



Morgan Stanley  
**Growth Fund**

Annual Report  
March 31, 2006

Morgan  Stanley



***To our valued Unit Holders,***

*We are pleased to present to you the twelfth annual report of the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 2006.*

*You will find enclosed detailed results of the Fund for the financial year ended March 31, 2006 along with a commentary from the portfolio managers in which they share with you their views on the Indian economy and equity markets and factors impacting your Fund's performance.*

*The year under review was an eventful one with significant upbeat market conditions. Sustained investment by your Fund in growth stocks contributed to significant returns and out-performance compared to benchmarks for the year. The Fund's strong performance for the year was reflected in the net asset value of the Fund's units reaching an all time high of Rs. 48.19 during the year.*

*We wish to inform you that Rajesh K Gupta resigned from the Board of Trustees of the Fund in February 2006. We wish to place on record our appreciation for the guidance and direction provided by Rajesh K Gupta during his tenure as a Trustee of the Fund.*

*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 26, 2006*

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, other risk factors and disclosures and important investor information.

# PORTFOLIO MANAGER'S LETTER

## Dear Unit Holders,

For the year ended March 31, 2006, 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 87.29%. For the same period the benchmark indices, Sensex and BSE 100 rose by 73.73% and 69.57% 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, 2006)**

PERIOD	MSGF NAV*	BSE SENSEX	BSE 100
Returns during the year [ (+) (-) ]	87.29%	73.73%	69.57%
Returns during the half year [ (+) (-) ]	38.88%	30.64%	29.29%
Compounded Annualised Growth Rate			
(i) Last 3 years	65.03%	54.67%	57.87%
(ii) Last 5 years	37.54%	25.63%	28.40%
(iii) Since the launch of the scheme (6th January 1994)	16.10%	9.64%	10.44%

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 annualized 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.

It's rather strange to see such a high level of fear prevailing in the marketplace. Following an increase of more than 200% over the past three years, greed should be the more dominant emotion. Instead financial analysts can't stop worrying about the Indian market's valuation.

India currently trades at a premium relative to its own history and to other emerging markets. Its price-earnings (P/E) ratio is 17 (based on 12-month forward consensus earnings) compared to a long-term average P/E ratio of 13 for the country and a P/E multiple of 12 for emerging markets as a whole. For the bears, this is enough ammunition to make the case that the Indian market is fraught with downside risk.

Viewing markets through just the P/E prism is the simplest yet a terribly misleading way of approaching the investing game. Markets almost never trade in line with their long-term average. They are always in a state of disequilibrium - a reflection of human psychology that's manic-depressive. Emerging markets, such as India, have gone from being very cheaply valued to now being priced at multiples almost similar to developed markets. But that doesn't mean the show is over for emerging markets. This asset class can easily become much more overvalued or reach the stage of a bubble, as was the case in 1994 when the P/E ratio in emerging markets rose to 30.

As of now, these markets can hardly be termed as being in a bubble. It's true that earnings growth has been spectacular over the past three years, heavily driven by a boom in commodity prices. That has some analysts arguing that this time the bubble is in earnings, with corporate profits at record levels. But at major bull market peaks, both earnings and P/E multiples typically rise to new highs.

Admittedly, the Indian market could be further along that curve and its relatively higher P/E ratio may be evidence of that. But the only information in the P/E ratio is that expectations from India are higher compared to other emerging markets.

To be sure, nothing goes up in a straight line. Violent corrections are an integral part of major bull runs and a shakeout in emerging markets may be overdue. But it's important not to lose sight of the primary trend through all the noise. Emerging markets, such as India, are in the midst of a powerful rally driven by fundamental change. Such currents don't end because markets are no longer cheap. P/E ratios get very stretched at the peak of a bull market and emerging markets aren't at that point yet.

