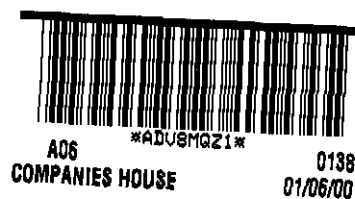


MARKS AND SPENCER RETAIL
FINANCIAL SERVICES HOLDINGS LIMITED

FINANCIAL STATEMENTS

31 MARCH 2000

COMPANY REGISTRATION NUMBER 2278807



MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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REPORT OF THE DIRECTORS

The Year Ended 31 March 2000

ACTIVITIES

The Company is the holding company for the financial services retailing activities of Marks and Spencer plc, carried out by the following subsidiaries:-

Marks and Spencer Financial Services Limited - provides credit and associated services, and acts as ISA deposit taker for the Unit trust Management Company

Marks and Spencer Unit Trust Management Limited - trades as a unit trust manager & offers ISA's

Marks and Spencer Savings and Investments Limited - trades as a corporate personal equity plan manager

Marks and Spencer Life Assurance Limited - trades as an authorised life assurance company.

During the year the company invested £10 million in Marks and Spencer Life Assurance Limited.

RESULTS AND DIVIDENDS

The Company made a profit of £35 million. The directors do not recommend the payment of a dividend.

The Company aims to continue as the holding company for the financial services retailing activities.

DIRECTORS

The directors of the Company during the year under review were as follows:

R W C Colvill (Chairman)

D M Towell (Chief Executive)

I D Cordwell

Resigned 30 April 1999

M Dunbar

P S Fennell

S Rushton

Appointed 8 September 1999

R I Waugh

Resigned 20 August 1999

J Walton

Appointed 14 September 1999

J Benfield (Non Executive)

Appointed 20 April 1999

“ “

Resigned 31 December 1999

R Ranson (Non Executive)

Appointed 20 April 1999

P Sellwood (Non Executive)

B Wells (Non Executive)

Appointed 4 January 2000

A McWalter (Non Executive)

Appointed 28 January 2000

Mr Colvill and Mr McWalter are directors of Marks & Spencer plc and as such they are not required to disclose in these financial statements their interests in the shares of companies in the Marks & Spencer Group. The interests of Mr Towell, Mrs Dunbar, Mr Fennell, Mr Rushton, Mr Walton, Mr Ranson, Mr Sellwood and Mr Wells are disclosed in note 12 on page 10.

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ECONOMIC AND MONETARY UNION

The Company completed an impact analysis in 1998, which identified the changes required in the business to accommodate the introduction of the euro, both in its initial phase, which excludes the United Kingdom, and for possible United Kingdom entry in the future.

Expenditure in the current year in preparation for the first phase is immaterial. Future costs are estimated at £3.1 million for the Group, should the United Kingdom enter EMU.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office as auditors of the Company and a resolution for their re-appointment is to be proposed at the next meeting of the Directors of the Company.

Year 2000

A compliance programme covering all companies in the Marks and Spencer Financial Services Group ('the Group')* was implemented to minimise any adverse impact on the business regarding risks associated with the Year 2000 problem.

No significant issues have arisen as a result of the Year 2000 date change. However, given the nature and scale of the problem, it is not yet possible for any organisation to be certain that it will not be affected by failures due to the Year 2000 problem, even when its own systems are fully compliant.

The total costs, including internal costs and replacement expenditure, for the Group are estimated at £1.5 million. Of this £0.5 million has been incurred across the Group this year.

* The Marks and Spencer Financial Services Group comprises Marks and Spencer Retail Financial Services Holdings Limited, Marks and Spencer Financial Services Limited, Marks and Spencer Unit Trust Management Limited, Marks and Spencer Savings and Investments Limited and Marks and Spencer Life Assurance Limited.

By order of the Board

P H Green
Secretary

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to adopt suitable accounting policies and apply them on a consistent basis, making judgements and estimates which they consider prudent and reasonable and to state whether appropriate accounting standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have a 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.

