

REPORT AND ACCOUNTS 2000



committed to you

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Directors and Advisers

Directors:

P. R. Johnson (Chairman)^{°*}
A. G. Kerr, M.A. (Chief Executive)
N. Alexander, C.A., F.C.T. (Secretary)
E. J. Billington, C.B.E., D.L.^{°+*}
I. M. Howe, F.C.M.A., M.B.C.S.^{°+*}

[°] Non-Executive

⁺ Member of the Remuneration Committee

^{*} Member of the Audit Committee

Registered Office:

Valley Road
Birkenhead CH41 7ED
Registered in England No. 1711939

Auditors:

KPMG Audit Plc

Stockbrokers:

Rathbone Neilson Cobbold Limited

Bankers:

National Westminster Bank plc

Registrars:

Computershare Services PLC

Chairman's Statement

Group turnover amounted to £198.5m for the year to end March 2000 compared with £208.8m in 1998-99. Profit before tax of £470,000 contrasted with a loss of £5.494m in the previous year.

The main impact on profits for the past year has been the first full year performance of Park Direct Credit, our new home collected credit operation. As expected, Park Direct Credit incurred heavy provisions for bad and doubtful debts which is usual in such start-ups. In these circumstances the board considered it prudent not to recommend a dividend.

Earnings per share were 0.09p against a negative (3.21p) in 1998-99.

The past year has been one of considerable activity in the established business areas. The data capture and management activities of Park Online made a solid contribution. The company's new communication centre is proving to be an excellent investment. Capacity utilisation is growing in line with our plans to make Park Online one of the foremost providers of specialist telemarketing and related database management services.

We are also working with creative website designers and door-to-door distributors to develop an e-commerce business to consumer service. This will be launched later this year. We shall capitalise on the considerable investment in our web-enabled communication centre supported by our traditional fulfilment services.

During the year the decision was taken to transfer the design and contract packing business of Jetlag to Park Online. Jetlag is now recovering from the reduced activity in the airline sector and is extending its presence in the retail gift market.

In Cash Savings, having taken the conscious step to build volume in the finer margin voucher business, we are adding to our list of big name redeemers. Park's High Street Vouchers is the largest multi-redemption voucher

operation in the UK. Its vouchers may now be exchanged at over 8,000 retail outlets. Business customers of High Street Vouchers will this year be encouraged to buy their vouchers through our website. A business to consumer proposition will quickly follow allowing Internet shopping for vouchers as personalised gifts for special occasions.

The core Cash Savings business has shown its first rise in a number of years. Currently, savings for Christmas 2000 are up by over 10% on the previous year. The number of customers is significantly up within the new agent category which has shown large growth, while the existing agent base remains stable. However these encouraging developments should be balanced against the fact that growth is mainly in lower margin voucher sales.

It has been a year of investment for Park Direct Credit. With new computer systems about to come into operation we shall be able to grow and monitor this business more effectively. After a strong start in terms of new customer signings we deliberately imposed a check on further expansion while we reviewed progress and took action to improve the quality of the loan book. As a result we expect to embark on a programme of carefully controlled growth during the course of the current year.

The board owes its thanks to staff throughout the group for their commitment and enthusiasm in a challenging year.

Park Group is now strongly focused on growing the business in its chosen areas of Financial and Marketing Services. The foundations have been laid and it is now a matter of achieving the improved performance we all wish to see.

Peter Johnson
Chairman

Directors' Report

The directors submit their report and the audited accounts for the year ended 31st March 2000.

Results and Dividend

The group profit for the year after taxation was £0.147m (1999 – loss £5.205m). There is no dividend for the year against 1.10p per share in the prior year which cost £2.366m.

Business Review

Park Group is developing its business along two clearly defined paths. Firstly, in financial services, there is the traditional cash savings business comprising the supply of hampers and the fast growing High Street Voucher to which has been added the weekly home collected credit activity of Park Direct Credit, launched in September 1998 since when it has become the sixth largest participant in the sector. Secondly, through Park Online, the group provides an expanding range of outsourced marketing services to a broad cross section of business customers.

Financial services – cash savings

The cash savings operation, the original Park business, has changed dramatically in recent years as customers have opted both for wider choice and greater value for money in the light of more competitive pricing in the high street.

As a result there has been an inexorable shift away from hampers and towards Park's High Street Vouchers, the most widely used cash voucher after Marks and Spencer's and now redeemable at over 8,000 separate retail outlets throughout the UK.

The response to changes in customer preference has been vigorous. A wider range of food and non-food items has been introduced and, at the same time, the concept of modular hampers has been extended giving customers more say in what goes into their hampers. At this stage in the current Christmas 2000 campaign agents' average order values are up on last year while there is also encouraging evidence that market share is increasing.

