

**SEARS FINANCIAL SERVICES LIMITED**

**REPORT AND ACCOUNTS**

**YEAR ENDED 31ST JANUARY 1998**

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**DIRECTORS**

D J Allmey  
K M Elwell  
R Kimberley  
D McCullough  
S A R Hunt

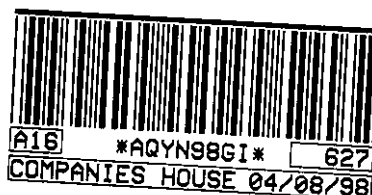
**SECRETARY AND REGISTERED OFFICE**

K M Elwell, Radcliffe House, Blenheim Court, Solihull, B91 2AA

Company Number: 1091883

**AUDITORS**

Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT



# SEARS FINANCIAL SERVICES LIMITED

## REPORT OF THE DIRECTORS

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The directors present their annual report together with the audited accounts for the year ended 31st January 1998.

### **BUSINESS REVIEW**

The principal activity of the Company is that of a finance company offering a credit card service primarily to fellow subsidiaries of Sears plc. The results for the year are set out in the profit and loss account on page 5.

In March 1998 the Company entered into a Joint Venture agreement with Equifax, the world's largest provider of card services. The Company has a 49% share in this joint venture whose business purpose will be to provide account processing services for the Company & for other external companies.

### **TRADING RESULTS**

The profit before tax for the year amounted to £12,728,814 (1997- £1,433,097). The directors consider that the results for the year were satisfactory.

### **DIVIDEND AND TRANSFER TO RESERVES**

The profit after taxation of £8,723,988 has been transferred to reserves. The directors do not recommend the payment of a dividend.

### **DIRECTORS**

The directors set out in the table below have held office during the whole of the period from 1 February 1997 to the date of this report unless otherwise stated:-

L G Strong	Resigned 30th May 1997
I Cheshire*	Resigned 15th May 1998
D J Allmey	
K M Elwell	
R Kimberley	
D McCullough	
J Sanderson	Resigned 15th May 1998
S A R Hunt	Appointed 19th May 1997

\*Director of Sears plc the ultimate parent undertaking, and his interests in the group of which the Company is a member are shown in the Annual Report of that company.

The interests of the directors (other than directors of the ultimate parent undertaking) holding office on 31 January 1998 in the shares of Sears plc, according to the register of director's interests are set out in note 4.

### **EMPLOYMENT POLICY**

During the year the Company has continued to maintain, as far as practicable, close consultation with employees or their representatives on matters likely to affect their interests. By means of meetings and staff publications, the Company has endeavoured to keep employees informed about the progress of their Company and the Group of which it is a member. All eligible employees have been invited to participate in the Savings-Related Share Option Scheme introduced in 1982.

It is the policy of the Company to ensure that the talents and resources of employees are utilised to the full and that no job applicant or employee receives less favourable treatment on the grounds of gender, marital status, social class, colour, race, ethnic origin, creed or disability or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. Close attention is always given to employees' health and safety with particular regard to the requirements of the Health and Safety at Work legislation.

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**PAYMENT POLICY**

It is not the Company's policy to follow a code of standard payment practice . Payments are made in accordance with terms agreed in advance with each individual supplier . The company's trade creditors at 31st January 1998 equated to 17 days on a weighted average basis over the year.

**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 of the Company 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;

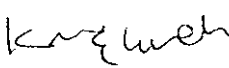
prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS**

The auditors , Price Waterhouse , have expressed their willingness to be re-appointed as auditors to the Company and a resolution for their re-appointment will be proposed at the annual general meeting .

Radcliffe House  
Blenheim Court  
Solihull  
B91 2AA

  
By order of the Board  
K M Elwell  
Director  
22nd June 1998

*Price Waterhouse*



## **AUDITORS' REPORT TO THE MEMBERS OF SEARS FINANCIAL SERVICES LIMITED**

We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

### **Respective responsibilities of directors and auditors**

As noted on page 3, the directors of Sears Financial Services Limited 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 in the United Kingdom. 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 judgments 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 January 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

**PRICE WATERHOUSE**  
**Chartered Accountants and Registered Auditors**

**22 JUNE 1998**

**SEARS FINANCIAL SERVICES LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31ST JANUARY 1998**

	Note	1998 £	1997 £
<b>TURNOVER</b>		31,755,977	27,253,535
Administration expenses before exceptional items		(21,462,117)	(22,160,522)
Restructuring costs	2	(1,327,000)	-
VAT reclaim	2	8,640,000	-
Administration expenses including exceptional items	1	(14,149,117)	(22,160,522)
<b>OPERATING PROFIT</b>		17,606,860	5,093,013
Interest payable	6	(4,878,046)	(3,659,916)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		12,728,814	1,433,097
Taxation	7	(4,004,826)	(537,148)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	15	8,723,988	895,949

The profit and loss account includes all recognised gains and losses for the year.

