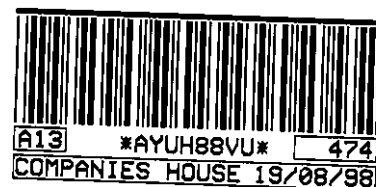


SAGA SHIPPING COMPANY LIMITED

ANNUAL REPORT AND ACCOUNTS

31 JANUARY 1998

Company Registration Number: 3267858



SAGA SHIPPING COMPANY LIMITED

Directors' report

Directors: T L Sykes (Appointed 9th January 1997)
 R S Clench (Appointed 1st August 1997)
 R. Conolly (Appointed 13th December 1996)

Secretary: R J Fraser

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

The directors present their report for the period ended 31 January 1998.

Principal activities and review of business

The company's principal activity is the operation of a cruise ship, the Saga Rose. The Company was incorporated on 24th October 1996 and the Saga Rose was purchased in April 1997 with the first cruise commencing on 20th May 1997. During the accounting period, the Saga Rose has undergone a substantial re-fit.

Accounts and dividends

The loss before taxation for the period amounted to £2,341,992. After taxation, a deficit of £1,601,769 has been transferred to reserves.

Directors

The directors of the company during the period ended 31 January 1998 were those listed above.

Directors' interests

No director holds any shares in the Company or the ultimate parent undertaking.

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 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 period, 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 Company's assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



R.J. Fraser
Secretary

21 May 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF SAGA SHIPPING COMPANY LIMITED

We have audited the accounts on pages 4 to 10 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 6.

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

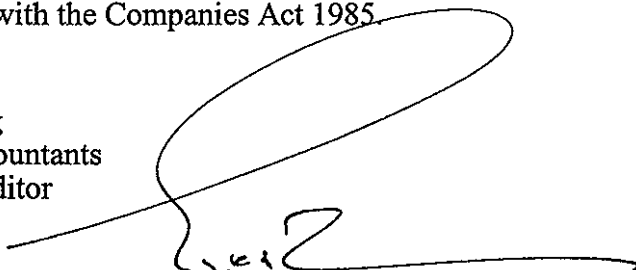
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 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 as at 31 January 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
London



.21. May 1998

SAGA SHIPPING COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE 15 MONTH PERIOD ENDED 31 JANUARY 1998

	Notes	1998
		£
Turnover	2	10,744,939
Cost of sales		<u>(11,324,044)</u>
Gross profit		(579,105)
Administration expenses		(840,995)
Interest payable and similar charges	3	<u>(921,892)</u>
Loss on ordinary activities before taxation	4	(2,341,992)
Taxation	8	<u>740,223</u>
Retained loss on ordinary activities	16	<u><u>(1,601,769)</u></u>

There were no recognised gains or losses other than the amounts included above.

SAGA SHIPPING COMPANY LIMITED

BALANCE SHEET AS AT 31 JANUARY 1998

	Notes	1998 £
Fixed assets		
Tangible assets	9	<u>31,967,909</u>
Current assets		
Stocks	10	319,388
Debtors	11	6,031,409
Cash at bank and in hand		<u>79,386</u>
		6,430,183
Creditors - amounts falling due within one year	12	<u>(9,024,861)</u>
Net current assets		<u>(2,594,678)</u>
Total assets less current liabilities		29,373,231
Creditors - amounts falling due after one year	13	(22,500,000)
Provisions for liabilities and charges	14	<u>(1,475,000)</u>
		<u><u>5,398,231</u></u>
Capital and reserves		
Called-up share capital	15	7,000,000
Profit and loss account	16	<u>(1,601,769)</u>
Equity shareholders' funds	17	<u><u>5,398,231</u></u>

T L Sykes
21... May 1998

Director

Ted Sykes

SAGA SHIPPING COMPANY 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

Charter hire income is recognised as earned, on a daily basis.

c) Tangible Fixed Assets

Tangible fixed assets are stated at cost less amounts written off.

The cost of the cruise ship less estimated residual value, is depreciated by equal instalments.

Costs relating to bi-annual dry-dockings are capitalised as deferred maintenance and depreciated over the period up to the next dry-dock.

