

SAGA SERVICES LIMITED
DIRECTORS' REPORT AND ACCOUNTS
31 JANUARY 2005

Company Registration Number: 732602



SAGA SERVICES LIMITED

Directors' report

Directors: J A Goodsell (Chief Executive)
S D Ashton
T B Bull
J D Cameron
S M Howard
A J P Strong

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 2005.

Principal activities

The Company's principal activity is the provision of insurance and financial services to people aged fifty and over. The Company has completed a very satisfactory year during which significant resources were invested in strengthening Saga's position as a key player in its chosen market. This process will continue during the course of the coming year leading to further strengthening of the Company's market position.

With effect from 14 January 2005, the Company became regulated by the Financial Services Authority.

Results and dividends

The profit before taxation for the year amounts to £96,377,000. After taxation and dividends, an amount of £8,912,000 has been transferred to reserves. Dividends paid on ordinary shares to Saga Group Limited amounted to £58,500,000.

Directors

The Directors of the Company during the year were those listed above and R M De Haan who resigned from the Board on 27 October 2004 and M Cutbill who resigned from the Board on 31 March 2005. R J Fraser resigned as Company Secretary on 26 October 2004.

SAGA SERVICES 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. The other Directors have the following interests in parent undertakings:-

	Ordinary Shares of 1p each		Loan notes	
	2005 No.	2004 No.	2005 £	2004 £
S D Ashton	9,549	-	36,489	-
J D Cameron	5,555	-	181,914	-
A J P Strong	9,613	-	49,943	-

The ordinary share capital interests relate to the ultimate parent undertaking. The loan note interests relate to the penultimate parent undertaking, Saga 200 Limited.

R M De Haan was a Director of the previous ultimate parent undertaking, Saga Limited, and his interests in shares are set out in the accounts of that company.

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

Employee involvement

During the year the Company 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 Company 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 Company. It is the Company's policy to retain in employment, whenever practicable, employees who become disabled and give all such employees equal consideration for training and career development to enable them to fulfil their promotion potential.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

SAGA SERVICES LIMITED
Directors' report continued

Statement of directors' responsibilities

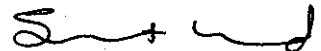
The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for the year.

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 maintaining 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.

The Saga Building
Enbrook Park
Folkestone
Kent
CT20 3SE

By order of the Board



S M Howard
Secretary
24 May 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

We have audited the Company's financial statements for the year ended 31 January 2005 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 25. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the Company 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

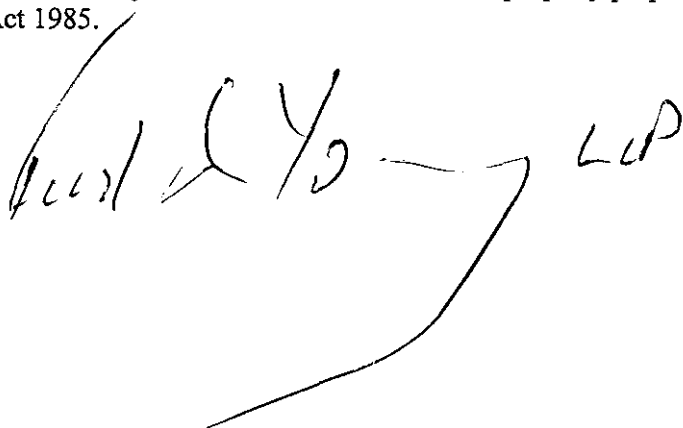
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 affairs of the Company as at 31 January 2005 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
24 May 2005



SAGA SERVICES LIMITED**Profit and loss account for the year ended 31 January 2005**

	Note	2005 £'000	2004 £'000
Turnover	3	162,481	166,332
Other operating income	4	5,550	3,802
Staff costs	8	(25,468)	(22,703)
Depreciation of fixed assets	5	(413)	(573)
Other operating charges		(45,673)	(46,893)
Operating profit	5	96,477	99,965
Interest payable and similar charges	6	(100)	-
Profit on ordinary activities before taxation		96,377	99,965
Taxation	10	(28,965)	(30,022)
Profit on ordinary activities after taxation		67,412	69,943
Dividend	11	(58,500)	(60,000)
Retained profit for the financial year	20	8,912	9,943

