

MORGAN STANLEY MUNICIPAL INCOME OPPORTUNITIES TRUST
Form N-CSR
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-05597

Morgan Stanley Municipal Income Opportunities Trust
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York 10036
(Address of principal executive offices) (Zip code)

Ronald E. Robison
522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-762-4000

Date of fiscal year end: May 31, 2007

Date of reporting period: May 31, 2007

Item 1 - Report to Shareholders

Welcome, Shareholder:

In this report, you'll learn about how your investment in Morgan Stanley Municipal Income Opportunities Trust performed during the annual period. We will provide an overview of the market conditions, and discuss some of the factors that affected performance during the reporting period. In addition, this report includes the Fund's financial statements and a list of Fund investments.

MARKET FORECASTS PROVIDED IN THIS REPORT MAY NOT NECESSARILY COME TO PASS. THERE IS NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE. THE FUND IS SUBJECT TO MARKET RISK, WHICH IS THE POSSIBILITY THAT MARKET VALUES OF SECURITIES OWNED BY THE FUND WILL DECLINE AND, THEREFORE, THE VALUE OF THE FUND'S SHARES MAY BE LESS THAN WHAT YOU PAID FOR THEM. ACCORDINGLY, YOU CAN LOSE MONEY INVESTING IN THIS FUND.

INCOME EARNED BY CERTAIN SECURITIES IN THE PORTFOLIO MAY BE SUBJECT TO THE FEDERAL ALTERNATIVE MINIMUM TAX (AMT).

FUND REPORT

For the year ended May 31, 2007

MARKET CONDITIONS

The economy sent mixed signals about its overall strength during the fiscal reporting year. Early in the period economic growth moderated, prompting the Federal Open Market Committee (the "Fed") to pause in its two-year campaign of raising the target federal funds rate following its last increase in June 2006. As the months progressed, weaker consumer spending, rising energy prices and ongoing geopolitical uncertainty continued to weigh on the economy, as did a contraction in the residential real estate sector. In early 2007, turmoil in the sub-prime mortgage market intensified concerns about the sector, contributing to a sharp decline in the equity market in late February which led to a "flight to quality" that forced yields on U.S. Treasury bonds lower and prices higher. Although the Fed continued to hold interest rates steady, the changing economic and financial picture led to a more neutral monetary bias and market speculation of a potential decrease in interest rates. In the last weeks of the period, the economy began to show signs of improvement while strong employment growth raised concerns about inflation. These factors created a more favorable outlook and dispelled expectations of Fed easing in the near future.

The municipal bond market rallied in the initial months of the period, with yields on long-term issues (as represented by the 30-year AAA rated municipal bond) declining from 4.55 percent at the beginning of the period to 3.90 percent by the end of November 2006. During the second half of the period, long-term municipal rates reversed course, rising to 4.25 percent by the end of May 2007. The slope of the municipal yield curve steepened slightly in the final weeks of the reporting period, but still remained relatively flat with only a 62 basis point yield differential, or "pick-up", between 30-year maturities and one-year maturities as of the end of May. In comparison, the yield pick-up from one to 30 years has averaged 155 basis points over the past three years.

Credit spreads between lower-quality, high-yield municipal bonds -- which comprise the bulk of the Fund's investments--and higher-rated bonds narrowed during the period. Credit spreads measure the incremental yield investors are willing to accept to assume additional credit risk. When spreads tighten, lower quality issues typically outperform high-grade issues.

Declining interest rates in the fourth quarter of 2006 spurred a rebound in municipal bond issuance that led new issue volume for the year to reach \$383 billion, the second highest on record and only 6 percent below 2005's record pace. In the first five months of 2007, new issue municipal volume increased by 30 percent, reaching a total of \$173 billion. The low level of interest rates also fueled a surge in refundings, which was the key driver of the strong new issue supply during much of the period. The supply of high-yield municipal bonds, however, remained constrained.

The top five issuing states during the fiscal year were California, Texas, New York, Florida, and Illinois. Together, these states accounted for 42 percent of total volume.

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Strong demand by institutional investors and non-traditional buyers, including hedge funds and arbitrage accounts, helped long-term municipal bonds to slightly outperform Treasuries for the period. The 30-year municipal-to-Treasury yield ratio, which measures the relative attractiveness of these two sectors, declined slightly from 87 percent at the beginning of the period to 85 percent by period end. A declining ratio indicates that municipals outperformed Treasuries while at the same time becoming more expensive (less attractive) on a relative basis. Traditional retail buying was mixed as lower interest rates softened demand for all but higher-yielding issues.

PERFORMANCE ANALYSIS

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For the 12-month period ended May 31, 2007, the net asset value (NAV) of Morgan Stanley Municipal Income Opportunities Trust (OIA) increased from \$8.02 to \$8.28 per share. Based on this change plus reinvestment of tax-free dividends totaling \$0.54 per share and a taxable distribution of \$0.000969 per share, the Fund's total NAV return was 9.30 percent. OIA's value on the New York Stock Exchange (NYSE) moved from \$8.76 to \$9.68 per share during the same period. Based on this change plus reinvestment of dividends and distributions, the Fund's total market return was 16.99 percent. OIA's NYSE market price was at a 16.91 percent premium to its NAV. Past performance is no guarantee of future results.

Monthly dividends for the second quarter of 2007, declared in March, were unchanged at \$0.045 per share. The dividend reflects the current level of the Fund's net investment income. OIA's level of undistributed net investment income was \$0.080 per share on May 31, 2007 versus \$0.137 per share 12 months earlier. (1) All holdings were accruing interest at the end of the fiscal year.

During the reporting period, the Fund's interest-rate positioning continued to reflect our anticipation of higher rates. As a result, at the end of May the Fund's option-adjusted duration* stood at 6.9 years. To reduce the Fund's duration, a U.S. Treasury futures hedge and a Bond Market Association (BMA) interest rate swap contract were used. At the beginning of the period this duration strategy helped the Fund's total returns when interest rates rose, but tempered returns later in the fiscal year when rates generally declined.

The Fund invests primarily in higher yielding municipal bonds. During the period, the Fund's exposure to these below investment-grade or non-rated issues was 71 percent of long-term holdings. This security mix had a positive impact on performance as lower-rated, high-yield municipal bonds outperformed investment-grade issues. The lower supply of high-yield bonds, coupled with strong demand, served as catalysts to their strong performance. Several holdings that appreciated significantly when they were pre-refunded were another boost to the Fund's performance.** Reflecting an ongoing commitment to diversification, the Fund's net assets of approximately \$163 million were invested among 13 long-term sectors and 104 credits.

OIA's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Fund's shares. In addition, we

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would like to remind you that the Trustees have approved a procedure whereby the Fund may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase.

PERFORMANCE DATA QUOTED REPRESENTS PAST PERFORMANCE, WHICH IS NO GUARANTEE OF FUTURE RESULTS, AND CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE FIGURES SHOWN. INVESTMENT RETURN, NET ASSET VALUE AND COMMON SHARE MARKET PRICE WILL FLUCTUATE AND FUND SHARES, WHEN SOLD, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST.

There is no guarantee that any sectors mentioned will continue to perform as discussed herein or that securities in such sectors will be held by the Fund in the future.

(1) Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).

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* A measure of the sensitivity of a bond's price to changes in interest rates, expressed in years. Each year of duration represents an expected 1 percent change in the price of a bond for every 1 percent change in interest rates. The longer a bond's duration, the greater the effect of interest-rate movements on its price. Typically, funds with shorter durations perform better in rising-interest-rate environments, while funds with longer durations perform better when rates decline.

** Pre-refunding, or advance refunding, is a financing structure under which new bonds are issued to repay an outstanding bond issue on its first call date.

TOP FIVE SECTORS

| | |
|-----------------|-------|
| Life Care | 23.5% |
| Housing | 11.7 |
| Hospital | 11.1 |
| Refunded | 10.3 |
| Incremental Tax | 9.4 |

LONG-TERM CREDIT ANALYSIS

| | |
|---------------|------|
| Aaa/AAA | 2.4% |
| Aa/AA | 6.2 |
| A/A | 1.5 |
| Baa/BBB | 18.6 |
| Ba/BB or Less | 9.2 |
| N/R | 62.1 |

Data as of May 31, 2007. Subject to change daily. All percentages for top five sectors are as a percentage of net assets and all percentages for long-term credit analysis are as a percentage of total long-term investments. These data are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities mentioned. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

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FOR MORE INFORMATION ABOUT PORTFOLIO HOLDINGS

EACH MORGAN STANLEY FUND PROVIDES A COMPLETE SCHEDULE OF PORTFOLIO HOLDINGS IN ITS SEMIANNUAL AND ANNUAL REPORTS WITHIN 60 DAYS OF THE END OF THE FUND'S SECOND AND FOURTH FISCAL QUARTERS. THE SEMIANNUAL REPORTS AND THE ANNUAL REPORTS ARE FILED ELECTRONICALLY WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) ON FORM N-CSRS AND FORM N-CSR, RESPECTIVELY. MORGAN STANLEY ALSO DELIVERS THE SEMIANNUAL AND ANNUAL REPORTS TO FUND SHAREHOLDERS AND MAKES THESE REPORTS AVAILABLE ON ITS PUBLIC WEB SITE, WWW.MORGANSTANLEY.COM. EACH MORGAN STANLEY FUND ALSO FILES A COMPLETE SCHEDULE OF PORTFOLIO HOLDINGS WITH THE SEC FOR THE FUND'S FIRST AND THIRD FISCAL QUARTERS ON FORM N-Q. MORGAN STANLEY DOES NOT DELIVER THE REPORTS FOR THE FIRST AND THIRD FISCAL QUARTERS TO SHAREHOLDERS, NOR ARE THE REPORTS POSTED TO THE MORGAN STANLEY PUBLIC WEB SITE. YOU MAY, HOWEVER, OBTAIN THE FORM N-Q FILINGS (AS WELL AS THE FORM N-CSR AND N-CSRS FILINGS) BY ACCESSING THE SEC'S WEB SITE, [HTTP://WWW.SEC.GOV](http://www.sec.gov). YOU MAY ALSO REVIEW AND COPY THEM AT THE

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SEC'S PUBLIC REFERENCE ROOM IN WASHINGTON, DC. INFORMATION ON THE OPERATION OF THE SEC'S PUBLIC REFERENCE ROOM MAY BE OBTAINED BY CALLING THE SEC AT (800) SEC-0330. YOU CAN ALSO REQUEST COPIES OF THESE MATERIALS, UPON PAYMENT OF A DUPLICATING FEE, BY ELECTRONIC REQUEST AT THE SEC'S E-MAIL ADDRESS (PUBLICINFO@SEC.GOV) OR BY WRITING THE PUBLIC REFERENCE SECTION OF THE SEC, WASHINGTON, DC 20549-0102.

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DISTRIBUTION BY MATURITY
 (% of Long-Term Portfolio) As of May 31, 2007

WEIGHTED AVERAGE MATURITY: 21 YEARS(A)

| | |
|-------|-------|
| 0-5 | 16.00 |
| 6-10 | 7.00 |
| 11-15 | 4.00 |
| 16-20 | 11.00 |
| 21-25 | 16.00 |
| 26-30 | 35.00 |
| 31+ | 11.00 |

(a) Where applicable maturities reflect mandatory tenders, puts and call dates.

Portfolio structure is subject to change.

