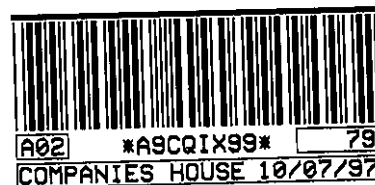


**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

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## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

### **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. During the year Jefferies Japan Limited was established in Tokyo but had not traded prior to the year end.

### **Issue of Shares**

During the year the authorised share capital was increased by 1,599,400 ordinary shares of £1 each £1,600,000 ordinary shares were issued and fully paid during the year. These shares were issued to finance the purchase of shares in Jefferies (Japan) Limited, a subsidiary company.

### **DIVIDENDS AND TRANSFERS TO RESERVES**

The directors do not recommend the payment of a dividend for the year ended 31 December 1996 (1995:nil). The profit for the financial year of £528,000 (1995:£670,000) 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	(appointed 29:08:96)
J F Palamara	
C A Siegel	
D R Smith	(Resigned 13:12:96)
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.

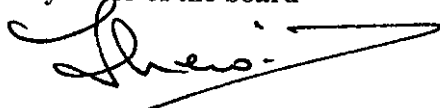
### **CHARITABLE DONATIONS**

Charitable donations amounting to £1,205 (1995:£1,650) 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

27 March 97

**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 1996 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*

KPMG AUDIT PLC  
*Chartered Accountants*  
*Registered Auditor*

*27 March 1997*

# *Jefferies International Limited*

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## **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*for the year ended 31 December 1996*

	<i>Notes</i>	<b>1996 £000</b>	<b>1995 £000</b>
<b>Turnover</b>	<b>2</b>	<b>17,036</b>	<b>12,165</b>
Administrative expenses		<u>(15,917)</u>	<u>(11,180)</u>
<b>Operating profit</b>		<b>1,119</b>	<b>985</b>
Interest receivable and similar income	<b>3</b>	<b>322</b>	<b>186</b>
Interest payable and similar charges	<b>4</b>	<u>(298)</u>	<u>(178)</u>
<b>Profit on ordinary activities before taxation</b>	<b>5</b>	<b>1,143</b>	<b>993</b>
Tax on profit on ordinary activities	<b>10</b>	<u>(615)</u>	<u>(323)</u>
<b>Retained profit for the financial year</b>		<b>528</b>	<b>670</b>
Profit and loss account brought forward		<u>1,694</u>	<u>1,024</u>
<b>Profit and loss account carried forward</b>		<u><b>2,222</b></u>	<u><b>1,694</b></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 1996*

	Notes	1996 £000	1995 £000
<b>Fixed assets</b>			
Tangible assets	11	1,294	1,244
<b>Current assets</b>			
Debtors	13	29,885	25,801
Marketable securities - long positions	14	2,578	256
Cash at bank and in hand		3,255	5,098
		<u>35,718</u>	<u>31,155</u>
<b>Creditors:</b>			
amounts falling due within one year	15	(28,725)	(26,233)
<b>Net current assets</b>		<u>6,993</u>	<u>4,922</u>
<b>Total assets less current liabilities</b>		<b>8,287</b>	<b>6,166</b>
<b>Creditors :</b>			
amounts falling due after one year	16	(1,900)	(1,900)
<b>Provisions for liabilities and charges</b>	17	-	(10)
<b>Net assets</b>		<u><u>6,387</u></u>	<u><u>4,256</u></u>
<b>Capital and reserves</b>			
Called up share capital	18	1,600	-
Share premium account	19	2,162	2,162
Other reserves	19	403	400
Profit and loss account		2,222	1,694
	20	<u><u>6,387</u></u>	<u><u>4,256</u></u>

These financial statements were approved by the board of directors on 27 March 1997 and were signed on its behalf by:

*C A Siegel*

C A Siegel  
MANAGING DIRECTOR

# Jefferies International Limited

## BALANCE SHEET

at 31 December 1996

	Notes	1996 £000	1995 £000
<b>Fixed assets</b>			
Tangible assets	11	1,247	1,191
Investments	12	<u>4,013</u>	<u>926</u>
		5,260	2,117
<b>Current assets</b>			
Debtors	13	29,840	25,768
Marketable securities - long positions	14	2,578	256
Cash at bank and in hand		<u>410</u>	<u>4,669</u>
		32,828	30,693
<b>Creditors:</b> amounts falling due within one year	15	<u>(29,884)</u>	<u>(26,689)</u>
<b>Net current assets</b>		<u>2,944</u>	<u>4,004</u>
<b>Total assets less current liabilities</b>		8,204	6,121
<b>Creditors :</b> amounts falling due after one year	16	(1,900)	(1,900)
<b>Provisions for liabilities and charges</b>	17	<u>-</u>	<u>(10)</u>
<b>Net assets</b>		<u><u>6,304</u></u>	<u><u>4,211</u></u>
<b>Capital reserves</b>			
Called up share capital	18	1,600	-
Share premium account	19	2,162	2,162
Other reserves	19	400	400
Profit and loss account		<u>2,142</u>	<u>1,649</u>
	20	<u><u>6,304</u></u>	<u><u>4,211</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 £493,000 (1995: £625,000).

