



MorganStanley  
**Growth Fund**

Annual Report  
March 31, 2004

MorganStanley

**To our valued Unit Holders,**

We are pleased to present to you the tenth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2004.

You will find enclosed detailed results of the Fund for the financial year ended March 31, 2004 along with a commentary from the portfolio manager in which he shares with you his views on the Indian economy and equity markets and factors impacting your fund's performance.

The Fund's strong performance for the year was reflected in the market price of the units as they reached a high of Rs. 19 in January 2004. We are pleased that the Fund was in a position to reward its unitholders with a dividend distribution of Rs. 1.50 per unit for the financial year 2003-04. The NAV of MSGF as of March 31, 2004 has been adjusted downward in the audited year-end financial statements to reflect the dividend pay-out, distribution tax and expenses associated with the declaration of dividend. (Please note that past performance may or may not be sustained in future)

The year under review has been an active year from the standpoint of significant amendments to the Securities and Exchange Board of India (SEBI) Regulations. The amendments covered topics relating to increased investor protection guidelines, investor reporting, enhanced corporate governance, rules for mutual funds trading in debts. In 2002 SEBI introduced Straight Through Processing (STP) norms for domestic mutual funds. We are pleased to inform you that your Fund was one of the few funds, which established electronic connectivity to enable electronic exchange of contract notes with brokers and custodians. SEBI has now announced that all institutional trades executed on the stock exchange should be processed through STP systems from July 1, 2004. We are taking steps to ensure that your fund ensures adherence to SEBI guidelines.

As Trustees of the Fund, it is our duty to safeguard the assets of the Fund and to ensure that the Fund is managed in accordance with the law and good business practice. To this end, we are pleased to report that over the past year, your Fund and its asset management company have maintained high standards in their reporting and control systems.

We greatly appreciate your participation as a unit holder of the Fund and look forward to your continued support.

Sincerely,

**Ronald E. Robison**  
**Principal Trustee**

April 28, 2004

#### **Important information**

- Nomination Facility is available and individual unit holders desirous of availing the same can contact Karvy Computershare Private Limited at below mentioned address. Nomination form is also available on the Fund's website [www.msgfindia.com](http://www.msgfindia.com).
- In order to avoid fraudulent encashment of dividend warrants, unitholders are requested to intimate name, address and account number details of their bank to Karvy Computershare Private Limited at below mentioned address.

**Karvy Computershare  
Private Limited**

Unit: Morgan Stanley Growth Fund,  
21, Avenue 4, Street No. 1,  
Banjara Hills, Hyderabad - 500 034.  
Tel: 040 - 2331 2454, 2332 0251

The price and redemption value of the units, and income from them, can go up as well as down with the fluctuations in the market value of its underlying investments. Past performance is no indication of future performance. Investments in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by exchange rate fluctuations.

Please refer to page 13 for investment objective of the Fund, liabilities of the Trustees and settlor, statutory details and other risk factors and disclosures.

# PORTFOLIO MANAGER'S LETTER

## Dear Unit Holders,

For the year ended March 31, 2004, the total return of the Morgan Stanley Growth Fund (the "Fund"), based on its net assets and assuming reinvestment of all dividend payouts, rose by 95.52%. For the same period the benchmark indices, Sensex and BSE 100 rose by 83.38% and 97.66% respectively. Since inception in January 1994, the Fund has outperformed the indices as shown in Table 1 below.

**Table 1**

**MSGF NAV Performance v/s Benchmark Indices (as of March 31, 2004)**

PERIOD	MSGF NAV*	SENSEX	BSE 100
Returns during the year [(+) (-)]	95.52%	83.38%	97.66%
Returns during the half year [(+) (-)]	25.86%	25.54%	28.16%
Compounded Annualised Return			
(i) Last 3 years	28.88%	15.76%	20.59%
(ii) Last 5 years	15.07%	8.37%	12.43%
(iii) Since the launch of the scheme (1st January 1994)	10.20%	4.21%	5.27%

Past performance is no indication of future performance and may not necessarily provide basis for comparison with other investments. Past performance may or may not be sustained in future. Distribution tax has been included in the calculation of returns. All returns except for half year and 1 year are compounded annualised returns.

\* Performance of the fund has been calculated based on the assumption that all dividends during the period have been reinvested in the scheme at the then prevailing NAV

At this time last year, the local financial commentary suggested India could do little right. The economy seemed mired in a disappointingly low growth trajectory. Policymakers appeared jaded and the political-economic cycle argued against any major reform initiatives in the midst of a busy election schedule. Even such lame topics as the fiscal deficit threatened to make a comeback in the public discourse.

It all looks dramatically different today. There is a rush to extrapolate last quarter's 10.4% GDP growth rate. The disinvestment target has been exceeded for the first time in history. Central bankers are grappling with an appreciating rupee and a new investment cycle is evidently at work with the over-investment of the mid-nineties weeded out of the system.

Most equity markets across the world have witnessed a similar change in sentiment. The close relationship between markets extends well beyond the headline level. It is surprising though to see much of this lost on local analysts, who continue to confuse global influences for local trends. India's correlation with emerging markets, both at the overall market and sector level, has increased even more in the current bull market.

Of late though, more of a rotational theme has been running through the global equity universe. Several markets and sectors that outperformed in the fourth quarter of 2003, underperformed in the first quarter of 2004. While emerging markets had another quarter of more than respectable returns, India was among the few markets that generated negative returns. The other markets to end in negative territory for the quarter were Brazil, Thailand and China, all markets that had a spectacular end to 2003, thereby making a pattern.

Both Indian companies and investors need to be wary of the tremendous appetite for IPOs. To be sure, most companies in emerging markets need to focus more on growth and therefore need capital but the classic 'Asian problem' has been to grow without much respect for shareholder returns. Low return projects have often consumed too much money. Of late, a series of Chinese IPOs saw huge oversubscription to only trade well below issue price on listing.

