

SEARS FINANCIAL SERVICES LIMITED

REPORT AND ACCOUNTS

YEAR ENDED 31ST JANUARY 1996

<u>PAGE</u>	<u>CONTENTS</u>
2	Report of the Directors
4	Report of the Auditors
5	Profit and Loss Account
6	Balance Sheet
7	Accounting Policies
8	Notes to the Accounts

DIRECTORS

L G Strong
I Cheshire
D J Allmey
K M Elwell
R Kimberley
D McCullough
R L Clarke
H M Keays

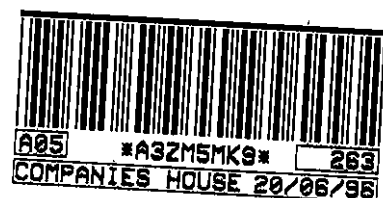
SECRETARY AND REGISTERED OFFICE

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

The directors present their annual report together with the audited accounts for the year ended 31st January 1996.

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.

TRADING RESULTS

The profit before tax for the year amounted to £549,807(1995- £309,555). The directors consider that the results for the year were satisfactory.

DIVIDEND AND TRANSFER TO RESERVES

The profit after taxation of £376,968 has been transferred to reserves. The directors do not recommend the payment of a dividend.

FIXED ASSETS

The movements in the Company's fixed assets are shown in note 7 of the accounts.

DIRECTORS

The directors set out in the table below have held office during the whole of the period from 1 February 1995 to the date of this report unless otherwise stated:-

L G Strong*	
D Defty*	Resigned 5 May 1995
I Cheshire	Appointed 12 May 1995
D J Allmey	
K M Elwell	
R Kimberley	
M King	Resigned 5 May 1995
D McCullough	Appointed 9 October 1995
H M Keayes	Appointed 18 April 1995
R L Clarke	Appointed 1 February 1996

*Directors of Sears plc the ultimate parent undertaking, and their 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 1996 in the shares of Sears plc, according to the register of director's interests are set out in note 3.

During the year, liability insurance was maintained for the company's directors and officers.

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.

SEARS FINANCIAL SERVICES LIMITED

REPORT OF THE DIRECTORS

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

Price Waterhouse have expressed their willingness to be re-appointed as auditors to the Company.

Radcliffe House
Blenheim Court
Solihull
B91 2AA



By order of the Board
K M Elwell
Director
29 April 1996

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 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 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 mis-statement, 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 the company's affairs as at 31 January 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

29 April 1996

SEARS FINANCIAL SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST JANUARY 1996

	Note	1996 £	1995 £
TURNOVER		20,114,248	15,257,086
Administrative expenses		(16,705,373)	(13,142,640)
TRADING PROFIT	1	3,408,875	2,114,446
Interest payable	5	(2,859,068)	(1,804,891)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		549,807	309,555
Taxation	6	(172,839)	(105,117)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	13	376,968	204,438

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.

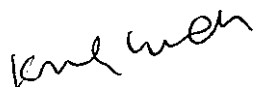
There is no material difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

SEARS FINANCIAL SERVICES LIMITED

BALANCE SHEET

AT 31ST JANUARY 1996

	Note	1996		1995	
		£	£	£	£
FIXED ASSETS					
Tangible Fixed Assets	7		1,316,497		648,862
Investments	8		100		100
CURRENT ASSETS					
Debtors	9	84,472,570		61,126,248	
Cash at bank and in hand		6,929,243		4,138,831	
		<u>91,401,813</u>		<u>65,265,079</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>(86,057,918)</u>		<u>(59,430,517)</u>	
NET CURRENT ASSETS			<u>5,343,895</u>		<u>5,834,562</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,660,492		6,483,524
			<u><u> </u></u>		<u><u> </u></u>
CAPITAL AND RESERVES					
Called up share capital	12		10,000,100		10,000,100
Profit and loss account	13		<u>(3,339,608)</u>		<u>(3,516,576)</u>
SHAREHOLDERS' FUNDS - All equity	14		6,660,492		6,483,524
			<u> </u>		<u> </u>



On behalf of the Board

K M Elwell

Director

The accounts were approved by the directors on 29 April 1996

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 there 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.