Geographic Summary of Investments
 Based on Market Value as a Percent of Total Net Investments

| | |
|---------------------------|------|
| Alabama..... | 0.6% |
| Alaska..... | 0.6 |
| California..... | 5.6 |
| Colorado..... | 5.3 |
| Connecticut..... | 3.8 |
| District of Columbia..... | 0.2 |
| Florida..... | 10.4 |
| Georgia..... | 1.3 |
| Hawaii..... | 2.1 |
| Illinois..... | 5.4 |
| Indiana..... | 0.7 |
| Iowa..... | 0.9 |
| Kansas..... | 1.0 |
| Maryland..... | 2.9 |
| Massachusetts..... | 2.6 |
| Michigan..... | 0.4 |
| Minnesota..... | 1.0 |
| Missouri..... | 6.9 |
| Nevada..... | 3.4 |
| New Hampshire..... | 5.2 |
| New Jersey..... | 5.8 |
| New York..... | 8.8 |
| North Carolina..... | 1.3 |
| North Dakota..... | 0.9 |
| Ohio..... | 0.1 |
| Pennsylvania..... | 8.4 |

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| | |
|------------------------|--------|
| South Carolina..... | 1.3 |
| Tennessee..... | 2.3 |
| Texas..... | 6.3 |
| Vermont..... | 1.4 |
| Virginia..... | 2.7 |
| Washington..... | 0.6 |
| Joint exemptions*..... | (0.2) |
| | ----- |
| Total**..... | 100.0% |
| | ===== |

* Joint exemptions have been included in each geographic location.
 ** Does not include open futures contracts with an underlying face amount of \$4,828,125 with unrealized appreciation of \$33,391 and an open swap contract with unrealized appreciation of \$50,854.

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CALL AND COST (BOOK) YIELD STRUCTURE
 (Based on Long-Term Portfolio) As of May 31, 2007

YEARS BONDS CALLABLE -- WEIGHTED AVERAGE CALL PROTECTION: 6 YEARS

| | |
|----------|-------|
| 2007 (A) | 10.00 |
| 2008 | 8.00 |
| 2009 | 7.00 |
| 2010 | 3.00 |
| 2011 | 7.00 |
| 2012 | 7.00 |
| 2013 | 8.00 |
| 2014 | 7.00 |
| 2015 | 14.00 |
| 2016 | 18.00 |
| 2017+ | 11.00 |

COST (BOOK) YIELD (B) -- WEIGHTED AVERAGE BOOK YIELD: 6.6%

| | |
|----------|------|
| 2007 (A) | 7.70 |
| 2008 | 6.50 |
| 2009 | 6.30 |
| 2010 | 7.00 |
| 2011 | 7.10 |
| 2012 | 6.60 |
| 2013 | 6.70 |
| 2014 | 6.40 |
| 2015 | 7.10 |
| 2016 | 6.00 |
| 2017+ | 5.80 |

(a) May include issues initially callable in previous years.

(b) Cost or "book" yield is the annual income earned on a portfolio investment

based on its original purchase price before the Fund's operating expenses. For example, the Fund is earning a book yield of 7.7% on 10% of the long-term portfolio that is callable in 2007.

Portfolio structure is subject to change.

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INVESTMENT ADVISORY AGREEMENT APPROVAL

NATURE, EXTENT AND QUALITY OF SERVICES

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser under the Advisory Agreement, including portfolio management, investment research and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the "Adviser" and the Advisory and Administration Agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and investment advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

PERFORMANCE RELATIVE TO COMPARABLE FUNDS MANAGED BY OTHER ADVISERS

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Fund, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Fund's performance for the one-, three- and five-year periods ended November 30, 2006, as shown in a report provided by Lipper (the "Lipper Report"), compared to the performance of comparable funds selected by Lipper (the "performance peer group"). The Board also discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. The Board concluded that the Fund's performance was competitive with that of its performance peer group.

FEEES RELATIVE TO OTHER PROPRIETARY FUNDS MANAGED BY THE ADVISER WITH COMPARABLE INVESTMENT STRATEGIES

The Board reviewed the advisory and administrative fee (together, the "management fee") rate paid by the Fund under the Management Agreement. The Board noted that the management fee rate was comparable to

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the management fee rates charged by the Adviser to other proprietary funds it manages with investment strategies comparable to those of the Fund.

FEES AND EXPENSES RELATIVE TO COMPARABLE FUNDS MANAGED BY OTHER ADVISERS

The Board reviewed the management fee rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by Lipper (the "expense peer group"), managed by other advisers with investment strategies comparable to those of the Fund, as shown in the Lipper Report. The Board concluded that the Fund's management fee rate and total expense ratio were competitive with those of its expense peer group.

BREAKPOINTS AND ECONOMIES OF SCALE

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it does not include any breakpoints. The Board considered that the Fund is a closed-end fund and, therefore, that the Fund's assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

PROFITABILITY OF ADVISER AND AFFILIATES

The Board considered information concerning the costs incurred and profits realized by the Adviser and affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

FALL-OUT BENEFITS

The Board considered so-called "fall-out benefits" derived by the Adviser and its affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund Shares and "float" benefits derived from handling of checks for purchases and sales of Fund shares, through a broker-dealer affiliate of the Adviser. The Board concluded that the float benefits were relatively small and that the commissions were competitive with those of other broker-dealers.

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SOFT DOLLAR BENEFITS

The Board considered whether the Adviser realizes any benefits from commissions paid to brokers who execute securities transactions for the Fund ("soft dollars"). The Board noted that the Fund invests only in fixed income securities, which do not generate soft dollars.

ADVISER FINANCIALLY SOUND AND FINANCIALLY CAPABLE OF MEETING THE FUND'S NEEDS

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The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

HISTORICAL RELATIONSHIP BETWEEN THE FUND AND THE ADVISER

The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that it is beneficial for the Fund to continue its relationship with the Adviser.

OTHER FACTORS AND CURRENT TRENDS

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

GENERAL CONCLUSION

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year.

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Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | V |
|-------------------------------------|---|----------------|------------------|-------|
| | Tax-Exempt Municipal Bonds (104.7%) | | | |
| | General Obligation (3.8%) | | | |
| \$ 1,000 | Copperleaf Metropolitan District #2, Colorado, Ser 2006..... | 5.95% | 12/01/36 | \$ 1, |
| 2,000 | Northwest Metropolitan District #3, Colorado, Ser 2005... | 6.25 | 12/01/35 | 2, |
| 1,000 | Southlands Metropolitan District #1, Colorado, Ser 2004..... | 7.125 | 12/01/34 | 1, |
| 2,000 | Georgetown Special Taxing District, Connecticut, Ser 2006 A..... | 5.125 | 10/01/36 | 1, |
| ----- | | | | ----- |
| 6,000 | | | | 6, |
| ----- | | | | ----- |
| | Dedicated Tax (6.2%) | | | |
| 1,000 | Poway Unified School District Community Facilities District #14, California, Ser 2006..... | 5.25 | 09/01/36 | 1, |

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| | | | | |
|------------------------|---|-------|----------|-------|
| 1,000 | San Marcos Community Facilities District #2002-01, California, University Commons Ser 2004..... | 5.95 | 09/01/35 | 1, |
| 1,000 | Santa Ana Unified School District Community Facilities District #2004-1, California, Central Park Ser 2005.... | 5.10 | 09/01/35 | 1, |
| 2,000 | Atlanta, Georgia, Eastside Ser 2005 B..... | 5.60 | 01/01/30 | 2, |
| 1,000 | Bolingbrook, Illinois, Sales Tax Ser 2005..... | 0.00@ | 01/01/24 | |
| 2,000 | Chicago, Illinois, Lake Shore East Ser 2002..... | 6.75 | 12/01/32 | 2, |
| 725 | Lincolnshire, Illinois, Service Area #1-Sedgebrook Ser 2004..... | 6.25 | 03/01/34 | |
| 1,000 | Yorkville, Illinois, Cannonball/Beecher Road Ser 2007.... | 5.75 | 03/01/28 | |
| ----- | | | | 10, |
| 9,725 | | | | ----- |
| ----- | | | | |
| Incremental Tax (9.4%) | | | | |
| 2,000 | Elk Valley Public Improvement Corporation, Colorado, Ser 2001 A..... | 7.35 | 09/01/31 | 2, |
| 2,000 | Beacon Lakes, Community Development District, Florida, Ser 2003 A..... | 6.90 | 05/01/35 | 2, |
| 960 | Bellalago Educational Facilities Benefits District, Florida, Bellalago Charter School Ser 2004 B..... | 5.80 | 05/01/34 | 1, |
| 1,000 | Midtown Miami Community Development District, Florida, Parking Garage Ser 2004 A..... | 6.25 | 05/01/37 | 1, |
| 980 | Renaissance Commons Community Development District, Florida, Ser 2005 A..... | 5.60 | 05/01/36 | |
| 1,000 | Split Pine Community Development District, Florida, Ser 2007 A..... | 5.25 | 05/01/39 | |
| 750 | Branson Hills Community Improvement District, Missouri, Ser 2007 A..... | 5.50 | 04/01/27 | |
| 2,000 | Des Peres, Missouri, West County Center Ser 2002..... | 5.75 | 04/15/20 | 2, |
| 1,965 | Las Vegas District #808, Nevada, Summerlin Ser 2001..... | 6.75 | 06/01/21 | 2, |
| 1,000 | Washington County, Pennsylvania, Victory Centre/Tanger Outlet, Redevelopment Authority Ser 2006 A..... | 5.45 | 07/01/35 | 1, |
| 1,000 | Myrtle Beach, South Carolina, Air Force Base Redevelopment Ser 2006 A..... | 5.30 | 11/01/35 | 1, |
| ----- | | | | 15, |
| 14,655 | | | | ----- |
| ----- | | | | |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | V |
|-------------------------------------|--|----------------|------------------|----|
| ----- | | | | |
| \$ 800 | Education (4.0%) Maryland Health & Higher Educational Facilities Authority, Washington Christian Academy Ser 2006..... | 5.50% | 07/01/38 | \$ |

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| | | | | |
|--------|---|-------|----------|-----|
| 500 | Maryland Industrial Development Financing Authority, Our Lady of Good Counsel High School Ser 2005 A..... | 6.00 | 05/01/35 | |
| 1,000 | Massachusetts Health & Educational Facilities Authority, The Learning Center for Deaf Children Ser 1999 C..... | 6.125 | 07/01/29 | 1, |
| 1,000 | Westchester County Industrial Development Agency, New York, Guiding Eyes for The Blind Inc Ser 2004..... | 5.375 | 08/01/24 | 1, |
| 1,000 | Harrisburg Authority, Pennsylvania Harrisburg University of Science & Technology Ser 2007 B..... | 6.00 | 09/01/36 | 1, |
| 2,000 | Chattanooga Health Educational & Housing Facilities Board, Tennessee, Student Housing Refg Ser 2005 A..... | 5.00 | 10/01/25 | 2, |
| ----- | | | | |
| 6,300 | | | | 6, |
| ----- | | | | |
| | Hospital (11.1%) | | | |
| 1,000 | Colbert County - Northwest Health Care Authority, Alabama, Helen Keller Hospital Ser 2003..... | 5.75 | 06/01/27 | 1, |
| 700 | Salida Hospital District, Colorado, Heart of the Rockies Regional Medical Center Ser 2006..... | 5.25 | 10/01/36 | |
| 2,000 | Hawaii Department of Budget & Finance, Kuakini Health Ser 2002 A..... | 6.375 | 07/01/32 | 2, |
| 1,000 | Indiana Health Facility Financing Authority, Riverview Hospital Ser 2002..... | 6.125 | 08/01/31 | 1, |
| 525 | Washington County Hospital, Iowa, Ser 2006..... | 5.375 | 07/01/26 | |
| 600 | Gaylord Hospital Financing Authority, Michigan, Otsego Memorial Hospital Ser 2004..... | 6.50 | 01/01/37 | |
| 1,500 | St Paul Housing & Redevelopment Authority, Minnesota, HealthEast Ser 2005..... | 6.00 | 11/15/35 | 1, |
| 1,500 | New Hampshire Higher Educational & Health Facilities Authority, Littleton Hospital Assn Ser 1998 A..... | 6.00 | 05/01/28 | 1, |
| 2,000 | New Jersey Health Care Facilities Financing Authority, Raritan Bay Medical Center Ser 1994..... | 7.25 | 07/01/27 | 2, |
| 4,000 | Allegheny County Hospital Development Authority, Pennsylvania, West Penn Allegheny Health Ser 2007 A (WI) @@..... | 5.375 | 11/15/40 | 4, |
| 500 | Fulton County Industrial Development Authority, Pennsylvania, Fulton County Medical Center Ser 2006.... | 5.875 | 07/01/31 | |
| 1,000 | Monroe County Hospital Authority, Pennsylvania, Pocono Medical Center Ser 2003..... | 6.00 | 01/01/43 | 1, |
| 1,000 | Decatur Hospital Authority, Texas, Wise Regional Health Ser 2004 A..... | 7.125 | 09/01/34 | 1, |
| ----- | | | | |
| 17,325 | | | | 18, |
| ----- | | | | |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

