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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 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Profit and Loss Account for the year is set out on page 5.

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 regulated by the Securities and Futures Authority and is a member of 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 1998 (1997:nil). The profit for the financial year of £566,000 (1997:£359,000) 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	(Resigned 13 Feb 1998)
D Fowler	
E B Gale	
J F Graham	
J A Guy	(Resigned 27 Feb 1998)
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 £8,667 (1997:£6,112) were made during the financial year.

YEAR 2000

The Company's Year 2000 plan is being managed by outside consultants. It has been developed to identify the risks and uncertainties associated with the inability of many computer systems and electronic devices to deal with the Year 2000 date change and ensure that all computer hardware and software will be Year 2000 compliant in time for the advent of the millenium. In addition, close liaison has been established with our suppliers to ensure that any potential failure of their systems will have a minimal impact upon the smooth running of the Company's operations. The costs of the Year 2000 compliance plan are expensed in the period in which they arise. The Directors estimate that the total cost of implementing the plan will be approximately £648,000.

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
29 March 99

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 of the group 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 5 to 16.

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.

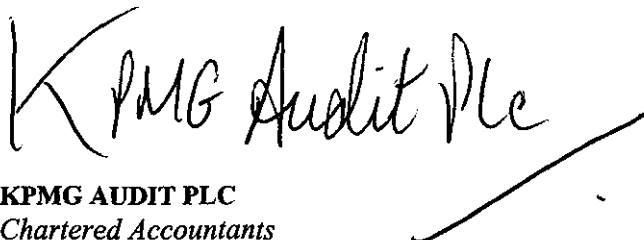
BASIS OF OPINION

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 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 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A large, stylized handwritten signature in black ink that reads "KPMG Audit Plc". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

KPMG AUDIT PLC
Chartered Accountants
Registered Auditor

29 March 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT*for the year ended 31 December 1998*

	<i>Notes</i>	1998 £000	1997 £000
Turnover	<i>2</i>	24,015	23,609
Administrative expenses		<u>(22,087)</u>	<u>(22,505)</u>
Operating profit		1,928	1,104
Interest receivable and similar income	<i>3</i>	502	210
Interest payable and similar charges	<i>4</i>	<u>(306)</u>	<u>(294)</u>
Profit on ordinary activities before taxation	<i>5</i>	2,124	1,020
Tax on profit on ordinary activities	<i>10</i>	<u>(1,558)</u>	<u>(661)</u>
Retained profit for the financial year	<i>19</i>	<u>566</u>	<u>359</u>

The notes on pages 9 to 16 form part of these financial statements.

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

CONSOLIDATED STATEMENT OF RECOGNIZED GAINS AND LOSSES

for the year ended 31 December 1998

	1998	1997
	£000	£000
Retained Profit for the Financial Year	566	2,574
Foreign exchange differences	390	-
Total Recognized Gains and Losses for the Year	<u>956</u>	<u>2,574</u>

CONSOLIDATED BALANCE SHEET

at 31 December 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	11	1,161	1,322
Current assets			
Debtors	13	51,442	41,873
Marketable securities - long positions	14	1,323	2,610
Cash at bank and in hand		<u>13,061</u>	<u>7,213</u>
		65,826	51,696
Creditors:			
Marketable securities - short positions	14	(752)	(273)
amounts falling due within one year	15	<u>(56,633)</u>	<u>(44,099)</u>
		(57,385)	(44,372)
Net current assets		<u>8,441</u>	<u>7,324</u>
Total assets less current liabilities		9,602	8,646
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>7,702</u>	<u>6,746</u>
Capital and reserves			
Called up share capital	18	1,600	1,600
Share premium account	19	2,162	2,162
Legal and other reserves	19	620	410
Profit and loss account	19	<u>3,320</u>	<u>2,574</u>
Shareholder's funds	20	<u>7,702</u>	<u>6,746</u>

These financial statements were approved by the board of directors on 29 March 1999 and were signed on its behalf by:


