	Interest rate	2006 $'000	2005 $'000
Morgan Stanley International Holdings Inc.	31 October 2021	LIBOR plus 1.25%	4,100,000	2,500,000
Morgan Stanley Services (UK) Limited	31 October 2016	LIBOR plus 2.26%	1,300,000	1,300,000
Morgan Stanley Services (UK) Limited	28 November 2017	9.61%	65,149	65,149
Morgan Stanley Strategic Funding Limited	29 October 2026	LIBOR plus 2.00%	694,000	694,000
Morgan Stanley International Finance S.A.	31 October 2025	LIBOR plus 1.25%	1,906,000	1,006,000
Morgan Stanley International Holdings Inc	31 October 2026	LIBOR plus 1%	2,000,000	-
			10,065,149	5,565,149

All amounts outstanding are repayable at any time at the Company's option, subject to prior consent from the FSA.

On 20 January 2006 and 19 July 2006, the Company drew down a further $500,000,000 and $900,000,000 respectively of funding under its loan facility with Morgan Stanley International Finance S.A. Under the same loan facility the Company repaid $500,000,000 on 27 March 2006. On each of the following dates, 27 March 2006, 29 March 2006, 10 April 2006, 28 April 2006 and 04 May 2006, the Company drew down a further $500,000,000 of funding under its loan facility with Morgan Stanley International Holdings Inc. On 19 July 2006, the Company repaid $900,000,000 of funding under its loan facility with Morgan Stanley International Holdings Inc. On 29 November 2006, the Company drew down a further $2,000,000,000 of funding under a new loan facility with Morgan Stanley International Holdings Inc.

Preference shares

Certain preference shares issued by the Company are classified as financial liabilities under FRS 25 for the year ended 30 November 2006.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Property $'000	Litigation $'000	Total $'000
At 1 December 2005	589	1,630	2,219
Additional provisions	231	19,737	19,968
Provisions utilised	(158)	(16,730)	(16,888)
At 30 November 2006	662	4,637	5,299

Property

Property provisions relate to the net present value of expected future costs of excess office space and to the expected future costs of reinstating premises held under operating leases at the end of the lease period. Provisions made are released in line with actual costs incurred.

Litigation Matters

During the year the Company has been involved in various continuing and other litigation matters and provisions have been recognised and disclosed in accordance with FRS 12. The Directors are of the opinion that it would be seriously prejudicial to the position of the Company to disclose details of individual continuing litigation matters and the amounts provided in respect of them.

19. CALLED UP SHARE CAPITAL

	2006 Number	2005 Number
Authorised:		
Equity shares		
Ordinary shares of $1 each	3,998,332,648	1,498,332,648
Ordinary shares of £1 each	107,615,107	107,615,107
Non-equity shares		
Class B non-redeemable non-cumulative preferred shares of $1 each		400,000,000
Other shares classified as financial liabilities		
Class B non-redeemable non-cumulative preferred shares of $1 each	1,400,000,000	

	2006 $'000	2005 $'000
Allotted and fully paid:		
Equity shares		
2,998,332,648 (2005: 1,248,332,648) ordinary shares of $1 each	2,998,333	1,248,333
17,615,107 ordinary shares of £1 each	29,446	29,446
	3,027,779	1,277,779
Non-equity shares		
285,772,500 class B non-redeemable non-cumulative preferred shares of $1 each		285,773
	3,027,779	1,563,552
Other shares classified as financial liabilities		
785,772,500 Class B non-redeemable non-cumulative preferred shares of $1 each	785,773	

1.

The authorised share capital figure above does not include 45,000,000 redeemable non-cumulative preference shares of £1 each, and 57,000,000 Class 'A' redeemable non-cumulative preference shares of £1 each, redeemed in full on 31 May 2000 and 15 March 2001 respectively. In 2006 these redeemed shares still formed part of the Company's authorised share capital.

The Class B non-redeemable non-cumulative preferred shares of $1 each were classified as non-equity shares as at 30 November 2005 and have been reclassified as financial liabilities as at 30 November 2006 following the implementation of FRS 25.

On 27 January 2006 the Company's authorised share capital was increased by the creation of 500,000,000 ordinary shares of $1 each ranking pari passu with the existing ordinary shares of $1 each in the Company. On 31 January 2006, 250,000,000 ordinary shares of $1 each were issued at par, fully paid, to the Company's immediate parent company for cash consideration.

19. CALLED UP SHARE CAPITAL (CONTINUED)

On 31 May 2006 the Company's authorised share capital was increased by the creation of 1,000,000,000 ordinary shares of $1 each ranking pari passu with the existing ordinary shares of $1 each and the creation of 1,000,000,000 Class B non-redeemable non-cumulative preferred shares of $1 each ranking pari passu with the existing Class B non-redeemable non-cumulative preferred shares of $1 each. On 31 May 2006, 500,000,000 Class B non-redeemable non-cumulative preferred shares of $1 each were issued at par, fully paid, to the Company's immediate parent company for cash consideration.

