

**MORGAN STANLEY
GROWTH FUND**

To Our Valued Unit Holder,

We are pleased to present to you the fourth annual report for the Morgan Stanley Growth Fund (the "Fund") for the year ended March 31, 1998.

As we write this letter to you, we believe that the Indian equity markets are coming out of a prolonged bear phase which marked calendar years 1995-1997 and are showing positive signs of growth and expansion. The Fund remained fully invested in equities through this difficult three year phase but used the opportunity to restructure its portfolio. The number of stocks in the portfolio has been substantially reduced to focus on opportunities for improved performance. Marginal positions have been weeded out while simultaneously ensuring that the consolidation process provides adequate risk diversification. As a result, we believe the Fund is well positioned to reap the rewards of a broad based growth in the equity markets and the year to date performance for the calendar year 1998 gives us a compelling reason to remain optimistic.

For the year ended March 31, 1998, the Fund kept pace with the CRISIL 500 Index but underperformed the BSE 200 Index. However, since inception, the Fund has outperformed both indices. You will find enclosed detailed results of the Fund for the financial year ended March 31, 1998 along with a commentary from the portfolio managers where they share with you their views on the Indian economy and equity markets, their prospects and factors influencing the performance of the Fund, both historic and prospective. We do hope that you find the report useful and informative.

As you probably are aware, the units of the Fund were placed as eligible securities with the National Securities Depository Limited early last year. This made it possible for you to hold your units in electronic form and a number of you have already taken advantage of this opportunity. We encourage those who have not yet done so to consider this alternative. We are enclosing an informative guide from the National Securities Depository Limited which explains how the depository works and how you can open an account with a depository participant, the first step to holding your units in electronic form.

The depository system enables the conversion of physical securities to electronic form through dematerialisation. This facilitates share transactions and transfers electronically without involving any share certificate or transfer

deed. As a result, bad deliveries are almost eliminated and there is no scope for any risk of loss, theft or fraud with regard to share certificates. Moreover, transfer of shares does not incur stamp duty and is done within a day of the completion of the settlement.

Over the last year, the Securities and Exchange Board of India (“SEBI”) has taken a number of significant measures to promote a depository environment that minimise both risk and costs attached to the paper based system. By a recent directive, effective April 6, 1998, SEBI has deemed that delivery of electronic form is permitted and is good delivery in the physical segment. This measure puts to rest the fear of lack of liquidity in the electronic segment and investors now can more readily take advantage of the depository.

An exhaustive list of depository participants with whom you can open an account is available on request from National Securities Depository Ltd., Trade World, 5th floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013. We would encourage unit holders to contact one of these participants to learn more about the benefits associated with the electronic form of unit ownership.

We wish to advise you that J. W. Grisham retired from Morgan Stanley in January 1998 and also has resigned from the Board of Trustees of Morgan Stanley Mutual Fund (“MSMF”). Following this, MSMF now has five trustees including three independent trustees not associated with the sponsor. We take this opportunity to express our appreciation of the role played by Mr. Grisham in the Fund and wish him the very best.

As the Trustees of your 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 has continued to strengthen its reporting and control systems. We very much appreciate your participation as a unit holder of the Fund and look forward to a successful year.

Sincerely,

*Michael F. Klein
Principal Trustee*

May 13, 1998

<p>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.</p>
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PORTFOLIO MANAGERS' LETTER

Dear Unit Holder,

The Morgan Stanley Growth Fund (the "Fund") net asset value ("NAV) appreciated by 13.4% to Rs. 9.15 for the year ended March 31, 1998. During this period, the benchmark indices - BSE 200 and CRISIL 500 - increased by 15% and 13.3% respectively. Since inception, the Fund has outperformed the benchmark indices (see Table 1). The portfolio restructuring exercise done through 1996 and 1997 has helped achieve this outperformance.

The current financial year, 1998-99, has started on a promising note. The Fund's NAV as on May 8, 1998 was Rs.10.38, reflecting an increase of 13.4% since March 31, 1998. The benchmark indices - BSE 200 and CRISIL 500 - have increased by 6.6% and 6.4% respectively during this period.

Outlook for Indian Economy

A new coalition government, this time led by the BJP, has come to power on a promise to provide a stable government and achieve economic turnaround through furthering the reform process, particularly in the area of infrastructure development. The initial statements of the Prime Minister and the Finance Minister have been well received by businessmen and investors and have allayed, for the moment, a number of misgivings that investors, both domestic and foreign, had about the BJP prior to the formation of the coalition government.

