

THE ACCOUNTS

Consolidated profit and loss account

for the year to 30 September 1999

| | Notes | 1999 £m | 1998 £m |
|--|-------|--------------|------------|
| Interest receivable | | 167.6 | 159.5 |
| Interest payable and similar charges | 2 | (112.2) | (110.0) |
| Net interest income | | 55.4 | 49.5 |
| Other operating income | 3 | 12.7 | 11.1 |
| Total operating income | | 68.1 | 60.6 |
| Operating expenses | | (31.0) | (30.4) |
| Provisions for losses | | (5.8) | (5.1) |
| Operating profit | | 31.3 | 25.1 |
| Profit on sale of fixed assets | 4 | 2.5 | - |
| Profit on ordinary activities before taxation | 7 | 33.8 | 25.1 |
| Tax charge on profit on ordinary activities | 8 | (3.5) | (1.2) |
| Profit on ordinary activities after taxation for the financial year | | 30.3 | 23.9 |
| Dividend | 10 | (4.0) | (3.1) |
| Retained profit | | 26.3 | 20.8 |
| Earnings per share | | | |
| - basic (restated) | 11 | 26.1p | 22.4p |
| - diluted (restated) | 11 | 25.8p | 22.1p |

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.

| | 1999 £m | 1998 £m |
|--|------------|------------|
| Note of historical cost profits and losses | | |
| Profit on ordinary activities before taxation | 33.8 | 25.1 |
| Realisation of property revaluation gains of prior years | 3.9 | - |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | - | 0.1 |
| Historical cost profit on ordinary activities before taxation | 37.7 | 25.2 |
| Historical cost profit for the year after taxation and dividends | 30.2 | 20.9 |

Consolidated balance sheet

at 30 September 1999

| | Notes | 1999 £m | 1998 restated £m |
|---|-------|----------------|------------------------|
| Assets employed | | | |
| Fixed assets | | | |
| Tangible assets | 12 | 3.6 | 21.8 |
| Loans to customers | 13 | 1,482.5 | 1,379.2 |
| Investment in own shares | 14 | 2.8 | 2.8 |
| | | 1,488.9 | 1,403.8 |
| Current assets | | | |
| Stocks | 16 | 14.5 | 17.6 |
| Debtors falling due within one year | 17 | 22.8 | 18.2 |
| Cash at bank and in hand | | 147.2 | 165.9 |
| | | 184.5 | 201.7 |
| | | 1,673.4 | 1,605.5 |
| Financed by | | | |
| Equity shareholders' funds | | | |
| Called up share capital | 18 | 11.6 | 11.6 |
| Reserves | 19 | 101.9 | 75.2 |
| | | 113.5 | 86.8 |
| Provisions for liabilities and charges | 21 | 4.2 | 4.4 |
| Creditors | | | |
| Amounts falling due within one year | 22 | 27.0 | 32.8 |
| Amounts falling due after more than one year | 22 | 1,528.7 | 1,481.5 |
| | | 1,555.7 | 1,514.3 |
| | | 1,673.4 | 1,605.5 |

Approved by the Board of Directors on 17 December 1999

Signed on behalf of the Board of Directors

N S Terrington

Chief Executive

N Keen

Finance Director

Holding company balance sheet

at 30 September 1999

| | Notes | 1999 £m | 1998 £m |
|--|-------|--------------|------------|
| Assets employed | | | |
| Fixed assets | | | |
| Investment in own shares | 14 | 2.8 | 2.8 |
| Investment in subsidiary companies | 15 | 29.7 | 3.8 |
| | | 32.5 | 6.6 |
| Current assets | | | |
| Debtors falling due within one year | 17 | 107.0 | 85.6 |
| Cash at bank and in hand | | 0.1 | 0.2 |
| | | 107.1 | 85.8 |
| | | 139.6 | 92.4 |
| Financed by | | | |
| Equity shareholders' funds | | | |
| Called up share capital | 18 | 11.6 | 11.6 |
| Reserves | 19 | 101.9 | 75.2 |
| | | 113.5 | 86.8 |
| Creditors | | | |
| Amounts falling due within one year | 22 | 6.1 | 5.6 |
| Amounts falling due after more than one year | 22 | 20.0 | - |
| | | 26.1 | 5.6 |
| | | 139.6 | 92.4 |

Approved by the Board of Directors on 17 December 1999

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 1999

| | Notes | 1999 £m | 1998 £m |
|--|-------|---------------|------------|
| Net cash inflow from operating activities | 24 | 33.2 | 25.8 |
| Taxation | | (1.3) | 0.2 |
| Capital expenditure and financial investment | 25(a) | (90.4) | (75.8) |
| Acquisitions and disposals | 26 | - | (25.4) |
| Equity dividends paid | | (3.8) | (2.5) |
| | | (62.3) | (77.7) |
| Management of liquid resources | 28 | 23.7 | (16.0) |
| Financing | 25(b) | 45.2 | 151.2 |
| Increase in cash in the year | 28 | 6.6 | 57.5 |

Reconciliation of movement in consolidated shareholders' funds

for the year to
30 September 1999

| | 1999 £m | 1998 £m |
|--|--------------|------------|
| Profit attributable to shareholders | 30.3 | 23.9 |
| Dividend | (4.0) | (3.1) |
| Net proceeds of rights issue | - | 47.9 |
| Exercise of share options | 0.4 | 0.3 |
| Goodwill on acquisition | - | (45.2) |
| Net movement in shareholders' funds | 26.7 | 23.8 |
| Opening shareholders' funds | 86.8 | 63.0 |
| Closing shareholders' funds | 113.5 | 86.8 |

Notes to the accounts

for the year to
30 September 1999

1. Accounting policies

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

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

(b) **Basis of consolidation** The consolidated accounts deal with the accounts of the Company and its subsidiaries made up to 30 September 1999.