In the final analysis, markets are efficient and with the last IPO feeding frenzy of 2000 still not fully forgotten, the market is likely to turn discerning sooner rather than later. As a Fund, we have almost never participated in an IPO with the primary objective of selling on rapid expected gains upon listing. We have subscribed to an

IPO if the company fits in our overall stock selection criteria of a high management quality backed company in a growth sector with a favourable entry point for the investor.

On the secondary market, our strategy is to be stock specific this year. While we do not foresee any major event-risk for the Indian market, it is a stretch to expect anywhere near the spectacular returns witnessed in the equity market last year. In that regard, the erratic moves of the major stock indices in the quarter ended March 2004 are a timely reminder that there is two-way risk in the market.

**Ruchir Sharma**

**Mumbai  
April 28, 2004**

**Table 2**

**Top Twenty Five holdings of MSGF**

<b>March 31, 2004</b>	
State Bank of India	8.99%
Bharat Heavy Electricals	8.98%
Hero Honda	5.13%
Oil and Natural Gas Corporation	4.51%
Container Corporation of India	4.11%
Infosys Technologies	3.85%
TISCO	3.66%
I T C	3.13%
Grasim Industries	2.86%
Tata Motors	2.77%
Punjab National Bank	2.61%
Hindalco Industries	2.61%
S A I L	2.60%
Cipla	2.48%
IDBI	2.46%
Siemens	2.44%
A B B	2.40%
Hindustan Lever	2.35%
HDFC	2.24%
Wipro **	2.04%
Indian Oil Corporation	1.98%
HDFC Bank **	1.82%
Glaxosmithkline Pharmaceuticals	1.73%
Indian Petrochemical	1.62%
Asian Paints	1.46%
	<b>80.83%</b>
	<b>of Portfolio</b>
<b>** Includes Local Shares and ADRs/GDRs</b>	

# AUDITORS' REPORT

To the Board of Trustees of

## MORGAN STANLEY MUTUAL FUND

1. We have audited the Balance Sheet of MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND (The "Fund") as at March 31, 2004, and the related Revenue Account for the year ended on that date, both of which we have signed under reference to this report. These financial statements are the responsibility of the Board of Trustees of Morgan Stanley Mutual Fund and the Management of Morgan Stanley Investment Management Private Limited (the "Management"). Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned at March 31, 2004 by correspondence with the custodians and others. An audit also includes assessing the accounting principles used and significant estimates made by Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. The Balance Sheet and the Revenue Account referred to above are in agreement with the books of account of the Fund.
4. In our opinion and to the best of our information and according to the explanations given to us;
  - (i) The Balance Sheet and the Revenue Account together with the notes thereon give the information required by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto, as applicable, and also give respectively a true and fair view of the state of affairs of Morgan Stanley Mutual Fund - Morgan Stanley Growth Fund as at March 31, 2004 and its net surplus for the year ended on that date.
  - (ii) The Balance Sheet as at March 31, 2004, and the Revenue Account for the year ended on that date, together with the notes thereon, have been prepared in all material respects in accordance with the accounting policies and standards specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto, as applicable.
  - (iii) The methods used to value;
    - (a) non-traded and thinly traded securities, in accordance with the guidelines for valuation of securities for mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by the Securities and Exchange Board of India (SEBI);
    - (b) privately placed equity shares in accordance with the guidelines for valuation of unlisted equity shares for mutual funds dated May 9, 2002 issued by the SEBI; and
    - (c) equity shares awaiting listing in good faithas at March 31, 2004 as determined by Morgan Stanley Investment Management Private Limited under procedures approved by the Board of Trustees of Morgan Stanley Mutual Fund are fair and reasonable.

**K. H. VACHHA**

*Partner*

For and on behalf of

**PRICE WATERHOUSE**

*Chartered Accountants*

M. No. F30798

**Mumbai**

**April 28, 2004**

# BALANCE SHEET

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Balance Sheet as at March 31, 2004

	Schedule	March 31, 2004 Rs.	March 31, 2003 Rs.
<b>ASSETS</b>			
Investments	1	13,099,708,756	6,640,963,353
Deposits	2	413,700,000	512,400,000
Other Current Assets	3	302,089,179	37,672,797
<b>TOTAL</b>		<u>13,815,497,935</u>	<u>7,191,036,150</u>
<b>LIABILITIES</b>			
Unit Capital	4	6,001,821,810	6,138,906,420
Reserves and Surplus	5	6,580,671,772	913,246,692
Current Liabilities and Provisions	6	1,233,004,353	138,883,038
<b>TOTAL</b>		<u>13,815,497,935</u>	<u>7,191,036,150</u>
<b>RECONCILIATION TO NET ASSET VALUE PER UNIT</b>			
Net Assets as per Balance Sheet (Total Assets less Current Liabilities and Provisions)		12,582,493,582	7,052,153,112
Number of Units in Issue		600,182,181	613,890,642
Net Asset Value per Unit		<u>20.96</u>	<u>11.49</u>
Notes to the Financial Statements	9		

The schedules form an integral part of the Financial Statements

This is the Balance Sheet referred to in our report of even date.