While the focus is on the Budget for 1998-99 to be presented in June 1998, the interim budget has revealed that the cyclical downturn in the economy has been larger than expected and the fiscal deficit for March 1998 may end at 5.5% - 6%, a good 1% - 1.5% above expectations. In the short term, the Finance Minister will be challenged by the level of the fiscal deficit while trying to boost government spending to lead the economy out of the slump. However, there are already some positive signs of a sustainable economic turnaround. Credit growth for banks and financial institutions has grown by 16% year on year in the second half of FY 1998 and consumption of consumer durables, such as cement, steel, polyester and two wheelers, has picked up in that half. The Reserve Bank of India, which increased the bank rate by 2% in January 1998 to counter the threat to the Indian Rupee in the foreign exchange market, has since reverted to an easier monetary policy by bringing back the bank rate in three stages to 9%. But the pressure on interest rates is expected to continue in the context of an increasing fiscal deficit.

Indian Equities Market Outlook

The early statements of the new government have succeeded in improving investors' confidence and the Indian stock market has risen almost 30% to date since its low in January 1998. This time around the rally has been more widespread across a larger number of stocks, when compared with the rallies in early 1996 and 1997. It is significant to note that domestic investors have stepped up their investment in equities, particularly in medium and small sized companies as these now represent attractive valuations. It must also be mentioned that the markets have registered a smart increase despite net outflows in early April from foreign investors.

Current cheap stock prices have attracted a few hostile takeovers of companies, and this in turn has led to speculative buying in several medium sized companies on expectation of further acquisition activity. Multinational companies are looking to increase their stake through open offers at prices higher than market. We expect these trends to continue through 1998-99 and beyond.

Another interesting trend that we notice is that Indian corporates are increasingly becoming more focussed on their core competencies and selling out divisions that do not fit their overall game plan. This is positive as it indicates that Indian management is becoming more conscious of equity value and returns to shareholders and moving away from the early

nineties' trend of building assets. While all these emerging trends do provide a positive impetus, the growing budget deficit and the uncertainties about the monsoon are of concern.

Table 1

Comparison of MSGF NAV Performance v/s Benchmark Indices

Period	MSGF NAV	BSE 200	CRISIL 500
Quarter ending March 1998	+ 12.4%	+ 7.3%	+ 8.1%
Year ended March 1998	+ 13.4%	+ 15.0%	+ 13.3%
Inception (Jan 94) to March 1998	- 8.5%	- 18.2%	- 29.0%
March 31, 1998 to May 8, 1998	+ 13.4%	+ 6.6%	+ 6.4%
Inception (Jan 94) to May 8, 1998	+ 3.8%	- 12.8%	- 24.4%

Table 2

Comparison of Top Twenty Five Holdings of MSGF

March 31, 1996	March 31, 1997	March 31, 1998
BHARAT HEAVY ELECTRICALS	BHARAT HEAVY ELECTRICALS	BHARAT HEAVY ELECTRICALS
CONTAINER CORP. OF INDIA	CONTAINER CORP. OF INDIA	CONTAINER CORP. OF INDIA
TELCO	HDFC	INFOSYS TECHNOLOGIES
HDFC	STATE BANK OF INDIA	HDFC
STATE BANK OF INDIA	INFOSYS TECHNOLOGIES	STATE BANK OF INDIA
MADRAS CEMENT	SUNDARAM FINANCE	ZEE TELEFILMS
MTNL	MRF	HERO HONDA
CROMPTON GREAVES	CIPLA	NIIT
INFOSYS TECHNOLOGIES	BHARAT EARTH MOVERS	CUMMINS INDIA
HINDALCO	ASAHI INDIA	HIND LEVER CHEMICALS
MRF	MARICO INDUSTRIES	CIPLA
ACC	FOSECO	BURROUGHS WELLCOME
IPCL	HDFC BANK	MARICO INDUSTRIES
ESSEL PACKAGING	VIKAS WSP	ASAHI INDIA
SUDARSHAN CHEMICALS	ATLAS COPCO	WYETH LEDRERLE
CIPLA	SILTAP CHEMICALS	MRF
THERMAX	SHRIRAM HONDA	HOECHST SCHERING
BAJAJ TEMPO	HOECHST SCHERING	NESTLE
MICO	BURROUGHS WELLCOME	SHRIRAM HONDA
BALLARPUR INDUSTRIES	HIND POWER PLUS	SOFTWARE SOLUTION
ITC HOTELS	ZEE TELEFILMS	BATA INDIA
MODI XEROX	HIND LEVER CHEMICALS	FOSECO
ASIAN ELECTRONICS	RANE MADRAS	TATA INFOTECH
ENGINE VALUE	NRB BEARINGS	VIKAS WSP
L. G. BALAKRISHNA	L. G. BALAKRISHNA	ESSEL PACKAGING
42.17% of Portfolio	65.34% of Portfolio	80.90% of Portfolio

