annual report & accounts 2002

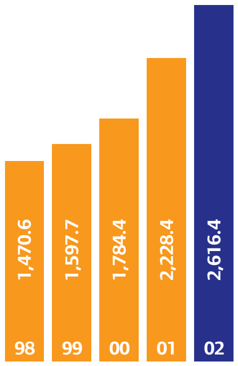
paragon

The Paragon Group of Companies PLC

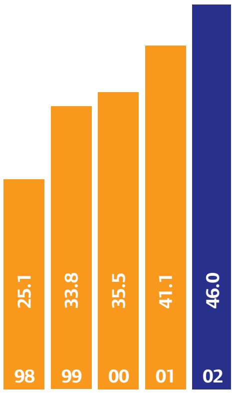
contents

financial highlights

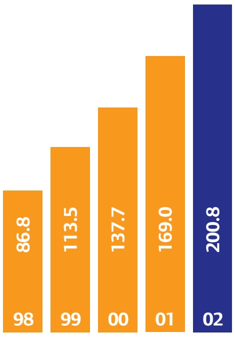
profit before tax **£46.0m** earnings per share **32.1p** dividend per share **5.1p**



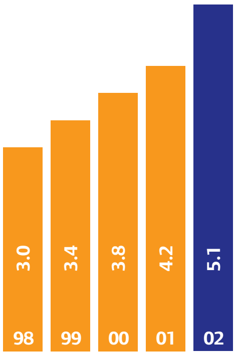
ASSETS UNDER MANAGEMENT (£M)



PROFIT BEFORE TAX (£M)



SHAREHOLDERS' FUNDS (£M)



DIVIDEND PER ORDINARY SHARE (p)

	2002 £M	2001 RESTATED £M	2000 £M	1999 £M	1998 £M
Profit before taxation	**46.0**	41.1	35.5	33.8	25.1
Profit after taxation	**36.6**	32.9	28.5	30.3	23.9
Assets under management	**2,616.4**	2,228.4	1,784.4	1,597.7	1,470.6
Shareholders' funds	**200.8**	169.0	137.7	113.5	86.8

	2002	2001 RESTATED	2000	1999	1998
Earnings per share					
- basic	**32.1p**	29.0p	25.1p	26.1p	22.4p
- diluted	**31.4p**	28.3p	24.9p	25.8p	22.1p
Dividend per ordinary share	**5.1p**	4.2p	3.8p	3.4p	3.0p

The figures for profit before tax, profit after tax, shareholders' funds and basic and diluted earnings per share for the year to 30 September 2001 have been restated following the change in accounting policy described in note 1 (q) to the accounts.

The basic and diluted earnings per share figures for 1998 have been adjusted following the implementation of Financial Reporting Standard 14 – 'Earnings per share'.

Assets under management includes all assets managed by the Group, including those owned by third parties.

chairman's statement

The year ended 30 September 2002 has seen another period of strong growth for Paragon. Profit before tax has increased by 11.9% to £46.0 million, from £41.1 million (restated from £40.5 million) for the preceding year. Earnings per share has increased by 10.7% to 32.1p from 29.0p (restated from 28.5p).

In view of the sustained improvement in profitability, your Board has declared an increased final dividend of 3.0p per share which, when added to the interim dividend of 2.1p paid on 31 July, gives a total dividend of 5.1p per share for the year, an increase of 21.4% on last year's dividend of 4.2p. This increase is significant and reflects the level of retentions from profits generated by our businesses. Our intention is to move progressively towards a dividend cover ratio more in line with our sector whilst remaining conscious of supporting the growth aspirations of the Group.

Business review and strategy

During the year we have maintained the more defensive approach to lending that I outlined in my report last year. Consequently we have seen strong growth in our buy-to-let, secured personal loan and car finance businesses.

Paragon Mortgages increased advances by 47.7% to £563.6 million. We continue to focus on the professional buy-to-let sector, where we believe the market fundamentals remain favourable, a view supported by our own research data and evidenced by strong volumes since the year end.

The increased lending activity in the Consumer Finance division during the year was primarily attributable to growth in secured personal loan advances up 36.6% to £151.9 million, and in car finance advances up 17.3% to £162.4 million. By contrast, we have reduced volumes in our unsecured lending area in order to rebalance the portfolio towards lower risk products.

Distribution and capital investment

Since the Group recommenced lending activities in 1995, and dividend payments restarted, considerable balance sheet and profit growth has been achieved. Each period's growth target has required significant capital investment and the maintenance of that growth year on year has meant that the majority of distributable reserves have been reinvested in the business. As a consequence, dividend cover has been high.

Whilst plans for growth across the Group remain deliberately stretching, the level of retentions from profits generated by our businesses is now such that it is appropriate to begin increasing the dividend relative to profit with a view to reducing dividend cover, to bring it more in line with our sector over time. Hence, the Board has declared a dividend this year 21.4% higher than last, significantly ahead of the growth in profits and earnings per share.

During the course of the year we have also considered a number of opportunities to invest shareholder funds in acquisitions, as we remain of the view that profitable additions to the Group's activities could be achieved in this way. Thus far, we have found that price expectations of vendors have been unrealistic, but this may change as the economic cycle develops and companies consider divesting non-core activities to release capital for their own development. We continue to review opportunities with a measured, value based approach.

Composition of the Board

At the half year we reported the resignation of Bill Hulton from the Board owing to ill health. Sadly, Bill passed away in June. Bill brought a keen intelligence and strong commercial acumen during his nine years at the Board. As a colleague and friend, he will be missed. Our thoughts are with his family.

Bill's passing has necessitated some reorganisation of the Board. David Hoare has assumed the role of senior non-executive and head of the remuneration committee. In October, we were pleased to welcome Gavin Lickley to the Board. Gavin brings to the Board considerable experience in the financial sector, further enhancing the breadth and depth of experience within the team.

Conclusion

The Group has achieved much in the year, with strong lending growth now coming from a business mix commensurate with the uncertainties we still face in the UK economy. We see no reason at present to change this and would expect to maintain our emphasis on the more defensive, secured sectors of the business over the coming year. In each of our chosen areas we see good prospects for further growth. Contrary to its recent poor press, we are firmly of the view that the prospects for the buy-to-let market remain good, particularly in the professional landlord sector.

In addition to organic growth, the review of potential acquisition targets remains a focus for the Group. Our approach to any acquisition is to apply a rigorous due diligence process and any such prospect would need to be a good fit within our business model and represent value for shareholders. Further, our expectations for future dividend growth should ensure that shareholders may look forward to greater income as the business develops.

Staff

I remain indebted to the staff and my fellow directors at Paragon for their continuing hard work and professionalism.

JONATHAN P L PERRY
Executive Chairman

16 December 2002

Paragon Mortgages increased lending by **47.7%**

chief executive's review

In the year ended 30 September 2002 the Group has achieved further progress, with profits increasing to £46.0 million for the year, and strong growth being achieved in business volumes in our targeted markets.

Total advances during the year were £994.4 million, compared with £797.3 million during the previous year, an increase of 24.7%. Net loan assets at 30 September 2002 were £2,521.3 million, compared with £2,149.2 million (restated from £2,146.3 million) at 30 September 2001. Net interest income for the year was £72.9 million, compared with £73.4 million (restated from £72.8 million) for the previous year, the slight reduction being primarily the result of a change in the mix of the business as the Group has concentrated more on defensive products. This is compensated, correspondingly, by a charge for provisions for losses which, at £12.9 million compares favourably with the £12.0 million charge for the previous year, given the 17.3% increase in the net loan book over the year.

Other operating income increased by 34.6% to £20.6 million from £15.3 million, the increase being largely attributable to increased commissions related to sales of insurance products and other fees receivable on an increased volume of business and to higher fees from referrals of declined loans to third parties.

Despite the growth in the business, operating costs were reduced by £1.0 million, to £34.6 million, from £35.6 million for the previous year. The cost to income ratio, at 37.0% for the year, compares favourably with 40.1% for the previous year and reflects the tight cost control exercised throughout the Group. This has been facilitated by the early results of a Group-wide process improvement initiative, which is expected to yield further cost benefits and enhance the cost to income ratio going forward. We aim to reduce this ratio below 35% in the medium term.

After providing for corporation tax at a charge rate of 20% and for the dividend in respect of the year, shareholders' funds at 30 September 2002 were 18.8% higher at £200.8 million.

FIRST MORTGAGES

The strong growth by Paragon Mortgages reported for the first half of the year has continued in the second half. Loans totalling £563.6 million were advanced during the year, an increase of 47.7% from the previous year's level of £381.6 million. At 30 September 2002 the loan book stood at £1,413.9 million, up 35.6% from £1,042.7 million at 30 September 2001.

Monthly advances exceeded £50 million in each of the last three months of the financial year and in October. The volume of business in the pipeline at 30 September 2002 was significantly higher than at the previous year end and lending activity since the year end remains brisk.

Paragon Mortgages has maintained its focus on servicing the needs of professional property investors, providing a product range and a service suited to the sector. Increasingly, customers have a number of properties financed with Paragon and these customers require a proactive and personal approach that assists them in building their lettings businesses. In meeting these needs Paragon has been able to develop a strong brand in this niche market.

It is noteworthy that Paragon Mortgages has recently taken first prize in two categories of the prestigious commercial finance industry gala awards, being acknowledged as the buy-to-let lender of the year and one of our products, to support refurbishment of a property prior to let, as the most innovative new product.

As our results suggest, Paragon's borrowers have been expanding their property portfolios over the year and, from the evidence of our survey data, the market fundamentals remain favourable. This appears at odds with media reports, but may be a consequence of the greater emphasis of the media on novice property investors and on high profile metropolitan locations. Recent survey data indicates that Paragon's professional landlords intend to continue to build their portfolios over the next year by 16% on average.

Paragon Mortgages focuses on servicing the needs of professional property investors

chief executive's review

FIRST MORTGAGES (CONTINUED)

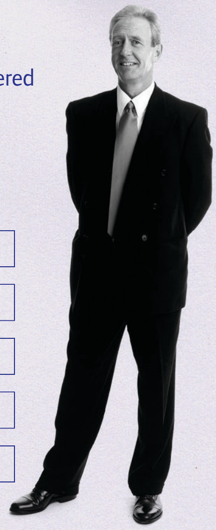
Our focus for this business remains on building a first mortgage book of very high quality centred on the professional landlord sector, benefiting from their experienced selection of tenants, combined with our security over their properties. The arrears performance of the book is exemplary with negligible losses. Looking forward, our view is that the professional landlord sector will be less prone to volatility in volume levels and arrears performance than the amateur sector, which is an important factor in underpinning the level of future earnings from this portfolio.