PRINCIPAL
 AMOUNT IN

COUPON MATURITY

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| THOUSANDS | | RATE | DATE | V |
|-----------|--|----------|----------|-----|
| ----- | | | | |
| | Housing (11.7%) | | | |
| \$ 500 | California Housing Finance Agency, RITES PA 1417 Ser 2006 (AMT)..... | 4.946%## | 08/01/31 | \$ |
| 500 | RITES PA 1417 Ser 2006 (AMT)..... | 5.146%## | 08/01/36 | |
| 45 | Colorado Housing & Finance Authority, Ser 1996 Ser B-1 (AMT)..... | 7.65 | 11/01/26 | |
| 395 | Ser 1998 Ser D-2 (AMT)..... | 6.35 | 11/01/29 | |
| 14,895 | New Hampshire Housing Finance Authority, Residential Ser 1983 B..... | 0.00 | 01/01/15 | 6, |
| 3,000 | Brookhaven Industrial Development Agency, New York, Woodcrest Estates Ser 1998 A (AMT)..... | 6.375 | 12/01/37 | 3, |
| 3,520 | Pennsylvania Housing Finance Agency, Ser 2006-96A (AMT) @@..... | 4.65 | 10/01/31 | 3, |
| 4,480 | Ser 2006-96A (AMT) @@..... | 4.70 | 10/01/37 | 4, |
| ----- | | | | |
| 27,335 | | | | 19, |
| ----- | | | | |
| | Industrial Development/Pollution Control (6.6%) | | | |
| 260 | Metropolitan Washington Airports Authority, District of Columbia & Virginia, CaterAir International Corp Ser 1991 (AMT)++..... | 10.125 | 09/01/11 | |
| 2,000 | New York City Industrial Development Agency, New York, American Airlines Inc Ser 2005 (AMT)..... | 7.75 | 08/01/31 | 2, |
| 2,000 | 7 World Trade Center LLC Ser 2005 A..... | 6.50 | 03/01/35 | 2, |
| 200 | Zanesville-Muskingum County Port Authority, Ohio, Anchor Glass Container Corp Ser 1989 B (AMT)..... | 10.25 | 12/01/08 | |
| 2,120 | Carbon County Industrial Development Authority, Pennsylvania, Panther Creek Partners Refg 2000 Ser (AMT)..... | 6.65 | 05/01/10 | 2, |
| 1,000 | Pennsylvania Economic Development Financing Authority, Reliant Energy Inc Ser 2001 A (AMT)..... | 6.75 | 12/01/36 | 1, |
| 350 | Lexington County, South Carolina, Ellett Brothers Inc Refg Ser 1988..... | 7.50 | 09/01/08 | |
| 1,000 | Brazos River Authority, Texas, Texas Utilities Electric Co Refg Ser 1999 A (AMT)..... | 7.70 | 04/01/33 | 1, |
| 1,000 | Chesterfield County Industrial Development Authority, Virginia, Virginia Electric & Power Co Ser 1985..... | 5.50 | 10/01/09 | 1, |
| ----- | | | | |
| 9,930 | | | | 10, |
| ----- | | | | |
| | Life Care (23.5%) | | | |
| 1,000 | Colorado Health Facilities Authority, Christian Living Communities Ser 2006..... | 5.75 | 01/01/37 | 1, |
| 1,000 | Orange County Health Facilities Authority, Florida, Westminster Community Care Services Inc Ser 1999..... | 6.75 | 04/01/34 | 1, |
| 500 | Orange County Health Facilities Authority, Florida, Orlando Lutheran Towers Inc Ser 2005 **..... | 5.70 | 07/01/26 | |

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Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|-------------------------------------|---|----------------|------------------|-------|
| \$ 1,000 | Pinellas County Health Facilities Authority, Florida, Oaks of Clearwater Ser 2004..... | 6.25% | 06/01/34 | \$ 1, |
| 1,000 | Hawaii Department of Budget & Finance, Kahala Nui Ser 2003 A..... | 8.00 | 11/15/33 | 1, |
| 1,000 | Illinois Finance Authority, Landing at Plymouth Ser 2005 A..... | 6.00 | 05/15/37 | 1, |
| 1,000 | Luther Oaks Ser 2006 A..... | 6.00 | 08/15/39 | 1, |
| 1,650 | Montgomery Place Ser 2006 A..... | 5.75 | 05/15/38 | 1, |
| 1,000 | Iowa Finance Authority, Bethany Life Communities Refg Ser 2006 A..... | 5.55 | 11/01/41 | 1, |
| 1,500 | Lenexa, Kansas, Lakeview Village - Southridge Ser 2002 C..... | 6.875 | 05/15/32 | 1, |
| 1,000 | Howard County, Maryland, Vantage House Ser 2007 A..... | 5.25 | 04/01/33 | 1, |
| | Maryland Health & Higher Educational Facilities Authority, King Farm Presbyterian Community 2007 Ser A..... | 5.30 | 01/01/37 | |
| 750 | Edenwald Ser 2006 A..... | 5.40 | 01/01/31 | |
| 500 | | | | |
| 1,500 | Massachusetts Development Finance Agency, Loomis Communities Ser 1999 A..... | 5.75 | 07/01/23 | 1, |
| 1,500 | Kansas City Industrial Development Agency, Missouri, Bishop Spencer 2004 Ser A..... | 6.50 | 01/01/35 | 1, |
| | New Jersey Economic Development Authority, Franciscan Oaks Ser 1997..... | 5.70 | 10/01/17 | 1, |
| 1,000 | Lions Gate Ser 2005 A..... | 5.875 | 01/01/37 | 1, |
| 730 | | | | |
| 1,000 | The Presbyterian Home at Montgomery Ser 2001 A..... | 6.375 | 11/01/31 | 1, |
| 2,000 | United Methodist Homes of New Jersey Ser 1998..... | 5.125 | 07/01/25 | 1, |
| 1,500 | Suffolk County Industrial Development Agency, New York, Medford Hamlet Ser 2006..... | 6.375 | 01/01/39 | 1, |
| 1,000 | North Carolina Medical Care Commission, Presbyterian Homes Ser 2006..... | 5.50 | 10/01/31 | 1, |
| 1,500 | Grand Forks, North Dakota, 4000 Valley Square Ser 2006... | 5.30 | 12/01/34 | 1, |
| 1,500 | Bucks County Industrial Development Authority, Pennsylvania, Ann's Choice Ser 2005 A..... | 6.125 | 01/01/25 | 1, |
| 1,000 | Montgomery County Industry Development Authority, Pennsylvania, Whitemarsh Community Ser 2005..... | 6.25 | 02/01/35 | 1, |
| 750 | South Carolina Jobs-Economic Development Authority, Wesley Commons Ser 2006..... | 5.30 | 10/01/36 | |
| | Shelby County Health, Educational & Housing Facilities Board, Tennessee, Trezevant Manor Ser 2006 A..... | 5.75 | 09/01/37 | |
| 500 | | | | |
| 750 | Village at Germantown Ser 2003 A..... | 7.25 | 12/01/34 | |
| 500 | Village at Germantown Ser 2006..... | 6.25 | 12/01/34 | |
| 1,250 | HFDC Central Texas Inc, Legacy at Willow Bend, Ser 2006 A..... | 5.75 | 11/01/36 | 1, |
| 1,000 | Houston Health Facilities Authority, Texas, Buckingham Senior Living Community Ser 2004 A..... | 7.125 | 02/15/34 | 1, |

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Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|-------------------------------------|--|----------------|------------------|-------|
| \$ 1,000 | Lubbock, Health Facilities Development Corporation, Texas, Carillon Senior Lifecare Ser 2005 A..... | 6.50% | 07/01/26 | \$ 1, |
| 2,000 | Peninsula Ports Authority of Virginia, Virginia Baptist Homes Ser 2006 C..... | 5.40 | 12/01/33 | 2, |
| 1,000 | Virginia Beach Development Authority, Virginia, Westminster-Canterbury Refg Ser 2005 A..... | 5.25 | 11/01/26 | 1, |
| 1,000 | Washington Housing Finance Commission, Skyline at First Hill Ser 2007 A..... | 5.625 | 01/01/38 | 1, |
| ----- | | | | |
| 36,880 | | | | 38, |
| ----- | | | | |
| | Nursing & Health Services (5.8%) | | | |
| | Escambia County, Florida, | | | |
| 4,250 | Pensacola Care Development Centers Ser 1989..... | 10.25 | 07/01/11 | 4, |
| 980 | Pensacola Care Development Centers Ser 1989 A..... | 10.25 | 07/01/11 | |
| 1,675 | Massachusetts Development Finance Agency, New England Center for Children Ser 1998..... | 5.875 | 11/01/18 | 1, |
| 1,300 | St Louis County Industrial Development Authority, Missouri, Pediatric Rehabilitation Center Ser 2003 A... | 5.00 | 11/15/35 | 1, |
| 700 | New Jersey Economic Development Authority, Seashore Gardens Living Center Ser 2006..... | 5.375 | 11/01/36 | |
| 415 | Mount Vernon Industrial Development Agency, New York, Meadowview at the Wartburg Ser 1999..... | 6.00 | 06/01/09 | |
| ----- | | | | |
| 9,320 | | | | 9, |
| ----- | | | | |
| | Tobacco Settlement (5.6%) | | | |
| 1,000 | Northern Tobacco Securitization Corporation, Alaska, Asset Backed Ser 2006 A..... | 5.00 | 06/01/46 | |
| 1,955 | California County Tobacco Securitization Agency, Gold County Settlement Funding Corp Ser 2006..... | 0.00 | 06/01/33 | |
| 4,000 | Golden State Tobacco Securitization Corporation, California, Enhanced Asset Backed Ser 2007 A-1 @@..... | 5.125 | 06/01/47 | 3, |
| 13,000 | Silicon Valley Tobacco Securitization Authority, California, Santa Clara Tobacco Settlement Corp Ser 2007..... | 0.00 | 06/01/56 | |
| 4,000 | Tobacco Settlement Financing Corporation, New Jersey, Ser 2007-1B..... | 0.00 | 06/01/41 | |
| 1,000 | Nassau County Tobacco Settlement Corporation, New York, Ser 2006 A-3..... | 5.125 | 06/01/46 | 1, |
| 1,500 | TSASC Inc, New York, Tobacco Settlement Ser 2006-1..... | 5.125 | 06/01/42 | 1, |
| ----- | | | | |
| 26,455 | | | | 9, |
| ----- | | | | |

