

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**TABLE OF CONTENTS**

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The profit and loss account for the year is set out on page 4.

The company trades as a stockbroker, a dealer in equities and debt instruments, and acts as a representative office for its American parent company and fellow subsidiary undertakings. It is a member of the Securities and Futures Authority and The London Stock Exchange.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend for the year ended 31 December 1997 (1996:nil). The profit for the financial year of £352,000 (1996:£528,000) will be transferred to reserves.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows :

F E Baxter (Chairman)
L S Allan
D Fowler
E B Gale
J F Graham
J A Guy
J F Palamara
C A Siegel
N Solomon

No right to subscribe for shares in or debentures of the Company was, during the financial year, granted to or exercised by any director or their immediate family.

No director had a beneficial interest in Jefferies International Limited.

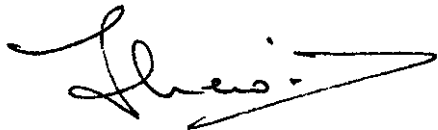
CHARITABLE DONATIONS

Charitable donations amounting to £6,112 (1996:£1,205) were made during the financial year.

AUDITORS

A resolution is to be proposed at the forthcoming annual general meeting for the reappointment of KPMG Audit Plc as auditors of the company.

By order of the board



Janet M Lewis
COMPANY SECRETARY

46 New Broad Street
London EC2M 1JD
26 March 98

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company Law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ◆ and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL LIMITED

We have audited the financial statements on pages 4 to 14.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 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.

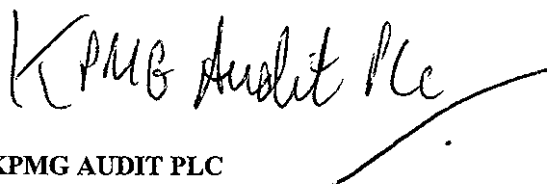
BASIS OF OPINION

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 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 group'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 and of the group as at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG AUDIT PLC
Chartered Accountants
Registered Auditor

26 March 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT*for the year ended 31 December 1997*

	<i>Notes</i>	1997 £000	1996 £000
Turnover	2	23,609	17,036
Administrative expenses		<u>(22,505)</u>	<u>(15,917)</u>
Operating profit		1,104	1,119
Interest receivable and similar income	3	210	322
Interest payable and similar charges	4	<u>(294)</u>	<u>(298)</u>
Profit on ordinary activities before taxation	5	1,020	1,143
Tax on profit on ordinary activities	10	<u>(661)</u>	<u>(615)</u>
Retained profit for the financial year		359	528
Transfer to Legal Reserves		(7)	-
Profit and loss account brought forward		<u>2,222</u>	<u>1,694</u>
Profit and loss account carried forward		<u>2,574</u>	<u>2,222</u>

The notes on pages 7 to 14 form part of these financial statements.

The turnover and operating profit of the group are derived entirely from continuing operations.

The group has no recognised gains and losses other than those included in the profit and loss account above, and therefore, no separate statement of total recognised gains and losses has been presented.

CONSOLIDATED BALANCE SHEET

at 31 December 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible assets	11	1,322	1,294
Current assets			
Debtors	13	41,873	29,885
Marketable securities - long positions	14	2,610	2,578
Cash at bank and in hand		<u>7,213</u>	<u>3,255</u>
		51,696	35,718
Creditors:			
Marketable securities - short positions	14	(273)	-
amounts falling due within one year	15	<u>(44,099)</u>	<u>(28,725)</u>
		(44,372)	(28,725)
Net current assets		<u>7,324</u>	<u>6,993</u>
Total assets less current liabilities		8,646	8,287
Creditors :			
amounts falling due after one year	16	(1,900)	(1,900)
Provisions for liabilities and charges	17	<u>-</u>	<u>-</u>
Net assets		<u><u>6,746</u></u>	<u><u>6,387</u></u>
Capital and reserves			
Called up share capital	18	1,600	1,600
Share premium account	19	2,162	2,162
Other reserves	19	410	403
Profit and loss account		<u>2,574</u>	<u>2,222</u>
	20	<u><u>6,746</u></u>	<u><u>6,387</u></u>

