

SAGA GROUP LIMITED
ANNUAL REPORT AND ACCOUNTS
31 JANUARY 1998

Company Registration Number: 638891



SAGA GROUP LIMITED

Directors' Report

Directors: R M De Haan (Chairman)
H F Anthony
T B Bull
K E L Coyne
A R Deacon
P C De Haan
M E Hatch
Dr. O McDonald

Secretary: P C De Haan

Registered Office: The Saga Building, Middelburg Square, Folkestone, Kent CT20 1AZ

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

Principal activities and review of business developments

The Group's principal activity consists of the provision of a wide range of services to people aged fifty and over, including holidays, insurance, financial services and publishing.

The past year has been an excellent one for the group with profitability achieving record levels. The directors anticipate further growth in profits in the year to 31 January 1999.

In April 1997, the group completed the purchase of a cruise ship which is used exclusively by Saga customers. The ship has since been extensively refurbished and sales to date have been very strong.

Good progress is being made in the development of a new office building in Folkestone. The contracted expenditure commitments in respect of the building are set out in note 11 to these accounts.

Subsequent events and future developments

The directors anticipate that 1998/99 will see a continuation of the Group's long term strategy of developing its core businesses.

Results and dividends

The profit for the year before taxation amounts to £17,315,000. A dividend totalling £10,750,000 has been paid to Saga Leisure Limited. After taxation and dividend the retained profit of £868,000 has been added to reserves.

Change of accounting policy

As explained in note 1(b), the accounting policy for fixed assets has been changed to the effect that all assets are now stated at cost. The change has been made in order to achieve consistency of treatment across all classes of fixed assets

Directors

The directors of the company during the year to 31 January 1998 were those listed above and S J Waugh who resigned on 16 July 1997. P C De Haan and M E Hatch retire by rotation and being eligible, offer themselves for re-election. K E L Coyne and H F Anthony were appointed on 5 January 1998 and 7 May 1998 respectively; they retire and, being eligible, offer themselves for election.

SAGA GROUP LIMITED
Directors' Report continued

Directors' Interests

As Messrs R M De Haan and P C De Haan are directors of the ultimate parent undertaking, their interests are set out in the accounts of that company. A R Deacon and M E Hatch are directors of the ultimate parent undertaking and have no interest in the shares of the company or the ultimate parent undertaking. T B Bull, K E L Coyne and Dr. O McDonald have no interest in the shares of the company or the ultimate parent undertaking.

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

Donations

During the year the group made UK charitable donations amounting to £122,000. In addition, a charitable trust controlled by the principal shareholders of the ultimate parent undertaking made UK charitable donations amounting to £368,000 in the year to 31 January 1998. No political donations were made.

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 fulfil 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.

SAGA GROUP LIMITED
Directors' Report continued

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 Group and of the profit of the Group 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.

The Saga Building
Middelburg Square
Folkestone, Kent
CT20 1AZ

By Order of the Board

Peter De Haan
Secretary
21 May 1998

SAGA GROUP LIMITED
Consolidated profit and loss account
For the year ended 31 January 1998

	Note	1998 £'000	1997 £'000
Turnover	3	257,696	233,017
Cost of sales		<u>(166,755)</u>	<u>(152,900)</u>
Gross profit		90,941	80,117
Administrative and marketing expenses		(77,501)	(70,739)
Net investment income	4	<u>3,875</u>	<u>4,592</u>
Profit on ordinary activities before taxation	5	<u>17,315</u>	<u>13,970</u>
Taxation	9	<u>(5,697)</u>	<u>(5,441)</u>
Profit on ordinary activities after taxation		11,618	8,529
Dividend		<u>(10,750)</u>	<u>(5,000)</u>
Retained profit for the year	23	<u><u>868</u></u>	<u><u>3,529</u></u>

SAGA GROUP LIMITED

For the year ended 31 January 1998

Statement of total recognised gains and losses

	1998	1997
	£'000	£'000
Profit for the year after taxation	11,618	8,529
Exchange differences arising on foreign currency net investments in overseas subsidiaries	43	74
Total recognised gains relating to the year	<u>11,661</u>	<u>8,603</u>
Prior year adjustment (see note 1b)	<u>(3,537)</u>	
Total gains recognised since last report	<u>8,124</u>	