These financial statements were approved by the board of directors on 27 March 1997 and were signed on its behalf by :

*C A Siegel*

C A Siegel  
MANAGING DIRECTOR

**NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 1996*

**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.



## *Jefferies International Limited*

### **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.

	1996 £000	1995 £000
Commission	2,667	738
Principal trading	9,658	5,504
Service fee income	4,548	5,830
Other income	163	93
	<u>17,036</u>	<u>12,165</u>

### **3 Interest receivable and similar income**

	1996 £000	1995 £000
Receivable from parent undertaking	237	-
Other interest income	73	186
Other Dividend Income	12	-
	<u>322</u>	<u>186</u>

### **4 Interest payable and similar charges**

	1996 £000	1995 £000
Payable to parent undertaking	170	15
Other interest payable on loans wholly repayable within five years	128	163
	<u>298</u>	<u>178</u>

### **5 Profit on ordinary activities before taxation**

	1996 £000	1995 £000
<b>Profit on ordinary activities before taxation is stated after charging</b>		
Auditors' remuneration for audit	37	24
Depreciation of tangible fixed assets	425	301
Directors' emoluments as executives	<u>2,408</u>	<u>1,940</u>

Remuneration of the company's auditors, for the provision of non-audit services to the company and its subsidiary during the year, amounted to £10,478 (1995 : £42,038). This included taxation and company secretarial advice.

**6 Remuneration of directors**

The emoluments, excluding pension contributions, of the chairman were £nil (1995: £nil) and those of the highest paid director were £429,445 (1995: £550,582).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid directors) were within the following ranges :

		Number of directors	
£	£	1996	1995
0 -	5,000	1	3
10,001 -	15,000	1	1
25,001 -	30,000	-	1
40,001 -	45,000	-	1
75,001 -	80,000	1	-
95,001 -	100,000	1	-
115,001 -	120,000	-	1
155,001 -	160,000	-	1
255,001 -	260,000	1	1
320,001 -	325,000	1	-
340,001 -	345,000	1	-
355,001 -	360,000	-	1
380,001 -	385,000	-	1
395,001 -	400,000	1	-
405,001 -	410,000	1	-
425,001 -	430,000	1	-
550,001 -	555,000	-	1

**7 Directors' loans**

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

	Liability 31 December 1996 £	Maximum Liability during the financial year £	Liability 1 January 1996 £
D R Smith	-	-	-
L S Allan	237	772	244
E B Gale	3,723	4,964	-
J F Graham	<u>3,087</u>	<u>3,704</u>	<u>2,341</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 73 (1995: 61):

The aggregate payroll costs were as follows :

	1996 £000	1995 £000
Wages and salaries	7,868	6,646
Social Security costs	632	703
Other pension costs	<u>350</u>	<u>169</u>
	<u>8,850</u>	<u>7,518</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 an independently administered fund. The amount charged against profits includes contributions payable by the company to the fund amounting to £350,000 (1995: £169,000). Contributions payable of £151,000 (1995: £115,000) were outstanding at the year end.

**10 Taxation**

	1996 £000	1995 £000
UK corporation tax at 33% (1995: 33%) on the profit for the year on ordinary activities	627	392
Adjustment in respect of prior year franked investment income	-	(25)
Overseas Corporate Tax	70	-
Deferred taxation	(82)	(44)
	<u>615</u>	<u>323</u>

**11 Tangible fixed assets**

Group	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
<b>Cost</b>			
As at 1 January 1996	448	1,543	1,991
Additions	<u>115</u>	<u>360</u>	<u>475</u>
As at 31 December 1996	563	1,903	2,466
<b>Depreciation</b>			
As at 1 January 1996	138	609	747
Charge for year	<u>99</u>	<u>326</u>	<u>425</u>
As at 31 December 1996	237	935	1172
<b>Net Book Value</b>			
As at 31 December 1996	<u>326</u>	<u>968</u>	<u>1,294</u>
As at 31 December 1995	<u>310</u>	<u>934</u>	<u>1,244</u>