These financial statements were approved by the board of directors on 25 March 1998 and were signed on its behalf by:

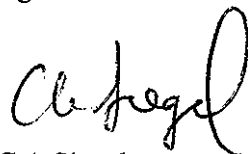

 C A Siegel
 MANAGING DIRECTOR

BALANCE SHEET
at 31 December 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible assets	11	1,182	1,247
Investments	12	3,646	4,013
		<u>4,828</u>	<u>5,260</u>
Current assets			
Debtors	13	32,466	29,840
Marketable securities - long positions	14	1,442	2,578
Cash at bank and in hand		<u>4,134</u>	<u>410</u>
		<u>38,042</u>	<u>32,828</u>
Creditors:			
Marketable securities - short positions	14	(273)	-
amounts falling due within one year	15	<u>(33,920)</u>	<u>(29,884)</u>
		<u>(34,193)</u>	<u>(29,884)</u>
Net current assets		<u>3,849</u>	<u>2,944</u>
Total assets less current liabilities		<u>8,677</u>	<u>8,204</u>
Creditors :			
amounts falling due after one year	16	(1,900)	(1,900)
Provisions for liabilities and charges	17	<u>-</u>	<u>-</u>
Net assets		<u><u>6,777</u></u>	<u><u>6,304</u></u>
Capital reserves			
Called up share capital	18	1,600	1,600
Share premium account	19	2,162	2,162
Other reserves	19	400	400
Profit and loss account		<u>2,615</u>	<u>2,142</u>
	20	<u><u>6,777</u></u>	<u><u>6,304</u></u>

As permitted by section 230 of the Companies Act 1985, the company has not presented its profit and loss account. The retained profit attributable to the company for the year is £473,000 (1996: £493,000).

These financial statements were approved by the board of directors on 25 March 1998 and were signed on its behalf by :



C A Siegel
MANAGING DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1997

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Group accounts

Subsidiary undertakings have been consolidated using acquisition accounting.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified by the inclusion of trading stocks in shares at market value. As permitted by Financial Reporting Standard 1, no cash flow statement is presented in these accounts as the company is a wholly owned subsidiary of Jefferies Group Inc which presents such a statement in its own accounts. In addition, advantage has been taken of the exemption available under FRS8 not to disclose details of transactions with Jefferies Group Inc or any other group or associated undertakings, as the consolidated accounts of Jefferies Group Inc in which the company is included are publicly available.

Fixed assets and depreciation

Fixed Assets are depreciated on the following basis :-

- 1 : Leasehold Improvements - over the life of the lease
- 2 : Fixtures, fittings and equipment - straight line basis over estimated useful economic life 3-10 years.

Trading stocks

Marketable securities held as current trading stocks are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the profit for the year of a company that holds readily marketable investments as current assets since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the financial statements of these departures since information on original cost, being of no continuing relevance to the business, is not readily available.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallize or that the recoverability of the assets is assured in the foreseeable future.

Foreign currencies

Transactions denominated in foreign currencies are translated using the preceding month end exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. The gains or losses on translation are included in the profit and loss account.

Pension costs

Pensions costs are accrued on a monthly basis over each individual's term of employment.

Creditor Payment Policy

The company agrees payment terms and conditions with individual suppliers , once agreed it is the policy of the company to abide by the terms of payment.

2 Turnover

The group's turnover represents commission on dealing; profit on trading in equities and debt instruments; and amounts receivable from the provision of services to fellow subsidiary undertakings.

	1997 £000	1996 £000
Commission	9,265	2,667
Principal trading	11,174	9,658
Service fee income	2,990	4,548
Other income	180	163
	<u>23,609</u>	<u>17,036</u>

3 Interest receivable and similar income

	1997 £000	1996 £000
Receivable from parent undertaking	-	237
Other interest income	210	73
Other Dividend Income	-	12
	<u>210</u>	<u>322</u>

4 Interest payable and similar charges

	1997 £000	1996 £000
Payable to parent undertaking	170	170
Other interest payable on loans wholly repayable within five years	124	128
	<u>294</u>	<u>298</u>

5 Profit on ordinary activities before taxation

	1997 £000	1996 £000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration for audit	37	37
Depreciation of tangible fixed assets	694	425
Directors' emoluments as executives	<u>3,389</u>	<u>2,408</u>

Remuneration of the company's auditors, for the provision of non-audit services to the company and it's subsidiary during the year, amounted to £31,736 (1996 : £10,478). This included taxation and company secretarial advice.

