annual report & accounts **2003**

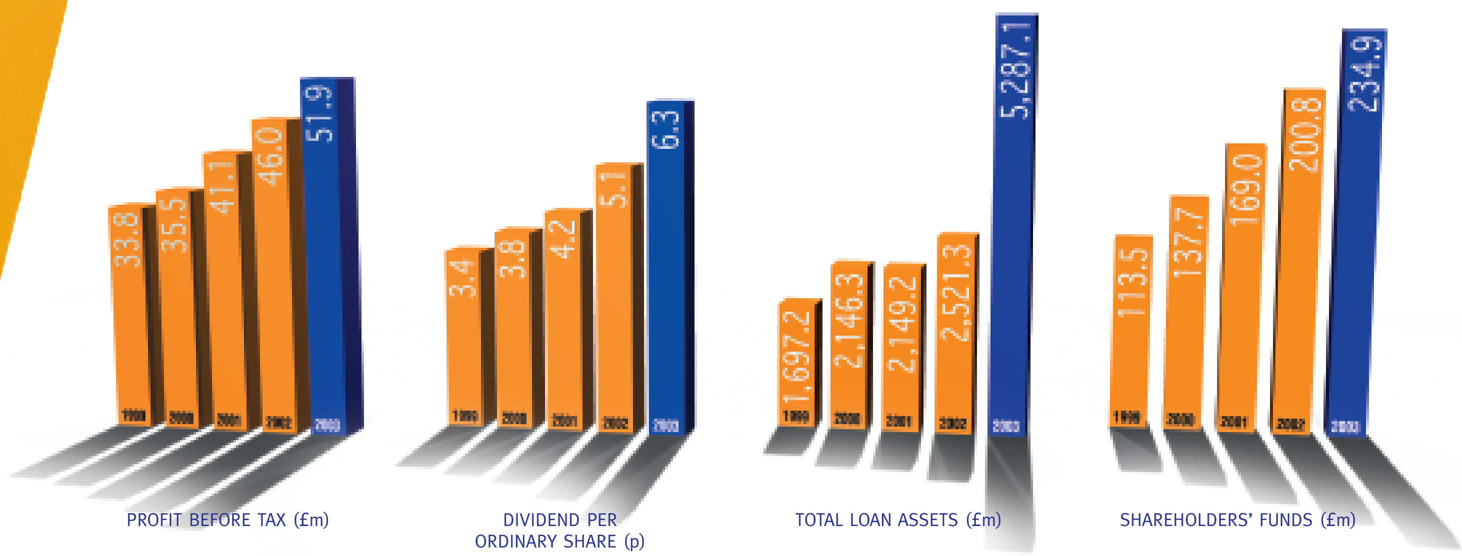
paragon

The Paragon Group of Companies PLC

Contents

financial highlights

profit before tax **£51.9m** earnings per share **35.5p** dividend per share **6.3p**



	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profit before taxation	**51.9**	46.0	41.1	35.5	33.8
Profit after taxation	**40.3**	36.6	32.9	28.5	30.3
Total loan assets	**5,287.1**	2,521.3	2,149.2	2,146.3	1,697.2
Shareholders' funds	**234.9**	200.8	169.0	137.7	113.5
Earnings per share					
– basic	**35.5p**	32.1p	29.0p	25.1p	26.1p
– diluted	**34.8p**	31.4p	28.3p	24.9p	25.8p
Dividend per ordinary share	**6.3p**	5.1p	4.2p	3.8p	3.4p

Total loan assets includes Loans to Customers shown on the face of the balance sheet and similar assets subject to non-recourse finance arrangements (note 20).

chairman's statement

The year ended 30 September 2003 was a period of significant development for the Group, with the strong organic growth of our core business divisions being augmented by the acquisition of Britannic Money, consolidating the Group's position as a major participant in the buy-to-let lending market. This acquisition was achieved without the need to issue new equity; as well as being financially attractive, the purchase of Britannic Money is of major strategic importance in our aim to expand the Group's influence and presence in a secured, high quality lending sector with significant growth opportunities.

Profit before tax from ongoing operations, which excludes the impact of the acquisition, was £53.1 million, an increase of 15.4% from £46.0 million in the preceding year. Profit before tax after inclusion of the acquisition was £51.9 million, an increase of 12.8%. Earnings per share increased by 10.6% to 35.5p from 32.1p.

In view of the sustained growth in profits, and consistent with the progressive dividend policy outlined last year, your Board has declared an increased final dividend of 3.7p per share which, when added to the interim dividend of 2.6p paid on 31 July 2003, gives a total dividend of 6.3p per share for the year, an increase of 23.5% on last year's dividend of 5.1p. Subject to approval at the Annual General Meeting on 10 February, the dividend will be paid on 12 February 2004.

Business review and strategy

Our core business divisions saw strong growth during the year. We continued to focus on the more defensive product areas such as the buy-to-let sector and secured personal loans. In total we advanced £1,296.5 million of loans secured on residential property, 87.8% of our total lending of £1,477.4 million.

We reported last year that the Group would be seeking value enhancing acquisitions to supplement our organic growth. Britannic Money, being a leading UK provider of innovative flexible and buy-to-let mortgage products, was identified as an excellent complementary fit to Paragon Mortgages by virtue of its broker relationships, its focus on the mid-market and emerging professional sector, its strong credit ethic and its excellent portfolio performance. In common with the Group, Britannic Money also used securitisation as its principal funding method. The acquisition was completed on 30 June 2003. Since then, the business has maintained its focus on the mid-market buy-to-let sector and has withdrawn its owner-occupied current account mortgage products on which, in our view, the margins were inadequate. The rebranding as Mortgage Trust and the launch of a new series of products all took place within three months of the acquisition.

As a result of the strong organic growth and the acquisition of Britannic Money, net loan assets at 30 September 2003 had more than doubled to £5,287.1 million, inclusive of those held by the off-balance sheet companies, from £2,521.3 million at the end of the previous year.

Board composition

Andrew Chambers, an independent non-executive director who has served on the Board since 1991, resigned from the Board in August on account of length of service and Michael Kelly, a director since 1994, resigned shortly after the year end following a decision to spend more of his time overseas. We wish them both well and thank them for their significant contributions over the years.

In August 2003 we were pleased to welcome David Beever to the Board as an independent non-executive director. David is a non-executive director of JJB Sports plc, London & Continental Railways Limited and Volex Group plc and Chairman of KPMG Corporate Finance. He was previously Vice Chairman of SG Warburg & Co Limited. David has assumed the role of senior independent director.

Shortly after the year-end, we appointed two new executive directors, John Heron and Pawan Pandya. John Heron is responsible for the Group's first mortgages division, encompassing Paragon Mortgages and Mortgage Trust, and joined the Group in 1986. He is currently Chairman of the Intermediary Mortgage Lenders Association and is a member of the Executive Committee of the Council of Mortgage Lenders. Pawan Pandya joined the Group in 1988 and was appointed Chief Operating Officer in 2002, responsible for all loan administration and processing, collections and Group technology.

David Hoare, an independent non-executive director since 1993, has confirmed that on account of length of service he will be retiring from the Board at the end of the forthcoming Annual General Meeting. We thank David for his support and contribution during his many years of involvement with the Group. Following David's retirement the Board will, through the Nomination Committee, search for a suitable independent candidate to fill the vacancy in due course.

Outlook

The acquisition of Britannic Money during the year, as well as being financially attractive, was also strategically significant, increasing our asset base and providing us with new sources of distribution to complement our prominent position in the professional buy-to-let sector. The combined business provides a strong base for further development in a market which has excellent long-term growth prospects.

Our objectives for the next year are to complete the integration of Mortgage Trust and to continue to grow profitably our core lending divisions. Within this, we shall maintain our focus on cost control and our strong stance on credit quality. By so doing we aim to ensure the continued development of a high quality book with which the Group is now associated and to support sustained growth of profits. Whilst the new financial year will not be without its challenges, we have entered it well placed to take advantage of the opportunities afforded by the secured lending markets and we look forward to reporting further progress at the half year.

Staff

I would like to express my sincere gratitude to the staff of the Group and to my fellow directors for their hard work and support during the year.

Jonathan P L Perry
Chairman
15 December 2003

chief executive's review

During the year ended 30 September 2003 the Group made excellent progress, with profit before tax of £51.9 million, an increase of 12.8% from £46.0 million in the previous year.

The Group's results consolidate those for Britannic Money (now renamed Mortgage Trust) for the three months following its acquisition on 30 June 2003 and an analysis of the results between ongoing operations and the acquisition is included in note 3 to the accounts. The difference between the fair value of the net assets acquired and the purchase price of £18.8 million has, after acquisition costs, given rise to negative goodwill of £20.9 million. This amount will be amortised to the profit and loss account over the expected period of benefit and will arise in the form of cash flow as the underlying portfolio of mortgage loans redeems. During the three months ended 30 September 2003 the effect of the acquisition was a pre-tax loss of £1.2 million after a charge of £3.9 million in respect of exceptional reorganisation costs and a credit of £2.1 million in respect of the amortisation of negative goodwill. The acquisition and our post-acquisition strategy are covered in more detail below.

Total advances by the Group during the year were £1,477.4 million, compared with £994.4 million during the previous year, an increase of 48.6%. Net loan assets at 30 September 2003, inclusive of those held by the off-balance sheet companies managed by Mortgage Trust, were £5,287.1 million, compared with £2,521.3 million at 30 September 2002. Net interest income for the year was £76.5 million, an increase of 4.9% from £72.9 million for the previous year. The charge for provisions for losses of £15.9 million includes a charge of £1.8 million in respect of vacant property provisions as a result of a planned rationalisation of the Group's premises, notably Mortgage Trust's Epsom offices, and compares with a charge of £12.9 million last year.

Other operating income increased by 50.5% to £31.0 million from £20.6 million, primarily as a result of greater commissions and fees associated with the increased volumes of loans administered and of business written in the year.

Operating expenses, excluding the impact of goodwill (£2.1 million) and reorganisation costs (£3.9 million), were £37.9 million, an increase of 9.5% from £34.6 million. Excluding the post-acquisition operating costs of Britannic Money, operating expenses of £33.4 million represented a reduction of 3.5% from the previous year.

As reported last year, a Group-wide process improvement initiative was launched in 2002 aimed at identifying and delivering significant cost efficiencies. This exercise involved a critical review of each of our operational processes in order to identify tasks which, after a rigorous cost and benefit analysis, could be carried out more efficiently by increased automation. As a result the Group headcount was reduced from 630 at 30 September 2002 to 583 (excluding Mortgage Trust) at 30 September 2003, a significant reduction when viewed against the increase in business volumes over the year. As a result the cost to income ratio (note 11 to the accounts), if Mortgage Trust is excluded, decreased from 37.0% to 33.2% during the year. Including Mortgage Trust, the ratio decreased to 35.3%. The planned restructuring of Mortgage Trust, reported below, should lead to further improvements going forward.

