

SAGA GROUP LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 JANUARY 2006



Company Registration Number: 638891

SAGA GROUP LIMITED

Directors' report

Directors: J A Goodsell
T B Bull
S M Howard

Secretary: S M Howard

Registered Office: The Saga Building, Enbrook Park, Folkestone, Kent CT20 3SE

The Directors submit their report together with the audited accounts for the year ended 31 January 2006.

Principal activity and review of business developments

The company's principal activity is to act as an intermediate group holding company and to provide administrative services to other group companies.

Results and dividends

The profit for the year before taxation amounts to £20,790,000. After taxation, a profit of £23,746,000 has been taken to reserves. No dividends have been paid during the year.

Directors

The Directors of the company during the year were those listed above.

SAGA GROUP LIMITED
Directors' report continued

Directors' interests

T B Bull, J A Goodsell and S M Howard are Directors of the ultimate parent undertaking, Saga Holdings Limited, and their interests are set out in the accounts of that company.

It is the company's policy to maintain indemnity insurance for Directors and officers.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors.

Statement of Directors' responsibilities

The Directors are required by law 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 the year.

The Directors confirm that the accounting policies are appropriate to the company's business and have been applied consistently. In preparing the accounts for the year, the Directors have made reasonable and prudent judgements, have ensured that applicable accounting standards have been followed, and confirm that it is appropriate to prepare the accounts on a going concern basis.

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.

By order of the Board

The Saga Building
Enbrook Park
Folkestone
Kent
CT20 3SE



S M Howard
Secretary

31 May 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAGA GROUP LIMITED

We have audited the company's financial statements for the year ended 31 January 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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 the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

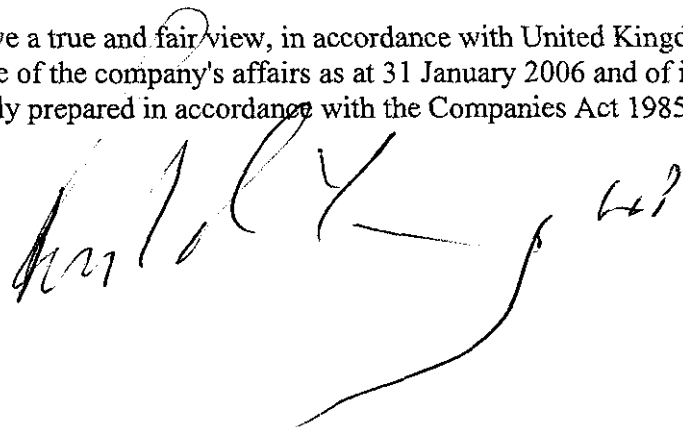
Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2006 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

31 May 2006

SAGA GROUP LIMITED**Profit and loss account for the year ended 31 January 2006**

| | Note | 2006 £'000 | 2005 £'000 |
|--|------|---------------|---------------|
| Turnover | | - | - |
| Cost of sales | | - | 1,000 |
| Gross profit/(loss) | | - | 1,000 |
| Administrative and marketing expenses | | (17,698) | (12,067) |
| Exceptional items | 3 | 5,894 | (3,037) |
| Total administrative and marketing expenses | | (11,804) | (15,104) |
| Other operating income | 2 | 2 | 19 |
| Operating loss | 3 | (11,802) | (14,085) |
| Profit on disposal of fixed assets | 10 | 4,079 | 126 |
| Profit on disposal of subsidiary | 11 | 24,121 | 50 |
| | | 16,398 | 13,909 |
| Income from shares in group undertakings | | 4,525 | 69,000 |
| Interest payable and similar charges | 4 | (133) | (4,144) |
| Profit on ordinary activities before taxation | | 20,790 | 50,947 |
| Taxation | 8 | 2,956 | 2,941 |
| Profit on ordinary activities after taxation | 19 | 23,746 | 53,888 |

SAGA GROUP LIMITED
Year ended 31 January 2006

| Statement of total recognised gains and losses | Note | 2006 £'000 | 2005 £'000 |
|--|------|---------------|---------------|
| Profit for the year after taxation | | 23,746 | 53,888 |
| Total recognised gains and losses relating to the year | | <u>23,746</u> | <u>53,888</u> |

| Reconciliation of movements in shareholders' funds | Note | 2006 £'000 | 2005 £'000 |
|---|------|---------------|---------------|
| Total recognised gains and losses relating to the year | | 23,746 | 53,888 |
| Equity dividends | 9 | - | (33,500) |
| Net movement in shareholders' funds | | <u>23,746</u> | <u>20,388</u> |
| Shareholders' funds brought forward | | 50,780 | 30,392 |
| Shareholders' funds carried forward | | <u>74,526</u> | <u>50,780</u> |

