

Paragon Reports & Accounts

Consolidated profit and loss account

for the year to 30 September 1998

	Notes	1998 £m	1997 £m
Interest receivable			
- continuing operations		129.3	122.8
- acquisitions		30.2	-
		159.5	122.8
Interest payable and similar charges	4	(110.0)	(85.1)
Net interest income		49.5	37.7
Other operating income	5	11.1	9.4
Total operating income		60.6	47.1
Operating expenses		(30.4)	(20.3)
Provisions for losses		(5.1)	(5.2)
Operating profit, being profit on ordinary activities before taxation	7	25.1	21.6
- continuing operations		22.3	-
- acquisitions		2.8	-
Tax charge on operating profit	8	(1.2)	-
Profit on ordinary activities after taxation		23.9	21.6
Dividend	10	(3.1)	(2.4)
Retained profit		20.8	19.2
Earnings per share	11	22.8p	23.5p

There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historic cost basis.

Consolidated balance sheet

at 30 September 1998

	Notes	1998		1997	
		£m	£m	£m	£m
Assets employed					
Fixed assets					
Tangible assets	12	21.8		21.6	
Loans to customers	13	1,379.2		1,095.2	
Investment in own shares	14	2.8		1.7	
			1,403.8		1,118.5
Current assets					
Stocks	16	17.6		15.0	
Debtors falling due within one year	17	18.2		8.4	
Cash at banks and in hand		165.9		91.9	
			201.7		115.3
			1,605.5		1,233.8
Financed by					
Equity shareholders' funds					
Called up share capital	18	11.6		8.8	
Reserves	19	75.2		54.2	
			86.8		63.0
Creditors					
Amounts falling due within one year	21	37.2		27.9	
Amounts falling due after more than one year	21	1,481.5		1,142.9	
			1,518.7		1,170.8
			1,605.5		1,233.8

Approved by the Board of Directors on 14 December 1998

Signed on behalf of the Board of Directors

N S Terrington

Chief Executive

N Keen

Finance Director

Holding Company balance sheet

at 30 September 1998

	Notes	1998		1997	
		£m	£m	£m	£m
Assets employed					
Fixed assets					
Investment in own shares	14	2.8		1.7	
Investment in subsidiaries	15	3.8		121.2	
			6.6		122.9
Current assets					
Debtors falling due within one year	17	85.6		0.5	
Cash at banks and in hand		0.2		0.3	
			85.8		0.8
			92.4		123.7
Financed by					
Equity shareholders' funds					
Called up share capital	18	11.6		8.8	
Reserves	19	75.2		54.2	
			86.8		63.0
Creditors					
Amounts falling due within one year	21		5.6		60.7
			92.4		123.7

Approved by the Board of Directors on 14 December 1998

Signed on behalf of the Board of Directors

N S Terrington

Chief Executive

N Keen

Finance Director

Consolidated cash flow statement

Statement of total recognised gains and losses

for the year to 30 September 1998

	Notes	1998		1997	
		£m	£m	£m	£m
Consolidated cash flow statement					
Net cash inflow from operating activities	22(a)		25.8		28.9
Taxation			0.2		(0.1)
Capital expenditure and financial investment					
Net (increase)/decrease in loans to customers		(73.7)		52.1	
Other	22(b)	(2.1)		2.0	
			(75.8)		54.1
Acquisitions and disposals	22(e)		(25.4)		(4.7)
Equity dividends paid			(2.5)		(2.1)
			(77.7)		76.1
Management of liquid resources	22(f)		(16.0)		(29.8)
Financing					
Net proceeds of rights issue			47.9		-
Exercise of share options			0.3		-
Increase/(decrease) in loans from banks and others	22(f)		103.0		(92.1)
Increase/(decrease) in cash in the year	22(f)		57.5		(45.8)
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Statement of total recognised gains and losses					
Profit attributable to shareholders			23.9		21.6
Reduction of unrealised surplus on revaluation of fixed assets, taken to the revaluation reserve			-		(1.9)
Total recognised gains and losses for the year			23.9		19.7
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Movement in shareholders' funds					
Profit attributable to shareholders			23.9		21.6
Dividend			(3.1)		(2.4)
Net proceeds of rights issue			47.9		-
Exercise of share options			0.3		-
Goodwill on acquisition			(45.2)		(4.6)
Goodwill on disposals			-		1.3
Revaluation of fixed assets			-		(1.9)
Net movement in shareholders' funds			23.8		14.0
Opening shareholders' funds			63.0		49.0
Closing shareholders' funds			86.8		63.0

Notes to the accounts

for the year to 30 September 1998

1. Accounting policies

The accounts and notes have been prepared in accordance with applicable accounting standards. The particular policies adopted are described below.