Accepting the fact that margins inevitably are lower on vouchers than on hampers, the company has gone for volume on the voucher operation which now represents some 90% of all sales in the cash savings business. The success of this policy can be seen partly in the increased number of redeemers' names on the voucher – 31 against 13 three years ago – which makes High Street Vouchers the largest multi-redemption voucher in the UK.

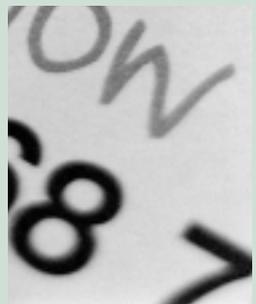
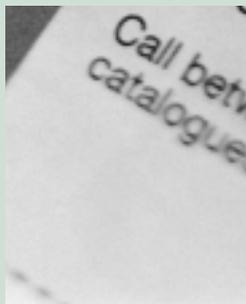
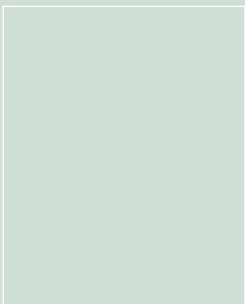
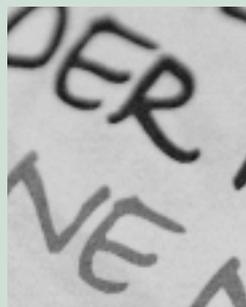
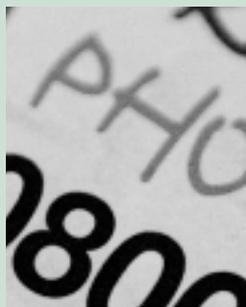
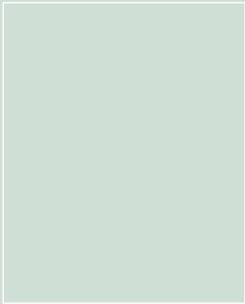
In addition, new retail, as well as wholesale, markets are being developed with the objective over time of both increasing the profitability of the voucher operation and making it less seasonal.

Financial services – home collected credit

New business growth at Park Direct Credit, still only in its second year, was deliberately put on hold last year, for two main reasons. First, the decision was taken to carry out a complete review and upgrade of systems to ensure that when growth resumes the company is able to cope with a planned increase in demand. Second, advantage has been taken of the pause to check the quality of the loan book and to select those customers with whom the company wishes to develop a long term relationship.

It was inevitable that during the start-up period bad debt experience would be greater than the industry average but not greater, in our view, than the costly alternative of acquiring another credit operation and assuming the debt that would have come with it. With new systems now in place Park Direct Credit has the opportunity to build a viable business in a market offering a sound opportunity for profitable growth once the initial growing pains have been overcome.

There is a solid base to the business. It operates in four geographic regions and has a total of 30,000 customers served by a network of 400 agents managed by 70 district managers reporting to a strengthened management team. Loans are repaid over periods of 26, 40 and 52 weeks depending on the status of the borrower and the nature of the product supplied.



Marketing services

Park Online continues to make satisfactory progress and is growing according to plan.

This one stop shop for data capture and database management, linked to a state of the art communications centre at Cheshire Lines in Birkenhead and fulfilment support at Nelson, processes up to 4 million inbound calls a year and in 2000 expects to add a million outbound calls as the range and sophistication of its capabilities increase.

During the past year Park Online has had to absorb the cost of terminating a lease on its Altrincham premises and of the resultant transfer of work to Cheshire Lines. It has also had transferred to it the design, sourcing and packing business of Jetlag which, following a significant reduction in its traditional business of supplying amenity kits to airlines, is now concentrating on building up a retail client base for whom it specialises in designing and packing a growing range of gifts sets and other products.

Park Online's underlying performance showed increased profits during the year in line with expectations though lower profits at Jetlag during the transition phase resulted in a reduced result for marketing services in its enlarged form compared with the previous year.

Other business issues

During the year the company raised £4m through the sale and leaseback of properties at its principal site in Birkenhead incurring an overall loss of £537,000. In March this year the manufacturing equipment and licences associated with the former Spuddles Limited subsidiary, closed last year, was sold resulting in a net surplus over book value of £218,000.

The group's plans for ensuring that systems were year 2000 compliant were formulated well in advance. As a result the company did not experience any problems and no charges have been made to this year's profit and loss account.

The principal subsidiary undertakings and their activities are listed in note 11 to the accounts.