See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | V |
|-------------------------------------|--|----------------|------------------|-------|
| ----- | | | | |
| | Transportation (1.6%) | | | |
| \$ 1,515 | Mid-Bay Bridge Authority, Florida, Sr Lien Crossover Refg Ser 1993 A (Ambac)..... | 5.85% | 10/01/13 | \$ 1, |
| 1,000 | Nevada Department of Business & Industry, Las Vegas Monorail 2nd Tier Ser 2000..... | 7.375 | 01/01/40 | 1, |
| ----- | | | | |
| 2,515 | | | | 2, |
| ----- | | | | |
| | Other Revenue (5.1%) | | | |
| 2,000 | Sacramento Financing Authority, California, Convention Center Hotel Ser 1999 A..... | 6.25 | 01/01/30 | 2, |
| 1,000 | San Diego County, California, San Diego Natural History Museum COPs..... | 5.70 | 02/01/28 | 1, |
| 1,000 | Mashantucket (Western) Pequot Tribe, Connecticut, Special Ser 1997 B (a)..... | 5.75 | 09/01/27 | 1, |
| 1,000 | Maryland State Economic Development Corporation, Chesapeake Bay Conference Center Ser 2006 A..... | 5.00 | 12/01/31 | 1, |
| 1,000 | New York Liberty Development Corporation, National Sports Museum, Ser 2006 A..... | 6.125 | 02/15/19 | 1, |
| 2,000 | Austin Convention Enterprises Inc, Texas, Convention Center Hotel Ser 2006 B..... | 5.75 | 01/01/34 | 2, |
| ----- | | | | |
| 8,000 | | | | 8, |
| ----- | | | | |
| | Refunded (10.3%) | | | |
| 1,000 | St Johns County Industrial Development Authority, Florida, Glenmoor Ser 1999 A..... | 8.00 | 01/01/10+ | 1, |
| 3,850 | Fenton, Missouri, Gravois Bluffs Redevelopment Ser 2001 A..... | 7.00 | 10/01/11+ | 4, |
| 1,000 | St Louis County Industrial Development Authority, Missouri, Pediatric Rehabilitation Center Ser 2003 A... | 6.625 | 11/15/13+ | 1, |
| 2,335 | Henderson, Nevada, Catholic Health West 1998 Ser A..... | 5.375 | 07/01/08+ | 2, |
| 1,000 | New Jersey Economic Development Authority, Cedar Crest Village Inc Ser 2001 A..... | 7.25 | 11/15/11+ | 1, |
| 1,000 | North Carolina Medical Care Commission, Givens Estate Ser 2003 A..... | 6.50 | 07/01/13+ | 1, |
| 1,000 | Chester County Health & Education Facilities Authority, Pennsylvania, Jenner's Pond Inc Ser 2002..... | 7.625 | 07/01/12+ | 1, |
| 2,000 | Austin Convention Enterprises Inc, Texas, Convention | | | |

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| | | | | |
|---------|--|------|-----------|------|
| | Center Hotel Ser 2000 A..... | 6.70 | 01/01/11+ | 2, |
| 2,100 | Vermont Economic Development Authority, Wake Robin Corp | | | |
| | Ser 1999 A..... | 6.75 | 03/01/09+ | 2, |
| ----- | | | | |
| 15,285 | | | | 16, |
| ----- | | | | |
| 189,725 | Total Tax-Exempt Municipal Bonds (Cost \$163,006,278)..... | | | 170, |
| ----- | | | | |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|-------------------------------------|---|----------------|------------------|-------|
| ----- | | | | |
| \$ 3,200 | Short Term Tax-Exempt Municipal Obligations (2.2%) | | | |
| | Connecticut Health & Educational Facilities Authority, | | | |
| | Quinnipiac University Ser F (Demand 06/01/07)..... | 3.91*% | 07/01/31 | \$ 3, |
| 300 | North Central Texas Health Facility Development | | | |
| | Corporation, Presbyterian Medical Center Ser 1985 D | | | |
| | (MBIA) (Demand 06/01/07)..... | 3.80* | 12/01/15 | |
| ----- | | | | |
| 3,500 | Total Short-Term Tax-Exempt Municipal Obligations (Cost \$3,500,000)..... | | | 3, |
| ----- | | | | |
| 193,225 | Total Investments (Cost \$166,506,278)..... | | | 174, |
| ----- | | | | |
| | Floating Rate Note Obligation Related to Securities Held | | | |
| | (-7.4%) | | | |
| (12,000) | Notes with interest rates ranging from 3.79% to 3.86% at | | | |
| | May 31, 2007 and contractual maturities of collateral | | | |
| | ranging from 10/01/31 to 06/01/47 (See Note 1D)+++ | | | |
| | (Cost \$(12,000,000))..... | | | (12, |
| ----- | | | | |
| \$181,225 | Total Net Investments (Cost \$154,506,278) (b) (c)..... | | 99.5% | 16 |
| ===== | | | | |
| | Other Assets in Excess of Liabilities..... | | 0.5 | |
| | | | ----- | |
| | Net Assets..... | | 100.0% | \$16 |
| | | | ===== | ===== |

See Notes to Financial Statements

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Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

- COPs Certificate of Participation.
- AMT Alternative Minimum Tax.
- RITES Residual Interest Tax-Exempt Security.
- WI Security purchased on a when - issued basis.
- + Prerefunded to call date shown.
- ++ Joint exemption in locations shown.
- +++ Floating rate note obligations related to securities held.
 The interest rates shown reflects the rates in effect at May 31, 2007.
- @ Security is a "step-up" bond where the coupon increases on a predetermined future date.
- @@ Underlying security related to inverse floater entered into by the Fund. (See Note 1D).
- ## Current coupon rate for inverse floating rate municipal obligation (See Note 8). This rate resets periodically as the auction rate on the related security changes. Positions in inverse floating rate municipal obligations have a total value of \$922,550, which represents 0.6% of net assets.
- * Current coupon of variable rate demand obligation.
- ** A portion of this security has been physically segregated in connection with open futures contracts in the amount of \$34,500.
- (a) Resale is restricted to qualified institutional Investors.
- (b) Securities have been designated as collateral in an amount equal to \$5,950,554 in connection with open futures, an open swap contract and the purchase of a when-issued security.
- (c) The aggregate cost for federal income tax purposes is 154,464,955. The aggregate gross unrealized appreciation is \$8,236,025 and the aggregate gross unrealized depreciation is \$563,024, resulting in net unrealized appreciation of \$7,673,001.

Bond Insurance:

- Ambac Ambac Assurance Corporation.
- MBIA Municipal Bond Investors Assurance Corporation.

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
 PORTFOLIO OF INVESTMENTS - MAY 31, 2007 continued

FUTURES CONTRACTS OPEN AT MAY 31, 2007:

| NUMBER OF CONTRACTS | LONG/SHORT | DESCRIPTION, DELIVERY MONTH AND YEAR | UNDERLYING FACE AMOUNT AT VALUE | UNREALIZED APPRECIATION |
|---------------------|------------|--|---------------------------------|-------------------------|
| 15 | Short | U.S. Treasury Bonds 20 Year September 2007 | \$(1,636,875) | \$12,615 |
| 30 | Short | U.S. Treasury Notes 10 Year | (3,191,250) | 20,776 |

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September 2007

Total Unrealized Appreciation..... \$33,391
=====

INTEREST RATE SWAP CONTRACT OPEN AT MAY 31, 2007:

| COUNTERPARTY | NOTIONAL AMOUNT (000) | PAYMENTS MADE BY FUND | PAYMENTS RECEIVED BY FUND | TERMINATION DATE | UNREALIZED APPRECIATION |
|----------------------|-----------------------|-----------------------|--|------------------|-------------------------|
| JPMorgan Chase & Co. | \$12,000 | Fixed Rate 3.79% | Floating Rate BMA (Bond Market Association) | 08/24/17 | \$50,000 |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
FINANCIAL STATEMENTS

Statement of Assets and Liabilities
May 31, 2007

Assets:

| | |
|--|--------------------|
| Investments in securities, at value (cost \$166,506,278)..... | \$174,137,956 |
| Unrealized appreciation on an open swap contract..... | 50,854 |
| Cash..... | 63,521 |
| Receivable for: | |
| Investments sold..... | 4,338,114 |
| Interest..... | 2,730,493 |
| Variation margin..... | 3,282 |
| Prepaid expenses and other assets..... | 24,479 |
| Total Assets..... | 181,348,699 |

Liabilities:

| | |
|--|----------------------|
| Floating rate note obligations..... | 12,000,000 |
| Payable for: | |
| Investments purchased..... | 6,145,275 |
| Investment advisory fee..... | 76,256 |
| Administration fee..... | 12,201 |
| Transfer agent fee..... | 932 |
| Accrued expenses and other payables..... | 112,233 |
| Total Liabilities..... | 18,346,897 |
| Net Assets..... | \$163,001,802 |

Composition of Net Assets:

| | |
|--|---------------|
| Paid-in-capital..... | \$174,014,357 |
| Net unrealized appreciation..... | 7,715,923 |
| Accumulated undistributed net investment income..... | 1,550,877 |
| Accumulated net realized loss..... | (20,279,355) |

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| | |
|--|---------------|
| Net Assets..... | \$163,001,802 |
| ===== | |
| Net Asset Value Per Share | |
| 19,685,043 shares outstanding (unlimited shares authorized | |
| of \$.01 par value)..... | \$8.28 |
| ===== | |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
FINANCIAL STATEMENTS continued

Statement of Operations
For the year ended May 31, 2007

| | |
|---|--------------|
| Net Investment Income: | |
| Interest Income..... | \$10,816,023 |
| ----- | |
| Expenses | |
| Investment advisory fee..... | 811,939 |
| Interest and residual trust expenses..... | 141,720 |
| Administration fee..... | 129,910 |
| Professional fees..... | 70,251 |
| Shareholder reports and notices..... | 50,788 |
| Listing fees..... | 22,063 |
| Transfer agent fees and expenses..... | 21,622 |
| Custodian fees..... | 8,346 |
| Trustees' fees and expenses..... | 7,631 |
| Other..... | 35,853 |
| ----- | |
| Total Expenses..... | 1,300,123 |
| Less: expense offset..... | (8,402) |
| ----- | |
| Net Expenses..... | 1,291,721 |
| ----- | |
| Net Investment Income..... | 9,524,302 |
| ----- | |
| Net Realized and Unrealized Gain (Loss): | |
| Net Realized Gain (Loss) on: | |
| Investments..... | (8,704,592) |
| Futures contracts..... | 629 |
| Swap contract..... | 152,471 |
| ----- | |
| Net Realized Loss..... | (8,551,492) |
| ----- | |
| Net Change in Unrealized Appreciation on: | |
| Investments..... | 14,683,374 |
| Futures contracts..... | 15,744 |
| Swap contract..... | 50,854 |
| ----- | |
| Net Appreciation..... | 14,749,972 |
| ----- | |
| Net Gain..... | 6,198,480 |
| ----- | |

Net Increase..... \$15,722,782
 =====

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
 FINANCIAL STATEMENTS continued

Statements of Changes in Net Assets

| | FOR THE YEAR ENDED MAY 31, 2007 ----- | FOR THE YEAR ENDED MAY 31, 2006 ----- |
|---|--|--|
| Increase (Decrease) in Net Assets: | | |
| Operations: | | |
| Net investment income..... | \$ 9,524,302 | \$ 10,672,776 |
| Net realized gain (loss)..... | (8,551,492) | 29,575 |
| Net change in unrealized appreciation/depreciation..... | 14,749,972 | 131,023 |
| | ----- | ----- |
| Net Increase..... | 15,722,782 | 10,833,374 |
| Dividends to shareholders from net investment income..... | (10,648,870) | (10,435,062) |
| Decrease from transactions in shares of beneficial interest..... | -- | (64,710) |
| | ----- | ----- |
| Net Increase..... | 5,073,912 | 333,602 |
| Net Assets: | | |
| Beginning of period..... | 157,927,890 | 157,594,288 |
| | ----- | ----- |
| End of Period (Including accumulated undistributed net investment income of \$1,550,877 and \$2,703,247, respectively)..... | \$163,001,802 ===== | \$157,927,890 ===== |

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See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
 NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007

1. Organization and Accounting Policies

Morgan Stanley Municipal Income Opportunities Trust (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's investment objective is to provide a high level of current income which is exempt from federal income tax. The Fund was organized as a Massachusetts business trust on June 22, 1988 and commenced operations on September 19, 1988.

