Company Registration No 1978621

JEFFERIES INTERNATIONAL LIMITED

Directors' Report and Financial Statements

31 December 2004



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page No
Directors' Report	1 - 2
Statement of Directors' Responsibilities	3
Independent Auditors' Report to the Members of Jefferies International Limited	4
Profit and Loss Account	5
Statement of Total Recognised Gains and Losses	6
Balance Sheet	7
Notes to the Financial Statements	8-16

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

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.

On 1 October 2004 Jefferies International Limited acquired the corporate finance advisory business of Broadview International Limited (a fellow subsidiary undertaking) at net book value.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (*2003*: £nil). The loss for the financial year of £48,000 (*2003*: profit of £91,000) 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	
J F Graham	
S Hiestand	
A J Hope	
B Huber	(appointed 24 June 2004)
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 £1,202 (*2003*: £90) were made by the company during the financial year.

OVERSEAS BRANCHES

The company operated a branch in Paris throughout 2004.

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 2005

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 16.

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 AUDIT 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 2004 and of the loss 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 2005

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Notes	On going £000	Acquisition £000	2004 Total £000	2003 Total £000
Turnover	*2*	**32,448**	**1,539**	**33,987**	33,205
Administrative expenses		**(31,756)**	**(1,211)**	**(32,967)**	(27,432)
Operating profit		**692**	**328**	**1,020**	5,773
Interest receivable and similar income				**4,556**	626
Interest payable and similar charges	*3*			**(5,290)**	(5,643)
Profit on ordinary activities before taxation	*4*			**286**	756
Tax on profit on ordinary activities	*9*			**(334)**	(665)
Retained (loss) / profit for the financial year	*19*			**(48)**	91

The notes on pages 8 to 16 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 2004

	2004	2003
	£000	£000
Retained (loss) / profit for the year	**(48)**	91
Foreign exchange differences	**3**	(28)
Total recognised gains and losses for the year	**(45)**	63

BALANCE SHEET

at 31 December 2004

	Notes	2004		2003	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*10*		**2,890**		1.126
Investments	*11*		**6,768**		6,768
			9,658		7,894
Current Assets					
Debtors	*12*	**561,237**		268,028	
Investments	*13*	**31,488**		11,977	
Cash at bank and in hand		**15,094**		4,109	
		607,819		284,114	
Creditors: amounts falling due within one year					
Other creditors	*14*	**(564,179)**		(260,949)	
Investments	*13*	**(26,271)**		(8,429)	
		(590,450)		(269,378)	
Net current assets			**17,369**		14,736
Total assets less current liabilities			**27,027**		22,630
Creditors: amounts falling due after one year	*15*		**-**		(1,900)
Provisions for liabilities and charges	*16*		**(1,142)**		-
Net assets			**25,885**		20,730
Capital reserves					
Called up share capital	*18*		**15,848**		10,648
Share premium account	*19*		**2,162**		2,162
Other reserves	*19*		**442**		442
Profit and loss account	*19*		**7,433**		7,478
Shareholders' funds	*20*		**25,885**		20,730

These financial statements were approved by the board of directors on 31 March 2005 and were signed on its behalf by:

John Conroy

J L Conroy
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

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 trading stock in 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 a 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.

Provision for onerous leases

A provision is made for net costs relating to onerous leases.

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.

	On going £000	**Acquisition £000**	**2004 Total £000**	2003 Total £000
Commissions and other dealing income	**29,688**	**-**	**29,688**	25,146
Service fee income	**811**	**-**	**811**	6,642
Other income	**1,949**	**1,539**	**3,488**	1,417
	32,448	**1,539**	**33,987**	33,205

On 1 October 2004 Jefferies International Limited acquired the corporate finance advisory business of Broadview International Limited (a fellow subsidiary undertaking) at net book value. The financial impact of the transaction is shown within the profit and loss account.

3 Interest payable and similar charges

	2004 £000	2003 £000
Interest payable to group undertakings	**(4,855)**	(5,304)
Other interest payable on loans wholly repayable within five years	**(435)**	(339)
	(5,290)	(5,643)

4 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration for audit	**88**	94
Depreciation of tangible fixed assets	**644**	668
Operating lease rentals	**1,485**	927
Write back of provision for onerous lease	**(204)**	-
Loss on disposal of tangible fixed assets	**77**	-
Directors' emoluments as executives	**2,467**	2,856

Remuneration of the company's auditors, for the provision of non-audit services to the company during the year, amounted to £104,761 *(2003*: £231,918*)*. This included taxation and company secretarial services.

5 Remuneration of directors

The highest paid director received emoluments of £1,118,852 (*2003*: £1,090,000) and £12,137 in contributions *(2003*: £12,319) were made to a pension scheme on his behalf.

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

	2004 £000	2003 £000
Emoluments	**2,427**	2,805
Pension Contributions	**40**	51
	2,467	2,856

Contributions to money purchase pension schemes were made on behalf of 4 directors (*2003*: 5) in 2004.

6 Directors' loans

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

	Liability 31 December 2004	Maximum Liability during the financial year	Liability 1 January 2004
	£	£	£
J F Graham	**3,596**	**4,363**	**3,638**

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 136 (*2003*:102): The split of these was as follows:

	2004	2003
Front office staff	**80**	63
Administration staff	**56**	39
	136	102

The aggregate payroll costs were as follows:

	2004 **£000**	2003 £000
Wages and salaries	**14,918**	14,349
Social security costs	**2,114**	1,904
Other pension costs	**625**	537
	17,657	16,790

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 £625,000 (*2003:* £537,000). There were no contributions payable (*2003*: £nil) at the year end.