 C A Siegel
 MANAGING DIRECTOR

BALANCE SHEET
at 31 December 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	11	1,004	1,182
Investments	12	<u>3,646</u>	<u>3,646</u>
		4,650	4,828
Current assets			
Debtors	13	41,916	32,466
Marketable securities - long positions	14	723	1,442
Cash at bank and in hand		<u>10,243</u>	<u>4,134</u>
		52,882	38,042
Creditors:			
Marketable securities - short positions	14	(752)	(273)
amounts falling due within one year	15	<u>(47,842)</u>	<u>(33,920)</u>
		(48,594)	(34,193)
Net current assets		<u>4,288</u>	<u>3,849</u>
Total assets less current liabilities		8,938	8,677
Creditors :			
amounts falling due after one year	16	<u>(1,900)</u>	<u>(1,900)</u>
Net assets		<u><u>7,038</u></u>	<u><u>6,777</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	19	<u>2,876</u>	<u>2,615</u>
Shareholder's funds	20	<u><u>7,038</u></u>	<u><u>6,777</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 £261,000 (1997: £473,000).

These financial statements were approved by the board of directors on 29 March 1999 and were signed on its behalf by:


C A Siegel
MANAGING DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1998

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

- i. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end. The results of overseas branches and subsidiary undertakings are translated into sterling at the average rates of exchange for the year
- ii. Exchange differences arising from the retranslation of opening foreign currency net investments and from translation of the result for the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.
- iii. Other exchange differences are recognised in the profit and loss account.

Pension costs

Pension 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.

	1998	1997
	£000	£000
Commission and other dealing income	16,125	20,439
Service fee income	7,150	2,990
Other income	740	180
	<u>24,015</u>	<u>23,609</u>

3 Interest receivable and similar income

	1998	1997
	£000	£000
Other interest income	370	210
Other Dividend Income	132	-
	<u>502</u>	<u>210</u>

4 Interest payable and similar charges

	1998	1997
	£000	£000
Payable to parent undertaking	170	170
Other interest payable on loans wholly repayable within five years	136	124
	<u>306</u>	<u>294</u>

5 Profit on ordinary activities before taxation

	1998	1997
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration for audit	35	37
Depreciation of tangible fixed assets	706	425
Directors' emoluments as executives	<u>2,129</u>	<u>2,408</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 £39,598 (1997 : £31,736). This included taxation and company secretarial advice.

6 Remuneration of directors

The emoluments, of the chairman were £nil (1997: £nil). The highest paid director received emoluments of £623,085 (1997: £999,506) and contributions of £11,263 (1997: £8,632) 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	1998 £000	1997 £000
Emoluments	2,089	3,352
Pension Contributions	40	37
	<u>2,129</u>	<u>3,389</u>

Contributions to pension schemes were made on behalf of 5 directors (1997: 5) in 1998.

7 Directors' loans

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

	Liability 31 December 1998 £	Maximum Liability during the financial year £	Liability 1 January 1998 £
L S Allan	-	237	237
E B Gale	5,464	7,318	4,965
J F Graham	3,220	3,864	2,840
J A Guy	-	161	161

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 96 (1997: 89):

The aggregate payroll costs were as follows :

	1998 £000	1997 £000
Wages and salaries	9,588	10,160
Social Security costs	834	924
Other pension costs	389	327
	<u>10,811</u>	<u>11,411</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 £308,000 (1997: £266,000). There were no contributions payable (1997: nil) at the year end.

10 Taxation

	1998 £000	1997 £000
UK corporation tax at 31.5% on the profit for the year on ordinary activities	1,366	404
Overseas Corporate Tax	549	213
Deferred taxation	(357)	44
	<u>1,558</u>	<u>661</u>

11 Tangible fixed assets

Group	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 1998	628	2,560	3,188
Additions	<u>-</u>	<u>545</u>	<u>545</u>
As at 31 December 1998	628	3,105	3,733
Depreciation			
As at 1 January 1998	499	1,367	1,866
Charge for year	<u>107</u>	<u>599</u>	<u>706</u>
As at 31 December 1998	606	1,966	2,572
Net Book Value			
As at 31 December 1998	<u>22</u>	<u>1,139</u>	<u>1,161</u>
As at 31 December 1997	<u>129</u>	<u>1,193</u>	<u>1,322</u>