On 22 November 2006, 500,000,000 ordinary shares of $1 each were issued at par, fully paid, to the Company's immediate parent company for cash consideration.

On 28 November 2006 the Company's authorised share capital was increased by the creation of 1,000,000,000 ordinary shares of $1 each ranking pari passu with the existing ordinary shares of $1 each. On 29 November 2006, 1,000,000,000 ordinary shares of $1 each were issued at par, fully paid, to the Company's immediate parent company for cash consideration.

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

The holders of the Class B non-redeemable non-cumulative preferred shares of $1 each are entitled to receive a LIBOR based dividend as defined in the Company's Articles of Association. The shares carry no voting rights in the Company.

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital $'000	Share premium account $'000	Capital redemption reserve $'000	Foreign currency revaluation reserve $'000	Capital contribution reserve $'000	Profit and loss account $'000	Tota $'00
At 1 December 2004	763,552	512,516	149,675	(7,973)	2,812	1,426,795	2,847,37
Profit for the year	-	-	-	-		743,956	743,95
Dividends	-	-	-	-		(9,228)	(9,228
Foreign exchange differences arising on translation of net assets in overseas branches	-	-	-	473		-	47
Issuance of shares	800,000						800,00
At 1 December 2005	1,563,552	512,516	149,675	(7,500)	2,812	2,161,523	4,382,57
Profit for the year	-	-	-	-		872,989	872,98
Foreign exchange differences arising on translation of net assets in overseas branches	-	-	-	324		-	32
FRS 25 reclassification of preference shares	(285,773)	-	-	-		-	(285,773
Issuance of shares	1,750,000	-	-	-		-	1,750,00
At 30 November 2006	3,027,779	512,516	149,675	(7,176)	2,812	3,034,512	6,720,11

21. COMMITMENTS AND CONTINGENCIES

During the next year the Company is committed to pay $3,123,000 (2005: $4,002,000) in respect of operating leases as follows:

	Land and buildings		Other	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Maturity of lease:				
Within one year	-	656	-	-
In two to five years	1,316	37	174	272
Over five years	1,633	3,037	-	-
	2,949	3,730	174	272

The Company is joint party to a Deed of Guarantee (the "Deed") made with Morgan Stanley to guarantee the obligations of the HK RAV IV and V Partnerships, fellow Group undertakings. The Company has received a cross guarantee from Morgan Stanley Dean Witter UK Capital Limited, a fellow Group undertaking. The effect of this guarantee is that Morgan Stanley Dean Witter UK Capital Limited would reimburse the Company were the Company required to make payment under the Deed. The Company has received cash collateral of $125,923,000 from Morgan Stanley Dean Witter UK Capital Limited to secure the obligations under the cross guarantee. As at 30 November 2006, no call had been made on the Company under these arrangements.

22. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities

	2006 $'000	2005 $'000
Operating profit	766,087	1,061,606
Depreciation on tangible fixed assets	2,805	2,366
Loss on disposal of tangible fixed assets	123	2,186
Foreign exchange revaluation on assets held in overseas branches	(5,774)	3,920
Increase in segregated client money	(2,700,144)	(163,150)
(Increase)/decrease in current asset financial instruments	(71,680,429)	1,216,133
Increase in other debtors	(40,221,262)	(4,072,916)
(Increase) / decrease in trading interest receivable	(370,349)	129,776
Increase in trading interest payable	293,997	123,493
Increase in current liability financial instruments	64,867,542	23,363,594
Increase in other creditors	53,322,072	36,331,035
Increase/(decrease) in provisions for liabilities and charges	3,080	(64,231)
Net cash inflow from operating activities	4,277,748	57,933,812

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

b) Reconciliation of net cash flow to movement in net debt

	2006 $'000	2005 $'000
(Decrease)/increase in cash in the period	(1,313,319)	2,595,129
Cash outflow from increase in liquid resources	12,305,052	57,188,929
Cash inflow from increase in debt financing	(24,866,314)	(24,594,624)
Conversion of branch to subsidiary	(82,164)	-
Currency translation differences on foreign currency net investments (see note 20)	324	473
Movement in net debt in the period	(13,956,421)	35,189,907
Net debt at 1 December	(1,769,555)	(36,959,462)
NET DEBT AT 30 NOVEMBER	(15,725,976)	(1,769,555)

