

SAGA LIMITED

ANNUAL REPORT AND ACCOUNTS

31 JANUARY 2004

Company Registration Number: 4362073



SAGA LIMITED
Directors' report

Directors: R M De Haan (Chairman)
A R Deacon
M E Hatch

Secretary: R J Fraser

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 2004.

Principal activity 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, radio broadcasting and publishing.

The year under review has been an excellent one for the Group and the directors anticipate further progress in the year to 31 January 2005.

Subsequent events and future developments

The directors anticipate that 2004/2005 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 £63,977,000. After taxation and dividends, an amount of £29,706,000 has been transferred to reserves. Dividends paid on ordinary shares during the year amounted to £6,000,000, with a further £2,000,000 paid on 10 February 2004.

Directors

The directors of the company during the year ended 31 January 2004 were those listed above.

SAGA LIMITED

Directors' report continued

Directors' interests

R M De Haan, the group's controlling shareholder, had an interest in 3,092,382 ordinary shares of 25p each in the company as at 31 January 2004. No other director had an interest in the company's share capital.

No options to subscribe for shares existed at 31 January 2004. It is the company's policy to maintain indemnity insurance for directors and officers.

Donations

During the year the Group made payments to various charitable and non-profit making organisations totalling £1,030,000. This included £748,000 of donations and £34,000 of payments in kind to UK charitable organisations and further payments of £248,000 to sponsor charitable and other non-profit making organisations and events. 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 LLP have expressed their willingness to act as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

SAGA 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 which disclose with reasonable accuracy at any time the financial position of the group 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 group 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



R J Fraser
Secretary
22 April 2004

SAGA LIMITED**Consolidated profit and loss account for the year ended 31 January 2004**

	Note	2004 £'000	2003 as restated £'000
Turnover			
Continuing operations		382,734	221,788
Discontinued operations		142	285
	3	<u>382,876</u>	<u>222,073</u>
Cost of sales		(177,212)	(103,098)
Gross profit	5	<u>205,664</u>	<u>118,975</u>
Administrative and marketing expenses		(126,358)	(77,995)
Amortisation of goodwill	14	(14,844)	(9,277)
Exceptional item	7	<u>(2,123)</u>	<u>(1,663)</u>
Total administrative and marketing expenses		<u>(143,325)</u>	<u>(88,935)</u>
Other operating income	6	<u>5,705</u>	<u>3,300</u>
Operating profit			
Continuing operations		68,690	34,271
Discontinued operations		(646)	(931)
	7	<u>68,044</u>	<u>33,340</u>
Interest payable and similar charges	8	<u>(4,067)</u>	<u>(3,115)</u>
Profit on ordinary activities before taxation		<u>63,977</u>	<u>30,225</u>
Taxation	12	<u>(22,406)</u>	<u>(10,412)</u>
Profit on ordinary activities after taxation		<u>41,571</u>	<u>19,813</u>
Dividends	13	<u>(16,151)</u>	<u>(18,702)</u>
Difference between finance cost and dividends on non-equity shares		<u>4,286</u>	<u>12,286</u>
Retained profit for the year	27	<u><u>29,706</u></u>	<u><u>13,397</u></u>

The comparative profit and loss account shows the group's trading result for the period 13 June 2002 to 31 January 2003.

Details of the restatement to the 2003 comparatives are set out in note 2 to the accounts.

SAGA LIMITED
Year ended 31 January 2004

Consolidated statement of total recognised gains and losses

	Note	2004 £'000	2003 as restated £'000
Profit for the financial year		41,571	19,813
Exchange differences arising on the translation of net assets of overseas subsidiary companies	27	264	519
		<u>41,835</u>	<u>20,332</u>
Prior year adjustment	2	9,293	
Total gains and losses recognised since last annual report		<u>51,128</u>	

Reconciliation of movement in consolidated shareholders' funds

		2004 £'000	2003 as restated £'000
Total recognised gains and losses relating to the year		41,835	20,332
Issue of ordinary share capital		-	918
Issue of preferred ordinary share capital		-	739
Issue of deferred share capital		-	370
Merger reserve creation		-	355,091
Redemption of shares		-	(80,769)
Equity dividends	13	(8,000)	(4,000)
Preferred ordinary dividends	13	(8,151)	(14,702)
Net movement in shareholders' funds		<u>25,684</u>	<u>277,979</u>
Shareholders' funds brought forward (originally £268,686,000 before adding prior year adjustment of £9,293,000)		277,979	-
Shareholders' funds carried forward		<u>303,663</u>	<u>277,979</u>

SAGA LIMITED**Consolidated balance sheet as at 31 January 2004**

		2004	2003 as restated
	Note	£'000	£'000
Fixed assets			
Intangible assets	14	272,752	287,596
Tangible assets	15	<u>84,495</u>	<u>67,439</u>
		357,247	355,035
Current assets			
Stock		878	1,362
Debtors	17	102,863	80,408
Cash on deposit	18	183,074	139,805
Cash at bank and in hand	19	<u>11,458</u>	<u>8,278</u>
		298,273	229,853
Creditors			
- amounts falling due within one year	20	<u>(267,862)</u>	<u>(222,177)</u>
Net current assets		<u>30,411</u>	<u>7,676</u>
Total assets less current liabilities		387,658	362,711
Creditors			
- amounts falling due after more than one year	21	(58,611)	(83,424)
Insurance technical provisions	24	(21,223)	-
Provisions for liabilities and charges	25	<u>(4,161)</u>	<u>(1,308)</u>
		303,663	277,979
Capital and reserves			
Called up share capital	26	2,027	2,027
Merger reserve	27	250,201	265,045
Currency equalisation account	27	783	519
Profit and loss account	27	<u>50,652</u>	<u>10,388</u>
Total shareholders' funds (including non-equity interests)		<u>303,663</u>	<u>277,979</u>
Shareholders' funds attributable to equity interests		244,203	214,233
Shareholders' funds attributable to non equity interests	27	<u>59,460</u>	<u>63,746</u>
		<u>303,663</u>	<u>277,979</u>



