

**PARAGON SALVAGE RECOVERY (NO. 1) LIMITED**

**Report and Financial Statements**

**Year ended 30 September 2008**

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# **PARAGON SALVAGE RECOVERY (NO. 1) LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 September 2008.

### **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 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 Company's profit and loss account is shown on page 5. Loss after tax has improved from £3,438,000 to £326,000.

The balance sheet on page 6 of the financial statements shows the Company's financial position at the year end. Net assets have decreased due to the retained loss in the year. Details of amounts owed from and to other group companies are shown in notes 8 and 11.

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 risk, including financial risk, is set out in note 2.

In the opinion of the Directors, the Company has access to adequate financial resources. As a consequence the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

### **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.

### **DIRECTORS**

The directors throughout the year and subsequently were:

N Keen

R D Shelton

### **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.

## **PARAGON SALVAGE RECOVERY (NO. 1) LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **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.

The Company's auditors changed their name to Deloitte LLP on 1 December 2008; accordingly, a resolution for the re-appointment of Deloitte 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,

27 February 2009

## **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 in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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. 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and 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.

## **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 2008 which comprise the profit and loss account, the balance sheet, the statement of movement in shareholders' deficit and the related notes 1 to 12. 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 2008 and of its loss 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 LLP**

Chartered Accountants and Registered Auditors

Birmingham, United Kingdom

27 February 2009

# PARAGON SALVAGE RECOVERY (NO. 1) LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2008

|   | Note | 2008<br>£000 | 2007<br>£000 |
|---|------|--------------|--------------|
| Interest payable and similar charges                              | 3    | (459)        | -            |
| Net interest income   |      | (459)        | -            |
| Other operating expense   | 4    | -            | (4,995)      |
| Operating expenses  |      | -            | (31)         |
| Operating loss, being loss on ordinary activities before taxation | 6    | (459)        | (5,026)      |
| Tax on loss on ordinary activities                                | 7    | 133          | 1,588        |
| Loss on ordinary activities after taxation                        | 10   | (326)        | (3,438)      |

All activities derive from continuing operations.

There are no recognised gains or losses other than the loss for the current and preceding years.

## STATEMENT OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

YEAR ENDED 30 SEPTEMBER 2008

|                               | 2008<br>£000 | 2007<br>£000 |
|-------------------------------|--------------|--------------|
| Loss for the financial year   | (326)        | (3,438)      |
| Opening shareholders' deficit | (4,521)      | (1,083)      |
| Closing shareholders' deficit | (4,847)      | (4,521)      |

# PARAGON SALVAGE RECOVERY (NO. 1) LIMITED

## BALANCE SHEET

30 SEPTEMBER 2008

|                                     | Note | £000    | 2008<br>£000 | £000    | 2007<br>£000 |
|-------------------------------------|------|---------|--------------|---------|--------------|
| <b>ASSETS EMPLOYED</b>              |      |         |              |         |              |
| <b>CURRENT ASSETS</b>               |      |         |              |         |              |
| Debtors falling due within one year | 8    |         | 1,622        |         | 1,622        |
|                                     |      |         |              |         |              |
| <b>FINANCED BY</b>                  |      |         |              |         |              |
| <b>SHAREHOLDERS' DEFICIT</b>        |      |         |              |         |              |
| Called up share capital             | 9    | -       | -            | -       | -            |
| Profit and loss account             | 10   | (4,847) | (4,847)      | (4,521) | (4,521)      |
|                                     |      |         |              |         |              |
| <b>CREDITORS</b>                    |      |         |              |         |              |
| Amounts falling due within one year | 11   |         | 6,469        |         | 6,143        |
|                                     |      |         | 1,622        |         | 1,622        |

These financial statements were approved by the Board of Directors on 27 February 2009.

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 2008

#### 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 year. The financial statements have been prepared on a going concern basis as described in the Directors' Report.

##### 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 substantively enacted by the balance sheet date.

##### Cash flow statement

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

#### 2. FINANCIAL RISK MANAGEMENT

The Company's primary financial assets and liabilities are with other group companies; therefore the directors do not consider that the Company is exposed to any significant cash flow, credit or liquidity risks.

#### 3. INTEREST PAYABLE AND SIMILAR CHARGES

|                        | 2008<br>£000 | 2007<br>£000 |
|------------------------|--------------|--------------|
| Internal funding costs | 459          | -            |

#### 4. OTHER OPERATING EXPENSE

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

#### 5. DIRECTORS AND EMPLOYEES

Directors' received no remuneration from the Company during either the current or the preceding year.

The Company had no employees in the current or preceding year. All administration is performed by employees of the Group.



# PARAGON SALVAGE RECOVERY (NO. 1) LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 SEPTEMBER 2008

#### 6. OPERATING LOSS, BEING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

|   | 2008<br>£000 | 2007<br>£000 |
|---|--------------|--------------|
| Operating loss is after charging:       |              |              |
| Auditors' remuneration - audit services | -            | 1            |

The Company's audit fee for the current year of £1,000 was paid by the ultimate parent company, The Paragon Group of Companies PLC. Non audit fees provided to the group are disclosed in the accounts of the parent company and the exemption from disclosure of fees payable to the Company's auditors in respect on non-audit services in these financial statements has been taken.

#### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

##### a) Tax credit for the year

|                 | 2008<br>£000 | 2007<br>£000   |
|-----------------|--------------|----------------|
| Current tax     |              |                |
| Corporation tax | (133)        | -              |
| Group relief    | -            | (1,588)        |
|                 | <u>(133)</u> | <u>(1,588)</u> |

##### b) Factors affecting the current tax credit

|  | 2008<br>£000 | 2007<br>£000   |
|--|--------------|----------------|
| Loss before tax  | <u>(460)</u> | <u>(5,026)</u> |
| UK corporation tax at 29% (2007: 30%) based on the profit for the year | (133)        | (1,508)        |
| Effects of:  |              |                |
| Inter group profit   | -            | (80)           |
|  | <u>(133)</u> | <u>(1,588)</u> |

The United Kingdom government has enacted provisions which reduced the standard rate of corporation tax to 28% with effect from 1 April 2008. Therefore the standard rate of corporation tax applicable to the Group is 29% in the year ending 30 September 2008 and will be 28% thereafter. The expected impact of this change on the values at which deferred tax amounts are expected to crystallise was accounted for in the year ended 30 September 2007 when the legislation was enacted.

# **PARAGON SALVAGE RECOVERY (NO. 1) LIMITED**

## **NOTES TO THE ACCOUNTS**

### **YEAR ENDED 30 SEPTEMBER 2008**

#### **8. DEBTORS**

|                                      | <b>2008<br/>£000</b> | <b>2007<br/>£000</b> |
|--------------------------------------|----------------------|----------------------|
| Amounts falling due within one year: |                      |                      |
| Amounts due from group companies     | 1,622                | 1,622                |
|                                      | <u>1,622</u>         | <u>1,622</u>         |

The fair value of the above items are not considered to be materially different to their carrying values.

#### **9. CALLED UP SHARE CAPITAL**

|   | <b>2008<br/>£</b> | <b>2007<br/>£</b> |
|---|-------------------|-------------------|
| Authorised:                               |                   |                   |
| 1,000 ordinary shares of £1 each          | 1,000             | 1,000             |
|   | <u>1,000</u>      | <u>1,000</u>      |
| Allotted:                                 |                   |                   |
| 2 ordinary shares of £1 each (fully paid) | 2                 | 2                 |
|   | <u>2</u>          | <u>2</u>          |

#### **10. RESERVES**

|                             | <b>Profit and loss<br/>account<br/>£000</b> |
|-----------------------------|---|
| At 1 October 2006           | (1,083)                                     |
| Loss for the financial year | (3,438)                                     |
| At 30 September 2007        | (4,521)                                     |
| Loss for the financial year | (326)                                       |
| At 30 September 2008        | (4,847)                                     |

# PARAGON SALVAGE RECOVERY (NO. 1) LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 SEPTEMBER 2008

#### 11. CREDITORS

|                                      | 2008<br>£000 | 2007<br>£000 |
|--------------------------------------|--------------|--------------|
| Amounts falling due within one year: |              |              |
| Amounts owed to group companies      | 6,459        | 6,136        |
| Accruals and deferred income         | 10           | 7            |
|                                      | <u>6,469</u> | <u>6,143</u> |

#### 12. 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.