Directors

The directors who were in office at 31st March 2000 are listed on page 1. Mr. I. F. D. Hill, a non-executive director at 31st March 1999, retired from the board following the annual general meeting held on 28th September 1999.

Mr. P. R. Johnson (60) is the company's founder, majority shareholder, non-executive chairman of the board and a member of the audit committee. His services to the company are contracted through KUS Limited, a company controlled by Mr. Johnson. This contract, entered into on 8th February 2000 allows for the payment of fees and the provision of a motor car and has a notice period of twelve months. Mr. Johnson, in accordance with the articles of the company, retires by rotation and, being eligible, offers himself for re-election.

Mr. A. G. Kerr (50), who is Chief Executive, has a service agreement with the company, entered into on 8th September 1997, which requires the company to give twelve months notice of termination. Mr. Kerr, in accordance with the articles of the company, retires by rotation, and being eligible, offers himself for re-election.

Mr. N. Alexander (58) has a service agreement with the company entered into on 17th January 2000. This agreement continues until 1st October 2001 or such earlier date by Mr. Alexander giving six months notice of termination.

Mr. I. M. Howe (60) is a fellow of the Chartered Institute of Management Accountants and a member of the British Computer Society. He was appointed to the board in 1994 and is the senior independent non-executive director, chairing both the audit and remuneration committees. He holds a non-executive directorship with Ethel Austin Limited.

Mr. E. J. Billington (65) is an independent non-executive director, appointed to the board in 1994, and is a member of the audit and remuneration committees. He is a director of the Isle of Man International Business School, of the Royal Liverpool Philharmonic Society and recently retired as chairman of Edward Billington & Son Ltd.

Share Capital

No shares were issued by the company in the year to 31st March 2000.

At the date of this report interests in the share capital of the company of 3% or more were as follows:

Under the rules of the Park Group Sharesave Scheme invitations were issued to all eligible employees on 23rd July 1999. Applications were received from 57 employees who were granted options over an aggregate 464,061 ordinary shares of 2p each in the company at an exercise price of 36p per share.

		%
Mr. P. R. Johnson	101,646,957	62.56
KUS Pension Fund	5,835,386	3.59
Eaglet Investment Trust plc	5,550,000	3.42
Fidelity International Ltd and its direct and indirect subsidiaries	5,180,900	3.19

Directors' Interests

No director was materially interested at any time during the year in any contract of significance with the company.

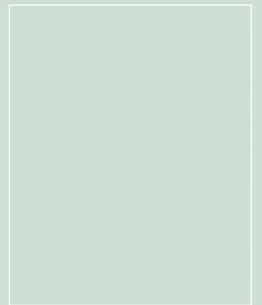
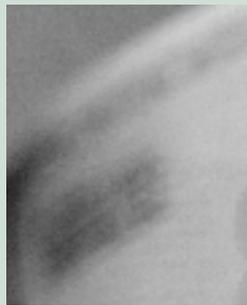
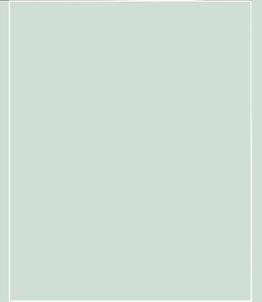
Directors' Share Interests

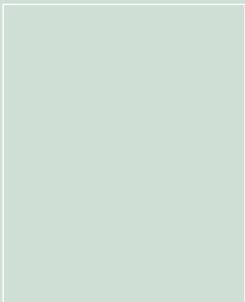
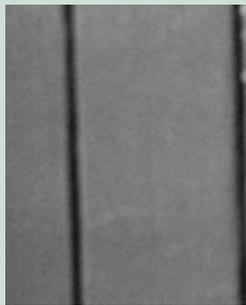
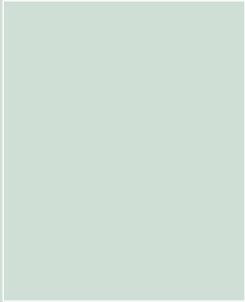
The beneficial interests in the share capital of the company of the directors in office at 31st March 2000 were as follows:

	Beneficial Shareholding		Park Group Sharesave Scheme				
	31st March 2000	31st March 1999	31st March 2000	31st March 1999	Exercise price	Date exercisable	Expiry date
P. R. Johnson	101,645,957	103,186,926	-	-	-	-	-
N. Alexander	850,000	850,000	-	37,500	45p	-	-
			46,875	-	36p	30.09.04	31.03.05
E. J. Billington	35,000	35,000	-	-	-	-	-
I. M. Howe	30,000	30,000	-	-	-	-	-
A. G. Kerr	20,000	20,000	21,527	21,527	45p	31.01.02	31.07.02

Mr. P. R. Johnson has a beneficial interest in the KUS Pension Fund whose sole beneficiaries are himself and Mrs. S. E. Johnson. Mr. P. R. Johnson also has a non-beneficial interest, as member and council member, in The Johnson Foundation, a registered charity with number 518660. At 31st March 2000 The Johnson Foundation held 3,415,000 shares in the company.