R M De Haan

Director

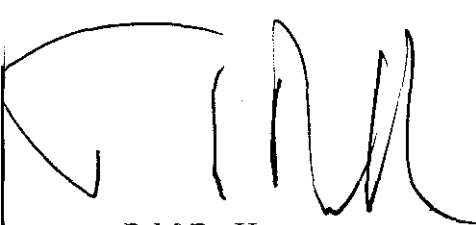
22 April 2004

SAGA LIMITED
Consolidated cash flow statement for the year ended 31 January 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Net cash inflow from operating activities	28		97,250		60,063
Investment in joint venture			-		49
Returns on investments and servicing of finance					
Preferred ordinary dividend		(4,014)		(1,800)	
Interest paid		(4,148)		(2,844)	
Interest element of finance lease rentals		(68)		(39)	
Interest received		5,606	(2,624)	3,328	(1,355)
Taxation					
UK corporation tax paid		(19,618)		(7,417)	
Overseas tax (paid)/recovered		(13)	(19,631)	378	(7,039)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(24,989)		(6,241)	
Receipts from sale of tangible fixed assets		543		-	
Receipt of government grants		-	(24,446)	70	(6,171)
Acquisitions and disposals					
Net cash acquired with subsidiary			-		30,218
Equity dividends paid			(6,000)		(4,000)
Management of liquid resources					
(Increase) in other deposits	29		(25,175)		(22,027)
Net cash inflow before financing			19,374		49,738
Financing					
Repayment of long-term loans		(8,737)		(21,334)	
Preferred ordinary dividend		(4,286)		(12,286)	
New long-term loans		12,840		66,607	
Redemption of share capital		-		(52,376)	
Repayment of capital element of finance lease /hire purchase agreements		(922)	(1,105)	(310)	(19,699)
Increase in cash			18,269		30,039
Reconciliation of net cash flows to movement in net funds					
	Note		2004 £'000		2003 £'000
Increase in cash			18,269		30,039
New long term loans			(12,840)		(66,607)
Repayment of loans			8,737		21,334
Loan notes issued			-		(28,393)
Repayment of capital element of finance leases /hire purchase agreements			922		310
Cash inflow from other deposits			25,175		22,027
Change in net funds resulting from cash flows			40,263		(21,290)
Deposits, loans and finance leases acquired with subsidiary			-		87,880
New lease finance			(1,650)		(590)
Exchange differences			264		519
Movement in net funds			38,877		66,519
Opening net funds			66,519		-
Closing net funds	29		105,396		66,519

SAGA LIMITED**Company balance sheet as at 31 January 2004**

	Note	2004 £'000	2003 £'000
Fixed assets			
Investment in subsidiaries	16	357,119	357,119
		<u>357,119</u>	<u>357,119</u>
Current assets			
Debtors	17	74,457	10,492
Cash at bank and in hand	19	2	5
		<u>74,459</u>	<u>10,497</u>
Creditors			
- amounts falling due within one year	20	(32,958)	(2,481)
		<u></u>	<u></u>
Net current assets		<u>41,501</u>	<u>8,016</u>
Total assets less current liabilities		<u>398,620</u>	<u>365,135</u>
Creditors			
- amounts falling due after more than one year	21	(41,607)	(75,000)
		<u>357,013</u>	<u>290,135</u>
Capital and reserves			
Called up share capital	26	2,027	2,027
Merger reserve	27	274,322	274,322
Profit and loss account	27	80,664	13,786
		<u>357,013</u>	<u>290,135</u>
Total shareholders' funds (including non-equity interests)		<u>357,013</u>	<u>290,135</u>
Shareholders' funds attributable to equity interests		<u>297,553</u>	<u>226,389</u>
Shareholders' funds attributable to non equity interests		<u>59,460</u>	<u>63,746</u>
		<u>357,013</u>	<u>290,135</u>



R M De Haan
Director
22 April 2004

SAGA 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.

b Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and each of its subsidiaries.

c Turnover

Turnover from tour operations (passenger revenue) is recognised upon departure date with the exception of cruises where passenger revenue is recognised on a daily basis if the cruise ship is operated by the group. 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 group has performed its contractual obligations.

The policy for recognition of income relating to insurance premiums is described in note 1(p).

Income from other activities is recognised when the service is provided to the customer.

d 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.
Cruise ships	10 - 13 years
Computers	3 years
Plant and other equipment	5 - 10 years

Costs relating to cruise-ship dry-dockings are capitalised and depreciated over the period up to the next dry-dock.

e 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 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.

f Stocks

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

g Advance receipts

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

SAGA LIMITED

Notes to the accounts continued

1 Accounting policies continued

h Deferred expenditure

Expenditure on holiday brochures, which relates to next year's trading is carried forward at the balance sheet date and charged against profits in the following accounting year.

i 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.

j 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 where the contract rate is applied. 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. Resultant translation differences are taken to reserves.

k 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. Overseas subsidiaries make provisions for pensions in accordance with local law and practice.

l 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.

m Liquid resources

Included within the cash flow statement as liquid resources are cash deposits, other than those held on overnight or call accounts.

n Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised through the profit and loss account on a systematic basis over its estimated useful life.

The useful life of goodwill has been estimated to be 20 years. The directors review the appropriateness of this useful life at the end of each year and revise it if necessary.