Table 3

MSGF Per Unit Assets and Liabilities as at March 31,1998

ASSETS			
Equities	9.16	Capital	10.00
Fixed Income Securities	0.01		
Deposits	0.02		
Other Current Assets	<u>0.07</u>	Net Reserves	<u>(0.85)</u>
Total Assets Marked to Market	9.26		
LIABILITIES	<u>(0.11)</u>		
NET ASSET VALUE	9.15	NET ASSET VALUE	9.15

Portfolio Outlook and Strategy

You will recall that for most of 1996 and 1997, a major portfolio restructuring exercise was undertaken involving reducing the number of holdings and changing the profile of companies held in the Fund's portfolio. The lackluster conditions in the market helped us in gaining access to companies that we wanted to hold in the portfolio. We believe that the current portfolio - 100 stocks representing over 97% of the portfolio - is well poised to ride the market's upside potential. In Table 2, we present the change in the top 25 stocks of the portfolio over the last three years under our plan to strengthen the quality of the portfolio.

In our stock selection criteria, we continue to lay strong emphasis on the quality of management teams. We believe that an important fallout of the prolonged bear phase in the market is a clear polarisation in the Indian industry. Well managed companies will get better and better while mismanaged companies will be marginalised and become less relevant. From an investment standpoint, investors are according greater preference and, therefore, higher values, for strong and well managed companies. Further, with protectionism giving way to market forces, efficient companies with dominance in their respective product markets stand a better chance to survive and prosper. We are happy to inform you that most of our major holdings represent high quality, well-managed companies who are dominant players in their respective industries.

We at Morgan Stanley Asset Management appreciate the patience shown by the Fund's unit holders through the unfavourable market conditions and stand committed to providing superior investment performance over the life of the Fund.

AKASH PRAKASH
Portfolio Manager

ASHUTOSH SINHA
Portfolio Manager

Mumbai
May 8, 1998

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, 1998, and the related Revenue Account for the year ended on that date, both of which we have signed under reference to this report. Our audit was conducted in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances. 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.
2. 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 Securities and Exchange Board of India (Mutual Funds) Amendment Regulations, 1998, 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, 1998 and its net surplus for the year ended on that date.
 - (ii) The Balance Sheet as at March 31, 1998, and the Revenue Account for the year ended on that date, together with the notes thereon, 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 and Securities and Exchange Board of India (Mutual Funds) Amendment Regulations, 1998.
 - (iii) The methods used to value non-traded securities as at March 31, 1998 in good faith are fair and reasonable.

K. H. VACHHA

Partner

For and on behalf of

PRICE WATERHOUSE

Chartered Accountants

Mumbai

May 13, 1998

BALANCE SHEET

MORGAN STANLEY MUTUAL FUND – MORGAN STANLEY GROWTH FUND

Balance Sheet as at March 31, 1998

	Schedule	March 31, 1998 Rs.	March 31, 1997 Rs.
ASSETS			
Investments	1	7,356,667,012	6,874,782,500
Deposits	2	19,400,000.	102,200,000
Other Current Assets	3	52,587,657	96,714,675
Deferred Revenue Expenditure	4	152,751	352,751
TOTAL		7,428,807,420	7,074,049,926
LIABILITIES			
Initial Contribution by Settlor		500,000	500,000
Unit Capital	5	8,015,282,000	8,550,206,000
Reserves and Surplus	6	(678,965,597)	(1,650,552,599)
Current Liabilities and Provisions	7	91,991,017	173,896,525
TOTAL		7,428,807,420	7,074,049,926
RECONCILIATION TO NET ASSET VALUE PER UNIT			
Net Assets as per Balance Sheet (Total Assets less Current Liabilities and Provisions)		7,336,816,403	6,900,153,401
Number of Units in Issue		801,528,200	855,020,600
Net Asset Value per Unit		9.15	8.07

Notes to the Accounts 10

The schedules form an integral part of the Accounts.
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
May 13, 1998

For Morgan Stanley Mutual Fund

ABID HUSSAIN <i>Trustee</i>	J.S.BAIJAL <i>Trustee</i>	B.RAI <i>Trustee</i>
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B.M.BIGGS <i>Trustee</i>	M.F. KLEIN <i>Trustee</i>	
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For Morgan Stanley Asset Management

India Private Limited
AKASH PRAKASH
Executive Director

K.N.VAIDYANATHAN
Vice President

REVENUE ACCOUNT

MORGAN STANLEY MUTUAL FUND – MORGAN STANLEY GROWTH FUND Revenue Account for the year ended March 31, 1998