The following is a summary of significant accounting policies:

A. Valuation of Investments -- (1) portfolio securities are valued by an outside

independent pricing service approved by the Trustees. The pricing service uses both a computerized grid matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the mean between the last reported bid and asked price. The portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. The Trustees believe that timely and reliable market quotations are generally not readily available for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service are more likely to approximate the fair value of such securities; (2) futures are valued at the latest sale price on the commodities exchange on which they trade unless it is determined that such price does not reflect their market value, in which case they will be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees; (3) interest rate swaps are marked-to-market daily based upon quotations from market makers and the change, if any, is recorded as unrealized appreciation or depreciation in the Statement of Operations; and (4) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

B. Accounting for Investments -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities. Interest income is accrued daily except where collection is not expected.

C. Federal Income Tax Policy -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its

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Morgan Stanley Municipal Income Opportunities Trust
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

taxable and nontaxable income to its shareholders. Accordingly, no federal income tax provision is required.

D. Floating Rate Note Obligations Related to Securities Held -- The Fund enters into transactions in which it transfers to Dealer Trusts ("Dealer Trusts"), fixed rate bonds in exchange for cash and residual interests in the Dealer Trusts' assets and cash flows, which are in the form of inverse floating rate investments. The Dealer Trusts fund the purchases of the fixed rate bonds by issuing floating rate notes to third parties and allowing the Fund to retain residual interest in the bonds. The Fund enters into shortfall agreements with the Dealer Trusts which commit the Fund to pay the Dealer Trusts, in certain circumstances, the difference between the liquidation value of the fixed rate bonds held by the Dealer Trusts and the liquidation value of the floating rate notes held by third parties, as well as any shortfalls in interest cash flows. The residual interests held by the Fund (inverse floating rate investments) include the right of the Fund (1) to cause the holders of the floating rate notes to tender their notes at par at the next interest rate reset date, and (2) to transfer the municipal bond from the Dealer Trusts to the Fund, thereby collapsing the Dealer Trusts. The Fund accounts for the transfer of bonds to the Dealer Trusts as secured borrowings, with the securities transferred remaining

in the Fund's investment assets, and the related floating rate notes reflected as Fund liabilities under the caption "floating rate note obligations" on the "Statement of Assets and Liabilities." The Fund records the interest income from the fixed rate bonds under the caption "Interest Income" and records the expenses related to floating rate note obligations and any administrative expenses of the Dealer Trusts under the caption "Interest and residual trust expenses" in the Fund's "Statement of Operations." The notes issued by the Dealer Trusts have interest rates that reset weekly and the floating rate note holders have the option to tender their notes to the Dealer Trusts for redemption at par at each reset date. At May 31, 2007, Fund investments with a value of \$15,789,160 are held by the Dealer Trusts and serve as collateral for the \$12,000,000 in floating rate note obligations outstanding at that date. Contractual maturities of the floating rate note obligations and interest rates in effect at May 31, 2007 are presented in the "Portfolio of Investments."

E. Futures Contracts -- A futures contract is an agreement between two parties to buy and sell financial instruments or contracts based on financial indices at a set price on a future date. Upon entering into such a contract, the Fund is required to pledge to the broker cash, U.S. Government securities or other liquid portfolio securities equal to the minimum initial margin requirements of the applicable futures exchange. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments known as variation margin are recorded by the Fund as unrealized gains and losses. Upon

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Morgan Stanley Municipal Income Opportunities Trust
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

closing of the contract, the Fund realizes a gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

F. Interest Rate Swaps -- Interest rate swaps involve the exchange of commitments to pay and receive interest based on a notional principal amount. Net periodic interest payments to be received or paid are accrued daily and are recorded as realized gains or losses in the Statement of Operations.

G. Dividends and Distributions to Shareholders -- Dividends and distributions to shareholders are recorded on the ex-dividend date.

H. Use of Estimates -- The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

2. Investment Advisory/Administration Agreements

Pursuant to an Investment Advisory Agreement with Morgan Stanley Investment Advisors Inc. (the "Investment Adviser"), the Fund pays an advisory fee, calculated weekly and payable monthly, by applying the annual rate of 0.50% to the Fund's weekly net assets.

Pursuant to an Administration Agreement with Morgan Stanley Services Company Inc. (the "Administrator"), an affiliate of the Investment Adviser, the Fund pays an administration fee, calculated weekly and payable monthly, by applying the annual rate of 0.08% to the Fund's weekly net assets.

3. Security Transactions and Transactions with Affiliates

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The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended May 31, 2007 aggregated \$45,882,136 and \$41,995,086, respectively. Included in the aforementioned transactions are purchases and sales of \$1,043,750 and \$1,278,335 with other Morgan Stanley funds including net realized gains of \$49,277.

Morgan Stanley Trust, an affiliate of the Investment Adviser and Administrator, is the Fund's transfer agent.

The Fund has an unfunded noncontributory defined benefit pension plan covering certain independent Trustees of the Fund who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on factors which include years of service and compensation. The Trustees voted to close the plan to new participants and eliminate the future benefits growth due to increases to compensation after July 31, 2003. Aggregate pension costs for

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Morgan Stanley Municipal Income Opportunities Trust
 NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

the year ended May 31, 2007 included in Trustees' fees and expenses in the Statement of Operations amounted to \$4,543. At May 31, 2007, the Fund had an accrued pension liability of \$62,195, which is included in accrued expenses in the Statement of Assets and Liabilities.

The Fund has an unfunded Deferred Compensation Plan (the "Compensation Plan") which allows each independent Trustee to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Trustees. Each eligible Trustee generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the net asset value of the Fund.

4. Shares of Beneficial Interest

Transactions in shares of beneficial interest were as follows:

| | SHARES | PAR VALUE OF SHARES | CAPITAL PAID IN EXCESS OF PAR VALUE |
|---|------------|---------------------|-------------------------------------|
| | ----- | ----- | ----- |
| Balance, May 31, 2005..... | 19,693,243 | \$196,932 | \$174,267,2 |
| Treasury shares purchased and retired (weighted average discount 0.54%)*..... | (8,200) | (82) | (64,6 |
| Reclassification due to permanent book/tax differences..... | -- | -- | (413,2 |
| | ----- | ----- | ----- |
| Balance, May 31, 2006 and May 31, 2007..... | 19,685,043 | \$196,850 | \$173,789,3 |
| | ===== | ===== | ===== |

* The Trustees have voted to retire the shares purchased.

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5. Dividends

The Fund declared the following dividends from net investment income:

| DECLARATION DATE | AMOUNT PER SHARE | RECORD DATE | PAYABLE DATE |
|---------------------|---------------------|-------------------|--------------------|
| March 26, 2007 | \$0.045 | June 8, 2007 | June 22, 2007 |
| June 26, 2007 | \$0.045 | July 6, 2007 | July 20, 2007 |
| June 26, 2007 | \$0.045 | August 3, 2007 | August 17, 2007 |
| June 26, 2007 | \$0.045 | September 7, 2007 | September 21, 2007 |

6. Expense Offset

The expense offset represents a reduction of the fees and expenses for interest earned on cash balances maintained by the Fund with the transfer agent and custodian.

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Morgan Stanley Municipal Income Opportunities Trust
 NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

7. Federal Income Tax Status

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

The tax character of distributions paid was as follows:

| | FOR THE YEAR ENDED MAY 31, 2007 | FOR THE YEAR ENDED MAY 31, 2006 |
|--------------------------|---------------------------------------|---------------------------------------|
| Tax-exempt income..... | \$10,629,071 | \$10,435,062 |
| Ordinary income..... | 19,799 | -- |
| Total distributions..... | \$10,648,870 | \$10,435,062 |

As of May 31, 2007, the tax-basis components of accumulated losses were as follows:

Undistributed tax-exempt income..... \$ 1,572,405

| | |
|------------------------------------|----------------|
| Undistributed long-term gains..... | -- |
| | ----- |
| Net accumulated earnings..... | 1,572,405 |
| Capital loss carryforward*..... | (10,670,588) |
| Post-October losses..... | (9,575,338) |
| Temporary differences..... | (62,889) |
| Net unrealized appreciation..... | 7,723,855 |
| | ----- |
| Total accumulated losses..... | \$(11,012,555) |
| | ===== |

* During the year ended May 31, 2007, the Fund utilized \$785,778 of its net capital loss carryforward. As of May 31, 2007, the Fund had a net capital loss carryforward of \$10,670,588 of which \$3,930,059 will expire on May 31, 2009, \$1,864,080 will expire on May 31, 2011 and \$4,876,449 will expire on May 31, 2013 to offset future capital gains to the extent provided by regulations.

As of May 31, 2007, the Fund had temporary book/tax differences primarily attributable to post-October losses (capital losses incurred after October 31 within the taxable year which are deemed to arise on the first business day of the Fund's next taxable year), book amortization of discounts on debt securities and mark-to-market of open futures contracts.

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Morgan Stanley Municipal Income Opportunities Trust
 NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

Permanent differences, due to a nondeductible expense and tax adjustments on debt securities sold and taxable income retained by the Fund, resulted in the following reclassifications among the Fund's components of net assets at May 31, 2007:

| ACCUMULATED UNDISTRIBUTED NET INVESTMENT INCOME | ACCUMULATED NET REALIZED LOSS | PAID-IN-CAPITAL |
|--|-------------------------------------|-----------------|
| ----- | ----- | ----- |
| (\$27,802) | (\$375) | \$28,177 |
| ===== | ===== | ===== |

8. Purposes of and Risks Relating to Certain Financial Instruments

The Fund may invest a portion of its assets in inverse floating rate instruments, either through outright purchases of inverse floating rate securities or through the transfer of bonds to Dealer Trusts in exchange for cash and residual interests in the Dealer Trusts. These investments are typically used by the Fund in seeking to enhance the yield of the portfolio. These instruments typically involve greater risks than a fixed rate municipal bond. In particular, these instruments are acquired through leverage or may have leverage embedded in them and therefore involve many of the risks associated with leverage. Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. Leverage may cause the Fund's net asset value to be more volatile than if it had not been leveraged because leverage tends to magnify the effect of any increases or decreases in the value of the Fund's portfolio securities. The use of leverage may also cause the Fund to liquidate

portfolio positions when it may not be advantageous to do so in order to satisfy its obligations with respect to inverse floating rate instruments.

To hedge against adverse interest rate changes, the Fund may invest in financial futures contracts or municipal bond index futures contracts ("futures contracts").

These futures contracts involve elements of market risk in excess of the amount reflected in the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the value of the underlying securities. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

The Fund may enter into interest rate swaps and may purchase or sell interest rate caps, floors and collars. The Fund expects to enter into these transactions primarily to manage interest rate risk, hedge portfolio positions and preserve a return or spread on a particular investment or portion of its portfolio. The Fund may also enter into these transactions to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. Interest rate swap transactions are subject to market risk, risk of default by the other party to the transaction, risk of imperfect

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Morgan Stanley Municipal Income Opportunities Trust
NOTES TO FINANCIAL STATEMENTS - MAY 31, 2007 continued

correlation and manager risk. Such risks may exceed the related amounts shown in the Statement of Assets and Liabilities.

9. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation 48, Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. The impact to the Fund's financial statements, if any, is currently being assessed.

In addition, in September 2006, Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management is currently evaluating the impact the adoption of SFAS 157 will have on the Fund's financial statement disclosures.