Additionally, the directors review goodwill for impairment at the end of the first year following the acquisition and at other times should events indicate that the carrying values may not be recoverable. Additional amortisation is charged in the year if the goodwill is deemed to be impaired.

SAGA LIMITED

Notes to the accounts continued

1 Accounting policies continued

o Derivative instruments

The group uses forward foreign currency contracts to manage its exposure to movements in foreign exchange rates. The group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

The criteria for forward foreign currency contracts are:

- The instrument must relate to a future foreign currency commitment;
- It must be denominated in the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange movements on the group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a future transaction are not recognised until the transaction occurs.

p Insurance business

Earned premiums relate to business incepted during the year less an allowance for cancellations, excluding taxes and duties levied. These premiums are recognised as income over the period of the policy on a time apportioned basis, having regard to the incidence of risk. The unearned premium reserve is calculated on a daily pro-rata basis.

Claims incurred include reported and unreported losses occurring during the year, related handling costs and any adjustments to claims outstanding from previous years. Provision is made for any deficiencies arising when unearned premiums are insufficient to meet expected claims and expenses after taking into account future investment return.

Acquisition costs comprise those expenses relating to the conclusion of insurance contracts. Those acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date are carried forward from one accounting period to the next. The bulk of these costs relate to product-specific advertising expenditure and overheads relating to the underwriting and call centre departments.

q Insurance technical provisions

The provision for outstanding claims is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled less amounts already paid by the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date, which is set using statistical methods. Claims estimates represent a point within a range of possible outcomes. Further details of estimation techniques are given in note 24.

The amount of any anticipated reinsurance, salvage or subrogation recoveries are separately identified and reported separately as assets.

Differences between the provisions at the balance sheet date and settlements and provisions in the following year (known as 'run off deviations') are recognised in the profit and loss account for that year.

SAGA LIMITED

Notes to the accounts continued

2 Change of accounting policy

As a consequence of the guidance set out in the recently published amendment to FRS 5 'Reporting the substance of transactions : Revenue recognition', the group has changed its accounting policy for income received in advance relating to long term commercial agreements. Income received in advance relating to the group's credit card product was formerly recognised over the term of the contract but is now recognised in the profit and loss account to the extent that the group has obtained the right to consideration in exchange for performance of its contractual obligations.

The 2003 comparative consolidated balance sheet and profit and loss accounts have been restated to reflect this change in policy. The impact has been to increase turnover by £13,275,000 and the taxation charge by £3,982,000 resulting in an increase in net assets at 31 January 2003 by £9,293,000, comprising a reduction in deferred income of £13,275,000 and an increase in the current tax liability of £3,982,000.

For 2004 the impact has been to reduce turnover by £1,472,000 and the taxation charge by £442,000 resulting in a reduction in net assets at 31 January 2004 of £1,030,000.

3 Turnover

Turnover comprises sales to third parties, net of value added tax, commissions receivable from insurers and earned insurance premiums (gross of commissions).

SAGA LIMITED**Notes to the accounts continued****4 Segmental analysis**

Turnover, operating profit and total assets are analysed by class of business and origin as follows:

	2004	2003
	£'000	as restated £'000
Turnover		
By class of business:		
Financial Services	165,051	89,495
Travel	199,727	122,006
Media & Business Services	17,956	10,287
Discontinued Operations	142	285
	<u>382,876</u>	<u>222,073</u>
Operating profit		
By class of business:		
Financial Services	77,330	40,150
Travel	9,157	4,583
Media & Business Services	(2,953)	(1,185)
Discontinued Operations	(646)	(931)
Operating profit before amortisation of goodwill	<u>82,888</u>	<u>42,617</u>
Amortisation of goodwill	(14,844)	(9,277)
Operating profit	<u>68,044</u>	<u>33,340</u>
Net assets		
By class of business:		
Financial Services	91,534	31,484
Travel	64,592	57,746
Media & Business Services	1,137	4,537
Discontinued Operations	(4,087)	(4,014)
	<u>153,176</u>	<u>89,753</u>
Unallocated assets	220,487	263,226
Capital employed	<u>373,663</u>	<u>352,979</u>
Net borrowings	(70,000)	(75,000)
Net assets	<u>303,663</u>	<u>277,979</u>

All turnover arising from continuing operations originates in the UK. Turnover relating to discontinued operations relates to the Group's US operations. Turnover by destination is not materially different from turnover by origin.

All continuing operations' assets are located in the UK. Assets relating to discontinued operations are located in the US. Unallocated net assets consist of head office tangible assets, goodwill and head office indebtedness to the rest of the group. Net borrowings exclude any debt used to finance specific operations or assets, which is allocated to the segment containing the related operation or asset.

The directors have reviewed the definitions of segments used in these accounts and have updated them to reflect the structure of the business.

SAGA LIMITED**Notes to the accounts continued****5 Gross Profit**

The following analysis shows the elements of the group's turnover and cost of sales that relate to insurance underwriting activities. These underwriting activities commenced January 2004.

	2004 £'000	2003 as restated £'000
Turnover		
Insurance activities - earned premiums	898	-
Other activities	381,978	222,073
	<u>382,876</u>	<u>222,073</u>
Cost of sales		
Insurance activities - claims incurred	(646)	-
Other activities	(176,566)	(103,098)
	<u>(177,212)</u>	<u>(103,098)</u>
Gross profit	<u>205,664</u>	<u>118,975</u>

The amount disclosed for claims incurred does not include any material run off deviation.