Paragon Mortgages also earns fees on cases received which do not match our target customer profile. Under an agreement with a third party lender, Paragon receives an arrangement fee and an ongoing servicing fee for referred cases which subsequently complete. During the year £34.3 million of mortgages were advanced under this arrangement. We expect this area of business to grow significantly in the current year.

At 30 September 2002 the NHL closed book had reduced to £230.5 million, from £306.3 million at 30 September 2001. The performance of this book has remained satisfactory over the year.

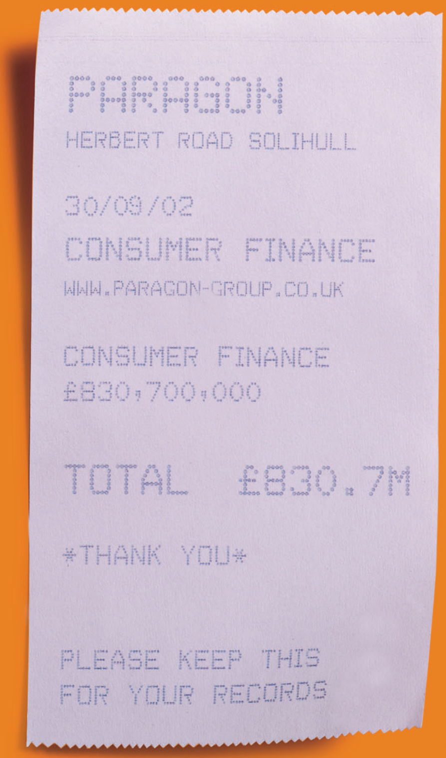
CASE STUDY

Stephen Williams has been a customer of Paragon Mortgages since 2000. He is a Chartered Surveyor and he has been a full-time landlord for four years.



Name	STEPHEN WILLIAMS
Age	47
Occupation	FULL-TIME LANDLORD
Number of Properties	20
Location	WEST MIDLANDS

- **60% of our new business comes from existing customers**
- **Each applicant and property is assessed on its individual merits**
- **Average portfolio of properties per investor is 11**
- **The performance of the PML portfolio is exemplary with arrears of less than 0.5%**
- **The average void period per property is only 2.8 weeks a year**
- **Centre for Economics and Business Research forecast 40% growth in the private rented sector over 10 years**



Consumer Finance assets increased to **£830.7 million**

chief executive's review

CONSUMER FINANCE

At 30 September 2002 the consumer finance book stood at £830.7 million, up from £757.1 million at 30 September 2001. Aggregate loans of £430.8 million were advanced during the year, compared with £415.7 million in the previous year, with the emphasis of the lending being on cars and secured loans. As previously reported, this has been a deliberate policy to deliver a higher quality book with greater defensive properties.

Personal finance

In the year to 30 September 2002 advances of secured loans were £151.9 million, up 36.6% from the previous year's level of £111.2 million. This strong growth performance has continued into the new financial year with advances in October the highest for any month since the business was established. The distribution base has increased in the course of the year, assisted by the delivery of improved internet-based technology and enhanced training to introducers, attracting new brokers and increasing our share of existing brokers' business.
The secured sector remains buoyant, with introducers increasing marketing activity and the prospect for this business remains encouraging.

Unsecured loan advances were £40.4 million for the year, compared with £84.1 million for the year ended 30 September 2001. The reduction in volumes was planned and followed the tightening of credit criteria and the introduction of improved scorecard technology, designed to target better quality business. Introducers have remained supportive of Paragon's stance and we anticipate a modest increase in volumes in the next year.

Retail finance

New loan advances by this division were £76.1 million, compared with £81.9 million in the previous year, a function of a disappointingly weak instalment credit market throughout the year combined with a pruning of the retailer base to remove business which does not meet our profitability requirements. During the year we have improved our systems support for the business, and in the coming months expect to bring all administration of this book in-house. As well as reducing administration costs, this will facilitate improved flexibility and service and provide a sound platform on which to develop this business. The system will give us an electronic data interchange (EDI) capability, which we believe will become increasingly important for information and for applications delivery in the next financial year.

Car Finance assets increased by **28.7%**

chief executive's review

Car finance

This business has performed strongly during the year. Advances during the year were £162.4 million, compared with £138.5 million in the previous year, an increase of 17.3% in the year. The loan book at 30 September 2002 stood at £242.8 million, compared with £188.7 million at 30 September 2001, an increase of 28.7%.

Development of the distribution channel remains a focus, by increasing the number of authorised dealers in our distribution network and by further developing our relationships with large car dealers and major account connections. To this end, Paragon Car Finance aims to provide high quality, flexible products to its customer base, supported by a strong service proposition.

The further development of Paragon Car Finance's relationships will be assisted in the coming year by the introduction of EDI technology for its major partners, speeding up response times and creating administrative efficiencies.

New initiatives

We previously reported that we were restructuring the arrangements with our affinity partners to improve the profitability of these schemes. This has now been completed and new arrangements are in place. A number of other new products have been launched during the year, including loans for home improvements, such as conservatories and double glazing, and caravan loans. If these pilot exercises prove successful, we shall complete the roll out of these products over the year. Our initiatives include the increasing use of internet-based technology in conjunction with our intermediaries and business partners to provide enhanced levels of service and greater efficiency.

NIGEL S TERRINGTON
Chief Executive

16 December 2002

board of directors

Jonathan P L Perry

EXECUTIVE CHAIRMAN

AGE 63

Jonathan Perry joined the Group as a non-executive director in June 1991 and was appointed Executive Chairman in January 1992. Between 1997 and 1999 he was Vice-Chairman, Investment Banking Division, HSBC Investment Bank plc. Previously he was a Director of Morgan Grenfell & Co Limited for 15 years.

Nigel S Terrington

CHIEF EXECUTIVE

AGE 43

Nigel Terrington joined the Group in 1987 and became Chief Executive in June 1995, having held the positions of Treasurer and Finance Director. Prior to Paragon, he worked in investment banking.
He is a member of the CFD Management Committee of the Finance and Leasing Association. He was previously the Chairman of the Intermediary Mortgage Lenders Association and was a member of the Executive Committee of the Council of Mortgage Lenders.

Nicholas Keen

FINANCE DIRECTOR

AGE 44

Nicholas Keen joined the Group in May 1991 and became Finance Director in June 1995 having previously held the position of Treasurer. Prior to joining the Group he worked in Corporate Banking, Treasury and Capital Markets. He is Chairman of the Credit Committee.

David A Hoare

NON-EXECUTIVE DIRECTOR

AGE 52

Chairman of Virgin Express Holdings PLC, Duncton PLC and Target Worldwide Express Limited and Principal and Director of Talisman Management Limited. He previously held the position of Chief Executive at Laura Ashley and has been a non-executive director of Paragon since May 1994.
He is Chairman of the Paragon Remuneration Committee.

Professor Andrew D Chambers

NON-EXECUTIVE DIRECTOR

AGE 59

Director of Management Audit Limited and emeritus professor at City University London, where he was a Dean of the Business School. He is Chairman of Paragon's Audit Committee and has been a non-executive director of Paragon since February 1991. He is author or co-author of several current auditing books, including the new Tolley Handbook of Corporate Governance.

Michael J R Kelly

NON-EXECUTIVE DIRECTOR

AGE 61

Michael Kelly joined the Group in February 1994. He has some 30 years' experience in financial services, and was the founder of Mortgage Systems Limited which, before it was sold, was the largest independent mortgage servicing company in the UK managing over £3.5 billion of mortgage assets. He is also the author of an on-line mortgage publication.

Christopher D Newell

NON-EXECUTIVE DIRECTOR

AGE 42

Christopher Newell has been a director of Altium Capital Limited (formerly Apax Partners & Co. Corporate Finance) since 1990 and Managing Director since 1996. He is also a director of Artemis Investment Management Limited. He joined the Board of Paragon as a non-executive director in November 2001.

Gavin A F Lickley

NON-EXECUTIVE DIRECTOR

AGE 56

Gavin Lickley joined Paragon as a non-executive director in October 2002. He retired from the Board of the Investment Banking Division of Deutsche Bank AG in April 2000, having previously been Head of the Banking Division and Chairman of Morgan Grenfell & Co Limited. He is now Chairman of Inexus Group, a licensed Independent Gas Transporter and Chairman of SAV Credit Limited, a credit card company.

directors' report

FOR THE YEAR TO 30 SEPTEMBER 2002

The directors submit their Report and the Accounts for the year to 30 September 2002 which were approved by the Board on 16 December 2002.

Principal activity

The Company is a holding company co-ordinating the activities of its subsidiary companies. The principal activities of the Group continue to be the operation of its consumer finance and first mortgage businesses.

The Chairman's Statement and the Chief Executive's Review on pages 2 to 11 contain a review of the Group's business during the financial year, its current position and future prospects.

Results and dividends

The results for the year are shown in the Consolidated Profit and Loss Account on page 26.

The directors recommend a final dividend of 3.0p per share (2001: 2.3p per share) which, together with the interim dividend of 2.1p per share (2001: 1.9p per share) paid on 31 July 2002, makes a total of 5.1p per share (2001: 4.2p per share). After dividends, retained profits of £30.6 million (2001 (restated): £27.9 million) have been transferred to reserves.

Directors

The interests of the directors at the year end, in the share capital of the Company, all beneficially held, are shown below.

	AT 30 SEPTEMBER 2002 ORDINARY SHARES OF 10P EACH	AT 30 SEPTEMBER 2001 OR ON APPOINTMENT ORDINARY SHARES OF 10P EACH
J P L Perry	301,549	278,717
N S Terrington	99,219	85,520
N Keen	36,086	23,140
A D Chambers*	500	500
D A Hoare*	34,650	34,650
M J R Kelly*	3,365	3,365
C D Newell* (appointed 1 November 2001)	10,000	-

* Non-executive directors.

In addition, certain directors had interests in the share capital of the Company by virtue of options granted under the executive share option schemes, details of which are given in note 21 on page 45.

There have been no changes in the directors' interests in the share capital of the Company since 30 September 2002.

The directors have no interests in the shares or debentures of the Company's subsidiary companies.

Mr F W Hulton resigned from the Board on 13 May 2002 and Mr G A F Lickley was appointed to the Board on 21 October 2002.

In accordance with the Articles of Association, Professor A D Chambers, Mr M J R Kelly and Mr G A F Lickley will retire and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting. None of these directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

Substantial shareholdings

As at 30 November 2002, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting, the Company had been notified of the following interests of more than 3% in the nominal value of the ordinary share capital of the Company:

	ORDINARY SHARES	HELD
Schroder Investment Management Limited	15,947,841	13.5%
Insight Investment	6,875,789	5.8%
Merrill Lynch Investment Managers	6,376,858	5.4%
Morley Fund Management	5,945,693	5.0%
Threadneedle Asset Management	5,441,555	4.6%
Legal & General Investment Management Limited	5,342,966	4.5%
M & G Investment Management Limited	5,308,228	4.5%
Barclays Global Investors Limited	5,205,769	4.4%
The Paragon Group of Companies PLC ESOP scheme	5,102,714	4.3%
INVESCO UK Limited	5,082,897	4.3%
Standard Life Investments	4,465,479	3.8%
AEGON Asset Management	3,916,184	3.3%

Employees' involvement

The directors recognise the benefit of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Group, and the financial and economic factors affecting it, through both information circulars and management presentations.