After providing for corporation tax at a charge rate of 22.4% and for the dividend in respect of the year, shareholders' funds at 30 September 2003 were 17.0% higher at £234.9 million.

chief executive's review

First mortgages

The market for buy-to-let mortgages has remained buoyant throughout much of the year. The sector accounts for some 6.45% of the gross lending of members of The Council of Mortgage Lenders (CML) (although it should be noted that not all lenders to this sector submit their portfolio statistics to the CML) and the CML reported an increase in volumes in buy-to-let lending to £7.7 billion in the first six months of 2003 against £6.7 billion in the second half of 2002. CML figures also demonstrate that the high credit quality that has been apparent since this class of lending has been the subject of dedicated reporting has continued with just 0.45% of loans across the buy-to-let sector being three or more months in arrears compared to just less than 1% for the mortgage market as a whole.

Housing market data has indicated increasing tenant demand over the year. This is due in part to a lower level of confidence amongst homebuyers because of concerns over house prices in the short term and the broader prospects for the economy. Of particular importance to the buy-to-let market has been the low level of first time buyer activity which has fallen to approximately 29% of new purchase transactions.

The average age of the first time buyer in the UK is now 33, with many potential first time buyers therefore staying in rented accommodation longer and increasing pressure on demand. At the more modest end of the rental market pressure is also building as a result of slow but steady contraction in the social rented sector caused by a combination of restricted funding and stock reduction due to tenant right to buy purchases. This combination of pressures supports the projections made by various housing analysts that supply in the private rented sector will have to grow significantly over the next 10 years. Amongst these is the authoritative "Housing Futures" survey from the Centre for Economics and Business Research which projects a requirement for a 40% increase in privately rented homes by 2013. We therefore believe that the long term prospects for this sector remain excellent.

Total first mortgage lending by the Group over the year was £997.6 million, an increase of 77.0% over the previous year. Total first mortgage assets (including those managed by Mortgage Trust) grew by 164% to £4.3 billion.

Paragon Mortgages

New lending by Paragon Mortgages grew strongly during the year with loans advanced totalling £781.3 million, an increase of 38.6% from the previous year's £563.6 million. At 30 September 2003 the loan book of Paragon Mortgages stood at £1,934.3 million, up 36.8% from £1,413.9 million at 30 September 2002.

Business performance in the second half of the year was particularly strong, with new application levels continuing at a high level, pushing the pipeline up to record levels by the year end, with the result that the business is well positioned for a strong start to the new financial year.

Throughout the year Paragon Mortgages has been successful in developing relationships with existing borrowers and intermediaries, with the result that a very high proportion of new applications are submitted by existing borrowers, which reduces marketing and processing costs whilst at the same time helping to maintain margin income.

Paragon Mortgages' strong stance on credit has been maintained during the year, to ensure prime quality lending across the portfolio. Credit background and income details are verified for all our borrowers, and rental details as well as property values are reviewed by our in-house team of surveyors. An important purpose of the underwriting process is to ensure an adequate margin, for each property mortgaged, of rent compared to mortgage payments, to ensure that the landlord has a buffer in case of voids or increasing costs. Our normal underwriting minimum is for a 130% rent to mortgage cover. On average for the business written in the course of the year the mortgage payments were approximately twice covered by rents, giving our landlords a substantial cushion to cope with anticipated increases in interest rates.

The credit quality of the buy-to-let portfolio remains exemplary.

chief executive's review

Mortgage Trust

Mortgage Trust had loans under management of approximately £2.2 billion at 30 September 2003, of which approximately 51% were buy-to-let loans and the balance owner occupied mortgages. In the three months from acquisition to 30 September 2003, Mortgage Trust advanced new loans of £216.3 million.

Following the acquisition, the focus on the mid-market buy-to-let sector has been maintained, whilst the current account mortgage product, which generated inadequate margins, was withdrawn. The launch of a new series of products and the rebranding of the business as Mortgage Trust were all completed by the year end.

Considerable progress has been made since acquisition in integrating a number of the functions of Mortgage Trust with those of the Group. In September we announced that up to 160 positions at Mortgage Trust's operations centre in Epsom will become redundant over the course of the next financial year, with the majority expected during the first half of the year, as support and administrative functions are transferred to the Group's offices in Solihull and London. New business activity will remain in Epsom. This process has inevitably created uncertainty and difficulties for staff at Mortgage Trust, who have continued to display the highest standards of professionalism and commitment.

The entire redundancy costs of approximately £3.9 million associated with the reorganisation have been expensed in the year ended 30 September 2003. But for this charge, Mortgage Trust traded profitably in the post-acquisition period and is currently trading profitably. Completion of the reorganisation will result in a more cost efficient operation, favourably impacting the Group's cost to income ratio in future years.

NHL book

The NHL book had reduced to £176.7 million, from £230.5 million at 30 September 2002. The performance of this book, which we continue to manage carefully, has remained satisfactory over the year.

chief executive's review

Consumer finance

At 30 September 2003 the Consumer Finance book stood at £888.9 million, up from £830.7 million at 30 September 2002. Aggregate loans of £479.8 million were advanced during the year, compared with £430.8 million in the previous year, an increase of 11.4%, with the principal focus being on secured loans. As previously reported, this has been a deliberate policy to develop a higher quality book with greater defensive properties during a time of rising consumer indebtedness.

Paragon Personal Finance

Over the twelve months to 30 September 2003, Paragon Personal Finance has significantly enhanced its reputation as a prime participant in the broker introduced secured loans market through the maintenance of a portfolio of innovative, competitive products alongside the operation of technologically advanced application and loan processing systems. In the year to 30 September 2003, the business advanced secured loans of £298.9 million, almost double the previous year's level of £151.9 million, while unsecured lending declined to £8.6 million from £40.4 million.

The broker introduced secured loans market remains buoyant; whilst competitive pressures are expected to increase during the coming months, Paragon Personal Finance will continue to develop its service proposition and maintain an innovative focus on its product range in response to competitive challenges.

Sales Aid Finance

The retail and car finance divisions are now consolidated under the title of Sales Aid Finance. As we reported in the pre year-end trading statement, in pursuing the objective of expanding the Group's involvement in the more credit-defensive secured lending areas, we have continued to limit originations within the retail and car finance sectors. As a result, new loan advances by the division were reduced to £172.3 million during the year ended 30 September 2003, from £238.5 million in the previous year.

We have utilised the opportunity afforded by the limitation on new lending in these areas to review our operations and associated costs and to make changes where appropriate. For example, all retail finance administration was transferred in-house during the year and organisational and processing changes have been introduced within the car finance area to improve operational efficiency. As we anticipated at the half year, trading conditions within these markets remain difficult. Our emphasis remains on managing business volumes consistent with our overall strategy of maximising the proportion of our consumer lending which is secured on property.

Funding

Conditions in the capital markets deteriorated during the early part of the financial year as economic and war fears created uncertainty for investors. To protect margins and avoid issuing at suboptimal coupons, the Group held back on its securitisation programme for the first half of the financial year, instead increasing the size of its asset origination warehouse facilities from £450 million to £900 million at 30 September 2003. This allowed the Group to weather the poorer market conditions without restricting asset origination. Originations by Mortgage Trust are funded by an additional warehouse facility which, at 30 September 2003, was £450 million and in due course originations by Mortgage Trust will be consolidated with those of the rest of the Group.

The recovery of the securitisation market enabled the Group to complete, in June 2003, a £250 million securitisation by Paragon Mortgages (No. 5) PLC denominated in Sterling and, in October 2003, the Group completed a £715 million securitisation by Paragon Mortgages (No. 6) PLC, its largest to date. The notes were issued in Sterling, Dollars and Euros. The securitisation contained a £98 million pre-funding reserve which was used to purchase further mortgage assets from the Paragon warehouse in November 2003.

During the year the junior notes on three of our buy-to-let securitisations, Paragon Mortgages 1, 2 and 3, were upgraded by the rating agencies, reflecting the exemplary performance of our buy-to-let mortgages.

Nigel S Terrington
Chief Executive
15 December 2003

board of directors

Jonathan P L Perry
CHAIRMAN
AGE 64

Jonathan Perry joined the Group as a non-executive director in June 1991 and was appointed 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 44

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 45

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 Paragon Credit Committee.

John A Heron
DIRECTOR OF MORTGAGES
AGE 44

John Heron joined the Group in January 1986. He was appointed as Marketing Director in 1990 and in 1994 played a pivotal role in re-establishing the Group's mortgage lending operations as Managing Director of Paragon Mortgages. As Director of Mortgages, he is responsible for both Paragon Mortgages and Mortgage Trust. He is currently Chairman of the Intermediary Mortgage Lenders Association, and is a member of the Executive Committee of the Council of Mortgage Lenders.

Pawan Pandya
CHIEF OPERATING OFFICER
AGE 39

Pawan Pandya joined the Group in December 1988. He was appointed as Chief Operating Officer in July 2002, responsible for all operational and IT areas of the Group. Prior to joining Paragon, he worked in foreign exchange, credit risk management, marketing and corporate finance.

David M M Beever
NON-EXECUTIVE DIRECTOR
AGE 62

David Beever joined Paragon as a non-executive director in October 2003. He is Chairman of KPMG Corporate Finance, Vice Chairman of London & Continental Railways Ltd and a non-executive director of JJB Sports plc and Volex Group plc. He was previously a Vice Chairman of SG Warburg & Co Ltd.

Christopher D Newell
NON-EXECUTIVE DIRECTOR
AGE 43

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

David A Hoare
NON-EXECUTIVE DIRECTOR
AGE 53

David Hoare has been a non-executive director since 1993 and is 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.

Gavin A F Lickley
NON-EXECUTIVE DIRECTOR
AGE 57

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. He is Chairman of the Paragon Remuneration Committee.

directors' report

:tors submit their Report and the Accounts for the year ended 30 September 2003
:re approved by the Board on 15 December 2003.

al 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 first mortgage and consumer finance businesses.

The Chairman's Statement and the Chief Executive's Review on pages 4 to 13 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 32. The directors recommend a final dividend of 3.7p per share (2002: 3.0p per share) which, together with the interim dividend of 2.6p per share (2002: 2.1p per share) paid on 31 July 2003, makes a total of 6.3p per share. After dividends, retained profits of £32.8 million (2002: £30.6 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 2003 Ordinary Shares of 10p each	At 30 September 2002 or on appointment Ordinary Shares of 10p each
J P L Perry	309,579	301,549
N S Terrington	99,219	99,219
N Keen	44,116	36,086
D M M Beever* (appointed 8 August 2003)	-	-
D A Hoare*	37,650	34,650
M J R Kelly*	3,365	3,365
G A F Lickley* (appointed 21 October 2002)	30,000	-
C D Newell*	20,000	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 Company's executive share option schemes and awards under the Paragon Performance Share Plan, details of which are given in notes 30 and 31 on pages 59 and 60. There have been no changes in the directors' interests in the share capital of the Company since 30 September 2003.