**K. H. VACHHA**  
*Partner*

For and on behalf of  
**PRICE WATERHOUSE**  
*Chartered Accountants*

Mumbai  
April 28, 2004

**For Morgan Stanley Mutual Fund**

ABID HUSSAIN  
*Trustee*

J. S. BAIJAL  
*Trustee*

B. RAI  
*Trustee*

RAJESH K. GUPTA  
*Trustee*

RONALD ROBISON  
*Trustee*

**For Morgan Stanley Investment  
Management Private Limited**

JOSEPH CLIFFORD D'SOUZA  
*Director*

RUCHIR SHARMA  
*Director*

# REVENUE ACCOUNT

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Revenue Account for the year ended March 31, 2004

	Schedule	Year ended March 31, 2004 Rs.	Year ended March 31, 2003 Rs.
<b>INCOME AND GAINS</b>			
Dividends on Equity Shares (Gross) (Note 2.5)		261,935,821	177,109,518
Dividends on American Depository Receipts and Global Depository Receipts (Net) (Note 2.5)		2,363,196	2,102,950
Interest and Discount	7	25,853,113	24,044,558
Net Profit on Sale of Investments (Note 2.4)		1,249,825,119	265,471,035
Provisions Written Back As No Longer Required		2,556,675	3,020,143
Provisions for Non Performing Assets Written Back As No Longer Required		1,468,125	-
Provision for Investments Doubtful of Realisation Written Back As No Longer Required		422,336	-
Realised Profit on Foreign Currency Transactions(Net) (Note 2.3)		-	1,958,956
<b>TOTAL</b>		<u>1,544,424,385</u>	<u>473,707,160</u>
<b>EXPENSES AND LOSSES</b>			
Investment Management and Advisory Fees (Note 4)		110,078,411	77,772,998
Transfer Agent Fees Expenses		20,868,367	20,997,823
Custodian Fees (Note 5)		5,142,973	4,106,503
Trusteeship Fees and Expenses (Note 6)		1,472,491	1,370,885
Audit Fees		600,000	800,000
Securities and Exchange Board of India Inspection Fees		170,000	160,000
Investor Communication Expenses		29,334,708	35,844,798
Dividend Distribution Expenses		11,000,000	-
Other Operating Expenses		13,059,093	5,081,294
Investments Written Off		197,786	3,325,613
Provision for Non Performing Assets		-	11,926,125
Provision for Investments Doubtful of Realisation		14,460	1,583,092
Realised Loss on Foreign Currency Transactions (Net) (Note 2.3)		1,256,674	-
<b>TOTAL</b>		<u>193,194,963</u>	<u>162,969,131</u>
<b>Net Surplus / (Deficit) for the Year</b>		1,351,229,422	310,738,029
Net Change in Unrealised Appreciation /(Depreciation) in Value of Investments and Foreign Currency Denominated Assets and Liabilities	8	<u>5,343,217,176</u>	<u>(956,132,190)</u>
		6,694,446,598	(645,394,161)
<b>Distribution</b>			
Dividend (declared on April 28, 2004)		<u>(900,273,272)</u>	-
		(900,273,272)	-
Tax on Dividend		<u>(115,347,513)</u>	-
		(1,015,620,785)	-
<b>Balance Carried to Balance Sheet</b>		<u>5,678,825,813</u>	<u>(645,394,161)</u>
Notes to the Financial Statements	9		

The schedules form an integral part of the Financial Statements  
This is the Revenue Account referred to in our report of even date.

**K. H. VACHHA**  
Partner

For and on behalf of  
**PRICE WATERHOUSE**  
Chartered Accountants

Mumbai  
April 28, 2004

ABID HUSSAIN  
Trustee

RAJESH K. GUPTA  
Trustee

J. S. BAIJAL  
Trustee

RONALD ROBISON  
Trustee

B. RAI  
Trustee

**For Morgan Stanley Investment  
Management Private Limited**

JOSEPH CLIFFORD D'SOUZA  
Director

RUCHIR SHARMA  
Director

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

SCHEDULE 1	2004	2004	2003	2003
Investments	Market/Fair Value	Cost	Market/Fair Value	Cost
(Notes 2.2, 2.3, 2.4, 7, 8, 10 and 11)	Rs.	Rs.	Rs.	Rs.
(Refer to attached Statement of Portfolio Holding as at March 31, 2004)				
American Depository Receipts and Global Depository Receipts	234,214,525	177,078,655	233,603,742	306,592,803
Equity Shares	12,605,370,297	7,472,730,319	6,406,187,988	6,473,375,739
Units of Mutual Funds	-	-	682,248	963,187
Non Convertible Debentures	12,534,184	-	1,957,500	2,610,000
Treasury Bills	247,589,750	247,792,857	-	-
	<u>13,099,708,756</u>	<u>7,897,601,831</u>	<u>6,642,431,478</u>	<u>6,783,541,729</u>
Less : Provision for Non Performing Asset	-	-	(1,468,125)	-
	<u>13,099,708,756</u>	<u>7,897,601,831</u>	<u>6,640,963,353</u>	<u>6,783,541,729</u>
SCHEDULE 2			2004	2003
Deposits			Rs.	Rs.
Money at Call with Scheduled Banks				
- Unclaimed Dividends			-	38,700,000
- Others			353,300,000	42,500,000
Deposits with Scheduled Banks				
- Unclaimed Dividends **			60,400,000	25,700,000
- Others			-	405,500,000
			<u>413,700,000</u>	<u>512,400,000</u>
** Rs. 1,000,000 (2003 : Rs. Nil) earmarked towards Investor Education Fund				
SCHEDULE 3			2004	2003
Other Current Assets			Rs.	Rs.
Balances with Bank				
- In Current Account			30,035	150,046
- In Dividend Account ***			2,402,764	2,131,830
Sales Contracts Awaiting Completion				
- Equity Shares			103,248,913	29,631,495
Application Money Pending Allotment				
- Equity Shares			192,750,000	-
Interest Receivable on				
- Debentures (net of provision of Rs. 3,258,032 (2003 : Rs. 3,494,864))			823,249	-
- Deposits (including receivable for deposits placed towards unclaimed dividend Rs. 178,496 (2003 : Rs. 6,500) and receivable for tax deducted at source Rs. 55,521 (2003 : Rs. 55,521)) ****			276,766	902,376
Dividends Receivable (net of provision of Rs. 2,122,365 (2003 : Rs. 2,099,705) and including receivable for tax deducted at source Rs.2,144,182 (2003 : Rs. 2,144,182))			2,144,182	4,443,780
Receivable on Non Performing Assets (net of provision of Rs.Nil (2003 : Rs. 10,458,000))			-	-
Miscellaneous Receivables			413,270	413,270
			<u>302,089,179</u>	<u>37,672,797</u>
*** Rs. 427,540 (2003 : Rs. Nil) earmarked towards Investor Education Fund				
**** Rs. 1,534 (2003 : Rs. Nil) earmarked towards Investor Education Fund				
SCHEDULE 4	2004	2004	2003	2003
Unit Capital	Rs.	Units	Rs.	Units
<b>Issued and Subscribed:</b>				
Units of Rs.10 each fully paid up	<u>9,818,001,000</u>	<u>981,800,100</u>	<u>9,818,001,000</u>	<u>981,800,100</u>
<b>Outstanding</b>				
At beginning of year	6,138,906,420	613,890,642	6,453,235,050	645,323,505
Repurchased through secondary market operations (Note 2.6)	(137,084,610)	(13,708,461)	(314,328,630)	(31,432,863)
At end of year	<u>6,001,821,810</u>	<u>600,182,181</u>	<u>6,138,906,420</u>	<u>613,890,642</u>