The directors encourage the involvement of employees at all levels by the staff appraisal process and through communication between directors, team leaders and teams. The staff appraisal system used by the Group is designed to assist employees in developing their careers within the Group and to identify and provide appropriate training opportunities.

Employment of disabled persons

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Group has continued its policy of providing appropriate training and career development to such persons.

Environmental and Health and Safety policies

The Group has a formal Health and Safety policy which is intended to ensure the maintenance of healthy and safe working conditions in all the premises occupied by the Group. The Group also operates responsibly with regard to the environment, with extensive use of electronic communications in place of paper usage, careful control of business travel, recycling of waste paper by external contractors, energy efficiency and the Group's relationship with the local community all being matters of high priority.

Appropriate procedures have been established to monitor, maintain and consistently improve the Group's Health and Safety standards and environmental performance and to ensure compliance with all necessary legislation. Monitoring is undertaken internally and by external consultants and training is organised for staff from time to time.

Charitable contributions

Contributions to charitable institutions in the United Kingdom amounted to £17,495 (2001: £12,903).

directors' report

FOR THE YEAR TO 30 SEPTEMBER 2002

Close company status

So far as the directors are aware, the Company is not a close company for taxation purposes.

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

Details of resolutions to be proposed as special business at the Annual General Meeting

RESOLUTION 5

Section 80 of the Companies Act 1985 states that the directors may not exercise a company's power to allot its unissued shares unless given authority to do so by resolution of the shareholders in general meeting.

The present authority of the directors to allot the unissued ordinary share capital of the Company was granted at the previous Annual General Meeting on 31 January 2002 and will expire at the end of the forthcoming Annual General Meeting. Resolution 5 seeks to renew, for a further year, the present authority of the directors to allot ordinary shares up to an aggregate nominal value of £4,333,100 representing approximately 36.7% of the Company's issued capital at 30 November 2002 and being one third of issued capital plus shares issuable under option. The directors have no present intention of exercising this authority, which will expire at the conclusion of the following Annual General Meeting.

RESOLUTION 6

It is recognised that the executives' interests would be better aligned with shareholders if they owned a greater proportion of shares in the Company. This is not necessarily achieved through the operation of share option schemes in isolation, and, accordingly, the Company wishes to introduce two new measures to enhance share ownership amongst the Company's key employees.

Firstly, the annual cash bonus plan will be amended so that the executives will be encouraged to defer up to 50% of their bonuses. Payment is to be deferred for three years, having first been invested in the Company's shares, and will be forfeited if the individual leaves the Company during those three years.

Secondly, the Company wishes to introduce the Paragon Performance Share Plan under which shares may be acquired by executives provided that a demanding performance target has been met over a three year vesting period and provided that they remain employed by the Company. The main terms of this new plan are enclosed with this report, but the key points to note are:

- Vesting of the awards will be subject to a relative total shareholder return performance target. This requires the Company to at least equal the median performance of its peer group in order for any part of an award to vest.
- Awards will only fully vest provided at least upper quartile corporate performance is achieved.
- There will be no opportunities to retest performance.

The Remuneration Committee is satisfied that this will ensure that executives will be better aligned with shareholders' interests.

RESOLUTION 7

Under Section 89 of the Companies Act 1985, any shares allotted wholly in cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of the shareholders in general meeting.

The authority given at the previous Annual General Meeting will expire at the end of this year's Annual General Meeting and Resolution 7 seeks to renew it. The resolution authorises the directors to allot shares for cash, other than to existing shareholders in proportion to their holdings, up to an aggregate nominal value of £590,500, representing approximately 5% of the Company's issued share capital at 30 November 2002.

RESOLUTION 8

This resolution authorises the Company to purchase, in the market, up to a maximum of 11,800,000 of the Company's ordinary shares (approximately 10% of the issued share capital at 30 November 2002) for cancellation at a minimum price of 10p per share and a maximum price of not more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to purchase.

The directors would not expect to purchase ordinary shares in the market unless, in the light of market conditions prevailing at the time, they considered that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Any purchases made by the Company will be announced no later than 7.30am on the business day following the transaction.

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

John G Gemmell
Company Secretary

16 December 2002

report of the board to the shareholders on directors' remuneration

Remuneration Committee

The Committee consists solely of three non-executive directors: David Hoare, Gavin Lickley and Christopher Newell. The Chairman of the Remuneration Committee is David Hoare following the resignation of William Hulton from the Board of Directors on 13 May 2002. None of the directors comprising the Committee have any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the Chairman and Chief Executive about its proposals and has access to professional advice from within and outside the Company.

The Committee determines the Company's policy on executive remuneration and specific compensation packages for each of the executive directors. No director contributes to any discussion about his own remuneration.

Remuneration policy

The Company's policy is to ensure that executive directors are fairly rewarded for their individual performance, having regard to the importance of retention and motivation. The performance measurement of the executive directors and the determination of their annual remuneration packages is undertaken by the Committee. The remuneration of the non-executive directors is determined by the Board.

In forming and reviewing remuneration policy the Committee has given full consideration to Section B.1 of the Combined Code on Corporate Governance.

The remuneration packages of the individual directors have been assessed after a review of their individual performances and an assessment of comparable positions in the financial sector.

All executive directors are remunerated by means of a combination of salary, performance bonus, pension scheme contributions, benefits in kind and by the award of share options or shadow share options from time to time.

Salary

An executive director's salary is determined by the Remuneration Committee at the beginning of each year. In deciding appropriate levels the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on comparable companies. Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

Performance bonuses

Bonuses are earned under performance related schemes based upon individual performance and that of the Group as a whole. Bonuses are normally paid in October but are accrued in the year to which they relate.

Pension contributions

During the year, two of the executive directors were members of the Group Retirement Benefits Plan, to which the Company contributes at the same rate as for all members, while in respect of one executive director the Company paid monthly contributions into his personal pension scheme. Dependants of executive directors who are members of the Group Retirement Benefits Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Where pension contributions are capped, additional payments are made to enable further provision.

The changes in pension entitlements arising in the financial year, the disclosure of which is required by the Financial Services Authority, are given in note 4 to the accounts. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded promises or similar arrangements for directors.

Share options

Executive directors' existing share options were granted under the Senior Executive, Executive (ESOP), Paragon 1999 Sharesave and Paragon 2000 Executive Share Option Schemes. The Senior Executive Scheme requires the consolidated earnings per share to increase at a rate in excess of the retail price index over a period of three years from the date the option is granted. The exercise of options granted under the ESOP Executive Share Option and Paragon 1999 Sharesave Schemes is not dependent upon performance criteria. The Paragon 2000 Executive scheme requires total shareholder return to exceed the average for a range of other companies.

Acting on the recommendations of the Remuneration Committee, the Board proposes a new performance share plan, a summary of the rules of which is being distributed to the shareholders with this report and to which the approval of the shareholders will be sought at the Annual General Meeting.

report of the board to the shareholders on directors' remuneration

Directors' contracts

All executive directors hold one year rolling contracts and the Remuneration Committee reviews the terms of these regularly. None of the directors seeking re-election at the Annual General Meeting has a service contract with the Company.

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board, subject to the Articles of Association. The fee paid to each non-executive director in the year was £22,500. The chairmen of the Audit Committee and Remuneration Committee receive an additional £2,500 per annum.

Non-executive directors are not eligible to participate in any of the Company's share option schemes or to join the pension scheme.

The Committee has minuted a decision that the shareholders in Annual General Meeting need not be invited to approve other aspects of the remuneration policy set out in this report. The Chairman of the Committee will, however, be available to answer questions on remuneration policy at the Annual General Meeting.

The information on directors' remuneration and share options contained in notes 4 and 21 forms part of this report.

By order of the Board

John G Gemmell

Company Secretary

16 December 2002

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 and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements (on pages 26 to 56), 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 that 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 Group and to prevent and detect fraud and other irregularities.

independent auditors' report

TO THE MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

We have audited the financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 31 together with the reconciliation of movement in consolidated shareholders' funds. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibility, the Company's directors are responsible for the preparation of the 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, auditing standards, and the Listing Rules of the Financial Services Authority.

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 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the Company and the Group, 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 affairs of the Company and the Group as at 30 September 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham

16 December 2002

corporate governance

The Combined Code, which sets out Principles of Good Corporate Governance and Code provisions, was issued by the London Stock Exchange in June 1998. Throughout the year the Group has been in compliance with the Code provisions set out in section 1 of the Combined Code on Corporate Governance. A statement on how the Company has applied the Principles of Good Corporate Governance and a statement explaining the extent to which the provisions in the Code relevant to companies have been complied with appear below.

Directors

The Board of Directors comprises three executive and five non-executive directors, all of whom bring to the Company a broad and valuable range of experience. Jonathan Perry has been Executive Chairman since February 1992 and Nigel Terrington Chief Executive since June 1995. In accordance with the Code, all directors will submit themselves for re-election at least once in every three years.

There is a clear division of executive responsibilities at the head of the Company and strong non-executive representation on the Board, including David Hoare who has been nominated as the senior non-executive director. This provides effective balance and challenge. The Board meets regularly throughout the year and is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. All directors receive sufficient relevant information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board.

All of the non-executive directors are independent of management and all are appointed for fixed terms. They fulfil a vital role in helping the executive to develop the Company, are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues.

All directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so.

The Board also operates through a number of committees covering certain specific matters, these being:

- The Remuneration Committee, consisting of David Hoare, who chairs the committee, Gavin Lickley and Christopher Newell.
- The Audit Committee, consisting of all the non-executive directors and chaired by Professor Andrew Chambers. The committee meets at least three times per year. It oversees the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting, monitors the adequacy of the Group's audit arrangements and the relationship between the Company and the auditors and provides a forum through which the Group's external and internal audit functions report to the non-executive directors.
- The Asset and Liability Committee, consisting of the executive directors and chaired by Nigel Terrington, the Chief Executive. It meets regularly and monitors Group interest rate risks, currency risks and treasury counterparty exposures.
- The Credit Committee, consisting of appropriate heads of functions and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.
- The Nomination Committee, consisting of Jonathan Perry, who chairs the committee, and two non-executive directors. The committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board.