6 Other operating income

	2004 £'000	2003 £'000
Interest on deposits	5,646	3,294
Other interest receivable	59	6
	<u>5,705</u>	<u>3,300</u>

7 Operating profit

	2004 £'000	2003 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	8,137	3,350
Depreciation of leased tangible fixed assets	895	645
Gain on disposal of fixed assets	(23)	-
Deferred government grant release	(72)	(41)
Auditors' remuneration - for audit services	125	117
- for non-audit services	238	114
Property lease charges	1,599	406
Hire of plant and machinery	1,109	869
Exceptional item	<u>2,123</u>	<u>1,663</u>

The exceptional item relates to costs associated with a major one-off programme of remedial works to one of the Group's office buildings.

SAGA LIMITED**Notes to the accounts continued****7 Operating profit continued**

The components of operating profit split between continuing and discontinued operations are as follows:

	2004			2003		
	Continuing	Dis-continued	Total	Continuing	Dis-continued	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Sales	(177,264)	52	(177,212)	(102,735)	(363)	(103,098)
Gross profit / (loss)	205,470	194	205,664	119,053	(78)	118,975
Total administrative and marketing expenses	(142,506)	(819)	(143,325)	(88,115)	(820)	(88,935)
Other operating income	5,726	(21)	5,705	3,333	(33)	3,300

8 Interest payable and similar charges

	2004	2003
	£'000	£'000
Loan interest	3,995	3,062
Finance lease and hire purchase interest	68	39
Other interest payable	4	14
	<u>4,067</u>	<u>3,115</u>

9 Directors' emoluments

	2004	2003
	£'000	£'000
Emoluments	<u>3,336</u>	<u>3,056</u>

	2004	2003
Member of defined benefit pension scheme	<u>1</u>	<u>1</u>

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

	2004	2003
	£'000	£'000
Emoluments	<u>3,220</u>	<u>2,761</u>
Defined benefit pension scheme:		
Accrued pension at end of year	<u>312</u>	<u>303</u>

SAGA LIMITED**Notes to the accounts continued**

10 Staff costs	2004	2003
	£'000	£'000
Wages and salaries	52,375	32,894
Social security costs	4,218	2,366
Other pension costs	4,081	2,258
	<u>60,674</u>	<u>37,518</u>
Average number of persons employed during the year was:		
Financial Services	1,103	1,190
Travel	1,089	1,080
Media & Business Services	339	317
Discontinued Operations	5	21
	<u>2,536</u>	<u>2,608</u>

11 Pension costs

The Group operates a pension scheme in the UK with defined benefit and defined contribution sections.

In the past year contributions of £50,000 were paid to the UK defined contribution section of the scheme.

In the past year contributions of £3,864,000 were paid to the defined benefit section of the scheme. The Group contributed at a rate of 15% and Members contributed at the rate of 5% of pensionable salary. Included in debtors is a pension contribution prepayment of £1,353,000 (2003 - £1,520,000).

The Scheme's Actuary has calculated that, based on latest financial information and on financial assumptions adopted in the valuation as at 30 November 2003, the contribution rate will be sufficient to make good the actuarial deficit over a period of approximately 10 years.

A full actuarial valuation was carried out as at 30 November 2003 and updated to 31 January 2004 by a qualified independent actuary based on membership data as at 30 November 2003.

The major assumptions used by the actuary in respect of the FRS17 valuation were:

	At 31 Jan 2004	At 31 Jan 2003	At 31 Jan 2002
Rate of increase in salaries	4.8%	4.6%	4.6%
Rate of increase of pensions in payment	2.8%	2.4%	2.4%
Rate of increase of pensions in deferment	2.8%	2.4%	2.4%
Discount rate	5.5%	5.3%	5.6%
Inflation assumption	2.8%	2.4%	2.4%

SAGA LIMITED

Notes to the accounts continued

11 Pension costs continued

The assets in the scheme and the expected rates of return were:

	At 31 Jan 2004		At 31 Jan 2003		At 31 Jan 2002	
	Rate of Return Expected	Market Value £'000	Rate of Return Expected	Market Value £'000	Rate of Return Expected	Market Value £'000
Equities	6.80%	32,960	6.40%	20,186	7.10%	22,234
Bonds	4.60%	3,962	4.40%	5,445	5.10%	4,449
Cash	3.40%	2,764	3.15%	691	4.00%	1,554
Total market value of assets		39,686		26,322		28,237
Actuarial value of liability		(61,751)		(57,323)		
FRS17 deficit in the Scheme		(22,065)		(31,001)		
Related deferred tax asset		6,620		9,300		
FRS17 Net pension liability		(15,445)		(21,701)		

Analysis of the amount that would have been charged to operating profit if FRS17 had been adopted in full:-

	Year to 31 January 2004 £'000	Year to 31 January 2003 £'000
Service cost	3,758	2,519
Past service cost	-	-
Total operating charge	3,758	2,519

Analysis of net return on pension scheme:-

	Year to 31 January 2004 £'000	Year to 31 January 2003 £'000
Expected return on pension scheme assets	1,695	2,010
Interest on pension liabilities	(3,153)	(2,631)
Net cost	(1,458)	(621)

If FRS17 had been adopted in full the net return would have been charged as an expense in the profit and loss account.

Analysis of the amount that would have been recognised in the Statement of Total Recognised Gains and Losses (STRGL):-

	Year to 31 January 2004 £'000	Year to 31 January 2003 £'000
Actual return less expected return on assets	6,874	(8,221)
Experience gains and losses on liabilities	2,806	(1,388)
Changes in assumptions	246	(4,596)
Actuarial gain/(loss) recognised in STRGL	9,926	(14,205)

SAGA LIMITED**Notes to the accounts continued****11 Pension costs continued**

Movement in deficit during the year:-

	Year to 31 January 2004 £'000	Year to 31 January 2003 £'000
Deficit in scheme at beginning of year	(31,001)	(17,027)
Movement in year:-		
Current service cost	(3,758)	(2,519)
Contributions	4,226	3,371
Past service cost	-	-
Net return on assets/(interest cost)	(1,458)	(621)
Actuarial gain / (loss)	9,926	(14,205)
Deficit in scheme at end of year	<u>(22,065)</u>	<u>(31,001)</u>

The FRS17 valuation at 31 January 2004 showed a decrease in the deficit before tax from £31,001,000 to £22,065,000.