c) Analysis of changes in net debt

	30 November 2006 $'000	Cash flow $'000	30 November 2005 $'000	Cash flow $'000	01 December 2004 $'000
Net cash:					
Cash at bank	14,322,348	1,145,780	13,176,568	2,842,346	10,334,222
Less: Segregated client money	(7,170,012)	(2,700,144)	(4,469,868)	(163,150)	(4,306,718)
Deposits treated as liquid resources	(140,906)	74,890	(215,796)	(42,307)	(173,489)
	7,011,430	(1,479,474)	8,490,904	2,636,889	5,854,015
Overdrafts	(101,691)	84,315	(186,006)	(41,287)	(144,719)
	6,909,739	(1,395,159)	8,304,898	2,595,602	5,709,296
Liquid resources:					
Deposits included in cash	140,906	(74,890)	215,796	42,307	173,489
Total securities purchased under agreements to resell and cash collateral on stocks borrowed	271,865,918	12,379,942	259,485,976	57,146,622	202,339,354
	272,006,824	12,305,052	259,701,772	57,188,929	202,512,843
Debt:					
Debt due within one year	(283,685,439)	(19,474,363)	(264,211,076)	(23,444,624)	(240,766,452)
Debt due after one year	(10,957,100)	(5,391,951)	(5,565,149)	(1,150,000)	(4,415,149)
	(294,642,539)	(24,866,314)	(269,776,225)	(24,594,624)	(245,181,601)
Net debt	(15,725,976)	(13,956,421)	(1,769,555)	35,189,907	(36,959,462)

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

c) Analysis of changes in net debt (continued)

	30 November 2006 $'000	30 November 2005 $'000	01 December 2004 $'000
Cash at bank	14,322,348	13,176,568	10,334,222
Less: Segregated client money held	(7,170,012)	(4,469,868)	(4,306,718)
	7,152,336	8,706,700	6,027,504
Debtors:			
Total securities purchased under agreements to resell and cash collateral on stocks borrowed	271,865,918	259,485,976	202,339,354
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	(811,320)	(1,084,234)	(1,023,348)
Total securities sold under agreements to repurchase and cash collateral on stocks loaned	(260,964,124)	(244,992,200)	(216,421,424)
Other amounts owing to group undertakings	(22,011,686)	(18,320,648)	(23,466,399)
Creditors: Amounts falling due after one year	(10,957,100)	(5,565,149)	(4,415,149)
	(15,725,976)	(1,769,555)	(36,959,462)

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

d) Gross cash flows

	2006 $'000	2005 $'000
Return on investments and servicing of finance:		
Dividends on preference shares	-	(9,228)
Interest received	382,169	-
Interest paid	(36,193)	(43,152)
Net cash inflow/(outflow) from returns on investments and servicing of finance	346,976	(52,380)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(9,527)	(9,615)
Sale of tangible fixed assets	781	-
Purchase of fixed asset investments	(78,454)	(34,010)
Sale of fixed asset investments	46,303	2,665
Net cash outflow from capital expenditure	(40,897)	(40,960)
Management of liquid resources:		
Cash placed on short-term deposit	74,890	(42,307)
Total securities purchased under agreements to resell and cash collateral on stocks borrowed	(12,379,942)	(57,146,622)
Net cash outflow from management of liquid resources	(12,305,052)	(57,188,929)
Financing:		
Issue of ordinary shares	1,750,000	800,000
Issue of preference shares	500,000	-
New subordinated loan liabilities	4,500,000	1,150,000
Increase in other long-term creditors	106,178	-
Net cash inflow from financing	6,856,178	1,950,000

23. 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.

24. 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 International Limited, which is registered in England and Wales. Copies of its accounts can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

APPENDIX A-2

Financial Statements of the Issuer

Morgan Stanley & Co. International plc

Year ended 30 November 2005

Registration No. 2068222

Registered Office:
25 Cabot Square
Canary Wharf
London E14 4QA

MORGAN STANLEY & CO. INTERNATIONAL LIMITED

Report and Accounts

30 November 2005

CONTENTS

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

RESULTS AND DIVIDENDS

The profit for the year, after tax, was $734,956,000 (2004: $428,308,000). During the year, no dividends were paid to the ordinary shareholders (2004: $372,500,000). Dividends of $9,228,000 were paid on the Class B non-cumulative preference shares on 20 October 2005 (2004: $7,525,000). No final dividend is proposed (2004: nil).

$734,728,000 (2004: $48,283,000) will be carried to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of Morgan Stanley & Co. International Limited (the "Company") is the provision of financial services to corporations, governments, financial institutions and individual investors. The Company operates branches in Korea, Taiwan, France, Greece, and, from 28 February 2005, the Netherlands. The Company is authorised and regulated by the Financial Services Authority ("FSA").

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

The profit and loss account for the year is set out on page 4. Both the level of business during the year and the financial position at the end of the year were satisfactory. No significant change in the Company's principal business activity is expected.