The profit for the financial year is derived wholly from continuing operations.

There is no material difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

## SEARS FINANCIAL SERVICES LIMITED

## BALANCE SHEET

AT 31ST JANUARY 1998

	Note	1998		1997	
		£	£	£	£
<b>FIXED ASSETS</b>					
Tangible Fixed Assets	8	1,469,274		1,390,540	
Investments	9	100		100	
<b>CURRENT ASSETS</b>					
Debtors	10	124,614,569		102,606,427	
Cash at bank and in hand		21,958,124		12,167,220	
		<u>146,572,693</u>		<u>114,773,647</u>	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	11	<u>(101,648,678)</u>		<u>(108,607,846)</u>	
<b>NET CURRENT ASSETS</b>		44,924,015		6,165,801	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>46,393,389</u>		<u>7,556,441</u>	
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	12	(30,112,960)		-	
<b>NET ASSETS</b>		<u>16,280,429</u>		<u>7,556,441</u>	
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14	10,000,100		10,000,100	
Profit and loss account	15	<u>6,280,329</u>		<u>(2,443,659)</u>	
<b>EQUITY SHAREHOLDERS' FUNDS</b>	16	<u>16,280,429</u>		<u>7,556,441</u>	

The financial statements were approved by the Board of Directors on the 22nd of June 1998 and were signed on its behalf by:

K M Elwell

Director



# **SEARS FINANCIAL SERVICES LIMITED**

## **ACCOUNTING POLICIES**

**31 JANUARY 1998**

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### **BASIS OF ACCOUNTS**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

### **FIXED ASSETS AND DEPRECIATION**

All tangible fixed assets are depreciated at the following annual rates :-

Motor Vehicles	33 %
Fixtures and Fittings	20% - 33%

Assets are depreciated on a straight line basis over their useful lives.

### **OPERATING LEASES**

Rentals payable under operating leases are dealt with on a straight line basis over the lease term.

### **TURNOVER**

Turnover represents service charges receivable from cardholders and commission on financed sales primarily arising from group companies.

### **DEFERRED TAXATION**

Deferred tax is provided in respect of the tax effect of all timing differences to the extent that it is probable that the liability or asset will crystallise in the foreseeable future, at the rate of tax expected to apply when the timing differences reverse.

### **PENSION COSTS**

Pension costs charged to the profit and loss account reflect the cost, based on actuarial estimates, of providing for pension benefits accruing in the year. Any excess or deficit of contributions paid into the pension scheme compared to the cumulative pensions cost is included in prepayments or accruals.

### **RELATED PARTY TRANSACTIONS**

Advantage has been taken of the exemption under Financial Reporting Standard 8 to dispense with the need to disclose transactions with fellow group companies, 90% or more of whose voting rights are held within the group, consolidated in the group accounts of the ultimate parent undertaking.

### **CASH FLOW STATEMENT**

The Company is exempted from producing a cash flow statement since a consolidated cash flow statement, prepared in accordance with the requirements of Financial Reporting Standard 1 (Revised 1996) is included in the group accounts of the ultimate parent undertaking.

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS

31 JANUARY 1998

1. <u>OPERATING PROFIT</u>	1998 £	1997 £
The operating profit of the Company is stated after charging/(crediting):		
Depreciation (see note 8)	853,497	791,871
Directors' emoluments (see note 3)	423,886	441,094
Auditors' remuneration - as Auditors	29,673	27,795
- Other	1,200	1,200
Loss/(profit) on disposal of fixed assets	(96,397)	(18,925)
Operating lease rentals;		
Hire of plant and machinery	53,716	31,587
Others	545,664	633,595
Recovery of VAT on debts previously written off	(504,000)	(586,000)
Group management charges	346,644	2,473,788

2. <u>EXCEPTIONAL ITEMS</u>	1998 £	1997 £
Group Management Charge in respect of restructuring costs	<u>1,327,000</u>	<u>-</u>

The VAT reclaim represents the Company's prudent estimate of the expected minimum entitlement to the repayment of VAT previously levied by Customs & Excise on outstanding credit balances as at 28th February 1997 following the withdrawal of the Standard Method of Gross Takings (SMGT). This follows the Court of Appeal ruling on 17th February 1998 in R v CCE ex parte Littlewoods Home Shopping Ltd.

3. <u>DIRECTORS' EMOLUMENTS</u>	1998 £	1997 £
Management services	<u>423,886</u>	<u>441,094</u>
Emoluments of:		
Highest paid director	<u>116,613</u>	<u>107,143</u>

The pension accrued by the highest paid director in the current year, together with the accumulated amount of the pension as at 31st January 1998 under the approved defined benefit scheme, are set out below. All the directors are members of the approved defined benefit scheme.