Reconciliation of movement in shareholders' funds

	1998	1997
	£'000	£'000
		as restated
Profit for the year after taxation	11,618	8,529
Exchange differences arising on foreign currency net investment in overseas subsidiaries	43	74
Dividends paid	<u>(10,750)</u>	<u>(5,000)</u>
	911	3,603
Shareholders' funds brought forward (as restated)	<u>18,558</u>	<u>14,955</u>
Shareholders' funds carried forward	<u>19,469</u>	<u>18,558</u>

SAGA GROUP LIMITED
Consolidated Balance Sheet
As at 31 January 1998

	Note	1998 £'000	1997 £'000 as restated
Fixed assets			
Tangible assets	11	52,594	11,103
Current assets			
Investments	13	101,644	76,601
Stock	15	-	95
Debtors	16	41,201	38,048
Cash at bank and in hand	14	2,939	2,582
		<u>145,784</u>	<u>117,326</u>
Creditors			
- amounts falling due within one year	17	<u>152,883</u>	<u>108,193</u>
Net current (liabilities) / assets		(7,099)	9,133
Total assets less current liabilities		<u>45,495</u>	<u>20,236</u>
Creditors			
- amounts falling due after more than one year	18	25,526	1,678
Provisions for liabilities and charges	20	<u>500</u> <u>19,469</u>	<u>-</u> <u>18,558</u>
Capital and reserves			
Called up share capital	22	3,617	3,617
Share premium account	23	84	84
Revaluation reserve	23	-	-
Currency equalisation account	23	508	465
Profit and loss account	23	<u>15,260</u>	<u>14,392</u>
Equity shareholders' funds		<u>19,469</u>	<u>18,558</u>

R M De Haan

Directors

P C De Haan

21 May 1998

SAGA GROUP LIMITED
Company Balance Sheet
As at 31 January 1998

	Note	1998 £'000	1997 £'000 as restated
Fixed assets			
Tangible assets	11	19,869	9,344
Investment in subsidiaries	12	23,930	10,338
		<u>43,799</u>	<u>19,682</u>
Current assets			
Debtors - including amounts due after one year	16	25,778	3,629
Cash at bank and in hand	14	3	4
		<u>25,781</u>	<u>3,633</u>
Creditors			
- amounts falling due within one year	17	31,690	14,260
		<u>(5,909)</u>	<u>(10,627)</u>
Net current liabilities			
		<u>37,890</u>	<u>9,055</u>
Total assets less current liabilities			
Creditors			
- amounts falling due after more than one year	18	25,236	1,112
		<u>12,654</u>	<u>7,943</u>
Capital and reserves			
Called up share capital	22	3,617	3,617
Share premium account	23	84	84
Currency equalisation account	23	788	634
Profit and loss account	23	8,165	3,608
		<u>12,654</u>	<u>7,943</u>
Equity shareholders' funds			

R M De Haan

Directors

P C De Haan

21 May 1998

SAGA GROUP LIMITED
Notes on the Accounts

1 Accounting Policies

a Accounting convention

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

b Changes in accounting policies

With effect from 1 February 1997 the company changed its method of accounting for subsidiary undertakings. Investment in subsidiary undertakings is now stated at cost, whereas previously it was stated at equity valuation. The effect of the change in accounting policy is to reduce the amount of investment in subsidiary undertakings of the company by £10,601,000.

With effect from 31 January 1998, the group changed its method of accounting for fixed assets. In order to achieve consistency across different groups of fixed assets, all fixed assets are now stated at cost less amounts written off. Previously they were stated at cost or valuation less amounts written off. As shown in note 11, the effect of the change in accounting policy is to reduce the amount of fixed assets of the company and of the group by £3,537,000.

c Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and each of its subsidiaries for the year ended 31 January 1998.

d 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 cruise ship is owned by the group. Commission income from insurers is recognised at the commencement of the period of risk. Additional commissions from insurers may be earned dependent upon the underwriting results of the business insured. The income is recognised when the results of this business can be determined reasonably. All other income is recognised as earned.

e 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 the following periods:

Land and buildings

Land	nil
Buildings	50 years
Related fittings	various up to a maximum of 10 years
Leasehold properties	over the period of the lease
Cruise ship	various up to a maximum of 13 years
Computers	various up to a maximum of 3 years
Plant and other equipment	various up to a maximum of 10 years

Computer development costs are capitalised and are depreciated over 3 years from the time that the particular development becomes fully functional.