SAGA GROUP LIMITED
Company balance sheet as at 31 January 2006

| | Note | 2006 £'000 | 2005 £'000 |
|--|------|----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 10 | 6,398 | 46,070 |
| Investments in subsidiaries | 11 | 62,372 | 77,017 |
| | | <u>68,770</u> | <u>123,087</u> |
| Current assets | | | |
| Stock | | 12 | 10 |
| Debtors | 12 | 725,055 | 403,085 |
| Cash at bank and in hand | | 5 | 3 |
| | | <u>725,072</u> | <u>403,098</u> |
| Creditors | | | |
| - amounts falling due within one year | 13 | (717,120) | (471,456) |
| Net current liabilities | | <u>7,952</u> | <u>(68,358)</u> |
| Total assets less current liabilities | | <u>76,722</u> | <u>54,729</u> |
| Creditors | | | |
| - amounts falling due after more than one year | 14 | (2,196) | (2,327) |
| Provisions for liabilities and charges | 17 | - | (1,622) |
| Net assets | | <u>74,526</u> | <u>50,780</u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 3,617 | 3,617 |
| Share premium account | 19 | 84 | 84 |
| Profit and loss account | 19 | 70,825 | 47,079 |
| Equity shareholders' funds | | <u>74,526</u> | <u>50,780</u> |



S M Howard
Director

31 May 2006

SAGA GROUP LIMITED

Notes to the accounts

1 Accounting policies

a Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards as defined in Companies Act 1985 s.256.

The company has taken advantage of the exemption under section 228 of the Companies Act 1985 not to prepare and deliver group accounts as it is a wholly owned subsidiary of the ultimate holdings company Saga Holdings Limited. As such, these accounts show only the results of the individual company and not the group.

b Tangible fixed assets

Tangible fixed assets are stated at cost less amounts written off. The cost of fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Land and buildings

| | |
|----------------------|-------------------------------|
| Land | nil |
| Buildings | 50 years |
| Related fittings | 3 - 10 years |
| Leasehold properties | over the period of the lease. |

| | |
|---------------------------|--------------|
| Computers | 3 years |
| Plant and other equipment | 5 - 10 years |

c Leased assets and hire purchase commitments

Assets held under finance lease and hire purchase arrangements are capitalised and depreciated over their useful lives. The capital element of the related rental obligation is included in creditors. The interest element of rental obligations is charged to the profit and loss account so as to produce a constant periodic rate of charge. Rentals in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

d Stocks

Stocks are valued at the lower of cost and net realisable value.

e Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

f Pension benefits

Annual contributions are made to the UK defined benefit pension scheme on the advice of actuaries for funding of retirement benefits in order to build up reserves for participating employees during the employee's working life to pay to the employee or dependent a pension after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis. The company also operates a UK defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

SAGA GROUP LIMITED
Notes to the accounts continued

g Government grants

Government grants received in respect of capital expenditure are released into the profit and loss account in equal instalments over the expected useful life of the relevant assets.

h Cash flow statement

The Directors have taken advantage of the exemption available under FRS 1 of the requirement to prepare a cash flow statement as a consolidated cash flow statement has been presented in the financial statements of the ultimate parent undertaking, Saga Holdings Limited.

| | | |
|--|-----------------|-----------------|
| 2. Other operating income | 2006 | 2005 |
| | £'000 | £'000 |
| Other interest receivable | <u>2</u> | <u>19</u> |
| 3. Operating profit | 2006 | 2005 |
| Operating profit is stated after charging/(crediting): | £'000 | £'000 |
| Depreciation of owned tangible fixed assets | 2,061 | 2,809 |
| Depreciation of leased tangible fixed assets | 174 | 248 |
| Deferred government grant release | (52) | (52) |
| Auditors' remuneration - for audit services | 69 | 105 |
| - for non-audit services | 22 | 48 |
| Property lease charges | 1,165 | 1,190 |
| Hire of plant and machinery | 773 | 739 |
| Exceptional item – sale of group | - | 2,396 |
| Exceptional item – compensation | (9,572) | - |
| Exceptional item – remedial works | 1,038 | 641 |
| Exceptional item – pension contribution | <u>2,640</u> | <u>-</u> |