6 Remuneration of directors

The emoluments, of the chairman were £nil (1996: £nil). The highest paid director received emoluments of £999,506 (1996: £429,445) and contributions of £8,632 (1996: £11,258) were made to a pension scheme on his behalf.

The emoluments of the directors (including the chairman and highest paid director) were as follows:

Directors	1997 £000	1996 £000
Emoluments	3,352	2,740
Pension Contributions	37	36
	<u>3,389</u>	<u>2,776</u>

Contributions to pensions schemes were made on behalf of 5 directors (1996: 6) in 1997.

7 Directors' loans

The following directors had interest free loan agreements, with Jefferies International Limited, during the financial year:

	Liability 31 December 1997 £	Maximum Liability during the financial year £	Liability 1 January 1997 £
L S Allan	-	-	237
E B Gale	4,965	6,620	3,723
J F Graham	2,840	3,786	3,087
J A Guy	<u>161</u>	<u>1,928</u>	<u>-</u>

Each loan was repayable in equal monthly instalments over a maximum term of 12 months.

8 Staff numbers and costs

The average number of employees (including directors) during the year, was 89 (1996: 73):

The aggregate payroll costs were as follows :

	1997 £000	1996 £000
Wages and salaries	10,160	7,868
Social Security costs	924	632
Other pension costs	327	350
	<u>11,411</u>	<u>8,850</u>

9 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The amount charged against profits includes contributions payable by the company to the fund amounting to £266,000 (1996: £350,000). There were no contributions payable (1996: £151,000) at the year end.

10 Taxation

	1997 £000	1996 £000
UK corporation tax at 31.5% (1996: 33%) on the profit for the year on ordinary activities	404	627
Overseas Corporate Tax	213	70
Deferred taxation	44	(82)
	<u>661</u>	<u>615</u>

11 Tangible fixed assets

Group	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 1997	563	1,903	2,466
Additions	<u>65</u>	<u>657</u>	<u>722</u>
As at 31 December 1997	628	2,560	3,188
Depreciation			
As at 1 January 1997	237	935	1,172
Charge for year	<u>262</u>	<u>432</u>	<u>694</u>
As at 31 December 1997	499	1,367	1,866
Net Book Value			
As at 31 December 1997	<u>129</u>	<u>1193</u>	<u>1,322</u>
As at 31 December 1996	<u>326</u>	<u>968</u>	<u>1,294</u>

11 Tangible fixed assets (continued)

Company	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 1997	563	1,823	2,386
Additions	-	566	566
As at 31 December 1997	563	2,389	2,952
Depreciation			
As at 1 January 1997	237	902	1,139
Charge for year	242	389	631
As at 31 December 1997	479	1,291	1,770
Net Book Value			
As at 31 December 1997	84	1,098	1,182
As at 31 December 1996	326	921	1,247

12 Fixed asset investments

Interests in group undertakings	£000
At 1 January 1997	4,013
Liquidation of Jefferies & Company Limited	(367)
At 31 December 1997	3,646

The details of the subsidiaries, which have been included in the consolidation, are as follows :

Name of undertaking	Description of shares held	Proportion of nominal value of issued shares held by the group and company	Principal activity
Jefferies (Switzerland) Limited	Ordinary SF 1000 Shares	100%	Service Company
Cresvale Asset Management Zug Ltd	Ordinary SF 100 Shares	100%	Asset Management
Jefferies Japan Limited	Ordinary £1 Shares	100%	Japanese Representative Office
Jefferies International (Nominees) Limited	Ordinary £1 Shares	100%	Nominee Company
Jefferies International (Nominees) Client Account Limited	Ordinary £1 Shares	100%	Nominee Company

Apart from Jefferies (Switzerland) Limited and Cresvale Asset Management Zug Ltd which are registered in Switzerland all subsidiaries are registered in England and Wales.