	Schedule	Year ended March 31, 1998 Rs.	Year ended March 31, 1997 Rs.
INCOME AND GAINS			
Dividends (including tax deducted at source NIL (1997: Rs.544,415)) (Note 2.4)		98,130,551	123,599,772
Interest	8	5,096,594	12,505,360
TOTAL		103,227,145	136,105,132
EXPENSES AND LOSSES			
Investment Management and Advisory Fees (Note 4)		76,056,436	73,221,783
Transfer Agent Fees and Expenses		28,186,057	32,813,286
Custodian Fees (Note 5)		23,062,304	27,909,028
Trusteeship Fees and Expenses (Note 6)		1,854,300	1,108,214
Audit Fees		600,000	500,000
Securities and Exchange Board of India Inspection Fees		500,000	-
Investor Communication Expenses		9,930,095	10,685,553
Amortisation of Deferred Revenue Expenditure (Note 2.7)		200,000	200,000
Provision for Outstanding Accrued Income (Net)		612,554	4,173,463
Net Loss on Sale of Investments (Note 2.3)		1,236,502,369	685,152,156
Other Operating Expenses		2,559,654	2,267,309
TOTAL		1,380,063,769	838,030,792
Excess of Expenses and Losses over Income and Gains		(1,276,836,624)	(701,925,660)
Net change in unrealised appreciation/depreciation of investments	9	2,076,648,984	308,382,062
Net Surplus/(Deficit) transferred to Revenue Reserve		799,812,360	(393,543,598)

Notes to the Accounts 10
The schedules form an integral part of the Accounts.
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

May 13, 1998

For Morgan Stanley Mutual Fund

ABID HUSSAIN

Trustee

J.S.BAIJAL

Trustee

B.RAI

Trustee

B.M.BIGGS

Trustee

M.F. KLEIN

Trustee

For Morgan Stanley Asset Management

India Private Limited

AKASH PRAKASH

Executive Director

K.N.VAIDYANATHAN

Vice President

SCHEDULES

MORGAN STANLEY MUTUAL FUND – MORGAN STANLEY GROWTH FUND

Schedules forming part of the Balance Sheet as at March 31, 1998 and the Revenue Account for the year ended March 31, 1998

SCHEDULE 1 Investments (Notes 2.2 and 7)	1998 Market/Fair Value Rs.	1998 Cost Rs.	1997 Market/Fair Value Rs.	1997 Cost Rs.
(Refer to attached Statement of Portfolio Holding as at March 31, 1998)				
Equity Shares	7,343,250,907	5,468,625,036	6,834,591,190	7,036,102,226
Warrants	-	-	12,809,471	11,280,301
Units of Mutual Fund	1,898,685	2,244,645	5,348,435	7,138,256
Convertible Debentures	-	-	2,765,484	5,748,120
Non Convertible Debentures	11,517,420	19,303,500	19,267,920	24,668,750
	7,356,667,012	5,490,173,181	6,874,782,500	7,084,937,653
 SCHEDULE 2 Deposits			1998 Rs.	1997 Rs.
Deposits with Scheduled Banks			19,400,000	102,200,000
 SCHEDULE 3 Other Current Assets			1998 Rs.	1997 Rs.
Balance with Banks in Current Account			138,056	162,389
Sales Contracts Awaiting Completion				
- Equity Shares			44,486,598	79,150,546
Interest Receivable on				
- Debentures (net of provision of Rs.3,258,033 (1997 : Rs.1,516,930) and including receivable for tax deducted at source NIL (1997 : Rs.3,140,776))			440,604	6,044,455
- Deposits (including receivable for tax deducted at source Rs.55,521 (1997: Rs.55,521))			60,571	104,148
Dividends Receivable (net of provision of Rs.1,527,984 (1997 ; Rs.2,656,533) and including receivable for tax deducted at source Rs.2,197,912 (1997 : Rs.2,509,617))			6,188,236	10,308,724
Miscellaneous Receivables			1,273,592	944,413
			52,587,657	96,714,675

SCHEDULE 4	1998	1997
Deferred Revenue Expenditure (Note 2.7)	Rs.	Rs.
At beginning of year	352,751	552,751
Amortised during the year	(200,000)	(200,000)
At end of year	<u>152,751</u>	<u>352,751</u>

SCHEDULE 5	1998	1998	1997	1997
Unit Capital	Rs.	Units	Rs.	Units
Issued and Subscribed:				
Units of Rs.10 each fully paid up	9,818,001,000	981,800,100	9,818,001,000	981,800,100
Outstanding				
At beginning of year	8,550,206,000	855,020,600	8,550,206,000	855,020,600
Repurchased through secondary market operations (Note 2.5)	(534,924,000)	(53,492,400)	-	-
At end of year	<u>8,015,282,000</u>	<u>801,528,200</u>	<u>8,550,206,000</u>	<u>855,020,600</u>