	Approved Scheme	
	Pension accrued in the year 1997/98 £ p.a.	Accumulated pension based on service to 31st January 1998 £ p.a.
Highest paid director	4,440	19,140



**SEARS FINANCIAL SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (Continued)**

**31 JANUARY 1998**

**4. DIRECTORS' INTERESTS**

The interests of the directors' in office at 31st January 1998 in the 25p Ordinary shares of Sears plc were as follows:

Ordinary Shares

	1st February 1997 / Date of Appointment	31st January 1998
D J Allmey	5,952	5,952
R Kimberley	29,038	29,038
S A R Hunt	-	2,307

Ordinary Shares Under Option :

	1st February 1997/Date of appointment	31st January 1998	Price (pence)	Period	See Notes
D J Allmey	50,000	50,000	78	7/95 - 7/2002	a
	8,313	8,313	83	12/99 - 6/2000	b
	49,100	49,100	106	4/98 - 4/2005	a
K M Elwell	34,000	34,000	106	4/98 - 4/2005	a
	19,166	19,166	90	12/2000 - 6/2001	b
R Kimberley	32,100	32,100	106	4/98 - 4/2005	a
	11,500	11,500	90	12/2000 - 6/2001	b
	5,064	5,064	77	12/99 - 6/2000	b
D McCullough	23,600	23,600	106	4/98 - 4/2005	a
S A R Hunt	7,666	7,666	90	12/2000 - 6/2001	b
	5,064	5,064	77	12/99 - 6/2000	b

No options were granted or exercised during the year.

a) Executive Share Options - The option price of executive options is based on the average share price for the three trading days prior to the date of grant.

b) Savings Related Options - The option price is based on the average share price for the three days prior to the grant and discounted by up to 20%.

The market price of Sears plc shares at the year end was 50.5p and they reached a high and low during the year to 31 January 1998 of 85.5p and 46.75p respectively.

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1998

5. <u>EMPLOYEES</u>	1998 £	1997 £
Summary of costs (including directors):		
Wages and salaries	4,968,257	4,153,185
Social security costs	341,872	302,961
Other pension costs	4,200	34,712
	<hr/>	<hr/>
	5,314,329	4,490,858
	<hr/>	<hr/>
Average number of employees (including directors):	1998	1997
Full time	193	164
Part time	370	316
	<hr/>	<hr/>
	563	480
	<hr/>	<hr/>
6. <u>INTEREST PAYABLE</u>	1998 £	1997 £
Interest payable to group undertakings	4,223,313	3,659,916
Interest payable on bank loans & overdrafts	654,733	-
	<hr/>	<hr/>
	4,878,046	3,659,916
	<hr/>	<hr/>
7. <u>TAXATION</u>	1998 £	1997 £
UK Corporation tax charge based on the results for the year at 31.5% (1997 -33%)	4,161,025	652,800
Corporation tax - prior years	(29,544)	5,507
Deferred tax - current year	(112,299)	(148,752)
- prior years	(14,356)	27,593
	<hr/>	<hr/>
	4,004,826	537,148
	<hr/>	<hr/>

**SEARS FINANCIAL SERVICES LIMITED**

**NOTES TO THE ACCOUNTS (Continued)**

**31 JANUARY 1998**

**8. TANGIBLE FIXED ASSETS**

	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost:			
At 1st February 1997	586,842	3,151,166	3,738,008
Additions	534,858	888,122	1,422,980
Disposals	(649,070)	(1,645,666)	(2,294,736)
	<hr/>	<hr/>	<hr/>
At 31st January 1998	472,630	2,393,622	2,866,252
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 1st February 1997	138,120	2,209,348	2,347,468
Charge for the year	110,279	743,218	853,497
Disposals	(167,692)	(1,636,295)	(1,803,987)
	<hr/>	<hr/>	<hr/>
At 31st January 1998	80,707	1,316,271	1,396,978
	<hr/>	<hr/>	<hr/>
Net book value :			
At 31st January 1998	<u>391,923</u>	<u>1,077,351</u>	<u>1,469,274</u>
At 31st January 1997	<u>448,722</u>	<u>941,818</u>	<u>1,390,540</u>

**9. INVESTMENTS:**

	1998 £	1997 £
Investment in subsidiary	<u>100</u>	<u>100</u>

The Company holds the whole of the authorised and issued ordinary share capital of West Midlands Debt Collections Limited, a company incorporated in the United Kingdom , which did not trade during the year.

In the opinion of the directors the aggregate value of the investment at 31 January 1998 was not less than the value in the Balance Sheet.