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

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

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

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

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

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

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

(h) **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 90 days.

(i) **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.

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

(k) Provisions Provisions, being identified liabilities of uncertain timing or amount, are separately disclosed in the balance sheet in accordance with Financial Reporting Standard 12 - 'Provisions, contingent liabilities and contingent assets' which has been introduced in the the year. The comparative figures have been restated accordingly by transferring the balance from accruals falling due within one year (note 22).

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

(m) Financial instruments Derivative instruments utilised by the Group comprise interest rate swap, interest rate cap and forward interest rate agreements. The Group does not enter into speculative derivative contracts. 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.

(n) Other operating income The turnover and gross profit of Paragon Vehicle Contracts Limited are not derived from the Group's principal activities and the gross profit is therefore included in other operating income. The turnover is shown in note 3.

(o) Pension costs The expected cost of providing pensions within the funded defined benefit scheme, as calculated periodically by professionally qualified actuaries using the projected unit method, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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

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

(q) Brokers' commissions Brokers' commissions payable on mortgage loans are charged to the profit and loss account when they are incurred. Brokers' commissions payable on other loans are amortised on a straight-line basis over the period of the loans to which they relate.

Notes to the accounts

(continued)

2. Interest payable and similar charges

| | 1999 £m | 1998 £m |
|--|--------------|------------|
| On asset backed loan notes | 84.8 | 87.3 |
| On bank loans and overdrafts | 17.8 | 16.5 |
| Amortisation of brokers' commissions payable | 9.6 | 6.2 |
| | 112.2 | 110.0 |

3. Other operating income

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

| | 1999 £m | 1998 £m |
|---------------|------------|------------|
| Turnover | 10.2 | 12.2 |
| Cost of sales | (9.0) | (9.7) |
| Gross profit | 1.2 | 2.5 |

Included within other operating income is income from property leases of £1.6m (1998: £1.5m).

4. Profit on sale of fixed assets

Profit on sale of fixed assets represents the profit on disposal of the Group's freehold property, which was transferred from long leasehold during the year. The revaluation reserve of £3.9m was crystalized on the sale and transferred to distributable reserves. No tax charge arises on the disposal due to the utilisation of capital losses brought forward.

5. Directors' remuneration

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

| | Salary and fees £000 | Benefits in kind £000 | Annual bonus £000 | Pension contributions £000 | 1999 Total £000 | 1998 Total £000 |
|------------------------|----------------------------|-----------------------------|-------------------------|----------------------------------|-----------------------|-----------------------|
| Executive | | | | | | |
| J P L Perry | 150 | 11 | 25 | 13 | 199 | 160 |
| N S Terrington | 216 | 8 | 170 | 20 | 414 | 376 |
| N Keen | 167 | 4 | 130 | 73 | 374 | 303 |
| M J R Kelly | 50 | - | - | - | 50 | 100 |
| Non-executive | | | | | | |
| D F Banks | 2 | - | - | - | 2 | 19 |
| Professor A D Chambers | 22 | - | - | - | 22 | 21 |
| D A Hoare | 20 | - | - | - | 20 | 19 |
| F W Hulton | 22 | - | - | - | 22 | 21 |
| M J R Kelly | 10 | - | - | - | 10 | - |
| C Weiser | 18 | - | - | - | 18 | - |
| 1999 | 677 | 23 | 325 | 106 | 1,131 | 1,019 |
| 1998 | 692 | 27 | 240 | 60 | 1,019 | |

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

5. Directors' remuneration continued

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

| | Increase in accrued pension during year (note a) | Transfer value (net of director's contribution) of increase in accrued pension (note b) | Accrued pension at 30 September 1999 (note c) | Accrued pension at 30 September 1998 (note c) |
|----------------|--|---|---|---|
| | £ | £ | £ | £ |
| N S Terrington | 5,665 | 33,080 | 52,954 | 45,823 |
| N Keen | 3,068 | 21,149 | 25,167 | 21,413 |

Notes to pension benefits

- The increase in accrued pension during the year excludes any increase for inflation.
- The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less directors' contributions.
- The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the Group's financial year.

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

Also included in pension contributions is £65,000 paid in respect of further pension provision for Mr N Keen. Contributions in respect of Mr J P L Perry were paid into his personal pension scheme.

6. Employees

The average number of persons (including directors) employed by the Group during the year was 619 (1998: 541).

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

| | 1999 £m | 1998 £m |
|-----------------------|------------|------------|
| Wages and salaries | 13.3 | 11.2 |
| Social Security costs | 1.0 | 0.9 |
| Other pension costs | 0.8 | 0.6 |
| | 15.1 | 12.7 |

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

Notes to the accounts

(continued)

7. Profit on ordinary activities before taxation

| | 1999 £m | 1998 £m |
|---|------------|------------|
| Profit on ordinary activities before taxation is after charging: | | |
| Depreciation | 1.6 | 1.7 |
| Auditors' remuneration (Group) | 0.3 | 0.3 |
| - audit services | 0.4 | 0.6 |
| - non audit services | 0.3 | 0.3 |
| Hire of plant and machinery | 0.3 | 0.3 |
| Property rents payable | 2.1 | 1.4 |

The Company's audit fee was £18,900 (1998: £18,700).

