PARK GROUP PLC

Park Group plc

Report and Accounts 2001

Contents

Directors and Advisers

Directors:

P. R. Johnson (Chairman)
N. Alexander
C. Houghton
R. J. Staines
J. Walls
G. A. Woods
A. Wright
C. J. Baker ° * †
R. G. Marcall ° * †

° Non-Executive
*Member of the Audit Committee
† Member of the Remuneration Committee

Secretary:

J. E. Evans F.C.I.S

Registered Office:

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

Auditors:

KPMG Audit Plc
8 Princes Parade
Liverpool
L3 1QH

Stockbrokers:

Rathbone Neilson Cobbold Limited
Port of Liverpool Building
Pier Head
Liverpool
L3 1NW

Charles Stanley & Co
25 Luke Street
London
EC2A 4AR

Bankers:

Barclays Bank PLC
15/33 Moorfields
Liverpool
L69 2RU

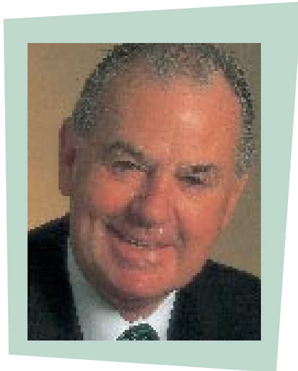
Merchant Bankers:

N M Rothschild & Sons Limited
82 King Street
Manchester
M2 4WQ

Registrars:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Chairman's Statement



Peter Johnson,
Chairman

Group turnover for the year ended 31st March 2001 was £159.7m compared with £198.5m for 1999-2000. A loss before tax of £1.7m contrasted with a profit of £0.470m in the previous year. Again no dividend is being declared.

After careful consideration the board is satisfied that the going concern basis for preparation of the accounts remains entirely appropriate. The principal justification for taking this stance is the group's strong cash generation, a traditional and continuing feature of the business.

Despite the reported loss, the group cash situation improved steadily over the year, with net borrowings of £0.334m at the start of the year becoming cash in the bank of £4.8m by the year end.

This healthy transformation is the result of a series of developments, namely:

- a reduction of £2.5m in cash tied up in working capital
- improved credit controls
- reduced capital expenditure, the lowest for some years
- lower bad debt costs in Park Direct Credit, through rigidly applied lending criteria
- improved levels of cash collection at Park Direct Credit, with further enhancements expected this year
- a £25m, or 24.3%, increase in the cash savings business order book for Christmas 2001.

As at 31st March 2001, the group's balance sheet showed net liabilities of £6.6m. However to understand fully the group's financial position it is important to note that this is after having written off directly to reserves goodwill totalling £28.1m incurred between 1975 and 1998. Had we chosen to capitalise the goodwill, we estimate that its current net book value would have added £15.6m to the balance sheet converting the net liabilities to positive shareholders funds of £9.0m.

The increase in the cash savings order book is particularly encouraging as it means that after a period of low growth, the cash savings business is once again growing strongly. Overall agent numbers are 21% up, while new, first year agents are up by 63%. The swing to vouchers appears to have stabilised with sales split approximately 90/10, vouchers to hampers and gifts.

Park Direct Credit, our home collected credit operation, is now in a much healthier position. The Scottish region is consistently in profit and the other three regions are moving steadily in the right direction. A new management team has put in place controls which have enabled collection performance to mirror that of our larger competitors with corresponding reductions in the bad debt charge.
The previous concept for this business of an officeless structure has been reversed and a planned roll out of district offices will eventually enable PDC to offer a range of financial services.

High Street Vouchers – one of the largest multi-choice gift vouchers in the UK

Park & Country Catalogues – part of Park Group's cash savings business

Park Online call centre operative – Cheshire Lines

"The increase in the cash savings order book is particularly encouraging as it means that after a period of low growth, the cash savings business is once again growing strongly."

The refocusing of Park Online, our marketing services business, has resulted, since the year end, in the disposal to local management of the loss making data capture and fulfilment operation at Nelson. The management team at Park Online is now free to concentrate effort on the modern and well-equipped communication centre in Birkenhead where new contracts are steadily filling seat availability.

During the course of the year we implemented some major changes to our computer systems. These have delivered the flexibility we need to continue to enhance our customer relationship management, providing an even more responsive and targeted service, while at the same time improving the speed and accuracy of information available.

The need for investment in our systems was becoming apparent as the old programs were increasingly cited as an inhibitor to change. With an investment of £1.6 million, we have acquired a modern package from one of the world's leading suppliers, JD Edwards, and integrated it with an in-house system that addresses the unique needs of Park agents and customers.

After moving back into an executive role last September, I set about giving the group a clearer focus. This inevitably entailed a strengthening of the divisional management structure which has succeeded in instilling a new sense of purpose throughout the group.