**Sridhar Sivaram and  
Amay Hattangadi**  
Portfolio Managers

**Ruchir Sharma**  
Co-Head Global  
Emerging Markets

**Mumbai  
April 26, 2006**

**Table 2**

**Top Twenty Five holdings of MSGF**

March 31, 2006	
Bharat Heavy Electricals	11.07%
Siemens	6.95%
Hindustan Lever	5.57%
Hindustan Construction Co.	5.19%
ABB	5.09%
ITC	3.79%
Infosys Technologies	3.47%
HDFC Bank **	3.41%
HDFC	3.27%
Cipla	2.62%
Wipro **	2.47%
Hero Honda	2.44%
Container Corporation of India	2.30%
HCL Technologies	2.23%
Punjab National Bank	2.22%
Mahindra & Mahindra	2.22%
ACC	2.04%
Hotel Leelaventure	1.89%
Gammon India	1.86%
Gujarat Ambuja Cement	1.82%
NTPC	1.75%
Aventis Pharma	1.69%
Aban Loyd Chiles Offshore	1.69%
State Bank of India	1.63%
UTI Bank **	1.62%
	<b>80.30% 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, 2006, 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 a 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, 2006 by correspondence with the custodians and others. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements 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 purposes 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 the 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, 2006 and its net surplus for the year on that date.
  - (ii) The Balance Sheet as at March 31, 2006, and the Revenue Account for the year ended on that date, together with the notes thereon, have been prepared in all material aspects 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 method used to value:
    - (a) non traded and thinly traded securities, in accordance with the guidelines for valuation of securities for the mutual funds dated September 18, 2000 and amendments thereto, as applicable, issued by the Securities and Exchange Board of India (SEBI);
    - (b) privately placed / unlisted 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) privately placed equity shares of listed companies with lock in period in good faith as at March 31, 2006 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*

M. No. F/ 30798

For and on behalf of

**PRICE WATERHOUSE**

*Chartered Accountants*

**Mumbai**

**April 26, 2006**

# BALANCE SHEET

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Balance Sheet as at March 31, 2006

	Schedule	March 31, 2006 Rs.	March 31, 2005 Rs.
<b>ASSETS</b>			
Investments	1	28,660,985,462	15,479,761,045
Deposits	2	100,502,000	123,400,000
Other Current Assets	3	461,929,946	94,516,447
<b>TOTAL</b>		<u>29,223,417,408</u>	<u>15,697,677,492</u>
<b>LIABILITIES</b>			
Unit Capital	4	6,001,821,810	6,001,821,810
Reserves and Surplus	5	22,919,321,329	9,441,621,358
Current Liabilities and Provisions	6	302,274,269	254,234,324
<b>TOTAL</b>		<u>29,223,417,408</u>	<u>15,697,677,492</u>

### RECONCILIATION TO NET ASSET VALUE PER UNIT

Net Assets as per Balance Sheet			
(Total Assets less Current Liabilities and Provisions)		28,921,143,139	15,443,443,168
Number of Units in Issue		600,182,181	600,182,181
Net Asset Value per Unit		<u>48.19</u>	<u>25.73</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 26, 2006

**For Morgan Stanley Mutual Fund**

ABID HUSSAIN  
*Trustee*

J. S. BAIJAL  
*Trustee*

B. RAI  
*Trustee*

RONALD ROBISON  
*Trustee*

**For Morgan Stanley Investment Management Pvt. Ltd.**

JOSEPH CLIFFORD D'SOUZA  
*Director*

SRIDHAR SIVARAM      AMAY HATTANGADI  
*Director & Portfolio Manager      Portfolio Manager*

# REVENUE ACCOUNT

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Revenue Account for the year ended March 31, 2006

