

SAGA HOLIDAYS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 JANUARY 1998



Company Registration Number: 2174052

SAGA HOLIDAYS LIMITED

Directors' report

Directors: R M De Haan (Chairman)
T B Bull
P C De Haan
M D Hamilton
A Horsman
S Roger
T I Roome
C D Simmonds
D K Upadhyaya

Secretary: P C De Haan

Registered Office: The Saga Building, Middelburg Square, Folkestone, Kent

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

Principal activity and review of business

The Group's principal activity is the provision of inclusive holidays and travel services, to people aged fifty and over, in the United Kingdom and overseas.

In May 1997 the company chartered a cruise ship owned by a fellow subsidiary company. Sales to date have been strong.

The directors consider the result for the year to be satisfactory and anticipate continued improvement in the coming year.

Customer protection

The company continues to operate a system of Trust Accounting in respect of monies it receives from its holiday customers. All monies received from customers are held in a separate trust until such time as the company has fulfilled its obligations to the customer. The trust is administered and controlled by an independent trustee, Island Trustees Limited, a trust company of Deloitte & Touche. The directors adopt Trust Accounting as they believe it provides the best possible protection for customer monies.

Accounts and dividends

The profit before tax for the year amounted to £6,008,000. A dividend of £6,800,000 has been paid to Saga Group Limited. After taxation and dividend, a loss of £2,814,000 has been transferred to reserves.

Directors

The directors of the company during the year ended 31 January 1998 were those listed above except for T I Roome, C D Simmonds and A Horsman who were appointed directors on 18 March 1997, 6 November 1997 and 1 February 1998 respectively.

Directors' interests

Messrs RM De Haan and PC De Haan are directors of the ultimate parent undertaking, Saga Leisure Limited and their interests are set out in the accounts of that company. T B Bull, M D Hamilton, A Horsman, S Roger, T I Roome, C D Simmonds and D K Upadhyaya have no interest in the shares of the company or the ultimate parent undertaking.

SAGA HOLIDAYS LIMITED

Directors' report continued

Employee involvement

During the year the Group has maintained the practice of keeping employees informed about current activities and progress by various methods including a regular staff newsletter. Employee participation and involvement is encouraged.

Employment of disabled persons

It is the policy of the Group to develop a working environment and to offer terms and conditions of service to provide disabled persons, with the appropriate skills and qualifications, equal opportunities to seek and maintain employment with the Group. We shall retain in employment, whenever practicable, employees who become disabled and in line with our general Group policy we shall give all such employees equal consideration for training and career development to enable them to fulfill their promotion potential within the Group.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting.

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 Group and of the profit for the year.

The Directors confirm that the accounting policies are appropriate to the Group'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 maintaining proper accounting records, for safeguarding the Group's assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

P C De Haan
Secretary

21 May 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF SAGA HOLIDAYS LIMITED

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

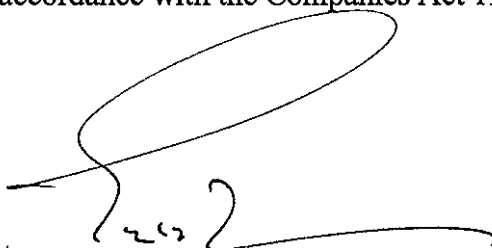
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 January 1998 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
London



21 May 98

SAGA HOLIDAYS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 1998

		1998	1997
	Notes	£'000	£'000
Turnover	2	167,988	144,442
Cost of sales		<u>(135,906)</u>	<u>(118,116)</u>
Gross profit		32,082	26,326
Administration and marketing expenses		(29,566)	(25,590)
Net investment income	3	<u>3,492</u>	<u>2,615</u>
Profit on ordinary activities before taxation	4	6,008	3,351
Taxation	8	(2,022)	(1,109)
Profit on ordinary activities after taxation		<u>3,986</u>	<u>2,242</u>
Dividend	9	(6,800)	(1,000)
Retained (loss) / profit for the year	20	<u><u>(2,814)</u></u>	<u><u>1,242</u></u>

There were no recognised gains and losses other than the profits included above.

SAGA HOLIDAYS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 1998

	Notes	1998 £'000	1997 £'000
Current assets			
Investments	12	79,742	52,696
Debtors	15	11,240	11,596
Cash at bank and in hand	13	1,420	1,264
		<u>92,402</u>	<u>65,556</u>
Creditors			
- amounts falling due within one year	16	75,382	53,472
Total assets less current liabilities		<u>17,020</u>	<u>12,084</u>
Creditors			
- amounts falling due after more than one year	17	4,750	4,000
Provisions for liabilities and charges	18	-	-
		<u>12,270</u>	<u>8,084</u>
Capital and reserves			
Called-up share capital	19	8,000	1,000
Profit and loss account	20	4,270	7,084
Equity shareholders' funds		<u>12,270</u>	<u>8,084</u>