SAGA SERVICES LIMITED**Year ended 31 January 2005****Statement of total recognised gains and losses**

	Note	2005 £'000	2004 £'000
Profit for the year after taxation		67,412	69,943
		<u>67,412</u>	<u>69,943</u>
Prior year adjustment		-	9,293
Total gains and losses recognised since last annual report		<u>67,412</u>	<u>79,236</u>

Reconciliation of movements in shareholders' funds

	Note	2005 £'000	2004 £'000
Total recognised gains and losses relating to the year		67,412	69,943
Dividends paid	11	<u>(58,500)</u>	<u>(60,000)</u>
Net movement in shareholders' funds		8,912	9,943
Shareholders' funds brought forward		30,691	20,748
Shareholders' funds carried forward		<u>39,603</u>	<u>30,691</u>

SAGA SERVICES LIMITED
Balance sheet as at 31 January 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	12	1,293	529
Investment in subsidiary undertaking	13	-	-
		<u>1,293</u>	<u>529</u>
Current assets			
Stocks	14	332	-
Debtors	15	158,093	136,050
Cash on deposit	16	21,839	26,333
Cash at bank and in hand		7,585	9,232
		<u>187,849</u>	<u>171,615</u>
Creditors – amounts falling due within one year	17	<u>(147,564)</u>	<u>(139,779)</u>
Net current assets		<u>40,285</u>	<u>31,836</u>
Total assets less current liabilities		41,578	32,365
Provisions for liabilities and charges	18	<u>(1,975)</u>	<u>(1,674)</u>
Net assets		<u>39,603</u>	<u>30,691</u>
Capital and reserves			
Called up share capital	19	2,100	2,100
Profit and loss account	20	37,503	28,591
Equity shareholders' funds		<u>39,603</u>	<u>30,691</u>

J A Goodsell)

Directors

S M Howard)

24 May 2005

SAGA SERVICES 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.

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 parent company Saga Holdings Limited. As such, these accounts show only the results of the individual Company and not the group.

b) Turnover

Commission income from third party insurers is recognised at the commencement of the period of risk. Additional commission from these insurers may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be determined reasonably. Income received in advance relating to long term commercial agreements is recognised when the Company has performed its contractual obligations.

Amounts charged to customers as interest under the Consumer Credit Act 1974 are earned over the term of the related instalment payment plans.

c) 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:

Computer hardware	3 years
Computer software	3 years

d) Operating leases

Rentals in respect of operating leases are charged to the profit and loss account as incurred.

e) Advance receipts

Insurance premiums received which relate to insurance policies incepting after the year end are treated as receipts in advance at the balance sheet date and are separately disclosed within creditors.

f) Stocks

Stocks of paper consumables and marketing literature are valued at the lower of cost and net realisable value.

g) 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.

SAGA SERVICES LIMITED

Notes to the accounts

1 Accounting policies continued

h) 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.

i) Cash flow statement

The Directors have taken advantage of the exemption available under FRS 1 from 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. Saga Limited was the ultimate parent undertaking until 29 October 2004 when it was acquired by Saga Holdings Limited.

2. Change of accounting policy

The Company has adopted FRS 17 'Retirement Benefits' in full, and has therefore changed its accounting policy for retirement benefits. The Company previously accounted for retirement benefits in accordance with SSAP24 'Accounting for pension costs'. The costs of providing retirement benefits are now recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise. No material adjustment to the balance sheet or profit and loss account, in both the current and comparative year, arises as a result of this change in accounting policy.

3. Turnover

Turnover, which all relates to continuing business, primarily comprises initial and renewal commissions receivable from insurers and other institutions together with additional commissions that are linked to underwriting results. Turnover is stated net of value added tax. All business is carried out in the UK.