	Schedule	Year ended March 31, 2006 Rs.	Year ended March 31, 2005 Rs.
<b>INCOME AND GAINS</b>			
Dividends on Equity Shares (Gross) (Note 2.5)		249,358,192	235,447,181
Dividends on American Depository Receipts and Global Depository Receipts (Net) (Note 2.5)		4,899,379	2,354,954
Interest and Discount	7	44,035,781	35,169,628
Net Profit on Sale of Investments (Note 2.4)		2,842,020,408	2,372,598,038
Provisions Written Back As No Longer Required		1,970,276	2,980,565
Provision for Investments Doubtful of Realisation Written Back As No Longer Required		-	37,834
Realised Profit on Foreign Currency Transactions(Net) (Note 2.3)		947,877	-
<b>TOTAL</b>		<u>3,143,231,913</u>	<u>2,648,588,200</u>
<b>EXPENSES AND LOSSES</b>			
Investment Management and Advisory Fees (Note 4)		205,930,810	135,610,584
Transfer Agent Fees and Expenses		20,745,917	17,225,972
Custodian Fees (Note 5)		10,797,666	6,576,839
Trusteeship Fees and Expenses (Note 6)		2,220,778	1,462,081
Audit Fees		600,000	600,000
Securities and Exchange Board of India Inspection Fees		190,401	176,318
Investor Communication Expenses		27,574,758	28,236,075
Other Operating Expenses		27,203,195	17,328,954
Realised Loss on Foreign Currency Transactions (Net) (Note 2.3)		-	1,185,072
<b>TOTAL</b>		<u>295,263,525</u>	<u>208,401,895</u>
<b>Net Surplus for the Year</b>		2,847,968,388	2,440,186,305
Net Change in Unrealised Appreciation /(Depreciation) in Value of Investments and Foreign Currency Denominated Assets and Liabilities	8	<u>10,629,731,583</u> 13,477,699,971	<u>423,070,231</u> 2,863,256,536
<b>Distribution</b>			
Tax on Dividend ( Education cess @2% paid in respect of tax on dividend distributed for the previous year )		-	(2,306,950)
		-	(2,306,950)
<b>Balance Carried to Balance Sheet</b>		<u>13,477,699,971</u>	<u>2,860,949,586</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 26, 2006

**For Morgan Stanley Mutual Fund**

ABID HUSSAIN  
*Trustee*

B. RAI  
*Trustee*

J. S. BAIJAL  
*Trustee*

RONALD ROBISON  
*Trustee*

**For Morgan Stanley Investment Management Pvt. Ltd.**

JOSEPH CLIFFORD D'SOUZA  
*Director*

SRIDHAR SIVARAM      AMAY HATTANGADI  
*Director & Portfolio Manager      Portfolio Manager*

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006

SCHEDULE 1	2006	2006	2005	2005
Investments	Market/Fair Value	Cost	Market/Fair Value	Cost
(Notes 2.2, 2.3, 2.4, 7,8 and 10)	Rs.	Rs.	Rs.	Rs.
(Refer to attached Statement of Portfolio Holding as at March 31, 2006)				
American Depository Receipts and Global Depository Receipts	500,943,776	222,512,374	348,608,242	222,512,374
Equity Shares	27,638,163,356	11,661,790,955	14,783,182,616	9,284,060,861
Treasury Bills	521,878,330	521,773,394	347,970,187	348,010,654
	<u>28,660,985,462</u>	<u>12,406,076,723</u>	<u>15,479,761,045</u>	<u>9,854,583,889</u>

SCHEDULE 2	2006	2005
Deposits	Rs.	Rs.
Money at Call with Scheduled Banks	-	62,600,000
Deposits with Scheduled Banks		
- Unclaimed Dividends **	100,502,000	60,800,000
	<u>100,502,000</u>	<u>123,400,000</u>

\*\* Rs.4,100,000 (2005: Rs.1,900,000) earmarked towards Investor Education Fund

SCHEDULE 3	2006	2005
Other Current Assets	Rs.	Rs.
Balances with Bank		
- In Current Account	12,757,638	29,886
- In Dividend Account ***	4,557,248	46,993,743
Sales Contracts Awaiting Completion		
- Equity Shares	-	37,532,355
Reverse Repos	436,032,000	-
Interest Receivable on		
- Debentures (net of provision of Rs.3,258,032 (2005:Rs.3,258,032))	-	-
- Deposits (including receivable for deposits placed towards unclaimed dividend Rs.385,361 (2005:Rs.235,347) and receivable for tax deducted at source Rs.Nil (2005: Rs.55,521)) ****	385,361	299,173
- Reverse Repos	80,039	-
Dividends Receivable (net of provision of Rs.2,122,365 (2005: Rs.2,122,365) and including receivable for tax deducted at source Rs.1,419,050 (2005: Rs.2,144,182))	7,452,289	9,239,301
Miscellaneous Receivables	665,371	421,989
	<u>461,929,946</u>	<u>94,516,447</u>