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

Professor A D Chambers resigned from the Board on 8 August 2003 and Mr M J R Kelly resigned from the Board on 15 October 2003. On 15 October 2003 Mr J A Heron and Mr P Pandya were appointed to the Board.

In accordance with the Articles of Association, Mr J P L Perry, Mr N S Terrington, Mr D M M Beever, Mr J A Heron and Mr P Pandya 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.

Mr D A Hoare will retire from the Board at the end of the Annual General Meeting.

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 2003, 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	18,320,946	15.4%
Barclays Global Investors Limited	8,425,158	7.1%
Insight Investment	6,934,063	5.8%
Merrill Lynch Investment Managers	5,847,781	4.9%
The Paragon Group of Companies PLC ESOP Scheme	5,425,156	4.5%
Morley Fund Management	5,367,757	4.5%
Threadneedle Asset Management Limited	4,882,481	4.1%
Legal & General Investment Management Limited	4,751,498	4.0%
JP Morgan Fleming Asset Management	4,542,000	3.8%
M & G Investment Management Limited	4,376,361	3.7%

Corporate social responsibility

During the year the Group has drawn together its policies in relation to corporate social responsibility and issues such as community involvement, the fair and equal treatment of staff, employment of disabled persons, employee participation, health and safety, commitment to diversity and the environment. All these matters are detailed in the Corporate Social Responsibility Report on pages 19 and 20.

Charitable contributions

Contributions to charitable institutions in the United Kingdom amounted to £11,085 (2002: £17,495). Information on the Group's charitable activities is given in the Corporate Social Responsibility Report on pages 19 and 20.

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.

directors' report

Auditors

On 1 August 2003, Deloitte & Touche, the auditors of the Company, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

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

Resolution 6

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 11 February 2003 and will expire at the end of the forthcoming Annual General Meeting. Resolution 6 seeks to renew, for a further year, the present authority of the directors to allot ordinary shares up to an aggregate nominal value of £4,327,000 representing approximately 36.3% of the Company's issued capital at 30 November 2003 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 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 £595,500, representing approximately 5% of the Company's issued share capital at 30 November 2003.

Resolution 8

This resolution, which is being proposed as a Special Resolution, will enable the Company to purchase, in the market, up to a maximum of 11.9 million of the Company's ordinary shares (approximately 10% of the issued share capital at 30 November 2003) 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 7.30 a.m. 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
15 December 2003

corporate social responsibility

The Group believes that the long-term interests of shareholders, employees and customers are best served by acting in a socially responsible manner. As such the Group ensures that a high standard of corporate governance is maintained.

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued, respected and able to contribute to the success of the business, and to employing a workforce that recognises the diversity of customers. Employees are requested to co-operate with the Group's efforts to ensure the policy is implemented in full.

The Group's aim is that employees should be able to work in an environment free from discrimination, harassment and bullying and that employees, job applicants, customers, retailers, brokers and suppliers should be treated fairly regardless of:

- race, colour, nationality, ethnic origins or community background
- gender, sexual orientation, marital or family status
- religious or political beliefs or affiliations
- disability, impairment or age
- real or suspected infection with HIV/AIDS
- membership or non-membership of a trade union

and that they should not be disadvantaged by conditions or requirements that are unjust or unfair.

Composition of the workforce, at all levels, is reviewed on an annual basis and employee satisfaction with equality of opportunity is monitored as part of the annual employee feedback surveys. Human Resources policies are kept under regular review to ensure that they are non-discriminatory and promote equality of opportunity. In particular, recruitment, selection, promotion, training and development policies and practices are monitored to ensure that employees have the opportunity to train and develop according to their abilities.

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 Group operates a Sharesave share option scheme which enables employees to benefit from the performance of the business.

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.

corporate social responsibility

Environmental policy

The Group complies with all applicable laws and regulations relating to the environment and operates a Green Charter, implemented by:

- ensuring all buildings occupied by the Group are managed efficiently by our Facilities Team and building surveyors, for example:
  - using low energy lightbulbs where necessary
  - maintaining building temperatures within CIBSE guidelines
  - using light controls to reduce lighting in unoccupied areas
  - ensuring energy audits are carried out as part of condition surveys
- providing facilities and negotiating contracts to enable staff to re-cycle used products such as waste paper, toner cartridges, etc
- controlling business travel and providing opportunities for staff to travel to work in various ways, including installing cycle racks and showers (where possible)
- displaying a Paragon Green Charter at all sites to encourage staff to be environmentally friendly at all times

Health and Safety

The office environment is managed so as to comply with the requirements of the Health and Safety at Work Act 1974, Workplace Health, Safety and Welfare Regulations 1992, COSHH Regulations 1988, Disability Discrimination Act 1995, Fire Precautions (Workplace) Regulations 1997 and the Control of Asbestos at Work Regulations 2002.

Appropriate procedures have been established to monitor and maintain the Group's Health and Safety standards. Monitoring is undertaken internally and by external consultants and training is organised for staff from time to time.

Charitable contributions

The Group contributes to registered charities serving the local communities in which it operates. The Group supports the fund raising efforts of its employees raising money for a designated charity each year through the Charity Committee.

report of the board to the shareholders on directors' remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company.

UNAUDITED INFORMATION

Remuneration Committee

The Committee consists of three non-executive directors: Gavin Lickley, David Beever and Christopher Newell.

The Chairman of the Remuneration Committee is Gavin Lickley. None of the directors comprising the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business.

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. The Committee also reviews the level and structure of remuneration of senior management.

In determining the directors' remuneration for the year, the Committee consulted Mr J P L Perry (Chairman), Mr N S Terrington (Chief Executive) and Mr D A Hoare (Non-Executive Director and former Chairman of the Committee) about its proposals. The Committee also appointed New Bridge Street Consultants LLP to provide advice on structuring directors' remuneration packages. New Bridge Street Consultants LLP advised the Company on various sundry remuneration matters during the year.

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 are 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 and comparably sized FTSE 350 companies from all sectors.

All executive directors are remunerated by a combination of fixed and performance related elements. Fixed remuneration consists of salary, pension scheme contributions and benefits in kind. Performance related remuneration consists of participation in the annual bonus plan and the award of share options and of shares under the performance share plan from time to time. The performance related elements of remuneration are intended to provide a significant proportion of the directors' potential total remuneration.

report of the board to the shareholders on directors' remuneration

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 remuneration levels within 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, at the discretion of the Remuneration Committee. Bonuses are normally paid in October but are accrued in the year to which they relate. Executive directors are encouraged to defer a proportion of their bonuses for up to three years, the unpaid element being invested in the Company's shares.

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 Mr J P L Perry 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 8 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 and other share awards

The Company's policy is to grant options to directors under the Paragon 2000 Executive Share Option Scheme at the discretion of the Remuneration Committee, taking into account individual performance, up to a maximum of twice annual remuneration in any financial year. For options to be exercisable, the scheme requires the Company's total shareholder return (TSR) over at least three years, to be higher than at least half of the TSRs for the following companies selected from the FTSE All Share Banks and Speciality and Other Finance sectors; Abbey National, Alliance & Leicester, Cattles, Hitachi Credit UK, London Scottish Bank, Northern Rock, Provident Financial and HBOS, these being a range of companies which, in the opinion of the Remuneration Committee, are engaged in businesses similar to the business of the Group.

The Paragon Performance Share Plan was approved by shareholders at the Annual General Meeting on 11 February 2003. The maximum award is twice salary in any financial year. When aggregated with option grants under the Paragon 2000 Executive Share Option Scheme the maximum award will be over shares with a value of twice remuneration in any financial year. Under the plan the vesting of awards is subject to a relative TSR target requiring the Company to at least equal the median performance of its peer group, being the constituents of the FTSE All Share Banks and Speciality and Other Finance sectors, in order for any part of an award to vest. Awards will only fully vest provided at least upper quartile performance is achieved and there are no opportunities to re-test performance.

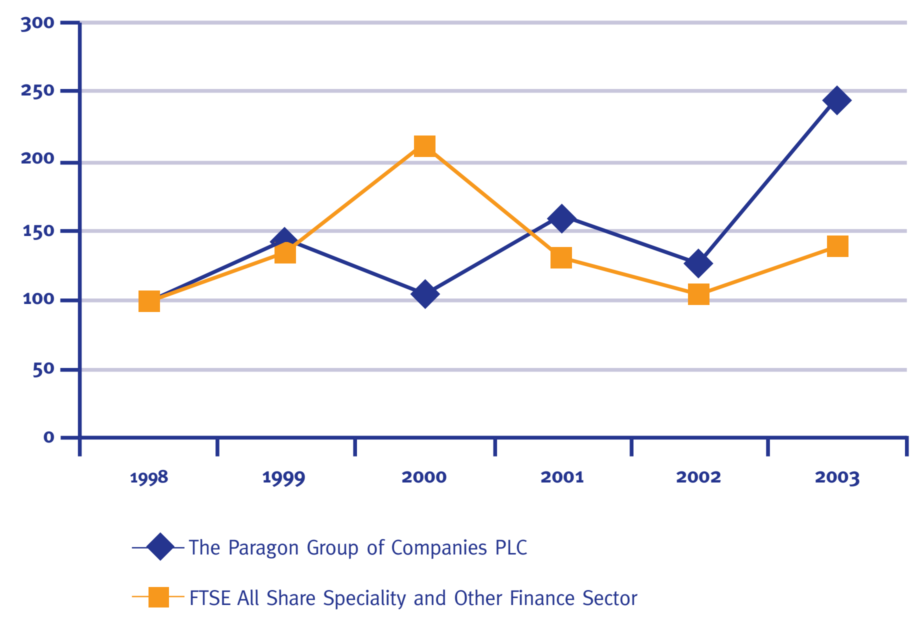
TSR has been selected as the performance measure for these awards because the Remuneration Committee believes it is the clearest measure that aligns the interests of executives with those of other shareholders. The Company's TSR performance and that of the peer companies is independently calculated by New Bridge Street Consultants LLP before being reviewed and confirmed by the Remuneration Committee.

Executive directors are also entitled to receive options under the Paragon 1999 Sharesave Scheme, on the same terms as other employees.

Performance graph

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All Share Speciality and Other Finance sector index, also measured by TSR. The Speciality and Other Finance sector has been selected for this comparison because it is the index that contains the largest number of companies in the comparator group used by the Company to determine the vesting of awards under the Performance Share Plan for executive directors.