DIRECTORS

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

R D Bandeen	(appointed 23 June 2005)
C D S Bryce	
J C S Chenevix-Trench	(appointed as Chairman of the Board 1 January 2006)
K Clark	
M R Durbin	(appointed 23 June 2005)
A C Fawcett	
M L Hay	(resigned 23 June 2005)
M J Johansson	
T C Kelleher	
D R Nicol	
S J Notley	
F R Petitgas	(appointed 25 November 2005)
H J Schuettler	(appointed 25 November 2005)
M D Uva	(resigned 25 November 2005)
D A Walker	(resigned as a Director and as Chairman of the Board 31 December 2005)

DIRECTORS' INTERESTS

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

POST BALANCE SHEET EVENT

On 15 January 2006, the Company established a new branch in Dubai.

AUDIT COMMITTEE

Morgan Stanley International Limited ("MSI"), the Company's ultimate UK parent undertaking, established an Audit Committee in September 2003 to assist the Boards of MSI, the Company and other of MSI's regulated subsidiaries in meeting their responsibilities in ensuring an effective system of internal control and compliance, and in meeting their external financial reporting obligations.

AUDITORS

The Company has in place an elective regime to dispense with the need to hold annual general meetings, lay reports and accounts before the shareholders at a general meeting, and the requirement to re-appoint the auditors, Deloitte & Touche LLP, annually.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 23 February 2006

K. Clark
Director

We have audited the financial statements of Morgan Stanley & Co. International Limited for the year ended 30 November 2005 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet and related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom company law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

We read the Directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 November 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP,

London
Chartered Accountants and Registered Auditors
23 February 2006

PROFIT AND LOSS ACCOUNT
Year ended 30 November 2005

	Note	2005 $'000	2004 $'000
NET REVENUE	2	4,033,924	3,119,645
Administrative expenses		(2,972,318)	(2,494,531)
OPERATING PROFIT	4	1,061,606	625,114
Income from fixed asset investments		32	-
Other interest receivable and similar income	7	-	3,968
Interest payable and similar charges	8	(43,152)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,018,486	629,082
Tax on profit on ordinary activities	9	(274,530)	(200,774)
PROFIT FOR THE FINANCIAL YEAR		743,956	428,308
Dividends on ordinary shares	10	-	(372,500)
Dividends on preference shares	10	(9,228)	(7,525)
PROFIT RETAINED FOR THE FINANCIAL YEAR		734,728	48,283

All operations were continuing in the current and prior year.

A reconciliation of the movement in shareholders' funds has been prepared in note 20 to the accounts.

The notes on pages 7 to 21 form an integral part of the accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 November 2005

	Note	2005 $'000	2004 $'000
PROFIT FOR THE FINANCIAL YEAR		743,956	428,308
Currency translation differences on foreign currency net investments	20	473	(2,280)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		744,429	426,028

The notes on pages 7 to 21 form an integral part of the accounts.

BALANCE SHEET
30 November 2005

	Note	2005 $'000	2004 $'000
FIXED ASSETS			
Tangible assets	11	10,075	4,990
Investments	12	146,085	118,650
		156,160	123,640
CURRENT ASSETS			
Financial instruments		77,710,629	78,926,762
Debtors	13	330,234,073	269,236,180
Cash at bank	14	13,176,568	10,334,222
		421,121,270	358,497,164
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments		(65,675,345)	(42,311,751)
Other creditors	16	(345,652,139)	(308,980,077)
		(411,327,484)	(351,291,828)
NET CURRENT ASSETS		9,793,786	7,205,336
TOTAL ASSETS LESS CURRENT LIABILITIES		9,949,946	7,328,976
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(5,565,149)	(4,415,149)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(2,219)	(66,450)
		4,382,578	2,847,377
CAPITAL AND RESERVES			
Called up share capital	19	1,563,552	763,552
Share premium account	20	512,516	512,516
Capital redemption reserve	20	149,675	149,675
Foreign currency revaluation reserve	20	(7,500)	(7,973)
Capital contribution reserve	20	2,812	2,812
Profit and loss account	20	2,161,523	1,426,795
SHAREHOLDERS' FUNDS		4,382,578	2,847,377
Analysed as:			
Equity		4,096,805	2,561,604
Non-equity		285,773	285,773
		4,382,578	2,847,377

These accounts were approved by the Board on 23 February 2006
Signed on behalf of the Board

K. Clark
Director

The notes on pages 7 to 21 form an integral part of the accounts.

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(f) below, and in accordance with applicable United Kingdom company law and accounting standards.

The Company is not required to prepare consolidated accounts by virtue of the exemption under section 228 of the Companies Act 1985. The results of the Company are included within the accounts of Morgan Stanley International Limited, a company registered in England and Wales, which will prepare consolidated accounts for the year ended 30 November 2005. The accounts therefore present information about the Company as an individual entity and not about its group.

b) Functional currency

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

All currency amounts in the Directors' report, the Accounts and the Notes to the Accounts are rounded to the nearest thousand US dollars.

c) Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Amounts in the balance sheets of the overseas branches are translated into US dollars using the closing rate method. Transactions in currencies other than US dollars are recorded at the rates ruling at the dates of the transactions, except where expenses are hedged by a matching forward contract, when the rate of exchange specified in the forward contract is used. Translation differences arising from the net investments in the overseas branches are taken to the foreign currency revaluation reserve and all other translation differences are taken through the profit and loss account.