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

<b>SCHEDULE 5</b>	<b>2004</b>	<b>2003</b>
<b>Reserves and Surplus</b>	<b>Rs.</b>	<b>Rs.</b>
<i>Unit Premium Reserve</i>		
At beginning of year	423,789,341	388,452,185
(Premium) / Discount on Repurchase of Units (Net) (Note 2.6)	(11,400,733)	35,337,156
At end of year	<u>412,388,608</u>	<u>423,789,341</u>
<i>Revenue Reserve</i>		
At beginning of year	489,457,351	1,134,851,512
Balance Transferred from Revenue Account	5,678,825,813	(645,394,161)
At end of year [including net unrealised appreciation in value of investments Rs. 5,202,106,925 (2003 : net unrealised depreciation of Rs. 141,110,251)]	<u>6,168,283,164</u>	<u>489,457,351</u>
	<u>6,580,671,772</u>	<u>913,246,692</u>
<b>SCHEDULE 6</b>	<b>2004</b>	<b>2003</b>
<b>Current Liabilities and Provisions</b>	<b>Rs.</b>	<b>Rs.</b>
<i>Current Liabilities</i>		
Investment Management and Advisory Fees	34,023,031	18,576,279
Transfer Agent's Fees and Expenses	18,000	514,492
Custodian Fees	554,237	294,182
Trusteeship Fees and Expenses	570,000	576,555
Audit Fees	600,000	800,000
Investor Communication Expenses	11,397,001	14,308,106
Purchase Contracts Awaiting Completion		
- Equity Shares	70,363,379	8,756,791
Repurchase of Units	-	3,622,319
Unclaimed Dividend (Note 12)	55,236,052	61,199,979
Interest from Investment of Unclaimed Dividend	6,316,134	5,338,351
Investor Education Fund (Note 14)	1,429,074	-
Dividend Distribution Expenses	11,000,000	-
Provision for Investments Doubtful of Realisation	37,834	1,583,092
Sundry Payables	25,838,826	23,312,892
	<u>217,383,568</u>	<u>138,883,038</u>
<i>Provisions</i>		
Dividend	900,273,272	-
Tax on Dividend	115,347,513	-
	<u>1,015,620,785</u>	<u>-</u>
	<u>1,233,004,353</u>	<u>138,883,038</u>
<b>SCHEDULE 7</b>	<b>April 1, 2003 to</b>	<b>April 1, 2002 to</b>
<b>Interest and Discount (Note 2.5)</b>	<b>March 31, 2004</b>	<b>March 31, 2003</b>
	<b>Rs.</b>	<b>Rs.</b>
Debentures	1,603,118	-
Treasury Bills	2,387,857	-
Deposits	21,862,138	24,044,558
	<u>25,853,113</u>	<u>24,044,558</u>

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

SCHEDULE 8 Unrealised Appreciation / (Depreciation) in Value of Investments and Foreign Currency Denominated Assets and Liabilities (Notes 2.2, 2.3 and 7)	April 1, 2003 to March 31, 2004 Rs.	April 1, 2002 to March 31, 2003 Rs.
(A) Investments		
(a) American Depository Receipts and Global Depository Receipts		
At beginning of year	(72,989,061)	(2,627,838)
Net movement during the year	(I) 130,124,931	(70,361,223)
At end of year	<u>57,135,870</u>	<u>(72,989,061)</u>
(b) Equity Shares		
At beginning of year	(67,187,751)	829,754,303
Net movement during the year	(II) 5,199,827,729	(896,942,054)
At end of year	<u>5,132,639,978</u>	<u>(67,187,751)</u>
(c) Units of Mutual Funds		
At beginning of year	(280,939)	(247,566)
Net movement during the year	(III) 280,939	(33,373)
At end of year	<u>-</u>	<u>(280,939)</u>
(d) Non Convertible Debentures		
At beginning of year	(652,500)	(11,856,960)
Net movement during the year	(IV) 13,186,684	11,204,460
At end of year	<u>12,534,184</u>	<u>(652,500)</u>
(e) Treasury Bills		
At beginning of year	-	-
Net movement during the year	(V) (203,107)	-
At end of year	<u>(203,107)</u>	<u>-</u>
Net movement in unrealised appreciation / (depreciation) in value of investments including foreign currency denominated investments during the year	(A) = (I)+(II)+(III)+(IV)+(V) 5,343,217,176	(956,132,190)
(B) Other Foreign Currency Denominated Assets and Liabilities	(B) -	-
Total	(A) + (B) <u>5,343,217,176</u>	<u>(956,132,190)</u>

## SCHEDULE 9

### Notes to the Financial Statements

#### 1. Organisation

Morgan Stanley Growth Fund (the "Fund") was launched on January 6, 1994 for a period of 15 years from the date of allotment on February 18, 1994. The Fund is a closed ended fund of Morgan Stanley Mutual Fund ("MSMF"), which has been sponsored by Morgan Stanley, a corporation organised under the laws of the State of Delaware, United States of America. Morgan Stanley Investment Management Private Limited ("MSIMPL"), incorporated under the Companies Act, 1956 of India, has been appointed as the asset management company.