9 Taxation

	2004 **£000**	2003 £000
UK corporation tax at 30% on the profit for the year	**(408)**	(574)
Double tax relief	**25**	199
	(383)	(375)
Adjustment to UK corporation tax in respect of prior years	**(35)**	(411)
	(418)	(786)
Overseas tax	**(25)**	(35)
Total current tax	**(443)**	(821)
Deferred tax	**109**	156
Tax on profit on ordinary activities	**(334)**	(665)

9 Taxation (continued)

Tax reconciliation

	2004 £000	2003 £000
Profit on ordinary activities before taxation	**286**	756
Tax on profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 30% (*2003*: 30%)	**(86)**	(227)
Adjustments in respect of prior years	**(35)**	(411)
Disallowed expenses	**(98)**	(60)
Other	**(224)**	(123)
Total current tax	**(443)**	(821)

10 Tangible fixed assets

	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 2004	**1,799**	**5,161**	**6,960**
Additions	**90**	**640**	**730**
Transfer from Broadview	**1,564**	**191**	**1,755**
Disposals	**-**	**(3,084)**	**(3,084)**
As at 31 December 2004	**3,453**	**2,908**	**6,361**
Depreciation			
As at 1 January 2004	**1,171**	**4,663**	**5,834**
Disposals	**-**	**(3,007)**	**(3,007)**
Charge for the period	**280**	**364**	**644**
As at 31 December 2004	**1,451**	**2,020**	**3,471**
Net Book Value			
As at 31 December 2004	**2,002**	**888**	**2,890**
As at 31 December 2003	**628**	**498**	**1,126**

11 Fixed asset investments

	2004 £000	2003 £000
Investments in subsidiary undertakings	**6,740**	6,740
Other fixed asset investments	**28**	28
	6,768	6,768

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

	2004 £000	2003 £000
Trade debtors	**54,021**	87,539
Amounts owed by parent and fellow subsidiary undertakings:		
- Trading	**501,517**	169,142
- Non trading	**1,468**	7,624
Corporation tax recoverable	**152**	-
Other debtors	**2,375**	2,604
Prepayments	**910**	434
Deferred taxation (note 17)	**794**	685
	561,237	268,028

All of the above amounts fall due within one year.

13 Investments

	2004 £000	2003 £000
Shares in listed securities and debt instruments	**31,488**	11,977
Shares in listed securities and debt instruments	**(26,271)**	(8,429)

14 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank overdraft	**11,475**	3,526
Trade creditors	**509,020**	217,677
Amounts owed to parent and fellow subsidiary undertakings:		
- Trading	**3,262**	29,530
- Non trading	**29,902**	1,627
Amounts owed to subsidiary undertakings:		
- Non trading	**1,260**	1,971
Other creditors including taxation and social security:		
- Other taxes	**133**	38
- Social security	**1,414**	1,423
- Other creditors	**183**	223
- Accruals and deferred income	**7,530**	4,934
	564,179	260,949

15 Creditors: amounts falling due after one year

	2004 £000	2003 £000
Amount due to fellow subsidiary undertaking:		
- Subordinated loan	**-**	1,900

The outstanding loan of £1,900,000 as at December 2003 has been paid back and cancelled during 2004.

16 Provisions for liabilities and charges

	£000
As at 1 January 2004	-
Transfer from Broadview	**1,346**
Utilised during the year	**(204)**
As at 31 December 2004	**1,142**

The provision relates to an onerous lease on property maturing in 2012, which is no longer occupied by the company.

17 Deferred taxation asset

	£000
As at 1 January 2004	**685**
Profit and loss account	**109**
As at 31 December 2004	**794**

Deferred tax comprises:

	2004 £000	2003 £000
Depreciation charged in excess of capital allowances	**(98)**	132
Share awards not yet deductible for tax	**892**	553
	794	685

18 Called up share capital

	2004 £	2003 £
Authorised		
16,200,000 ordinary shares of £1 each	**16,200,000**	11,000,000
Allotted, called up and fully paid		
15,848,043 ordinary shares of £1 each	**15,848,043**	10,648,043

An additional 5,200,000 shares were issued at £1 each during 2004 to increase the company's capital for trading purposes.

19 Share premium account and reserves

Share premium account

	£000
As at 1 January 2004 and at 31 December 2004	**2,162**

Other reserves

	£000
As at 1 January 2004 and at 31 December 2004	**442**

Profit and loss account

	£000
As at 1 January 2004	**7,478**
Retained (loss) for the year	**(48)**
Foreign exchange differences	**3**
As at 31 December 2004	**7,433**

20 Reconciliation of movements of shareholders' funds

	2004	2003
	£000	£000
Opening shareholders' funds	**20,730**	20,667
Retained (loss) / profit for the financial year	**(48)**	91
Foreign exchange differences	**3**	(28)
Issue of shares	**5,200**	-
Closing shareholders' funds	**25,885**	20,730

21 Commitments under operating leases

	2004		2003	
	Land & buildings	**Other**	Land & buildings	Other
Operating leases which expire:	**£000**	**£000**	£000	£000
Within one year	**73**	**-**	-	4
In two to five years	**-**	**22**	-	23
After five years	**3,255**	**-**	908	-
	3,328	**22**	908	27

22 Capital expenditure commitments

Capital expenditure authorized and contracted but not provided in the financial statements amounts to £950,000 (*2003*: £nil).

23 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.