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment in value. Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Leasehold improvements	-	shorter of remaining lease term and 50 years
Fixtures, fittings and equipment	-	3 to 10 years

e) Fixed asset investments

Fixed asset investments are stated at cost, less provision for any impairment.

f) Current assets - financial instruments

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

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

1. ACCOUNTING POLICIES (CONTINUED)

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

The fair value of over-the-counter ("OTC") derivative contracts is derived primarily from pricing models, which may require multiple market input parameters. Where appropriate, valuation adjustments are made to account for credit quality and market liquidity. These adjustments are applied on a consistent basis and are based upon observable market data where available. The Company also uses pricing models to manage the risks introduced by these transactions. Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed form analytic formulae, such as the Black-Scholes option pricing model, simulation models, or a combination thereof, applied consistently. In the case of more established derivative products, the pricing models used by the Company are in line with those widely accepted by the financial services industry. Pricing models take into account the contract terms, including the maturity, as well as quoted market parameters such as interest rates, volatility and the creditworthiness of the counterparty.

No fair value gains and losses are recognised in respect of forward contracts used to hedge the Company's non US dollar expenses. As described in note 1(c) above, the expenses covered by these hedges are recognised at the exchange rates specified in the contracts.

g) 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 recorded as liabilities 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 recorded as debtors. Although many securities lending and borrowing and repurchase and resale activities are transacted under master netting agreements, such receivables and payables with the same counterparty are shown gross on the balance sheet.

h) 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.

i) Netting

All assets and liabilities have been disclosed gross unless the Company's ability to insist on net settlement is assured beyond doubt.

j) Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

1. ACCOUNTING POLICIES (CONTINUED)

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 produce a cash flow statement.

2. NET REVENUE

Net revenue represents fees, commissions and trading income, for financial services provided. Trading income includes gains and losses on financial instruments and net trading interest and dividends. Net revenue is recorded on a trade date basis and is stated after the deduction of value added tax.

3. SEGMENTAL REPORTING

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

4. OPERATING PROFIT

		2005 $'000	2004 $'000
Operating profit is stated after charging :			
Operating lease rentals		4,237	2,864
Depreciation on owned assets		2,366	2,168
Auditors' remuneration	- audit fees	2,416	2,488
	- non audit fees	851	1,409
Trading interest payable	- Group undertakings	4,446,953	2,612,838
	- external counterparties	4,626,648	6,012,924
and crediting:			
Trading interest receivable	- Group undertakings	3,842,119	1,792,292
	- external counterparties	5,926,690	6,958,524

5. STAFF COSTS

The average number of employees of the Company including the Directors, is analysed below:

	2005 Number	2004 Number
Company and institutional securities infrastructure	82	76
Business units and other	111	99
	193	175

The costs of the staff are analysed below:

	2005 $'000	2004 $'000
Wages and salaries	53,955	42,561
Social security costs	8,225	4,862
Pension costs	883	640
	63,063	48,063

In addition to the costs above, the Company incurred management charges in respect of staff costs from other Group undertakings. These recharges, determined by the relevant Group undertaking on an accounting cost plus basis, totalled $1,672,796,000 (2004: $1,380,814,000).

The Company paid no remuneration to its Directors during the current or prior year but incurred management charges in respect of Directors' services provided to the Company. The amount of remuneration received by Directors in respect of their services to the company is disclosed in note 6.

6. DIRECTORS' EMOLUMENTS

	2005 $'000	2004 $'000
Total emoluments of all Directors :		
Aggregate emoluments	28,936	19,954
Company contributions to pension schemes	180	95
Disclosures in respect of the highest paid Director:		
Aggregate emoluments excluding pension contributions	6,188	5,465
Company pension contributions to a money purchase scheme	35	41

All Directors who are employees of the Group are eligible for shares in the parent company, Morgan Stanley, under the Group's various compensation incentive plans.

Nine Directors exercised share options during the year (2004: six).

There are eleven Directors to whom retirement benefits are accruing under a money purchase scheme (2004: five). In addition, one Director also has benefits accruing under a defined benefit scheme (2004: one).

Directors' emoluments have been calculated as the sum of cash, bonuses, benefits in kind and the current value of restricted stock awards.

Amounts reported in respect of the value of restricted stock awards reflect the extent to which these awards are receivable in respect of qualifying services in the year. For this purpose, the Company recognises the fair value of awards over the service period. Prior to 2003, the service period of the restricted stock awards was the year of grant. Since 2003, the service periods for the restricted stock awards have been up to four years, including the year of grant.