5 Year Return Index for the FTSE All Share Speciality and Other Finance sector as at 30 September 2003



This graph shows the value, by 30 September 2003, of £100 invested in The Paragon Group of Companies PLC on 30 September 1998, compared with £100 invested in the FTSE Speciality and Other Finance index. The other points plotted are the values at the intervening financial year ends.

report of the board to the shareholders on directors' remuneration

Directors' contracts

All executive directors hold one year rolling contracts in line with current market practice and the Remuneration Committee reviews the terms of these contracts regularly.

The current contracts are dated as follows: -

J P L Perry	3 June 1993 (amended 4 March 1998)
N S Terrington	1 September 1990 (amended 16 February 1993)
N Keen	6 February 1996
J A Heron	1 September 1990 (amended 14 January and 8 February 1993)
P Pandya	1 October 1994

In the event of early termination, the directors' contracts provide for the payment of salary in lieu of notice.

Of the directors seeking re-election at the Annual General Meeting, Mr J P L Perry, Mr N S Terrington, Mr J A Heron and Mr P Pandya each have 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 was increased from £22,500 per annum to £25,000 per annum from 1 August 2003 and the additional fee paid to the chairmen of the Audit Committee and Remuneration Committee was increased from £2,500 to £5,000.

Current terms of engagement apply for the following periods:

D A Hoare	1 January 2002 to 1 January 2005
C D Newell	1 November 2001 to 1 November 2004
G A F Lickley	21 October 2002 to 21 October 2005
D M M Beever	8 August 2003 to 8 August 2006

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

The Chairman of the Remuneration Committee will be available to answer questions on remuneration policy at the Annual General Meeting.

AUDITED INFORMATION

The information on directors' emoluments, pensions, share options and the Paragon Performance Share Plan contained in notes 7, 8, 30 and 31 has been audited and forms part of this report.

Signed on behalf of the Board

Gavin A F Lickley
Chairman of the Remuneration Committee
15 December 2003

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 32 to 73), 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 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 42 together with the reconciliation of movement in consolidated shareholders' funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibility, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

independent auditors' report

to the members of The Paragon Group of Companies PLC

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been 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 of the Financial Services Authority 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 including the unaudited part of the directors' remuneration report 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 and the part of the directors' remuneration report described as having been audited. 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
15 December 2003

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 the Chairman, four executive and four non-executive directors, all of whom bring to the Company a broad and valuable range of experience. Jonathan Perry has been 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 Beever who has been nominated as the senior independent 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 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.

corporate governance

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

- The Remuneration Committee, consisting of Gavin Lickley, who chairs the committee, David Beever and Christopher Newell.
- The Audit Committee, consisting of all the non-executive directors and chaired by Christopher Newell. 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, chaired by Nigel Terrington, the Chief Executive and consisting of Nicholas Keen, the Finance Director, and appropriate heads of functions. 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.

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 21 to 24.

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 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 16 to 18 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 25. 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 2003 and to the date of these financial statements. The directors 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 provide reasonable, but not absolute, assurance against the risk of 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.

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 2003 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.

contacts

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

LONDON OFFICE
Third Floor
30-34 Moorgate
London EC2R 6PQ
Telephone: 020 7786 8474

EPSOM OFFICE
Sir William Atkins House
Ashley Avenue
Epsom
Surrey KT18 5AS
Telephone: 01372 737737

INTERNET
www.paragon-group.co.uk

AUDITORS
Deloitte & Touche LLP
Chartered Accountants
Four Brindleyplace
Birmingham B1 2HZ

SOLICITORS
Slaughter and May
One Bunhill Row
London EC1Y 8YY

REGISTRARS AND TRANSFER OFFICE
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

BROKERS
HSBC Bank plc
8 Canada Square
London E14 5HQ

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR TO 30 SEPTEMBER 2003

	Notes	2003 £m	2003 £m	2002 £m
Interest receivable				
Ongoing operations	3	242.8		230.0
Acquisitions	3	29.2		-
	4		272.0	230.0
Interest payable and similar charges	5		(195.5)	(157.1)
Net interest income			76.5	72.9
Other operating income	6		31.0	20.6
Total operating income			107.5	93.5
Operating expenses				
Exceptional reorganisation costs	10	(3.9)		
Other operating expenses		(37.9)		
Amortisation of negative goodwill		2.1		
Total operating expenses			(39.7)	(34.6)
Provisions for losses			(15.9)	(12.9)
Operating profit being profit on ordinary activities before taxation				
Ongoing operations	3	53.1		
Acquisitions	3	(1.2)		
Operating profit being profit on ordinary activities before taxation	12		51.9	46.0
Tax charge on profit on ordinary activities	14		(11.6)	(9.4)
Profit on ordinary activities after taxation for the financial year			40.3	36.6
Equity dividend	16		(7.5)	(6.0)
Retained profit			32.8	30.6
Earnings per share				
– basic	17		35.5p	32.1p
– diluted	17		34.8p	31.4p

There have been no recognised gains or losses other than the profit for the current and preceding years. 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 2003

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Assets employed					
Fixed assets					
Intangible assets					
Negative goodwill	18		(18.8)		-
Tangible assets	19		4.2		3.4
Investments					
Assets subject to non-recourse finance	20	2,361.6		-	
Non-recourse finance	20	(2,285.3)		-	
		76.3		-	
Loans to customers	21	3,051.3		2,521.3	
Own shares	22	10.8		9.3	
			3,138.4		2,530.6
			3,123.8		2,534.0
Current assets					
Stocks	25	3.8		5.3	
Debtors falling due within one year	26	9.4		7.7	
Investments		144.8		117.3	
Cash at bank and in hand		149.2		129.8	
			307.2		260.1
			3,431.0		2,794.1
Financed by					
Equity shareholders' funds					
Called-up share capital	28		11.9		11.8
Share premium account	29	67.6		65.5	
Merger reserve	29	(70.2)		(70.2)	
Profit and loss account	29	225.6		193.7	
			223.0		189.0
			234.9		200.8
Provisions for liabilities and charges	32		7.6		0.6
Creditors					
Amounts falling due within one year	33	127.9		43.7	
Amounts falling due after more than one year	33	3,060.6		2,549.0	
			3,188.5		2,592.7
			3,431.0		2,794.1

Approved by the Board of Directors on 15 December 2003.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

HOLDING COMPANY BALANCE SHEET

30 SEPTEMBER 2003

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Assets employed					
Fixed assets					
Investment in own shares	22	10.8		9.3	
Investment in subsidiary companies	23	342.1		216.4	
			352.9		225.7
Current assets					
Debtors falling due within one year	26	92.7		79.8	
Cash at bank and in hand		2.7		0.1	
			95.4		79.9
			448.3		305.6
Financed by					
Equity shareholders' funds					
Called-up share capital	28		11.9		11.8
Share premium account	29	67.6		65.5	
Revaluation reserve	29	36.1		26.5	
Profit and loss account	29	138.1		97.0	
			241.8		189.0
			253.7		200.8
Creditors					
Amounts falling due within one year	33		194.6		104.8
			448.3		305.6

Approved by the Board of Directors on 15 December 2003.
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 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	35	108.1	92.9
Taxation		(14.4)	(7.8)
Capital expenditure and financial investment	36(a)	(627.9)	(419.2)
Acquisitions and disposals	36(b)	(26.7)	-
Equity dividends paid		(6.6)	(5.1)
		(567.5)	(339.2)
Management of liquid resources	38	(27.5)	8.2
Financing	36(c)	613.6	354.8
Increase in cash in the year		18.6	23.8

RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

FOR THE YEAR TO 30 SEPTEMBER 2003

	2003 £m	2002 £m
Profit attributable to shareholders	40.3	36.6
Dividend	(7.5)	(6.0)
Exercise of share options	1.3	1.2
Net movement in shareholders' funds	34.1	31.8
Opening shareholders' funds	200.8	169.0
Closing shareholders' funds	234.9	200.8

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NOTES TO THE ACCOUNTS
FOR THE YEAR TO 30 SEPTEMBER 2003

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 2003. 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) Negative goodwill
Negative goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair values of acquired assets over the fair value of the purchase consideration, is held on the balance sheet and credited to the profit and loss account over the period expected to be benefited by the acquisition, within other operating expenses.

(d) Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation.

(e) 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

(f) 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.

(g) Assets subject to non-recourse finance
Certain mortgage loans originated by subsidiary companies acquired in the year had previously been sold to special purpose vehicle companies on a non-recourse basis. The outstanding amount of these loans is disclosed on the face of the balance sheet, with the non-recourse finance deducted from them in accordance with Financial Reporting Standard 5 – 'Reporting the Substance of Transactions'.

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

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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 6.

(q) 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 charge to the profit and loss account for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

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

(r) Long term incentive plan
The cost of shares to be issued under the terms of the Paragon Performance Share Plan is charged to the profit and loss account over the period between the date of grant and the vesting date.

(s) 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.

(t) Brokers' commissions
Brokers' commissions payable on mortgage loans are amortised over the penalty period of the related loan. Unamortised commission balances are included within 'Loans to Customers'.

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. ACQUISITION AND GOODWILL

The entire issued share capital of Britannic Money plc was acquired on 30 June 2003 for a total acquisition cost of £19.9m. Subsequently this company changed its name to Mortgage Trust Limited.

This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition is £20.9m. This has been capitalised in the balance sheet of the Group.

The losses after taxation of Mortgage Trust Limited were as follows:

	Loss after tax £m
Results prior to acquisition	
1 January 2003 to date of acquisition	(1.3)
Preceding financial year ended 31 December 2002	(5.1)

The following table explains the adjustments made to the book value of the major categories of assets and liabilities to arrive at the provisional fair values included in the consolidated financial statements at the date of acquisition. The cash flow effects of the acquisition are given in note 39.

	Book amount £m	Alignment of accounting policies £m	Fair value to the Group £m
Tangible fixed assets	1.6	-	1.6
Assets subject to non-recourse finance	2,276.4	7.0	2,283.4
Non-recourse finance	(2,209.5)	(3.2)	(2,212.7)
Loans to customers	19.3	7.6	26.9
Other debtors	13.6	(11.4)	2.2
Cash at bank and in hand	-	1.3	1.3
Provisions	-	(0.4)	(0.4)
Creditors	(60.6)	(0.9)	(61.5)
	40.8	-	40.8
Negative goodwill			(20.9)
Acquisition cost			19.9
Cash consideration			18.8
Costs of acquisition			1.1
Acquisition cost			19.9

The alignments of accounting policy relate to the transfer of items shown under different headings in the balance sheet under the Group's accounting policies to those under which they were classified by Mortgage Trust Limited.

Goodwill
Negative goodwill capitalised in 2003 under the accounting policy stated in note 1 amounted to £20.9m (2002: £nil).

