

Company number: 2474901

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

27 November 1998



GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL

(unlimited company)

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 27 November 1998.

1. Principal activity

The company is an asset management company and is regulated by the Investment Management Regulatory Organisation. The company's share capital is denominated in US dollars and the company is part of a US dollar reporting group, accordingly, the company's functional currency is US dollars and these financial statements have been prepared in that currency.

2. Review of business and future developments

The profit and loss account for the year is set out on page 5.

The directors consider that the year end financial position of the company was satisfactory and do not anticipate any significant changes in its activities in the forthcoming year.

3. Dividend

The directors declared and paid a final preference dividend of US\$349,903 (1997: US\$ 349,903) and a final ordinary dividend of US\$ Nil (1997: US\$ 4,500,000).

4. Exchange rate

The US dollar/sterling exchange rate at the balance sheet date was 1.6536 (1997: 1.6880). The average rate for the year was 1.6618 (1997: 1.6448).

5. Year 2000

The company, in common with many other businesses, will be required to modify or replace portions of its information technology systems, so that they will properly recognise dates beyond December 31, 1999. In the event that such modifications are not made on a timely basis, or where third parties to which the company is financially or operationally linked fail to address their own system problems, the issue could have a material adverse effect on the company.

These risks are being addressed as part of a group-wide initiative, including an educational program and the assessment and remediation of existing systems. The group has also participated in successful preliminary testing of external systems involving major industry-wide participants, and expects to continue further testing in 1999. The group is working with key external parties to assess their efforts in respect of their own systems, and is establishing a contingency plan.

We have not quantified the cost to the company of the year 2000 initiative as a group-wide approach has been adopted.

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
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REPORT OF THE DIRECTORS

6. Economic and Monetary Union in Europe

From January 1, 1999, 11 European countries entered into the EMU and replaced their local currencies with a single currency, the euro.

The company participated in a group-wide conversion effort which was completed after year end.

We have not quantified the cost to the company of the EMU conversion as a group-wide approach has been adopted.

7. Directors

The directors of the company during the year, and as at the date of this report, were:

Name

D.B. Ford (Chief Executive Officer and Managing Director)

G.K. Palm

J.P. McNulty

P.C. Deighton

T.T. Sotir

D.W. Blood

No director has, or had during the year, any interest requiring note herein.

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
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REPORT OF THE DIRECTORS

8. Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that year. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis. The directors are responsible for keeping proper accounting records, and for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD



W. A. Jones
Secretary

12 January 1999

**Report of the auditors to the members of
GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
(unlimited company)**

We have audited the financial statements set out on pages 5 to 11 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company at 27 November 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London 15 January 1999

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL

(unlimited company)

PROFIT AND LOSS ACCOUNT

for the year ended 27 November 1998

	Note	1998 US\$'000	1997 US\$'000
Turnover	3	42,348	29,104
Administrative expenses		<u>(42,836)</u>	<u>(24,863)</u>
OPERATING (LOSS)/PROFIT	5	(488)	4,241
Other interest receivable and similar income	6	336	508
Interest payable and similar charges	7	<u>(119)</u>	<u>-</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(271)	4,749
Tax on loss/profit on ordinary activities	9	<u>(100)</u>	<u>(1,048)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(371)	3,701
Dividends payable - ordinary (equity)		-	(4,500)
- preferred (non-equity)	16	<u>(350)</u>	<u>(350)</u>
LOSS FOR THE YEAR	18	<u><u>(721)</u></u>	<u><u>(1,149)</u></u>

The turnover and loss of the company are derived from continuing operations.

There is no difference between the loss on ordinary activities before taxation and the loss for the year as stated above and their historical cost equivalents.

The company has no recognised gains and losses other than those included in the loss for the year shown above, and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 7 to 11 form part of these financial statements.
Auditors' report - page 4.

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
(unlimited company)

BALANCE SHEET
as at 27 November 1998

	Note	1998 US\$'000	1997 US\$'000
FIXED ASSETS			
Investments	10	102	-
CURRENT ASSETS			
Debtors	11	16,115	10,478
Investments	12	44	42
Cash at bank and in hand		8,355	8,755
		24,514	19,275
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(9,372)	(6,610)
NET CURRENT ASSETS		15,142	12,665
TOTAL ASSETS LESS CURRENT LIABILITIES		15,244	12,665
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	(3,300)	-
		11,944	12,665
CAPITAL AND RESERVES			
Called up share capital	15	1,032	1,032
Share premium account	17	4,956	4,956
Profit and loss account	17	5,956	6,677
Equity shareholders' funds		6,944	7,665
Non-equity (preferred) shareholders' funds		5,000	5,000
TOTAL SHAREHOLDERS' FUNDS		11,944	12,665

Approved by the Board of Directors on 12 January 1999

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Director

The notes on pages 7 to 11 form part of these financial statements.
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GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL

(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 27 NOVEMBER 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. The principal accounting policies which have been consistently applied, were as follows:

- (a) **Fixed asset investment**: Debentures which are stated at cost and amortised over their useful economic life.
- (b) **Current asset investments**: Current asset investments are stated at the lower of cost and net realisable value.
- (c) **Foreign currencies**: Assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than US dollars are converted at the rates of exchange prevailing at the dates the transactions were made. Gains and losses on exchange are recognised in the profit and loss account.

2. CASHFLOW STATEMENT

The company is a greater than 90% subsidiary of The Goldman Sachs Group L.P., and is therefore exempt from preparing a cashflow statement as required by FRS1 as the ultimate parent company accounts are publicly available.