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1998

10. <u>DEBTORS</u>	1998 £	1997 £
Amounts falling due within one year:-		
Trade debtors	112,618,244	99,204,494
Amounts owed by group undertakings	568,845	643,397
Other debtors	8,517,486	693,674
Prepayments	764,635	245,690
Taxation - deferred tax asset (see note 13)	468,072	341,417
	<hr/>	<hr/>
	122,937,282	101,128,672
Amounts falling due after more than one year:-		
Trade debtors	1,677,287	1,477,575
	<hr/>	<hr/>
	124,614,569	102,606,247
	<hr/>	<hr/>

11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Amounts falling due within one year:-		
Trade creditors	1,002,460	1,569,445
Amounts owed to group undertakings	92,639,371	92,027,004
Corporation tax	4,177,222	652,800
Other taxes and social security creditors	236,573	9,650,474
Accruals and deferred income	3,593,052	4,708,123
	<hr/>	<hr/>
	101,648,678	108,607,846
	<hr/>	<hr/>

The Company pays interest on amounts owed to other group companies. The rate used is the prevailing Finance House Base Rate which is applied to the amount outstanding for each day.

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1998

**12. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	1998	1997
	£	£
Bank loans & overdrafts -repayable between 2 & 5 years	<u>30,112,960</u>	-

In September 1997 a five year non-recourse facility was arranged . The facility amount is dependant on the level of receivable balances , with any principal and interest repaid from the settlement of these receivable balances . The amount that can be drawn down under the facility is approximately 75% of the total receivable balances , being £116 million at 31st January 1998 . There is an overall facility cap of £125 million .

The interest on the non-recourse debt is variable and at 31st January 1998 was 7.8% .

**13. PROVISION FOR LIABILITIES AND CHARGES**

The deferred tax asset as at 31st January represented full recognition of the following timing differences:-

	1998	1997
	£	£
Excess capital allowances	-	(13,894)
Short term timing differences	468,072	355,311
	<u>468,072</u>	<u>341,417</u>

Full recognition of the deferred tax asset is made as the directors believe all timing differences will crystallise in the foreseeable future.

The movement on the deferred tax account was as follows:-

	£
Balance at 1st February 1997	341,417
Credited to the profit and loss account in respect of current year	112,299
Credited to the profit and loss account in respect of prior years	14,356
	<u>468,072</u>
Balance at 31st January 1998	<u>468,072</u>

**14. SHARE CAPITAL**

	1998	1997
	£	£
Ordinary shares of £1 each		
Authorised, issued and fully paid	<u>10,000,100</u>	<u>10,000,100</u>

**SEARS FINANCIAL SERVICES LIMITED****NOTES TO THE ACCOUNTS (Continued)****31 JANUARY 1998****15. PROFIT AND LOSS ACCOUNT**

	<u>£</u>
At 1 February 1997	(2,443,659)
Profit for the financial year	8,723,988
	<hr/>
At 31 January 1998	6,280,329
	<hr/>

**16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1998 <u>£</u>	1997 <u>£</u>
Profit for the financial year	8,723,988	895,949
	<hr/>	<hr/>
Net addition to shareholders' funds	8,723,988	895,949
Opening shareholders' funds	7,556,441	6,660,492
	<hr/>	<hr/>
Closing shareholders' funds	16,280,429	7,556,441
	<hr/>	<hr/>

**17. CAPITAL COMMITMENTS**

There were no capital commitments at the balance sheet date (1997 - £NIL)

**18. OPERATING LEASE COMMITMENTS**

At 31st January the Company was committed to making the following annual payments under non-cancellable operating leases :	1998 <u>£</u>	1997 <u>£</u>
<b>Land &amp; Buildings</b>		
Operating leases which expire :		
Within 1 to 5 years	437,000	264,000
After 5 years	-	249,000
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	437,000	513,000
	<hr/>	<hr/>

## SEARS FINANCIAL SERVICES LIMITED

### NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1998

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#### 19. CONSOLIDATED ACCOUNTS

Consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Sears Investment Trust Limited, which is incorporated in the United Kingdom . The Company is included within the group accounts of Sears plc, the ultimate parent company .

#### 20. PENSION COSTS

The Company is a member of two defined benefit schemes, the assets of which are held in separate trustee administered funds. The schemes are open to certain employees of the Sears plc group of companies and further particulars are set out in note 8 of the Annual Report of that company. The total pension cost for the Company was £4,200 (1997 £34,712).

A provision of £32,000 (1997 -£27,800 ) is included in creditors , representing the excess of the accumulated pension cost over the amount funded .

#### 21. CONTINGENT LIABILITIES

As a result of the group registration arrangement for value added tax, the Company together with the immediate parent company and certain fellow subsidiaries, is jointly and severally liable for any value added tax due by the representative member of the group.

#### 22. PARENT UNDERTAKING

The ultimate parent company and controlling party is Sears plc, a company incorporated in the United Kingdom . Copies of Sears plc Annual Report are available from 40 Duke Street, London, W1A 2HP.