All Board committees operate within defined terms of reference.

corporate governance

Directors' remuneration

The Remuneration Committee reviews the performance of executive directors and members of senior management prior to determining its recommendations on annual remuneration, performance bonuses and share options for the Board's determination.

The Report of the Board to the Shareholders on Directors' Remuneration is on pages 18 and 19.

Relations with shareholders

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least twenty working days' notice of the Annual General Meeting at which the directors and committee chairmen are available for questions. The Annual General Meeting provides an opportunity for directors to report to investors on the Group's activities and to answer their questions. Shareholders will have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balance for and against each resolution is available for inspection. The Board is of the view that the availability of the results of proxies lodged satisfies the requirement within the Combined Code for an indication of the level of proxies lodged and the balance for and against each resolution.

The Executive Chairman, Chief Executive and Finance Director have a full programme of meetings with institutional investors during the course of the year and the Company's web site at www.paragon-group.co.uk provides access to information on the Company and its businesses.

Accountability and audit

Detailed reviews of the performance of the Group's main business lines are included within the Chairman's Statement and Chief Executive's Review. The Board uses these, together with the Directors' Report on pages 14 to 17 to present a balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described on page 19.

An on-going process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 30 September 2002 and to the date of these financial statements. The Board confirm that they have reviewed the effectiveness of the Group's system of internal control for this period and that these procedures accord with the guidance 'Internal Controls: Guidance for Directors on the Combined Code'.

The directors are responsible for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss and that assets are safeguarded against unauthorised use or disposition. In assessing what constitutes reasonable assurance, the directors have regard to the relationship between the cost and benefits from particular aspects of the control system.

The system of internal control includes documented procedures covering accounting, compliance, risk management, personnel matters and operations, clear reporting lines, delegation of authority through a formal structure of mandates, a formalised budgeting, management reporting and review process, the use of key performance indicators throughout the Group and regular meetings of the Asset and Liability and Credit Committees and senior management.

corporate governance

The Board receives regular reports setting out key performance and risk indicators. In addition the Board operates a formal risk management process, from which the key risks facing the business are identified. The process results in reports to the Board on how these risks are being managed. The Board meets regularly with the heads of functions to review the operation of internal controls in relation to the risks associated with their specific areas.

The system of internal control is monitored by management and by an internal audit function that concentrates on the areas of greater risk and reports its conclusions regularly to management and the Audit Committee. The internal audit work plan is approved annually by the Audit Committee, which reviews the effectiveness of the system of internal control annually and reports its conclusions to the Board.

Going concern basis

After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Compliance Statement

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Throughout the year ended 30 September 2002 the Company has been in compliance with the Code provisions set out in Section 1 of the Combined Code of Corporate Governance issued by the Financial Services Authority.

the accounts

consolidated profit and loss account

FOR THE YEAR TO 30 SEPTEMBER 2002

	NOTES	2002 £M	2001 RESTATED £M
Interest receivable		**230.0**	229.7
Interest payable and similar charges	2	**(157.1)**	(156.3)
NET INTEREST INCOME		**72.9**	73.4
Other operating income	3	**20.6**	15.3
TOTAL OPERATING INCOME		**93.5**	88.7
Operating expenses		**(34.6)**	(35.6)
Provisions for losses		**(12.9)**	(12.0)
OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	**46.0**	41.1
Tax charge on profit on ordinary activities	7	**(9.4)**	(8.2)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		**36.6**	32.9
Equity dividend	9	**(6.0)**	(5.0)
RETAINED PROFIT		**30.6**	27.9
EARNINGS PER SHARE			
- basic	10	**32.1p**	29.0p
- diluted	10	**31.4p**	28.3p

The results for the current and preceding years relate entirely to continuing operations.

There is no material difference between the results as stated above and those determined on the historical cost basis.

consolidated balance sheet

30 SEPTEMBER 2002

		2002		2001 RESTATED	
	NOTES	**£M**	**£M**	£M	£M
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	11	**3.4**		3.2	
Loans to customers	12	**2,521.3**		2,149.2	
Investment in own shares	13	**9.3**		4.8	
			2,534.0		2,157.2
CURRENT ASSETS					
Stocks	16	**5.3**		8.9	
Debtors falling due within one year	17	**7.7**		7.9	
Investments		**117.3**		125.5	
Cash at bank and in hand		**129.8**		106.0	
			260.1		248.3
			2,794.1		2,405.5
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called-up share capital	19		**11.8**		11.7
Share premium account	20	**65.5**		63.5	
Merger reserve	20	**(70.2)**		(70.2)	
Profit and loss account	20	**193.7**		164.0	
			189.0		157.3
			200.8		169.0
PROVISIONS FOR LIABILITIES AND CHARGES	22		**0.6**		2.3
CREDITORS					
Amounts falling due within one year	23	**43.7**		37.6	
Amounts falling due after more than one year	23	**2,549.0**		2,196.6	
			2,592.7		2,234.2
			2,794.1		2,405.5

Approved by the Board of Directors on 16 December 2002.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

holding company balance sheet

30 SEPTEMBER 2002

	NOTES	2002 £M	2002 £M	2001 RESTATED £M	2001 RESTATED £M
ASSETS EMPLOYED					
FIXED ASSETS					
Investment in own shares	13	**9.3**		4.8	
Investment in subsidiary companies	14	**216.4**		124.1	
			225.7		128.9
CURRENT ASSETS					
Debtors falling due within one year	17	**79.8**		78.6	
Cash at bank and in hand		**0.1**		0.1	
			79.9		78.7
			305.6		207.6
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called-up share capital	19		**11.8**		11.7
Share premium account	20	**65.5**		63.5	
Revaluation reserve	20	**26.5**		4.7	
Profit and loss account	20	**97.0**		89.1	
			189.0		157.3
			200.8		169.0
CREDITORS					
Amounts falling due within one year	23		**104.8**		38.6
			305.6		207.6

Approved by the Board of Directors on 16 December 2002.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

consolidated cash flow statement

FOR THE YEAR TO 30 SEPTEMBER 2002

	NOTES	2002 £M	2001 RESTATED £M
Net cash inflow from operating activities	25	**92.9**	80.5
Taxation		**(7.8)**	(5.7)
Capital expenditure and financial investment	26(a)	**(419.2)**	(322.4)
Acquisitions and disposals	26(b)	**-**	0.3
Equity dividends paid		**(5.1)**	(4.7)
		(339.2)	(252.0)
Management of liquid resources	28	**8.2**	(51.1)
Financing	26(c)	**354.8**	339.2
INCREASE IN CASH IN THE YEAR		**23.8**	36.1

statement of total recognised gains and losses

FOR THE YEAR TO 30 SEPTEMBER 2002

	2002 £M	2001 RESTATED £M
Profit attributable to shareholders	**36.6**	32.9
Total recognised gains and losses relating to the year	**36.6**	32.9
Prior period adjustment	**2.9**	-
Total gains and losses recognised since the last annual report	**39.5**	32.9

reconciliation of movement in consolidated shareholders' funds

FOR THE YEAR TO 30 SEPTEMBER 2002

	2002 £M	2002 £M	2001 RESTATED £M	2001 RESTATED £M
Profit attributable to shareholders		**36.6**		32.9
Dividend		**(6.0)**		(5.0)
Exercise of share options		**1.2**		1.1
NET MOVEMENT IN SHAREHOLDERS' FUNDS		**31.8**		29.0
Opening shareholders' funds				
As previously reported	**166.1**		137.7	
Prior period adjustment	**2.9**		2.3	
As restated		**169.0**		140.0
CLOSING SHAREHOLDERS' FUNDS		**200.8**		169.0

notes to the accounts

FOR THE YEAR TO 30 SEPTEMBER 2002

1. ACCOUNTING POLICIES

The financial statements 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 fixed asset investments.

b. Basis of consolidation

The consolidated accounts deal with the accounts of the Company and its subsidiaries made up to 30 September 2002. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

As required by Financial Reporting Standard 5 - 'Reporting the Substance of Transactions', quasi-subsidiary undertakings are dealt with in the consolidated accounts on the same basis as true subsidiaries, described above.

c. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

d. Depreciation

Depreciation is provided on cost in equal annual instalments over the lives of the assets. The rates of depreciation are as follows:

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. The amount provided is an estimate of the amount needed to reduce the carrying value of the asset to its expected recoverable amount and is based on the application of formulae which take into account the nature of each portfolio, borrower payment profile and expected losses.

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 assets. The Company's investments in its own shares are stated at the lower of cost or recoverable amount.

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.

Other stocks are stated at the lower of cost and net realisable value.

h. Current asset investments

Balances shown as current asset investments in the balance sheet comprise short-term deposits with banks with maturities of not more than 90 days and more than 7 days.

i. Cash at bank

Balances classified as cash in the balance sheet comprise demand deposits and short term deposits with banks with maturities of not more than 7 days.

j. 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, has previously been written off on acquisition against Group reserves as a matter of accounting policy. Such amounts would be charged or credited to the profit and loss account on any future disposal of the business to which they relate.

notes to the accounts

FOR THE YEAR TO 30 SEPTEMBER 2002

1. ACCOUNTING POLICIES (CONTINUED)

k. Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less 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.

During the period Financial Reporting Standard 19 - 'Accounting for Deferred Tax' came in to force. The application of the new standard has not resulted in any change to the Group's deferred tax liability for the current or previous periods.

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. Profits on the early repurchase of loan notes are included within interest payable and similar charges.

m. Financial instruments

Derivative instruments utilised by the Group comprise currency swap, interest rate swap, interest rate cap and forward interest rate agreements. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts. The Group does not enter into speculative derivative contracts.

n. Other operating income

The turnover and gross profit of Paragon Vehicle Contracts Limited are 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 3.

o. 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. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The Group has adopted the transitional disclosure requirements of Financial Reporting Standard 17 – 'Retirement Benefits'.

p. Leases

Rental income and costs under operating leases are credited / charged to the profit and loss account over the period of the leases.

Income from hire purchase contracts is accounted for on the actuarial basis. Hire purchase receivables are included within loans to customers at the total amount receivable less interest not yet accrued and provision for doubtful debt.

q. Brokers' commissions

Brokers' commissions payable on mortgage loans are now amortised over the penalty period of the related loan, instead of being treated as an expense at the point of completion of the loan, as was the case in previous periods. It is considered that this treatment is more appropriate as it is more consistent with the treatment of broker commissions paid on other types of loan, and with practice within the industry. The balance sheet at 30 September 2001 has been adjusted to include the unamortised commission balances within 'Loans to Customers' and the profit and loss account and cash flow statement for the year then ended have been adjusted to reflect the change in treatment. The effect of this adjustment is to increase the balance of loans to customers at 30 September 2001 by £2.9m, and to increase the profit for the year to 30 September 2001 by £0.6m. The effect of the change on the result for the year to 30 September 2002 is not considered to be material.