11 Tangible fixed assets (continued)

Company	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 1998	563	2,389	2,952
Additions	-	446	446
As at 31 December 1998	563	2,835	3,398
Depreciation			
As at 1 January 1998	479	1,291	1,770
Charge for year	84	540	624
As at 31 December 1998	563	1,831	2,394
Net Book Value			
As at 31 December 1998	0	1,004	1,004
As at 31 December 1997	84	1,098	1,182

12 Fixed asset investments

Interests in group undertakings	£000
At 1 January 1998	3,646
At 31 December 1998	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
Jefferies Asset Management Limited	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 Jefferies Asset Management Limited which are registered in Switzerland all subsidiaries are registered in England and Wales.

13 Debtors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Trade debtors	45,221	33,275	36,797	24,500
Amounts owed by fellow subsidiary undertakings : - Trading	3,561	7,135	3,561	7,135
Non trading	750	189	626	182
Amounts owed by subsidiary undertakings: - Non trading	-	-	48	-
Other debtors	901	874	412	551
Prepayments	625	373	88	71
Deferred Taxation	384	27	384	27
	<u>51,442</u>	<u>41,873</u>	<u>41,916</u>	<u>32,466</u>

All of the above amounts fall due within one year.

14 Marketable Securities

Shares in listed securities and debt instruments

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Long Positions	<u>1,323</u>	<u>2610</u>	<u>723</u>	<u>1,442</u>
Short Positions	<u>752</u>	<u>273</u>	<u>752</u>	<u>273</u>

15 Creditors : amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Bank overdraft	1,497	205	1,497	205
Trade creditors	41,501	32,205	33,114	21,460
Amounts owed to parent and fellow subsidiary undertaking:				
Non trading	1,281	816	1,230	794
Trading	5,551	4,111	5,551	4,111
Amounts owed to subsidiary undertakings:				
Non trading	-	-	1,283	2,572
Other creditors including taxation and social security				
Corporation tax	1,506	651	1,207	433
Other taxes	301	216	11	19
Social security	563	619	392	612
Other creditors	1,440	818	1,271	816
Accruals & deferred income	2,993	4,458	2,286	2,898
	<u>56,633</u>	<u>44,099</u>	<u>47,842</u>	<u>33,920</u>

16 Creditors : amounts falling due after one year

Group and Company	1998	1997
	£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 1998	<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 1998	(27)
Profit and loss account	<u>(357)</u>
At 31 December 1998	<u>(384)</u>

Deferred taxation is provided due to the tax effect of timing differences caused by excess tax allowances over depreciation and deferred compensation plans.

18 Called up Share Capital

Group and Company	1998	1997
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 1998 and at 31 December 1998	<u>2,162</u>	
Legal and Other Reserves	Group	Company
	1998	1998
	£000	£000
As at 1 January 1998	410	400
Transfer from Profit and Loss account	<u>210</u>	<u>-</u>
As at 31 December 1998	<u>620</u>	<u>400</u>

The movement for the year on legal and other reserves represents a transfer from retained earnings to legal reserves to satisfy the local regulatory requirements of subsidiary companies.

Profit and Loss account	Group
	1998
	£000
As at 1 January 1998	2,574
Retained profit for the year	566
Foreign exchange difference	390
Transfer to legal reserve	(210)
	<u>3,320</u>

20 Reconciliation of movements of funds

Group	1998	1997
	£000	£000
Retained profit for the financial year	566	359
Opening Shareholder's funds	6,746	6,387
Movements in foreign exchange differences	390	-
Closing funds	<u>7,702</u>	<u>6,746</u>
Company	1998	1997
	£000	£000
Retained profit for the financial year	261	473
Opening Shareholder's funds	6,777	6,304
Closing funds	<u>7,038</u>	<u>6,777</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.