The cumulative amount of goodwill on acquisitions written off to reserves as a matter of accounting policy prior to the implementation of Financial Reporting Standard 10 – 'Goodwill and Intangible Assets' is £56.4m (2002: £56.4m).

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3. ANALYSIS OF ACQUISITIONS AND OTHER CONTINUING OPERATIONS

	Ongoing operations £m	Acquisitions £m	2003 £m	2002 £m
Interest receivable	242.8	29.2	272.0	230.0
Interest payable	(170.4)	(25.1)	(195.5)	(157.1)
Net interest income	72.4	4.1	76.5	72.9
Other operating income	28.3	2.7	31.0	20.6
Total operating income	100.7	6.8	107.5	93.5
Reorganisation costs	-	(3.9)	(3.9)	-
Other operating expenses	(33.4)	(4.5)	(37.9)	(34.6)
Amortisation of negative goodwill	-	2.1	2.1	-
Operating expenses	(33.4)	(6.3)	(39.7)	(34.6)
Provisions for losses	(14.2)	(1.7)	(15.9)	(12.9)
Operating profit	53.1	(1.2)	51.9	46.0

4. INTEREST RECEIVABLE

	2003 £m	2002 £m
Interest on loans to customers	234.1	219.5
Interest on assets subject to non-recourse finance	28.4	-
Other interest receivable	9.5	10.5
	272.0	230.0

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £m	2002 £m
On asset backed loan notes	105.2	104.1
On bank loans and overdrafts	33.1	24.7
On non-recourse finance	23.8	-
Amortisation of brokers' commissions payable		
On loans to customers	31.7	28.3
On assets subject to non-recourse finance	1.7	-
	195.5	157.1

6. OTHER OPERATING INCOME

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

	2003 £m	2002 £m
Turnover	7.4	10.9
Cost of sales	(6.9)	(10.5)
Gross profit	0.5	0.4

Included within other operating income is income from property leases of £1.8m (2002: £1.9m).

7. DIRECTORS' EMOLUMENTS

The disclosures within notes 7 & 8 have been reorganised in accordance with Schedule 7A to the Companies Act 1985 which came in to effect this year.

The emoluments of directors holding office during the year were:

	Salary and fees £000	Benefits in kind £000	Annual bonus £000	Loss of office £000	2003 Total £000	2002 Total £000
Executive						
J P L Perry	167	5	150	-	322	242
N S Terrington	255	1	227	-	483	456
N Keen	188	6	165	-	359	345
Non-executive						
A D Chambers	20	-	-	25	45	25
D M M Beever	4	-	-	-	4	-
D A Hoare	25	-	-	-	25	23
M J R Kelly	23	-	-	-	23	22
G A F Lickley	23	-	-	-	23	-
C D Newell	25	-	-	-	25	21
F W Hulton	-	-	-	-	-	15
2003	730	12	542	25	1,309	1,149
2002	683	26	440	-	1,149	

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

8. DIRECTORS' PENSIONS

The total amount charged to the profit and loss account of the Group in the respect of pension provision for directors was £155,000 (2002: £147,000).

Mr N S Terrington and Mr N Keen were members of the Group defined benefit pension scheme during the year.

The amounts shown below describe their entitlement in accordance with paragraph 12.43A(c) of the Listing Rules.

	Increase in accrued pension during year excluding any increase for inflation £000	Transfer value of increase £000	Accumulated total accrued pension at 30 September 2003 £000	Accumulated total accrued pension at 30 September 2002 £000
N S Terrington	5	30	80	73
N Keen	3	20	41	37

The pension entitlement shown is that which would be paid annually on retirement based on services to 30 September 2003. 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.

The following disclosures describe the pension benefits earned in the year in accordance with Schedule 7(A) of the Companies Act 1985.

	Age at year end	Directors' contributions in the year £000	Increase in accrued pension in the year £000	Accumulated total accrued pension at year end £000	Transfer value of accrued benefits at 30 Sept 2002 £000	Transfer value of accrued benefits at 30 Sept 2003 £000	Difference in transfer values less contributions £000
N S Terrington	43	12	7	80	514	611	85
N Keen	45	5	4	41	284	339	50

The pension entitlement shown is that which would be paid annually on retirement based on services to 30 September 2003. The contributions shown are those paid or payable by the directors under the terms of the plan.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 'Retirement Benefit Schemes – Transfer Values' published by the Institute of Actuaries and the Faculty of Actuaries.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

During the year the Group made contributions of £74,000 (2002: £72,000) in respect of further pension provision for Mr N Keen. Contributions of £39,000 (2002: £39,000) in respect of Mr J P L Perry were paid into his personal pension scheme.

9. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 665 (2002: 636).

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

	2003 £m	2002 £m
Wages and salaries	21.1	15.0
Social Security costs	1.4	1.1
Other pension costs	1.2	1.0
	23.7	17.1

Details of the pension schemes operated by the Group are given in note 27.

10. EXCEPTIONAL REORGANISATION COSTS

These are the redundancy costs expected to be incurred implementing the announced integration of the acquired business of Mortgage Trust Limited and its subsidiaries with the remainder of the Group's operations.

11. COST / INCOME RATIO

Cost / income ratio is derived as follows:

	Ongoing operations £m	Acquisitions £m	2003 £m	2002 £m
Operating expenses (note 3)	(33.4)	(6.3)	(39.7)	(34.6)
Less Reorganisation costs (note 3)	-	3.9	3.9	-
Amortisation of negative goodwill (note 3)	-	(2.1)	(2.1)	-
	(33.4)	(4.5)	(37.9)	(34.6)
	÷	÷	÷	÷
Total operating income (note 3)	100.7	6.8	107.5	93.5
Cost /income ratio	33.2%	66.2%	35.3%	37.0%

12. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging / (crediting):

	2003 £m	2002 £m
Depreciation	1.9	1.1
Amortisation of negative goodwill	(2.1)	-
Hire of plant and machinery	0.1	0.2
Property rents payable	4.2	4.3

NOTES TO THE ACCOUNTS
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13. FEES PAID TO AUDITORS

	2003 £000	2002 £000
Audit fees		
Paid to Group auditors	321	304
Paid to other auditors	45	-
Total audit fees for Group	366	304
Company audit fee	20	20

A more detailed analysis of fees paid to the Group auditors and their associates is given below:

	2003 £000	2003	2002 £000	2002
Audit services				
Statutory audit – UK	308	39%	291	38%
Statutory audit – Overseas	13	2%	13	2%
Audit-related regulatory reporting	9	1%	9	1%
	330	42%	313	41%
Further assurance services				
Securitisation services	53	7%	115	15%
'Due diligence' services	107	13%	96	12%
	160	20%	211	27%
Tax services				
Compliance services	100	13%	106	14%
Advisory services	201	25%	143	18%
	301	38%	249	32%
	791	100%	773	100%

14. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge in the period

	2003 £m	2002 £m
Current tax		
UK Corporation Tax on profits of the period	13.3	15.1
Adjustment in respect of prior periods	(2.6)	(3.3)
Write-back of Advance Corporation Tax (ACT)	(0.4)	(0.6)
Total current tax	10.3	11.2
Deferred tax (note 32)		
Origination and reversal of timing differences	1.2	(1.8)
Recognition of asset not previously recognised	(1.0)	-
Adjustment in respect of prior periods	1.1	-
Total deferred tax	1.3	(1.8)
Tax charge on profit on ordinary activities	11.6	9.4

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% (2002: 30%). The differences are explained below.

	2003 £m	2002 £m
Profit on ordinary activities before taxation	51.9	46.0
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	15.5	13.8
Effects of:		
Utilisation of tax losses brought forward	-	(0.4)
Reversal of timing differences	(1.2)	1.7
Permanent differences	(1.0)	-
ACT credit	(0.4)	(0.6)
Prior year credit	(2.6)	(3.3)
Current tax charge for the period	10.3	11.2

c) Factors that may affect future tax charges

The Group will not be taxable on the amortisation of the negative goodwill arising on the acquisition of Mortgage Trust Limited in future periods. In addition the Group currently has £0.7m of ACT (2002: £1.1m) which has not been recognised together with approximately £30.0m 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 (2002: £40.0m) which are available to offset against future capital gains of the Group.

NOTES TO THE ACCOUNTS
FOR THE YEAR TO 30 SEPTEMBER 2003

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

The holding company's profit after tax for the financial year amounted to £49.5m (2002: £14.8m). 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.

16. EQUITY DIVIDEND

	2003 Per share	2002 Per share	2003 £m	2002 £m
Equity dividend on ordinary shares				
Interim paid	2.6p	2.1p	3.1	2.5
Proposed final	3.7p	3.0p	4.4	3.5
	6.3p	5.1p	7.5	6.0

17. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2003	2002
Profit for the year	£40,300,000	£36,600,000
Basic weighted average number of ordinary shares ranking for dividend during the year	113,362,439	114,086,058
Dilutive effect of the weighted average number of share options in issue during the year	2,397,769	2,316,894
Diluted weighted average number of ordinary shares ranking for dividend during the year	115,760,208	116,402,952
Earnings per ordinary share		
– basic	35.5p	32.1p
– diluted	34.8p	31.4p

18. INTANGIBLE FIXED ASSETS

	Negative goodwill £m
Cost	
At 1 October 2002	-
Acquisition	20.9
At 30 September 2003	20.9
Accumulated amortisation	
At 1 October 2002	-
Credit for the year	2.1
At 30 September 2003	2.1
Net book value	
At 30 September 2003	18.8
At 30 September 2002	-

19. TANGIBLE FIXED ASSETS

	Short leasehold premises £m	Plant and machinery £m	Total £m
Cost			
At 1 October 2002	1.6	9.7	11.3
Additions	0.6	0.7	1.3
Acquisition	0.4	1.2	1.6
Disposals	-	(1.5)	(1.5)
At 30 September 2003	2.6	10.1	12.7
Accumulated depreciation			
At 1 October 2002	0.9	7.0	7.9
Charge for the year	0.3	1.6	1.9
On disposals	-	(1.3)	(1.3)
At 30 September 2003	1.2	7.3	8.5
Net book value			
At 30 September 2003	1.4	2.8	4.2
At 30 September 2002	0.7	2.7	3.4

20. ASSETS SUBJECT TO NON-RECOURSE FINANCE

Prior to its acquisition by the Group certain loans originated by Britannic Money plc (now Mortgage Trust Limited) had been sold to companies ultimately beneficially owned by charitable trusts, which had raised non-recourse finance to fund these purchases. The Group is not obliged to support any losses of these companies and does not intend to do so. This is clearly stated in the terms and conditions under which the finance was raised, which provide that the finance providers will receive interest and repayment of principal only to the extent that sufficient funds are generated by the mortgage portfolios acquired by each company.