(a) **Accounting convention** The accounts are prepared under the historical cost convention, as adjusted for the revaluation of certain fixed assets.

(b) **Basis of consolidation** The consolidated accounts deal with the accounts of the Company and its subsidiaries made up to 30 September 1998. The results of businesses acquired during the year are dealt with in the consolidated accounts from the date of acquisition.

(c) **Tangible fixed assets** Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

(d) **Depreciation** Depreciation is provided on cost or valuation in equal annual instalments over the lives of the assets. The rates of depreciation are as follows:

Long leasehold premises	2% per annum
Short leasehold premises	over the life of the lease
Computer equipment	25% per annum
Furniture, fixtures and office equipment	15% per annum
Motor vehicles	25% per annum

(e) **Loans to customers** Loans are stated at cost less provision for diminution in value after taking into account the existence of insurances, guarantees and indemnities. Cashbacks and discounts are amortised over the redemption fee periods of the related mortgages.

(f) **Fixed assets - investments** The Company's investments in subsidiary companies are valued by the directors at the Company's share of the book value of their underlying net tangible assets. The Company's investments in its own shares are stated at the lower of cost or net realisable value.

(g) **Stocks** Obligations to purchase vehicles from lessors at pre-arranged prices at the end of the lease term are included in stock at the prices to be paid, in accordance with Financial Reporting Standard 5 - 'Reporting the Substance of Transactions', less any provisions to reduce the prices to net realisable value.

(h) **Goodwill** Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair value of the net assets acquired is written off on acquisition against group reserves.

(i) **Deferred taxation** Deferred taxation is provided on timing differences, arising from the different treatment of items of income and expenditure for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

(j) Foreign currencies Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year or at other rates where covered by forward currency contracts.

(k) Pension costs The expected cost of providing pensions within the funded defined benefit scheme, as calculated periodically by professionally qualified actuaries using the projected unit method, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme.

(l) Funding costs Initial costs incurred in arranging funding facilities are amortised over the period of the facility. Unamortised initial costs are deducted from the associated liability. In addition, profits on the early repurchase of loan notes are included within interest payable and similar charges.

The realised profits or losses on financial instrument transactions for hedging purposes are credited or charged to the profit and loss account over the life of the associated contract.

(m) Operating leases Rental costs under operating leases are charged to the profit and loss account over the period of the leases.

(n) Other operating income The turnover and gross profit of Paragon Vehicle Contracts Limited is not derived from the Group's principal activities and the gross profit is therefore included in other operating income. The turnover is shown in note 5.

2. Acquisition and goodwill

Acquisitions The issued share capital of Universal Credit Limited was acquired on 17 March 1998 for a consideration of £25.4m. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition is £45.2m. This has been written off direct to merger reserve.

The profits after taxation of Universal Credit Limited, were as follows:

	Profit after tax £m
Results prior to acquisition	
1 January 1998 to the date of acquisition	0.2
Preceding financial year ended 31 December 1997	2.1

The following table explains the adjustments made to the book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidation financial statements at the date of acquisition. The cashflow effects of the acquisition are given in note 22.

4. Interest payable and similar charges

	1998 £m	1997 £m
On loans repayable after more than five years		
Loan backed floating rate notes	95.2	73.8
On bank loans, overdrafts and other loans repayable within five years	8.6	11.3
Write off of commissions payable	6.2	-
	110.0	85.1

5. Other operating income

Other operating income includes the gross profit of the Group's vehicle contract hire business as follows:

	1998 £m	1997 £m
Turnover	12.2	7.9
Cost of sales	(9.7)	(5.6)
Gross profit	2.5	2.3

Included within turnover is income from operating leases of £0.1m (1997: £0.1m).

6. Directors and employees

Individual directors' remuneration

The remuneration packages in respect of directors in office during the year were:

	Salary and fees £000	Benefits in kind £000	Annual bonus £000	Pension contributions £000	1998 Total £000	1997 Total £000
Executive						
J P L Perry	150	10	-	-	160	275
N S Terrington	207	11	140	18	376	334
N Keen	155	6	100	42	303	238
M J R Kelly	100	-	-	-	100	165
Non-executive						
D F Banks	19	-	-	-	19	17
Professor A D Chambers	21	-	-	-	21	20
D A Hoare	19	-	-	-	19	17
F W Hulton	21	-	-	-	21	20
1998	692	27	240	60	1,019	1,086
1997	729	27	265	65	1,086	

Mr J P L Perry is the Chairman and Mr N S Terrington is the highest paid director.