SCHEDULE 6	1998	1997
Reserves and Surplus	Rs.	Rs.
<i>Unit Premium Reserve</i>		
At beginning of year	219,039,190	219,039,190
Discount on Repurchase of Units (Note 2.5)	171,774,642	-
At end of year	<u>390,813,832</u>	<u>219,039,190</u>
<i>Revenue Reserve</i>		
At beginning of year	(1,869,591,789)	(1,476,048,191)
Net Surplus/(Deficit) transferred from Revenue Account	799,812,360	(393,543,598)
At end of year	<u>(1,069,779,429)</u>	<u>(1,869,591,789)</u>
Total	<u>(678,965,597)</u>	<u>(1,650,552,599)</u>

SCHEDULE 7	1998	1997
Current Liabilities and Provisions	Rs.	Rs.
Investment Management and Advisory Fees	6,044,934	6,199,761
Trusteeship Fees and Expenses	434,134	278,070
Fund Accounting and Administration Fees	12,300,000	12,300,000
Transfer Agent's Fees and Expenses	613,825	810,976
Audit Fees	600,000	500,000
Investor Communication Expenses	11,000,000	8,000,000
Custodian Fees	1,959,885	2,311,612
Purchase Contracts Awaiting Completion		
- Equity Shares	31,699,182	105,963,090
Rights Payable		
- Equity Shares	303,356	5,084,520

Calls Payable on Securities	900	9,223,050
Repurchase of Units	12,021,047	-
Warrants Payable	-	9,168,950
Sundry Payables	15,013,754	14,056,496
	<u>91,991,017</u>	<u>173,896,525</u>
	=====	=====

SCHEDULE 8
Interest (Note 2.4)

	April 1, 1997 to March 31, 1998	April 1, 1996 to March 31, 1997
	Rs.	Rs.
Debentures	1,827,578	4,319,800
Deposits (including receivable for tax deducted at source NIL (1997: Rs.55, 521))	3,207,194	7,720,632
Others	61,822	464,928
	<u>5,096,594</u>	<u>12,505,360</u>
	=====	=====

SCHEDULE 9
Unrealised Appreciation/(Depreciation) in Value of Investments

	April 1, 1997 to March 31, 1998	April 1, 1996 to March 31, 1997
	Rs.	Rs.
Net unrealised depreciation in value of investments at beginning of year	(210,155,153)	(518,537,215)
Net movement in unrealised appreciation/depreciation in value of investments during the year	2,076,648,984	308,382,062
	<u>1,866,493,831</u>	<u>(210,155,153)</u>
	=====	=====

SCHEDULE 10

Notes to the Accounts

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 Group Inc., a corporation organised under the laws of the State of Delaware, United States of America (since merged with Morgan Stanley Dean Witter & Co.). Morgan Stanley Asset Management India Private Limited ("MSAM"), incorporated under the Companies Act, 1956, 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.

2.2 Portfolio Valuation

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

(i) Securities listed on a recognised stock exchange 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 prior to the valuation date. Securities mentioned on The Securities and Exchange Board of India ("SEBI") mandatory dematerialisation list are valued at the last quoted closing price on the principal exchange on which the dematerialised security is traded. Non pari passu (new) shares are valued as above less the previous year's dividend, if any.

(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 securities, including those not traded within thirty days prior to the valuation date, are valued at fair value as determined in good faith by MSAM under procedures approved by the Board of Trustees.

2.3 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.

2.4 Investment Income

Dividend and interest incomes are recorded on an accrual basis.

2.5 Repurchase of Units

In accordance with the permission granted by SEBI, 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.

2.6 Issue Costs

Issue costs comprise those costs directly associated with the issue of units in the Fund and included lead managers' fees, brokerage/incentive fees on issue of units, advertising and marketing, registrar's fees and expenses and printing and despatch costs, which have been charged directly to Reserves.

2.7 Deferred Revenue Expenditure

Organisation costs incurred by the Fund have been deferred and are being amortised over a period of five years from the commencement of the Fund.

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

In accordance with the agreement between the Board of Trustees and MSAM, the Fund has provided for investment management and advisory fees payable to MSAM for managing the Fund at an annual rate of 1.25% of the weekly average 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 MSAM 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.

5. Custodian Fees

Stock Holding Corporation of India Limited (“SHCIL”) provides custodial services to the Fund. Custody fees are charged at 0.25% per annum for the first Rs.700 crore, reducing by 0.01% per annum for every incremental Rs.100 crore or part thereof with a minimum charge of 0.20% per annum for securities held by the custodian in the physical segment and at 0.03% per annum for securities held in the Depository. Transaction fees for the purchase and sales transactions by value are charged at 0.20% in the physical segment and at 0.05% in the depository segment respectively. In addition, SHCIL will be reimbursed for the custody and transaction charges levied by National Securities Depository Limited as set from time to time.