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REPORT OF THE AUDITORS

We have audited the financial statements on pages 5 to 11 which have been prepared in accordance with the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, as described on page 3 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and 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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

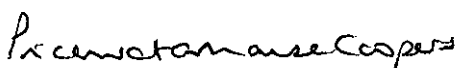
Basis of audit opinion

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 the company's affairs at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

22 May 2000

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RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2000

	Notes	Continuing Operations 2000 £000	Continuing Operations 1999 £000
Other income	7	35,000	15,000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		35,000	15,000
Taxation on profit on ordinary activities	6	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		35,000	15,000
DIVIDENDS PAID	11	30,000	-
RETAINED PROFIT FOR THE YEAR		5,000	-
RETAINED PROFIT BROUGHT FORWARD		24,102	9,102
RETAINED PROFIT CARRIED FORWARD		29,102	24,102

The company has no recognised gains or losses other than the profit for the year. There is no difference between the values in the profit and loss account and their historical cost equivalent.

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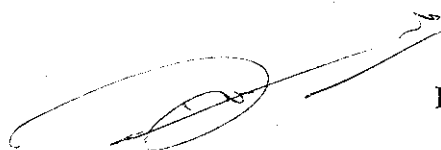
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BALANCE SHEET

At 31 March 2000

	Notes	2000 £000	1999 £000
Fixed assets			
Investments in subsidiaries	8	96,100	86,100
Current assets			
Cash at bank and in hand		2	2
Debtors	9	-	5,000
Total assets		<u>96,102</u>	<u>91,102</u>
Capital and reserves			
Called up share capital	10	67,000	67,000
Profit and loss account		29,102	24,102
Total equity shareholders' funds	11	<u>96,102</u>	<u>91,102</u>

The financial statements on pages 5 to 11 were approved by the board of directors on 19 May 2000 and signed on its behalf by:



D M Towell
Director

MARKS AND SPENCER
RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

- 1 **Accounting policies** The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The principle accounting policies, which have been applied consistently, are described below.

Basis of accounting

The financial statements are drawn up on the historical cost basis of accounting.

- 2 **Cash flow statement** The Company is a wholly owned subsidiary of an EU company which publishes consolidated financial statements that include a consolidated cash flow statement and therefore is not required to produce a cash flow statement itself.
-

- 3 **Segmental reporting** The Company does not operate in more than one geographical segment, or in more than one class of business, based on the location of the office in the UK.
-

- 4 **Consolidated financial statements** Consolidated financial statements are not prepared as the Company is a wholly owned subsidiary of another company incorporated in Great Britain.
-

- 5 **Directors' emoluments** None of the directors of the Company received any emoluments in respect of their services as directors of the Company (1999: nil)
-

- 6 **Taxation** There is no taxation charge attributable to the Company's profits, consisting of dividend income from United Kingdom companies, which is not chargeable to corporation tax.
-

7	Other Income	2000	1999
		£000	£000
	Income from Investments	<u>35,000</u>	<u>15,000</u>

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RETAIL FINANCIAL SERVICES HOLDINGS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

8 Investments in subsidiaries	2000 £000	1999 £000
Marks and Spencer Financial Services Limited	35,000	35,000
Marks and Spencer Unit Trust Management Limited	3,000	3,000
Marks and Spencer Savings and Investments Limited	100	100
Marks and Spencer Life Assurance Limited	58,000	48,000
	<u>96,100</u>	<u>86,100</u>

Marks and Spencer Financial Services Limited is a wholly owned subsidiary incorporated in Great Britain. The Company provides credit and associated services.

Marks and Spencer Unit Trust Management Limited is a wholly owned subsidiary incorporated in Great Britain. The Company trades as a unit trust manager.

Marks and Spencer Savings and Investments Limited is a wholly owned subsidiary incorporated in Great Britain. The Company operates as a corporate personal equity plan manager.

Marks and Spencer Life Assurance Limited is a wholly owned subsidiary incorporated in Great Britain. The Company trades as an authorised Life Assurance Company.