#### 2. Significant Accounting Policies

##### 2.1 Basis of Accounting

The Fund maintains its books of account on an accrual basis. These financial statements have been prepared in accordance with the accounting policies and standards specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 (the "Regulations") and amendments thereto, as applicable.

##### 2.2 Portfolio Valuation

Investments are stated at market/ fair value at the Balance Sheet date/ valuation date. In valuing the Fund's investments:-

- (i) Securities listed on a recognised stock exchange, including dematerialised securities, are valued at the last quoted closing price on the principal exchange on which the security is traded. If no sale is reported, the previous quoted price is used, when it is not more than thirty days in case of equity shares and fifteen days in case of debt securities prior to the valuation date.
- (ii) Securities not listed on a recognised stock exchange for which over-the-counter quotations are readily available, are valued at the mean between the last current bid and asked price.
- (iii) Non traded/ thinly traded equity securities, including those not traded within thirty days and non traded/ thinly traded debt securities including those not traded within fifteen days prior to the valuation date, are valued at fair value as determined by MSIMPL in accordance with the guidelines for valuation of securities for mutual funds dated September 18, 2000 and amendments thereto, as applicable issued by the Securities and Exchange Board of India (SEBI) and approved by the Board of Trustees.
- (iv) Privately placed equity securities are valued at fair value as determined by MSIMPL in accordance with the guidelines for valuation of unlisted equity shares for mutual funds dated May 09, 2002 issued by SEBI and approved by the Board of Trustees.
- (v) Equity shares awaiting listing are valued at fair value as determined in good faith by MSIMPL in accordance with procedures approved by the Board of Trustees.
- (vi) Treasury bills are valued at the yield at which they are currently traded. Treasury bills not traded for a period of seven days, are valued at cost plus accrued interest till the beginning of the day plus the difference between the redemption value and cost spread uniformly over the remaining maturity period of the treasury bills.

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

Debt securities are classified as non performing assets and provision has been made in respect thereof in accordance with the guidelines for identification and provisioning for non performing assets (debt securities) for mutual funds dated September 18, 2000 and amendments thereto, as applicable issued by SEBI.

Following the issue of the guidance note on accounting for investments in the financial statements of mutual funds by the Institute of Chartered Accountants of India (pursuant to the Eleventh Schedule of the Regulations) net unrealised appreciation / depreciation in the value of investments is determined separately for each category of investments. Further the change in net unrealised appreciation / depreciation, if any, between two Balance Sheet dates/ valuation dates is recognised in the Revenue Account. Unrealised appreciation is reduced from the distributable income at the time of income distribution. At the end of the financial year, the balance in the Revenue Account including change in the net unrealised appreciation or depreciation in the value of investments is transferred to Revenue Reserve.

#### 2.3 Foreign Currency Translation

The books and records of the Fund are maintained in Indian rupees. Amounts denominated in or expected to settle in foreign currencies are translated into Indian rupees on the following basis.

- (i) Market value of investments, other assets and liabilities at the closing rate of exchange on the Balance Sheet date / valuation date.
- (ii) Purchases and sales of investments, income and expense at the rate of exchange prevailing on the respective date of such transactions.

The Fund does not isolate that portion of the change in investment valuation resulting from changes in the foreign exchange rates from the fluctuations arising from changes in the local market prices of securities held. Such fluctuations are included in unrealised appreciation or depreciation on investments.

Net realised foreign exchange gains and losses arise from sales of foreign currency denominated securities, currency gains or losses realised between trade and settlement dates of foreign currency denominated securities transactions and the difference between the recorded amounts of foreign currency denominated dividends, interest and expenses recorded in the Fund's books and the Indian rupee equivalent amounts actually received or paid. Net unrealised foreign exchange gains and losses arising from changes in value of assets and liabilities denominated in foreign currency resulting from changes in foreign exchange rate are included in net unrealised appreciation or depreciation in value of investments and foreign currency denominated assets and liabilities.

#### 2.4 Securities Transactions

Investment securities transactions are accounted for on a trade date basis. The Fund uses the average cost method for determining the realised gain or loss on sale of investments. Fully paid "Rights" are included in the cost of investments for the purpose of determining realised gains or losses. Accruals for rights entitlements or partly paid rights are not included in the cost of investments for the purpose of determining realised gains or losses.

#### 2.5 Investment Income

Dividend and interest income are recorded on an accrual basis.

#### 2.6 Repurchase of Units

In accordance with the permission granted by the Securities and Exchange Board of India, dated June 23, 1994, the Fund may repurchase units from the secondary market based on prevailing market prices. The discount/premium resulting from repurchases is credited/debited to Unit Premium Reserve.

### 3. Income Taxes

No provision for taxation has been made as the Fund qualifies as a recognised mutual fund under Section 10 (23D) of the Income Tax Act, 1961. For taxes deducted at source from the investment income, which are recoverable, a receivable is recorded in the books of account.

### 4. Investment Management and Advisory Fees

The Fund has paid or provided for investment management and advisory fees payable to MSIMPL for managing the Fund at an annual rate of 1.25% of the average daily net asset value recorded by the Fund up to Rs. 100 crores and at an annual rate of 1% of the excess amount over Rs. 100 Crores. All costs, charges and expenses incurred by MSIMPL in the administration and execution of the activities of the Fund, except those costs directly attributable to the Fund, are on their own account for which they receive investment management and advisory fees. JPMorgan Chase Bank provides certain accounting services to the Fund at no cost to the Fund.

### 5. Custodian Fees

JPMorgan Chase Bank provides custodial services to the Fund for which custody fee is payable to them.