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Morgan Stanley Municipal Income Opportunities Trust
FINANCIAL HIGHLIGHTS

Selected ratios and per share data for a share of beneficial interest outstanding throughout each period:

FOR THE YEAR END

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| | 2007 ----- | 2006 ----- | 2005 ----- |
|---|-----------------|-----------------|----------------|
| Selected Per Share Data: | | | |
| Net asset value, beginning of the period..... | \$8.02 ----- | \$8.00 ----- | \$7.6 ----- |
| Income (loss) from investment operations: | | | |
| Net investment income*..... | 0.48 ----- | 0.54 ----- | 0.5 ----- |
| Net realized and unrealized gain (loss)..... | 0.32 ----- | 0.01 ----- | 0.2 ----- |
| Total income from investment operations..... | 0.80 ----- | 0.55 ----- | 0.8 ----- |
| Less dividends from net investment income..... | (0.54) ----- | (0.53) ----- | (0.5 ----- |
| Anti-dilutive effect of acquiring treasury shares*..... | -- ----- | -- ----- | 0.0 ----- |
| Net asset value, end of period..... | \$8.28 ===== | \$8.02 ===== | \$8.0 ===== |
| Market value, end of period..... | \$9.68 ===== | \$8.76 ===== | \$7.9 ===== |
| Total Return+..... | 16.99% | 17.04% | 20.1 |
| Ratios to Average Net Assets: | | | |
| Total expenses (before expense offset)..... | 0.80%(1) | 0.71% | 0.8 |
| Total expenses (before expense offset, exclusive of interest and residual trust expenses)..... | 0.72%(1) | 0.71% | 0.8 |
| Net investment income..... | 5.88% | 6.78% | 6.7 |
| Supplemental Data: | | | |
| Net assets, end of period, in thousands..... | \$163,002 | \$157,928 | \$157,59 |
| Portfolio turnover rate..... | 26% | 19% | 1 |

* The per share amounts were computed using an average number of shares outstanding during the period.

+ Total return is based upon the current market value on the last day of each period reported. Dividends are assumed to be reinvested at the prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect brokerage commission.

(1) Does not reflect the effect of expense offset of 0.01%.

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Morgan Stanley Municipal Income Opportunities Trust
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of
Morgan Stanley Municipal Income Opportunities Trust:

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Municipal Income Opportunities Trust (the "Fund"), including the portfolio of investments, as of May 31, 2007, and the related statements of operations for the year then ended and changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of May 31, 2007, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Morgan Stanley Municipal Income Opportunities Trust as of May 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
New York, New York
July 20, 2007

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Morgan Stanley Municipal Income Opportunities Trust
REVISED INVESTMENT POLICY (UNAUDITED)

THE TRUSTEES APPROVED THE FOLLOWING INVESTMENT POLICY:

INTEREST RATE TRANSACTIONS. The Fund may enter into interest rate swaps and may purchase or sell interest rate caps, floors and collars. The Fund expects to enter into these transactions primarily to manage interest rate risk, hedge portfolio positions and preserve a return or spread on a particular investment or portion of its portfolio. The Fund may also enter into these transactions to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund does not intend to use these transactions

as speculative investments and will not enter into interest rate swaps or sell interest rate caps or floors where it does not own or have the right to acquire the underlying securities or other instruments providing the income stream the Fund may be obligated to pay. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed-rate payments. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a contractually-based principal amount from the party selling the interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a contractually-based principal amount from the party selling the interest rate floor. An interest rate collar combines the elements of purchasing a cap and selling a floor. The collar protects against an interest rate rise above the maximum amount but foregoes the benefit of an interest rate decline below the minimum amount.

The Fund may enter into interest rate swaps, caps, floors and collars on either an asset-based or liability-based basis, and will usually enter into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis and the Fund segregates an amount of cash and/or liquid securities having an aggregate net asset value at least equal to the accrued excess. If the Fund enters into an interest rate swap on other than a net basis, the Fund would segregate the full amount accrued on a daily basis of the Fund's obligations with respect to the swap. Interest rate transactions do not constitute senior securities under the 1940 Act when the Fund segregates assets to cover the obligations under the transactions. The Fund will enter into interest rate swap, cap or floor transactions only with counterparties approved by the Fund's Board of Trustees. The Adviser will monitor the creditworthiness of counterparties to the Fund's interest rate swap, cap, floor and collar transactions on an ongoing basis. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction. To the extent the Fund sells (i.e., writes) caps, floors and collars, it will segregate cash and/or liquid securities having an aggregate net asset value at least

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Morgan Stanley Municipal Income Opportunities Trust
REVISED INVESTMENT POLICY (UNAUDITED) continued

equal to the full amount, accrued on a daily basis, of the Fund's net obligations with respect to the caps, floors or collars. The use of interest rate swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecasts of the market values, interest rates and other applicable factors, the investment performance of the Fund would diminish compared with what it would have been if these investment techniques were not used. The use of interest rate swaps, caps, collars and floors may also have the effect of shifting the recognition of income between current and future periods.

These transactions do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the other party to an interest rate swap defaults, the Fund's risk of loss consists of the net amount of interest payments that the Fund contractually is entitled to receive.

Morgan Stanley Municipal Income Opportunities Trust
RESULTS OF ANNUAL SHAREHOLDER MEETING (UNAUDITED)

On December 13, 2006, an annual meeting of the Fund's shareholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Trustees:

| TRUSTEE | # OF SHARES | | |
|----------------------------|-------------|----------|-----|
| | FOR | WITHHELD | ABS |
| Frank L. Bowman..... | 15,648,434 | 127,747 | 85, |
| Kathleen A. Dennis..... | 15,634,676 | 141,505 | 85, |
| Wayne E. Hedein*..... | 15,648,344 | 127,837 | 85, |
| Dr. Manuel H. Johnson..... | 15,658,870 | 117,311 | 85, |
| Joseph J. Kearns..... | 15,660,431 | 115,750 | 85, |
| Michael F. Klein..... | 15,647,470 | 128,711 | 85, |
| W. Allen Reed..... | 15,644,846 | 131,335 | 85, |
| Fergus Reid..... | 15,629,651 | 146,530 | 85, |

* Mr. Hedein retired as of December 31, 2006.

Morgan Stanley Municipal Income Opportunities Trust
TRUSTEE AND OFFICER INFORMATION (UNAUDITED)

Independent Trustees:

| Name, Age and Address of Independent Trustee | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) During Past 5 Years |
|---|----------------------------------|---|--|
| Frank L. Bowman (62) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Trustee | Since August 2006 | President and Chief Executive Officer, Nuclear Energy Institute (policy organization) (since February 2005); Director or Trustee various Retail Funds and Institutional Funds (since August 2006); Chairperson o |

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the Insurance Sub-Committee
 the Valuation, Insurance and
 Compliance Committee (since
 February 2007); formerly,
 variously, Admiral in the U
 Navy, Director of Naval
 Nuclear Propulsion Program
 Deputy Administrator-Naval
 Reactors in the National
 Nuclear Security
 Administration at the U.S.
 Department of Energy (1996-
 2004). Honorary Knight
 Commander of the Most
 Excellent Order of the Brit
 Empire.

Michael Bozic (66)
 c/o Kramer Levin Naftalis & Frankel LLP
 Counsel to the Independent Trustees
 1177 Avenue of the Americas
 New York, NY 10036

Trustee Since April
 1994

Private investor; Chairpers
 of the Valuation, Insurance
 and Compliance Committee
 (since October 2006); Direc
 or Trustee of the Retail Fu
 (since April 1994) and the
 Institutional Funds (since
 July 2003); formerly,
 Chairperson of the Insuranc
 Committee (July 2006-
 September 2006); Vice Chair
 of Kmart Corporation (Decem
 1998-October 2000), Chairma
 and Chief Executive Officer
 Levitz Furniture Corporatio
 (November 1995-November 199
 and President and Chief
 Executive Officer of Hills
 Department Stores (May
 1991-July 1995); variously
 Chairman, Chief Executive
 Officer, President and Chie
 Operating Officer (1987-199
 of the Sears Merchandise Gr
 of Sears, Roebuck & Co.

Name, Age and Address of
 Independent Trustee

 Frank L. Bowman (62)
 c/o Kramer Levin Naftalis & Frankel LLP
 Counsel to the Independent Trustees
 1177 Avenue of the Americas
 New York, NY 10036
 Michael Bozic (66)
 c/o Kramer Levin Naftalis & Frankel LLP
 Counsel to the Independent Trustees
 1177 Avenue of the Americas
 New York, NY 10036

Other Directorships Held by
 Independent Trustee

 Director of the National
 Energy Foundation, the U.S.
 Energy Association, the
 American Council for Capital
 Formation and the Armed
 Services YMCA of the USA.

Morgan Stanley Municipal Income Opportunities Trust
 TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

| Name, Age and Address of Independent Trustee | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) During Past 5 Years |
|--|--|---|--|
| Kathleen A. Dennis (53) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Trustee | Since August 2006 | President, Cedarwood Associates (mutual fund consulting) (since July 2006); Chairperson of the Money Market and Alternatives Subcommittee of the Investment Committee (since October 2006) and Director or Trustee of various Retail Funds and Institutional Funds (since August 2006); formerly, Senior Managing Director of Victor Capital Management (1993-2006). |
| Dr. Manuel H. Johnson (58) c/o Johnson Smick Group, Inc. 888 16th Street, N.W. Suite 740 Washington, D.C. 20006 | Trustee | Since July 1991 | Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2003); Co-Chairman and a founder of the Group Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006); Vice Chairman of the Board of Governors of the Federal Reserve System; Assistant Secretary of the U.S. Treasury. |

| Name, Age and Address of Independent Trustee | Other Directorships Held by Independent Trustee |
|--|--|
| Kathleen A. Dennis (53) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas | None. |

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New York, NY 10036

Dr. Manuel H. Johnson (58)
 c/o Johnson Smick Group, Inc.
 888 16th Street, N.W.
 Suite 740
 Washington, D.C. 20006

Director of NVR, Inc. (home
 construction); Director of
 Evergreen Energy.

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Morgan Stanley Municipal Income Opportunities Trust
 TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

| Name, Age and Address of Independent Trustee | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) During Past 5 Years |
|--|----------------------------------|---|---|
| Joseph J. Kearns (64) c/o Kearns & Associates LLC PMB754 23852 Pacific Coast Highway Malibu, CA 90265 | Trustee | Since August 1994 | President, Kearns & Associates LLC (investment consulting) Chairperson of the Audit Committee (since October 2003) and Director or Trustee of Retail Funds (since July 2003) and the Institutional Funds (since August 1994); former Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of the Institutional Funds (October 2001-July 2003); formerly CFO of the Paul Getty Trust. |
| Michael F. Klein (48) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Trustee | Since August 2006 | Managing Director, Aetos Capital, LLC (since March 2000) and Co-President, Aetos Alternatives Management, LLC (since January 2004); Chairperson of the Fixed-Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Retail Funds and Institutional Funds (since August 2006); formerly, Managing Director of Morgan Stanley & Co. Inc. a Morgan Stanley Dean Witter Investment Management, President, Morgan Stanley Institutional Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co. Inc. and Morgan Stanley |

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Dean Witter Investment Management (August 1997-December 1999).

| Name, Age and Address of Independent Trustee | Other Directorships Held by Independent Trustee |
|--|---|
| Joseph J. Kearns (64) c/o Kearns & Associates LLC PMB754 23852 Pacific Coast Highway Malibu, CA 90265 | Director of Electro Rent Corporation (equipment leasing), The Ford Family Foundation, and the UCLA Foundation. |
| Michael F. Klein (48) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Director of certain investment funds managed or sponsored by Aetos Capital, LLC. Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals). |

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Morgan Stanley Municipal Income Opportunities Trust
TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

| Name, Age and Address of Independent Trustee | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) During Past 5 Years |
|---|--------------------------------------|---|--|
| Michael E. Nugent (71) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY 10022 | Chairperson of the Board and Trustee | Chairperson of the Boards since July 2006 and Trustee since July 1991 | General Partner of Triumph Capital, L.P. (private investment partnership); Chairperson of the Boards of the Retail Funds and Institutional Funds (since July 2006) and Director or Trustee of the Retail Funds (since July 1991) and the Institutional Funds (since July 2001); formerly, Chairperson of the Insurance Committee (until July 2006) and Vice President, Bankers Trust Company and BT Capital Corporation (1984-1988). |
| W. Allen Reed (60) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Trustee | Since August 2006 | Chairperson of the Equity S Committee of the Investment Committee (since October 2006) and Director or Trustee of various Retail Funds and Institutional Funds (since |