History of experience gains and losses:-

	Year to 31 January 2004 £'000	Year to 31 January 2004 %	Year to 31 January 2003 £'000	Year to 31 January 2003 %
Difference between expected and actual return on scheme assets:-				
- Amount	6,874		(8,221)	
- Percentage of scheme assets		17%		(31%)
Experience gains and losses on scheme liabilities:-				
- Amount	2,806		(1,388)	
- Percentage of scheme liabilities		5%		(2%)
Total amount that would have been recognised in STRGL:-				
- Amount	9,926		(14,205)	
- Percentage of scheme liabilities		16%		(25%)

If FRS 17 had been adopted in full, the group's net assets and profit and loss reserves would have been as follows:

	Year to 31 January 2004 £'000	Year to 31 January 2003 £'000
Net assets excluding pension liability	303,663	277,979
Reversal of pension prepayment	(1,353)	(1,520)
Pension liability	(15,445)	(21,701)
Net assets including pension liability	<u>286,865</u>	<u>254,758</u>
Profit and loss reserve excluding pension liability	50,652	10,388
Reversal of pension prepayment	(1,353)	(1,520)
Pension liability	(15,445)	(21,701)
Profit and loss reserve including pension liability	<u>33,854</u>	<u>(12,833)</u>

SAGA LIMITED**Notes to the accounts continued****11 Pension costs continued**

Additional disclosures required under SSAP24 (Pension costs):-

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.

The most recent full valuation was conducted as at 30 November 2003 at which date the actuarial valuation of the Scheme assets was £37.8m. This valuation was prepared using the projected unit funding method and showed a deficit of £11.5m allowing for salaries projected to retirement or earlier withdrawal. This is equivalent to a funding level of 77%. The main financial assumptions used in the valuation were that the rate of return on investments is 7% per annum (pre-retirement) and 5.5% per annum (post-retirement), the rate of salary growth is 4.75% per annum and the rate of price inflation is 2.75% per annum.

12 Tax on profit on ordinary activities

	2004	2003 as restated
The charge based on the profit for the year comprises:	£'000	£'000
UK corporation tax @ 19% (2003 - 19.16%)	20	16
UK corporation tax @ 30%	24,489	12,093
Current tax	<u>24,509</u>	<u>12,109</u>
Adjustments relating to prior years	327	45
Overseas taxes - prior years	-	(378)
Deferred tax - current year	(1,799)	(1,194)
Deferred tax - prior years	(631)	(170)
	<u>22,406</u>	<u>10,412</u>

The tax credit relating to the exceptional item amounts to £637,000 (2003 - £499,000)

	2004	2003 as restated
Reconciliation of Current Tax Charge:-	£'000	£'000
Pre-tax profits at 30%	19,193	9,067
Capital allowances in excess of depreciation	(527)	(9)
Permanent differences	408	306
Other timing differences	2,326	1,203
Tonnage tax adjustment	(1,503)	(1,280)
Unrelieved losses of overseas subsidiary	167	29
Amortisation of goodwill arising on consolidation	4,453	2,784
Other items	(8)	9
	<u>24,509</u>	<u>12,109</u>

The tonnage tax adjustment takes account of the fact that, for the group's subsidiary, Saga Shipping Company Limited, the basis of taxation is the tonnage of ships sailed rather than the profits earned. There are no circumstances foreseen that are expected to materially impact future tax charges.

SAGA LIMITED**Notes to the accounts continued****12 Tax on profit on ordinary activities continued**

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

	2004	2003 as restated
	£'000	£'000
Accelerated capital allowances	(41)	67
Short term timing differences	3,835	1,297
	<u>3,794</u>	<u>1,364</u>
At start of period	1,364	-
Deferred tax credit in group profit and loss account	2,430	1,364
Deferred tax asset	<u>3,794</u>	<u>1,364</u>

13 Dividends

	2004	2003
	£'000	£'000
Ordinary shares		
Dividends paid - £1.6334 per share (2003 - £1.0889 per share)	6,000	4,000
Dividends payable – £0.5445 per share (2003 - nil)	<u>2,000</u>	<u>-</u>
	<u>8,000</u>	<u>4,000</u>
Preferred ordinary shares		
“A” shares	5,679	5,260
“B” shares	<u>2,472</u>	<u>9,442</u>
	<u>8,151</u>	<u>14,702</u>
Total dividends	<u>16,151</u>	<u>18,702</u>

14 Intangible fixed assets**Goodwill****Cost**

	2004	2003
	£'000	£'000
At 1 February 2003	296,873	-
Additions	-	296,873
At 31 January 2004	<u>296,873</u>	<u>296,873</u>

Amortisation

	2004	2003
	£'000	£'000
At 1 February 2003	9,277	-
Charge for the year	14,844	9,277
At 31 January 2004	<u>24,121</u>	<u>9,277</u>

Net book amount

	2004	2003
	£'000	£'000
At 31 January 2004	<u>272,752</u>	<u>287,596</u>
At 31 January 2003	<u>287,596</u>	<u>-</u>

SAGA LIMITED**Notes to the accounts continued****15 Tangible fixed assets****Group**

	Freehold Land & Buildings £'000	Short Leasehold Land & Buildings £'000	Cruise Ships £'000	Other Assets £'000	Total £'000
Cost					
At 1 February 2003	36,262	5,369	21,173	8,630	71,434
Additions	6,465	574	14,542	5,027	26,608
Disposals	-	-	(2,727)	(1,122)	(3,849)
At 31 January 2004	42,727	5,943	32,988	12,535	94,193
Depreciation					
At 1 February 2003	742	19	1,893	1,341	3,995
Charge for year	1,158	391	4,530	2,953	9,032
Disposals	-	-	(2,717)	(612)	(3,329)
At 31 January 2004	1,900	410	3,706	3,682	9,698
Net book amounts					
At 31 January 2004	40,827	5,533	29,282	8,853	84,495
At 31 January 2003	35,520	5,350	19,280	7,289	67,439

Included in freehold land and buildings are amounts in respect of land, with an original cost of £2,636,000, which have not been depreciated.