Brokers' commissions payable on other loans are amortised on a straight-line basis over the period of the loans to which they relate. The balances being amortised are included within 'Loans to Customers'.

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £M	2001 RESTATED £M
On asset backed loan notes	**104.1**	107.3
On bank loans and overdrafts	**24.7**	29.5
Amortisation of brokers' commissions payable	**28.3**	19.5
	157.1	156.3

3. OTHER OPERATING INCOME

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

	2002 £M	2001 £M
Turnover	**10.9**	10.8
Cost of sales	**(10.5)**	(10.3)
Gross profit	**0.4**	0.5

Included within other operating income is income from property leases of £1.9m (2001: £2.0m).

4. DIRECTORS' REMUNERATION

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

	SALARY AND FEES £000	BENEFITS IN KIND £000	ANNUAL BONUS £000	PENSION CONTRIBUTIONS £000	**2002 TOTAL £000**	2001 TOTAL £000
EXECUTIVE						
J P L Perry	162	5	75	39	**281**	277
N S Terrington	235	16	205	25	**481**	469
N Keen	180	5	160	83	**428**	419
NON-EXECUTIVE						
A D Chambers	25	-	-	-	**25**	24
D A Hoare	23	-	-	-	**23**	21
F W Hulton	15	-	-	-	**15**	24
M J R Kelly	22	-	-	-	**22**	21
C D Newell	21	-	-	-	**21**	-
C Weiser	-	-	-	-	-	16
2002	**683**	**26**	**440**	**147**	**1,296**	**1,271**
2001	676	21	440	134	1,271	

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

4. DIRECTORS' REMUNERATION (CONTINUED)

Directors' pensions

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

	INCREASE IN ACCRUED PENSION DURING YEAR EXCLUDING ANY INCREASE FOR INFLATION £000	TRANSFER VALUE OF INCREASE £000	**ACCUMULATED TOTAL ACCRUED PENSION AT 30 SEPTEMBER 2002 £000**	ACCUMULATED TOTAL ACCRUED PENSION AT 30 SEPTEMBER 2001 £000
N S Terrington	6	29	**73**	66
N Keen	3	21	**37**	33

The pension entitlement shown is that which would be paid annually on retirement based on services to 30 September 2002. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions. Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Also included in pension contributions is £72,000 (2001: £70,000) paid in respect of further pension provision for Mr N Keen. Contributions in respect of Mr J P L Perry were paid into his personal pension scheme.

5. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 636 (2001: 622).
Staff costs incurred during the year in respect of these employees were:

	2002 £M	2001 £M
Wages and salaries	**15.0**	14.6
Social Security costs	**1.1**	1.1
Other pension costs	**1.0**	0.8
	17.1	16.5

Details of the Group Pension Scheme are given in note 18.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:

	2002 £M	2001 £M
Depreciation	**1.1**	1.2
Hire of plant and machinery	**0.2**	0.4
Property rents payable	**4.3**	3.8

The audit fee for the Group was £0.3m (2001: £0.3m). Other fees paid to the auditors were £0.5m (2001: £0.4m). These can be analysed as £0.1m in respect of securitisations (2001: £0.1m), £0.1m in respect of corporate finance work (2001: £0.1m) and £0.3m in respect of tax services (2001: £0.2m).

The Company's audit fee was £20,100 (2001: £19,700).

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of charge in the period

	2002 £M	2001 £M
CURRENT TAX		
UK Corporation Tax on profits of the period	**15.1**	12.5
Prior year adjustments	**(3.3)**	(0.8)
Write-back of Advance Corporation Tax	**(0.6)**	(3.2)
Total current tax	**11.2**	8.5
DEFERRED TAX (NOTE 22)		
Origination and reversal of timing differences	**(1.8)**	(0.3)
Tax charge on profit on ordinary activities	**9.4**	8.2

b. Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2001: 30%).
The differences are explained below.

	2002 £M	2001 £M
Profit on ordinary activities before taxation	**46.0**	41.1
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**13.8**	12.3
Effects of;		
Utilisation of tax losses brought forward	**(0.4)**	-
Reversal of timing differences	**1.7**	0.2
ACT credit	**(0.6)**	(3.2)
Prior year credit	**(3.3)**	(0.8)
Current tax charge for the period	**11.2**	8.5

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

c. Factors that may affect future tax charges

The Group currently has £1.1m of ACT which has not been recognised together with an unquantifiable amount of tax losses in subsidiary companies. Future tax charges will be reduced from the standard rate if profits arise in the appropriate subsidiaries.

In addition the Group has capital losses in excess of £40.0m (2001: £65.0m) which are available to offset against future capital gains of the Group.

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

The holding company's profit after tax for the financial year amounted to £14.8m (2001: £32.1m). 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.

9. EQUITY DIVIDEND

	2002 PER SHARE	2001 PER SHARE	**2002 £M**	2001 £M
Equity dividend on ordinary shares				
Interim paid	**2.1p**	1.9p	**2.5**	2.2
Proposed final	**3.0p**	2.3p	**3.5**	2.8
	5.1p	4.2p	**6.0**	5.0

10. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2002	2001 RESTATED
Profit for the year	**£36,600,000**	£32,900,000
Basic weighted average number of ordinary shares ranking for dividend during the year	**114,086,058**	113,389,521
Dilutive effect of the weighted average number of share options in issue during the year	**2,316,894**	2,822,408
Diluted weighted average number of ordinary shares ranking for dividend during the year	**116,402,952**	116,211,929
Earnings per ordinary share		
- basic	**32.1p**	29.0p
- diluted	**31.4p**	28.3p

11. TANGIBLE FIXED ASSETS

	SHORT LEASEHOLD PREMISES £M	PLANT AND MACHINERY £M	TOTAL £M
COST			
At 1 October 2001	1.5	9.2	10.7
Additions	0.1	1.5	1.6
Disposals	-	(1.0)	(1.0)
At 30 September 2002	1.6	9.7	11.3
ACCUMULATED DEPRECIATION			
At 1 October 2001	0.8	6.7	7.5
Charge for the year	0.1	1.0	1.1
On disposals	-	(0.7)	(0.7)
At 30 September 2002	0.9	7.0	7.9
NET BOOK VALUE			
At 30 September 2002	**0.7**	**2.7**	**3.4**
At 30 September 2001	0.7	2.5	3.2

12. LOANS TO CUSTOMERS

	2002 **£M**	2001 RESTATED £M
COST		
At 1 October 2001	**2,149.2**	1,699.5
Additions	**961.9**	978.3
Amortisation of commissions	**(28.3)**	(19.5)
Other debits	**263.4**	204.6
Repayments and redemptions	**(824.9)**	(713.7)
At 30 September 2002	**2,521.3**	2,149.2

Included in loans to customers are £314.7m (2001: £270.4m) of hire purchase receivables. The aggregate rentals receivable during the year in respect of hire purchase contracts were £31.4m (2001: £30.8m). The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £245.6m (2001: £262.3m).

Other debits includes primarily interest receivable on loans outstanding and movements on provisions against these loans.

13. INVESTMENT IN OWN SHARES

	2002 £M	2001 £M
Shares held by the trustee of the share option schemes	**9.3**	4.8

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 2002, the trust held 5,102,714 shares (2001: 2,808,886) with a nominal value of £510,217 (2001: £280,889) and a market value of £8,802,182 (2001: £6,235,727). Options were outstanding against 4,408,484 of these shares at 30 September 2002. The dividends on these shares have not been waived.

14. INVESTMENT IN SUBSIDIARY COMPANIES

	2002 £M	2001 RESTATED £M
SHARES IN GROUP COMPANIES		
At 1 October 2001	**124.1**	63.1
Additions during the year	**59.8**	62.8
Revaluation		
Charged to the profit and loss account	**(15.2)**	(2.6)
Credited to the revaluation reserve	**21.8**	0.8
	190.5	124.1
LOANS TO GROUP COMPANIES		
At 1 October 2001	-	-
Additions during the year	**4.6**	-
Repayments during the year	-	(7.7)
Revaluation		
Credited to the profit and loss account	**21.3**	7.7
	25.9	-
At 30 September 2002	**216.4**	124.1

Comparable amounts determined according to the historic cost convention are:

	SHARES IN GROUP COMPANIES £M	LOANS TO GROUP COMPANIES £M	TOTAL £M
Cost	298.6	45.1	343.7
Provision	(149.6)	(19.2)	(168.8)
At 30 September 2002	**149.0**	**25.9**	**174.9**
At 30 September 2001	119.4	-	119.4

14. INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Principal operating subsidiaries comprise

	HOLDING	PRINCIPAL ACTIVITY
DIRECT SUBSIDIARIES OF THE PARAGON GROUP OF COMPANIES PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
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
Homeloans (No. 4) PLC	74%	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	74%	Residential mortgages
Paragon Vehicle Contracts Limited	100%	Vehicle fleet management
Paragon Car Finance Limited	100%	Vehicle finance
Paragon Personal Finance Limited	100%	Unsecured lending
Paragon Mortgages (No. 1) PLC	74%	Residential mortgages
Paragon Mortgages (No. 2) PLC	74%	Residential mortgages
Paragon Mortgages (No. 3) PLC	100%	Residential mortgages
Paragon Mortgages (No. 4) PLC	100%	Residential mortgages
Paragon Mortgages SA	100%	Residential mortgages
Paragon Mortgages (No. 2) SA	100%	Residential mortgages
Paragon Mortgages (No. 3) SA	100%	Residential mortgages
Paragon Auto and Secured Finance (No. 1) PLC	100%	Loan and vehicle finance
Paragon Personal and Auto Finance (No. 1) PLC	100%	Loan and vehicle finance
Paragon Personal and Auto Finance (No. 2) PLC	100%	Loan and vehicle finance
SUBSIDIARY OF PARAGON MORTGAGES LIMITED		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance

The issued share capital of all subsidiaries consists of ordinary share capital, except that Finance for People (No. 4) PLC, Paragon Mortgages (No. 1) PLC, Paragon Mortgages (No. 2) PLC and Homeloans (No. 4) PLC have additional preference share capital held by the Group. The financial year end of all of the above companies is 30 September. They are registered and operate in England and Wales, except for Paragon Mortgages SA, Paragon Mortgages (No. 2) SA and Paragon Mortgages (No. 3) SA which are registered and operate in Luxembourg.

The minority interests in Finance for People (No. 4) PLC, Paragon Mortgages (No. 1) PLC, Paragon Mortgages (No. 2) PLC and Homeloans (No. 4) PLC are not material.

15. QUASI-SUBSIDIARIES

Realisations (Guernsey) Limited, a company registered and operating in the Bailiwick of Guernsey, in which the controlling interest is held by a discretionary trust established for charitable purposes, was set up to acquire the controlling interest in Homeloans (Jersey) Limited from the Group during the year as part of a financing arrangement. Homeloans (Jersey) Limited is a company registered in the Bailiwick of Jersey and operating in the United Kingdom.