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August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005)

| | | | |
|---|---------|-----------------|---|
| Fergus Reid (74) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd. Pawling, NY 12564 | Trustee | Since June 1992 | Chairman of Lumelite Plastics Corporation; Chairperson of the Governance Committee and Director or Trustee of the Retail Funds (since July 2000) and the Institutional Funds (since June 1992). |
|---|---------|-----------------|---|

| Name, Age and Address of Independent Trustee | Other Directorships Held by Independent Trustee |
|---|--|
| ----- | ----- |
| Michael E. Nugent (71) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY 10022 | None. |
| W. Allen Reed (60) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Trustees 1177 Avenue of the Americas New York, NY 10036 | Director of GMAC (financial services), and Temple-Inland Industries (packaging, banking and forest products); Director of Legg Mason, Inc. and Director of the Auburn University Foundation. |
| Fergus Reid (74) c/o Lumelite Plastics Corporation 85 Charles Colman Blvd. Pawling, NY 12564 | Trustee and Director of certain investment companies in the JPMorgan Funds complex managed by J.P. Morgan Investment Management Inc. |

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Morgan Stanley Municipal Income Opportunities Trust
 TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

Interested Trustee:

| Name, Age and Address of Interested Trustee | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) During Past 5 Years |
|---|----------------------------------|---|---|
| ----- | ----- | ----- | ----- |
| James F. Higgins (59) c/o Morgan Stanley Trust | Trustee | Since June 2000 | Director or Trustee of the Retail Funds (since June 2000) |

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Harborside Financial Center
 Plaza Two
 Jersey City, NJ 07311

and the Institutional Funds
 (since July 2003); Senior
 Advisor of Morgan Stanley
 (since August 2000).

| Name, Age and Address of Interested Trustee | Other Directorships Held by Interested Trustee |
|--|---|
| James F. Higgins (59) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311 | Director of AXA Financial, Inc. and The Equitable Life Assurance Society of the United States (financial services). |

- * This is the earliest date the Trustee began serving the funds advised by Morgan Stanley Investment Advisors Inc. (the "Investment Adviser") (the "Retail Funds") or the funds advised by Morgan Stanley Investment Management Inc. and Morgan Stanley AIP GP LP (the "Institutional Funds").
- ** The Fund Complex includes all open-end and closed-end funds (including all of their portfolios) advised by the Investment Adviser and any funds that have an investment adviser that is an affiliated person of the Investment Adviser (including, but not limited to, Morgan Stanley Investment Management Inc.) as of May 31, 2007.

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Morgan Stanley Municipal Income Opportunities Trust
 TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

Executive Officers:

| Name, Age and Address of Executive Officer | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) D |
|---|---|---|--|
| Ronald E. Robison (68) 1221 Avenue of the Americas New York, NY 10020 | President and Principal Executive Officer | President since September 2005 and Principal Executive Officer since May 2003 | President (since September 2005) Officer (since May 2003) of funds President (since September 2005) Officer (since May 2003) of the V Director, Director and/or Officer and various entities affiliated w Director of Morgan Stanley SICAV Executive Vice President (July 20 funds in the Fund Complex and the President and Director of the Ins 2001 to July 2003); Chief Adminis Investment Adviser; Chief Adminis Stanley Services Company Inc. |
| J. David Germany (52) Morgan Stanley Investment | Vice President | Since February 2006 | Managing Director and (since Dece Officer -- Global Fixed Income of |

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Management Limited
 20 Bank Street
 Canary Wharf,
 London, England E144QAD

Management; Managing Director and
 Investment Management Limited; Vi
 Funds and Institutional Funds (si

Dennis F. Shea (54)
 1221 Avenue of the Americas
 New York, NY 10020

Vice President Since February
 2006

Managing Director and (since Febr
 Officer -- Global Equity of Morga
 Management; Vice President of the
 Institutional Funds (since Februa
 Managing Director and Director of
 Morgan Stanley.

Amy R. Doberman (45)
 1221 Avenue of the Americas
 New York, NY 10020

Vice President Since July
 2004

Managing Director and General Cou
 Management of Morgan Stanley Inve
 July 2004); Vice President of the
 Institutional Funds (since July 2
 Van Kampen Funds (since August 20
 February 2006) and Managing Direc
 the Investment Adviser and variou
 the Investment Adviser. Formerly,
 General Counsel -- Americas, UBS
 (July 2000 to July 2004).

Carsten Otto (43)
 1221 Avenue of the Americas
 New York, NY 10020

Chief Compliance Officer Since October
 2004

Managing Director and Global Dire
 Morgan Stanley Investment Managem
 Managing Director and Chief Compl
 Stanley Investment Management. Fo
 Compliance (October 2004 to April
 Secretary and Assistant General C

Stefanie V. Chang Yu (40)
 1221 Avenue of the Americas
 New York, NY 10020

Vice President Since December
 1997

Executive Director of the Investm
 entities affiliated with the Inve
 President of the Retail Funds (si
 Institutional Funds (since Decemb
 Secretary of various entities aff
 Adviser.

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Morgan Stanley Municipal Income Opportunities Trust
 TRUSTEE AND OFFICER INFORMATION (UNAUDITED) continued

| Name, Age and Address of Executive Officer | Position(s) Held with Registrant | Term of Office and Length of Time Served* | Principal Occupation(s) D |
|--|---------------------------------------|--|---|
| Francis J. Smith (41) c/o Morgan Stanley Trust Harborside Financial Center Plaza Two Jersey City, NJ 07311 | Treasurer and Chief Financial Officer | Treasurer since July 2003 and Chief Financial Officer since September 2002 | Executive Director of the Investm entities affiliated with the Inve and Chief Financial Officer of th 2003). Formerly, Vice President of (September 2002 to July 2003). |
| Mary E. Mullin (40) 1221 Avenue of the Americas | Secretary | Since June 1999 | Executive Director of the Investm entities affiliated with the Inve |

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New York, NY 10020

of the Retail Funds (since July 2007)
Funds (since June 1999).

* This is the earliest date the Officer began serving the Retail Funds or the Institutional Funds.

In accordance with Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, the Fund's Annual CEO Certification certifying as to compliance with NYSE's Corporate Governance Listing Standards was submitted to the Exchange on January 11, 2007.

The Fund's Principal Executive Officer and Principal Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's N-CSR and are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

2007 FEDERAL TAX NOTICE (UNAUDITED)

During the year ended May 31, 2007, the Fund paid to its shareholders \$0.54 per share from tax-exempt income.

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TRUSTEES

Frank L. Bowman
Michael Bozic
Kathleen A. Dennis
James F. Higgins
Dr. Manuel H. Johnson
Joseph J. Kearns
Michael F. Klein
Michael E. Nugent
W. Allen Reed
Fergus Reid

OFFICERS

Michael E. Nugent
Chairperson of the Board

Ronald E. Robison
President and Principal Executive Officer

J. David Germany
Vice President

Dennis F. Shea
Vice President

Amy R. Doberman
Vice President

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Carsten Otto
Chief Compliance Officer

Stefanie V. Chang Yu
Vice President

Francis J. Smith
Treasurer and Chief Financial Officer

Mary E. Mullin
Secretary

TRANSFER AGENT

Morgan Stanley Trust
Harborside Financial Center, Plaza Two
Jersey City, New Jersey 07311

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

LEGAL COUNSEL

Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019

COUNSEL TO THE INDEPENDENT TRUSTEES

Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, New York 10036

INVESTMENT ADVISER

Morgan Stanley Investment Advisors Inc.
522 Fifth Avenue
New York, New York 10036

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[MORGAN STANLEY LOGO]

MORGAN STANLEY FUNDS

Morgan Stanley
Municipal Income
Opportunities Trust

Annual Report
May 31, 2007

[MORGAN STANLEY LOGO]

OIAANN-IU07-02267P-Y05/07

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Item 2. Code of Ethics.

(a) The Fund has adopted a code of ethics (the "Code of Ethics") that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Fund or a third party.

(b) No information need be disclosed pursuant to this paragraph.

(c) Not applicable.

(d) Not applicable.

(e) Not applicable.

(f)

(1) The Trust/Fund's Code of Ethics is attached hereto as Exhibit 12 A.

(2) Not applicable.

(3) Not applicable.

Item 3. Audit Committee Financial Expert.

The Fund's Board of Trustees has determined that Joseph J. Kearns, an "independent" Trustee, is an "audit committee financial expert" serving on its audit committee. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an "expert" for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification.

Item 4. Principal Accountant Fees and Services.

(a) (b) (c) (d) and (g). Based on fees billed for the periods shown:

2007

| | REGISTRANT | COVERED ENTITIES (|
|-------------------------|------------|--------------------|
| AUDIT FEES..... | \$ 32,000 | N/A |
| NON-AUDIT FEES | | |
| AUDIT-RELATED FEES..... | \$ 531 (2) | \$4,836,000 (2) |

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| | | |
|---------------------------|--------------|----------------|
| TAX FEES..... | \$ 4,600 (3) | \$ 621,000 (4) |
| ALL OTHER FEES..... | \$ -- | \$ -- |
| TOTAL NON-AUDIT FEES..... | \$ 5,131 | \$5,457,000 |
| TOTAL..... | \$37,131 | \$5,457,000 |

2006

| | REGISTRANT | COVERED ENTITIES (|
|---------------------------|--------------|--------------------|
| AUDIT FEES..... | \$31,132 | N/A |
| NON-AUDIT FEES | | |
| AUDIT-RELATED FEES..... | \$ 531 (2) | \$5,190,300 (2) |
| TAX FEES..... | \$ 4,449 (3) | \$2,044,491 (4) |
| ALL OTHER FEES..... | \$ -- | \$ -- |
| TOTAL NON-AUDIT FEES..... | \$ 4,980 | \$7,234,791 |
| TOTAL..... | \$36,112 | \$7,234,791 |

N/A- Not applicable, as not required by Item 4.

- (1) Covered Entities include the Adviser (excluding sub-advisors) and any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Registrant.
- (2) Audit-Related Fees represent assurance and related services provided that are reasonably related to the performance of the audit of the financial statements of the Covered Entities' and funds advised by the Adviser or its affiliates, specifically data verification and agreed-upon procedures related to asset securitizations and agreed-upon procedures engagements.
- (3) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the preparation and review of the Registrant's tax returns.
- (4) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the review of Covered Entities' tax returns.

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(e) (1) The audit committee's pre-approval policies and procedures are as follows:

APPENDIX A

AUDIT COMMITTEE
 AUDIT AND NON-AUDIT SERVICES
 PRE-APPROVAL POLICY AND PROCEDURES

OF THE
MORGAN STANLEY RETAIL AND INSTITUTIONAL FUNDS

AS ADOPTED AND AMENDED JULY 23, 2004, (1)

1. STATEMENT OF PRINCIPLES

The Audit Committee of the Board is required to review and, in its sole discretion, pre-approve all Covered Services to be provided by the Independent Auditors to the Fund and Covered Entities in order to assure that services performed by the Independent Auditors do not impair the auditor's independence from the Fund.

The SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. The SEC's rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved without consideration of specific case-by-case services by the Audit Committee ("general pre-approval"); or require the specific pre-approval of the Audit Committee or its delegate ("specific pre-approval"). The Audit Committee believes that the combination of these two approaches in this Policy will result in an effective and efficient procedure to pre-approve services performed by the Independent Auditors. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee (or by any member of the Audit Committee to which pre-approval authority has been delegated) if it is to be provided by the Independent Auditors. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers and provides a different period and states otherwise. The Audit Committee will annually review and pre-approve the services that may be provided by the Independent Auditors without obtaining specific pre-approval from the Audit Committee. The Audit Committee will add to or subtract from the list of general pre-approved services from time to time, based on subsequent determinations.

- (1) This Audit Committee Audit and Non-Audit Services Pre-Approval Policy and Procedures (the "Policy"), adopted as of the date above, supersedes and replaces all prior versions that may have been adopted from time to time.

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The purpose of this Policy is to set forth the policy and procedures by which the Audit Committee intends to fulfill its responsibilities. It does not delegate the Audit Committee's responsibilities to pre-approve services performed by the Independent Auditors to management.

The Fund's Independent Auditors have reviewed this Policy and believes that implementation of the Policy will not adversely affect the Independent Auditors' independence.