P C De Haan Director
21 May 1998

SAGA HOLIDAYS LIMITED

COMPANY BALANCE SHEET AS AT 31 JANUARY 1998

	Notes	1998 £'000	1997 £'000
Fixed Assets			
Investment in subsidiary undertaking	11	100	100
Current assets			
Investments	12	79,742	52,696
Debtors	15	11,240	11,596
Cash at bank and in hand	13	1,420	1,264
		<u>92,402</u>	<u>65,556</u>
Creditors			
- amounts falling due within one year	16	75,656	53,745
		<u>16,746</u>	<u>11,811</u>
Net current assets			
		16,846	11,911
Total assets less current liabilities			
		16,846	11,911
Creditors			
- amounts falling due after more than one year	17	4,750	4,000
Provisions for liabilities and charges			
	18	-	-
		<u>12,096</u>	<u>7,911</u>
Capital and reserves			
Called-up share capital	19	8,000	1,000
Profit and loss account	20	4,096	6,911
		<u>12,096</u>	<u>7,911</u>
Equity shareholders' funds			
		<u>12,096</u>	<u>7,911</u>

P C De Haan Director

21 May 1998

SAGA HOLIDAYS LIMITED
NOTES TO THE ACCOUNTS - 31 JANUARY 1998

1 Accounting policies

a) Accounting convention

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

b) Turnover

Turnover from tour operations is recognised upon departure date with the exception of cruises where turnover is recognised on a daily basis if the company charters the ship.

c) Advance holiday receipts

All booking fees and balance payments for holidays with starting dates after the year end are treated as receipts in advance at the balance sheet date and are separately disclosed within creditors.

d) Foreign currencies

Exchange differences arising in respect of revenue transactions for the year are included in the profit and loss account. Assets and liabilities existing at the balance sheet date are translated at year end rates except where covered by forward contracts.

e) Deferred expenditure

Expenditure on brochures, advertising and promotional initiatives, which relates to the following year's holidays is carried forward at the balance sheet date so that this expenditure is matched with the relevant year's income.

f) Deferred taxation

Provision is made for deferred taxation, using the liability method on all material timing differences which are not expected to continue in the foreseeable future.

g) Pension benefits

Pension benefits are funded over the employee's period of service. The company's contributions are based on the most recent actuarial valuation of the fund.

2 Turnover

Turnover, which all arises from continuing business, represents the sales to third parties net of value added tax.

3 Net investment income

	1998	1997
	£'000	£'000
Interest receivable on deposits	4,316	3,128
Intercompany interest paid	(914)	(552)
Other interest payable	(5)	(2)
Other interest receivable	95	41
	<u>3,492</u>	<u>2,615</u>

4 Profit on ordinary activities before taxation is stated after charging:

	1998	1997
	£'000	£'000
Auditors' remuneration		
- audit services	32	33
- non audit services	11	8
	<u>43</u>	<u>41</u>

SAGA HOLIDAYS LIMITED
NOTES TO THE ACCOUNTS CONTINUED

5 Directors' emoluments

	1998	1997
	£'000	£'000
Emoluments	270	229

	1998	1997
Members of defined benefit pension scheme	4	3

The amounts in respect of the highest paid director are as follows:

	1998	1997
	£'000	£'000
Emoluments	92	91

Defined benefit pension scheme:	1998
	£'000
Accrued pension at end of year	9
Accrued lump sum at end of year	21

6 Staff costs, (excluding directors emoluments)

	1998	1997
	£'000	£'000
Wages and salaries	8,607	7,635
Social security costs	637	531
Other pension costs	609	273
	9,853	8,439
Average number of employees	666	605

7 Pension benefits

The company is a member of the Saga Group Limited Pension and Life Assurance Scheme which is a defined benefit pension scheme. Contributions to the Scheme are based on pension costs across the group as a whole. Details of the Scheme can be found in the accounts of Saga Group Limited, and Saga Leisure Limited

8 Taxation on profit on ordinary activities

	1998	1997
	£'000	£'000
UK Corporation tax @ 21% (1997 - 24%)	4	5
Group relief @ 31% (1997 - 33%)	2,018	1,353
Deferred tax	-	(250)
Adjustments relating to prior years	-	1
	2,022	1,109

9 Dividend

A dividend of £0.85 per share (1997 - £1) has been proposed and paid at a cost of £6,800,000.

SAGA HOLIDAYS LIMITED
NOTES TO THE ACCOUNTS CONTINUED

10 Loss for the financial year

Of the loss for the financial year, £2,815,000 (1997 profit of £1,193,000) has been dealt with in the accounts of the Company. The directors have taken advantage of the exemption given by The Companies Act 1985 Section 230 in not publishing a Company Profit and Loss Account.

11 Investment in subsidiaries

The investment represents the company's investment in Saga Tours Limited a wholly owned subsidiary which is registered in England. The principal activity of Saga Tours Limited is the provision of bought-in transport supplies to those companies within the Saga Group involved in the provision of holidays and related services.