SAGA GROUP LIMITED
Notes on the Accounts continued

f Leased assets

Assets held under finance lease 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 profit and loss account so as to produce a constant periodic rate of charge. Rentals in respect of operating leases are charged to profit as incurred.

g Stocks

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

h Advance receipts

All booking fees and balance payments for holidays after the year end and insurance premiums received which relate to insurance policies issued after the year end, are treated as receipts in advance at the balance sheet date and are separately disclosed within creditors.

i Deferred expenditure

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

j 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.

k 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 balance sheet date are translated at year end rates except where covered by forward contracts where the contract rate is used.

The accounts of overseas subsidiaries have been translated using the net investment method. Under the net investment method the balance sheets have been translated at year end rates and the profit and loss accounts at weighted average rates for the year except where the net results are covered by forward exchange contracts. Resultant translation differences are taken to reserves and are matched with realised profits or losses arising from forward foreign currency contracts entered into to provide a currency hedge against the effect of changes in the rates of exchange on the value of the net investment in the overseas subsidiaries.

l Goodwill

Goodwill which is established as a result of a purchase of a business is written off to reserves.

m 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 cost of providing these benefits is charged to the profit and loss account on a regular basis. Overseas subsidiaries make provisions for pensions in accordance with local law and practice.

n Government grants

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

SAGA GROUP LIMITED**Notes on the Accounts continued****2 Turnover**

Turnover, which all arises from continuing businesses, comprises sales to third parties, net of value added tax, and commissions receivable from insurers.

3 Analysis of turnover by geographical area

	1998	1997
	£'000	£'000
United Kingdom	209,596	182,420
United States	48,100	50,597
	<u>257,696</u>	<u>233,017</u>

The accounts do not contain details of profits and net assets by geographical area as, in the opinion of the Directors, disclosure of such information would be seriously prejudicial to the interests of the Group. The Group's turnover and profits are derived from the single activity of providing services to people aged fifty and over.

4 Net investment income	1998	1997
	£'000	£'000
Interest on deposits	5,858	4,762
Other interest receivable	103	48
	<u>5,961</u>	<u>4,810</u>
Intercompany interest	(1,865)	(62)
Bank and other interest payable	(48)	(22)
Finance lease interest	(173)	(134)
	<u>3,875</u>	<u>4,592</u>

5 Profit before taxation is stated after charging	1998	1997
	£'000	£'000
Depreciation of tangible fixed assets	2,776	3,977
Auditors' remuneration - for audit services	120	110
- for non-audit services	51	27
Property lease charges	890	815
Hire of plant and machinery	<u>1,117</u>	<u>852</u>

SAGA GROUP LIMITED
Notes on the Accounts continued

6	Directors' emoluments	1998	1997
		£'000	£'000
	Emoluments	1,240	962
	Paid under long term incentive plan	125	125
	Pensions to former directors	65	63
		<u>1,430</u>	<u>1,150</u>
		1998	1997
	Members of defined benefit pension scheme	<u>4</u>	<u>4</u>
The amounts in respect of the highest paid director are as follows:			
		1998	1997
		£'000	£'000
	Emoluments	<u>512</u>	<u>292</u>
	Defined benefit pension scheme:	1998	
		£'000	
	Accrued pension at end of year	175	
	Accrued lump sum at end of year	<u>393</u>	
7	Staff costs (excluding directors emoluments)	1998	1997
		£'000	£'000
	Wages and salaries	25,432	22,134
	Social security costs	1,930	1,630
	Other pension costs	1,662	1,001
		<u>29,024</u>	<u>24,765</u>
	Average number of persons employed	<u>1,638</u>	<u>1,564</u>

SAGA GROUP LIMITED
Notes on the Accounts continued

8 Pension costs

The Group operates a defined benefit pension scheme in the UK and a defined contribution scheme overseas. The pension cost in the UK was £1,609,000 and £116,000 overseas.

In the UK an actuarial valuation of assets and liabilities of the scheme is carried out triennially by external professional actuaries to determine the financial position of the scheme and to enable the Group to determine the contributions to be made to the scheme. The scheme's funds are held independently of the group's assets.

An interim financial review of the Scheme at 1 December 1997 revealed a deficiency in the Scheme at that date, using the basis underlying that which will be required for the purposes of the Minimum Funding Requirement, of £1,541,000. In order to reduce the deficit, the Company has made a special payment of £400,000 to the scheme on 13 March 1998. This payment, together with total annual contributions of 15% of payroll, is projected to eliminate the deficiency by April 1999.