Notes to the accounts continued

2. Acquisition and goodwill continued

	Book amount £m	Revaluation £m	Fair value to the group £m
Tangible fixed assets	1.1	(0.2)	0.9
Loans to customers	234.9	(19.5)	215.4
Debtors	7.1	-	7.1
Creditors and provisions	(241.3)	-	(241.3)
Taxation	(1.1)	-	(1.1)
	0.7	(19.7)	(19.0)
Goodwill			45.2
Consideration			26.2
Cash			25.4
Costs of acquisition			0.8
			26.2

The revaluation adjustment of £19.5m relates to a fair value adjustment made against loans to customers at the time of acquisition to bring the provisioning policy into line with the approach of the Group.

Goodwill Goodwill written off in 1998 under the accounting policy stated in note 1 amounted to £45.2m (1997: £nil) in respect of the acquisition of Universal Credit Limited. The cumulative amount of goodwill charged to reserves is £56.4m (1997: £11.2m), net of amounts attributable to companies sold.

3. Analysis of acquisitions and other continuing operations

	Continuing operations £m	Acquisitions £m	1998 Total £m	1997 Total £m
Interest receivable	129.3	30.2	159.5	122.8
Interest payable	(96.0)	(14.0)	(110.0)	(85.1)
Net interest income	33.3	16.2	49.5	37.7
Other operating income	8.7	2.4	11.1	9.4
Total operating income	42.0	18.6	60.6	47.1
Operating expenses	(25.2)	(5.2)	(30.4)	(20.3)
Provisions for losses	5.5	(10.6)	(5.1)	(5.2)
Operating profit	22.3	2.8	25.1	21.6

Notes to the accounts continued

6. Directors and employees continued

Mr N S Terrington and Mr N Keen were members of the Group defined benefit scheme during the year, from which their pension entitlement was as follows:

	Accrued pension at 30 September 1998 (note a)	Increase in accrued pension during year (note b)	Transfer value (net of director's contribution) of increase in accrued pension (note c)
	£	£	£
N S Terrington	45,823	13,613	74,321
N Keen	21,413	5,410	30,790

Notes to pension benefits

a. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the Company's financial year.

b. The increase in accrued pension during the year excludes any increase for inflation.

c. The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less directors' contributions.

Members of the Plan have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

The average number of persons (including directors) employed by the Group was 541 (1997 : 367).

Staff costs incurred during the year in respect of these employees were:

	1998 £m	1997 £m
Wages and salaries	11.2	8.7
Social Security costs	0.9	0.7
Pension costs	0.6	0.4
	12.7	9.8

The most recent actuarial valuation of the Group Pension Scheme was completed as at 1 April 1998 using the projected unit method, at which date the market value of the assets was £9.7m. The principal assumption used in the latest valuation was that the annual return on investment would be 2.0 per cent higher than the annual increase in salaries. The valuation revealed that the actuarial value of assets was sufficient to cover 100 per cent of the benefits that had accrued to members after allowing for future increases in earnings.

7. Profit before taxation

	1998 £m	1997 £m
Profit on ordinary activities before taxation is after charging:		
Depreciation	1.7	1.3
Auditors' remuneration (group)- audit services	0.3	0.2
- non audit services	0.6	0.5
Hire of plant and machinery	0.3	0.4
Property rents	1.4	1.7

The Company's audit fee was £18,700 (1997: £18,150).

8. Taxation

	1998 £m	1997 £m
UK corporation tax at 31% (1997: 32%) based on the profit for the year		
Write-off of Advance Corporation Tax	-	(0.7)
Deferred tax	(0.9)	0.3
	(0.9)	(0.4)
Prior year adjustments		
Current tax	(0.3)	0.1
Deferred tax	-	0.3
	(0.3)	0.4
Tax charge on operating profit	(1.2)	-

The taxation charge for the year has been increased by £0.3m (1997: £0.2m) in respect of expenditure not qualifying for tax relief and reduced by £6.9m (1997: £7.4m) in respect of movements in partially provided deferred tax assets. There are losses carried forward to offset against future income of appropriate Group companies of £27m (1997: £45m). In addition the Group has capital losses in excess of £75.0m which are available to offset against future capital gains in the relevant companies.