**11 Tangible fixed assets (continued)**

<b>Company</b>	<b>Leasehold Improvements £000</b>	<b>Fixtures &amp; Fittings £000</b>	<b>Total £000</b>
<b>Cost</b>			
As at 1 January 1996	448	1,471	1,919
Additions	115	352	467
As at 31 December 1996	563	1,823	2,386
<b>Depreciation</b>			
As at 1 January 1996	138	590	728
Charge for year	99	312	411
As at 31 December 1996	237	902	1,139
<b>Net Book Value</b>			
As at 31 December 1996	326	921	1,247
As at 31 December 1995	310	881	1,191

**12 Fixed asset investments**

Interests in group undertakings

	<b>£000</b>
At 1 January 1996	926
Acquisitions	3,087
<b>At 31 December 1996</b>	<b>4,013</b>

The acquisition during the year related to the formation of Jefferies Japan Limited. The details of the subsidiaries, which have been included in the consolidation, are as follows :

<b>Name of undertaking</b>	<b>Description of shares held</b>	<b>Proportion of nominal value of issued shares held by the group and company</b>	<b>Principal activity</b>
Jefferies & Company Limited	Ordinary £1 Shares	100%	Dormant
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. Jefferies Japan Limited had not commenced trading as at 31 December 1996.

**13 Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>1996</b>	<b>1995</b>	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade debtors	18,962	20,328	18,962	20,307
Charged Asset	78	81	78	81
Amounts owed by fellow subsidiary undertakings :				
• Trading	3,391	2,581	3,391	2,581
• Non trading	6,800	2,358	6,800	2,358
Other debtors	407	318	365	318
Prepayments	176	135	173	123
Deferred Taxation	71	-	71	-
	<u>29,885</u>	<u>25,801</u>	<u>29,840</u>	<u>25,768</u>

All of the above amounts fall due within one year.

**14 Marketable Securities - long positions**

<b>Group and Company</b>	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>
Shares in listed securities and debt instruments	<u>2,578</u>	<u>256</u>

None of which were listed on the London Stock Exchange.

**15 Creditors : amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>1996</b>	<b>1995</b>	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bank overdraft	1,797	80	1,797	80
Trade creditors	13,376	20,402	13,376	20,402
Amounts owed to parent undertaking:				
• Non trading	1249	282	1230	274
• Trading	8,093	1,903	8,093	1,903
Amounts owed to subsidiary undertakings:				
• Non trading	-	-	1,703	567
Other creditors including taxation and social security				
• Corporation tax	633	360	548	337
• Other taxes	14	257	14	257
• Social security	383	235	383	235
• Other creditors	173	285	156	224
• Accruals & deferred income	3,007	2,429	2,584	2,410
	<u>28,725</u>	<u>26,233</u>	<u>29,884</u>	<u>26,689</u>

**16 Creditors : amounts falling due after one year**

<b>Group and Company</b>	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>
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>
<b>At 31 December 1995</b>	<u><b>1,900</b></u>	<u><b>1,900</b></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 1996	10
Profit and loss account	<u>(81)</u>
At 31 December 1996	<u>(71)</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	1996	1995 £
Authorised		
1,600,400 ordinary shares of £1 each	<u>1,600,400</u>	<u>1,000</u>
Allotted, called up and fully paid		
1,600,400 ordinary shares of £1 each	<u>1,600,400</u>	<u>400</u>

During the year the authorised share capital was increased by 1,599,400 ordinary shares of £1 each. £1,600,000 ordinary shares were issued and fully paid during the year. These shares were issued to finance the purchase of shares in Jefferies (Japan) Limited, a subsidiary company.

**19 Share premium account and reserves**

Group and Company	Share premium account £000	
At January 1996 and at 31 December		<u>2,162</u>
Other Reserves	Group 1996 £000	Company 1996
As at 1 January 1996	400	400
Movement for Year	<u>3</u>	<u>-</u>
As at 31 December 1996	<u>403</u>	<u>403</u>

**20 Reconciliation of movements of shareholders' funds**

Group	1996 £000	1995 £000
Retained profit for the financial year	528	670
Opening Shareholders' funds	4,256	3,586
Movements on other reserves	3	
Issue of 1,600,000 shares	<u>1,600</u>	<u>-</u>
Closing Shareholders' funds	<u>6,387</u>	<u>4,256</u>
Company	1996 £000	1995 £000
Retained profit for the financial year	493	625
Issue of 1,600,000 shares	1,600	-
Opening Shareholders' funds	<u>4,211</u>	<u>3,586</u>
Closing Shareholders' funds	<u>6,304</u>	<u>4,211</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.