There were no changes to directors' interests in shares between 31st March 2000 and the date of this report.





Executive Remuneration

Remuneration committee

The remuneration committee is appointed by the board and is responsible for determining the remuneration and benefits of each of the executive directors of the company. Its terms of reference are:

1. To agree the terms of any director's service contract
2. To approve the principles on which the scale of remuneration and benefits are based
3. To review the operation of the company's share option scheme and to approve the issue of grants therefrom

The committee comprises the two independent non-executive directors of the company (see page 1) and has access to external advisers if it so wishes.

Executive directors are remunerated through the provision of a basic salary, participation in an earnings related bonus scheme, car benefit, medical and permanent health insurance cover. Executive directors are also members of executive pension schemes and enjoy benefits in kind such as the payment of certain telephone accounts and professional subscriptions.

Executive directors may hold other appointments and retain any fees derived therefrom.

Basic salaries

Basic salaries have remained unchanged since 1st April 1997, or later date of appointment to the board.

Incentives

The main elements of the directors incentive bonus scheme include the need for earnings per share to grow each year at a rate in excess of RPI, the establishment of a distributable pool the amount of which will not be permitted to exceed 100% of aggregate basic salaries of the directors and the deferral for 3 years of 30% of entitlement which will be payable only if earnings per

share growth over that extended period continues to exceed RPI growth by a margin. The committee is satisfied that the detailed performance criteria are sufficiently challenging but will review them regularly and make changes if they appear to be necessary.

No payments have so far been made under this scheme and, in recognising that this situation was likely to continue during the period of the company's restructuring, the remuneration committee awarded Mr. Kerr a bonus amounting to £45,000 in the light of progress made.

Share options

The company's executive share option scheme, insofar as the granting of new options is concerned, has been closed since 29th September 1998.

Mr. A. G. Kerr has a long term incentive arrangement whereby he will be granted options over 1,500,000 ordinary shares of 2p each in the company at a subscription price of 43.5p per share on the following basis:

	Target share price (TSP)	Date by which TSP is to be achieved
Share options		
500,000	100p	1.07.02
1,000,000	200p	1.07.04

Non-executive directors

The independent non-executive directors receive fees as directors which are determined by the whole board, each director abstaining from decisions affecting his own remuneration. They receive additional remuneration for consultancy work commissioned by the company. The independent non-executive directors do not have service agreements with the company.

Directors' emoluments

The emoluments of directors for the year ended 31st March 2000 were:

	Salary or fees £'000	Bonus £'000	Benefits £'000	Total		Pension costs	
				2000	1999	2000	1999
				£'000	£'000	£'000	£'000
Executive Directors							
A. G. Kerr (Highest paid director)	200	45	12	257	210	43	53
N. Alexander	114	–	14	128	124	171	94
	314	45	26	385	334	214	147
Non-Executive Directors							
P. R. Johnson	75	–	31	106	171*	31	62
I. F. D. Hill (retired 28.9.99)	7	–	–	7	15	–	–
I. M. Howe	15	–	–	15	15	–	–
E. J. Billington	15	–	–	15	15	–	–
	112	–	31	143	216	31	62
	426	45	57	528	550	245	209

* of which £109,000 as an executive director

Pensions – Defined benefit arrangements

	Age at 31st March 2000	Increase in accrued pension during year £'000	Accrued	Accrued
			pension at 31st March 2000 £'000	pension at 31st March 1999 £'000
			N. Alexander	58

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year or to the date of ceasing to accrue final salary benefits if earlier.

The increase in accrued pension during the year allows for inflation on the previous year end accrued pension.

A full two-thirds of salary (i.e. excluding bonuses) pension is payable on normal retirement at age 60 with at least 20 years service.

The member is not required to make any contribution but he has the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.

Spouse's pensions at the rate of two thirds of the member's pension is payable on the death of the member.

Pensions are increased annually at a rate of 8 1/2% or the increase in the Retail Prices Index if this is lower.

Mr. N. Alexander has an interest in the group's staff pension fund in that he was a member of it prior to joining the executive fund. This fund requires employee contributions of 5% of basic salary which is the only pensionable remuneration. Normal retirement under the rules of this fund is at age 65 with 40 years service necessary for a two-thirds of salary pension to be paid.