\*\*\* Rs.656,047 (2005: Rs.619,270) earmarked towards Investor Education Fund

\*\*\*\* Rs.22,998 (2005: Rs.9,681) earmarked towards Investor Education Fund

SCHEDULE 4	2006	2006	2005	2005
Unit Capital	Rs.	Units	Rs.	Units
<b>Issued and Subscribed:</b>				
Units of Rs.10 each fully paid up	9,818,001,000	981,800,100	9,818,001,000	981,800,100
<b>Outstanding</b>				
At beginning of year	6,001,821,810	600,182,181	6,001,821,810	600,182,181
Repurchased through secondary market operations (Note 2.6)	-	-	-	-
At end of year	<u>6,001,821,810</u>	<u>600,182,181</u>	<u>6,001,821,810</u>	<u>600,182,181</u>

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006

<b>SCHEDULE 5</b>	<b>2006</b>	<b>2005</b>
<b>Reserves and Surplus</b>	<b>Rs.</b>	<b>Rs.</b>
<i>Unit Premium Reserve</i>		
At beginning of year	412,388,608	412,388,608
(Premium) / Discount on Repurchase of Units (Net) (Note 2.6)	-	-
At end of year	<u>412,388,608</u>	<u>412,388,608</u>
<i>Revenue Reserve</i>		
At beginning of year	9,029,232,750	6,168,283,164
Balance Transferred from Revenue Account	<u>13,477,699,971</u>	<u>2,860,949,586</u>
At end of year [including net unrealised appreciation in value of investments Rs.16,254,908,739 (2005:Rs.5,625,177,156)]	<u>22,506,932,721</u>	<u>9,029,232,750</u>
	<u><u>22,919,321,329</u></u>	<u><u>9,441,621,358</u></u>

<b>SCHEDULE 6</b>	<b>2006</b>	<b>2005</b>
<b>Current Liabilities and Provisions</b>	<b>Rs.</b>	<b>Rs.</b>
<i>Current Liabilities</i>		
Investment Management and Advisory Fees	60,319,230	36,728,907
Transfer Agent's Fees and Expenses	1,878,000	1,645,500
Custodian Fees	1,251,172	666,748
Trusteeship Fees and Expenses	539,000	589,911
Audit Fees	600,000	600,000
Investor Communication Expenses	9,786,263	10,680,063
Purchase Contracts Awaiting Completion		
- Equity Shares	91,680,123	67,927,945
Unclaimed Dividend (Note 11)	92,383,687	98,715,264
Interest from Investment of Unclaimed Dividend	8,281,877	6,784,875
Investor Education Fund (Note 13)	4,779,045	2,528,951
Sundry Payables	30,775,872	27,366,160
	<u>302,274,269</u>	<u>254,234,324</u>

<b>SCHEDULE 7</b>	<b>April 1, 2005 to</b>	<b>April 1, 2004 to</b>
<b>Interest and Discount (Note 2.5)</b>	<b>March 31, 2006</b>	<b>March 31, 2005</b>
	<b>Rs.</b>	<b>Rs.</b>
Debentures	-	829,263
Treasury Bills	29,405,691	22,667,673
Reverse Repos	11,639,339	126,997
Deposits	2,295,512	10,744,527
Others	695,239	801,168
	<u>44,035,781</u>	<u>35,169,628</u>

