

Company Registration No 1978621

JEFFERIES INTERNATIONAL LIMITED

Directors' Report and Financial Statements

31 December 2003



DIRECTORS' REPORT AND 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 2003.

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 Financial Services 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 2003 (2002: £nil). The profit for the financial year of £91,000 (2002: £662,000) will be transferred to reserves.

DIRECTORS AND DIRECTORS' INTERESTS

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

R B Handler	Chairman
J L Conroy	
E B Gale	(appointed 6 January 2003)
J F Graham	
S Hiestand	
A J Hope	
H A C Reid	(resigned 18 August 2003)
P R V Shivers	(resigned 6 January 2003)
C A Siegel	

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 £90 (2002: £770) were made by the company during the financial year.

OVERSEAS BRANCHES

The company operated a branch in Paris throughout 2003.

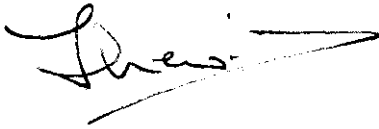
CREDITOR PAYMENT POLICY

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

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

Bracken House
1 Friday Street
London EC4M 9JA
31 March 2004

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 profit or loss 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 company 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 company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL LIMITED

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 as at 31 December 2003 and of the profit of the company 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

London
31 March 2004

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	<i>Notes</i>	2003 £000	2002 £000
Turnover	2	33,205	30,372
Administrative expenses		<u>(27,432)</u>	<u>(26,565)</u>
Operating profit		5,773	3,807
Interest receivable and similar income		626	576
Interest payable and similar charges	3	<u>(5,643)</u>	<u>(4,697)</u>
Profit / (loss) on ordinary activities before taxation	4	756	(314)
Tax on profit / (loss) on ordinary activities	9	<u>(665)</u>	<u>976</u>
Retained profit for the financial year	18	<u>91</u>	<u>662</u>

The notes on pages 8 to 15 form part of these financial statements.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2003

	2003	2002
	£	£
Retained profit for the period	91	662
Foreign exchange differences	<u>(28)</u>	<u>42</u>
Total recognised gains and losses for the year	<u>63</u>	<u>704</u>

BALANCE SHEET

at 31 December 2003

	Notes	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		1,126		1,567
Investments	11		6,768		6,740
			<u>7,894</u>		<u>8,307</u>
Current Assets					
Debtors	12	268,028		148,940	
Investments	13	11,977		7,890	
Cash at bank and in hand		<u>4,109</u>		<u>4,222</u>	
		<u>284,114</u>		<u>161,052</u>	
Creditors: Amounts falling due within one year					
Other creditors	14	(260,949)		(146,780)	
Investments	13	<u>(8,429)</u>		<u>(12)</u>	
		<u>(269,378)</u>		<u>(146,792)</u>	
Net current assets			<u>14,736</u>		<u>14,260</u>
Total assets less current liabilities			<u>22,630</u>		<u>22,567</u>
Creditors: Amounts falling due after one year	15		<u>(1,900)</u>		<u>(1,900)</u>
Net assets			<u>20,730</u>		<u>20,667</u>
Capital reserves					
Called up share capital	17		10,648		10,648
Share premium account	18		2,162		2,162
Other reserves	18		442		442
Profit and loss account	18		<u>7,478</u>		<u>7,415</u>
Shareholder's funds	19		<u>20,730</u>		<u>20,667</u>

These financial statements were approved by the board of directors on 31 March 2004 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 2003

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.

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 marketable securities at market value. The company is exempt by virtue of s228 of Companies Act 1985 from the requirement to prepare group accounts. 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 published consolidated financial statements. In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 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.

Income recognition

All transactions in securities, commission revenues, other dealing income, service fee income and related expenses are recorded on an accruals basis. Marketable securities, whether held long or short, are valued at market, and unrealised gains or losses are reflected in dealing income. Investment management and performance fees are recorded when earned.

Fixed asset investments and shares in subsidiary undertakings

Fixed asset investments are reported at the lower of cost and net realisable value. Shares in subsidiary undertakings are recorded at cost.

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. Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

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

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Turnover

The company'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.

	2003 £000	2002 £000
Commission and other dealing income	25,146	22,851
Service fee income	6,642	7,051
Other income	1,417	470
	<u>33,205</u>	<u>30,372</u>

3 Interest payable and similar charges

	2003 £000	2002 £000
Interest payable to fellow subsidiary undertaking	(5,304)	(4,204)
Other interest payable on loans wholly repayable within five years	(339)	(493)
	<u>(5,643)</u>	<u>(4,697)</u>

4 Profit / (loss) on ordinary activities before taxation

	2003 £000	2002 £000
Profit / (loss) on ordinary activities before taxation is stated after charging		
Auditors' remuneration for audit	94	46
Depreciation of tangible fixed assets	668	793
Operating leases	927	924
Directors' emoluments as executives	<u>2,856</u>	<u>1,635</u>

Remuneration of the company's auditors, for the provision of non-audit services to the company during the year, amounted to £231,918 (2002: £280,111). This included taxation and company secretarial advice.

5 Remuneration of directors

The highest paid director received emoluments of £1,090,000 (2002: £391,278) and £12,319 in contributions (2002: £13,257) were made to a pension scheme on his behalf.

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

	2003 £000	2002 £000
Emoluments	2,805	1,569
Pension Contributions	51	66
	<u>2,856</u>	<u>1,635</u>

Contributions to money purchase pension schemes were made on behalf of 5 directors (2002: 5) in 2003.