The group board has also been strengthened with the appointment of the managing directors of our main businesses and of the group IT director. At the same time Chris Houghton, as previously intimated, has succeeded Neil Alexander as finance director. Neil will retire following the Annual General Meeting in September and I would like to take this opportunity to thank Neil for his contribution to the group over the 16 years that he has worked alongside me and wish him well in the future.

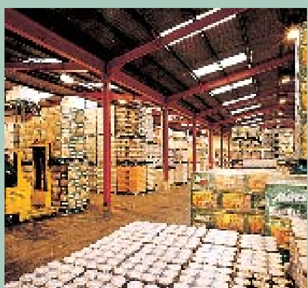
I am also delighted to re-affirm the appointment of two non-executive directors, Christopher Baker and George Marcall.

My colleagues on the board join with me in thanking all employees for their unstinting efforts during a year of change.

It is our intention to ensure that the group takes every opportunity to improve its position now that the desired structures are in place. Taking together achieved sales order growth in the cash savings business, the more realistic and focused nature of the remit at Park Direct Credit and promising new client developments at Park Online, the signs as we enter 2001/02 are more encouraging than at any other time in the recent past.

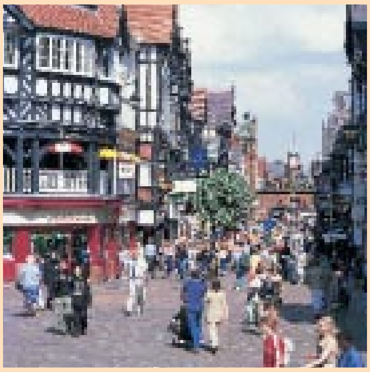
Peter Johnson
Chairman
7th June 2001

Jetlag International – ensuring world class performance from concept to completion



Handling Solutions Limited – extensive warehouse facilities, Birkenhead

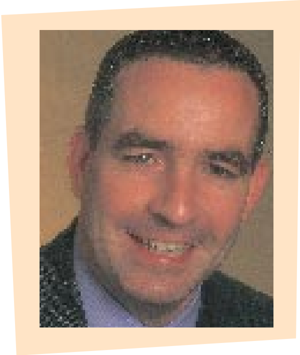
www.parkgroup.co.uk



"Park's HSV is the largest voucher of its kind available in the market, redeemable at over 10,000 separate retail outlets in the UK."

Operational Review

Cash Savings



Jim Walls,
Managing Director,
Park Financial Services

Turnover during the year fell by 19.6% to £138.7m, following the loss of a significant low margin voucher supply contract. The business has been restructured to reduce operating costs. This has resulted in some one-off costs this year, including redundancy payments and costs associated with the development of new systems.

The past year has been marked by concentrated and, to date, successful efforts to increase sales of both High Street Vouchers (HSV) and traditional hamper and gift products. The shift in recent years towards shopping vouchers and away from hampers has been well documented. If there has been a mistake in previous marketing emphasis, it has been to accept that trend rather than to maximise our selling efforts on both fronts.

This fault is now being addressed. Park's HSV is the largest voucher of its kind available in the market, redeemable at over 10,000 separate retail outlets in the UK. It made sense wherever competitive pressures resulted in a loss of business to replace it at a higher margin than previously obtained. The demand for HSV from retail customers is so strong that this is now happening.

To this end there has been a pronounced shift in marketing strategy. A larger catalogue was developed offering a wider range of products in an endeavour to attract new customers. The previously under-sold HSV was marketed aggressively in its own right in the press and via DRTV. Simultaneously schemes were introduced to engender agent loyalty and encourage agency growth.

To date the results are extremely encouraging. The cash savings business is currently enjoying significant growth in its agency base and by association in all product groups compared with the 2000/01 result. It is intended to maintain this progress and to continue to grow the cash savings business.

The retail and wholesale marketplaces in which HSV operate are enjoying consistent annual growth. An integral part of the strategy for HSV is to produce significant growth in these sectors by developing existing channels as well as developing new routes to market. Most importantly, a retail presence needs to be developed in order to heighten the general public's awareness of this product. While on a marginal basis not as profitable as the agency voucher business, the development of this turnover is crucial in maintaining redeemer relations.

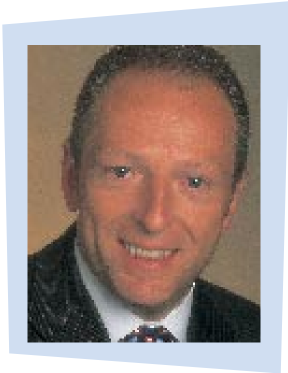
Natural extensions of the current business model, to include holiday/leisure partners, utilities and the use of certain redeemers as focal points for super agencies on the high street, are all being explored.