6. Trusteeship Fees

In accordance with the agreement dated November 3, 1993 between Morgan Stanley Group Inc., since merged with Morgan Stanley Dean Witter & Co., (“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.

7. Aggregate Value of Purchases and Sales of Investments

During the year ended March 31, 1998 purchases and sales of investment securities aggregated Rs.1,536,309,676 and Rs.1,894,571,779 respectively, being 20.89 % and 25.76% of the average weekly net asset value.

8. Income / Expenditure

The total income (including net loss on sale of investments and net change in unrealised appreciation/depreciation in the value of investments) and total expenses for the year is Rs.943,373,760 and Rs.143,561,400 respectively, being 12.83% and 1.95 % of the average weekly net asset value.

9. Historical Per Unit Statistics*

	April 1, 1997 to March 31, 1998	April 1, 1996 to March 31, 1997	April 1, 1995 to March 31, 1996
	Rs.	Rs.	Rs.
(a) Net Asset Value per unit at end of year	9.15	8.07	8.56
	=====	=====	=====
(b) i) Gross income other than profit from sale of investments	0.12	0.16	0.16
ii) Gross income from profit on inter scheme sales/transfer of investments	-	-	-
iii) Gross income from profit on sale of investments to third parties	-	-	-
iv) Transfer of revenue account from past year’s reserve	-	-	-
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Gross Income and Gains	0.12	0.16	0.16
	-----	-----	-----
(c) Aggregate of expenses and net realised losses	1.67	0.98	0.88

(d)	Net (Loss/Income (b) – (c))	(1.55)	(0.82)	(0.72)
		=====	=====	=====
(e)	Net change in unrealised appreciation/depreciation in value of investments	2.51	0.34	0.15
(f)	Repurchase Price (Market Buyback)			
	i) Highest	7.90	Not Applicable	7.50
	ii) Lowest	5.85	Not Applicable	6.65
(g)	Resale Price			
	i) Highest	Not Applicable	Not Applicable	Not Applicable
	ii) Lowest	Not Applicable	Not Applicable	Not Applicable
(h)	Market Price			
	i) Highest	9.50	7.40	7.75
	ii) Lowest	5.50	6.00	5.40
(i)	Price Earning Ratio	Not Applicable	Not Applicable	Not Applicable
(j)	Ratio of expenses (excluding deferred revenue expenditure amortised and net loss on sale of investments) to average net assets	1.95%	2.16%	2.34%
(k)	Ratio of gross income (including net loss on sale of investments and net change in unrealised appreciation/depreciation in value of investments) to average net assets	12.83%	(3.71%)	(4.70%)

* The above per unit calculations with the exception of the Net Asset Value per unit are based on the weighted average number of units in issue over the relevant year.

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

Signatures to Schedules 1 to 10 forming part of the Balance Sheet and Revenue Account.

K H VACHHA

Partner

For and on behalf of

PRICE WATERHOUSE

Chartered Accountants

Mumbai

May 13, 1998

For Morgan Stanley Mutual Fund

ABID HUSSAIN

Trustee

B.M. BIGGS

Trustee

J.S. BAIJAL

Trustee

M.F. KLEIN

Trustee

B. RAI

Trustee

For Morgan Stanley Asset Management

India Private Limited

AKASH PRAKASH

Executive Director

K.N.VAIDYANATHAN

Vice President

PORTFOLIO OF INVESTMENTS

MORGAN STANLEY MUTUAL FUND – MORGAN STANLEY GROWTH FUND

Statement of Portfolio Holding as at March 31, 1998

(Referred to in Schedule 1 to the Balance Sheet as at March 31, 1998 and the Revenue account for the year ended March 31, 1998.)