Notes to the accounts continued

8. Taxation continued

Deferred Taxation	£m
(a) The Group	
Deferred taxation movement for the year	
Balance at 1 October 1997	(4.5)
Current year charge	0.9
Balance at 30 September 1998	(3.6)

The potential liability for deferred taxation and the amounts for which provision has been made are:

	1998		1997	
	Potential liability £m	Provided £m	Potential liability £m	Provided £m
Capital allowances in excess of depreciation	1.2	1.2	1.2	1.2
Other timing differences	(10.3)	(4.8)	(15.1)	(5.7)
	(9.1)	(3.6)	(13.9)	(4.5)

The majority of other timing differences arise from trading losses that are being carried forward to set off against future taxable trading profits.

(b) The Company

There is no potential liability for deferred tax in the parent company either at 30 September 1998 or 30 September 1997.

9. Profit attributable to members of The Paragon Group of Companies PLC

The parent company's loss after tax for the financial year amounted to £9.3m (1997: profit of £7.9m). A separate profit and loss account has not been prepared for the holding company under the provisions of Section 230 of the Companies Act 1985.

10. Dividend

	Per share		1998 £m	1997 £m
	1998	1997		
On ordinary shares				
Interim	1.30p	1.20p	1.1	1.0
Proposed final	1.70p	1.50p	2.0	1.4
	3.00p	2.70p	3.1	2.4

11. Earnings per share

	1998	1997
Earnings per ordinary share is calculated as follows:		
Profit for the year	£23,900,000	
£21,575,000		
Weighted average number of ordinary shares ranking for dividend during the year (1997 restated)	104,870,621	
92,010,464		
Earnings per ordinary share (1997 restated)	22.8p	23.5p

12. Tangible fixed assets

	Long Leasehold Premises £m	Short Leasehold Premises £m	Plant and Machinery £m	Assets on operating leases to third parties £m	Total £m
Cost or valuation					
At 1 October 1997	21.0	1.1	6.1	0.7	28.9
Additions	-	-	2.2	-	2.2
Disposals	-	-	(0.1)	(0.4)	(0.5)
At 30 September 1998	21.0	1.1	8.2	0.3	30.6
Cost	-	1.1	8.2	0.3	9.6
Valuation	21.0	-	-	-	21.0
Accumulated depreciation					
At 1 October 1997	3.0	0.5	3.7	0.1	7.3
Charge for the year	0.4	0.1	1.1	0.1	1.7
On disposals	-	-	(0.1)	(0.1)	(0.2)
At 30 September 1998	3.4	0.6	4.7	0.1	8.8
Net book value					
At 30 September 1998	17.6	0.5	3.5	0.2	21.8
At 30 September 1997	18.0	0.6	2.4	0.6	21.6
Comparable amounts determined according to the historic cost convention:					
Cost	16.0	1.1	8.2	0.3	25.6
Accumulated depreciation	(2.3)	(0.6)	(4.7)	(0.1)	(7.7)
Net book value					
At 30 September 1998	13.7	0.5	3.5	0.2	17.9
At 30 September 1997	14.0	0.6	2.4	0.6	17.6

The long leasehold premises at Homer Road in Solihull were revalued on 30 September 1997 by the directors at £18.0m after accumulated depreciation of £3.0m. The remainder of the fixed assets above are stated at cost.

Notes to the accounts continued

13. Loans to customers

	1998 £m	1997 £m
Cost		
At 1 October 1997	1,095.2	1,149.7
Additions	544.9	204.6
Other debits	143.8	89.1
Repayments and redemptions	(404.7)	(348.2)
At 30 September 1998	1,379.2	1,095.2

Included in loans to customers are £32.5m (1997: £1.2m) of hire purchase receivables. The aggregate rentals receivable in respect of hire purchase contracts were £1.7m (1997: £0.1m). The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £38.1m (1997: £1.2m).

14. Investment in own shares

	1998 £m	1997 £m
Shares held by the trustee of the share option schemes	2.8	1.7

All of the shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes. The trustee's costs are included in the operating expenses of the Company. At 30 September 1998, the trust held 3,130,667 shares (1997: 2,566,127) with a nominal value of £313,067 (1997: £256,612) and a market value of £4,680,347 (1997: £4,670,357). The dividends on these shares have not been waived.