### 6. Trusteeship Fees

In accordance with the agreement dated November 3, 1993 between Morgan Stanley ("the Settlor") and the Board of Trustees, the Fund has paid or provided for an annual fee of the rupee equivalent of US\$5,000 and a fee of the rupee equivalent of US\$500 per meeting attended, to each of the Trustees not affiliated with the Settlor.

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

**7. Aggregate Appreciation and Depreciation In Value of Investments**

Aggregate appreciation and depreciation in value of investments are as follows:

	2004 (Rs.)	2003 (Rs.)
American Depository Receipts and Global Depository Receipts		
Appreciation	69,911,865	10,361,251
Depreciation	12,775,995	83,350,312
Equity Shares		
Appreciation	5,604,699,734	1,100,548,578
Depreciation	472,059,756	1,167,736,329
Units of Mutual Funds		
Appreciation	Nil	Nil
Depreciation	Nil	280,939
Non Convertible Debentures		
Appreciation	12,534,184	Nil
Depreciation	Nil	652,500
Treasury Bills		
Appreciation	Nil	Nil
Depreciation	203,107	Nil

**8. Aggregate Value of Purchases and Sales of Investments**

During the year ended March 31, 2004 purchases and sales of investment securities aggregated Rs. 4,926,796,576 (excluding accretion of discount Rs. 2,387,857) and Rs. 5,051,686,028 respectively, being 45.81 % and 46.97 % of the average daily net asset value.

**9. Income / Expenditure**

The total income (including net profit on sale of investments, realised loss on foreign currency transactions and net change in unrealised appreciation in the value of investments and foreign currency denominated assets and liabilities) and total expenses (excluding investments written off, realised loss on foreign currency transactions and provision for investments doubtful of realisation) for the year is Rs. 6,886,384,887 and Rs. 191,726,043 respectively, being 64.03% and 1.78% of the average daily net asset value.

**10. Illiquid Securities**

Illiquid (equity) securities at fair value aggregated to Rs. 17,022,311 being 0.14% of the net asset value as at March 31, 2004

**11. Non Performing Assets (NPA)**

Securities classified as non performing assets (NPA) as at March 31, 2004 are being carried in the books of account at Rs. Nil (net of provisions Rs. Nil) as against the carrying value of Rs. 489,375 (net of provision Rs. 1,468,125) as at March 31, 2003 (Cost as at March 31, 2004 Rs. Nil and 2003: Rs. 2,610,000).

**12. Unclaimed Dividend**

Details of unclaimed dividend are as follows: -

	Unclaimed Dividend (Rs.)		Number of Unit Holders*	
	March 31, 2004	March 31, 2003	March 31, 2004	March 31, 2003
Interim Dividend - June 1999	16,966,695	18,570,495	77,418	84,022
Dividend - April 2000	14,860,057	16,515,831	70,010	76,565
Dividend - June 2001	23,409,300	26,113,653	84,159	91,742

\* Excludes unit holders relating to in-transit positions at National Securities Depository Limited (NSDL).

**13. Disclosure Under Regulation 25(8) of the Securities And Exchange Board Of India (Mutual Funds) Regulations, 1996 As Amended.**

MSIMPL has not utilised the services of the sponsor or any of its affiliate, employees or their relatives for the purpose of any securities transaction as specified under Regulation 25(8) of the Regulation. However, during the year the Fund subscribed to the issue of equity shares of the following companies where JM Morgan Stanley Private Limited, an associate of MSIMPL was the lead manager/co-manager to these issues. The subscriptions were made through non-affiliate entities as given below.

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004

Name of Company	Amount invested(Rs.)	Entities through whom investment made
Maruti Udyog Limited	28,875,000	Kotak Mahindra Capital Company Limited
Indian Petrochemicals Corporation Limited	67,881,000	Kotak Mahindra Capital Company Limited
Oil and Natural Gas Corporation - under Institutional category	45,397,500	DSP Merrill Lynch Limited
Oil and Natural Gas Corporation - under reserved Category	192,750,000	DSP Merrill Lynch Limited

#### 14 Investor Education Fund

In accordance with the guidelines issued by SEBI on unclaimed dividend, interest accrued on call deposits in respect of unclaimed dividend after a period of three years from the due dates for the respective dividend declaration is being transferred to a separate pool account on a quarterly basis. Such amounts along with further interest earned thereon would be utilised for investor education.

#### 15. Historical Per Unit Statistics \*

	April 1, 2003 to March 31,2004	April 1, 2002 to March 31,2003	April 1, 2001 to March 31,2002
	Rs.	Rs.	Rs.
(a) Net asset value per unit at end of year	20.96	11.49	12.36
(b) (i) Gross income other than profit from sale of investments	0.49	0.33	0.31
(ii) Gross income from profit on inter scheme sales/transfer of investments	-	-	-
(iii) Income (net) from profit/loss on sale of investments to third parties	2.06	0.43	(2.12)
(iv) Transfer of revenue account from past year's reserve	-	-	-
Gross income and gains	2.55	0.76	(1.81)
(c) Aggregate of expenses write off and charges	0.32	0.26	0.21
(d) Net income/(loss) (b) - (c)	2.23	0.50	(2.02)
(e) Net change in unrealised appreciation/(depreciation) in value of investments and foreign currency denominated assets and liabilities	8.83	(1.52)	3.65
(f) Repurchase price (market buyback)			
(i) Highest	17.39	9.44	9.45
(ii) Lowest	8.38	8.33	4.85
(g) Resale price			
(i) Highest	Not Applicable	Not Applicable	Not Applicable
(ii) Lowest	Not Applicable	Not Applicable	Not Applicable
(h) Market price (The Stock Exchange, Mumbai)			
(i) Highest	19.00	9.80	9.75
(ii) Lowest	8.15	8.00	4.85
(i) Price earning ratio **	7.60	17.14	-
(j) Ratio of expenses (excluding investments written off, provision for non performing assets, realised loss on foreign currency transactions and provision for investments doubtful of realisation) to average net assets	1.78%	1.94%	1.87%
(k) Ratio of gross income (including net profit/loss on sale of investments, realised loss on foreign currency transactions and net change in unrealised appreciation/(depreciation) in value of investments and foreign currency denominated assets and liabilities) to average net assets	64.03%	(6.41%)	16.70%

\* The above per unit calculations with the exception of the net asset value are based on the weighted average number of units in issue over the relevant year.