The arrangements for this transaction ensure that, according to the definition set out in Financial Reporting Standard 5 - 'Reporting the Substance of Transactions', the Group gains the benefits arising from the net assets of Realisations (Guernsey) Limited and its subsidiary and hence they are treated as quasi-subsidiaries of the Group.

16. STOCKS

	2002 £M	2001 £M
Residual purchase obligations	**4.5**	8.0
Vehicles on extended hire or held for resale	**0.8**	0.9
	5.3	8.9

17. DEBTORS

	THE GROUP		THE COMPANY	
	2002 £M	2001 £M	**2002 £M**	2001 £M
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Amounts owed by Group companies	**-**	-	**79.7**	78.0
Tax debtors	**1.7**	2.1	**0.1**	0.1
Other debtors	**5.1**	4.8	**-**	-
Prepayments and accrued income	**0.9**	1.0	**-**	0.5
	7.7	7.9	**79.8**	78.6

18. PENSIONS

During the year further provisions of Financial Reporting Standard 17 – 'Retirement Benefits' ('FRS 17') came into force. This standard will require assets or liabilities arising from the Group's defined benefit pension scheme to be evaluated and accounted for in the primary financial statements on a new basis with effect from the Group's financial year ending 30 September 2005. This implementation date was originally to have been 30 September 2003, but the standard was revised by the Accounting Standards Board during the year.

As a transitional measure, the standard requires that various information relating to the pension asset or liability calculated on the new basis is disclosed by way of memorandum in the notes to the accounts. These disclosures are given at (a) below. The Standard provides that the asset or liability recognised in the accounts at 30 September 2002 should continue to be calculated according to Statement of Standard Accounting Practice 24 – 'Accounting for Pension Costs' ('SSAP 24'). Disclosures relating to this calculation are given at (b) below.

The pension scheme asset calculated in accordance with SSAP 24 and recognised in the balance sheet of the Group at 30 September 2002 was £0.1m (2001: £0.1m) and the liability at that date calculated in accordance with FRS 17 was £4.4m (2001: £0.9m). The difference of £4.5m (2001: £1.0m) relates to the differing bases of calculation.

18. PENSIONS (CONTINUED)

a. Disclosures made in accordance with FRS 17

The Group operates a defined benefit pension scheme in the UK. A full actuarial valuation was carried out at 31 March 2001 and updated to 30 September 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	30 SEPTEMBER 2002	30 SEPTEMBER 2001
Rate of increase in salaries	**3.3% p.a.**	3.5% p.a.
Rate of increase in deferred pensions in excess of GMP which receives statutory revaluation	**2.3% p.a.**	2.5% p.a.
Rate of increase in pensions in payment in excess of GMP which receives statutory increases	**2.3% p.a.**	2.5% p.a.
Discount rate	**5.4% p.a.**	6.0% p.a.
Inflation assumption	**2.3% p.a.**	2.5% p.a.

The assets in the Plan at 30 September 2002 and 30 September 2001 and the expected rate of return were:

	AT 30 SEPTEMBER 2002		AT 30 SEPTEMBER 2001	
	LONG TERM RATE OF RETURN EXPECTED	VALUE £M	LONG TERM RATE OF RETURN EXPECTED	VALUE £M
Equities	**7.5%**	**10.1**	8.0%	11.6
Bonds	**4.4%**	**1.8**	5.0%	1.4
Other	**4.0%**	**0.1**	4.0%	0.2
TOTAL MARKET VALUE OF ASSETS		**12.0**		13.2
Present value of scheme liabilities		**(18.5)**		(14.5)
Deficit in the scheme		**(6.5)**		(1.3)
Related deferred tax		**2.1**		0.4
Net pension liability		**(4.4)**		(0.9)

The movement in the deficit in the scheme during the year was as follows:

	2002 £M
Deficit in the scheme at 1 October 2001	**(1.3)**
Movement in year	
Current service cost	**(1.2)**
Contributions	**1.0**
Past service costs	**-**
Other finance income	**0.1**
Actuarial loss	**(5.1)**
Deficit in the scheme at 30 September 2002	**(6.5)**

18. PENSIONS (CONTINUED)

The Group's contribution to the scheme is shown in note 5. The agreed rate of employer contributions was increased from 9.5% to 12.5% of gross salaries for participating employees with effect from 1 April 2002.

ANALYSIS OF RESERVES

If the treatment which will be required by FRS 17 had been adopted in the preparation of the financial statements for the year to 30 September 2002, the balance which would have been shown in the reserves of the Group in respect of the profit and loss account would have been analysed as follows:

	2002 £M	2001 RESTATED £M
Profit and loss account excluding pension liability	193.6	163.9
Pension liability	(4.4)	(0.9)
Profit and loss account after adjustment for pension liability	189.2	163.0

ANALYSIS OF THE AMOUNT CHARGED TO OPERATING PROFIT

If the treatment which will be required by FRS 17 had been adopted in the preparation of the financial statements for the year to 30 September 2002, the amount which would have been charged to operating profit would have been analysed as follows:

	2002 £M
Current service cost	1.2
Past service cost	-
Total operating charge	1.2

ANALYSIS OF THE AMOUNT CREDITED TO OTHER FINANCE INCOME

If the treatment which will be required by FRS 17 had been adopted in the preparation of the financial statements for the year to 30 September 2002, the amount which would have been credited to other finance income would have been analysed as follows:

	2002 £M
Expected return of pension scheme assets	1.0
Interest on pension scheme liabilities	(0.9)
Net return	0.1

18. PENSIONS (CONTINUED)

ANALYSIS OF THE AMOUNT RECOGNISED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

If the treatment which will be required by FRS 17 had been adopted in the preparation of the financial statements for the year to 30 September 2002, the actuarial gain which would have been recognised in the statement of total recognised gains and losses would have been analysed as follows:

	2002 £M
Actual return less expected return on pension scheme assets	(3.5)
Experience gains and losses arising on scheme liabilities	0.2
Changes in assumptions underlying the present value of the scheme liabilities	(1.8)
Actuarial loss	(5.1)

HISTORY OF EXPERIENCE GAINS AND LOSSES

	2002
Difference between the expected and actual return on scheme assets:	
Amount (£M)	(3.5)
Percentage of scheme assets	(30%)
Experience gains and losses on scheme liabilities:	
Amount (£M)	0.2
Percentage of the present value of scheme liabilities	1%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£M)	(5.1)
Percentage of the present value of the scheme liabilities	28%

b. Disclosures made in accordance with SSAP 24.

The most recent actuarial valuation of the Group Pension Scheme was completed as at 31 March 2001 using the projected unit method, at which date the market value of the assets was £14.4m. The principal assumptions used in the latest valuation were that the annual pre-retirement return on investment used would be 6% on accumulated assets, 6.5% on future contributions, while in valuing past service benefits a return on investment of 5.5% would be used. The annual rate of increase in salaries was assumed to be 3.5%.
The valuation revealed that the actuarial value of assets was sufficient to cover 115% of the statutory minimum liabilities in accordance with the Pensions Act 1995.

19. CALLED-UP SHARE CAPITAL

	2002 £M	2001 £M
AUTHORISED:		
175,000,000 (2001: 175,000,000) ordinary shares of 10p each	**17.5**	17.5
ALLOTTED AND PAID-UP:		
118,114,812 (2001: 117,296,094) ordinary shares of 10p each	**11.8**	11.7

During the year 732,945 ordinary shares (£73,294 par value) were issued for £1,952,666, 13,557 (£1,356 par value) ordinary shares were issued for £11,830 and a further 72,216 (£7,222 par value) were issued for £117,076. These issues were made under the executive and employee share option schemes and the sharesave scheme, respectively.

20. RESERVES

a. The Group

	SHARE PREMIUM ACCOUNT £M	MERGER RESERVE £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
Balance at 1 October 2001				
As previously reported	63.5	(70.2)	161.1	154.4
Prior period adjustment	-	-	2.9	2.9
As restated	63.5	(70.2)	164.0	157.3
Share options exercised	2.0	-	(0.9)	1.1
Retained profit for the year	-	-	30.6	30.6
Balance at 30 September 2002	**65.5**	**(70.2)**	**193.7**	**189.0**

The cumulative amount of goodwill on acquisitions written off to reserves is £56.4m (2001: £56.4m). This balance has been offset against the profit and loss account to ensure compliance with Financial Reporting Standard 10 – 'Goodwill and Intangible Assets'.

20. RESERVES (CONTINUED)

b. The Company

	SHARE PREMIUM ACCOUNT £M	REVALUATION RESERVE £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
Balance at 1 October 2001				
As previously reported	63.5	1.8	89.1	154.4
Prior period adjustment	-	2.9	-	2.9
As restated	63.5	4.7	89.1	157.3
Revaluation of investments in subsidiaries	-	21.8	-	21.8
Share options exercised	2.0	-	(0.9)	1.1
Retained profit for the year	-	-	8.8	8.8
Balance at 30 September 2002	**65.5**	**26.5**	**97.0**	**189.0**

21. SHARE OPTION SCHEMES

Options are outstanding under the executive share option and the all employee share option schemes to purchase 8,368,848 (2001: 7,526,593) ordinary shares of 10p each as follows:

PERIOD EXERCISABLE	OPTION PRICE	NUMBER
13/03/1998 to 13/03/2005	97.33p	588,750
21/06/1999 to 21/06/2003	103.08p	38,866
02/12/1999 to 02/12/2003	105.48p	453,618
31/03/2001 to 31/03/2008	218.00p	939,000
31/03/2001 to 31/03/2005	218.00p	626,000
11/01/2002 to 11/01/2009	147.50p	1,150,000
01/05/2002 to 01/11/2002	164.40p	3,770
01/05/2004 to 01/11/2004	164.40p	27,293
27/09/2002 to 27/09/2006	209.50p	100,000
17/02/2003 to 17/02/2010	147.50p	595,000
26/05/2003 to 26/05/2007	148.50p	1,240,000
01/08/2003 to 01/02/2004	120.64p	418,498
01/08/2005 to 01/02/2006	120.64p	238,053
26/02/2004 to 26/02/2008	221.50p	30,000
27/11/2004 to 27/11/2011	248.00p	1,270,000
29/07/2005 to 29/07/2012	186.50p	650,000

A number of the above options were 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.