15. Investment in subsidiary companies

	1998 £m	1997 £m
Shares in Group companies		
At 1 October 1997	120.4	88.4
Additions during this year	26.2	13.8
Revaluation		
(Charged)/credited to the profit and loss account	(132.9)	9.7
(Charged)/credited to the revaluation reserve	(12.0)	8.5
	1.7	120.4
Loans to Group companies		
At 1 October 1997	0.8	2.3
Additions during the year	13.9	4.5
Revaluation		
Charged to the profit and loss account	(12.6)	(6.0)
	2.1	0.8
At 30 September 1998	3.8	121.2

15. Investment in subsidiary companies continued

Principal operating subsidiaries comprise	Holding	Principal
Direct subsidiaries of The Paragon Group of Companies PLC		Activity
Paragon Finance PLC	100%	Residential mortgages
Homer Finance (No.3) PLC	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Homeloans No.1 PLC	100%	Residential mortgages
Homeloans No.2 PLC	100%	Residential mortgages
Homeloans No.3 PLC	100%	Residential mortgages
Finance for People (No.1) PLC	100%	Residential mortgages
Finance for People (No.2) PLC	100%	Residential mortgages
Finance for People (No.3) PLC	100%	Unsecured and car loans
Finance for People (No.4) PLC	100%	Residential mortgages
Paragon Vehicle Contracts Limited	100%	Vehicle fleet management
Paragon Car Finance Limited	100%	Vehicle finance
Paragon Personal Finance Limited	100%	Unsecured lending
Universal Credit Limited	100%	Unsecured lending
Subsidiaries of Paragon Mortgages Limited		
Paragon Second Funding Limited	100%	Residential mortgages

The issued share capital of all subsidiaries consists of ordinary share capital. The financial year end of all of the above companies is 30 September, and they are registered and operate in England and Wales.

16. Stocks

	1998 £m	1997 £m
Residual purchase obligations	14.1	13.9
Vehicles on extended hire or held for resale	3.5	1.1
	17.6	15.0

17. Debtors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Amounts due within one year				
Amounts owed by group companies	-	-	84.7	-
Other debtors	4.5	2.6	0.2	0.2
Tax debtors	4.1	5.0	0.3	0.1
Prepayments and accrued income	9.6	0.8	0.4	0.2
	18.2	8.4	85.6	0.5

Notes to the accounts continued

18. Called-up share capital

	1998 £m	1997 £m
Authorised:		
125,000,000 ordinary shares of 10p each	12.5	12.5
Allotted and paid-up:		
115,667,935 (1997: 87,855,955) ordinary shares of 10p each		11.6
8.8		

During the year 27,454,985 ordinary shares of 10p with an aggregate par value of £2,745,499 were issued for an aggregate consideration of £49,418,973 under the terms of a 5 for 16 rights issue. In addition 220,387 ordinary shares (£22,039 par value) were issued for £220,972 and a further 136,608 (£13,661 par value) were issued for £119,210. These issues were made under the executive and employee share option schemes, respectively.

19. Reserves

	Share Premium Account £m	Merger Reserve £m	Revaluation Reserve £m	Profit and Loss Account £m	Total £m
(a) The Group					
Balance at 1 October 1997	16.6	(81.4)	4.0	115.0	54.2
Additional depreciation on revalued assets	-	-	(0.1)	0.1	-
Rights issue premium (note 18)	46.6	-	-	-	46.6
Rights issue costs	(1.5)	-	-	-	(1.5)
Goodwill on acquisition	-	(45.2)	-	-	(45.2)
Share options exercised	0.3	-	-	-	0.3
Profit for the year	-	-	-	20.8	20.8
Balance at 30 September 1998	62.0	(126.6)	3.9	135.9	75.2

The cumulative amount of goodwill on acquisition written off to reserves is £56.4m (1997: £11.2m). The potential liability for deferred taxation of £0.6m (1997: £0.6m) on the revaluation of the long leasehold premises is included in the other timing differences in note 8(a) but available capital losses would reduce this liability to £nil.