4. Other operating income

	2005	2004
	£'000	£'000
Interest on deposits	1,193	1,003
Inter-company interest earned	4,332	2,799
Other interest receivable	25	-
	<u>5,550</u>	<u>3,802</u>

5. Operating profit

	2005	2004
	£'000	£'000
This is stated after charging:		
Depreciation of tangible fixed assets	413	573
Hire of plant & machinery	299	265
Auditors' remuneration - for audit services	150	35
Auditors' remuneration - for non-audit services	<u>70</u>	<u>-</u>

SAGA SERVICES LIMITED

Notes to the accounts

6. Interest payable and similar charges	2005	2004
	£'000	£'000
Other interest payable	100	-
	<u>100</u>	<u>-</u>

7. Directors' emoluments	2005	2004
	£'000	£'000
Emoluments	8,806	1,296
	<u>8,806</u>	<u>1,296</u>

	2005	2004
Members of defined benefit pension scheme:	6	8
	<u>6</u>	<u>8</u>

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 T B Bull and S M Howard was paid by Saga Group Limited, the immediate parent undertaking. Details of their remuneration can be found in the accounts of that company. The Directors do not believe that it is practicable to apportion the remuneration of T B Bull and S M Howard between their services as Directors of the ultimate parent company and fellow subsidiaries. Accordingly, the aggregate emoluments above exclude these Directors.

J A Goodsell is also a Director of the ultimate parent company, Saga Holdings Limited, and fellow subsidiaries. The Directors do not believe that it is practicable to apportion the remuneration of J A Goodsell between his services as Director of the ultimate parent company and fellow subsidiaries. S D Ashton, J D Cameron and A J P Strong are also Directors of the fellow subsidiary, Saga Investment Direct Limited. The remuneration received by J A Goodsell, S D Ashton, J D Cameron and A J P Strong was paid by the Company. The Directors do not believe that it is practicable to apportion the remuneration of S D Ashton, J D Cameron and A J P Strong between their services as Director of the Company and Saga Investment Direct Limited.

Among the Directors remunerated by the Company, the amounts paid in respect of the highest paid Director were as follows:-

	2005	2004
	£'000	£'000
Emoluments	6,207	524
	<u>6,207</u>	<u>524</u>

	2005	2004
	£'000	£'000
Defined benefit pension scheme:		
Accrued pension at end of year	41	33
	<u>41</u>	<u>33</u>

SAGA SERVICES LIMITED
Notes to the accounts continued

8. Staff costs	2005 £'000	2004 £'000
Wages and salaries	22,014	19,606
Social security costs	1,903	1,679
Other pension costs	1,551	1,418
	<u>25,468</u>	<u>22,703</u>

The monthly average number of employees during the year was as follows:-	2005 No.	2004 No.
Sales & marketing	431	402
Operations	537	501
Administration and management	113	99
	<u>1,081</u>	<u>1,002</u>

9. 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.

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

10. Tax on profit on ordinary activities

The charge based on the profit for the year comprises:	2005 £'000	2004 £'000
UK corporation tax @ 30%	11,036	24,489
UK group relief @ 30%	17,628	5,570
Current tax	28,664	30,059
Adjustments relating to prior years	110	185
Deferred tax – current year	191	(49)
Deferred tax – prior years	-	(173)
	<u>28,965</u>	<u>30,022</u>

Reconciliation of Current Tax Charge:-	2005 £'000	2004 £'000
Pre-Tax profits at 30%	28,913	29,990
Depreciation in excess of capital allowances	-	132
Capital allowances in excess of depreciation	(190)	-
Permanent differences	50	20
Other items	(108)	-
Other timing differences	(1)	(83)
	<u>28,664</u>	<u>30,059</u>

SAGA SERVICES LIMITED
Notes to the accounts continued

11. Dividends

A dividend of £27.857 per share (2004 - £28.571) has been paid at a cost of £58,500,000 (2004 - £60,000,000).