21. SHARE OPTION SCHEMES (CONTINUED)

Details of individual options held by the directors at 30 September 2001 and 30 September 2002:

DATE FROM WHICH EXERCISABLE	EXPIRY DATE	OPTION PRICE	J P L PERRY	N S TERRINGTON	N KEEN
Options held at 30 September 2001:					
13/03/1998*	13/03/2005	97.33p	417,646	-	-
02/12/1999	02/12/2003	105.48p	260,700	-	-
31/03/2001*	31/03/2008	218.00p	120,000	255,000	240,000
31/03/2001	31/03/2005	218.00p	80,000	170,000	160,000
11/01/2002*	11/01/2009	147.50p	-	300,000	250,000
17/02/2003†	17/02/2010	147.50p	100,000	100,000	100,000
26/05/2003	26/05/2007	148.50p	200,000	200,000	200,000
01/08/2003	01/02/2004	120.64p	8,030	-	16,060
01/08/2005	01/02/2006	120.64p	-	13,987	-
			1,186,376	1,038,987	966,060
Options granted in the year:					
27/11/2004†	27/11/2011	248.00p	170,000	300,000	250,000
29/07/2005†	29/07/2012	186.50p	20,000	60,000	60,000
Options exercised in the year:					
01/08/2003	01/02/2004	120.64p	-	-	(2,946)
Options lapsed in the year:					
01/08/2003	01/02/2004	120.64p	-	-	(5,084)
At 30 September 2002			**1,376,376**	**1,398,987**	**1,268,030**

* The exercise of these options is conditional upon earnings per share increasing at a rate in excess of the retail price index over the three preceding financial years. The initial earnings per share is adjustable, in certain circumstances, subject to Inland Revenue approval.

† The exercise of these options is conditional upon the Company's total shareholder return exceeding the average of that of a specified group of comparator companies.

At 30 September 2002 The Paragon Group of Companies PLC share price was 172.5p and the range during the year then ended was 165.0p to 287.0p. Aggregate gains before taxation made by directors on the exercise of share options during the course of the year were £3,000 (2001: £1,870,000) including gains of £nil (2001: £976,000) made by Mr N S Terrington.

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. Further details of the share option schemes are given in the Report of the Board to the Shareholders on Directors' Remuneration on page 18.

22. PROVISIONS FOR LIABILITIES AND CHARGES

a. The Group

	DEFERRED TAXATION £M	OTHER PROVISIONS £M	TOTAL £M
Provision at 1 October 2001	1.8	0.5	2.3
Current year charge	-	0.4	0.4
Utilised in the year	(1.8)	(0.3)	(2.1)
Provision at 30 September 2002	**-**	**0.6**	**0.6**

The other provisions include committed future lease costs for properties no longer occupied by the Group. These provisions are expected to be utilised within five years.

The liability for deferred taxation for which provision has been made is analysed as follows:

	2002 £M	2001 £M
Other timing differences	**-**	1.8

b. The Company

There is no potential liability for deferred tax in the holding company either at 30 September 2002 or 30 September 2001.

23. CREDITORS

	THE GROUP		THE COMPANY	
	2002 £M	2001 £M	**2002 £M**	2001 £M
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Amounts owed to Group companies	**-**	-	**82.4**	35.7
Proposed dividend	**3.5**	2.7	**3.5**	2.7
Corporation tax	**11.5**	8.5	**3.7**	-
Accruals	**28.7**	26.4	**15.2**	0.2
	43.7	37.6	**104.8**	38.6
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Asset backed loan notes	**2,084.0**	1,839.6	**-**	-
Bank loans	**462.3**	353.1	**-**	-
Accruals	**2.7**	3.9	**-**	-
	2,549.0	2,196.6	**-**	-

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 24.

24. FINANCIAL INSTRUMENTS

The Group's operations are financed principally by floating rate, asset backed loan notes and, to a lesser extent, by a mixture of share capital, retained earnings and bank borrowings.

The Group issues financial instruments to finance its lending operations and uses derivative financial instruments to hedge interest rate risk arising from fixed rate lending. In addition, various financial instruments, for example debtors, prepayments and accruals, arise directly from the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The principal risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The Board operates through the Asset and Liability Committee to review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end and the position disclosed below is materially similar to that existing throughout the year.

Credit risk

The Group's business objectives rely on maintaining a high-quality customer base and it places strong emphasis on good credit management, both at the time of underwriting a new loan, where strict lending criteria are applied, and in the collections process.

First mortgages and secured loans are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities. Car loans are secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability to repay the loan remains the overriding factor in the decision to lend.

In order to control credit risk relating to counterparties to the Group's financial instruments, the Asset and Liability Committee determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits.

Liquidity risk

The Group's assets are principally financed by asset backed loan notes issued through the securitisation process. Securitisation substantially reduces the Group's liquidity risk by matching the maturity profile of the Group's funding to the profile of the assets to be funded. This is possible as investors in the capital markets will accept maturities of anywhere between one month and forty years.

The asset backed loan notes are secured on portfolios comprising variable and fixed rate mortgages or personal, retail and car loans, and are redeemable in part from time to time, but such redemptions are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall out of general funds. It is likely that a substantial proportion of these notes will be repaid within five years. Interest is payable on notes denominated in sterling at various rates between 0.25% and 2.75% above the London Interbank Offered Rate ('LIBOR') for three month sterling products. Interest is payable on notes denominated in euros at 0.34% above the Euro Interbank Offered Rate ('EURIBOR') for three month euro products. During the year, Group companies issued £720.0m (2001: £340.0m) of mortgage backed floating rate notes at par and £244.7m (2001: £446.0m) of asset backed floating rate notes at par.

During the year an arrangement was made via the quasi subsidiaries described note 15, whereby the Group received monies from a UK bank in return for the right to receive certain future cash flows from a securitised portfolio. The commercial effect of this transaction is that of a bank loan, secured on the assets of the portfolio concerned, but subordinated to the asset backed loan notes. Payments on this facility are made out of receipts from borrowers in the same way as for the asset backed loan notes. Included in bank loans at 30 September 2002 is £15.1m (2001: £nil) in respect of this arrangement.

24. FINANCIAL INSTRUMENTS (CONTINUED)

In previous years the Group had raised subordinated bank loans secured against various of its securitised portfolios. These loans were secured on the assets within the portfolio concerned, but were subordinated to the asset backed loan notes. Interest was payable on these loans at a rate of 1.25% above LIBOR. The portfolios concerned were refinanced during the year and the loans repaid. Included within bank loans at 30 September 2002 is £nil (2001 : £12.2m) in respect of such loans.

Assets are typically securitised within twelve months of origination. Until that point new loans are funded using a £450.0m (2001: £400.0m) committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. £332.7m (2001: £181.9m) is included in bank loans in respect of drawings on this facility. This facility is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance Limited and Paragon Personal Finance Limited. As with the asset backed loan notes, repayments of this facility are restricted to the amount of principal cash realised from the funded assets. The present facility replaced an earlier facility which ceased to be available for further drawings during the year. This new facility remains available for further drawings until 28 February 2005 and although it expires in 2047 it is likely that substantial repayments will be made within the next five years.

In addition to these borrowings the Group has a committed corporate syndicated sterling bank facility of £180.0m (2001: £160.0m), used to provide working capital for the Group. Included in bank loans are drawings of £114.5m (2001: £158.9m) made by Paragon Finance PLC under this facility. This facility reduces by instalments on 30 September 2003 and every six months thereafter until final repayment which is due on 31 March 2005. The facility is secured on all the assets of the Company and of Paragon Finance PLC.

Interest on the bank facilities is payable at various rates between 0.33% and 1.15% above LIBOR. The undrawn amounts on the two bank facilities at 30 September 2002 and 30 September 2001 are set out below.

	2002 £M	2001 £M
UNDRAWN COMMITTED FACILITIES FOR WHICH REPAYMENT WOULD FALL DUE:		
In one year or less	**22.5**	218.0
In more than one year but not more than two years	**42.5**	-
In more than two years	**117.0**	-
	182.0	218.0

Cash received in respect of loan assets is not immediately available for Group purposes, due to the terms of the Paragon Second Funding Limited facility and the securitisations. Included within ‘Cash at bank and in hand’ and ‘Investments’ at 30 September 2002 is £234.6m subject to such restrictions (2001: £156.3m).

The securitisation process and the terms of the Paragon Second Funding Limited loan facility effectively remove any liquidity risk from the funding of the Group’s loan assets. It remains to ensure that sufficient funding is available to provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset and Liability Committee which sets liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Set out below is the maturity profile of the Group's financial liabilities at 30 September 2002 and 30 September 2001:

	BANK LOANS £M	ASSET BACKED LOAN NOTES £M	OTHER £M	**2002 TOTAL £M**	BANK LOANS £M	ASSET BACKED LOAN NOTES £M	OTHER £M	2001 TOTAL £M
FINANCIAL LIABILITIES FALLING DUE								
In one year or less, or on demand	-	-	43.7	**43.7**	-	-	37.6	37.6
In more than one year, but not more than two years	25.0	-	1.2	**26.2**	-	-	2.3	2.3
In more than two years but not more than five years	89.5	-	1.5	**91.0**	158.9	-	1.6	160.5
In more than five years	347.8	2,084.0	-	**2,431.8**	194.2	1,839.6	-	2,033.8
	462.3	2,084.0	46.4	**2,592.7**	353.1	1,839.6	41.5	2,234.2

Interest rate risk

The Group's policy is to maintain floating rate liabilities and match these with floating rate assets, hedging fixed rate assets by the use of interest rate swap or cap agreements.

The rates of interest payable on the loan facilities and on asset backed loan notes issued in the securitisation process are reset quarterly on the basis of LIBOR. The interest rates charged on the Group's variable rate loan assets are determined by reference to, inter alia, the Group's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Group's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term. Forward rate agreements are used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

In part, the Group's interest rate hedging objectives are achieved by the controlled mismatching of the dates on which instruments mature, redeem or have their interest rates reset. The table overleaf summarises these repricing mismatches. For the purposes of the table, loan assets, borrowings and derivatives are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity dates. For those fixed rate loan assets where the customer has contracted to make regular repayments of both capital and interest, the assets have been allocated across the time bands in the table by reference to the contracted repayments. The analysis takes no account of early terminations which are likely to occur in practice. In determining the amount of hedging required, the Group makes assumptions about the level of regular capital repayments and early terminations of its loan assets. The actual interest rate sensitivity will therefore be determined by reference to subsequent customer and management decisions and is expected to be less sensitive than shown.

The table includes short term creditors and debtors.

