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Company Registration No : 2157163

PARAGON SALVAGE RECOVERY (No 1) LIMITED

Report and Financial Statements

Year ended 30 September 2004



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 2004.

ACTIVITIES AND FUTURE PROSPECTS

The principal activity of the company during the year was the administration and collection of a portfolio of unsecured arrears loans.

The directors consider that the company has performed as well as they would have expected given the current economic climate. The directors consider that the company will continue to perform a key role in the group's operations.

RESULTS

The results for the year are shown in the profit and loss account on page 5.

No interim dividend (2003: £nil) was paid during the year. The directors propose the payment of a final dividend of £4,100,000 (2003: £800,000). The retained profit of £436,000 (2003: loss of £49,000) has been transferred to / from reserves.

DIRECTORS

The directors throughout the year, unless otherwise noted, 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.

	At 30 September 2003 Ordinary shares of 10p each	Awards granted during the year	Options exercised during the year	At 30 September 2004 Ordinary shares of 10p each
i) interests in shares in the holding company through share options				
R D Shelton	366,986	12,537	46,926	332,597
ii) interests in shares of the holding company under the Paragon Performance Share Plan				
R D Shelton	17,544	12,599	-	30,143
iii) interests in shares of the holding company under the Paragon Deferred Bonus Scheme				
R D Shelton	-	3,592	-	3,592

PARAGON SALVAGE RECOVERY (No 1) LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS (continued)

In addition, at 30 September 2004 R D Shelton beneficially held 18,725 shares (2003: 18,725). Save for these, no director has any interest in the shares of other group companies.

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.

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

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the Annual General Meeting.

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



J G Gemmell

Secretary

26 April 2005

PARAGON SALVAGE RECOVERY (No 1) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES *in relation to Financial Statements*

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year. As required, in the absence of any circumstances which would make it inappropriate, the financial statements have been prepared on a going concern basis.

The directors consider that in preparing the financial statements (on pages 5 to 9), the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**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 2004 which comprise the profit and loss account, the statement of movement in shareholders' funds, the balance sheet and the related notes 1 to 11. 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

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 for the above year and consider the implications for our reports if we become aware of any apparent misstatements.

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 the company's affairs as at 30 September 2004, and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
27 April 2005

PARAGON SALVAGE RECOVERY (No 1) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2004

	Note	2004 £'000	2003 £'000
Other operating income	2	6,747	1,367
Operating expenses		<u>(276)</u>	<u>(336)</u>
Operating profit, being profit on ordinary activities before taxation	4	6,471	1,031
Taxation on profit on ordinary activities	5	<u>(1,935)</u>	<u>(280)</u>
Profit on ordinary activities after taxation		4,536	751
Dividend	6	<u>(4,100)</u>	<u>(800)</u>
Retained loss on ordinary activities after taxation	9	<u>436</u>	<u>(49)</u>

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000	£'000
Profit attributable to shareholders	4,536	751
Dividends	<u>(4,100)</u>	<u>(800)</u>
Net movement in shareholders' funds	436	(49)
Opening shareholders' funds	<u>27</u>	<u>76</u>
Closing shareholders' funds	<u>463</u>	<u>27</u>

All material activities derive from continuing operations.

There are no recognised gains or losses other than the profit for the current and the preceding year.

PARAGON SALVAGE RECOVERY (No 1) LIMITED

BALANCE SHEET

30 September 2004

	Note	£'000	2004 £'000	£'000	2003 £'000
ASSETS EMPLOYED					
CURRENT ASSETS					
Debtors falling due within one year	7		10,204		3,752
Cash at bank and in hand			14		41
			<u>10,218</u>		<u>3,793</u>
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	8	-		-	
Profit and loss account	9	<u>463</u>		<u>27</u>	
			463		27
CREDITORS					
Amounts falling due within one year	10		<u>9,755</u>		<u>3,766</u>
			<u>10,218</u>		<u>3,793</u>

These financial statements were approved by the Board of Directors on 26 April 2005.

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 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

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.

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.

2. OTHER OPERATING INCOME

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

3. DIRECTORS AND EMPLOYEES

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

There were no other employees during either current or preceding year.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's audit fee was paid by The Paragon Group of Companies PLC.

PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

5. TAXATION CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
a) Taxation charge on profit on ordinary activities for the year		
Current		
Corporation tax	1,941	309
Writeback of ACT previously written off	(6)	(38)
Adjustment in respect of prior years	-	9
	<u>1,935</u>	<u>280</u>
b) Factors affecting the current tax charge		
Profit before tax	<u>6,471</u>	<u>1,031</u>
Taxation at 30% (2003: 30%)	1,941	309
Writeback of ACT previously written off	(6)	(38)
Adjustment in respect of prior years	-	9
	<u>1,935</u>	<u>280</u>

6. DIVIDEND

No interim dividend was paid during the year. A final dividend of £4,100,000, (2003: £800,000), £2,050,000 per share (2003: £400,000 per share), is proposed.

7. DEBTORS

	£'000	£'000
Amounts falling due within one year :		
Other debtors	9,293	3,659
Amounts owed by group companies	911	-
Tax debtors	-	93
	<u>10,204</u>	<u>3,752</u>

PARAGON SALVAGE RECOVERY (No 1) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

8. CALLED UP SHARE CAPITAL

	2004	2003
	£	£
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>

9. RESERVES

	Profit and Loss Account £'000
Balance at 1 October 2003	27
Retained profit for the year	<u>436</u>
Balance at 30 September 2004	<u>463</u>

10. CREDITORS

	2004	2003
	£'000	£'000
Amounts falling due within one year :		
Amounts owed to group companies	7,806	3,566
Corporation tax	1,946	197
Accruals	<u>3</u>	<u>3</u>
	<u>9,755</u>	<u>3,766</u>

11. 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.