The exceptional items relate to:- (a) costs associated with the sale of the Saga Group (Saga Limited was the ultimate parent undertaking until 29 October 2004 when it was acquired by Saga Holdings Limited); (b) compensation received for defects in the construction of one of the company's office buildings; (c) costs associated with a major one-off programme of remedial works to that office building; and (d) a special pension contribution payable to the Saga Group Pension and Life Assurance Scheme to reduce the funding deficit.

| | | |
|--|--------------|--------------|
| 4. Interest payable and similar charges | 2006 | 2005 |
| | £'000 | £'000 |
| Finance lease and hire purchase interest | 4 | 28 |
| Inter-company interest | - | 3,990 |
| Other interest payable | 129 | 126 |
| | <u>133</u> | <u>4,144</u> |

SAGA GROUP LIMITED
Notes to the accounts continued

| | | |
|---|----------|----------|
| 5. Directors' emoluments | 2006 | 2005 |
| | £'000 | £'000 |
| Emoluments | 1,647 | 4,087 |
| | <u>3</u> | <u>3</u> |
| Members of defined benefit pension scheme | | |

J A Goodsell, T B Bull and S M Howard are also Directors of the ultimate parent company, Saga Holdings Limited, and fellow subsidiaries. The remuneration received by J A Goodsell, T B Bull, and S M Howard was paid by Saga Group Limited. The Directors do not believe that it is practicable to apportion the remuneration of J A Goodsell, T B Bull and S M Howard between their services as Directors of the ultimate parent company and fellow subsidiaries. Among the Directors remunerated by the company, the amounts paid in respect of the highest paid Director were as follows:-

| | | |
|---------------------------------|-------------|-------------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Emoluments | 852 | 1,927 |
| | <u>2006</u> | <u>2005</u> |
| | £'000 | £'000 |
| Defined benefit pension scheme: | | |
| Accrued pension at end of year | 46 | 8 |

| | | |
|---|---------------|--------------|
| 6. Staff costs | 2006 | 2005 |
| | £'000 | £'000 |
| Wages and salaries | 7,609 | 8,251 |
| Social security costs | 332 | 433 |
| Other pension costs | 522 | 470 |
| Other pension costs (special contribution) (note 3) | 2,640 | - |
| | <u>11,103</u> | <u>9,154</u> |
| Average number of persons employed during the year was: | <u>235</u> | <u>220</u> |

7. Pension benefits

The company is a member of the Saga Group Pension and Life Assurance Scheme which has defined benefit and defined contribution sections.

The company is one of a number of Saga companies participating in the Scheme, and its contributions are affected by the financial position of the Scheme as a whole. As it is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the company is accounting for its pension expense on a defined contribution basis in accordance with paragraph 9 of FRS 17. The FRS17 deficit (gross of deferred taxation) of the Scheme at 31 January 2006 was £15.2 million (2005 - £23.0 million).

Further details of the Scheme can be found in the accounts of Saga Holdings Limited.

SAGA GROUP LIMITED
Notes to the accounts continued

| | | |
|--|----------------|----------------|
| 8. Tax on profit on ordinary activities | 2006 | 2005 |
| | £'000 | £'000 |
| UK corporation tax – current year | (99) | (5,594) |
| Adjustments relating to prior years | (1,235) | (230) |
| Deferred tax – current year | (1,622) | 2,883 |
| | <u>(2,956)</u> | <u>(2,941)</u> |

| | | |
|--|--------------|----------------|
| Reconciliation of Current Tax Charge:- | 2006 | 2005 |
| | £'000 | £'000 |
| Pre-tax profit at 30% | 6,237 | 15,284 |
| Non taxable dividend income | (1,358) | (20,700) |
| Capital allowances in excess of depreciation | (32) | (503) |
| Provisions against capital investments and loans | (4,743) | 1,021 |
| Permanent differences | 32 | (75) |
| Other timing differences | 882 | (2,380) |
| Other items | (1,117) | 1,759 |
| | <u>(99)</u> | <u>(5,594)</u> |

The tax charge relating to the exceptional items amounts to £1,768,000 (2005 - £911,000 credit).

The tax credit for the current year is entirely made up of receipts from other group companies for group relief.