24. FINANCIAL INSTRUMENTS (CONTINUED)

	3 MONTHS OR LESS £M	MORE THAN 3 MONTHS BUT NOT MORE THAN 6 MONTHS £M	MORE THAN 6 MONTHS BUT NOT MORE THAN 1 YEAR £M	MORE THAN 1 YEAR BUT NOT MORE THAN 5 YEARS £M	MORE THAN 5 YEARS £M	NON INTEREST BEARING £M	TOTAL £M
AT 30 SEPTEMBER 2002							
Cash at bank and in hand	129.8	-	-	-	-	-	129.8
Investments	117.3	-	-	-	-	-	117.3
Loans to customers	1,453.8	72.2	258.0	528.4	162.7	46.2	2,521.3
Investment in own shares	-	-	-	-	-	9.3	9.3
Other assets	-	-	-	-	-	16.4	16.4
Total assets	1,700.9	72.2	258.0	528.4	162.7	71.9	2,794.1
Provisions	-	-	-	-	-	(0.6)	(0.6)
Bank loans and overdrafts	(462.3)	-	-	-	-	-	(462.3)
Asset backed loan notes	(2,084.0)	-	-	-	-	-	(2,084.0)
Other liabilities	-	-	-	-	-	(46.4)	(46.4)
Shareholders' funds	-	-	-	-	-	(200.8)	(200.8)
Total liabilities and shareholders' funds	(2,546.3)	-	-	-	-	(247.8)	(2,794.1)
Off balance sheet items	726.0	(57.3)	(170.9)	(447.4)	(50.4)	-	-
Interest rate repricing gap	(119.4)	14.9	87.1	81.0	112.3	(175.9)	-
Cumulative gap	(119.4)	(104.5)	(17.4)	63.6	175.9	-	-

24. FINANCIAL INSTRUMENTS (CONTINUED)

	3 MONTHS OR LESS £M	MORE THAN 3 MONTHS BUT NOT MORE THAN 6 MONTHS £M	MORE THAN 6 MONTHS BUT NOT MORE THAN 1 YEAR £M	MORE THAN 1 YEAR BUT NOT MORE THAN 5 YEARS £M	MORE THAN 5 YEARS £M	NON INTEREST BEARING £M	TOTAL £M
AT 30 SEPTEMBER 2001 (RESTATED)							
Cash at bank and in hand	106.0	-	-	-	-	-	106.0
Investments	125.5	-	-	-	-	-	125.5
Loans to customers	1,183.5	65.6	115.3	575.1	167.2	42.5	2,149.2
Investment in own shares	-	-	-	-	-	4.8	4.8
Other assets	-	-	-	-	-	20.0	20.0
Total assets	1,415.0	65.6	115.3	575.1	167.2	67.3	2,405.5
Provisions	-	-	-	-	-	(2.3)	(2.3)
Bank loans and overdrafts	(353.1)	-	-	-	-	-	(353.1)
Asset backed loan notes	(1,839.6)	-	-	-	-	-	(1,839.6)
Other liabilities	-	-	-	-	-	(41.5)	(41.5)
Shareholders' funds	-	-	-	-	-	(169.0)	(169.0)
Total liabilities and shareholders' funds	(2,192.7)	-	-	-	-	(212.8)	(2,405.5)
Off balance sheet items	975.7	(64.8)	(114.7)	(565.3)	(230.9)	-	-
Interest rate repricing gap	198.0	0.8	0.6	9.8	(63.7)	(145.5)	-
Cumulative gap	198.0	198.8	199.4	209.2	145.5	-	-

'Off balance sheet items' shows the notional principal amount of swap agreements. Included within '3 months or less' are £28.0m (2001: £47.2m) of capped rate mortgages hedged by interest rate cap agreements which reset quarterly.

notes to the accounts

FOR THE YEAR TO 30 SEPTEMBER 2002

24. FINANCIAL INSTRUMENTS (CONTINUED)

The Asset and Liability Committee monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the Group's securitisations.

All derivative contracts are accounted for as hedges. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. Set out below is an analysis of these unrecognised gains and losses.

	2002 GAINS £M	**2002 LOSSES £M**	**2002 TOTAL NET GAINS/ (LOSSES) £M**	2001 GAINS £M	2001 LOSSES £M	2001 TOTAL NET GAINS/ (LOSSES) £M
Unrecognised gains and losses on hedges at 1 October 2001	**7.7**	**(13.1)**	**(5.4)**	1.6	(4.3)	(2.7)
Gains and losses arising in previous years that were recognised in the year	**(3.4)**	**6.9**	**3.5**	-	0.3	0.3
Gains and losses arising before 1 October 2001 that were not recognised in the year	**4.3**	**(6.2)**	**(1.9)**	1.6	(4.0)	(2.4)
Gains and losses arising in the year that were not recognised in the year	**(3.7)**	**(19.8)**	**(23.5)**	6.1	(9.1)	(3.0)
Unrecognised gains and losses on hedges at 30 September 2002	**0.6**	**(26.0)**	**(25.4)**	7.7	(13.1)	(5.4)
Of which						
Gains and losses expected to be realised in the year to 30 September 2003	**0.1**	**(9.2)**	**(9.1)**	2.5	(4.1)	(1.6)
Gains and losses expected to be realised in the year to 30 September 2004 or later	**0.5**	**(16.8)**	**(16.3)**	5.2	(9.0)	(3.8)

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of £168.7m (2001: £168.7m) included within 'Asset Backed Loan Notes', which is denominated in euros. As a condition of the issue of these notes, interest rate and currency swaps were put in place for the duration of the borrowing having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Group has no material exposure to foreign currency risk.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists. The fair values of cash at bank and in hand, bank loans and overdrafts and asset backed loan notes are not materially different from their book values because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis.

Set out below is a comparison by category of book values and fair values of the Group's derivative financial instruments as at 30 September 2002 and 30 September 2001.

	2002		2001	
	BOOK VALUE £M	**FAIR VALUE £M**	BOOK VALUE £M	FAIR VALUE £M
DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE PROFILE				
Swaps	-	**(22.8)**	-	(5.4)
Caps	**2.0**	**(2.7)**	2.2	2.2

The fair values of the interest rate swaps and caps have been determined by reference to prices available from the markets on which these instruments are traded.

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2002 £M	2001 RESTATED £M
Operating profit	**46.0**	41.1
Provision for losses	**12.9**	12.0
Depreciation	**1.1**	1.2
Amortisation of brokers' commissions	**28.3**	19.5
Decrease in stock	**0.3**	0.3
(Increase) / decrease in debtors	**(0.2)**	2.9
Increase in creditors	**4.5**	3.5
Net cash inflow from operating activities	**92.9**	80.5

26. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2002 £M	2001 RESTATED £M
A. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Net increase in loans to customers	**(413.4)**	(321.6)
Expenditure on other fixed assets	**(1.6)**	(1.0)
Proceeds from sales of other fixed assets	**0.3**	0.2
Acquisition of own shares	**(4.5)**	-
	(419.2)	(322.4)

	2002 £M	2001 RESTATED £M
B. ACQUISITIONS AND DISPOSALS		
Purchase of subsidiary undertaking	**-**	(3.3)
Net cash acquired with subsidiary	**-**	3.6
	-	0.3

	2002 £M	2001 RESTATED £M
C. FINANCING		
Exercise of share options	**1.2**	1.1
Increase in loans from banks and others (note 28)	**353.6**	338.1
	354.8	339.2

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £M	2001 £M
Increase in cash in year	**23.8**	36.1
Cash inflow from increase in debt	**(353.6)**	(338.1)
Cash movement from change in liquid resources	**(8.2)**	51.1
Change in net debt arising from cash flows	**(338.0)**	(250.9)
Loans acquired with subsidiary	**-**	(162.4)
Movement in net debt in year	**(338.0)**	(413.3)
Net debt at 1 October 2001	**(1,961.2)**	(1,547.9)
Net debt at 30 September 2002	**(2,299.2)**	(1,961.2)

28. ANALYSIS OF NET DEBT

	2001 £M	CASH FLOWS £M	**2002 £M**
Cash in hand at bank	106.0	23.8	**129.8**
		23.8	
Debt due after one year	(2,192.7)	(353.6)	**(2,546.3)**
Other liquid resources	125.5	(8.2)	**117.3**
Total	(1,961.2)	(338.0)	**(2,299.2)**

Other liquid resources comprise term deposits with UK banks.

29. PURCHASE OF SUBSIDIARY UNDERTAKING

	2001 £M
NET ASSETS ACQUIRED:	
Loans to customers	160.2
Debtors	1.9
Cash at bank and in hand	3.6
Creditors	(162.4)
	3.3
Goodwill	-
	3.3
SATISFIED BY:	
Cash	3.3

30. CAPITAL COMMITMENTS

There were no capital commitments (2001: £nil) contracted but not provided for.

31. FINANCIAL COMMITMENTS

At 30 September 2002 the Group had commitments to make annual payments under operating leases which expire as follows:

	2002 £M	2001 £M
PLANT AND MACHINERY		
Within one year	**0.1**	0.7
Between two and five years	**-**	0.1
LAND AND BUILDINGS		
Between two and five years	**0.3**	0.3
Over five years	**3.9**	3.6
	4.3	4.7

notice of annual general meeting

To all shareholders

NOTICE IS HEREBY GIVEN that the fourteenth Annual General Meeting of The Paragon Group of Companies PLC will be held at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB on 11 February 2003 at 10.30 a.m. for the following purposes:

As ordinary business

1. To receive and consider the Company's Accounts for the year ended 30 September 2002 and the Reports of the Directors and the Auditors

2. To declare a dividend

3. To re-appoint as directors (a) Professor A D Chambers (b) Mr M J R Kelly and (c) Mr G A F Lickley.

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 6 as ordinary resolutions and resolutions 7 and 8 as special resolutions:

Ordinary resolutions

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 £4,333,100 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless previously revoked or varied by the Company in general meeting) 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.'

6. (a) 'THAT the rules of the Paragon Performance Share Plan in the form presented to the meeting be approved and adopted in the form produced to the meeting and signed by the Chairman for the purposes of identification; and

(b) THAT the directors of the Company be authorised to make any modifications as they consider necessary or expedient for the purposes of implementing and giving effect to this resolution.'

Special resolutions

7. 'THAT, subject to the passing of resolution 5, 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 resolution 5 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 to;

(a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer 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 on a fixed record date are proportionate (as nearly as may be) 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 to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange in any territory or any other matter whatsoever); and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £590,500;

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.'

notice of annual general meeting

8. 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 ('the Act') to make one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange PLC of ordinary shares of 10p each in the share capital of the Company ('Ordinary Shares') provided that:-

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 11,800,000 (representing approximately 10 per cent of the Company's issued ordinary share capital);

(b) the minimum price which may be paid for an Ordinary Share is 10p;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market price shown in the quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company; and

(e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.'

By order of the Board

John G Gemmell
Company Secretary

Registered and Head Office:
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE

16 December 2002

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 and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) 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.

The register of directors' interests and copies of directors' service contracts will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the meeting and at the place of the meeting from 10.00 a.m. on the date of such meeting until the conclusion thereof. The Report and Accounts have been sent to the Company's shareholders.

Biographical details of all directors are provided on pages 12 and 13.

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