SEARS FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS

31 JANUARY 1996

1. TRADING PROFIT

	1996 £	1995 £
The trading profit of the Company is stated after charging/(crediting):		
Depreciation (see note 7)	515,277	366,556
Directors' emoluments (see note 2)	319,657	417,266
Auditors' remuneration - as Auditors	29,023	23,900
- Other	1,217	1,400
Profit on disposal of fixed assets	39,050	-
Operating lease rentals;		
Hire of plant and machinery	19,656	8,145
Others	638,805	597,074
Recovery of VAT on debts previously written off	(350,000)	(870,000)
Group management charges	1,598,823	1,756,921

2. DIRECTORS' EMOLUMENTS

	1996 £	1995 £
Management services (including pension contributions)	319,657	357,067
Compensation for loss of office	-	60,199
	<u>319,657</u>	<u>417,266</u>
Emoluments (excluding pension contributions) of:		
Chairman	<u>NIL</u>	<u>NIL</u>
Highest paid director	<u>91,932</u>	<u>79,386</u>

The directors received emoluments in the following ranges:

	<u>1996</u>	<u>1995</u>
£ Nil - 5,000	4	2
£20,001 - 30,000	2	-
£30,001 - 35,000	-	1
£45,001 - 50,000	-	1
£50,001 - 55,000	1	2
£55,001 - 60,000	-	1
£60,001 - 65,000	1	-
£65,001 - 70,000	1	-
£70,001 - 75,000	-	1
£75,001 - 80,000	-	1
£90,001 - 95,000	1	-

SEARS FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1996

3. DIRECTORS' INTERESTS

The interests of the directors' in office at 31st January 1996 in the 25p Ordinary shares of Sears plc were as follows:

Ordinary Shares

	1st February 1995	31st January 1996
R Kimberley	1,181	1,181

Ordinary Shares Under Option :

	1st February 1995/Date of appointment	Granted in the period	See Notes	Exercised in the period	31st January 1996	Price (pence)	Period
D J Allmey	50,000	-	a	-	50,000	78	7/95 - 7/2002
	5,952	-	b	-	5,952	63	12/95 - 6/96
	8,313	-	b	-	8,313	83	12/99 - 6/2000
	-	49,100	a	-	49,100	106	4/98 - 4/2005
K M Elwell	35,000	-	a	35,000	-	78	Exercised 7/95
	-	34,000	a	-	34,000	106	4/98 - 4/2005
	-	19,166	b	-	19,166	90	12/2000 - 6/2001
R Kimberley	40,000	-	a	40,000	-	78	Exercised 9/95
	17,857	-	b	-	17,857	63	12/95 - 6/96
	10,000	-	b	-	10,000	75	12/96 - 6/97
	-	32,100	a	-	32,100	106	4/98 - 4/2005
	-	11,500	b	-	11,500	90	12/2000 - 6/2001
D McCullough	23,600	-	a	-	23,600	106	4/98 - 4/2005
R L Clarke	3,833	-	b	-	3,833	90	12/98 - 6/99
H M Keays	-	54,900	a	-	54,900	102	7/98-7/2005
I Cheshire	311,300	-	a	-	311,300	106	4/98-4/2005

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 95.5p and they reached a high and low during the year to 31 January 1996 of 119.0p and 95.0p respectively.

SEARS FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1996

4. <u>EMPLOYEES</u>	1996 £	1995 £
Summary of costs (including directors):		
Wages and salaries	3,383,903	2,774,000
Social security costs	241,264	211,000
Other pension costs	4,223	22,746
	<u>3,629,390</u>	<u>3,007,746</u>
Average number of employees (including directors):	<u>1996</u>	<u>1995</u>
Full time	151	132
Part time	273	167
	<u>424</u>	<u>299</u>
5. <u>INTEREST PAYABLE</u>	1996 £	1995 £
Interest payable to group undertakings	<u>2,859,068</u>	<u>1,804,891</u>
6. <u>TAXATION</u>	1996 £	1995 £
UK Corporation tax charge based on the results for the year at 33% (1995 -33%)	172,595	46,139
Corporation tax - prior years	(187)	61,111
Deferred tax - current year	(5,538)	58,379
- prior years	5,969	(60,512)
	<u>172,839</u>	<u>105,117</u>