2. DELEGATION

As provided in the Act and the SEC's rules, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

3. AUDIT SERVICES

The annual Audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. Audit services include the annual financial statement audit and other procedures required to be performed by the Independent Auditors to be able to form an opinion on the Fund's financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Fund structure or other items.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval to other Audit services, which are those services that only the Independent Auditors reasonably can provide. Other Audit services may include statutory audits and services associated with SEC registration statements (on Forms N-1A, N-2, N-3, N-4, etc.), periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

The Audit Committee has pre-approved the Audit services in Appendix B.1. All other Audit services not listed in Appendix B.1 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

4. AUDIT-RELATED SERVICES

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and, to the extent they are Covered Services, the Covered Entities or that are traditionally performed by the Independent Auditors. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with the SEC's rules on auditor independence, the Audit Committee may grant general pre-approval to Audit-related services. Audit-related services include, among others, accounting consultations related to accounting, financial reporting or disclosure matters

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not classified as "Audit services"; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements under Forms N-SAR and/or N-CSR.

The Audit Committee has pre-approved the Audit-related services in Appendix B.2. All other Audit-related services not listed in Appendix B.2 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

5. TAX SERVICES

The Audit Committee believes that the Independent Auditors can provide Tax services to the Fund and, to the extent they are Covered Services, the Covered Entities, such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the Independent Auditors may provide such services.

Pursuant to the preceding paragraph, the Audit Committee has pre-approved the Tax Services in Appendix B.3. All Tax services in Appendix B.3 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

6. ALL OTHER SERVICES

The Audit Committee believes, based on the SEC's rules prohibiting the Independent Auditors from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

The Audit Committee has pre-approved the All Other services in Appendix B.4. Permissible All Other services not listed in Appendix B.4 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

7. PRE-APPROVAL FEE LEVELS OR BUDGETED AMOUNTS

Pre-approval fee levels or budgeted amounts for all services to be provided by the Independent Auditors will be established annually by the Audit Committee. Any proposed services exceeding these levels or amounts will require specific pre-approval by the Audit Committee. The Audit Committee is mindful of the overall relationship of fees for audit and non-audit services in determining whether to pre-approve any such services.

8. PROCEDURES

All requests or applications for services to be provided by the Independent Auditors that do not require specific approval by the Audit Committee will be submitted to the Fund's Chief Financial Officer and must include a detailed description of the services to be

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rendered. The Fund's Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a timely basis of any such services rendered by the Independent Auditors. Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the Independent Auditors and the Fund's Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Audit Committee has designated the Fund's Chief Financial Officer to monitor the performance of all services provided by the Independent Auditors and to determine whether such services are in compliance with this Policy. The Fund's Chief Financial Officer will report to the Audit Committee on a periodic basis on the results of its monitoring. Both the Fund's Chief Financial Officer and management will immediately report to the chairman of the Audit Committee any

breach of this Policy that comes to the attention of the Fund's Chief Financial Officer or any member of management.

9. ADDITIONAL REQUIREMENTS

The Audit Committee has determined to take additional measures on an annual basis to meet its responsibility to oversee the work of the Independent Auditors and to assure the auditor's independence from the Fund, such as reviewing a formal written statement from the Independent Auditors delineating all relationships between the Independent Auditors and the Fund, consistent with Independence Standards Board No. 1, and discussing with the Independent Auditors its methods and procedures for ensuring independence.

10. COVERED ENTITIES

Covered Entities include the Fund's investment adviser(s) and any entity controlling, controlled by or under common control with the Fund's investment adviser(s) that provides ongoing services to the Fund(s). Beginning with non-audit service contracts entered into on or after May 6, 2003, the Fund's audit committee must pre-approve non-audit services provided not only to the Fund but also to the Covered Entities if the engagements relate directly to the operations and financial reporting of the Fund. This list of Covered Entities would include:

Morgan Stanley Retail Funds

Morgan Stanley Investment Advisors Inc.
Morgan Stanley & Co. Incorporated
Morgan Stanley DW Inc.
Morgan Stanley Investment Management Inc.
Morgan Stanley Investment Management Limited
Morgan Stanley Investment Management Private Limited
Morgan Stanley Asset & Investment Trust Management Co., Limited
Morgan Stanley Investment Management Company
Van Kampen Asset Management
Morgan Stanley Services Company, Inc.
Morgan Stanley Distributors Inc.
Morgan Stanley Trust FSB

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Morgan Stanley Institutional Funds

Morgan Stanley Investment Management Inc.
Morgan Stanley Investment Advisors Inc.
Morgan Stanley Investment Management Limited
Morgan Stanley Investment Management Private Limited
Morgan Stanley Asset & Investment Trust Management Co., Limited
Morgan Stanley Investment Management Company
Morgan Stanley & Co. Incorporated
Morgan Stanley Distribution, Inc.
Morgan Stanley AIP GP LP
Morgan Stanley Alternative Investment Partners LP

(e) (2) Beginning with non-audit service contracts entered into on or after May 6, 2003, the audit committee also is required to pre-approve services to Covered Entities to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Registrant. 100% of such services were pre-approved by the audit committee pursuant to the Audit

Committee's pre-approval policies and procedures (attached hereto).

(f) Not applicable.

(g) See table above.

(h) The audit committee of the Board of Trustees has considered whether the provision of services other than audit services performed by the auditors to the Registrant and Covered Entities is compatible with maintaining the auditors' independence in performing audit services.

Item 5. Audit Committee of Listed Registrants.

(a) The Fund has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act whose members are: Joseph Kearns, Michael Nugent and Allen Reed.

(b) Not applicable.

Item 6.

See Item 1.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

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The Fund invests in exclusively non-voting securities and therefore this item is not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

FUND MANAGEMENT

PORTFOLIO MANAGEMENT. As of the date of this report, the Fund is managed by members within the Municipal Fixed Income team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are James F. Willison and Wayne Godlin, Managing Directors of the Investment Adviser and Gerard J. Lian, an Executive Director of the Investment Adviser.

Mr. Willison has been associated with the Investment Adviser in an investment management capacity since January 1980 and began managing the Fund at inception. Mr. Godlin has been associated with the Investment Adviser in an investment management capacity since May 1988 and began managing the Fund in October 2001. Mr. Lian has been associated with the Investment Adviser in an investment management capacity since December 1991 and began managing the Fund in May 2003.

The composition of the team may change from time to time.

OTHER ACCOUNTS MANAGED BY THE PORTFOLIO MANAGERS

The following information is as of May 31, 2007:

Mr. Willison managed 22 registered investment companies with a total of

approximately \$7.1 billion in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

Mr. Lian managed three registered investment companies with a total of approximately \$398.6 million in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

Mr. Godlin managed five registered investment companies with a total of approximately \$6.4 billion in assets; no pooled investment vehicles other than mutual funds; and no other accounts.

Because the portfolio managers may manage assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), there may be an incentive to favor one client over another resulting in conflicts of interest. For instance, the Investment Adviser may receive fees from certain accounts that are higher than the fee it receives from the

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Fund, or it may receive a performance-based fee on certain accounts. In those instances, the portfolio managers may have an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest could exist to the extent the Investment Adviser has proprietary investments in certain accounts, where portfolio managers have personal investments in certain accounts or when certain accounts are investment options in the Investment Adviser's employee benefits and/or deferred compensation plans. The portfolio manager may have an incentive to favor these accounts over others. If the Investment Adviser manages accounts that engage in short sales of securities of the type in which the Fund invests, the Investment Adviser could be seen as harming the performance of the Fund for the benefit of the accounts engaging in short sales if the short sales cause the market value of the securities to fall. The Investment Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest.

PORTFOLIO MANAGER COMPENSATION STRUCTURE

Portfolio managers receive a combination of base compensation and discretionary compensation, comprising a cash bonus and several deferred compensation programs described below. The methodology used to determine portfolio manager compensation is applied across all funds/accounts managed by the portfolio managers.

BASE SALARY COMPENSATION. Generally, portfolio managers receive base salary compensation based on the level of their position with the Investment Adviser.

DISCRETIONARY COMPENSATION. In addition to base compensation, portfolio managers may receive discretionary compensation.

Discretionary compensation can include:

- Cash Bonus.
- Morgan Stanley's Long Term Incentive Compensation awards - a mandatory program that defers a portion of discretionary year-end compensation into restricted stock units or other awards based on Morgan Stanley common stock or other investments that are subject to

vesting and other conditions.

- Investment Management Alignment Plan (IMAP) awards - a mandatory program that defers a portion of discretionary year-end compensation and notionally invests it in designated funds advised by the Investment Adviser or its affiliates. The award is subject to vesting and other conditions. Portfolio managers must notionally invest a minimum of 25% to a maximum of 100% of the IMAP deferral into a combination of the designated funds they manage that are included in the IMAP fund menu, which may or may not include the Fund.

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- Voluntary Deferred Compensation Plans - voluntary programs that permit certain employees to elect to defer a portion of their discretionary year-end compensation and directly or notionally invest the deferred amount: (1) across a range of designated investment funds, including funds advised by the Investment Adviser or its affiliates; and/or (2) in Morgan Stanley stock units.

Several factors determine discretionary compensation, which can vary by portfolio management team and circumstances. In order of relative importance, these factors include:

- Investment performance. A portfolio manager's compensation is linked to the pre-tax investment performance of the funds/accounts managed by the portfolio manager. Investment performance is calculated for one-, three- and five-year periods measured against a fund's/account's primary benchmark (as set forth in the fund's prospectus), indices and/or peer groups where applicable. Generally, the greatest weight is placed on the three- and five-year periods.
- Revenues generated by the investment companies, pooled investment vehicles and other accounts managed by the portfolio manager.
- Contribution to the business objectives of the Investment Adviser.
- The dollar amount of assets managed by the portfolio manager.
- Market compensation survey research by independent third parties.
- Other qualitative factors, such as contributions to client objectives.
- Performance of Morgan Stanley and Morgan Stanley Investment Management, and the overall performance of the investment team(s) of which the portfolio manager is a member.

SECURITIES OWNERSHIP OF PORTFOLIO MANAGERS

As of May 31, 2007, the portfolio managers did not own any share of the Fund.

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Item 9. Closed-End Fund Repurchases

REGISTRANT PURCHASE OF EQUITY SECURITIES

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Max Number Approximate Dollar of Shares Units) Yet Be Under t or Prog |
|--|---|---|---|---|
| June 1, 2006 -- June 30, 2006 | -- | -- | N/A | N/A |
| July 1, 2006 -- July 31, 2006 | -- | -- | N/A | N/A |
| August 1, 2006-- August 31, 2006 | -- | -- | N/A | N/A |
| September 1, 2006 -- September 30, 2006 | -- | -- | N/A | N/A |
| October 1, 2006 -- October 31, 2006 | -- | -- | N/A | N/A |
| November 1, 2006 -- November 30, 2006 | -- | -- | N/A | N/A |
| December 1, 2006-- December 31, 2006 | -- | -- | N/A | N/A |
| January 1, 2007 -- January 31, 2007 | -- | -- | N/A | N/A |
| February 1, 2007-- February 28, 2007 | -- | -- | N/A | N/A |
| March 1, 2007 -- March 31, 2007 | -- | -- | N/A | N/A |
| April 1, 2007 -- April 30, 2007 | -- | -- | N/A | N/A |
| May 1, 2007 -- | -- | -- | | |

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| | | | | |
|--------------|----|----|-----|----|
| May 31, 2007 | | | N/A | N/ |
| Total | -- | -- | N/A | N/ |

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Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits

(a) The Code of Ethics for Principal Executive and Senior Financial Officers is attached hereto.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Municipal Income Opportunities Trust

/s/ Ronald E. Robison
Ronald E. Robison
Principal Executive Officer
July 19, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and

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the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Ronald E. Robison
Ronald E. Robison
Principal Executive Officer
July 19, 2007

/s/ Francis Smith
Francis Smith
Principal Financial Officer
July 19, 2007