The priority and amount of claims on the proceeds generated by the assets are determined in accordance with a strict priority of payments. The Group receives net income from the mortgages after the claims of the finance providers have been satisfied in full. The finance providers have no recourse to the Group in any form.

The Group has an option to sell further mortgages to certain of these companies over a fixed period of time, subject to these companies' ability to finance and insure such assets.

The disclosures below relate to the three months following the acquisition of Mortgage Trust Limited.

The amounts included within Investments in the Group balance sheet in respect of these companies are:

	2003 £m	2002 £m
Loans to customers	2,235.8	-
Cash at bank and in hand	125.8	-
Assets subject to non-recourse finance	2,361.6	-
Asset backed bank loans	408.3	-
Asset backed loan notes	1,877.0	-
Non-recourse finance	2,285.3	-
At 30 September 2003	76.3	-

The companies party to these arrangements are:

	Principal Activity
Arianty No. 1 plc	Residential mortgages
First Flexible No. 1 plc	Residential mortgages
First Flexible No. 2 plc	Residential mortgages
First Flexible No. 3 plc	Residential mortgages
First Flexible No. 4 plc	Residential mortgages
First Flexible No. 5 plc	Residential mortgages
Mortgage Funding Corporation plc	Residential mortgages
Mortgage Funding Corporation No. 6 plc	Residential mortgages

All of the above companies are registered and operate in England and Wales and are accounted for as quasi-subsidiaries in the consolidated accounts of the Group.

20. ASSETS SUBJECT TO NON-RECOURSE FINANCE (Continued)

The summarised balance sheet before consolidation adjustments of the above companies is as follows:

	2003 £m	2002 £m
Assets employed		
Fixed assets		
Loans to customers	2,236.8	-
Current assets		
Debtors falling due within one year	1.5	-
Cash at bank and in hand	125.8	-
	2,364.1	-
Financed by		
Equity shareholders' funds		
Called-up share capital	0.1	-
Profit and loss account	0.2	-
	0.3	-
Creditors		
Amounts falling due within one year	8.5	-
Amounts falling due after more than one year	2,355.3	-
	2,364.1	-

The summarised profit and loss account before consolidation adjustments for the period from acquisition to 30 September 2003 for the companies named above is as follows:

	2003 £m	2002 £m
Interest receivable	29.2	-
Interest payable	(21.3)	-
Total operating income	7.9	-
Operating expenses	(7.8)	-
Provisions for losses	(0.1)	-
Profit on ordinary activities before taxation	-	-

Operating expenses includes provision for amounts payable to the Group of £5.2m (2002: £nil).

There have been no recognised gains and losses in any of these companies, other than the result for the period.

20. ASSETS SUBJECT TO NON-RECOURSE FINANCE (Continued)

The summarised cash flows for the above companies, before consolidation adjustments for the period from acquisition until 30 September 2003 is as follows:

	2003 £m	2002 £m
Cash outflow from operating activities	(0.2)	-
Capital expenditure and financial investment	(80.2)	-
	(80.4)	-
Financing	78.5	-
Decrease in cash in the year	(1.9)	-

21. LOANS TO CUSTOMERS

	2003 £m	2002 £m
Cost		
At 1 October 2002	2,521.3	2,149.2
Acquisition	26.9	-
Additions	1,427.4	961.9
Refinanced by non-recourse finance	(226.0)	-
Amortisation of commissions	(31.7)	(28.3)
Other debits	277.2	263.4
Repayments and redemptions	(943.8)	(824.9)
At 30 September 2003	3,051.3	2,521.3

Included in loans to customers are £267.0m (2002: £314.7m) of hire purchase receivables. The aggregate rentals receivable during the year in respect of hire purchase contracts were £36.5m (2002: £31.4m).
The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £174.8m (2002: £245.6m).

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

22. INVESTMENT IN OWN SHARES

	2003 £m	2002 £m
Shares held by the trustee of the share option schemes	10.8	9.3

All of the shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon Performance Share Plan. The trustee's costs are included in the operating expenses of the Company. At 30 September 2003, the trust held 5,517,156 shares (2002: 5,102,714) with a nominal value of £551,716 (2002: £510,271) and a market value of £18,537,644 (2002: £8,802,182). Options or awards under the Paragon Performance Share Plan were outstanding against 5,161,626 of these shares at 30 September 2003. The dividends on these shares have not been waived.

23. INVESTMENT IN SUBSIDIARY COMPANIES

	2003 £m	2002 £m
Shares in Group companies		
At 1 October 2002	190.5	124.1
Additions during the year	36.4	59.8
Revaluation		
Credited / (charged) to the profit and loss account	12.5	(15.2)
Credited to the revaluation reserve	9.6	21.8
	249.0	190.5
Loans to Group companies		
At 1 October 2002	25.9	-
Additions during the year	51.1	4.6
Revaluation		
Credited to the profit and loss account	16.1	21.3
	93.1	25.9
At 30 September 2003	342.1	216.4

Comparable amounts determined according to the historic cost convention are:

	Shares in Group companies £m	Loans to Group companies £m	Total £m
Cost	335.0	96.2	431.2
Provision	(122.1)	(3.1)	(125.2)
At 30 September 2003	212.9	93.1	306.0
At 30 September 2002	149.0	25.9	174.9

23. 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
Mortgage Trust Limited	100%	Residential mortgages and asset administration
Paragon Mortgages Limited	100%	Residential mortgages
Homeloans (No.4) PLC	74%	Residential mortgages
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 (No. 5) PLC	100%	Residential mortgages
Paragon Mortgages (No. 2) SA	100%	Residential mortgages
Paragon Mortgages (No. 3) SA	100%	Residential mortgages
Paragon Third Funding Limited	100%	Residential and commercial 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
Subsidiary of Mortgage Trust Limited		
Mortgage Trust Services plc	100%	Residential mortgages and asset administration

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 (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.

24. 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 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.

25. STOCKS

	2003 £m	2002 £m
Residual purchase obligations	3.5	4.5
Vehicles on extended hire or held for resale	0.3	0.8
	3.8	5.3

26. DEBTORS

	The Group		The Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts falling due within one year				
Amounts owed by Group companies	-	-	92.6	79.7
Tax debtors	1.1	1.7	0.1	0.1
Other debtors	7.6	5.1	-	-
Prepayments and accrued income	0.7	0.9	-	-
	9.4	7.7	92.7	79.8

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27. PENSIONS

During the year the transitional provisions of Financial Reporting Standard 17 – 'Retirement Benefits' ('FRS 17') continued to be in 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.

As a transitional measure, the standard requires that 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 2003 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.

Disclosures in respect of defined contribution pension schemes under both standards are given at (c) below.

The pension scheme asset calculated in accordance with SSAP 24 and recognised in the balance sheet of the Group at 30 September 2003 was £0.0m (2002: £0.1m) and the liability at that date calculated in accordance with FRS 17 was £4.4m (2002: £4.4m). The difference of £4.4m (2002: £4.5m) relates to the differing bases of calculation.

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 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	30 September 2003	30 September 2002	30 September 2001
Rate of increase in salaries	3.5% p.a.	3.3% p.a.	3.5% p.a.
Rate of increase in deferred pensions in excess of GMP which receives statutory revaluation	2.5% p.a.	2.3% p.a.	2.5% p.a.
Rate of increase in pensions in payment in excess of GMP which receives statutory increases	2.5% p.a.	2.3% p.a.	2.5% p.a.
Discount rate	5.4% p.a.	5.4% p.a.	6.0% p.a.
Inflation assumption	2.5% p.a.	2.3% p.a.	2.5% p.a.

27. PENSIONS (Continued)

The assets in the Plan at 30 September 2003, 30 September 2002 and 30 September 2001 and the expected rate of return were:

	At 30 September 2003		At 30 September 2002		At 30 September 2001	
	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m
Equities	7.5%	13.3	7.5%	10.1	8.0%	11.6
Bonds	4.7%	2.2	4.4%	1.8	5.0%	1.4
Other	4.0%	-	4.0%	0.1	4.0%	0.2
Total market value of assets		15.5		12.0		13.2
Present value of scheme liabilities		(22.0)		(18.5)		(14.5)
Deficit in the scheme		(6.5)		(6.5)		(1.3)
Related deferred tax		2.1		2.1		0.4
Net pension liability		(4.4)		(4.4)		(0.9)

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

	2003 £m	2002 £m
Deficit in the scheme at 1 October 2002	(6.5)	(1.3)
Movement in year		
Current service cost	(1.3)	(1.2)
Contributions	1.1	1.0
Past service costs	-	-
Other finance income	(0.1)	0.1
Actuarial gain/(loss)	0.3	(5.1)
Deficit in the scheme at 30 September 2003	(6.5)	(6.5)

The Group's contribution to the scheme is shown in note 9. 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.

27. PENSIONS (Continued)

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 ended 30 September 2003, 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:

	2003 £m	2002 £m
Profit and loss account excluding pension liability	225.6	193.6
Pension liability	(4.4)	(4.4)
Profit and loss account after adjustment for pension liability	221.2	189.2

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 ended 30 September 2003, the amount which would have been charged to operating profit would have been analysed as follows:

	2003 £m	2002 £m
Current service cost	1.3	1.2
Past service cost	-	-
Total operating charge	1.3	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 ended 30 September 2003, the amount which would have been credited to other finance income would have been analysed as follows:

	2003 £m	2002 £m
Expected return of pension scheme assets	0.9	1.0
Interest on pension scheme liabilities	(1.0)	(0.9)
Net return	(0.1)	0.1

27. 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 ended 30 September 2003, the actuarial gain which would have been recognised in the statement of total recognised gains and losses would have been analysed as follows:

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	1.3	(3.5)
Experience gains and losses arising on scheme liabilities	-	0.2
Changes in assumptions underlying the present value of the scheme liabilities	(1.0)	(1.8)
Actuarial gain/(loss)	0.3	(5.1)

History of experience gains and losses

	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£m)	1.3	(3.5)
Percentage of scheme assets	8%	(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)	0.3	(5.1)
Percentage of the present value of the scheme liabilities	1%	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.

c) Defined contribution pension schemes

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Group to this scheme in the year ended 30 September 2003 were £0.0m (2002: £0.0m). The Group also makes contributions to the personal defined contribution pension arrangements of certain employees. Contributions made under these arrangements were £0.1m (2002: £nil).

28. CALLED-UP SHARE CAPITAL

	2003 £m	2002 £m
Authorised:		
175,000,000 (2002: 175,000,000) ordinary shares of 10p each	17.5	17.5
Allotted and paid-up:		
119,103,284 (2002: 118,114,812) ordinary shares of 10p each	11.9	11.8

During the year 575,797 ordinary shares (£57,580 par value) were issued for £1,690,722 and a further 412,675 (£41,268 par value) were issued for £497,902. These issues were made under the executive share option schemes and the Sharesave scheme, respectively.