The net book amount of tangible fixed assets includes £2,072,000 (2003 - £2,341,000) for the Group in respect of assets held under finance leases and hire purchase contracts.

The Group had no expenditure contracted for but not provided in the financial statements in either year.

SAGA LIMITED**Notes to the accounts continued****16 Investment in subsidiary undertakings**

Company	2004
Cost	£'000
At 1 February 2003	357,119
Additions	-
At 31 January 2004	<u>357,119</u>

The main operating subsidiary undertakings of Saga Limited, all of which are wholly owned, are listed below. The company's subsidiary, Saga Leisure Limited, holds the shares in Saga Group Limited which in turn holds the shares in all trading subsidiaries, with the exception of Saga Cruises Limited, which is held by Saga Shipping Company Limited.

Company	Country of registration	Nature of business
Saga Leisure Limited	England	Holding company
Saga Group Limited	England	Holding company
Saga Holidays Limited	England	Tour operating
Saga Shipping Company Limited	England	Cruising
Saga Cruises 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	Mail processing
Saga Digital Radio Limited	England	Radio broadcasting
Saga Radio Limited	England	Radio broadcasting
Saga Regional Digital Radio Limited	England	Radio broadcasting

SAGA LIMITED

Notes to the accounts continued

17	Debtors	2004	2003 as restated	2004	2003
		Group £'000	Group £'000	Company £'000	Company £'000
	Trade debtors	78,660	64,858	-	-
	Amount owed by group undertakings	-	-	74,140	10,186
	Other debtors	5,727	2,957	317	306
	Prepayments and deferred expenditure	14,499	10,658	-	-
	Taxation recoverable	183	571	-	-
	Deferred taxation	3,794	1,364	-	-
		<u>102,863</u>	<u>80,408</u>	<u>74,457</u>	<u>10,492</u>

Included within prepayments are amounts paid in respect of pensions by the group of £1,186,000 (2003 - £1,353,000) which are chargeable to profits after more than one year.

18 Cash on deposit

Deposits with financial institutions	2004 Group £'000	2003 Group £'000
Held in trust	70,485	68,020
Other	112,589	71,785
	<u>183,074</u>	<u>139,805</u>

Monies received in respect of holiday packages sold by the group's UK tour operating business 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 20). Monies held in trust also include amounts relating to payments made into an Employee Benefit Trust.

Group deposits amounting to £4,000,000 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.

19 Cash at bank and in hand

	2004 Group £'000	2003 Group £'000	2004 Company £'000	2003 Company £'000
Held in trust (see note 18)	1,534	1,104	-	-
Other	9,924	7,174	2	5
	<u>11,458</u>	<u>8,278</u>	<u>2</u>	<u>5</u>

SAGA LIMITED
Notes to the accounts continued

20	Creditors	2004	2003	2004	2003
			as restated		
	- amounts falling due within one year	Group	Group	Company	Company
		£'000	£'000	£'000	£'000
	Bank loans	3,473	2,667	-	-
	Guaranteed unsecured loan notes	28,393	-	28,393	-
	Bank overdraft	3,764	1,023	-	-
	Leasing and hire purchase (note 22)	519	431	-	-
	Advance receipts (see footnote below)	58,151	54,450	-	-
	Trade creditors	108,012	108,607	-	-
	Corporate taxation	17,795	12,978	-	-
	Other taxation and social security	3,996	4,580	-	-
	Deferred government grants	71	71	-	-
	Dividends payable	2,000	-	2,000	-
	Other creditors	4,088	4,974	-	-
	Accruals and deferred income	37,600	32,396	2,565	2,481
		<u>267,862</u>	<u>222,177</u>	<u>32,958</u>	<u>2,481</u>

Of the amounts included in advance receipts £55,552,000 (2003 - £51,487,000) relates to advance customer holiday payments which are held in trust, as explained in note 18.

21	Creditors	2004	2003	2004	2003
	- amounts falling due after more than one year		as restated		
		Group	Group	Company	Company
		£'000	£'000	£'000	£'000
	Bank loans	51,237	47,940	41,607	46,607
	Guaranteed unsecured loan notes	-	28,393	-	28,393
	Deferred income	3,211	3,496	-	-
	Deferred government grants	2,413	2,485	-	-
	Leasing and hire purchase (note 22)	1,750	1,110	-	-
		<u>58,611</u>	<u>83,424</u>	<u>41,607</u>	<u>75,000</u>

The bank loans and loan notes fall due for repayment:

In one year or less	31,866	2,667	28,393	-
Between one and two years	2,140	1,333	-	-
Between two and five years	48,027	75,000	41,607	75,000
After five years	1,070	-	-	-
	<u>83,103</u>	<u>79,000</u>	<u>70,000</u>	<u>75,000</u>

Interest rates on the bank loans and loan notes are on a variable basis linked to LIBOR.

A bank holds a mortgage over the group's cruise ships, as security against borrowings advanced to Saga Shipping Company Limited in the amount of £13,103,000.