	Share Premium Account £m	Revaluation Reserve £m	Profit and Loss Account £m	Total £m
(b) The Company				
Balance at 1 October 1997	16.6	12.2	25.4	54.2
Rights issue premium (note 18)	46.6	-	-	46.6
Rights issue costs	(1.5)	-	-	(1.5)
Revaluation of investments in subsidiaries	-	(12.0)	-	(12.0)
Share options exercised	0.3	-	-	0.3
Loss for the year	-	-	(12.4)	(12.4)
Balance at 30 September 1998	62.0	0.2	13.0	75.2

20. Share option schemes

Options are outstanding under the executive share option and the all employee share option schemes to purchase 6,805,461 ordinary shares of 10p each as follows:

Number	Period exercisable	Price
197,581	11/03/1996 to 11/03/2000	25.97p
200,296	11/03/1996 to 11/03/2000	10.39p
20,610	11/03/1996 to 11/03/2000	35.96p
5,180	07/12/1996 to 07/12/2000	86.3p
104,016	07/12/1996 to 07/12/2000	69.52p
5,192	02/02/1997 to 02/02/2001	196.57p
105,113	02/02/1997 to 02/02/2001	139.84p
1,824,925	13/03/1998 to 13/03/2005	97.33p
135,566	31/03/1998 to 31/03/2005	87.26p
306,330	14/06/1998 to 14/06/2005	103.56p
32,296	04/07/1998 to 04/07/2005	97.33p
67,644	06/02/1999 to 06/02/2003	100.68p
38,866	21/06/1999 to 21/06/2003	103.08p
1,256,574	02/12/1999 to 02/12/2003	105.48p
104,280	12/06/2000 to 12/06/2004	162.05p
125,136	16/06/2000 to 16/06/2004	160.62p
20,856	16/06/2000 to 16/06/2004	105.48p
1,203,000	31/03/2001 to 31/03/2008	218p
802,000	31/03/2001 to 31/03/2005	218p
250,000	30/09/2001 to 30/09/2008	162.5p

A number of the above options are granted to former employees whose rights terminate at the later of twelve months following redundancy or forty-two months after the issue of the options.

Details of individual options held by the directors at 30 September 1997 and 30 September 1998

Date from which exercisable	Expiry date	Option price	J P L Perry	N S Terrington	N Keen	M J R Kelly
11/03/1996	11/03/2000	25.97p	52,570	52,570	26,285	-
11/03/1996	11/03/2000	10.39p	58,548	58,548	29,275	-
11/03/1996	11/03/2000	35.96p	5,479	5,479	2,740	-
07/12/1996	07/12/2000	69.52p	25,028	25,028	12,514	-
07/12/1996	07/12/2000	86.3p	1,252	1,252	626	-
02/02/1997	02/02/2001	139.84p	-	-	-	68,073
02/02/1997	02/02/2001	196.57p	-	-	-	3,365
13/03/1998	13/03/2005	97.33p	417,646	261,226	130,613	332,663
14/06/1998	14/06/2005	103.56p	-	104,280	202,050	-
02/12/1999	02/12/2003	105.48p	260,700	260,700	234,630	-
At 30 September 1997			821,223	769,083	638,733	404,101
Options exercised in the year						
11/3/1996	11/3/2000	10.39p	-	-	(10,000)	-
Options granted in the year						
31/3/2001	31/3/2008	218p	120,000	255,000	240,000	-
31/3/2001	31/3/2005	218p	80,000	170,000	160,000	-
At 30 September 1998			1,021,223	1,194,083	1,028,733	404,101

The options outstanding at 30 September 1997 have been adjusted following the rights issue during the year.

At 30 September 1998 The Paragon Group of Companies PLC share price was 149.5p and the range during the year then ended was 149.5p to 253p. The exercise of options by Mr Keen took place on 2 September 1998, on which date the share price was 152p.

Options are granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee.

Notes to the accounts continued

21. Creditors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Amounts falling due within one year				
Bank loans and overdrafts	6.3	1.8	-	0.3
Amounts owed to group companies	-	-	2.1	57.8
Proposed dividend	2.0	1.4	2.0	1.4
Corporation tax	1.5	1.0	0.3	0.1
Accruals	27.4	23.7	1.2	1.1
	37.2	27.9	5.6	60.7
Amounts falling due after more than one year				
Bank loans and notes	124.7	165.5	-	-
Mortgage backed loan notes	1,347.3	967.3	-	-
Accruals	9.5	10.1	-	-
	1,481.5	1,142.9	-	-

Bank loans and notes include sterling loans to Paragon Finance PLC of £98.8m (1997: £97.3m) which are secured on certain assets of the Company and all the assets of Paragon Finance PLC, and sterling loans to Paragon Second Funding Limited of £29.9m (1997: £68.2m) which are secured on all the assets of that company, Paragon Car Finance Limited and Paragon Personal Finance Limited.

The mortgage backed loan notes are secured on portfolios of variable and fixed rate mortgage loans. These mortgage loans are secured by first charges over residential properties within England and Wales. The notes and loans are redeemable in part from time to time for an amount equal to the net capital receipts in respect of the mortgages. It is likely that a substantial proportion of the notes will be repaid within 5 years. Interest is payable on the notes and the loans at various rates between 0.06% and 1.30% over the London Interbank Offered Rate for 3-month sterling deposits.

Under the terms of the refinancing of Paragon Finance PLC's bank facilities dated 29 June 1992, it was agreed that a 'success fee' will become payable to the banks and noteholders on 31 December 1998. Following the capital reconstruction of the Company, this is now based on 0.83 per cent of the difference between the average share price of the Company during the 30 days prior to 25 November 1998 and 50p per share, multiplied by the number of ordinary shares of 15p each in issue on 29 June 1992.

21. Creditors continued

	Group	
	1998 £m	1997 £m
Bank loans and notes repayable		
within one year	4.0	-
between one and two years	11.8	2.9
between two and five years	83.0	94.4
after more than five years	29.9	68.2
	128.7	165.5

At 30 September 1998 the total of bank loans and overdrafts was £131.0m (1997: £167.3m).

The Company

Movements in the amounts owed by the Company to other group companies include:

	Company	
	1998 £m	1997 £m
Upstream Loan from Paragon Finance PLC		
At 1 October 1997	-	82.7
Interest charged during the year	-	8.9
Interest paid during the year	-	(8.9)
Loan repaid during the year	-	(82.7)
At 30 September 1998	-	-

The Upstream Loan had a variable interest rate and no fixed maturity.

Notes to the accounts continued

22. Consolidated cash flow statement

	1998 £m	1997 £m
(a) Reconciliation of operating profit to net cash flows from operating activities		
Operating profit	25.1	21.6
Provision for losses	5.1	2.4
Depreciation	1.7	1.3
Profit on disposal of investment	-	(2.2)
(Increase)/decrease in stock	(2.4)	0.9
(Increase)/decrease in debtors	(3.6)	1.5
(Decrease)/increase in creditors	(0.1)	3.4
Net cash inflow from operating activities	25.8	28.9
(b) Other capital expenditure and financial investment		
Expenditure on other fixed assets	(1.3)	(2.5)
Proceeds from sales of fixed assets	0.3	-
Acquisition of investment	-	(1.8)
Proceeds from sales of investments	-	6.3
Acquisition of own shares	(1.1)	-
	(2.1)	2.0
(c) Acquisitions and disposals		
Net assets acquired		
Fixed assets	0.9	-
Loans to customers	215.4	-
Stocks	-	11.1
Debtors	7.1	-
Creditors	(241.3)	(11.0)
Taxation	(1.1)	-
	(19.0)	0.1
Goodwill	45.2	4.6
Satisfied by		
Cash	26.2	4.7
<p>The business acquired during the year contributed £11.7m to the Group's net operating cash flows, utilised £22.1m in respect of net loans to customers and received £11.6m in respect of the increase in loans from banks and others.</p>		
(d) Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in year	57.5	(45.8)
Cash (inflow)/outflow from (increase)/decrease in debt	(343.2)	92.1
Cash outflow from increase in liquid resources	16.0	29.8
Movement in net debt in year	(269.7)	76.1
Net debt at 1 October 1997	(1,042.7)	(1,118.8)
Net debt at 30 September 1998	(1,312.4)	(1,042.7)

22. Consolidated cash flow statement continued

(e) Analysis of the net outflow of cash in respect of the purchase of subsidiary undertaking

	1998 £m	1997 £m
Cash consideration	25.4	4.7

(f) Analysis of net debt

	At 1 October 1997 £m	Cash (exc. cash and flows £m	Acquisition exc. cash and overdrafts) £m	Other non-cash changes £m	At 30 September 1998 £m
Cash in hand, at bank	19.7	58.0			77.7
Overdrafts	(1.8)	(0.5)			(2.3)
		57.5			
Debt due after one year	(1,132.8)	(101.6)	(237.6)		(1,472.0)
Debt due within one year	-	(1.4)	-	(2.6)	(4.0)
		(103.0)	(237.6)	(2.6)	
Other liquid resources	72.2	16.0			88.2
Total	(1,042.7)	(29.5)	(237.6)	(2.6)	(1312.4)

Other liquid resources comprise term deposits with UK banks.