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006

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, 2005 to March 31, 2006 Rs.	April 1, 2004 to March 31, 2005 Rs.
(A) Investments		
(a) American Depository Receipts and Global Depository Receipts		
At beginning of year	126,095,868	57,135,870
Net movement during the year	(I) 152,335,534	68,959,998
At end of year	<u>278,431,402</u>	<u>126,095,868</u>
(b) Equity Shares		
At beginning of year	5,499,121,755	5,132,639,978
Net movement during the year	(II) 10,477,250,646	366,481,777
At end of year	<u>15,976,372,401</u>	<u>5,499,121,755</u>
(c) Non Convertible Debentures		
At beginning of year	-	12,534,184
Net movement during the year	(III) -	(12,534,184)
At end of year	<u>-</u>	<u>-</u>
(d) Treasury Bills		
At beginning of year	(40,467)	(203,107)
Net movement during the year	(IV) 145,403	162,640
At end of year	<u>104,936</u>	<u>(40,467)</u>
Net movement in unrealised appreciation / (depreciation) in value of investments including foreign currency denominated investments during the year	(A) =(I)+(II)+(III)+(IV) <u>10,629,731,583</u>	<u>423,070,231</u>
(B) Other Foreign Currency Denominated Assets and Liabilities	(B) -	-
Total	(A) + (B) <u>10,629,731,583</u>	<u>423,070,231</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 unlisted 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/application price as determined in good faith by MSIMPL in accordance with procedures approved by the Board of Trustees.
- (vi) Privately placed equity shares of listed companies with lock in period are valued at fair value as determined in good faith by MSIMPL under procedures approved by the Board of Trustees.

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006

(vii) 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.

(viii) Instruments bought on 'repo' basis are valued at the resale price after deduction of applicable interest up to the date of resale.

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 recognized 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, 2006 and the Revenue Account for the year ended March 31, 2006

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

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

	2006 (Rs.)	2005 (Rs.)
American Depository Receipts and Global Depository Receipts		
Appreciation	278,431,402	138,057,524
Depreciation	Nil	11,961,656
Equity Shares		
Appreciation	16,222,339,399	5,879,418,772
Depreciation	245,966,998	380,297,017
Treasury Bills		
Appreciation	112,250	Nil
Depreciation	7,314	40,467

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

During the year ended March 31, 2006 purchases and sales of investment securities aggregated Rs.10,487,446,200 (excluding accretion of discount Rs. 29,405,691) and Rs. 10,806,659,470 respectively, being 51.55% and 53.12 % of the average daily net asset value.

**9. Income/Expenditure**

The total income (including net profit on sale of investments, realised profit 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 for the year is Rs. 13,772,963,496 and Rs. 295,263,525 respectively, being 67.70% and 1.45% of the average daily net asset value.

**10. Illiquid Securities**

Illiquid (equity) securities at fair value aggregated to Rs. 363,880 being 0.001% of the net asset value as at March 31, 2006

**11. Unclaimed Dividend**

Details of unclaimed dividend are as follows: -

	Unclaimed Dividend (Rs.)		Number of Unit Holders*	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Interim Dividend - June 1999	15,838,995	16,461,270	72,893	75,417
Dividend - April 2000	13,760,180	14,376,382	65,642	68,250
Dividend - June 2001	21,297,000	22,422,900	77,716	81,397
Dividend - April 2004	41,487,512	45,454,712	93,607	1,01,515

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

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

MSIMPL has not utilized the services of the Sponsor or any of its affiliates, 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:-

Name of Company	Amount invested (Rs.)	Entities through whom investment made
Suzlon Energy Limited	59,058,000	Enam Financial Consultants Private Limited
ICICI Bank Limited	83,231,925	DSP Merrill Lynch Limited

# SCHEDULES

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Schedules forming part of the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006