29. RESERVES

(a) The Group

	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
Balance at 1 October 2002	65.5	(70.2)	193.7	189.0
Share options exercised	2.1	-	(0.9)	1.2
Retained profit for the year	-	-	32.8	32.8
Balance at 30 September 2003	67.6	(70.2)	225.6	223.0

The cumulative amount of goodwill on acquisitions written off to reserves is £56.4m (2002: £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'.

(b) The Company

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Balance at 1 October 2002	65.5	26.5	97.0	189.0
Revaluation of investments in subsidiaries	-	9.6	-	9.6
Share options exercised	2.1	-	(0.9)	1.2
Retained profit for the year	-	-	42.0	42.0
Balance at 30 September 2003	67.6	36.1	138.1	241.8

The difference between the reserves of the Group and the reserves of the Company of £18.8m (2002: £nil) represents the negative goodwill capitalised and being written off on the acquisition of Mortgage Trust Limited.

30. SHARE OPTION SCHEMES

Options are outstanding under the executive share option and the all employee share option schemes to purchase 7,992,859 (2002: 8,368,848) ordinary shares of 10p each as follows:

Number	Period exercisable	Price
482,953	13/03/1998 to 13/03/2005	97.33p
46,926	02/12/1999 to 02/12/2003	105.48p
939,000	31/03/2001 to 31/03/2008	218.00p
626,000	31/03/2001 to 31/03/2005	218.00p
840,000	11/01/2002 to 11/01/2009	147.50p
27,293	01/05/2004 to 01/11/2004	164.40p
100,000	27/09/2002 to 27/09/2006	209.50p
435,000	17/02/2003 to 17/02/2010	147.50p
900,000	26/05/2003 to 26/05/2007	148.50p
2,087	01/08/2003 to 01/02/2004	120.64p
224,068	01/08/2005 to 01/02/2006	120.64p
30,000	26/02/2004 to 26/02/2008	221.50p
1,270,000	27/11/2004 to 27/11/2011	248.00p
650,000	29/07/2005 to 29/07/2012	186.50p
803,290	14/03/2006 to 14/03/2013	186.50p
466,080	01/08/2006 to 01/02/2007	183.04p
150,162	01/08/2008 to 01/02/2009	183.04p

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.

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 pages 21 to 24.

NOTES TO THE ACCOUNTS
FOR THE YEAR TO 30 SEPTEMBER 2003

30. SHARE OPTION SCHEMES (Continued)

Details of individual options held by the directors at 30 September 2002 and 30 September 2003:

	Date from which exercisable	Expiry date	Option price	J P L Perry Number	N S Terrington Number	N Keen Number
Options held at 30 September 2002:						
	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	-	8,030
	01/08/2005	01/02/2006	120.64p	-	13,987	-
	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
				1,376,376	1,398,987	1,268,030
Options granted in the year:						
	14/03/2006†	14/03/2013	186.50p	122,368	191,053	138,947
	01/08/2006	01/02/2007	183.04p	5,053	-	5,053
Options exercised in the year:						
on 11/07/03						
	02/12/1999	02/12/2003	105.48p	(260,700)	-	-
	11/01/2002*	11/01/2009	147.50p	-	-	(250,000)
	17/02/2003†	17/02/2010	147.50p	-	-	(100,000)
	26/05/2003	26/05/2007	148.50p	-	-	(200,000)
on 04/08/03						
	01/08/2003	01/02/2004	120.64p	(8,030)	-	-
on 04/09/03						
	01/08/2003	01/02/2004	120.64p	-	-	(8,030)
At 30 September 2003				1,235,067	1,590,040	854,000

* 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 total shareholder return for at least half of a specified group of comparator companies.

Aggregate gains before taxation made by directors on the exercise of share options during the year were £1,293,000 (2002: £3,000). At 30 September 2003 The Paragon Group of Companies PLC share price was 334.0p (2002: 172.5p) and the range during the year then ended was 159.5p to 344.5p (2002: 165.0p to 287.0p). The share price on 11 July 2003 was 290.0p, on 4 August 2003 312.5p and on 4 September 2003 307.0p.

31. PARAGON PERFORMANCE SHARE PLAN

Conditional entitlements to the allotment of 735,410 ordinary shares (2002: nil) of 10p each are outstanding under the Paragon Performance Share Plan. Awards under this plan comprise a right to acquire shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied.

The Company's total shareholder return over the three year period will be compared to that of the constituents of the FTSE All Share 'Banks' and 'Speciality and Other Finance' sectors. No part of an award shall vest for a below median performance. 25% of the award shall vest for a median performance. An award will only vest fully for an upper quartile performance, and between these two points awards will vest on a straight line basis. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2003 were:

Number	Period exercisable
467,644	13/03/2006 to 13/09/2006
267,766	02/07/2006 to 02/01/2007

Details of individual entitlements of the directors under the Paragon Performance Share Plan at 30 September 2002 and 30 September 2003 are:

	Date from which exercisable	Expiry date	Market price at award date	J P L Perry Number	N S Terrington Number	N Keen Number
Awards outstanding at 30 September 2002				-	-	-
Awards made in the year:						
	13/03/2006	13/09/2006	186.5p	61,184	95,526	69,474
	02/07/2006	02/01/2007	291.0p	40,790	63,684	46,316
At 30 September 2003				101,974	159,210	115,790

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32. PROVISIONS FOR LIABILITIES AND CHARGES

(a) The Group

	Deferred taxation £m	Other provisions £m	Total £m
Provision at 1 October 2002	-	0.6	0.6
Acquisition	-	0.4	0.4
Current year charge	0.1	5.7	5.8
Prior year charge	1.2	-	1.2
Utilised in the year	-	(0.4)	(0.4)
Provision at 30 September 2003	1.3	6.3	7.6

The other provisions include committed future lease costs for properties no longer occupied by the Group and costs associated with the decision to relocate of certain of the operations of Mortgage Trust to the Group's head office. 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:

	2003 £m	2002 £m
Accelerated capital allowances	(0.2)	-
Other timing differences	1.5	-
Provision at 30 September 2003	1.3	-

In addition there are unprovided deferred tax assets of approximately £18.0m. These are predominantly in the Mortgage Trust companies acquired in the period and will only be available to offset against suitable future profits arising in these companies. The directors consider that there is insufficient evidence that such profits will arise to justify the recognition of a deferred tax asset in respect of these balances.

(b) The Company

There is no potential liability for deferred tax in the holding company either at 30 September 2003 or 30 September 2002.

33. CREDITORS

	The Group		The Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts falling due within one year				
Bank loans and overdrafts	81.3	-	24.8	-
Amounts owed to Group companies	-	-	146.6	82.4
Proposed dividend	4.4	3.5	4.4	3.5
Corporation tax	6.7	11.5	3.1	3.7
Accruals	35.5	28.7	15.7	15.2
	127.9	43.7	194.6	104.8
Amounts falling due after more than one year				
Asset backed loan notes	2,128.6	2,084.0	-	-
Bank loans	929.5	462.3	-	-
Accruals	2.5	2.7	-	-
	3,060.6	2,549.0	-	-

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 34.

34. 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 acquiring or 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.

34. FINANCIAL INSTRUMENTS (Continued)

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 £250.0m (2002: £720.0m) of mortgage backed floating rate notes at par and £nil (2002: £244.7m) of asset backed floating rate notes at par.

Before its acquisition by the Group, Mortgage Trust had also obtained finance from the securitisation markets as described in note 20. The sterling Notes issued in these transactions, which form part of 'Non-Recourse Finance' in the Group balance sheet are secured on the underlying assets and bear interest at various rates between 0.125% and 1.80% above the London Interbank Offered Rate ('LIBOR') for three month sterling products. It is likely that a substantial proportion of these notes will be repaid within five years. The companies which issued these Notes have entered into £215.0m (2002: £nil) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws. At 30 September 2003 £nil (2002: £nil) had been drawn down under these facilities.

In connection with the acquisition of Mortgage Trust the Group entered into a bank loan secured against cashflows generated by certain of the acquired assets. Interest is payable on this loan at a rate of 1.35% above LIBOR. This loan is repayable only out of cash receipts generated by these assets and there is no further recourse to the Group. Included within bank loans at 30 September 2003 is £45.6m (2002 : £nil) in respect of this loan.

The Group is party to an arrangement made via the quasi-subsidiaries described in note 24, 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 2003 is £1.5m (2002: £15.1) in respect of this arrangement.

34. FINANCIAL INSTRUMENTS (Continued)

Assets are typically securitised within twelve months of origination. Until that point new loans originated by Paragon Mortgages Limited, Paragon Car Finance Limited and Paragon Personal Finance Limited are funded using one of two bank facilities (the 'Warehouse Facilities');

- A £750.0m (2002: £450.0m) committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. £570.5m (2002: £332.7m) 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. This 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.

- A £150.0m (2002: £nil) committed sterling facility provided to Paragon Third Funding Limited during the year by a consortium of banks. £42.2m (2002: £nil) is included in bank loans in respect of drawings on this facility. This facility is secured on all the assets of Paragon Third Funding Limited. This facility remains available for further drawings until 29 April 2004, although it is renewable on an annual basis. If the facility is not renewed any remaining balance falls due for payment on 30 October 2004, although it is likely that substantial repayments will be made before this date.

Assets originated by Mortgage Trust Limited are sold to Arianty No. 1 PLC. Arianty No.1 PLC is funded by a £450.0m (2002: £nil) committed sterling facility provided by a consortium of banks. £367.9m (2002: £nil) is included in non-recourse finance in respect of drawings on this facility. This facility is secured on all the assets of Arianty No. 1 PLC. At the year end the facility remained available for further drawings until 14 November 2003. This was renewed for a further year and may be further renewed on an annual basis. Repayment of the loan is due two years after it ceases to available for further drawings.

Assets originated by Mortgage Funding Corporation PLC are funded by a £155.0m (2002: £nil) committed sterling facility provided by a consortium of banks. £40.4m (2002: £nil) is included in non-recourse finance in respect of drawings on this facility. This facility is secured on all the assets of that company. This facility is repayable on 4 August 2004.

As with the asset backed loan notes, repayments of all of these facilities, before the final repayment date are restricted to the amount of principal cash realised from the funded assets.

In addition to these borrowings the Group has a committed corporate syndicated sterling bank facility of £175.0m (2002: £180.0m), used to provide working capital for the Group. Included in bank loans are drawings of £155.7m (2002: £114.5m) made by Paragon Finance PLC under this facility. This facility reduces by instalments on 31 March 2004 and 30 September 2004. Final repayment is due on 31 March 2005. The facility is secured on all the assets of the Company and Paragon Finance PLC.