3. TURNOVER

Turnover represents fees earned for managing investments.

4. SEGMENTAL REPORTING

All income arises from the management of funds, accordingly the directors are of the opinion that the company's activities constitute a single business. No analysis of the results by geographical market is provided on the grounds that the company's clients are located worldwide.

5. OPERATING (LOSS)/PROFIT

	1998 US\$'000	1997 US\$'000
Operating (loss)/profit is stated after charging:		
Auditors' remuneration: audit services	19	11
Management fees charged by fellow subsidiary undertakings	27,877	17,500
Amortisation of fixed asset	46	-

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NOTES TO THE FINANCIAL STATEMENTS - 27 NOVEMBER 1998

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Other interest receivable and similar income comprises:

	1998 US\$'000	1997 US\$'000
Interest on overnight deposits	336	508

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 US\$'000	1997 US\$'000
Interest on loans from parent undertakings	119	-

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The company has no employees (1997: Nil). All persons involved in the company's operations are employed by a fellow subsidiary undertaking. The charges made by this group undertaking for all the services provided (personnel and other) to the company are included in the management fee charged by fellow subsidiary undertakings. The directors receive no emoluments in respect of services as directors of the company (1997: US\$ Nil). Five (1997: five) of the directors are limited partners in The Goldman Sachs Group, L.P., and their remuneration is earned in relation to their activities in the firm as a whole. No part of their remuneration relates to services as directors of the company. The remuneration of the remaining director is in respect of services within the business units of The Goldman Sachs Group, L.P. and is not in respect of services as director of the company.

9. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The taxation charge for the year comprises:

	1998 US\$'000	1997 US\$'000
UK Corporation tax at 31% (1997: 31.66%) – current year	62	1,048
Prior year tax adjustment	38	-
	100	1,048

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NOTES TO THE FINANCIAL STATEMENTS - 27 NOVEMBER 1998

10. FIXED ASSET INVESTMENT

	Investment US\$'000	Total US\$'000
COST		
At 28 November 1997	-	-
Additions	148	148
At 27 November 1998	148	148
AMORTISATION		
At 28 November 1997	-	-
Charge for the period	46	46
At 27 November 1998	46	46
NET BOOK VALUE		
At 27 November 1998	102	102
At 28 November 1997	-	-

11. DEBTORS

Debtors, all of which are due within one year of the balance sheet date, comprise:

	1998 US\$'000	1997 US\$'000
Amounts due from fellow subsidiary undertakings	3,393	1,404
Other debtors	12,722	9,074
	16,115	10,478

12. CURRENT ASSET INVESTMENTS

The current asset investments which are unlisted and stated at the lower of cost and net realisable value comprise deposits of Japanese bonds.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 US\$'000	1997 US\$'000
Amounts due to fellow subsidiary undertakings	7,786	4,681
Corporation tax payable	47	1,112
Accruals and deferred income	1,539	817
	9,372	6,610

GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL
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NOTES TO THE FINANCIAL STATEMENTS - 27 NOVEMBER 1998

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

The amount outstanding at 27 November 1998 of US\$3,300,000 (1997: US\$ Nil) represents a long term subordinated loan from a parent undertaking. The loan is unsecured, carries interest at a margin above LIBOR and is repayable upon receipt of at least 2 years notice from the parent undertaking. No such notice has yet been received.

15. SHARE CAPITAL

The share capital of the company comprised:

	1998		1997	
	No.	US\$'000	No.	US\$'000
<u>Authorised</u>				
Ordinary shares of US\$ 1 each	988,000	988	988,000	988
'B' ordinary shares of £ 1 each	2	-	2	-
Non-cumulative preference shares of US\$ 0.01 each	100,000,000	1,000	100,000,000	1,000
		1,988		1,988
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$ 1 each	988,000	988	988,000	988
'B' ordinary shares of £ 1 each	2	-	2	-
Non-cumulative preference shares of US\$ 0.01 each	4,385,966	44	4,385,966	44
		1,032		1,032

The preference shares carry limited voting rights and on a winding up, the holders have a preferential right to return of capital together with any premium. Preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum.

16. DIVIDENDS PAID AND PAYABLE

	1998	1997
	US\$'000	US\$'000
Dividends on equity shares:		
Ordinary shares	-	4,500
Dividends on non-equity shares:		
Non-cumulative preference shares	350	350
	350	4,850

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NOTES TO THE FINANCIAL STATEMENTS - 27 NOVEMBER 1998

17. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account US\$'000	Profit and loss account US\$'000
At 28 November 1997	4,956	6,677
Loss for the year	-	(721)
At 27 November 1998	4,956	5,956

18. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	1998 US\$'000	1997 US\$'000
Loss/profit for the year	(371)	3,701
Dividends paid	(350)	(4,850)
Net decrease in shareholders' funds	(721)	(1,149)
Opening shareholders' funds	12,665	13,814
Closing shareholders' funds	11,944	12,665

19. RELATED PARTY DISCLOSURES

Under the terms of FRS8, "Related Party Disclosures", the company is exempt from disclosing transactions with companies 90% or more controlled within the same group, as the consolidated financial statements in which the company is included are publicly available.

20. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The Goldman Sachs Group, L.P., of 85 Broad Street, New York, NY 10004, United States of America, is the ultimate parent undertaking. Goldman Sachs Holdings (U.K.), a company registered in England and Wales, is the immediate parent undertaking.