

Company Registration No: 2157163

PARAGON SALVAGE RECOVERY (No 1) LIMITED

Report and Financial Statements

Year ended 30 September 2006



PARAGON SALVAGE RECOVERY (No 1) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year to 30 September 2006

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group'). The principal activity of the Company during the year was the administration and collection of a portfolio of unsecured arrears loans. The Company will continue to collect on these loans. The directors consider that the Company has performed as well as they would have expected given the current economic climate.

As shown in the Company's profit and loss account on page 6, the profit after tax has improved from £359,000 to £2,462,000. The increase in income was mainly due to the collections performance during the year. During the year the Company sold some of the loans to another company, which gained a profit on disposal of £742,000 as shown on the profit and loss account.

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end. Net assets have decreased due to the adoption of Financial Reporting Standards 25 and 26 'Financial Instruments: Disclosure and Presentation' and 'Financial Instruments: Recognition and Measurement' respectively (note 1). Details of amounts owed from and to other group companies are shown in notes 9 and 13.

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group's mortgage lending operation, which includes the Company, is discussed in the Group's Annual Report which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

An analysis of the Company's exposure to financial risks is set out in note 2.

Group risks are discussed in the Group's Annual Report which does not form part of this Report.

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report which does not form part of this Report.

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in its Annual Report which does not form part of this report.

PARAGON SALVAGE RECOVERY (No 1) LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS

The directors throughout the year were

N Keen
R D Shelton

N Keen is a director of the ultimate parent company. Accordingly his interests in the shares of Group companies are disclosed in that company's directors' report.

R D Shelton is an employee of The Paragon Group of Companies PLC and had the following beneficial interests in the share capital of that company:

Director	Options at 30 September 2005	Options granted in the year	Options exercised in the year	Options at 30 September 2006
R D Shelton	265,642	-	-	265,642

At 30 September 2006 R D Shelton held 57,777 (2005: 55,651) ordinary shares in that company.

Interest of the directors in shares of the holding company under the Paragon Performance Share Plan

Director	Share plan at 30 September 2005	Share plan awarded in the year	Share plan exercised in the year	Share plan at 30 September 2006
R D Shelton	43,467	9,585	10,526	42,526

Interest of the directors in shares of the holding company under the Paragon Deferred Bonus Scheme

Director	As at 30 September 2005	Granted during the year	Exercised during the year	As at 30 September 2006
R D Shelton	7,404	1,647	-	9,051

Under the Deferred Bonus Scheme the shares awarded will be transferred to R D Shelton as soon as is reasonably practical after 1 October 2006.

Interest of the directors in shares of the holding company under the Paragon Matching Share Plan

Director	As at 30 September 2005	Granted during the year	Exercised during the year	As at 30 September 2006
R D Shelton	-	9,880	-	9,880

Awards are exercisable for six months from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. EPS performance is measured over the three year period commencing 1 October 2005 and TSR over the three year period commencing 1 January 2006.

No director had any interest either during or at the end of the year in any material contract or arrangement with the Company. No director had a service contract with the Company.

PARAGON SALVAGE RECOVERY (No 1) LIMITED

DIRECTORS' REPORT (continued)

CREDITOR PAYMENT POLICY

The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

AUDITORS

The directors have taken all necessary steps to make themselves and the Company's auditors aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware.

A resolution for the re-appointment of Deloitte & Touche LLP as the auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



J G Gemmell
Secretary
26 April 2007

PARAGON SALVAGE RECOVERY (No 1) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in relation to Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to prepare such 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 of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON SALVAGE RECOVERY (No 1) LIMITED

We have audited the financial statements of Paragon Salvage Recovery (No 1) Limited for the year ended 30 September 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, United Kingdom

26 April 2007

PARAGON SALVAGE RECOVERY (No 1) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2006

	Note	2006 £'000	2005 £'000
Operating income	3	2,818	672
Operating expenses		(43)	(159)
		<u>2,775</u>	<u>513</u>
Profit on disposal	5	742	-
Operating profit, being profit on ordinary activities before taxation	6	<u>3,517</u>	<u>513</u>
Taxation on profit on ordinary activities	7	(1,055)	(154)
Profit for the financial year	12	<u><u>2,462</u></u>	<u><u>359</u></u>

All material activities derive from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September 2006

	Note	2006 £'000	2005 £'000
Profit attributable to members of the Company		2,462	359
Total recognised gains and losses for the year		<u>2,462</u>	<u>359</u>
Change in accounting policy on adoption of FRS 25 and FRS 26	1	(3,867)	
Total gains and losses recognised since last Annual Report and financial statements		<u><u>(1,405)</u></u>	

PARAGON SALVAGE RECOVERY (No 1) LIMITED

BALANCE SHEET

30 September 2006

	Note	£'000	2006 £'000	£'000	2005 £'000
ASSETS EMPLOYED					
CURRENT ASSETS					
Debtors falling due within one year	9		9,206		10,400
Cash at bank and in hand			4		22
			<u>9,210</u>		<u>10,422</u>
FINANCED BY					
SHAREHOLDERS' (DEFICIT) / FUNDS					
Called up share capital	11	-	-	-	-
Profit and loss account	12	(1,083)		322	
			<u>(1,083)</u>	<u>322</u>	<u>322</u>
CREDITORS					
Amounts falling due within one year	13		10,293		10,100
			<u>9,210</u>		<u>10,422</u>

These financial statements were approved by the Board of Directors on 26 April 2007

Signed on behalf of the Board of Directors

R D Shelton
Director



PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and preceding years with the exception of FRS 25 and 26 (see below).