Deferred tax in the balance sheet is made up as follows:

| | | |
|---|--------------|----------------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Accelerated capital allowances | - | (1,789) |
| Short term timing differences | - | 167 |
| Deferred tax provision | <u>-</u> | <u>(1,622)</u> |
| At start of period | (1,622) | 1,261 |
| Deferred tax credit/(charge) in the profit and loss account | 1,622 | (2,883) |
| Deferred tax provision | <u>-</u> | <u>(1,622)</u> |

| | | |
|---|--------------|---------------|
| 9. Dividends | 2006 | 2005 |
| | £'000 | £'000 |
| Dividends paid on ordinary shares: | | |
| £nil per share (2005 - £1.8523 per share) | <u>-</u> | <u>33,500</u> |

SAGA GROUP LIMITED
Notes to the accounts continued

10. Tangible fixed assets

| | Freehold Land & Buildings £'000 | Short Leasehold Land & Buildings £'000 | Other Assets £'000 | Total £'000 |
|-------------------------|--|--|--------------------------|----------------|
| Cost | | | | |
| At 1 February 2005 | 46,858 | 5,575 | 17,452 | 69,885 |
| Additions | - | - | 998 | 998 |
| Adjustments | (1,037) | (664) | - | (1,701) |
| Disposals | (45,821) | - | - | (45,821) |
| At 31 January 2006 | - | 4,911 | 18,450 | 23,361 |
| Depreciation | | | | |
| At 1 February 2005 | 8,459 | 676 | 14,680 | 23,815 |
| Charge for year | 628 | 339 | 1,268 | 2,235 |
| Disposals | (9,087) | - | - | (9,087) |
| At 31 January 2006 | - | 1,015 | 15,948 | 16,963 |
| Net book amounts | | | | |
| At 31 January 2006 | - | 3,896 | 2,502 | 6,398 |
| At 31 January 2005 | 38,399 | 4,899 | 2,772 | 46,070 |

Included in freehold land and buildings for the comparative period are amounts in respect of land, with an original cost of £2,596,000, which have not been depreciated.

The net book amount of tangible fixed assets includes £nil (2005 - £174,000) in respect of assets held under finance leases and hire purchase contracts.

During the year the company disposed of various freehold land & buildings to its subsidiary, Saga Holidays Limited at market value. The purchase was financed by way of an interest free loan from the company, which was repaid in full by Saga Holidays Limited by the year end.

SAGA GROUP LIMITED
Notes to the accounts continued

11. Investment in subsidiaries

| | Subsidiary Undertakings £'000 |
|------------------------|-------------------------------------|
| Cost | |
| At 1 February 2005 | 79,570 |
| Adjustments | (454) |
| Disposals | (7,000) |
| At 31 January 2006 | <u>72,116</u> |
| Provision | |
| At 1 February 2005 | 2,553 |
| Charge in year | 7,500 |
| Release in year | (309) |
| At 31 January 2006 | <u>9,744</u> |
| Net book amount | |
| At 31 January 2006 | <u>62,372</u> |
| Net book amount | |
| At 1 February 2005 | <u>77,017</u> |

The main operating subsidiary undertakings of Saga Group Limited, all of which are directly held with the exception of Saga Cruises Limited and Saga Cruises II Limited, which are held by Saga Shipping Company Limited which is in turn held by Saga Holidays Limited, are listed below:

| Company | Country of registration | Nature of business |
|-------------------------------------|----------------------------|-------------------------------|
| Saga Holidays Limited | England | Tour operating |
| Saga Shipping Company Limited | England | Cruising |
| Saga Cruises Limited | England | Cruising |
| Saga Cruises II Limited | England | Cruising |
| Saga Services Limited | England | Financial services |
| Saga Insurance Company Limited | Gibraltar | Insurance underwriting |
| Saga Investment Direct Limited | England | Regulated investment products |
| Saga Publishing Limited | England | Publishing |
| MetroMail Limited | England | Mailing house |
| Saga Radio (Scotland) Limited | Scotland | Radio broadcasting |
| Saga Radio Limited | England | Radio broadcasting |
| Saga Regional Digital Radio Limited | England | Radio broadcasting |

Saga Shipping Company Limited was previously a directly held subsidiary of the company. On 31 May 2005 Saga Holidays Limited acquired the whole of the issued share capital of Saga Shipping Company Limited from the company at book value. The consideration was satisfied by the issue of an interest-free loan, which was repaid in full by the year end. The profit arising on the disposal of Saga Shipping Company Limited was £24,121,000.

SAGA GROUP LIMITED**Notes to the accounts continued**

| | | |
|--|----------------|----------------|
| 12. Debtors | 2006 | 2005 |
| | £'000 | £'000 |
| Trade debtors | 62 | 9 |
| Amount owed by group undertakings | 722,848 | 401,408 |
| Other debtors | 679 | 842 |
| Prepayments and deferred expenditure | 1,466 | 826 |
| | <u>725,055</u> | <u>403,085</u> |
| 13. Creditors | | |
| - amounts falling due within one year | 2006 | 2005 |
| | £'000 | £'000 |
| Bank overdraft | 188 | 65 |
| Leasing and hire purchase (note 15) | 78 | 155 |
| Trade creditors | 212 | 626 |
| Due to group undertakings | 696,870 | 461,182 |
| Corporate taxation | 681 | 1,781 |
| Other taxation and social security | 1,253 | 1,141 |
| Deferred government grants | 52 | 52 |
| Other creditors | 13,463 | 1,508 |
| Accruals and deferred income | 4,323 | 4,946 |
| | <u>717,120</u> | <u>471,456</u> |
| 14. Creditors | | |
| - amounts falling due after more than one year | 2006 | 2005 |
| | £'000 | £'000 |
| Deferred government grants | 2,196 | 2,248 |
| Leasing and hire purchase (note 15) | - | 79 |
| | <u>2,196</u> | <u>2,327</u> |

SAGA GROUP LIMITED
Notes to the accounts continued

15. Obligations under finance leases and hire purchase contracts

| | 2006 £'000 | 2005 £'000 |
|--|---------------|---------------|
| The capital amounts due under finance lease and hire purchase obligations are: | | |
| Within one year | 78 | 155 |
| Within two to five years | - | 79 |
| | <u>78</u> | <u>234</u> |

16. Lease commitments

The annual commitment under non-cancellable operating leases is as follows:

| | 2006 £'000 | 2005 £'000 |
|----------------------------|---------------|---------------|
| Land and buildings | | |
| Leases expiring: | | |
| Within one year | 124 | 30 |
| Between two and five years | 84 | 166 |
| After five years | 894 | 919 |
| | <u>1,102</u> | <u>1,115</u> |
| Plant and machinery | | |
| Leases expiring: | | |
| Within one year | 142 | 43 |
| Between two and five years | 645 | 785 |
| | <u>787</u> | <u>828</u> |

17. Provisions for liabilities and charges

| | Deferred Taxation £'000 |
|----------------------------|-------------------------------|
| Balance at 1 February 2005 | 1,622 |
| Released in the year | <u>(1,622)</u> |
| Balance at 31 January 2006 | <u>-</u> |

18. Called up share capital

| | 2006 £'000 | 2005 £'000 |
|--|---------------|---------------|
| Authorised | | |
| 27,000,000 ordinary shares at 20p each | <u>5,400</u> | <u>5,400</u> |
| Allotted and fully paid up | | |
| 18,086,076 ordinary shares at 20p each | <u>3,617</u> | <u>3,617</u> |

SAGA GROUP LIMITED
Notes to the accounts continued

| 19. Reserves | Share Premium | | Profit and Loss | |
|----------------------------------|---------------|-------|-----------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at beginning of the year | 84 | 84 | 47,079 | 26,691 |
| Profit for the year | - | - | 23,746 | 53,888 |
| Dividends paid | - | - | - | (33,500) |
| Balance at the end of the year | 84 | 84 | 70,825 | 47,079 |

20. Cross Company Guarantees

The company along with certain of its fellow subsidiaries acts as Obligor on bank loans made to Saga 300 Limited and Saga 400 Limited. At the balance sheet date the principal and accrued interest outstanding on these bank loans was £834.4 million (2005 - £930.0 million).

21. Related party transactions

The company has taken advantage of the exemption afforded by Financial Reporting Standard 8 in not disclosing transactions with other entities in the Saga Group of companies.

22. Ultimate parent undertaking

The accounts of the company have been consolidated in the group accounts of Saga Holdings Limited (the ultimate parent undertaking), a company which is registered in England.

23. Ultimate controlling party

The ultimate controlling party is Charterhouse General Partners (VII) Limited.