8. Tax charge on profit on ordinary activities

| | 1999 £m | 1998 £m |
|--|--------------|------------|
| UK Corporation Tax at 30.5% (1998: 31%) | | |
| Write-back of Advance Corporation Tax | 1.4 | - |
| Deferred tax (note 21) | (5.0) | (0.9) |
| | (3.6) | (0.9) |
| Prior year adjustments | | |
| Current tax | 0.1 | (0.3) |
| Tax charge on profit on ordinary activities | (3.5) | (1.2) |

The taxation charge has been reduced by £0.8m as the profit on disposal of fixed assets has been offset against capital losses brought forward in Group companies and reduced by £5.9m (1998: £6.9m) in respect of movements in partially provided deferred tax assets including unrelieved Advance Corporation Tax. There are losses carried forward to offset against future income of appropriate Group companies of £1m (1998: £27m). In addition the Group has capital losses in excess of £65m (1998: £75m) which are available to offset against future capital gains in the relevant companies.

9. Profit/(loss) attributable to members of The Paragon Group of Companies PLC

The holding company's profit after tax for the financial year amounted to £30.2m (1998: loss of £9.3m). A separate profit and loss account has not been prepared for the holding company under the provisions of Section 230 of the Companies Act 1985.

10. Dividend

| | Per share | | 1999 £m | 1998 £m |
|---|--------------|-------|------------|------------|
| | 1999 | 1998 | | |
| Equity dividend on ordinary shares | | | | |
| Interim paid | 1.50p | 1.30p | 1.7 | 1.1 |
| Proposed final | 1.90p | 1.70p | 2.3 | 2.0 |
| | 3.40p | 3.00p | 4.0 | 3.1 |

11. Earnings per share

| | 1999 | 1998 restated |
|--|--------------------|------------------|
| Earnings per ordinary share is calculated as follows: | | |
| Profit for the year | £30,300,000 | £23,900,000 |
| Basic weighted average number of ordinary shares ranking for dividend during the year | 115,955,548 | 106,737,186 |
| Dilutive effect of the weighted average number of share options in issue during the year | 1,066,720 | 1,305,640 |
| Diluted weighted average number of ordinary shares ranking for dividend during the year | 117,022,268 | 108,042,826 |
| Earnings per ordinary share - basic | 26.1p | 22.4p |
| - diluted | 25.8p | 22.1p |

Earnings per share has been restated to comply with the requirements of Financial Reporting Standard 14 - Earnings Per Share. In 1998 earnings per share was calculated in accordance with Financial Reporting Standard 3 - 'Reporting Financial Performance'. Using this standard the weighted average number of ordinary shares used in the calculation of earnings per share for the year ended 30 September 1998 was 104,870,621.

Notes to the accounts

(continued)

12. Tangible fixed assets

| | Freehold Property £m | Long Leasehold Premises £m | Short Leasehold Premises £m | Plant and Machinery £m | Assets on operating leases to third parties £m | Total £m |
|---------------------------------|----------------------------|-------------------------------------|--------------------------------------|---------------------------------|---|-------------|
| Cost or valuation | | | | | | |
| At 1 October 1998 | - | 21.0 | 1.1 | 8.2 | 0.3 | 30.6 |
| Additions | 0.5 | - | - | 1.1 | - | 1.6 |
| Transfer | 21.0 | (21.0) | - | - | - | - |
| Disposals | (21.5) | - | - | (0.6) | (0.3) | (22.4) |
| At 30 September 1999 | - | - | 1.1 | 8.7 | - | 9.8 |
| Accumulated depreciation | | | | | | |
| At 1 October 1998 | - | 3.4 | 0.6 | 4.7 | 0.1 | 8.8 |
| Charge for the year | 0.1 | 0.1 | 0.1 | 1.3 | - | 1.6 |
| Transfer | 3.5 | (3.5) | - | - | - | - |
| On disposals | (3.6) | - | - | (0.5) | (0.1) | (4.2) |
| At 30 September 1999 | - | - | 0.7 | 5.5 | - | 6.2 |
| Net book value | | | | | | |
| At 30 September 1999 | - | - | 0.4 | 3.2 | - | 3.6 |
| At 30 September 1998 | - | 17.6 | 0.5 | 3.5 | 0.2 | 21.8 |

All assets at 30 September 1999 are stated at cost.

The net book value of long leasehold premises at 30 September 1998 determined according to the historic cost convention was £13.7m. The net book values of all other assets shown above are determined according to the historic cost convention.

13. Loans to customers

| | 1999 £m | 1998 £m |
|----------------------------|----------------|------------|
| Cost | | |
| At 1 October 1998 | 1,379.2 | 1,095.2 |
| Additions | 415.0 | 544.9 |
| Other debits | 156.6 | 143.8 |
| Repayments and redemptions | (468.3) | (404.7) |
| At 30 September 1999 | 1,482.5 | 1,379.2 |

Included in loans to customers are £72.9m (1998: £32.5m) of hire purchase receivables. The aggregate rentals receivable during the year in respect of hire purchase contracts were £8.2m (1998: £1.7m). The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £67.6m (1998: £38.1m).