SEARS FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1996

7. FIXED TANGIBLE ASSETS

	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost:			
At 31st January 1995	306,532	1,702,718	2,009,250
Additions	284,927	948,124	1,233,051
Disposals	(184,731)	(68,296)	(253,027)
	<hr/>	<hr/>	<hr/>
At 31st January 1996	406,728	2,582,546	2,989,274
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 31st January 1995	153,075	1,207,313	1,360,388
Charge for the year	103,669	411,608	515,277
Disposals	(138,425)	(64,463)	(202,888)
	<hr/>	<hr/>	<hr/>
At 31st January 1996	118,319	1,554,458	1,672,777
	<hr/>	<hr/>	<hr/>
Net book amount:			
At 31st January 1995	<u>153,457</u>	<u>495,405</u>	<u>648,862</u>
At 31st January 1996	<u>288,409</u>	<u>1,028,088</u>	<u>1,316,497</u>

8. INVESTMENTS:

	1996 £	1995 £
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 registered in England, which did not trade during the year.

In the opinion of the directors the aggregate value of the investment at 31 January 1996 was not less than the value in the Balance Sheet.

SEARS FINANCIAL SERVICES LIMITED

NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1996

9. DEBTORS	1996 £	1995 £
Amounts falling due within one year:-		
Trade debtors	82,037,981	58,839,851
Amounts owed by group undertakings	506,579	446,112
Other debtors	51,895	60,402
Prepayments	451,895	355,232
Taxation - deferred tax asset (see note 11)	220,258	220,689
	<hr/>	<hr/>
	83,268,608	59,922,286
Amounts falling due after more than one year:-		
Trade debtors	1,203,962	1,203,962
	<hr/>	<hr/>
	84,472,570	61,126,248
	<hr/>	<hr/>

10. **CREDITORS**

Amounts falling due within one year:-		
Trade creditors	7,373,301	1,225,356
Amounts owed to group undertakings	66,227,036	50,150,238
Corporation tax	206,379	46,139
Other taxes and social security creditors	8,136,421	6,325,294
Accruals and deferred income	4,114,781	1,683,490
	<hr/>	<hr/>
	86,057,918	59,430,517
	<hr/>	<hr/>

SEARS FINANCIAL SERVICES LIMITED**NOTES TO THE ACCOUNTS (Continued)****31 JANUARY 1996****11. PROVISION FOR LIABILITIES AND CHARGES**

The deferred tax asset as at 31st January 1996 represented full recognition of the following timing differences:-

	1996 £	1995 £
Excess capital allowances	-	18,912
Short term timing differences	220,258	201,777
	<u>220,258</u>	<u>220,689</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 1995	(220,689)
Credited to the profit and loss account in respect of current year	(5,538)
Charged to the profit and loss account in respect of prior years	5,969
	<u>(220,258)</u>

12. SHARE CAPITAL

	1996 £	1995 £
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 1996**

13. PROFIT AND LOSS ACCOUNT

	<u>£</u>
At 1 February 1995	(3,516,576)
Profit for the financial year	376,968
Goodwill on acquisition	(200,000)
	<hr/>
At 31 January 1996	(3,339,608)
	<hr/>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 <u>£</u>	1995 <u>£</u>
Profit for the financial year	376,968	204,438
Goodwill on acquisition	(200,000)	-
	<hr/>	<hr/>
Net addition to shareholders' funds	176,968	204,438
Opening shareholders' funds	6,483,524	6,279,086
	<hr/>	<hr/>
Closing shareholders' funds	6,660,492	6,483,524
	<hr/>	<hr/>

During the period the company purchased the Richards debtor portfolio from Yorkshire Bank Retail Services . The book value of the assets acquired was £5,483,000 for a consideration equal to this amount . A provision of £200,000 was made at acquisition in respect of bad debts in accordance with the companys existing accounting policy . This amount has been charged to goodwill .

15. CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date (1995 - £NIL)

16. COMMITMENTS UNDER OPERATING LEASES

At the 31 January 1996 the Company had annual commitments of £496,000 (1995 - £496,000) under non cancellable operating leases, expiring after 5 years in respect of land and buildings.

17. 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 England.

18. 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 24 of the Annual Report of that company. The total pension cost for the Company was £4,223 (1995 - £22,746).

19. 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.

20. PARENT UNDERTAKING

The ultimate parent Company is Sears plc, a company incorporated and registered in England. Copies of Sears plc Annual Report are available from 40 Duke Street, London, W1A 2HP.