The most recent full valuation was conducted as at 1 December 1995 at which date the market value of the scheme assets was £8,058,000. This valuation was prepared using the projected unit method and showed that the level of funding was 89% allowing for salaries projected to retirement or earlier withdrawal. The actuaries recommended future contributions of 15% of pensionable salary of which 1.1% represents the amount expected to be necessary to achieve a funding level of 100% over the average future working lifetime of the membership. The main financial assumptions used in the valuation were that the rate of return on the investments be 9% per annum that the rate of salary growth be 7.5% per annum and that the guaranteed rate of pension increase be 5% per annum.

9 Tax on profit on ordinary activities	1998	1997
	£'000	£'000
The charge based on the profit for the year comprises:		
UK corporation tax @ 31% (1997 - 33%)	3,946	4,466
Group relief @ 31% (1997 - 33%)	616	675
Overseas taxes	507	629
Adjustments relating to prior years	128	(36)
	<u>5,197</u>	<u>5,734</u>
Deferred tax	<u>500</u>	<u>(293)</u>
	<u><u>5,697</u></u>	<u><u>5,441</u></u>

10 Profit for the financial year

Of the profit after taxation for the financial year, £15,305,000 (1997 £7,631,000) 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 separately a Company Profit and Loss Account.

SAGA GROUP LIMITED
Notes on the Accounts continued

11 Tangible fixed assets

	Land and buildings £'000	Cruise ship £'000	Other fixed assets £'000	Total £'000
Group				
Cost or valuation				
At 31 January 1997 as previously stated	12,331	-	16,819	29,150
Prior year adjustment (see note 1b)	(4,104)	-	-	(4,104)
Cost at 31 January 1997 as restated	8,227	-	16,819	25,046
Exchange adjustments	-	-	(44)	(44)
Additions	11,113	32,695	463	44,271
Disposals	-	-	-	-
At 31 January 1998	<u>19,340</u>	<u>32,695</u>	<u>17,238</u>	<u>69,273</u>
Depreciation:				
At 31 January 1997 as previously stated	1,733	-	12,777	14,510
Prior year adjustment (see note 1b)	(567)	-	-	(567)
Cost at 31 January 1997 as restated	1,166	-	12,777	13,943
Exchange adjustments	-	-	(40)	(40)
Charge for year	170	762	1,844	2,776
Disposals	-	-	-	-
At 31 January 1998	<u>1,336</u>	<u>762</u>	<u>14,581</u>	<u>16,679</u>
Net book amounts				
At 31 January 1998	<u>18,004</u>	<u>31,933</u>	<u>2,657</u>	<u>52,594</u>
Net book amounts				
At 31 January 1997 (as restated)	<u>7,061</u>	<u>-</u>	<u>4,042</u>	<u>11,103</u>
Company				
Cost or valuation				
At 31 January 1997 as previously stated	12,331		10,366	22,697
Prior year adjustment (see note 1b)	(4,104)		-	(4,104)
Cost at 31 January 1997 as restated	8,227		10,366	18,593
Additions	11,113		391	11,504
At 31 January 1998	<u>19,340</u>		<u>10,757</u>	<u>30,097</u>
Depreciation:				
At 31 January 1997 as previously stated	1,733		8,083	9,816
Prior year adjustment (see note 1b)	(567)		-	(567)
Cost at 31 January 1997 as restated	1,166		8,083	9,249
Charge for year	170		809	979
At 31 January 1998	<u>1,336</u>		<u>8,892</u>	<u>10,228</u>
Net book amounts				
At 31 January 1998	<u>18,004</u>		<u>1,865</u>	<u>19,869</u>
Net book amounts				
At 31 January 1997 as restated	<u>7,061</u>		<u>2,283</u>	<u>9,344</u>

SAGA GROUP LIMITED

Notes on the Accounts continued

As at 31 January 1998 the directors have contracted for £8,961,000 (1997 - £19,493,000) of future capital expenditure.

Included in land and buildings are amounts in respect of land, with an original cost of £2,547,000 which have not been depreciated.

All tangible fixed assets are stated at historic cost.