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

14. Investment in own shares

| | 1999 £m | 1998 £m |
|--|------------|------------|
| Shares held by the trustee of the share option schemes | 2.8 | 2.8 |

All of the shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes. The trustee's costs are included in the operating expenses of the Company. At 30 September 1999, the trust held 2,585,277 shares (1998: 3,130,667) with a nominal value of £258,528 (1998: £313,067) and a market value of £5,429,082 (1998: £4,680,347). The dividends on these shares have not been waived.

15. Investment in subsidiary companies

| | 1999 £m | 1998 £m |
|---|-------------|------------|
| Shares in Group companies | | |
| At 1 October 1998 | 1.7 | 120.4 |
| Additions during the year | 10.2 | 26.2 |
| Revaluation | | |
| Credited/(charged) to the profit and loss account | 7.7 | (132.9) |
| Credited/(charged) to the revaluation reserve | 0.1 | (12.0) |
| | 19.7 | 1.7 |
| Loans to Group companies | | |
| At 1 October 1998 | 2.1 | 0.8 |
| Additions during the year | 10.0 | 13.9 |
| Repayments during the year | (5.0) | - |
| Revaluation | | |
| Credited/(charged) to the profit and loss account | 2.9 | (12.6) |
| | 10.0 | 2.1 |
| At 30 September 1999 | 29.7 | 3.8 |

Notes to the accounts

(continued)

15. Investment in subsidiary companies continued

Principal operating subsidiaries comprise

| | Holding | Principal Activity |
|--|---------|--|
| Direct subsidiaries of The Paragon Group of Companies PLC | | |
| Paragon Finance PLC | 100% | Residential mortgages and asset administration |
| Homer Finance (No. 3) PLC | 100% | Residential mortgages |
| Paragon Mortgages Limited | 100% | Residential mortgages |
| Homeloans No.1 PLC | 100% | Residential mortgages |
| Homeloans No.2 PLC | 100% | Residential mortgages |
| Homeloans No.3 PLC | 100% | Residential mortgages |
| Finance for People (No. 1) PLC | 100% | Residential mortgages |
| Finance for People (No. 2) PLC | 100% | Residential mortgages |
| Finance for People (No. 3) PLC | 100% | Unsecured and car loans |
| Finance for People (No. 4) PLC | 74% | Residential mortgages |
| Paragon Vehicle Contracts Limited | 100% | Vehicle fleet management |
| Paragon Car Finance Limited | 100% | Vehicle finance |
| Paragon Dealer Finance Limited | 100% | Vehicle finance |
| Paragon Personal Finance Limited | 100% | Unsecured lending |
| Paragon Mortgages (No. 1) PLC | 74% | Residential mortgages |
| Paragon Mortgages SA | 100% | Residential mortgages |
| Paragon Mortgages (No. 2) SA | 100% | Residential mortgages |
| Subsidiaries of Paragon Mortgages Limited | | |
| Paragon Second Funding Limited | 100% | Residential mortgages and loan and vehicle finance |

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

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

16. Stocks

| | 1999 £m | 1998 £m |
|--|-------------|------------|
| Residual purchase obligations | 12.1 | 14.1 |
| Vehicles on extended hire or held for resale | 2.4 | 3.5 |
| | 14.5 | 17.6 |

17. Debtors

| | Group | | Company | |
|--|-------------|------------|--------------|------------|
| | 1999 £m | 1998 £m | 1999 £m | 1998 £m |
| Amounts falling due within one year | | | | |
| Amounts owed by Group companies | - | - | 104.3 | 84.7 |
| Tax debtors | 1.8 | 4.1 | 0.1 | 0.3 |
| Other debtors | 5.5 | 4.5 | 0.2 | 0.2 |
| Prepayments and accrued income | 15.5 | 9.6 | 2.4 | 0.4 |
| | 22.8 | 18.2 | 107.0 | 85.6 |

18. Called-up share capital

| | 1999 £m | 1998 £m |
|---|-------------|------------|
| Authorised: | | |
| 150,000,000 ordinary shares of 10p each | 15.0 | 15.0 |
| Allotted and paid-up: | | |
| 116,206,294 (1998: 115,667,935) ordinary shares of 10p each | 11.6 | 11.6 |

During the year 463,277 ordinary shares (£46,323 par value) were issued for £450,907 and a further 75,082 (£7,508 par value) were issued for £65,520. These issues were made under the executive and employee share option schemes, respectively.

19. Reserves

| | Share Premium Account £m | Merger Reserve £m | Revaluation Reserve £m | Profit and Loss Account £m | Total £m |
|-------------------------------------|-----------------------------------|-------------------------|------------------------------|-------------------------------------|-------------|
| (a) The Group | | | | | |
| Balance at 1 October 1998 | 62.0 | (126.6) | 3.9 | 135.9 | 75.2 |
| Goodwill transfer | - | 56.4 | - | (56.4) | - |
| Transfer on sale of revalued assets | - | - | (3.9) | 3.9 | - |
| Share options exercised | 0.4 | - | - | - | 0.4 |
| Retained profit for the year | - | - | - | 26.3 | 26.3 |
| Balance at 30 September 1999 | 62.4 | (70.2) | - | 109.7 | 101.9 |

The cumulative amount of goodwill on acquisitions written off to reserves is £56.4m (1998: £56.4m). This goodwill has been transferred from the merger reserve to the profit and loss account during the year to ensure compliance with the newly issued Financial Reporting Standard 10 - 'Goodwill and Intangible Assets'.