22	Obligations under finance leases and hire purchase	2004	2003
		Group	Group
	The capital amounts due under finance leases and hire purchase obligations are:	£'000	£'000
	Within one year	519	431
	Within two to five years	1,750	1,110
		<u>2,269</u>	<u>1,541</u>

SAGA LIMITED**Notes to the accounts continued****23 Lease commitments**

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

	Land and Buildings		Plant and Machinery	
	2004	2003	2004	2003
	Group	Group	Group	Group
	£'000	£'000	£'000	£'000
Leases expiring:				
Within one year	84	-	3,216	142
Between two and five years	247	288	622	715
After five years	1,525	1,359	-	-
	<u>1,856</u>	<u>1,647</u>	<u>3,838</u>	<u>857</u>

24 Insurance technical provisions

The ultimate cost of outstanding claims is estimated by using standard actuarial claims projection techniques including the chain ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average costs per claim and ultimate claim numbers for each accident year, based on the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs.

Judgement is used to assess the extent to which past trends may not apply to the future, for example to reflect public attitudes to claiming or levels of claim inflation. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Included within insurance technical provisions is an amount of unearned insurance premium reserve of £20,130,000.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share having regard to collectability.

25 Provisions for liabilities and charges

Group	Other Provisions	Deferred Taxation	Total
	£'000	£'000	£'000
Balance at 1 February 2003	1,308	-	1,308
Charge for the year	2,853	-	2,853
Balance at 31 January 2004	<u>4,161</u>	<u>-</u>	<u>4,161</u>

The other provisions comprise property dilapidations, customer compensation and insurance policies that lapse post year end. The latter item is reviewed and updated annually. The other provisions are anticipated to be utilised in the coming year.

SAGA LIMITED**Notes to the accounts continued**

26	Called up share capital	2004	2003
	Authorised	£'000	£'000
	13,772,524 ordinary shares of 25 pence each	3,443	3,443
	1,481,104 redeemable shares of £54.533 each	80,769	80,769
	2,110,777 "A" preferred ordinary shares of 25 pence each	528	528
	844,102 "B" preferred ordinary shares of 25 pence each	211	211
	1,481,104 special shares of 0.001 pence each	-	-
	1,481,104 deferred shares of 25 pence each	370	370
		<u>85,321</u>	<u>85,321</u>
	Allotted and fully paid	2004	2003
		£'000	£'000
	3,673,339 ordinary shares of 25 pence each	918	918
	1,481,104 deferred shares of 25 pence each	370	370
	1,481,104 special shares of 0.001 pence each	-	-
	2,110,777 "A" preferred ordinary shares of 25 pence each	528	528
	844,102 "B" preferred ordinary shares of 25 pence each	211	211
		<u>2,027</u>	<u>2,027</u>

The "A" preferred ordinary shares carry rights to receive five annual dividends of £4.3m and a further total amount of £3.9m, payable on a reducing balance basis over the period to June 2008. Similarly, the "B" preferred ordinary shares carry rights to receive seven annual dividends of £5.43m commencing in June 2006 and a further total amount of £14.8m, payable on a reducing balance basis over the period to June 2012. The preferred ordinary shares carry no voting rights unless the scheduled dividend payments fall into arrears. The preferred ordinary shares and the special shares carry contingent dividend rights in the event that certain ordinary shares in the company are sold.

SAGA LIMITED

Notes to the accounts continued

27	Reserves	Currency Equalisation Account £'000	Merger Reserve £'000	Profit and Loss Account £'000	Total £'000
	Group				
	At 1 February 2003 as previously stated	519	265,045	1,095	266,659
	Prior year adjustment (note 2)		-	9,293	9,293
	At 1 February 2003 as restated	519	265,045	10,388	275,952
	Retained profit for the year	-	-	29,706	29,706
	Transfer of amortisation of goodwill	-	(14,844)	14,844	-
	Preferred ordinary dividend (non-finance amount)	-	-	(4,286)	(4,286)
	Currency adjustments	264	-	-	264
	At 31 January 2004	783	250,201	50,652	301,636

The cumulative amount of goodwill written off at 31 January 2004 is £24,121,000 (2003 – £9,277,000).

	Merger Reserve £'000	Profit and Loss Account £'000	Total £'000
Company			
At 1 February 2003	274,322	13,786	288,108
Retained profit for the year	-	71,164	71,164
Preferred ordinary dividend (non-finance amount)	-	(4,286)	(4,286)
At 31 January 2004	274,322	80,664	354,986

Non equity shareholders' funds

Non equity shareholders' funds may be analysed as follows:

	2004 £'000	2003 £'000
Group and Company		
"A" preferred ordinary shares of 25 pence each	21,428	25,714
"B" preferred ordinary shares of 25 pence each	38,032	38,032
	<u>59,460</u>	<u>63,746</u>

SAGA LIMITED

Notes to the accounts continued

28 Reconciliation of operating profit to net cash flow from operating activities

	2004	2003 as restated
	£'000	£'000
Operating profit	68,044	33,340
Amortisation of goodwill	14,844	9,277
Other operating income	(5,705)	(3,300)
Depreciation of tangible fixed assets	9,032	3,995
Gain on disposal of fixed assets	(23)	-
Deferred government grant release	(72)	(41)
Stock decrease/(increase)	484	(520)
Debtors (increase)	(20,314)	(3,696)
Provisions increase	2,853	453
Creditors increase	3,183	15,191
Insurance technical provisions increase	21,223	-
Advance receipts increase	3,701	5,364
Net cash inflow from operating activities	<u>97,250</u>	<u>60,063</u>

The net cash inflow from operating activities is stated net of cash flows relating to exceptional items of £2,123,000 (2003 - £1,663,000).