The net book amount of tangible fixed assets includes £1,041,000 (1997 - £1,568,000) for the Group and £1,006,000 for the Company (1997 - £1,010,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £850,000 (1997 - £1,301,000) for the Group and £329,000 for the Company (1997 - £713,000).

12	Investment in subsidiary undertakings	1998 £'000	1997 £'000 as restated
	Cost		
	Balance brought forward	12,830	9,080
	Additions	13,750	3,750
	Disposals	(1,790)	-
	At 31 January	24,790	12,830
	Provision		
	Balance brought forward	(2,492)	(2,492)
	Disposals	1,632	-
	At 31 January	(860)	(2,492)
	Net book amount at 31 January	<u>23,930</u>	<u>10,338</u>

The shares in all directly owned subsidiaries are subject to a legal charge in favour of the group's principal bankers.

Main operating subsidiary undertakings of Saga Group Limited all of which are wholly owned:

	Country of incorporation or registration	Nature of Business
Saga Holidays Limited	England	Tour operating
Inter-Church Travel Limited	England	Tour operating
Saga Publishing Limited	England	Publishing
Saga Services Limited	England	Financial services
Saga Investment Direct Limited	England	Regulated investment products
MetroMail Limited	England	Mail processing
Saga Shipping Company Limited	England	Cruising
Saga International Holidays Limited	USA	Tour operating

SAGA GROUP LIMITED
Notes on the Accounts continued

13 Current asset investments
Deposits with financial institutions and
local authorities

	31st January 1998		31st January 1997	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Held in trust	45,366	-	41,629	-
Other	56,278	-	34,972	-
	<u>101,644</u>	<u>-</u>	<u>76,601</u>	<u>-</u>

Holiday monies received by the group's U.K. tour operating businesses from customers in advance of holiday departure dates, are paid directly into independently controlled trusts. The monies remain in trust until the tour operating companies have fulfilled their obligations to the customer. (See also, the footnote to note 17).

Group deposits amounting to £16,500,000 (1997 - £15,062,000) have maturity dates in excess of one year. Although these investments could be realised at short notice it is anticipated that they will be held until maturity.

14 Cash at bank and in hand

	31st January 1998		31st January 1997	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Held in trust (see note 13)	1,379	-	1,231	-
Other	1,560	3	1,351	4
	<u>2,939</u>	<u>3</u>	<u>2,582</u>	<u>4</u>

15 Stock

	1998	1997
	£'000	£'000
Stock	<u>-</u>	<u>95</u>

In 1997 stock comprised housing units held for resale.

16 Debtors

	31st January 1998		31st January 1997	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade debtors	20,135	13	14,606	2
Other debtors	4,094	840	3,156	712
Prepayments and deferred expenditure	16,761	2,425	20,105	2,915
Amounts owed by group undertaking	-	22,500	-	-
Taxation recoverable	211	-	181	-
	<u>41,201</u>	<u>25,778</u>	<u>38,048</u>	<u>3,629</u>

The amount owed by group undertaking is receivable after more than one year.

SAGA GROUP LIMITED
Notes on the Accounts continued

17 Creditors	31st January 1998		31st January 1997	
	Group	Company	Group	Company
- amounts falling due within one year	£'000	£'000	£'000	£'000
Bank overdraft	3,255	832	811	377
Advance receipts (see footnote below)	48,187	-	45,735	-
Trade creditors	44,646	894	39,207	156
Due to group undertakings	23,143	25,384	5,544	11,840
Corporate taxation	3,359	147	4,368	5
Other taxation and social security	1,830	482	1,016	-
Other creditors	7,882	205	718	64
Accruals and deferred income	19,678	3,165	10,289	1,632
Leasing	903	581	505	186
	<u>152,883</u>	<u>31,690</u>	<u>108,193</u>	<u>14,260</u>

Of the amount included in advance receipts, £35,905,000 (1997 - £33,463,000) relates to advance customer holiday deposits which are held in trust, as explained in note 13.