| | Share Premium Account £m | Revaluation Reserve £m | Profit and Loss Account £m | Total £m |
|--|-----------------------------------|------------------------------|-------------------------------------|-------------|
| (b) The Company | | | | |
| Balance at 1 October 1998 | 62.0 | 0.2 | 13.0 | 75.2 |
| Revaluation of investments in subsidiaries | - | 0.1 | - | 0.1 |
| Share options exercised | 0.4 | - | - | 0.4 |
| Retained profit for the year | - | - | 26.2 | 26.2 |
| Balance at 30 September 1999 | 62.4 | 0.3 | 39.2 | 101.9 |

Notes to the accounts

(continued)

20. Share option schemes

Options are outstanding under the executive share option and the all employee share option schemes to purchase 7,764,738 (1998: 6,805,461) ordinary shares of 10p each as follows:

| Number | Period exercisable | Price |
|-----------|--------------------------|---------|
| 23,221 | 11/03/1996 to 11/03/2000 | 25.97p |
| 16,107 | 11/03/1996 to 11/03/2000 | 10.39p |
| 2,436 | 11/03/1996 to 11/03/2000 | 35.96p |
| 3,130 | 07/12/1996 to 07/12/2000 | 86.30p |
| 62,570 | 07/12/1996 to 07/12/2000 | 69.52p |
| 5,192 | 02/02/1997 to 02/02/2001 | 196.57p |
| 37,040 | 02/02/1997 to 02/02/2001 | 139.84p |
| 1,361,648 | 13/03/1998 to 13/03/2005 | 97.33p |
| 60,484 | 31/03/1998 to 31/03/2005 | 87.26p |
| 306,330 | 14/06/1998 to 14/06/2005 | 103.56p |
| 32,296 | 04/07/1998 to 04/07/2005 | 97.33p |
| 49,553 | 06/02/1999 to 06/02/2003 | 100.68p |
| 38,866 | 21/06/1999 to 21/06/2003 | 103.08p |
| 1,256,574 | 02/12/1999 to 02/12/2003 | 105.48p |
| 104,280 | 12/06/2000 to 12/06/2004 | 162.05p |
| 125,136 | 16/06/2000 to 16/06/2004 | 160.62p |
| 20,856 | 16/06/2000 to 16/06/2004 | 105.48p |
| 1,143,000 | 31/03/2001 to 31/03/2008 | 218.00p |
| 722,000 | 31/03/2001 to 31/03/2005 | 218.00p |
| 250,000 | 30/09/2001 to 30/09/2008 | 162.50p |
| 1,420,000 | 11/01/2002 to 11/01/2009 | 147.50p |
| 344,670 | 23/03/2002 to 22/09/2002 | 164.40p |
| 279,349 | 23/03/2004 to 22/09/2004 | 164.40p |
| 100,000 | 27/09/2002 to 27/09/2006 | 209.50p |

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.

20. Share option schemes continued

Details of individual options held by the directors at 30 September 1998 and 30 September 1999:

| Date from which exercisable | Expiry date | Option price | J P L Perry | N S Terrington | N Keen | M J R Kelly |
|---|-------------|--------------|-------------|----------------|-----------|-------------|
| Options held at 30 September 1998: | | | | | | |
| 11/03/1996 | 11/03/2000 | 25.97p | 52,570 | 52,570 | 26,285 | - |
| 11/03/1996 | 11/03/2000 | 10.39p | 58,548 | 58,548 | 19,275 | - |
| 11/03/1996 | 11/03/2000 | 35.96p | 5,479 | 5,479 | 2,740 | - |
| 07/12/1996 | 07/12/2000 | 69.52p | 25,028 | 25,028 | 12,514 | - |
| 07/12/1996 | 07/12/2000 | 86.30p | 1,252 | 1,252 | 626 | - |
| 02/02/1997 | 02/02/2001 | 139.84p | - | - | - | 68,073 |
| 02/02/1997 | 02/02/2001 | 196.57p | - | - | - | 3,365 |
| 13/03/1998* | 13/03/2005 | 97.33p | 417,646 | 261,226 | 130,613 | 332,663 |
| 14/06/1998* | 14/06/2005 | 103.56p | - | 104,280 | 202,050 | - |
| 02/12/1999 | 02/12/2003 | 105.48p | 260,700 | 260,700 | 234,630 | - |
| 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 | - |
| | | | 1,021,223 | 1,194,083 | 1,028,733 | 404,101 |
| Options exercised in the year: | | | | | | |
| 11/03/1996 | 11/03/2000 | 25.97p | (52,570) | (52,570) | (26,285) | - |
| 11/03/1996 | 11/03/2000 | 10.39p | (58,548) | (58,548) | (19,275) | - |
| 11/03/1996 | 11/03/2000 | 35.96p | (5,479) | (5,479) | (2,740) | - |
| 02/02/1997 | 02/02/2001 | 139.84p | - | - | - | (68,073) |
| 13/03/1998* | 13/03/2005 | 97.33p | - | - | - | (332,663) |
| | | | 904,626 | 1,077,486 | 980,433 | 3,365 |
| Options granted in the year: | | | | | | |
| 11/01/2002* | 11/01/2009 | 147.50p | - | 300,000 | 250,000 | - |
| 23/03/2002 | 22/09/2002 | 164.40p | 5,892 | - | 11,784 | - |
| 23/03/2004 | 22/09/2004 | 164.40p | - | 10,264 | - | - |
| At 30 September 1999 | | | 910,518 | 1,387,750 | 1,242,217 | 3,365 |

At 30 September 1999 The Paragon Group of Companies PLC share price was 210p and the range during the year then ended was 125p to 264.5p. The exercise of options by Mr J P L Perry, Mr N S Terrington and Mr N Keen took place on 25 May 1999, on which date the share price was 227p. The exercise of options by Mr M J R Kelly took place on 4 March 1999, on which date the share price was 202p.