\*\* Price earning ratio has been calculated based on closing market price at the end of the relevant year and earnings per unit represented by excess of income and gains over expenses and losses and weighted average number of units in issue over the relevant year.

#### 16. Previous year's figures have been regrouped / rearranged where appropriate.

Signatures to Schedules 1 to 9 forming part of the Balance Sheet and Revenue Account.

**K. H. VACHHA**

*Partner*

For and on behalf of  
**PRICE WATERHOUSE**  
*Chartered Accountants*

Mumbai  
April 28, 2004

ABID HUSSAIN  
*Trustee*

RAJESH K. GUPTA  
*Trustee*

J. S. BAIJAL  
*Trustee*

RONALD ROBISON  
*Trustee*

B. RAI  
*Trustee*

**For Morgan Stanley Investment  
Management Private Limited**

JOSEPH CLIFFORD D'SOUZA  
*Director*

RUCHIR SHARMA  
*Director*

# PORTFOLIO OF INVESTMENTS

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

Statement of Portfolio Holding as at March 31, 2004 (Referred to in Schedule 1 to the Balance Sheet as at March 31, 2004 and the Revenue Account for the year ended March 31, 2004)

Quantity	Company Name	Market/Fair Value (Rs.)	Rs.	Quantity	Company Name	Market/Fair Value (Rs.)	Rs.
<b>FOREIGN SECURITIES</b>				<b>AMERICAN DEPOSITORY RECEIPTS/ GLOBAL DEPOSITORY RECEIPTS (1.79%)</b>			
<b>Banking (59.78%)</b>				<b>Marine (1.29%)</b>			
107,800	HDFC Bank ADRs	140,020,214	140,020,214	893,000	Great Eastern Shipping Company	113,366,350	
43,890	Wipro ADRs	83,249,807	83,249,807	384,000	Shipping Corporation Of India	48,825,600	162,191,950
<b>IT Consulting and Services (35.54%)</b>				<b>Media (0.08%)</b>			
<b>Paper Products (4.68%)</b>				250,000 Chandamama @ 142,500			
36,000	Ballarpur Industries GDRs	10,944,504	10,944,504	370,250	New Delhi Television@	10,089,311	10,231,811
	Total (Cost Rs. 177,078,655)		<u>234,214,525</u>	<b>Motorcycle Manufacturers (5.12%)</b>			
<b>INDIAN SECURITIES</b>				1,316,784 Hero Honda 645,816,713 645,816,713			
<b>EQUITY SHARES (96.23%)</b>				<b>Marine Ports and Services (0.54%)</b>			
<b>Aluminium (2.60%)</b>				134,308 Dredging Corporation of India 68,483,649 68,483,649			
269,609	Hindalco Industries	328,154,594	328,154,594	<b>Oil and Gas Exploration and Production (4.50%)</b>			
<b>Auto Parts and Equipment (1.86%)</b>				674,809 Oil And Natural Gas Corporation 567,143,224 567,143,224			
290,000	Amtek Auto	113,999,000		<b>Oil and Gas Refining and Marketing (6.45%)</b>			
8,936	Motor Industries Company	120,293,751	234,292,751	328,000 Bharat Petroleum Corporation 157,046,400			
<b>Automobile Manufacturers (2.77%)</b>				948,795 Chennai Petroleum Corporation 138,097,112			
717,489	Tata Motors	348,484,407	348,484,407	317,000 Hindustan Petroleum Corporation 160,909,200			
<b>Bank's (13.14%)</b>				502,500 Indian Oil Corporation 249,365,625			
6,565,000	Centurion Bank	64,008,750		518,981 Kochi Refineries 107,558,812 812,977,149			
236,191	HDFC Bank	89,362,865		<b>Packaged Foods (1.22%)</b>			
984,000	Punjab National Bank	328,557,600		242,591 Nestle India 153,438,808 153,438,808			
1,868,328	State Bank Of India	1,131,646,270		<b>Paper Products (0.78%)</b>			
815,070	Union Bank Of India	42,954,189	1,656,529,674	1,492,000 Ballarpur Industries 98,770,400 98,770,400			
<b>Biotechnology (0.04%)</b>				<b>Pharmaceuticals (6.89%)</b>			
250,000	Shanta Biotech @	5,160,000	5,160,000	150,000 Aldrich Pharmaceuticals@ -			
<b>Commodity Chemicals (3.08%)</b>				266,376 Cipla 311,646,601			
606,130	Asian Paints	184,142,294		174,480 Dr. Reddy's Laboratories 169,934,796			
1,121,300	Indian Petrochemicals Corporation	204,076,600	388,218,894	340,000 Eastern Medikit@ -			
<b>Construction and Engineering(0.00%)</b>				357,630 Glaxosmithkline Pharmaceuticals 217,063,529			
202,500	Dharti Dredging @	-	-	110,940 Matrix Laboratories 156,952,365			
<b>Construction Materials (0.97%)</b>				40,000 Biocon\$ 12,600,000			
480,155	Associated Cement Companies	122,223,455	122,223,455	62,500 Targoff Drugs@ - 868,197,291			
<b>Consumer Finance (2.24%)</b>				<b>Steel (6.25%)</b>			
438,130	Housing Development Finance Corporation	282,199,533	282,199,533	340,000 Patheja Brothers & Forging@ -			
<b>Diversified Financial Services (2.45%)</b>				10,126,022 Steel Authority of India 327,070,511			
5,321,000	Industrial Development Bank Of India	309,150,100	309,150,100	1,202,238 Tata Iron and Steel Company 461,058,273 788,128,784			
<b>Diversified Metals and Mining (1.36%)</b>				<b>Textiles (1.02%)</b>			
3,134,783	Neyveli Lignite Corporation	171,942,848	171,942,848	2,508,349 Alok Industries 128,803,721 128,803,721			
<b>Electrical Components and Equipment (2.44%)</b>				<b>Tobacco (3.12%)</b>			
313,500	Siemens	307,465,125	307,465,125	377,894 I T C 393,538,812 393,538,812			
<b>Engineering (0.00%)</b>				Total (Cost Rs.7,472,730,319) <u>12,605,370,297</u>			
87,000	Shaily Engineering @	-	-	<b>NON-CONVERTIBLE DEBENTURES (0.09%)</b>			
<b>Health Care Equipments and Supplies (0.93%)</b>				<b>Household Products</b>			
1,482,180	Dabur	116,573,457	116,573,457	2,030,862 9% Hindustan Lever 2005 # 12,534,184			
<b>Heavy Electrical Equipment (11.36%)</b>				Total (Cost Rs.0) <u>12,534,184</u>			
379,464	Asea Brown Boveri	302,015,398		<b>TREASURY BILLS (1.89%)</b>			
1,868,383	Bharat Heavy Electricals	1,129,437,524		2,500,000 91 Days			
180,918	IBIL Technologies @	-	1,431,452,922	Treasury- Bill 18 June 2004 247,589,750 247,589,750			
<b>Highways and Railtracks (4.10%)</b>				Total (Cost Rs.247,792,857) <u>247,589,750</u>			
722,363	Container Corporation Of India	516,922,963	516,922,963	<b>TOTAL INVESTMENTS AT MARKET VALUE (Cost Rs.7,897,601,831)</b>			
<b>Household Products (2.35%)</b>				*Non traded (Illiquid) securities at fair value as determined by Morgan Stanley Investment Management Private Limited (MSIMPL) in accordance with the guidelines for valuation of securities for mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by the Securities and Exchange Board of India (SEBI) and approved by the Board of Trustees.			
1,919,862	Hindustan Lever	296,138,714	296,138,714	@Private placements / unlisted (Illiquid) equity shares at fair value as determined by MSIMPL in accordance with the guidelines for valuation of unlisted equity shares for mutual funds dated May 09,2002 issued by SEBI and approved by the Board of Trustees.			
<b>Industrial Conglomerates (2.85%)</b>				# Thinly traded debt securities at fair value as determined by MSIMPL in accordance with the guidelines for valuation of securities for mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by SEBI and approved by the Board of Trustees.			
336,000	Grasim Industries	359,335,200	359,335,200	\$ Equity shares awaiting listing at fair value as determined in good faith by MSIMPL in accordance with procedures approved by the Board of Trustees.			
<b>Industrial Machinery (1.14%)</b>				ADR – American Depository Receipts			
1,466,393	Cummins India	144,219,752	144,219,752	GDR – Global Depository Receipts			
<b>IT Consulting and Services (7.06%)</b>				Confirmation has been received from JPMorganChase Bank, Mumbai branch and Standard Chartered Bank, Mumbai at the year end of the investments held by them.			
150,000	Federal Technology *	1,630,500					
198,500	I-Flex Solutions	113,800,050					
279,351	Indiainfo.Com@	-					
98,217	Infosys Technologies	485,010,279					
212,000	Mphasis BFL	115,179,600					
127,681	Wipro	173,563,167	889,183,596				