18 Creditors	31st January 1998		31st January 1997	
	Group	Company	Group	Company
- amounts falling due after more than one year	£'000	£'000	£'000	£'000
Due to group undertaking	22,500	22,500	-	-
Deferred government grants	2,173	2,173	-	-
Leasing	853	563	1,678	1,112
	<u>25,526</u>	<u>25,236</u>	<u>1,678</u>	<u>1,112</u>

19 Obligations under finance leases

The capital amounts due under finance lease obligations are as follows:

	31st January 1998		31st January 1997	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Within one year	903	581	505	186
Within two to five years	853	563	1,678	1,112
	<u>1,756</u>	<u>1,144</u>	<u>2,183</u>	<u>1,298</u>

SAGA GROUP LIMITED
Notes on the Accounts continued

20 Provision for liabilities and charges	31st January 1998		31st January 1997	
	Group	Company	Group	Company
Deferred taxation	£'000	£'000	£'000	£'000
Balance at beginning of year	-	-	293	-
Charge/(credit) for the year	500	-	(293)	-
Balance at end of year	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>

All of the above deferred tax liabilities relate to accelerated capital allowances.

At 31 January 1998 the full potential liability for deferred tax of the Group was £500,000 (1997 - £13,000) and of the Company £Nil (1997 - £Nil).

21 Lease commitments

Operating leases

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

	31st January 1998		31st January 1997	
	Group	Company	Group	Company
Land and buildings	£'000	£'000	£'000	£'000
Leases expiring:				
Within 1 year	46	46	82	77
Within 2 to 5 years	769	151	863	211
Thereafter	88	-	88	-
	<u>903</u>	<u>197</u>	<u>1,033</u>	<u>288</u>
Plant & machinery				
Leases expiring:-				
Within 1 year	98	87	147	104
Within 2 to 5 years	411	360	694	665
Thereafter	-	-	-	-
	<u>509</u>	<u>447</u>	<u>841</u>	<u>769</u>

SAGA GROUP LIMITED
Notes on the Accounts continued

22	Called up share capital	1998	1997
		£'000	£'000
	Authorised		
	27,000,000 Ordinary shares of 20p each	<u>5,400</u>	<u>5,400</u>
	Allotted and fully paid		
	18,086,076 Ordinary shares of 20p each	<u>3,617</u>	<u>3,617</u>

23	Reserves	Share Premium Account	Revaluation Reserve	Currency Equalisation Account	Profit and Loss Account
	Group	£'000	£'000	£'000	£'000
	At 31 January 1997 as previously stated	84	3,537	465	14,392
	Prior year adjustments (see note 1b)		(3,537)	-	-
	At 31 January 1997 as restated	<u>84</u>	<u>-</u>	<u>465</u>	<u>14,392</u>
	Currency fluctuations	-	-	43	-
	Retained profit	-	-	-	868
	At 31 January 1998	<u>84</u>	<u>-</u>	<u>508</u>	<u>15,260</u>
	Company				
	At 31 January 1997 as previously stated	84	14,842	465	3,073
	Prior year adjustments (see note 1b)				
	Tangible fixed assets	-	(3,537)	-	-
	Investment in subsidiary undertakings	-	(11,305)	169	535
	At 31 January 1997 as restated	<u>84</u>	<u>-</u>	<u>634</u>	<u>3,608</u>
	Currency fluctuations	-	-	154	-
	Retained profit	-	-	-	4,557
	At 31 January 1998	<u>84</u>	<u>-</u>	<u>788</u>	<u>8,165</u>

SAGA GROUP LIMITED

Notes on the Accounts continued

24 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 £2,819,000 (1997 - £2,201,000). The company is party to a guarantee in favour of the principal bankers of Saga Leisure Limited, as security for the borrowings of that company. The amount subject to guarantee at 31 January 1998 was £50 million. In addition, the banks hold a mortgage over the group's cruise ship.

25 Related party transactions

During the year Saga Holidays Limited used the services of David De Haan Tours Limited (a company resident in New Zealand controlled by a relative of the directors RM De Haan and PC 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.

26 Ultimate parent undertaking

The ultimate parent undertaking is Saga Leisure Limited which is incorporated in England. The accounts of the company have been included in the consolidated accounts of Saga Leisure Limited.

Report of the Auditors to the Members of Saga Group Limited

We have audited the accounts on pages 4 to 19 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the group'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

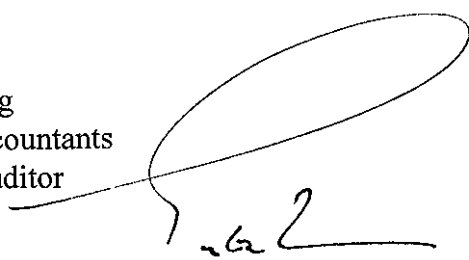
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by 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 and of the group as at 31 January 1998 and of the profit for 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 1998