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 $'000	2004 $'000
Interest receivable	-	3,968

Interest receivable excludes trading interest, which is included in net revenue since it is an integral component of the Company's net trading income.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 $'000	2004 $'000
Interest payable to Group undertakings	43,152	-

Interest payable excludes trading interest, which is included in net revenue since it is an integral component of the Company's net trading income.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2005 $'000	2004 $'000
UK corporation tax at 30% (2004: 30%)		
- Current year	260,493	55,797
- Current year group relief payable	-	120,000
- Adjustment in respect of prior years	12,348	28,338
	272,841	204,135
Double taxation relief		
- Current year	(32,491)	(25,031)
- Adjustment in respect of prior years	37	(4,449)
Foreign tax		
- Current year	34,325	19,482
- Adjustment in respect of prior years	(37)	4,449
Total current tax	274,675	198,586
Deferred taxation		
- Current year	111	944
- Adjustment in respect of prior years	(256)	1,244
Tax on profit on ordinary activities	274,530	200,774

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the tax charge for the year

The current year UK taxation charge is lower (2004: higher) than that resulting from applying the standard UK corporation tax rate of 30% (2004:30%). The main differences are explained below:

	2005 $'000	2004 $'000
Profit on ordinary activities before tax	1,018,486	629,082
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	305,546	188,725
Effects of:		
Expenses not deductible for tax purposes	5,939	5,744
Capital allowances for the year in excess of depreciation	(927)	(1,038)
Group relief received for nil consideration	(32,503)	-
The deduction of tax credits receivable in accordance with FRS 16	-	(4,206)
Adjustments to the tax charge in respect of previous periods	12,348	28,338
Reversal of timing differences in respect of compensation	96	-
Higher rate taxes on overseas earnings	1,834	
Non taxable UK dividends	(33)	-
Other income not subject to UK taxes	(18,928)	(18,055)
Other	1,303	(922)
Current tax charge for the year	274,675	198,586

In prior years withholding tax credits were generated by the Company from its equity trading activities as an integral component of net revenues. These were offset against the current year tax charge in accordance with FRS 16 *Current Tax*. No such credits arose in 2005.

10. DIVIDENDS

	Date of payment	2005 $'000	2004 $'000
Dividends on ordinary shares	15 September 2004	-	245,000
Dividends on ordinary shares	25 October 2004	-	127,500
		-	372,500
Dividends on preference shares	20 October 2005	9,228	-
Dividends on preference shares	25 October 2004	-	7,525
		9,228	7,525

11. TANGIBLE FIXED ASSETS

	Leasehold improvements $'000	Fixtures, fittings and equipment $'000	Total $'000
Cost			
At 1 December 2004	5,629	11,383	17,012
Additions	4,517	5,098	9,615
Disposals	(2,734)	(7,975)	(10,709)
Foreign exchange revaluation on assets held in overseas branches	13	40	53
At 30 November 2005	7,425	8,546	15,971
Depreciation			
At 1 December 2004	(4,024)	(7,998)	(12,022)
Charge for the year	(559)	(1,807)	(2,366)
Disposals	1,622	6,901	8,523
Foreign exchange revaluation on assets held in overseas branches	(9)	(22)	(31)
At 30 November 2005	(2,970)	(2,926)	(5,896)
Net book value			
At 30 November 2005	4,455	5,620	10,075
At 30 November 2004	1,605	3,385	4,990

12. FIXED ASSET INVESTMENTS

	Subsidiary undertakings $'000	Other fixed asset investments $'000	Total $'000
Cost			
At 1 December 2004	22,401	114,359	136,760
Additions	215	33,795	34,010
Disposals	-	(2,633)	(2,633)
Foreign exchange revaluation on assets held in overseas branches	-	(3,942)	(3,942)
At 30 November 2005	22,616	141,579	164,195
Impairment provisions			
At 1 December 2004 and at 30 November 2005	(12,163)	(5,947)	(18,110)
Net book value			
At 30 November 2005	10,453	135,632	146,085
At 30 November 2004	10,238	108,412	118,650

Included in other fixed asset investments are listed investments of $2,283,000 (2004:$2,283,000). The market value on 30 November 2005 of these investments was $42,669,000 (2004:$31,155,000). If these assets were sold on 30 November 2005, capital gains tax of $12,116,100 (2004:$9,346,500) would arise on the gain.

Also included in other fixed asset investments is $121,169,000 (2004:$93,397,000) which represents the Company's membership contributions to default funds in European trading exchanges. In the event of a member default, a European trading exchange may call upon its members to cover losses incurred up to a maximum of each member's contribution to the default fund.

In the opinion of the Directors, neither the results nor the financial position of any of the Company's subsidiary undertakings has a significant effect on the figures shown in these accounts. A full list of the Company's subsidiary and associated undertakings will be annexed to the Company's next Annual Return and filed with the Registrar of Companies.