**13. 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 utilized for investor education.

**14. Historical Per Unit Statistics \***

	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004
	Rs.	Rs.	Rs.
(a) Net asset value per unit at end of year	<u>48.19</u>	<u>25.73</u>	<u>20.96</u>
(b) (i) Gross income other than profit from sale of investments	0.50	0.46	0.49
(ii) Gross income from profit on inter scheme sales/transfer of investments	-	-	-
(iii) Income (net) from profit on sale of investments to third parties	4.74	3.95	2.06
(iv) Transfer of revenue account from past year's reserve	-	-	-
Gross income and gains	<u>5.24</u>	<u>4.41</u>	<u>2.55</u>
(c) Aggregate of expenses write off and charges	0.49	0.35	0.32
(d) Net income/(loss) (b) - (c)	<u>4.75</u>	<u>4.06</u>	<u>2.23</u>
(e) Net change in unrealised appreciation/(depreciation) in value of investments and foreign currency denominated assets and liabilities	17.71	0.70	8.83
(f) Repurchase price (market buyback)			
(i) Highest	-	-	17.39
(ii) Lowest	-	-	8.38
(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	41.18	23.00	19.00
(ii) Lowest	20.56	13.00	8.15
(i) Price earning ratio **	8.55	5.39	7.60
(j) Ratio of expenses (excluding investments written off, realised loss on foreign currency transactions and provision for investments doubtful of realisation) to average net assets	1.45%	1.56%	1.78%
(k) Ratio of gross income (including net profit on sale of investments, realised gain/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	67.70%	23.07%	64.03%

\* 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.

**15. 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 26, 2006

**For Morgan Stanley Mutual Fund**

ABID HUSSAIN  
*Trustee*

B. RAI  
*Trustee*

J. S. BAIJAL  
*Trustee*

RONALD ROBISON  
*Trustee*

**For Morgan Stanley Investment Management Pvt. Ltd.**

JOSEPH CLIFFORD D'SOUZA  
*Director*

SRIDHAR SIVARAM      AMAY HATTANGADI  
*Director & Portfolio Manager      Portfolio Manager*

# PORTFOLIO OF INVESTMENTS

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Statement of Portfolio Holding as at March 31, 2006 (Referred to in Schedule 1 to the Balance Sheet as at March 31, 2006 and the Revenue Account for the year ended March 31, 2006)