Pensions – Money purchase arrangements

	Company contributions paid £'000
P. R. Johnson	33
A. G. Kerr	43

None of the directors is subject to the pensions 'earnings cap' – that is, all contributions to the pension schemes on behalf of directors in the year ended 31st March 2000 have been exempted from income tax.

Corporate Governance

The company has applied the principles of good governance, in so far as they relate to companies as set out in the Combined Code, as follows:

A. Directors

There are presently five directors on the board of the company being a non-executive chairman, chief executive, finance director and two other independent non-executive directors.

The board has six scheduled meetings per annum to consider the chief executive's and the finance director's reports and those other matters specifically reserved to the board. It meets on other occasions as necessary.

The chairman is responsible for running the board and the chief executive has a specific list of duties and responsibilities provided to him by the board to enable him to run the company's business.

The board is satisfied that the information reported to it is done so in a timely manner and is in a form and of a quality to enable it to discharge its duties. Whilst the board feels it inappropriate to have a nomination committee it is satisfied that a proper, open procedure applies for new appointments to the board. The company's articles of association require that one third of the members of the board or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third shall retire by rotation and seek re-election each year. Notwithstanding this, the board is observing the terms of the Combined Code in that every director seeks re-election at intervals of no more than three years.

B. Directors' Remuneration

Matters concerning remuneration, service contracts and compensation for the executive directors are dealt with by the remuneration committee which presently consists of the two independent non-executive directors'. A statement of the company's policy on directors' remuneration and details of all the

emoluments of each director have been set out under the heading 'Executive Remuneration' on page 9.

C. Relations with Shareholders

All directors attend the company's annual general meeting and are available to deal with the concerns of shareholders formally during the meeting or informally thereafter. The chief executive and the finance director together make presentations to analysts and institutional investors following announcements to the Stock Exchange of the half-year and full year results. Other ad hoc meetings are held with interested parties on request.

D. Accountability and Audit

The directors are required by law to prepare financial statements for each financial year. In preparing those financial statements, the directors are required to use suitable accounting policies applied consistently; to make judgements and estimates that are reasonable and prudent; to state whether applicable accounting standards have been followed (subject to material departures disclosed and explained in the financial statements), and to prepare them on a going concern basis provided it is appropriate to do so.

The directors are responsible at all times for maintaining adequate accounting records which disclose with reasonable accuracy the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985.

They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

This annual report and accounts provides information on and details of the company's operations and its

financial position. After reviewing group projections and the availability of financing facilities the directors consider that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and, for this reason, the going concern basis has been adopted in preparing the accounts.

The Combined Code requires the board to report on the group's system of internal control. Formal guidance has now been issued and whilst acting on this, the board is taking advantage of the transitional provisions which allow its first report on this matter to be made next year. Accordingly the board is reporting this year only on internal financial controls.

The directors are responsible for, and have reviewed the effectiveness of, the group's system of internal financial controls. The principal elements of the group's established systems include: a clearly defined organisational structure under which individual responsibilities are monitored by members of the board; budgets covering key financial aspects of group activities which are approved by the board; monthly comparisons of results against budget and prior year which are considered by the board; clearly defined procedures for treasury management and the authorisation of capital expenditure. Any such system of controls can provide only reasonable and not absolute assurance against material misstatement or loss.

For the year ended 31st March 2000 the company has complied with the Code of Best Practice for companies as set out in the Combined Code, save for the following:

(a) None of the non-executive directors has been appointed for a specified term.

(b) Mr. Alexander's service agreement provides for no notice period at the option of the company.

Political and Charitable Contributions

During the year ended 31st March 2000 the group contributed £2,032 for charitable purposes. There were no political contributions.

Creditor Payment Policy

The company does not comply with any code or standard in respect of the payment of creditors. Current policy is to specify settlement terms with suppliers when agreeing the terms of each transaction. Where no specific terms are agreed creditor payments are made in accordance with the company's own terms and conditions of purchase. As at 31st March 2000 the number of days of parent company purchases outstanding was 23 days.

Auditors

KPMG Audit Plc have indicated their willingness to continue as auditors and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Birkenhead
27th July 2000

On behalf of the board
N. Alexander
Secretary

Auditors' Report

We have audited the financial statements on pages 14 to 28.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report. As described on page 11 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the listing rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 group is not disclosed.

We review whether the statement on pages 11 and 12 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by 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 other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

8 Princes Parade
Liverpool L3 1QH
27th July 2000

KPMG Audit Plc
Chartered Accountants
Registered Auditor