Quantity	Company Name	Market Value (Rs.)	Rs.
EQUITY SHARES (99.82%)			
Appliances & Household Durables (0.72%)			
147,400	La Opala Glass	5,896,000	
1,175,700	Maharaja International	10,052,235	
250,880	Philips India	36,904,448	52,852,683
Automobiles (8.02%)			
197,300	Asahi India Safety Glass	83,149,200	
445,000	Automotive Axles	12,237,500	
66,800	Bimetal Bearings	11,289,200	
6,750	Castrol India	4,623,750	
544,150	Denso India	22,010,867	
211,084	Hero Honda	184,434,645	
319,300	I P Rings	23,947,500	
324,225	Kalyani Brakes	19,453,500	
185,850	Lumax Industries	9,487,643	
346,880	Motherson Sumi	12,900,864	
39,341	MRF	79,075,410	
340,000	Patheja Brothers & Forging *	6,171,000	
254,700	Premier Auto Electricals	1,795,635	
103,900	Rane Brakes & Lining	16,972,065	
194,450	Rane Madras	22,361,750	
189,000	Shanthi Gears	14,175,000	
114,420	Sundaram Brake Lining	11,413,395	
28,390	TELCO	8,315,431	
79,700	TVS Suzuki	39,192,475	
38,850	Wheels India	5,559,435	588,566,265
Banking (6.18%)			
518,700	HDFC Bank	37,061,115	
1,498,383	State Bank of India	416,550,474	453,611,589
Beverages & Tobacco (0.78%)			
80,803	I T C	57,693,342	57,693,342
Broadcasting & Publishing (3.12%)			
148,100	New Delhi Television *	7,108,800	
210,550	Samtel Colour	2,052,863	
806,150	Zee Telefilms	219,998,335	229,159,998

Building Materials & Components (1.81%)			
5,885	Madras Cement	25,246,650	
184,636	FGP	1,763,274	
239,550	I C I India	47,910,000	
564,658	Vesuvius Industries	58,159,774	133,079,698
Chemicals (4.26%)			
113,500	BASF India	30,270,450	
135,500	Centak Chemicals	12,208,550	
170,100	Cyanamid Agro #	0	
239,700	Foseco India	63,520,500	
140,162	Hind Lever Chemicals	104,959,655	
100,500	Hoechst Schering Agrevo	71,907,750	
189,500	Siltap Chemicals	19,139,500	
225,375	Sudarshan Chemicals	10,220,756	312,227,161
Construction & Housing (0.06%)			
135,000	Dharti Dredging *	4,050,000	4,050,000
Data Processing & Software (15.58%)			
454,400	Infosys Technologies	829,620,800	
130,600	Mastek	19,838,140	
200,900	NIIT	163,934,400	
366,700	Software Solution	68,096,190	
69,350	Tata Infotech	62,692,400	1,144,181,930
Electricals & Electronics (17.26%)			
3,168,400	Bharat Heavy Electricals	1,140,624,000	
156,300	Control & Switchgear*	7,815,000	
249,400	Cummins India	108,489,000	
328,800	Datar Switchgear	10,521,600	1,267,449,600
Energy Equipment & Services (1.55%)			
252,900	Amar Raja Batteries	21,913,785	
244,600	Jyoti Structural	21,316,890	
150,000	Renewable Energy Systems	687,000	
322,500	Shriram Honda	70,627,500	114,545,175
Financial Services (11.23%)			
259,306	HDFC	824,333,774	824,333,774
Forest Products & Paper (0.17%)			
194,550	Paper Products	12,451,200	12,451,200
Health & Personal Care (7.31%)			
92,100	Abbot Laboratories	29,472,000	
150,000	Aldrich Pharmaceuticals*	300,000	
230,284	Burroughs Wellcome (India)	89,062,337	
150,550	Cipla	100,341,575	
340,000	Eastern Medikit*	7,140,000	

229,500	E Merck	56,916,000	
334,800	Marico Industries	87,048,000	
161,300	Nestle India	71,778,500	
70,500	Targoff Drugs*	1,410,000	
97,200	Unichem Labs	11,071,080	
170,100	Wyeth Lederle	82,498,500	537,037,992
Industrial Components (2.08%)			
105,231	Atlas Copco (India)	23,308,666	
481,153	Carbon Everflow	5,581,375	
349,100	Esab India	40,670,150	
180,918	IBIL Tech*	2,171,016	
487,500	ITW Signode	31,200,000	
235,500	KSB Pumps	49,690,500	152,621,707
Machinery & Engineering (3.36%)			
262,800	Alfa Laval (India)	29,197,080	
172,900	DGP Windsor	4,063,150	
147,000	Elgi Equipments	28,518,000	
199,600	Engine Valves	37,704,440	
245,900	Flat Products	11,901,560	
895,220	Hindustan Power Plus	48,610,446	
209,250	Kirloskar Oil Engines	6,978,488	
155,643	LG Balakrishna & Bros	7,937,793	
248,400	NRB Bearing	24,840,000	
150,600	Praj Industries	6,024,000	
290,000	Shaily Engineering	2,900,000	
11,375	Widia India	37,821,875	246,496,832
Materials & Commodities (2.11%)			
329,976	Essel Packaging	59,395,680	
2,032,600	Oil Country Tubular	33,436,270	
549,400	Vikas WSP	61,807,500	154,639,450
Metal – Steel (0.20%)			
1,465,000	Steel Authority of India	14,650,000	14,650,000
Miscellaneous (0.02%) **			
300	Ahmednagar Forging	5,400	
100	American Dryfruit	500	
410,000	Annapurna Foils*	41,000	
46	Apollo Tyres	3,747	
4,080	Ashok Leyland	168,912	
100	Autopal Industries	470	
1,050	Bajaj Tempo	213,150	
317	Bajaj Tempo (Rights)	62,766	
223	Ballarpur Industries	8,251	
200	Bharat Earth Movers	12,570	
100	Birla VXL	1,300	
400	Canfin Homes	5,520	
51	Ceat Tyres	1,216	
2,000	Crompton Greaves	83,300	
50	Escorts	4,120	