Quantity	Company Name	Market/Fair Value (Rs.)	Rs.	Quantity	Company Name	Market/Fair Value (Rs.)	Rs.
<b>FOREIGN SECURITIES AMERICAN DEPOSITORY RECEIPTS / GLOBAL DEPOSITORY RECEIPTS (1.75%)</b>				1,143,030	Cipla	756,628,708	
<b>Banks (76.59%)</b>				340,000	Eastern Medikit *	-	
107,800	HDFC Bank ADRs	263,240,040		980,651	Glenmark Pharmaceuticals	308,169,577	1,554,780,485
350,000	UTI Bank GDRs	120,442,916	383,682,956	<b>Power (1.83%)</b>			
<b>Software (23.41%)</b>				3,774,400	N T P C	505,769,600	505,769,600
175,740	Wipro ADRs	117,260,820	117,260,820	<b>Printing &amp; Stationery (0.00%) \$</b>			
<b>Total (Cost Rs. 222,512,374)</b>				3,308	A&M Communications *	363,880	363,880
<b>INDIAN SECURITIES</b>				<b>Retailing (0.88%)</b>			
<b>EQUITY SHARES (96.43%)</b>				124,592	Pantaloon Retail (India)	244,349,830	244,349,830
<b>Auto (4.88%)</b>				<b>Software (9.55%)</b>			
794,483	Hero Honda Motors	705,739,249		1,211,000	Geodesic Information Systems #	250,344,375	
1,024,000	Mahindra and Mahindra	642,150,400	1,347,889,649	979,105	HCL Technologies	646,209,300	
<b>Auto Ancillaries (2.40%)</b>				336,868	Infosys Technologies	1,004,152,978	
343,091	Balkrishna Industries	306,054,327		984,000	SSI #	140,332,570	
4,400,000	Rico Auto Industries #	356,400,000	662,454,327	1,070,086	Wipro	597,696,535	2,638,735,758
<b>Banks (9.17%)</b>				<b>Textiles - Silk (1.01%)</b>			
934,518	HDFC Bank	722,849,673		1,677,148	Himatsingka Seide	278,825,855	278,825,855
598,537	ICICI Bank	352,687,927		<b>Textiles - Synthetic (0.56%)</b>			
1,362,918	Punjab National Bank	642,206,962		471,000	SRF	155,995,200	155,995,200
486,428	State Bank of India	470,886,625		<b>Transportation (3.10%)</b>			
973,000	UTI Bank	346,728,550	2,535,359,737	459,363	Container Corporation of India	664,376,707	
<b>Cement (4.86%)</b>				192,500	Jet Airways (India)	191,624,125	856,000,832
754,155	Associated Cement Companies	589,824,626		<b>Total (Cost Rs.11,661,790,955)</b>			
5,099,000	Gujarat Ambuja Cements	526,471,750		<b>27,638,163,356</b>			
253,879	Shree Cement	226,840,887	1,343,137,263	<b>TREASURY BILLS (1.82%)</b>			
<b>Construction (7.37%)</b>				2,500,000	91 day Treasury- Bill 28 April 2006 @	248,824,000	
991,455	Gammon India	536,872,883		2,000,000	364 day Treasury- Bill 14 April 2006	199,682,600	
8,666,600	Hindustan Construction Company	1,500,621,790	2,037,494,673	736,250	91 day Treasury- Bill 21 April 2006	73,371,730	521,878,330
<b>Consumer Non Durables (11.95%)</b>				<b>Total (Cost Rs.521,773,394)</b>			
5,910,862	Hindustan Lever	1,609,527,723		<b>28,660,985,462</b>			
5,622,500	I T C	1,096,106,375		<b>MARKET VALUE (Cost Rs.12,406,076,723)</b>			
661,950	Marico Industries	357,287,513					
276,000	Tata Tea	239,554,200	3,302,475,811				
<b>Finance (3.43%)</b>							
708,645	Housing Development Finance Corporation	946,785,152	946,785,152				
<b>Gas (0.84%)</b>							
1,605,800	Indraprastha Gas	233,643,900	233,643,900				
<b>Hotels (1.98%)</b>							
1,576,071	Hotel Leelaventure	547,448,262	547,448,262				
<b>Industrial Capital Goods (26.73%)</b>							
444,698	Aban Loyd Chiles Offshore	489,434,619					
503,464	ABB	1,473,462,915					
1,424,383	Bharat Heavy Electricals	3,200,517,382					
274,162	Emco	215,765,494					
353,477	Siemens	2,008,703,748	7,387,884,158				
<b>Industrial Products (0.86%)</b>							
499,339	Gujarat Fluorochemicals	236,586,818					
340,000	Patheja Brothers Forging and Stamping *	-	236,586,818				
<b>Media &amp; Entertainment (1.86%)</b>							
1,192,186	Inox Leisure	252,803,041					
1,020,250	New Delhi Television	262,408,300	515,211,341				
<b>Petroleum Products (1.11%)</b>							
525,500	Indian Oil Corporation	306,970,825	306,970,825				
<b>Pharmaceuticals (5.63%)</b>							
249,000	Aventis Pharma	489,982,200					

@ Non traded 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 .

\* 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.

# Private placement equity shares of listed companies with lock-in period are valued at fair values as determined in good faith by MSIMPL under procedures approved by the Board of Trustees in respect of the following:

Company Name	No of Shares	Fair Value (Rs.)
Rico Auto Industries	4,400,000	356,400,000
Geodesic Information Systems	795,000	158,304,375
SSI	984,000	140,332,570

\$ - Less than 0.01%

ADR – American Depository Receipts

GDR – Global Depository Receipts

Confirmation has been received from JPMorganChase Bank, Mumbai branch at the year end of the investments held by them.

## MORGAN STANLEY MUTUAL FUND - MORGAN STANLEY GROWTH FUND

### Regulatory Disclosures

#### 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.

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### Other Investor Information

- There are no unit holders over 25% of the Net Asset Value of the scheme as at March 31, 2006
- 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, unit holders are requested to intimate name, address and account number details of their bank to Karvy Computershare Private Limited at the below 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

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

Book Post

***Mutual Fund :***

MORGAN STANLEY MUTUAL FUND

***Trustees:***

ABID HUSSAIN

J. S. BAIJAL

B. RAI

RONALD ROBISON

***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 :***

J. SAGAR ASSOCIATES

***Auditor :***

PRICE WATERHOUSE

***Banker :***

STANDARD CHARTERED BANK

If undelivered please return to:

**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