6 Directors' loans

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

	Liability 31 December 2003 £	Maximum Liability during the financial year £	Liability 1 January 2003 £
J F Graham	3,638	4,422	3,734
P R V Shivers	<u>-</u>	<u>520</u>	<u>520</u>

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

7 Staff numbers and costs

The average number of employees (including directors) during the year was 102 (2002:101): The split of these was as follows:

	2003	2002
Front office staff	63	65
Administration staff	<u>39</u>	<u>36</u>
	<u>102</u>	<u>101</u>

The aggregate payroll costs were as follows :

	2003 £000	2002 £000
Wages and Salaries	14,349	12,514
Social Security costs	1,904	1,508
Other pension costs	537	543
	<u>16,790</u>	<u>14,565</u>

8 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 £537,000 (2002: £543,000). There were no contributions payable (2002: £nil) at the year end.

9 Taxation

	2003 £000	2002 £000
UK Corporation tax at 30% on the profit for the year	(574)	(220)
Double tax relief	199	207
	(375)	(13)
Adjustment to UK Corporation tax in respect of prior years	(411)	904
	(786)	891
Overseas tax	(35)	(25)
Total current tax	(821)	866
Deferred tax	156	110
Tax on profit on ordinary activities	(665)	976

Tax reconciliation

	2003 £000	2002 £000
Profit / (loss) on ordinary activities before taxation	756	(314)
Tax on profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 30% (2002: 30%)	(227)	94
Adjustments in respect of prior periods	(411)	904
Disallowed expenses	(60)	(81)
Other	(123)	(51)
Total current tax	(821)	866

10 Tangible fixed assets

	Leasehold Improvements £000s	Fixtures & Fittings £000s	Total £000s
Cost			
As at 1 January 2003	1,753	4,980	6,733
Additions	46	181	227
As at 31 December 2003	1,799	5,161	6,960
Depreciation			
As at 1 January 2003	953	4,213	5,166
Charge for the period	218	450	668
As at 31 December 2003	1,171	4,663	5,834
Net Book Value			
As at 31 December 2003	628	498	1,126
As at 31 December 2002	800	767	1,567

11 Fixed asset investments

	2003 £000	2002 £000
Investments in subsidiary undertakings	6,740	6,740
Other fixed asset investments	28	-
	<u>6,768</u>	<u>6,740</u>

The company has investments in the following subsidiaries:

Name of undertaking	Description of shares held	Proportion of value of issued shares held by the group and company	Principal Activity
Jefferies (Switzerland) Limited	Ordinary SF 1,000 Shares	100%	Introducing Broker
Jefferies (Japan) Limited	Ordinary £1 Shares	100%	Broker / Dealer
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 which is registered in Switzerland, all subsidiaries are registered in England and Wales.

12 Debtors

	2003 £000	2002 £000
Trade debtors	87,539	120,143
Amounts owed by parent and fellow subsidiary undertakings:		
- Trading	169,142	24,473
- Non trading	7,624	966
Other debtors	2,604	2,463
Prepayments	434	366
Deferred taxation (note 16)	685	529
	<u>268,028</u>	<u>148,940</u>

All of the above amounts fall due within one year.

13 Investments

	2003 £000	2002 £000
Shares in listed securities and debt instruments	<u>11,977</u>	<u>7,890</u>
Shares in listed securities and debt instruments	<u>(8,429)</u>	<u>(12)</u>

14 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Bank overdraft	3,526	598
Trade creditors	217,677	111,098
Amounts owed to parent and fellow subsidiary undertakings		
- Trading	29,530	26,069
- Non trading	1,627	1,894
Amounts owed to subsidiary undertakings:		
- Non trading	1,971	2,321
Other creditors including taxation and social security:		
- Other taxes	38	132
- Social security	1,423	1,002
- Other creditors	223	215
- Accruals & deferred income	4,934	3,451
	<u>260,949</u>	<u>146,780</u>

15 Creditors: amounts falling due after one year

	2003	2002
	£000	£000
Amount due to fellow subsidiary undertaking:		
- Subordinated loan	<u>1,900</u>	<u>1,900</u>

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

16 Deferred Taxation Asset

	£000
As at 1 January 2003	529
Profit and loss account	<u>156</u>
As at 31 December 2003	<u>685</u>

Deferred tax comprises:

	2003	2002
	£000	£000
Depreciation charged in excess of capital allowances	132	76
Share awards not yet deductible for tax	553	453
	<u>685</u>	<u>529</u>

17 Called up Share Capital

	2003	2002
Authorised		
11,000,000 ordinary shares of £1 each	<u>11,000,000</u>	<u>11,000,000</u>
Allotted, called up and fully paid		
10,648,043 ordinary shares of £1 each	<u>10,648,043</u>	<u>10,648,043</u>

18 Share Premium account and reserves

Share Premium Account

	£000
As at 1 January 2003 and at 31 December 2003	<u>2,162</u>

Other Reserves

	£000
As at 1 January 2003 and at 31 December 2003	<u>442</u>

18 Share Premium account and reserves (continued)

Profit and Loss account

	£000
As at 1 January 2003	7,415
Retained profit for the year	91
Foreign exchange differences	(28)
As at 31 December 2003	7,478

19 Reconciliation of movements of funds

	2003 £000	2002 £000
Opening shareholders' funds	20,667	16,665
Retained profit for the financial year	91	662
Foreign exchange differences	(28)	42
Issue of shares	-	3,298
Closing shareholders' funds	20,730	20,667

20 Commitments under operating leases

	2003		2002	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Operating leases which expire:				
Within one year	-	4	-	-
In two to five years	-	23	-	18
After five years	908	-	906	-
	908	27	906	18

21 Immediate and ultimate holding company

The smallest group in which results of the company are consolidated is Jefferies International (Holdings) Limited which is incorporated in England & Wales. The ultimate holding company is Jefferies Group, Inc., which is incorporated in the United States of America. Group accounts are available from 520 Madison Avenue, New York, New York 10022. This company also heads the largest group in which these results are incorporated.