13. DEBTORS

	2005 $'000	2004 $'000
Trade debtors:		
External counterparties	44,244,891	44,902,595
Group undertakings	9,959,258	11,938,469
Securities purchased under agreements to resell and cash collateral on stocks borrowed:		
External counterparties	142,201,843	117,969,963
Group undertakings	117,284,133	84,369,391
Other amounts due from Group undertakings	14,905,528	8,610,147
Deferred taxation (see note 15)	12,210	12,351
Corporation Tax	-	91,728
Other debtors	1,553,926	1,278,630
Prepayments and accrued income	72,284	62,906
	330,234,073	269,236,180

14. CASH AT BANK

Included within cash at bank is an amount of $4,469,868,000 (2004: $4,306,718,000) which represents segregated client money, held in accordance with the FSA's Client Money Rules.

15. DEFERRED TAX

Deferred tax has been fully recognised and is analysed as follows:

	2005 $'000	2004 $'000
Accelerated capital allowances	6,732	7,778
Other timing differences	5,478	4,573
	12,210	12,351

The movement in the deferred tax asset during the year is analysed as follows:

	$'000
At 1 December 2004	12,351
Current year timing differences	(111)
Prior year timing differences	256
Foreign exchange revaluation	(286)
At 30 November 2005	12,210

16. OTHER CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 $'000	2004 $'000
Bank loans and overdrafts	1,084,234	1,023,348
Trade creditors:		
External counterparties	73,841,469	61,238,222
Group undertakings	5,545,627	5,573,830
Securities sold under agreements to repurchase and cash collateral on stocks loaned:		
External counterparties	103,326,881	119,329,301
Group undertakings	141,665,319	97,092,123
Other amounts owing to Group undertakings	18,320,648	23,466,399
Corporation tax	176,247	-
Other taxes and social security costs	16,981	39,562
Other creditors	1,436,854	1,018,810
Accruals and deferred income	237,879	198,482
	345,652,139	308,980,077

Included within other amounts owing to Group undertakings are amounts of $2,921,579,000 (2004: $3,750,833,000) representing cash collateral received as security for open trading positions held with other Group companies.

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 $'000	2004 $'000
Subordinated loan agreements	5,565,149	4,415,149

Subordinated loan agreements

The amounts subject to subordinated loan agreements are wholly repayable as shown below:

Counterparty	Repayment date	Interest rate	2005 $'000	2004 $'000
Morgan Stanley International Holdings Inc.	31 October 2021	LIBOR plus 1.25%	2,500,000	1,550,000
Morgan Stanley Services (UK) Limited	31 October 2016	LIBOR plus 2.26%	1,300,000	1,300,000
Morgan Stanley Services (UK) Limited	28 November 2017	9.61%	65,149	65,149
Morgan Stanley Dean Witter Trustee Limited	29 October 2026	LIBOR plus 2.00%	694,000	1,500,000
Morgan Stanley International Finance S.A.	31 October 2025	LIBOR plus 1.25%	1,006,000	-
			5,565,149	4,415,149

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

All amounts outstanding are repayable at any time at the Company's option, subject to prior consent from the FSA, which has the right under the agreements to refuse consent to repayment.

On 22 March 2005 and 1 November 2005, the Company drew down a further $500,000,000 and $450,000,000 respectively of funding under its loan facility with Morgan Stanley International Holdings Inc. On 10 November 2005 and 25 November 2005, the Company drew down $806,000,000 and $200,000,000 respectively of funding under a new loan facility with Morgan Stanley International Finance S.A. On 10 November 2005, the Company repaid $806,000,000 of funding under its loan facility with Morgan Stanley Dean Witter Trustee Limited. On 20 January 2006, the Company drew down a further $500,000,000 of funding under its loan facility with Morgan Stanley International Finance S.A.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Property $'000	Litigation $'000	Total $'000
At 1 December 2004	-	66,450	66,450
Additions	617	123,890	124,507
Provisions used during the period	(28)	(188,710)	(188,738)
At 30 November 2005	589	1,630	2,219

Property

Property provisions relate to the net present value of expected future costs of excess office space and to the costs of reinstating premises held under operating leases at the end of the lease period. Provisions made are released in line with actual costs incurred.

Litigation Matters

During the year the Company has been involved in various continuing and other litigation matters and provisions have been recognised and disclosed in accordance with FRS 12. The Directors are of the opinion that it would be seriously prejudicial to the position of the Company to disclose details of individual continuing litigation matters and the amounts provided in respect of them.

On 19 July 2005, the Company paid an amount of $187,739,000 to Parmalat as part of a settlement of all existing and potential claims between Parmalat and the Company in connection with the insolvency of Parmalat.