Change in accounting policy

The financial statements have been prepared in accordance with accounting policies generally accepted in the United Kingdom (UK GAAP). Financial Reporting Standards 25 and 26 'Financial Instruments: Disclosure and Presentation' and 'Financial Instruments: Recognition and Measurement' respectively, have been applied for the first time in the year and balances brought forward at 1 October 2005 have been adjusted accordingly, decreasing reserves by £3,867,000.

As permitted by FRS 25 and 26, comparative amounts have not been restated and are presented in accordance with the accounting policies adopted in preparing the financial statements for the year ended 30 September 2005.

The principal adjustments which would have been required to make the comparative amounts conform to the requirements of FRS 25 and 26 derive from the use of the amortised cost method to value the Company's loans to its customers, the recognition of income on the Effective Interest Rate basis, the adoption of the impairment methodology required by FRS 26.

Accounting Convention

The financial statements are prepared under the historical cost convention.

Transactions with other group companies

The Company has taken advantage of the exemption granted by Financial Reporting Standard 8 - 'Related Party Disclosures' and does not therefore provide details of transactions with other group companies as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

Current Tax

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred Tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Cashflow Statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 - 'Cashflow Statements' and does not therefore provide a cashflow statement as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2006

2 FINANCIAL RISK MANAGEMENT

The Company's principal financial assets are unsecured loan balances shown as 'other debtors' in the accounts. The Company's credit risk is primarily attributable to these loans and the maximum credit risk at 30 September 2006 approximates to the figure shown as other debtors in note 8. The Company's other financial assets and its primary liabilities are with other group companies, therefore the directors do not consider that the Company is exposed to any significant cashflow or liquidity risks.

3. OTHER OPERATING INCOME

Income is recognised on receipt from the borrowers. Other operating income also includes changes in the valuation of the loans held.

4. DIRECTORS AND EMPLOYEES

Neither of the directors received any remuneration from the Company during either the current or the preceding year.

The only employees during the year or the preceding year were the directors as disclosed on page 2.

5. PROFIT ON DISPOSAL

The profit on disposal of £742,000 (2005: £nil) relates to the sale of a portfolio of loans to a third party.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 £'000	2005 £'000
Operating profit is after charging		
Auditors' remuneration - audit services	1	-

Non-audit fees provided to the group are disclosed in the accounts of the parent company and the exemption not to disclose non-audit services in these accounts has been taken.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
a) Taxation charge on profit on ordinary activities for the year		
Current		
Corporation tax	1,055	154
b) Factors affecting the current tax charge		
Profit before tax	3,517	513
Taxation at 30% (2005: 30%)	1,055	154

PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2006

8. DIVIDENDS

No interim dividend was paid during the year (2005 £250,000 per share) No final dividend is proposed (2005 £nil)

9. DEBTORS

	2006 £'000	2005 £'000
Amounts falling due within one year		
Other debtors	5,934	9,152
Amounts owed by Group companies	1,615	1,248
Deferred tax (note 10)	1,657	-
	<u>9,206</u>	<u>10,400</u>

10. DEFERRED TAX

The movements in the net asset for deferred tax are as follows

	2006 £'000	2005 £'000
Balance at 1 October	-	-
Adoption of FRS 25 / 26 (note 1)	1,657	-
Balance at 30 September	<u>1,657</u>	<u>-</u>

The net deferred tax liability for which provision has been made is analysed as follows

Other timing differences	<u>1,657</u>	<u>-</u>
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The deferred tax asset is considered recoverable as when the timing difference reverses any loss generated can be surrendered to fellow group companies as group relief who will pay the company for the use of these losses. The group is anticipated to make suitable taxable profits in the foreseeable future

11. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted		
2 ordinary shares of £1 each (fully paid)	<u>2</u>	<u>2</u>

PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2006

12. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT) / FUNDS AND STATEMENT OF MOVEMENT ON RESERVES

	Share capital	Profit and loss account	Shareholders' (Deficit) / Funds
	£'000	£'000	£'000
At 1 October 2004	-	463	463
Profit for the financial year	-	359	359
Dividend	-	(500)	(500)
At 30 September 2005	-	322	322
FRS 25 and 26 transition	-	(5,524)	(5,524)
Deferred tax on FRS 25 and 26 adjustments	-	1,657	1,657
Change of accounting policy on adoption of FRS 25 and 26	-	(3,867)	(3,867)
At 1 October 2005	-	(3,545)	(3,545)
Profit for the financial year	-	2,462	2,462
At 30 September 2006	-	(1,083)	(1,083)

13. CREDITORS

	2006 £'000	2005 £'000
Amounts falling due within one year		
Amounts owed to Group companies	9,236	8,104
Corporation tax	1,055	1,996
Accruals and deferred income	2	-
	<u>10,293</u>	<u>10,100</u>

14. POST BALANCE SHEET EVENT

On 1 October 2006 the Company sold the majority of its loans, to a fellow subsidiary of the Group

15. ULTIMATE PARENT COMPANY

The Company's immediate and ultimate parent company and ultimate controlling party is The Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the Group's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE