

**Company Registration No: 3696179**

# **PARAGON MORTGAGES (No. 1) PLC**

## **Report and Financial Statements**

**Year ended 30 September 2007**

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## **PARAGON MORTGAGES (NO. 1) PLC**

### **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 September 2007

### **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 provision of mortgage loans secured by first charges over residential properties within the United Kingdom. The loans were sold to another group company, the Company currently receive deferred purchase consideration for the loans sold. The directors consider that the Company has performed satisfactorily and will continue to do so.

The Company's profit and loss account is shown on page 5. Profit after tax has fallen from £92,000 to £75,000.

The balance sheet on page 6 of the financial statements shows the Company's financial position at the year end. Net assets have decreased from £52,000 to £37,000 due to the dividend paid during the year. The cash has stayed consistent with the prior year. Details of amounts owed from and to other group companies are shown in notes 6 and 9.

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.

The consolidated financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2007, approved by the Group directors on 22 November 2007, indicated a material uncertainty relating to Group funding arrangements and in particular a proposed rights issue. The proposed rights issue received shareholder approval on 28 January 2008.

Accordingly the directors have concluded that there is no material uncertainty relating to the funding or operations of the Company. For this reason the directors consider that the going concern assumption remains appropriate in preparing the financial statements of the Company.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

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

### **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 MORTGAGES (NO. 1) PLC

### DIRECTORS' REPORT (CONTINUED)

#### DIRECTORS

The directors throughout the year and subsequently were

N Keen  
R D Shelton  
J G Gemmell  
A Mehmet

#### 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  
4 April 2008

**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 MORTGAGES (No. 1) PLC**

We have audited the financial statements of Paragon Mortgages (No. 1) PLC for the year ended 30 September 2007 which comprise the profit and loss account, the statement of movement in shareholders' funds, the balance sheet and the related notes 1 to 10. 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**

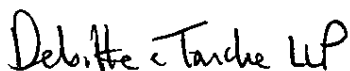
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 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**  
Chartered Accountants and Registered Auditors  
Birmingham, United Kingdom  
4 April 2008

**PARAGON MORTGAGES (NO. 1) PLC****PROFIT AND LOSS ACCOUNT****Year ended 30 September 2007**

	<b>Note</b>	<b>2007 £000</b>	<b>2006 £000</b>
Interest receivable			
Other		1	-
Net interest income		<u>1</u>	<u>-</u>
Other operating income		108	132
Total operating income		<u>109</u>	<u>132</u>
Operating expenses		(1)	(1)
Operating profit, being profit on ordinary activities before taxation	4	<u>108</u>	<u>131</u>
Tax charge on profit on ordinary activities	5	(33)	(39)
Profit on ordinary activities after taxation	8	<u>75</u>	<u>92</u>

All activities derive from continuing operations

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

**STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS****Year ended 30 September 2007**

	<b>2007 £000</b>	<b>2006 £000</b>
Profit on ordinary activities after taxation	75	92
Dividend	(90)	(200)
Net movement in shareholders' funds	<u>(15)</u>	<u>(108)</u>
Opening shareholders' funds	52	160
Closing shareholders' funds	<u>37</u>	<u>52</u>

# PARAGON MORTGAGES (NO. 1) PLC


## BALANCE SHEET

30 September 2007

	Note	£000	2007 £000	£000	2006 £000
<b>ASSETS EMPLOYED</b>					
<b>CURRENT ASSETS</b>					
Debtors falling due within one year	6	254		276	
Cash at bank and in hand		7		7	
			261		283
			261		283
<b>FINANCED BY</b>					
<b>SHAREHOLDERS' FUNDS</b>					
Called up share capital	7	13		13	
Profit and loss account	8	24		39	
			37		52
<b>CREDITORS</b>					
Amounts falling due within one year	9		224		231
			261		283

These financial statements were approved by the Board of Directors on 4 April 2008

Signed on behalf of the Board of Directors



R D Shelton  
Director

**NOTES TO THE ACCOUNTS**

**Year ended 30 September 2007**

**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.

**Basis of preparation**

The consolidated financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2007, approved by the Group directors on 22 November 2007, indicated a material uncertainty relating to Group funding arrangements and in particular a proposed rights issue. The proposed rights issue received shareholder approval on 28 January 2008.

Accordingly the directors have concluded that there is no material uncertainty relating to the funding or operations of the Company. For this reason the directors consider that the going concern assumption remains appropriate in preparing the financial statements of the Company.

**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.

**Deferred purchase consideration**

Deferred purchase consideration is recognised in the period in which it is received.

**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.

**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.

**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 cashflow, credit or liquidity risks.

**3. DIRECTORS AND EMPLOYEES**

None of the directors received any remuneration from the Company during the year (2006 £nil).

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

## PARAGON MORTGAGES (NO. 1) PLC

### NOTES TO THE ACCOUNTS

Year ended 30 September 2007

#### 4. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £000	2006 £000
Operating profit is after charging		
Auditors' remuneration - audit services	1	1

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

#### 5. TAX ON PROFIT ON ORDINARY ACTIVITIES

##### a) Tax charge for the year

	2007 £000	2006 £000
Current tax		
Corporation tax	33	39

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

	£000	£000
Profit before tax	108	131
UK corporation tax at 30% (2006 30%) based on the profit for the year	33	39

#### 6. DEBTORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts owed by Group companies	254	276

# PARAGON MORTGAGES (NO. 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2007

### 7. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised		
26 'A' ordinary shares of £1 each	26	26
74 'B' ordinary shares of £1 each	74	74
49,900 preference shares of £1 each	49,900	49,900
	<u>50,000</u>	<u>50,000</u>
Allotted and paid up		
26 'A' ordinary shares of £1 each (25p called up and paid)	7	7
72 'B' ordinary shares of £1 each (25p called up and paid)	18	18
2 'B' ordinary shares of £1 each (fully paid)	2	2
49,900 preference shares of £1 each (25p called up and paid)	12,475	12,475
	<u>12,502</u>	<u>12,502</u>

The Preference Shares carry the right to receive a non-cumulative preferential dividend at the rate of 5% per annum on the capital for the time being paid up on them. On a winding-up the Preference Shares carry the right to the repayment of the capital paid up on them. The Preference Shares also carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

The 'A' Ordinary Shares carry the right to receive, in priority to any dividend payable in respect of the 'B' Ordinary Shares but subject to the preferential dividend referred to above, a dividend set by reference to LIBOR on the capital for the time being paid up on them. On a winding up the 'A' Ordinary Shares carry the right to the repayment of the capital paid up on them. The 'A' Ordinary Shares carry no right to receive notice of or to attend or to vote at any general meeting of the Issuer except in the case of any resolution affecting the rights of the 'A' Ordinary Shares.

Subject to satisfaction in full of any dividend payable in respect of the Preference Shares and the 'A' Ordinary Shares, the 'B' Ordinary Shares carry the right to receive a dividend. On a winding up the 'B' Ordinary Shares carry the right to the payment of the capital paid up on them and, subject to the payment in full of the capital paid up on all shares in the capital of the Issuer, to receive all surplus assets. The 'B' Ordinary Shares carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

## PARAGON MORTGAGES (NO. 1) PLC

### NOTES TO THE ACCOUNTS

Year ended 30 September 2007

#### 8. STATEMENT OF MOVEMENT ON RESERVES

	Profit and Loss Account £000
Balance at 1 October 2006	39
Profit for the financial year	75
Dividend	(90)
Balance at 30 September 2007	<u>24</u>

An interim dividend of £0.05 (2006 £0.05) per preference share and £875.05 (2006 £1,975.05) per ordinary share was paid. No final dividend is proposed (2006 £nil).

#### 9. CREDITORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts owing to Group companies	191	191
Corporation tax	32	39
Accruals and deferred income	1	1
	<u>224</u>	<u>231</u>

#### 10. 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.