13 Debtors

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade debtors	33,275	18,962	24,500	18,962
Charged Asset	-	78	-	78
Amounts owed by fellow subsidiary undertakings : - Trading	7,135	3,391	7,135	3,391
Non trading	189	6,800	182	6,800
Other debtors	874	407	550	365
Prepayments	373	176	71	173
Deferred Taxation	27	71	28	71
	<u>41,873</u>	<u>29,885</u>	<u>32,466</u>	<u>29,840</u>

All of the above amounts fall due within one year.

14 Marketable Securities

Shares in listed securities and debt instruments

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Long Positions	<u>2,610</u>	<u>2,578</u>	<u>1,442</u>	<u>2,578</u>
Short Positions	<u>273</u>	<u>-</u>	<u>273</u>	<u>-</u>

15 Creditors : amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Bank overdraft	205	1,797	205	1,797
Trade creditors	32,205	13,376	21,460	13,376
Amounts owed to parent and fellow subsidiary undertaking:				
• Non trading	816	1,249	794	1,230
• Trading	4,111	8,093	4,111	8,093
Amounts owed to subsidiary undertakings:				
• Non trading	-	-	2,572	1,703
Other creditors including taxation and social security				
• Corporation tax	651	633	433	548
• Other taxes	216	14	19	14
• Social security	619	383	612	383
• Other creditors	818	173	816	156
• Accruals & deferred income	4,458	3,007	2,898	2,584
	<u>44,099</u>	<u>28,725</u>	<u>33,920</u>	<u>29,884</u>

16 Creditors : amounts falling due after one year

Group and Company	1997	1996
	£000	£000
Amounts due to parent undertaking :		
Subordinated loan	150	150
Amounts due to fellow subsidiary undertaking :		
Subordinated loan	<u>1,750</u>	<u>1,750</u>
At 31 December 1997	<u>1,900</u>	<u>1,900</u>

These amounts are repayable 5 years from the lender giving notice to the borrower.

17 Deferred Taxation

	Group and Company
	£000
At 1 January 1997	(71)
Profit and loss account	<u>44</u>
At 31 December 1997	<u>(27)</u>

Deferred taxation is provided due to the tax effect of timing differences caused by excess pension payments expensed, over pension payments made and excess tax allowances over depreciation. The amount provided is the full potential asset.

18 Called up Share Capital

Group and Company	1997	1996
		£
Authorised		
1,600,400 ordinary shares of £1 each	<u>1,600,400</u>	<u>1,600,400</u>
Allotted, called up and fully paid		
1,600,400 ordinary shares of £1 each	<u>1,600,400</u>	<u>1,600,400</u>

19 Share premium account and reserves

Group and Company	Share premium account	
	£000	
At 1 January 1997 and at 31 December 1997	<u>2,162</u>	
Other Reserves	Group	Company
	1997	1997
	£000	£000
As at 1 January 1997	403	400
Movement for Year	<u>7</u>	<u>-</u>
As at 31 December 1997	<u>410</u>	<u>400</u>

20 Reconciliation of movements of shareholders' funds

Group	1997	1996
	£000	£000
Retained profit for the financial year	352	528
Opening Shareholders' funds	6,387	4,256
Movements on other reserves	7	3
Issue of 1,600,000 shares	-	1600
Closing Shareholders' funds	<u>6,746</u>	<u>6,387</u>
Company	1997	1996
	£000	£000
Retained profit for the financial year	473	493
Issue of 1,600,000 shares	-	1,600
Opening Shareholders' funds	6,304	4,211
Closing Shareholders' funds	<u>6,777</u>	<u>6,304</u>

21 Immediate and ultimate holding company

The immediate and ultimate holding company is Jefferies Group Inc which is incorporated in the United States of America. Group accounts are available from 11100 Santa Monica Boulevard, Suite 1000, Los Angeles, California 90025.