34. FINANCIAL INSTRUMENTS (Continued)

A further bank borrowing of £25.0m was arranged during the year in connection with the acquisition of Mortgage Trust. Included in bank loans are drawings of £24.8m (2002: £nil) made by the Company under this facility. This loan is repayable on 30 June 2004, and although the Group has an option to extend this it is not presently intended that this option should be exercised. The borrowing is therefore classified as being due within one year for the purpose of these accounts.

Interest on the bank facilities is payable at various rates between 0.24% and 2.50% above LIBOR. The undrawn amounts on these bank facilities at 30 September 2003 and 30 September 2002 are set out below.

	2003 £m	2002 £m
Undrawn committed facilities for which repayment would fall due:		
In one year or less	133.6	22.5
In more than one year but not more than two years	116.3	42.5
In more than two years	82.0	117.0
	331.9	182.0

Cash received in respect of loan assets is not immediately available for Group purposes, due to the terms of the Warehouse Facilities and the securitisations. Included within 'Cash at bank and in hand' and 'Investments' at 30 September 2003 is £274.4m subject to such restrictions (2002: £234.6m).

The securitisation process and the terms of the Warehouse Facilities 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.

Set out below is the maturity profile of the Group's financial liabilities at 30 September 2003 and 30 September 2002:

	Non-recourse finance £m	Bank loans & overdrafts £m	Asset backed loan notes £m	Other £m	2003 Total £m	Non-recourse finance £m	Bank loans £m	Asset backed loan notes £m	Other £m	2002 Total £m
Financial liabilities falling due										
In one year or less, or on demand	40.4	81.3	-	46.6	168.3	-	-	-	43.7	43.7
In more than one year, but not more than two years	-	142.1	-	1.2	143.3	-	25.0	-	1.2	26.2
In more than two years but not more than five years	367.9	-	-	1.3	369.2	-	89.5	-	1.5	91.0
In more than five years	1,877.0	787.4	2,128.6	-	4,793.0	-	347.8	2,084.0	-	2,431.8
	2,285.3	1,010.8	2,128.6	49.1	5,473.8	-	462.3	2,084.0	46.4	2,592.7

34. FINANCIAL INSTRUMENTS (Continued)

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 opposite 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.

'Off balance sheet items' shows the notional principal amount of swap agreements. Included within '3 months or less' are £23.0m (2002: £28.0m) of capped rate mortgages hedged by interest rate cap agreements which reset quarterly.

The table includes short term creditors and debtors.

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FOR THE YEAR TO 30 SEPTEMBER 2003

34. 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 2003							
Cash at bank and in hand	149.2	-	-	-	-	-	149.2
Investments	144.8	-	-	-	-	-	144.8
Assets subject to non-recourse finance	1,937.9	40.2	49.7	-	323.3	10.5	2,361.6
Non-recourse finance	(2,285.3)	-	-	-	-	-	(2,285.3)
Loans to customers	2,293.6	92.9	122.1	355.8	136.1	50.8	3,051.3
Investment in own shares	-	-	-	-	-	10.8	10.8
Negative goodwill	-	-	-	-	-	(18.8)	(18.8)
Other assets	-	-	-	-	-	17.4	17.4
Total assets	2,240.2	133.1	171.8	355.8	459.4	70.7	3,431.0
Provisions	-	-	-	-	-	(7.6)	(7.6)
Bank loans and overdrafts	(1,010.8)	-	-	-	-	-	(1,010.8)
Asset backed loan notes	(2,128.6)	-	-	-	-	-	(2,128.6)
Other liabilities	-	-	-	-	-	(49.1)	(49.1)
Shareholders' funds	-	-	-	-	-	(234.9)	(234.9)
Total liabilities and shareholders' funds	(3,139.4)	-	-	-	-	(291.6)	(3,431.0)
Off balance sheet items	873.2	(116.3)	(190.9)	(522.1)	(43.9)	-	-
Interest rate repricing gap	(26.0)	16.8	(19.1)	(166.3)	415.5	(220.9)	-
Cumulative gap	(26.0)	(9.2)	(28.3)	(194.6)	220.9	-	-

34. 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
Assets subject to non-recourse finance	-	-	-	-	-	-	-
Non-recourse finance	-	-	-	-	-	-	-
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
Negative goodwill	-	-	-	-	-	-	-
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	-	-

34. 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.

	2003 Gains £m	2003 Losses £m	2003 Total net gains/ (losses) £m	2002 Gains £m	2002 Losses £m	2002 Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 1 October 2002	0.6	(26.0)	(25.4)	7.7	(13.1)	(5.4)
Gains and losses arising in previous years that were recognised in the year	-	1.9	1.9	(3.4)	6.9	3.5
Gains and losses arising before 1 October 2002 that were not recognised in the year	0.6	(24.1)	(23.5)	4.3	(6.2)	(1.9)
Gains and losses arising in the year that were not recognised in the year	1.2	8.3	9.5	(3.7)	(19.8)	(23.5)
Unrecognised gains and losses on hedges at 30 September 2003	1.8	(15.8)	(14.0)	0.6	(26.0)	(25.4)
Of which:						
Gains and losses expected to be realised in the year to 30 September 2004	0.9	(5.6)	(4.7)	0.1	(9.2)	(9.1)
Gains and losses expected to be realised in the year to 30 September 2005 or later	0.9	(10.2)	(9.3)	0.5	(16.8)	(16.3)

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of £168.7m (2002: £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.

34. 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 2003 and 30 September 2002.

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Derivative financial instruments held to manage the interest rate profile				
Swaps	-	(11.9)	-	(22.8)
Caps	2.1	(2.1)	2.0	(2.7)

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.

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

	2003 £m	2002 £m
Operating profit	51.9	46.0
Provisions for losses	15.9	12.9
Depreciation	1.9	1.1
Amortisation of brokers' commissions	33.6	28.3
Amortisation of negative goodwill	(2.1)	-
Amortisation of long term incentive plan	0.2	-
Decrease in stock	0.5	0.3
(Increase) in debtors	(0.1)	(0.2)
Increase in creditors	6.3	4.5
Net cash inflow from operating activities	108.1	92.9

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

	2003 £m	2002 £m
(a) Capital expenditure and financial investment		
Net increase in assets subject to non-recourse funding	(78.2)	-
Net increase in loans to customers	(546.9)	(413.4)
Expenditure on other fixed assets	(1.3)	(1.6)
Proceeds from sales of other fixed assets	0.2	0.3
Acquisition of own shares	(1.7)	(4.5)
	(627.9)	(419.2)
(b) Acquisitions and disposals		
Purchase of subsidiary undertaking	(19.9)	-
Net overdraft acquired with subsidiary	(6.8)	-
	(26.7)	-
(c) Financing		
Exercise of share options	1.3	1.2
Increase in loans from banks and others	539.7	353.6
Increase in non-recourse financing	72.6	-
	613.6	354.8

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

	2003 £m	2002 £m
Increase in cash in year	18.6	23.8
Cash inflow from increase in debt	(612.3)	(353.6)
Cash movement from change in liquid resources	27.5	(8.2)
Change in net debt arising from cash flows	(566.2)	(338.0)
Non-recourse finance acquired with subsidiary	(2,212.7)	-
Loans acquired with subsidiary	(53.4)	-
Movement in net debt in year	(2,832.3)	(338.0)
Net debt at 1 October 2002	(2,299.2)	(1,961.2)
Net debt at 30 September 2003	(5,131.5)	(2,299.2)

38. ANALYSIS OF NET DEBT

	2002 £m	Cash flows £m	Acquisition £m	2003 £m
Cash in hand at bank	129.8	19.4		149.2
Overdrafts	-	(0.8)		(0.8)
	129.8	18.6		148.4
Non-recourse finance	-	(72.6)	(2,212.7)	(2,285.3)
Debt due within one year	-	(25.6)	-	(25.6)
Debt due after one year	(2,546.3)	(514.1)	(53.4)	(3,113.8)
		(612.3)	(2,266.1)	
Other liquid resources	117.3	27.5	-	144.8
Total	(2,299.2)	(566.2)	(2,266.1)	(5,131.5)

Acquisitions in the table above excludes bank loans and overdrafts.

Other liquid resources comprise term deposits with UK banks.

39. PURCHASE OF SUBSIDIARY UNDERTAKING

	2003 £m
Net assets acquired:	
Tangible fixed assets	1.6
Assets subject to non-recourse finance	2,283.4
Non-recourse finance	(2,212.7)
Loans to customers	26.9
Debtors	2.2
Cash at bank and in hand	1.3
Provisions	(0.4)
Bank overdrafts	(8.1)
Other creditors	(53.4)
	40.8
Negative goodwill	(20.9)
	19.9
Satisfied by:	
Cash	19.9

39. PURCHASE OF SUBSIDIARY UNDERTAKING (Continued)

The business acquired in the year contributed the following amounts to the cash flows of the Group.

	2003 £m
Net cash outflow from operating activities	(49.3)
Capital expenditure and financial investment	(54.5)
	(103.8)
Financing	118.2
Increase in cash in the year	14.4

40. CAPITAL COMMITMENTS

There were no capital commitments (2002: £nil) contracted but not provided for.

41. FINANCIAL COMMITMENTS

At 30 September 2003 the Group had commitments to make annual payments under operating leases which expire as follows:

	2003 £m	2002 £m
Plant and machinery		
Within one year	-	0.1
Land and buildings		
Between two and five years	0.1	0.3
Over five years	4.9	3.9
	5.0	4.3

42. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 14 October 2003 the Group issued £715.0m of Mortgage Backed Floating Rate Notes through a subsidiary company, Paragon Mortgages (No. 6) PLC to refinance existing borrowings. The Notes were denominated in sterling, dollars and euros.

NOTICE OF ANNUAL GENERAL MEETING

To all shareholders

NOTICE IS HEREBY GIVEN that the fifteenth Annual General Meeting of The Paragon Group of Companies PLC will be held at 8 Canada Square, London, E14 5HQ on 10 February 2004 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 2003 and the Reports of the Directors and the Auditors.

2 To consider and adopt the Report of the Board to the Shareholders on Directors' Remuneration.

3 To declare a dividend.

4 To re-appoint as directors (a) Mr J P L Perry, (b) Mr N S Terrington (both of whom retire under Article 77); (c) Mr D M M Beever, (d) Mr J A Heron and (e) Mr P Pandya (all of whom retire under Article 83).

5 To re-appoint Deloitte & Touche LLP as Auditors and to authorise the directors to fix their remuneration.

As special business

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

Ordinary resolution

6 '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 £4,327,000 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (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.'

Special resolutions

7 'THAT, subject to the passing of resolution 6, 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 6 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 £595,500.

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 11,900,000 (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
15 December 2003

Registered and Head Office:
St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE
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 14 and 15.