1,389	G.K.W	14,237	
100	German Remedies	34,075	
1,100	GTN Textiles	33,000	
200	Harig Crankshafts	320	
420	Hoganas India	64,554	
800	IFCI	29,360	
750	Indian Organic	4,500	
2,060	Indian Petrochemical	143,273	
200	Ingersoll Rand	86,250	
100	Ion Exchange	6,325	
400	ITC Hotels	49,960	
200	JK Synthetics	530	
274	KEC International	10,262	
810	Lakme	161,028	
650	Mahavir Spinning	32,403	
135	Max India	15,970	
200	Medicaps	2,880	
700	Modi Tele Fibres	490	
200	Pudamjee Paper	8,400	
300	Pun Wireless System	15,150	
300	PVD Plast	420	
600	RS Software	21,600	
25	S&S Power Switch	420	
70	Sandvik Asia	112,000	
100	Sanghi Polyester	695	
10	SKF Bearings	13,881	
10	TISCO	1,465	
100	Uniworth International	700	
100	Videsh Sanchar Nigam	77,000	1,553,370
Multi Industry (0.07%)			
171,269	VST Tillers	5,095,253	5,095,253
Recreation & other Consumer Goods (2.25%)			
409,600	Bata India	64,061,440	
123,770	Kodak India	50,034,022	
1,000,600	Timex Watches	21,012,600	
179,635	Titan Industries	10,302,067	
316,383	Tube Investments	11,990,916	
333,700	VIP Industries	8,158,965	165,560,010
Textiles & Apparel (0.25%)			
54,950	Coates Viyella India	3,254,698	
321,952	Indo Rama Synthetics	4,877,573	
261,300	Pearl Global	4,703,400	
45,000	Sri Venkatesa Mills *	2,334,600	
61,818	Sri Ramakrishna Mills *	3,183,627	18,353,898
Transportation – Road & Rail (11.49%)			
1,846,500	Container Corporation of India	843,850,500	843,850,500

Wholesale & International Trade (0.12%)		
90,000	Fortune International *	1,069,200
414,300	Maral Overseas	8,120,280
		9,189,480
	Total (Cost Rs.5,468,625,036)	<u>7,343,250,907</u>
UNITS OF MUTUAL FUNDS (0.02%)		
173,300	UTI Master Gain 92	1,897,635
100	SBI Magnum Express *	1,050
		1,898,685
	Total (Cost Rs.2,244,645)	<u>1,898,685</u>
NON-CONVERTIBLE DEBENTURES (0.16%)		
581,000	Shri Ishar Alloys *	4,880,400
415,700	Supreme Petro Chemicals	4,614,270
26,100	Textool Industries	2,022,750
		11,517,420
	Total (Cost Rs.19,303,500)	<u>11,517,420</u>
	TOTAL INVESTMENTS AT MARKET VALUE	<u>7,356,667,012</u>
	(Cost Rs.5,490,173,181)	=====

* Fair value as determined in good faith by Morgan Stanley Asset Management India Private Limited.

** Individual securities with holding less than 5,000 shares or value less than Rs.500,000.

Shares acquired as benefit from merger between Cyanamid and Wyeth Laboratories.

Confirmation has been received from Stock Holding Corporation of India Limited at the year end of the investments held by them.

Mutual Fund :

MORGAN STANLEY MUTUAL FUND

Trustees :

ABID HUSSAIN

J.S. BAIJAL

B. RAI

B.M. BIGGS

M.F. KLEIN

Scheme :

MORGAN STANLEY GROWTH FUND

Asset Management Company :

MORGAN STANLEY ASSET MANAGEMENT
INDIA PRIVATE LIMITED

Custodian :

STOCK HOLDING CORPORATION
OF INDIA LIMITED

Registrar & Transfer Agent :

KARVY CONSULTANTS LIMITED

Legal Advisor :

LITTLE & CO.

Auditors :

PRICE WATERHOUSE

Banker :

STANDARD CHARTERED BANK