* The exercising 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.

Options are granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. Further details of the share option schemes are given in the Report of the Board to the shareholders on directors' remuneration on page 17.

Notes to the accounts

(continued)

21. Provisions for liabilities and charges

(a) The Group

| | Deferred taxation £m | Other provisions £m | Total £m |
|--|----------------------------|---------------------------|-------------|
| Provision at 1 October 1998 (restated - note 1(k)) | - | 4.4 | 4.4 |
| Asset at 1 October 1998 | (3.6) | - | (3.6) |
| Current year charge | 5.0 | 0.8 | 5.8 |
| Utilised in the year | - | (2.4) | (2.4) |
| Provision at 30 September 1999 | 1.4 | 2.8 | 4.2 |

The other provisions include committed future lease costs for properties no longer occupied by the Group and costs of relocating the operations of the personal finance business to the Group's head office.

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

| | 1999 | | 1998 | |
|--|------------------------------|----------------|------------------------------|----------------|
| | Potential liability £m | Provided £m | Potential liability £m | Provided £m |
| Capital allowances in excess of depreciation | - | - | 1.2 | 1.2 |
| Other timing differences | 1.4 | 1.4 | (10.3) | (4.8) |
| | 1.4 | 1.4 | (9.1) | (3.6) |

(b) The Company

There is no potential liability for deferred tax in the holding company either at 30 September 1999 or 30 September 1998.

22. Creditors

| | Group | | Company | |
|---|----------------|------------------|-------------|------|
| | 1999 | 1998 restated | 1999 | 1998 |
| | £m | £m | £m | £m |
| Amounts falling due within one year | | | | |
| Bank loans and overdrafts | 0.7 | 6.3 | - | - |
| Amounts owed to Group companies | - | - | 2.1 | 2.1 |
| Proposed dividend | 2.2 | 2.0 | 2.2 | 2.0 |
| Corporation tax | - | 1.5 | - | 0.3 |
| Accruals | 24.1 | 23.0 | 1.8 | 1.2 |
| | 27.0 | 32.8 | 6.1 | 5.6 |
| Amounts falling due after more than one year | | | | |
| Asset backed loan notes | 1,310.9 | 1,347.3 | - | - |
| Bank loans | 209.9 | 124.7 | 20.0 | - |
| Accruals | 7.9 | 9.5 | - | - |
| | 1,528.7 | 1,481.5 | 20.0 | - |

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 23.

23. 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.

Credit risk

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

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

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

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

Liquidity risk

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

The asset backed loan notes are secured on portfolios comprising variable and fixed rate mortgages or personal 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 the notes at various rates between 0.12% and 1.30% above the London Interbank Offered Rate ("LIBOR") for three month sterling products. During the year, Group companies issued £185.0m of mortgage backed floating rate notes at par.

Assets are typically securitised within twelve months of origination. Until that point new loans are funded using a £300.0m (1998: £150.0m) committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. £127.5m (1998: £29.9m) is included in bank loans in respect of drawings on this facility. This facility is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance Limited, Paragon Personal Finance Limited and Paragon Dealer Finance Limited. As with the asset backed loan notes, repayments of this facility are restricted to the amount of principal cash realised from the funded assets. Although the facility expires in 2044 it is likely that substantial repayments will be made within the next five years. This facility remains available for further drawings until January 2002.

In addition to these borrowings the Group has a committed corporate syndicated sterling bank facility of £96.0m (1998: £108.0m), used to provide working capital for the Group. Included in bank loans are drawings of £62.4m (1998: £98.8m) made by Paragon Finance PLC and drawings of £20.0m (1998: £nil) made by the Company under this facility. The available facility reduces in annual instalments of £12.0m on 31 March each year, subject to final repayment of the facility in 2002. The facility is secured on all the assets of the Company and Paragon Finance PLC.

Interest on the bank facilities is payable at various rates between 0.33% and 0.91% above LIBOR. The undrawn amounts on the two bank facilities at 30 September 1999 and 30 September 1998 are set out overleaf.

Notes to the accounts

(continued)

23. Financial instruments continued

| | 1999 £m | 1998 £m |
|---|--------------|------------|
| Undrawn committed facilities for which repayment would fall due: | | |
| in one year or less | 12.0 | 8.0 |
| in more than one year but not more than two years | 1.0 | - |
| in more than two years | 172.0 | 120.0 |
| | 185.0 | 128.0 |

Cash received in respect of loan assets is not immediately available for Group purposes, due to the terms of the Paragon Second Funding Limited facility and the securitisations. £132.7m was subject to such restrictions at 30 September 1999.

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

Set out below is the maturity profile of the Group's financial liabilities at 30 September 1999 and 30 September 1998.

| | Overdrafts £m | Bank loans £m | Asset backed loan notes £m | Other £m | 1999 Total £m | Overdrafts £m | Bank loans £m | Asset backed loan notes £m | Other £m | 1998 Total £m |
|---|------------------|---------------------|-------------------------------------|-------------|---------------------|------------------|---------------------|-------------------------------------|-------------|---------------------|
| Financial liabilities falling due | | | | | | | | | | |
| in one year or less, or on demand | 0.7 | - | - | 26.3 | 27.0 | 2.3 | 4.0 | - | 26.5 | 32.8 |
| in more than one year but not more than two years | - | 10.9 | - | 3.9 | 14.8 | - | 11.8 | - | 4.9 | 16.7 |
| in more than two years but not more than five years | - | 71.5 | - | 4.0 | 75.5 | - | 83.0 | - | 4.6 | 87.6 |
| in more than five years | - | 127.5 | 1,310.9 | - | 1,438.4 | - | 29.9 | 1,347.3 | - | 1,377.2 |
| | 0.7 | 209.9 | 1,310.9 | 34.2 | 1,555.7 | 2.3 | 128.7 | 1,347.3 | 36.0 | 1,514.3 |

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.