23. Capital commitments

There were no capital commitments (1997: £nil) contracted but not provided for.

24. Financial commitments

At 30 September 1998 the Group had commitments to make annual payments under operating leases which expire as follows:

	1998 £m	1997 £m
Plant and machinery		
Between two and five years	0.2	0.1
Land and buildings		
Between two and five years	0.1	0.1
Over five years	1.8	1.6
	2.1	1.8

Notice of Annual General

To all shareholders

NOTICE IS HEREBY GIVEN that the tenth Annual General Meeting of The Paragon Group of Companies PLC will

be held at Stationers' Hall, Ave Maria Lane, London EC4M 7DD on 28 January 1999 at 12.00 noon for the following purposes:

As ordinary business

- 1 To receive and consider the Company's Accounts for the year ended 30 September 1998 and the Reports of the Directors and the Auditors
- 2 To declare a dividend
- 3 To re-appoint as directors (a) Mr J P L Perry (b) Mr N S Terrington (c) Mr N Keen (d) Mr D A Hoare (e) Mr C Weiser
- 4 To re-appoint Deloitte & Touche as Auditors and to authorise the directors to fix their remuneration.

As special business

To consider and, if thought fit, to pass resolutions 5 and 8 as ordinary resolutions and resolutions 6 and 7 as special resolutions:

Ordinary Resolution

- 5 "THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £3,855,000 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired."

Special Resolutions

- 6 "THAT, subject to the passing of the previous resolution, the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons are proportionate to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever); and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £578,300 and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this

resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired."

7 "THAT the Articles of Association of the Company be amended as follows:

(i) **Article 2:**

By the deletion after the phrase "The Stock Exchange" of the words "means the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited;" and replacing them with the words "means the London Stock Exchange Limited;"

(ii) **Article 31:**

By the addition of the following words to the end of the Article:

"...provided that where such shares are admitted to the Official List of the Stock Exchange, such discretion may not be exercised in such way as to prevent dealings in shares of the relevant class from taking place on an open and proper basis."

(iii) **Article 77:**

By the deletion of the words in brackets beginning on line two and ending on line four:

"... (other than a director exempt from retirement by rotation under any other provision of these Articles)"

(iv) **Article 78:**

By the addition to line six of the Article after the sentence ending "...be determined by lot." the words "In addition any director who would not otherwise be required to retire shall retire by rotation at the third annual general meeting after his last appointment or reappointment."

(v) **Article 104:**

By deletion of the clause beginning on line two and ending on line three reading: "shall not, while holding that office, be subject to retirement by rotation, but" and the addition of the word "retirement", on the last line of the Article before the word "resignation".

Ordinary Resolution

8 "THAT

(a) the Directors be and they are hereby authorised to establish the Paragon 1999 Sharesave Scheme in the form presented to the meeting; and

(b) the Directors be and they are hereby authorised to vote and be counted in the quorum on any matter connected with the said scheme, notwithstanding that they may be interested in the same (except that no Director may be counted in a quorum or vote in respect of his own participation) and the prohibition on voting by interested Directors contained in the Articles of Association of the Company be and is hereby relaxed accordingly."

By order of the Board

J G Gemmell

Company Secretary

Registered and Head Office:

St. Catherine's Court, Herbert Road,

Solihull, West Midlands B91 3QE

14 December 1998

Registered in England No. 2336032

A member entitled to attend and vote at this meeting may appoint a proxy to attend on his behalf and, on a poll, to vote instead of such member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms should be lodged with the Registrar of the Company at the address shown on the reverse of the proxy form not less than forty-eight hours before the time appointed for the holding of the meeting. The appointment of a proxy will not preclude a shareholder from attending and voting at the meeting.

Company Information

Registered and Head Office

St Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE
Telephone: 0121 712 2323

London Offices

28 King Street
London EC2V 8EH
Telephone: 0171 726 4054

6 Greencoat Place
London SW1P 1PL
Telephone: 0171 957 9701

Internet

www.paragon-group.co.uk

Auditors

Deloitte & Touche
Chartered Accountants
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

Solicitors

Slaughter and May
35 Basinghall Street
London EC2V 5DB

Registrars and Transfer Office

Computershare Services PLC
P.O. Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

Brokers

HSBC James Capel
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Financial Advisors

HSBC Investment Bank plc
Vintners Place
68 Upper Thames Street
London EC4V 3BJ