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### **Investment Objective**

Morgan Stanley Growth Fund is a closed end Fund with long-term capital appreciation as its investment objective. The Scheme will seek to achieve this objective through investment, primarily in equity and equity-related securities of Indian companies.

### **Statutory Details**

Morgan Stanley Mutual Fund has been set up as a Trust by Morgan Stanley (liability restricted to the seed corpus contributed). The Board of Trustees of Morgan Stanley Mutual Fund have appointed Morgan Stanley Investment Management Private Limited as the asset management company.

### **Risk Factors**

All investments in Mutual Funds and securities are subject to market and other risks and the NAV of units issued under the Scheme can go up or down depending on the factors and forces affecting the securities market. There can be no assurance that the objectives of the Scheme of the fund will be achieved. Investments in close-ended schemes are subject to market risks of infrequent trading, possibility of market price of units being traded at a discount to NAV etc. The name of the Scheme does not indicate the quality of the Scheme, its future prospects or returns. Please read the Offer Document before investing.

The past performance of the Mutual Funds managed by the Sponsors and their affiliates/associates is not necessarily indicative of the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. The liquidity and valuation of the Scheme's investments due to its holdings of unlisted securities may be affected if they have to be sold prior to their target date of divestment.

On written request and on payment of a nominal fee, present and prospective unit holders/ investors can obtain a copy of the trust deed, the annual report of the Asset Management Company and/or the Fund and the offering circular.  
Contact: Karvy Computershare Private Ltd., 21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034.  
Tel: 040 - 2331 2454, 2332 0251

***Mutual Fund :***

MORGAN STANLEY MUTUAL FUND

***Trustees:***

ABID HUSSAIN

J. S. BAIJAL

B. RAI

RONALD ROBISON

RAJESH K. GUPTA

***Scheme :***

MORGAN STANLEY GROWTH FUND

***Asset Management Company :***

MORGAN STANLEY INVESTMENT

MANAGEMENT PRIVATE LIMITED

***Custodian :***

JPMORGAN CHASE BANK

***Registrar & Transfer Agent :***

KARVY COMPUTERSHARE

PRIVATE LIMITED

***Legal Advisor :***

LITTLE & CO.

***Auditor :***

PRICE WATERHOUSE

***Banker :***

STANDARD CHARTERED BANK