23. 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 1999 | | | | | | | |
| Cash at bank and in hand | 147.2 | - | - | - | - | - | 147.2 |
| Loans to customers | 934.5 | 15.1 | 49.1 | 393.6 | 90.2 | - | 1,482.5 |
| Investment in own shares | - | - | - | - | - | 2.8 | 2.8 |
| Other assets | - | - | - | - | - | 40.9 | 40.9 |
| Total assets | 1,081.7 | 15.1 | 49.1 | 393.6 | 90.2 | 43.7 | 1,673.4 |
| Provisions | - | - | - | - | - | (4.2) | (4.2) |
| Bank loans and overdrafts | (210.6) | - | - | - | - | - | (210.6) |
| Asset backed loan notes | (1,310.9) | - | - | - | - | - | (1,310.9) |
| Other liabilities | - | - | - | - | - | (34.2) | (34.2) |
| Shareholders' funds | - | - | - | - | - | (113.5) | (113.5) |
| Total liabilities | (1,521.5) | - | - | - | - | (151.9) | (1,673.4) |
| Off balance sheet items | 454.2 | (16.0) | (46.1) | (349.5) | (42.6) | - | - |
| Interest rate repricing gap | 14.4 | (0.9) | 3.0 | 44.1 | 47.6 | (108.2) | - |
| Cumulative gap | 14.4 | 13.5 | 16.5 | 60.6 | 108.2 | - | - |
| At 30 September 1998 | | | | | | | |
| | £m | £m | £m | £m | £m | £m | £m |
| Cash at bank and in hand | 165.9 | - | - | - | - | - | 165.9 |
| Loans to customers | 980.1 | 10.4 | 21.9 | 262.8 | 104.0 | - | 1,379.2 |
| Investment in own shares | - | - | - | - | - | 2.8 | 2.8 |
| Other assets | - | - | - | - | - | 57.6 | 57.6 |
| Total assets | 1,146.0 | 10.4 | 21.9 | 262.8 | 104.0 | 60.4 | 1,605.5 |
| Provisions | - | - | - | - | - | (4.4) | (4.4) |
| Bank loans and overdrafts | (131.0) | - | - | - | - | - | (131.0) |
| Asset backed loan notes | (1,347.3) | - | - | - | - | - | (1,347.3) |
| Other liabilities | - | - | - | - | - | (36.0) | (36.0) |
| Shareholders' funds | - | - | - | - | - | (86.8) | (86.8) |
| Total liabilities | (1,478.3) | - | - | - | - | (127.2) | (1,605.5) |
| Off balance sheet items | 318.3 | (15.5) | (28.6) | (236.2) | (38.0) | - | - |
| Interest rate repricing gap | (14.0) | (5.1) | (6.7) | 26.6 | 66.0 | (66.8) | - |
| Cumulative gap | (14.0) | (19.1) | (25.8) | 0.8 | 66.8 | - | - |

Notes to the accounts

(continued)

23. Financial instruments continued

'Off balance sheet items' shows the notional principal amount of swap agreements included within "no more than 3 months" are £38.1m (1998: £11.5m) of capped rate mortgages hedged by interest rate cap agreements which reset quarterly.

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.

| | Gains £m | Losses £m | Total net gains/(losses) £m |
|--|-------------|--------------|-----------------------------------|
| Unrecognised gains and losses on hedges at 1 October 1998 | 0.1 | (7.7) | (7.6) |
| Gains and losses arising in previous years that were recognised in the year | - | - | - |
| Gains and losses arising before 1 October 1998 that were not recognised in the year | 0.1 | (7.7) | (7.6) |
| Gains and losses arising in the year that were not recognised in the year | 5.4 | 5.8 | 11.2 |
| Unrecognised gains and losses on hedges at 30 September 1999 | 5.5 | (1.9) | 3.6 |
| Of which: | | | |
| Gains and losses expected to be recognised in the year to 30 September 2000 | 1.2 | (0.6) | 0.6 |
| Gains and losses expected to be recognised in the year to 30 September 2001 or later | 4.3 | (1.3) | 3.0 |

Currency risk

The Group has no material exposure to foreign currency risk.

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 3 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 1999 and 30 September 1998.

23. Financial instruments continued

| | Book value £m | 1999 Fair value £m | Book value £m | 1998 Fair value £m |
|---|------------------|--------------------------|------------------|--------------------------|
| Derivative financial instruments held to manage the interest rate profile: | | | | |
| Swaps | - | 2.3 | - | (7.6) |
| Caps | 1.4 | 2.7 | 1.1 | 1.1 |

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.

The 1998 fair values disclosed above are as at 31 October 1998 as the counterparties concerned were unable to supply valuations as at 30 September 1998.