During the year the company invested £10million in Marks and Spencer Life Assurance Limited.

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NOTES TO THE FINANCIAL STATEMENTS

9 Debtors	2000 £000	1999 £000
Amounts due from Subsidiary Undertakings	-	5,000

Amounts due from Subsidiary Undertakings are unsecured, interest free and have no fixed repayment date.

10 Called up share capital	2000 £000	1999 £000
Authorised share capital 80,000,000 ordinary £1 shares	80,000	80,000
Allotted, called up and fully paid: 67,000,000 ordinary shares of £1 each	67,000	67,000

11 Reconciliation of movements in shareholders' funds	2000 £000	1999 £000
Profit for the financial year	35,000	15,000
Dividends paid	(30,000)	-
Net movement in shareholders' funds	5,000	15,000
Equity shareholders' funds at 1 April	91,102	76,102
Equity shareholders' funds at 31 March	96,102	91,102

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NOTES TO THE FINANCIAL STATEMENTS

12 Directors' interests Interests in the Marks and Spencer Group.

Ordinary shares of Marks and Spencer plc
 - beneficial and family interests.

	D M Towell Number	I D Cordwell Number	M Dunbar Number	P S Fennell Number	S L Rushton Number
At 1 April 1999*					
shares	20,988	1,300	7,889	-	-
total options	219,523	67,648	65,284	-	-
exercisable options	35,959	-	-	-	-
Options granted	48,193	-	18,298	68,568	2,172
Options exercised or lapsed	-	-	1,572	-	-
	-	67,648	1,477	-	-
At 31 March 2000					
Shares	23,138	N/A	10,677	-	-
total options	267,716	-	80,533	68,568	2,172
exercisable options	103,926	-	-	-	-

	R I Waugh Number	PHG Sellwood Number	RH Ranson Number	J Walton Number
At 1 April 1999*				
shares	2,961	38,723	4,684	307
total options	77,645	248,795	-	-
exercisable options-	-	95,102	-	-
Options granted	-	34,282	-	-
Options exercised	-	37,800	-	-
or lapsed	77,645	3,562	-	-
At 31 March 2000				
shares	N/A	45,324	-	1,148
total options	-	241,715	-	-
exercisable options	-	61,235	-	-

Mr Wells held no shares or share options during the year. The interests of Mr Colvill and Mr McWalter are shown in the accounts of Marks and Spencer plc.

* or date of appointment

R Ranson 20 April 1999

J Walton 14 September 1999

S L Rushton 8 September 1999

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NOTES TO THE FINANCIAL STATEMENTS

13 Ultimate holding company

The ultimate parent undertaking and ultimate controlling party is Marks and Spencer plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The immediate controlling party is Marks and Spencer Retail Financial Services Holdings Limited. Copies of Marks and Spencer plc consolidated financial statements can be obtained from the Company Secretary at Michael House, Baker Street, London, W1A 1DN, a company incorporated in Great Britain.

14 Related party disclosures

The Company has taken advantage of the exemption under Section 3c of Financial Reporting Standard 8 not to disclose any transactions with entities that are 90% or more owned within the same group.

A subsidiary undertaking (Marks & Spencer Financial Services Limited) has engaged BJW International Ltd (a company wholly owned by Mr Wells, a non-executive director of the Company) to provide consultancy services in respect of that subsidiary's decision to enter the Personal Lines Insurance market. That subsidiary has paid BJW International £72,582 during the year in respect of this engagement.

As part of the Group's standard relocation package offered to all qualifying staff, a subsidiary undertaking (Marks & Spencer Financial Services Limited) has acquired Mr Walton's house in the south-east of England, at a price of £587,000. The property is being held on a temporary basis until it is sold to an independent third party. The price at which the property was bought from Mr Walton was the deemed open market value at the date of acquisition. This open market value was arrived at following two independent valuations of the property. Should the property be sold at a price greater than the open market value, Mr Walton will be entitled to the extra amount. Mr Walton will not have to repay any amount should the property be sold at a loss.