29 Analysis of net funds

	1 February 2003 £'000	Cash Flows £'000	Exchange Differences £'000	Other Non-Cash Movements £'000	31 January 2004 £'000
Cash at bank and in hand	31,581	21,010	264	-	52,855
Bank overdrafts	(1,023)	(2,741)	-	-	(3,764)
Cash	30,558	18,269	264	-	49,091
Other deposits	116,502	25,175	-	-	141,677
Bank loans	(79,000)	(4,103)	-	-	(83,103)
Finance leases and HP	(1,541)	922	-	(1,650)	(2,269)
	<u>66,519</u>	<u>40,263</u>	<u>264</u>	<u>(1,650)</u>	<u>105,396</u>

During the year, the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £1,650,000.

Analysis of cash on deposit:

	2004 Group £'000	2003 Group £'000
Classified as cash at bank	41,397	23,303
Classified as other deposits	141,677	116,502
	<u>183,074</u>	<u>139,805</u>

SAGA LIMITED

Notes to the accounts continued

30 Contingent liabilities

At 31 January 2004 there were contingent liabilities under counter indemnities given, in the normal course of business, to the Company's bankers in respect of financial bonds and other guarantees amounting to £3,221,000 (2003 - £3,102,000).

The group has been notified of a legal claim relating to the use of the services of Tour Directors by the group's U.S. based tour business. The information required by FRS12 is not disclosed on the grounds that to do so may prejudice seriously the outcome of litigation.

The company's cruise subsidiary, Saga Shipping Company Limited, benefits from a lower tax charge as a result of the Tonnage Tax regime. If the company were to opt out of Tonnage Tax, a deferred tax liability of £1,250,000 (2003 - £1,717,000) would arise.

31 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 director R M De Haan) as an overseas handling agent. All arrangements were on an "arms-length basis" and amounts paid during the year totalled £1,300,000 (2003 - £852,000) in respect of hotel and other direct costs incurred in New Zealand on behalf of the group's tour operating businesses. In addition, a further amount of £66,000 (2003 - £1,209,000) was owed to David De Haan Tours Limited as at 31 January 2004 in respect of such arrangements.

During the year, Saga Group Limited made donations to The Creative Foundation and the Metropole Arts Centre Trust, charitable organisations of which R M De Haan is a director. Charitable donations during the year to the Metropole Arts Centre Trust totalled £130,000 (2003 - £138,550). Donations to the Creative Foundation during the year totalled £25,000 (2003 - £100,000). In addition, as at 31 January 2004, there remained an outstanding interest free loan, repayable on demand, made by Saga Group Limited to the Metropole Arts Centre Trust of £60,000 (2003 - £70,000).

32 Profit for the financial year

Of the profit for the financial year, a profit of £71,164,000 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAGA LIMITED

We have audited the company's and the group's financial statements for the year ended 31 January 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Consolidated Shareholders' Funds and the related notes 1 to 32. 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 and the group 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

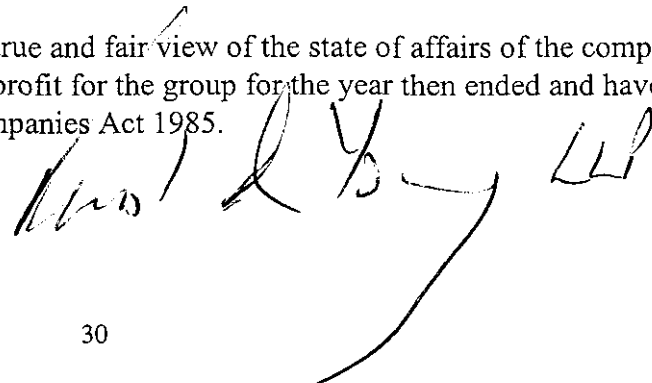
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 and 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 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 and of the group as at 31 January 2004 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 LLP
Registered Auditor
London
22 April 2004



Unaudited Pro Forma Summary of Results

	Year ended 31 January 2004			PRO FORMA Year ended 31 January 2003		
	Before goodwill, exceptional and non recurring items £'000	Goodwill, exceptional and non recurring items £'000	Total £'000	Before goodwill, exceptional and non recurring items £'000	Goodwill, exceptional and non recurring items £'000	Total £'000
Turnover	382,734	142	382,876	336,744	4,931	341,675
Cost of sales	(177,264)	52	(177,212)	(165,374)	(3,815)	(169,189)
Gross profit	205,470	194	205,664	171,370	1,116	172,486
Administrative and marketing expenses before depreciation & amortisation	(116,507)	(2,942)	(119,449)	(116,298)	(2,831)	(119,129)
Other operating income	5,726	(21)	5,705	5,298	(45)	5,253
EBITDA	94,689	(2,769)	91,920	60,370	(1,760)	58,610
Depreciation	(9,032)	-	(9,032)	(6,462)	-	(6,462)
Amortisation	-	(14,844)	(14,844)	-	(9,277)	(9,277)
Operating Profit	85,657	(17,613)	68,044	53,908	(11,037)	42,871
Interest payable	(4,067)	-	(4,067)	(3,733)	-	(3,733)
Profit before taxation	81,590	(17,613)	63,977	50,175	(11,037)	39,138
Taxation	(23,043)	637	(22,406)	(14,053)	873	(13,180)
Profit for the year	<u>58,547</u>	<u>(16,976)</u>	<u>41,571</u>	<u>36,122</u>	<u>(10,164)</u>	<u>25,958</u>

Note:

The 2003 amounts above show the group's result as if Saga Limited had acquired Saga Leisure on 1 February 2002 with the exception of goodwill amortisation which is the actual charge for the post acquisition period.

The exceptional and non recurring items in 2004 include the costs relating to the group's discontinued US operations and major one-off programme of remedial works to one of the group's office buildings.