12. Tangible fixed assets

	Computers £'000
Cost	
At 1 February 2004	2,707
Additions	1,177
At 31 January 2005	<u>3,884</u>
Depreciation	
At 1 February 2004	2,178
Charge for year	413
At 31 January 2005	<u>2,591</u>
Net book amounts	
At 31 January 2005	<u>1,293</u>
At 31 January 2004	<u>529</u>

13. Investment in subsidiary undertaking

During the year the Company disposed of Saga Property Management Limited, a wholly owned subsidiary (see note 24).

	Subsidiary Undertaking £'000
Cost	
At 1 February 2004	1,000
Disposals	(1,000)
At 31 January 2005	<u>-</u>
Provision	
At 1 February 2004	1,000
Release in year	(1,000)
At 31 January 2005	<u>-</u>
Net book amount	
At 31 January 2005	<u>-</u>
Net book amount	
At 1 February 2004	<u>-</u>

SAGA SERVICES LIMITED
Notes to the accounts continued

14. Stocks

	2005 £'000	2004 £'000
Paper consumables & marketing literature	332	-
	<u>332</u>	<u>-</u>

15. Debtors

	2005 £'000	2004 £'000
Trade debtors	87,746	75,279
Amount owed by parent undertaking	68,598	57,658
Prepayments and accrued income	589	1,457
Corporation tax recoverable	-	179
Other tax and social security	131	257
Deferred taxation	1,029	1,220
	<u>158,093</u>	<u>136,050</u>

Deferred taxation comprises short-term timing differences of £247,000 (2004 - £248,000) and an excess of depreciation over capital allowances of £782,000 (2004 - £972,000).

16. Cash on deposit

	2005 £'000	2004 £'000
Deposits with financial institutions	<u>21,839</u>	<u>26,333</u>

As at 31 January 2005, cash on deposit consisted of client monies, which are subject to regulatory restrictions, held in separate bank accounts. This amount and the matching liability are included in the balance sheet.

17. Creditors

- amounts falling due within one year

	2005 £'000	2004 £'000
Bank overdraft	295	2,240
Advance receipts	2,757	2,515
Trade creditors	129,356	109,052
Corporation tax	3,398	17,275
Other creditors	1,169	1,027
Accruals and deferred income	10,589	7,670
	<u>147,564</u>	<u>139,779</u>

SAGA SERVICES LIMITED
Notes to the accounts continued

18. Provisions for liabilities and charges

	Other Provisions £'000
Balance at 1 February 2004	1,674
Charge for the year	301
Balance at 31 January 2005	<u>1,975</u>

The other provisions relate to repayments that the Company may have to make as a result of mid-term cancellation of policies.

19. Called up share capital	2005 £'000	2004 £'000
Authorised		
2,100,000 ordinary shares of £1 each	<u>2,100</u>	<u>2,100</u>
Allotted and fully paid		
2,100,000 ordinary shares of £1 each	<u>2,100</u>	<u>2,100</u>

20. Profit and loss account

	2005 £'000	2004 £'000
Balance at beginning of year	28,591	18,648
Retained profit for the year	<u>8,912</u>	<u>9,943</u>
Balance at end of year	<u>37,503</u>	<u>28,591</u>

21. Cross Company Guarantees

The Company along with certain of its fellow subsidiaries acts as Obligor on bank loans made to Saga 300 Limited (formerly Platinum 300 Limited) and Saga 400 Limited (formerly Platinum 400 Limited). At the balance sheet date the principal and accrued interest outstanding on these bank loans was £929,988,802.

22. Related party transactions

The Company has taken advantage of the exemption afforded by FRS8 in not disclosing transactions with other entities in the Saga group of companies.

23. 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. Saga Limited was the ultimate parent undertaking until 29 October 2004 when it was acquired by Saga Holdings Limited.

SAGA SERVICES LIMITED
Notes to the accounts continued

24. Disposal of subsidiary

On 24 December 2004, Saga Property Management Limited was sold to Saga Group Limited for cash consideration of £1 and ceased to be a subsidiary of Saga Services Limited. The profit arising on this disposal was £1.

25. Ultimate controlling party

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