

**SEARS FINANCIAL SERVICES LIMITED**

**REPORT AND ACCOUNTS**

**YEAR ENDED 31ST JANUARY 1997**

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**DIRECTORS**

L G Strong  
I Cheshire  
D J Allmey  
K M Elwell  
R Kimberley  
D McCullough  
J Sanderson

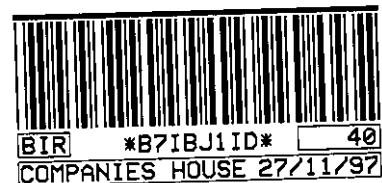
**SECRETARY AND REGISTERED OFFICE**

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 1997.

### **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 £1,433,097 (1995- £549,807). The directors consider that the results for the year were satisfactory.

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

The profit after taxation of £895,949 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 1996 to the date of this report unless otherwise stated:-

L G Strong*	
I Cheshire	
D J Allmey	
K M Elwell	
R Kimberley	
D McCullough	
H M Keayes	Resigned 30 June 1996
R L Clarke	Appointed 1 February 1996 , Resigned 16 December 1996
J Sanderson	Appointed 11 November 1996

\*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 1997 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.

*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 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 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 the Company's affairs as at 31 January 1997 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**

15 May 1997

**SEARS FINANCIAL SERVICES LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31ST JANUARY 1997**

	Note	1997 £	1996 £
<b>TURNOVER</b>		27,253,535	20,114,248
Administrative expenses		(22,160,522)	(16,705,373)
<b>OPERATING PROFIT</b>	1	5,093,013	3,408,875
Interest payable	5	(3,659,916)	(2,859,068)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,433,097	549,807
Taxation	6	(537,148)	(172,839)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	13	895,949	376,968

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 1997

	Note	1997		1996	
		£	£	£	£
<b>FIXED ASSETS</b>					
Tangible Fixed Assets	7		1,390,540		1,316,497
Investments	8		100		100
<b>CURRENT ASSETS</b>					
Debtors	9	102,606,427		84,472,570	
Cash at bank and in hand		12,167,220		6,929,243	
		<u>114,773,647</u>		<u>91,401,813</u>	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	10	<u>(108,607,846)</u>		<u>(86,057,918)</u>	
<b>NET CURRENT ASSETS</b>			6,165,801		5,343,895
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>7,556,441</u>		<u>6,660,492</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	12		10,000,100		10,000,100
Profit and loss account	13		<u>(2,443,659)</u>		<u>(3,339,608)</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	14		<u>7,556,441</u>		<u>6,660,492</u>



On behalf of the Board

K M Elwell

Director

The accounts were approved by the directors on 15th May 1997

# **SEARS FINANCIAL SERVICES LIMITED**

## **ACCOUNTING POLICIES**

**31 JANUARY 1997**

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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 1997

1. <u>OPERATING PROFIT</u>	1997 £	1996 £
The operating profit of the Company is stated after charging/(crediting):		
Depreciation (see note 7)	791,871	515,277
Directors' emoluments (see note 2)	441,198	319,657
Auditors' remuneration - as Auditors	27,795	29,023
- Other	1,200	1,217
Loss/(profit) on disposal of fixed assets	(18,925)	39,050
Operating lease rentals;		
Hire of plant and machinery	31,587	19,656
Others	633,595	638,805
Recovery of VAT on debts previously written off	(586,000)	(350,000)
Group management charges (including £1,132,000 in respect of IT, Finance & Logistics reorganisation (1996 - £NIL))	2,473,788	1,598,823

2. <u>DIRECTORS' EMOLUMENTS</u>	1997 £	1996 £
Management services (including pension contributions)	<u>441,094</u>	<u>319,657</u>
Emoluments (excluding pension contributions) of:		
Chairman	<u>NIL</u>	<u>NIL</u>
Highest paid director	<u>107,143</u>	<u>91,932</u>

The directors received emoluments in the following ranges:

	<u>1997 Number</u>	<u>1996 Number</u>
£ Nil - 5,000	2	4
£15,001 - 20,000	1	-
£20,001 - 25,000	-	2
£40,001 - 45,000	1	-
£50,001 - 55,000	1	1
£60,001 - 65,000	1	1
£65,001 - 70,000	-	1
£70,001 - 75,000	1	-
£85,001 - 90,000	1	-
£90,001 - 95,000	-	1
£105,000 - 110,000	1	-

31 JANUARY 1997

**3. DIRECTORS' INTERESTS**

The interests of the directors' in office at 31st January 1997 in the 25p Ordinary shares of Sears plc were as follows:

Ordinary Shares

	1st February 1996	31st January 1997
D J Allmey	-	5,952
R Kimberley	1,181	29,038

Ordinary Shares Under Option :

	1st February 1996/Date of appointment	Granted in the period	See Notes	Exercised in the period	31st January 1997	Price (pence)	Period
D J Allmey	50,000	-	a	-	50,000	78	7/95 - 7/2002
	5,952	-	b	5,952	-	63	exercised 13/6/96
	8,313	-	b	-	8,313	83	12/99 - 6/2000
	49,100	-	a	-	49,100	106	4/98 - 4/2005
K M Elwell	34,000	-	a	-	34,000	106	4/98 - 4/2005
	19,166	-	b	-	19,166	90	12/2000 - 6/2001
R Kimberley	17,857	-	b	17,857	-	63	exercised 10/4/96
	10,000	-	b	10,000	-	75	exercised 11/12/96
	32,100	-	a	-	32,100	106	4/98 - 4/2005
	11,500	-	b	-	11,500	90	12/2000 - 6/2001
	-	5,064	b	-	5,064	77	12/99 - 6/2000
D McCullough	23,600	-	a	-	23,600	106	4/98 - 4/2005
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 85.5p and they reached a high and low during the year to 31 January 1997 of 105p and 84p respectively.



## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1997

4. <u>EMPLOYEES</u>	1997 £	1996 £
Summary of costs (including directors):		
Wages and salaries	4,153,185	3,383,903
Social security costs	302,961	241,264
Other pension costs	34,712	4,223
	<u>4,490,858</u>	<u>3,629,390</u>
Average number of employees (including directors):	1997	1996
Full time	164	151
Part time	316	273
	<u>480</u>	<u>424</u>
5. <u>INTEREST PAYABLE</u>	1997 £	1996 £
Interest payable to group undertakings	<u>3,659,916</u>	<u>2,859,068</u>
6. <u>TAXATION</u>	1997 £	1996 £
UK Corporation tax charge based on the results for the year at 33% (1996 -33%)	652,800	172,595
Corporation tax - prior years	5,507	(187)
Deferred tax - current year	(148,752)	(5,538)
- prior years	27,593	5,969
	<u>537,148</u>	<u>172,839</u>

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1997

**7. FIXED TANGIBLE ASSETS**

	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost:			
At 1st February 1996	406,728	2,582,546	2,989,274
Additions	507,390	747,913	1,255,303
Disposals	(327,276)	(179,293)	(506,569)
At 31st January 1997	586,842	3,151,166	3,738,008
Depreciation:			
At 1st February 1996	118,319	1,554,458	1,672,777
Charge for the year	131,006	660,865	791,871
Disposals	(111,205)	(5,975)	(117,180)
At 31st January 1997	138,120	2,209,348	2,347,468
Net book value :			
At 31st January 1997	448,722	941,818	1,390,540
At 31st January 1996	288,409	1,028,088	1,316,497

**8. INVESTMENTS:**

	1997 £	1996 £
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 1997 was not less than the value in the Balance Sheet.

## SEARS FINANCIAL SERVICES LIMITED

## NOTES TO THE ACCOUNTS (Continued)

31 JANUARY 1997

9. <u>DEBTORS</u>	1997 £	1996 £
Amounts falling due within one year:-		
Trade debtors	99,204,494	82,037,981
Amounts owed by group undertakings	643,397	506,579
Other debtors	693,674	51,895
Prepayments	245,690	451,895
Taxation - deferred tax asset (see note 11)	341,417	220,258
	<hr/>	<hr/>
	101,128,672	83,268,608
Amounts falling due after more than one year:-		
Trade debtors	1,477,575	1,203,962
	<hr/>	<hr/>
	102,606,247	84,472,570
	<hr/>	<hr/>

10. CREDITORS

	1997 £	1996 £
Amounts falling due within one year:-		
Trade creditors	1,569,445	7,373,301
Amounts owed to group undertakings	92,027,004	66,227,036
Corporation tax	652,800	206,379
Other taxes and social security creditors	9,650,474	8,136,421
Accruals and deferred income	4,708,123	4,114,781
	<hr/>	<hr/>
	108,607,846	86,057,918
	<hr/>	<hr/>

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

**11. PROVISION FOR LIABILITIES AND CHARGES**

The deferred tax asset as at 31st January 1997 represented full recognition of the following timing differences:-

	1997 £	1996 £
Excess capital allowances	(13,894)	-
Short term timing differences	355,311	220,258
	<hr/>	<hr/>
	341,417	220,258
	<hr/>	<hr/>

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 1996	220,258
Credited to the profit and loss account in respect of current year	148,752
Charged to the profit and loss account in respect of prior years	(27,593)
	<hr/>
Balance at 31st January 1997	341,417
	<hr/>

**12. SHARE CAPITAL**

	1997 £	1996 £
Ordinary shares of £1 each		
Authorised, issued and fully paid	<u>10,000,100</u>	<u>10,000,100</u>

**13. PROFIT AND LOSS ACCOUNT**

	<u>£</u>
At 1 February 1996	(3,339,608)
Profit for the financial year	895,949
	<hr/>
At 31 January 1997	(2,443,659)
	<hr/>

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

	1997 <u>£</u>	1996 <u>£</u>
Profit for the financial year	895,949	376,968
Goodwill on acquisition	0	(200,000)
	<hr/>	<hr/>
Net addition to shareholders' funds	895,949	176,968
Opening shareholders' funds	6,660,492	6,483,524
	<hr/>	<hr/>
Closing shareholders' funds	7,556,441	6,660,492
	<hr/>	<hr/>

**15. CAPITAL COMMITMENTS**

There were no capital commitments at the balance sheet date (1996 - £NIL)

**16. OPERATING LEASE COMMITMENTS**

At 31st January the Company was committed to making the following annual payments under non-cancellable operating leases :

**Land & Buildings**

Operating leases which expire :

	1997 <u>£</u>	1996 <u>£</u>
Within 2 to 5 years	264,000	0
After 5 years	249,000	496,000
	<hr/>	<hr/>
	513,000	496,000
	<hr/>	<hr/>

**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 the United Kingdom . The Company is included within the group accounts of Sears plc the ultimate parent company .

**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 8 of the Annual Report of that company. The total pension cost for the Company was £34,712 (1996 £4,223).

A provision of £27,800 (1996 -£NIL ) is included in creditors , representing the excess of the accumulated pension cost over the amount funded .

**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 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.