The depreciation rates are as follows:-

Cruise ship - 13 years

Deferred maintenance - 2 years

d) Stocks

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

e) 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.

f) Foreign currencies

Exchange differences arising on transactions 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 where the contract rate is applied.

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, comprises cruise ship charter hire income.

3 Interest payable and similar charges

	1998
	£
Inter-company loan interest paid	1,329,680
Inter-company interest received	(408,691)
Other interest paid	903
	<u>921,892</u>

SAGA SHIPPING COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

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

	1998
	£
Depreciation - cruise ship	762,231
- deferred maintenance	82,875
Operating lease costs	6,592
Auditors' remuneration : for audit services	3,500
for other services	200
	<u>855,200</u>

5 Directors emoluments

The emoluments of the directors of the company during the period were as follows:

	1998
	£
Emoluments (excluding pension contributions)	236,703
Defined benefit pension scheme:	
Members of defined benefit pension scheme	1
Accrued pension at end of period	-

Amounts in respect of the highest paid director are as follows:

	1998
	£
Emoluments	150,753

6 Staff costs (excluding directors emoluments)

	1998
	£
Wages and salaries	114,707
Social security costs	5,660
Other pension costs	6,301
	<u>126,668</u>
Average number of employees	4

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.

SAGA SHIPPING COMPANY LIMITED
NOTES TO THE ACCOUNTS CONTINUED

8 Taxation on loss on ordinary activities	1998
	£
Group relief @ 31%	2,215,223
Deferred tax	(1,475,000)
	<u>740,223</u>

9 Tangible fixed assets	Cruise Ship
Cost	£
Additions in period	32,813,015
At 31 January 1998	<u>32,813,015</u>
Depreciation	
Charge for period	845,106
At 31 January 1998	<u>845,106</u>
Net book amount at 31 January 1998	<u>31,967,909</u>

10 Stocks	1998
	£
Fuel and oil	152,026
Bar and other sundry stocks	167,362
	<u>319,388</u>

11 Debtors	1998
	£
Prepayments	134,176
Amount owed by group undertaking	4,741,308
Other debtors	1,155,925
	<u>6,031,409</u>

12 Creditors : amounts falling due within one year	1998
	£
Trade creditors	889,734
Accruals and deferred income	1,799,972
Other creditors	6,335,155
	<u>9,024,861</u>

SAGA SHIPPING COMPANY LIMITED
NOTES TO THE ACCOUNTS CONTINUED

13 Creditors : Amounts falling due after more than one year	1998
	£
Loan from immediate parent undertaking	<u>22,500,000</u>

Interest on the loan is at a variable rate linked to LIBOR.

During the period the company entered into a guarantee, mortgage and floating charge in favour of the principal bankers of the ultimate parent undertaking. The security is limited to the amount of the loan due by the company to its immediate parent undertaking.

The loan from the immediate parent undertaking is repayable as follows:

	£
Within 1 year	-
Within 2-5 years	15,000,000
Over 5 years	7,500,000
	<u>22,500,000</u>

14 Provisions for liabilities and charges	1998
Deferred taxation	£
Charge for period	<u>1,475,000</u>

Deferred taxation comprises:

Accelerated capital allowances	2,250,010
Other short term timing differences	(775,010)
	<u>1,475,000</u>

At 31 January 1998, the full potential liability for deferred taxation was £1,475,000.

15 Called up share capital	1998
	£
Authorised	
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>
Allotted, called up and fully paid - 7,000,000 ordinary shares of £1 each	<u>7,000,000</u>

All the share capital was issued at par during the financial period. The share capital was issued in order to help finance the purchase of the Saga Rose.

16 Profit and loss account	1998
	£
Loss for the period	(1,601,769)
Balance at 31st January 1998	<u>(1,601,769)</u>

17 Reconciliation of movements in shareholders' funds	1998
	£
Loss for the period	(1,601,769)
Issue of ordinary share capital	7,000,000
Closing shareholders' funds at 31 January 1998	<u>5,398,231</u>

There were no other movements in shareholders' funds.

SAGA SHIPPING COMPANY LIMITED
NOTES TO THE ACCOUNTS CONTINUED

18 Financial commitments

At 31st January 1998, the Company had annual commitments under non-cancellable operating leases as follows:-

	1998
	£
	Motor
	Vehicles
Expiring between two and five years	<u>17,455</u>

19 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.