12 Current asset investments

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Deposits with financial institutions and local authorities				
Held in trust (note 14)	45,207	45,207	41,374	41,374
Other	34,535	34,535	11,322	11,322
	<u>79,742</u>	<u>79,742</u>	<u>52,696</u>	<u>52,696</u>

Deposits amounting to £16,500,000 (1997 £13,500,000) have maturity dates in excess of one year. Although these investments may be realised at short notice, it is anticipated that they will be held until maturity.

13 Cash at bank and in hand

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Held in trust (note 14)	1,359	1,359	1,225	1,225
Other	61	61	39	39
	<u>1,420</u>	<u>1,420</u>	<u>1,264</u>	<u>1,264</u>

14 Reconciliation of trust monies

As explained in the Directors' Report, holiday monies received from customers in advance of holiday departure dates are paid directly into the bank account of Saga Holidays Trust.

Trust monies can be reconciled as follows:

		Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Monies in trust	- Investments (note 12)	45,207	45,207	41,374	41,374
	- Cash (note 13)	1,359	1,359	1,225	1,225
Total monies in trust		46,566	46,566	42,599	42,599
Less:					
Advance holiday receipts subject to trust (note 16)		(35,727)	(35,727)	(33,203)	(33,203)
Excess of trust monies over advance receipts		<u>10,839</u>	<u>10,839</u>	<u>9,396</u>	<u>9,396</u>

SAGA HOLIDAYS LIMITED
NOTES TO THE ACCOUNTS CONTINUED

15 Debtors	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Trade debtors	541	541	471	471
Other debtors	1,728	1,728	2,042	2,042
Prepayments and deferred expenditure	8,971	8,971	8,902	8,902
Taxation recoverable	-	-	181	181
	<u>11,240</u>	<u>11,240</u>	<u>11,596</u>	<u>11,596</u>

16 Creditors - amounts falling due within one year	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Bank overdraft	1,642	1,642	246	246
Advance holiday receipts (note 14)	38,262	38,262	35,659	35,659
Trade creditors	8,176	8,176	9,366	9,366
Corporation tax	4	-	5	-
Other taxation and social security	1,053	1,053	700	700
Other creditors	365	365	255	255
Accruals and deferred income	7,438	7,438	3,065	3,065
Amount due to group undertakings	18,442	18,720	4,176	4,454
	<u>75,382</u>	<u>75,656</u>	<u>53,472</u>	<u>53,745</u>

Of the amount included in advance receipts £35,727,000 (1997 - £33,203,000) relates to advance customer holiday deposits, which are held in trust as explained in note 14.

17 Creditors - amounts falling due after more than one year	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Subordinated loan	4,750	4,750	4,000	4,000

The subordinated loan is repayable in March 1999 to Saga Group Limited

18 Provision for liabilities and charges	31st January 1998		31st January 1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Deferred taxation				
Balance at beginning of year	-	-	250	250
(Release) / Charge for the year	-	-	(250)	(250)
Balance at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The deferred tax provision relates to short term timing differences. At 31 January 1998 the full potential liability for deferred tax of the group and the company was £NIL (1997 - £NIL).

SAGA HOLIDAYS LIMITED
NOTES TO THE ACCOUNTS CONTINUED

19 Called up share capital

	1998 £'000	1997 £'000
Authorised 8,000,000 ordinary shares of £1 each	8,000	1,000
Allotted, called-up and fully paid 8,000,000 ordinary shares	8,000	1,000

The authorised share capital was increased by 7,000,000 £1 ordinary shares to ensure that the company was adequately capitalised, taking due recognition of the dividend payment made during the year. This was fully allotted and paid by Saga Group Limited at a cost of £7,000,000.

20 Profit and loss account

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Balance at the beginning of the year	7,084	6,911	5,842	5,718
(Loss)/profit for the year	(2,814)	(2,815)	1,242	1,193
Balance at the end of the year	4,270	4,096	7,084	6,911

There were no other movements in shareholders' funds.

21 Contingent liabilities

At 31 January 1998 there were contingent liabilities under counter indemnities given to the Company's bankers in respect of financial bonds and other guarantees amounting to £2,636,000 (1997 £1,916,000).

22 Ultimate parent undertaking

The accounts of the company have been consolidated in the group accounts of Saga Leisure Limited (the ultimate parent undertaking) and Saga Group Limited both of which are registered in England.

23 Related party transactions

During the year the company used the services of David De Haan Tours Limited (a company resident in New Zealand controlled by a relative of the directors R M De Haan and P C De Haan), as an overseas handling agent. All arrangements were on an "arms-length basis" and amounts paid during the year totalled £1,021,000 in respect of hotel and other direct costs incurred in New Zealand on behalf of the group's tour operating businesses. No material amounts were outstanding at the balance sheet date.