19. CALLED UP SHARE CAPITAL

	2005 Number	2004 Number
Authorised:		
Equity shares		
Ordinary shares of \$1 each	1,498,332,648	448,332,648
Ordinary shares of £1 each	107,615,107	107,615,107
Non-equity shares		
Non-cumulative Class B preference shares of \$1 each	400,000,000	400,000,000

	2005 \$'000	2004 \$'000
Allotted and fully paid:		
Equity shares		
1,248,332,648 (2004: 448,332,648) ordinary shares of \$1 each	1,248,333	448,333
17,615,107 ordinary shares of £1 each	29,446	29,446
Non-equity shares		
285,772,500 non-cumulative Class B preference shares of \$1 each	285,773	285,773
	1,563,552	763,552

The authorised share capital figure above does not include 45,000,000 redeemable non-cumulative preference shares of £1 each, and 57,000,000 Class 'A' redeemable non-cumulative preference shares of £1 each, redeemed in full on 31 May 2000 and 15 March 2001 respectively. These redeemed shares still form part of the Company's authorised share capital.

On 15 March 2005 the Company's authorised share capital was increased by the creation of 550,000,000 ordinary shares of \$1 each ranking pari passu with the existing ordinary shares of \$1 each in the Company. On 16 March 2005, 500,000,000 ordinary shares of \$1 each were issued at par, fully paid, to the Company's immediate parent company for a cash consideration.

On 22 November 2005 the Company's authorised share capital was increased by the creation of 500,000,000 ordinary shares of \$1 each ranking pari passu with the existing ordinary shares of \$1 each in the Company. On 25 November 2005, 300,000,000 ordinary shares of \$1 each were issued at par, fully paid, to the Company's immediate parent company for a cash consideration.

On 27 January 2006 the Company's authorised share capital was increased by the creation of 50,000,000 ordinary shares of \$1 each ranking pari passu with the existing ordinary shares of \$1 each in the Company. On 31 January 2006, 250,000,000 ordinary shares of \$1 each were issued at par, fully paid, to the Company's immediate parent company for a cash consideration.

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

The holders of the non-cumulative Class B preference shares are entitled to receive a LIBOR based dividend as defined in the Company's Articles of Association. The shares carry no voting rights in the Company and are non-redeemable.

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital $'000	Share premium account $'000	Capital redemption reserve $'000	Capital contribution reserve $'000	Foreign currency revaluation reserve $'000	Profit and loss account $'000	Total $'000
At 1 December 2003	463,552	512,516	149,675	2,812	(5,693)	1,378,512	2,501,374
Profit for the year	-	-	-	-	-	428,308	428,308
Dividends	-	-	-	-	-	(380,025)	(380,025)
Foreign exchange differences arising on translation of net assets in overseas branches	-	-	-	-	(2,280)	-	(2,280)
Issuance of shares	300,000	-	-	-	-	-	300,000
At 1 December 2004	763,552	512,516	149,675	2,812	(7,973)	1,426,795	2,847,377
Profit for the year	-	-	-	-	-	743,956	743,956
Dividends	-	-	-	-	-	(9,228)	(9,228)
Foreign exchange differences arising on translation of net assets in overseas branches	-	-	-	-	473	-	473
Issuance of shares	800,000	-	-	-	-	-	800,000
At 30 November 2005	1,563,552	512,516	149,675	2,812	(7,500)	2,161,523	4,382,578

21. COMMITMENTS AND CONTINGENCIES

During the next year the Company is committed to pay $4,002,000 (2004: $4,738,000) in respect of operating leases as follows:

	Land and buildings		Other	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Maturity of lease :				
Within one year	656	12	-	-
In two to five years	37	1,033	272	86
Over five years	3,037	3,607	-	-
	3,730	4,652	272	86

The Company is joint party to a Deed of Guarantee (the "Deed") made with Morgan Stanley to guarantee the obligations of the HK RAV IV and V Partnerships. The Company has received a cross guarantee from Morgan Stanley Dean Witter UK Capital Limited, a fellow Group undertaking. The effect of this guarantee is that Morgan Stanley Dean Witter UK Capital Limited would reimburse the Company were the Company required to make payment under the Deed. The Company has received cash collateral of $251,827,000 from Morgan Stanley Dean Witter UK Capital Limited to secure the obligations under the cross guarantee. As at 30 November 2005, no call had been made on the Company under these arrangements.

22. 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.

23. 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 International Limited which is registered in England and Wales. Copies of its accounts can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

REGISTERED OFFICE OF MORGAN STANLEY & CO. INTERNATIONAL plc

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London El4 4QA

LEGAL ADVISERS TO THE ISSUER

Clifford Chance LLP
10 Upper Bank Street
London El4 5JJ

AUDITORS

Deloitte and Touche LLP
Stonecutter Court
12 Stonecutter Street
London EC4A 4TR