24. Reconciliation of operating profit to net cash flows from operating activities

| | 1999 £m | 1998 £m |
|---|------------|------------|
| Operating profit | 31.3 | 25.1 |
| Provision for losses | 5.8 | 5.1 |
| Depreciation | 1.6 | 1.7 |
| Decrease/(increase) in stock | 1.1 | (2.4) |
| Increase in debtors | (6.9) | (3.6) |
| Increase/(decrease) in creditors | 0.3 | (0.1) |
| Net cash inflow from operating activities | 33.2 | 25.8 |

Notes to the accounts

(continued)

25. Analysis of cash flows for headings netted in the cash flow statement

| | 1999 £m | 1998 £m |
|---|---------------|---------------|
| (a) Capital expenditure and financial investment | | |
| Net increase in loans to customers | (109.5) | (73.7) |
| Expenditure on other fixed assets | (1.6) | (1.3) |
| Proceeds from sale of freehold property (note 4) | 20.4 | - |
| Proceeds from sales of other fixed assets | 0.3 | 0.3 |
| Acquisition of own shares | - | (1.1) |
| | (90.4) | (75.8) |
| (b) Financing | | |
| Net proceeds of rights issue | - | 47.9 |
| Exercise of share options | 0.4 | 0.3 |
| Increase in loans from banks and others (note 28) | 44.8 | 103.0 |
| | 45.2 | 151.2 |

26. Acquisitions and disposals

| | 1998 £m |
|--------------------|---------------|
| Net assets | |
| Fixed assets | 0.9 |
| Loans to customers | 215.4 |
| Debtors | 7.1 |
| Creditors | (241.3) |
| Taxation | (1.1) |
| | (19.0) |
| Goodwill | 45.2 |
| Satisfied by | |
| Cash | 26.2 |

27. Reconciliation of net cash flow to movement in net debt

| | 1999 £m | 1998 £m |
|---|------------------|------------------|
| Increase in cash in year | 6.6 | 57.5 |
| Cash inflow from increase in debt | (44.8) | (343.2) |
| Cash movement from change in liquid resources | (23.7) | 16.0 |
| Movement in net debt in year | (61.9) | (269.7) |
| Net debt at 1 October 1998 | (1,312.4) | (1,042.7) |
| Net debt at 30 September 1999 | (1,374.3) | (1,312.4) |

28. Analysis of net debt

| | At 1 October 1998 £m | Cash flows £m | At 30 September 1999 £m |
|--------------------------|-------------------------------|---------------------|----------------------------------|
| Cash in hand at bank | 77.7 | 5.0 | 82.7 |
| Overdrafts | (2.3) | 1.6 | (0.7) |
| | | 6.6 | |
| Debt due after one year | (1,472.0) | (48.8) | (1,520.8) |
| Debt due within one year | (4.0) | 4.0 | - |
| | | (44.8) | |
| Other liquid resources | 88.2 | (23.7) | 64.5 |
| Total | (1,312.4) | (61.9) | (1,374.3) |

Other liquid resources comprise term deposits with UK banks.

29. Capital commitments

There were no capital commitments (1998: £nil) contracted but not provided for.

30. Financial commitments

At 30 September 1999 the Group had commitments to make annual payments under operating leases which expire as follows:

| | 1999 £m | 1998 £m |
|----------------------------|------------|------------|
| Plant and machinery | | |
| Between two and five years | 0.4 | 0.2 |
| Land and buildings | | |
| Between two and five years | 0.2 | 0.1 |
| Over five years | 3.4 | 1.8 |
| | 4.0 | 2.1 |

Notice of Annual General Meeting

To all shareholders

NOTICE IS HEREBY GIVEN that the eleventh Annual General Meeting of The Paragon Group of Companies PLC will be held at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ on 17 February 2000 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 1999 and the Reports of the Directors and the Auditors
- 2 To declare a dividend
- 3 To re-appoint as directors (a) Professor A D Chambers* (b) Mr F W Hulton*
- 4 To re-appoint Deloitte & Touche as Auditors and to authorise the directors to fix their remuneration.

*Remuneration Committee member

As special business

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

Ordinary Resolution

5 "THAT

- (a) the capital of the Company be and is hereby increased from £15,000,000 to £17,500,000 by the creation of an additional 25,000,000 Ordinary Shares of 10p each in the capital of the Company; and
- (b) 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 £4,383,870 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 Resolution

- 6 "THAT, subject to the passing of the previous resolution, the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited 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 £581,000

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.”

Ordinary Resolution

7 “THAT

- (a) the directors be and they are hereby authorised to establish the Paragon 2000 Executive Share Option Scheme in the form presented to the meeting; and
- (b) the directors be and they are hereby authorised to vote and be counted in the quorum on any matter connected with the said scheme, notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation) and the prohibition on voting by interested directors contained in the Articles of Association of the Company be and is hereby relaxed accordingly.”

By order of the Board
John G Gemmell
Company Secretary

Registered and Head Office:
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE
17 December 1999
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 (Saturday and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the Annual General Meeting and at the place of meeting from 10.00a.m. until the conclusion of the meeting. The Report and Accounts have been sent to the Company's shareholders.

Biographical details of all directors are provided on page 24.

Company information

Registered and Head Office

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Solihull
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London Office

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London SW1P 1PL
Telephone: 020 7957 9701

Internet

www.paragon-group.co.uk

Auditors

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

Solicitors

Slaughter and May
35 Basinghall Street
London EC2V 5DB

Registrars and Transfer Office

Computershare Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
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Brokers

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

Financial Advisors

HSBC Investment Bank plc
Vintners Place
68 Upper Thames Street
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