Right: High Street Vouchers, used to reward, recognise achievement, offer flexible incentives or simply to say thank you.

Above left: Park & Country Hampers Limited – helping to spread the cost of Christmas.

Left: High Street Vouchers accepted at over 47 of the country's leading retailers.

Home Collected Credit



Andy Wright,
Managing Director,
Park Direct Credit

"Bad debts are significantly lower than last year while perseverance with the new policies adopted will continue to add value going forward."

During the year, with the assistance of KPMG, we completed a strategic review of Park Direct Credit and as a result produced and implemented a three-year plan. The first step was to restructure the business with an emphasis on quality of lending rather than quantity.

The early stages of our participation in the home collected credit market, following initial test entry in 1998, had been characterised by a rapid build-up of the customer base. While necessary to some degree, in order to establish critical mass, this led at the time to unacceptably high levels of bad debt and also added significantly to our running costs.

The subsequent review of our operations has already proved beneficial. Bad debts are significantly lower than last year while perseverance with the new policies adopted will continue to add value going forward.

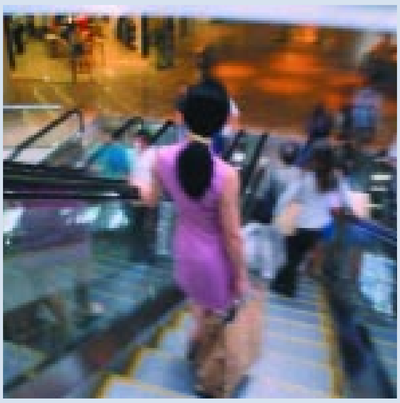
An essential requirement of our revised strategy has been to stabilise the agency base. I am pleased to report that our success in this area can now be seen in higher agent retention which in turn is beginning to be reflected in an improved quality of business. From this point on the bond of loyalty, which develops between agent and customer, will be key to our future success in this market.

One of the main changes to our operation has been the introduction of strategically placed local offices. We now have a physical presence in each of our main business areas. Our first high street branch opened in December and has proved very successful.

We shall be taking the opportunity through our branches to introduce complementary financial products, the first of which is Park Fast Cash, our cheque cashing facility. This will prove a welcome addition to what we intend should be a growing range of services. During the first half of the current financial year we are also brokering mortgages and general insurance and if successful these products will be introduced in an expanding network of branches.

With the benefit of a clear strategy to drive us forward, we have made a satisfactory start to the current year and are on target to make a positive contribution to the group.

Below: Park Fast Cash – Park's first high street branch.



"With the benefit of a clear strategy to drive us forward, we have made a satisfactory start to the current year and are on target to make a positive contribution to the group."

Below: Cheshire Lines building – refurbished to provide a pleasant working environment essential to good staff relations

"A focal point is our state of the art communication centre, situated in the centre of Birkenhead and capable of hosting more than 600 workstations."

Park Online

John Davies,
Operations Director,
Park Online

Park Online, the group's marketing services provider, produced an operating loss of £1.9m for the year (2000 – profit £1.0m). As a result the business has been restructured and on 4th May 2001, the promotional fulfilment and data capture unit based in Nelson, Lancashire was disposed of to local management. The retained business draws on a wide range of in-house capabilities, as well as those of sister companies and key strategic partners, and is flexible enough to accommodate most demands placed upon it. Whether the need is for an ongoing customer services solution, a cost-effective customer acquisition or retention program, or an innovative sales promotion, Park Online will invariably find the solution.

By understanding our clients' own specific processes and issues, Park Online aims to be a seamless extension of their business. Through pro-active account management, it is able to take and deliver client briefs, maintain required service levels and adjust to changing needs. From concept through to delivery, it is our firm belief that clients deserve innovative and co-ordinated use of their scarce marketing resources. Campaign planning and co-ordination, data management and analysis and performance and service level monitoring all contribute to the Park Online approach.

A focal point is our state of the art communication centre, situated in the centre of Birkenhead and capable of hosting more than 600 workstations. This completely refurbished building provides the pleasant working environment essential to good staff relations. At the heart of the operation is the Aspect automated call distribution system which enables calls to be routed automatically to waiting operators. It also produces the data necessary to monitor call-handling procedures.

Linked to the Aspect system is the Customer Facing System (CFS), our software operating platform. The CFS handles almost every aspect of call handling from workflow programming to automated dialling. Key attributes are its ability to script calls and gather data, process sales and schedule downstream events like literature requests. Because of the flexible design features of the CFS, Park Online is able to gear up rapidly for new projects and carry out workflow adjustments as necessary mid-campaign.

The CFS also uses raw data from the Aspect system to provide real time monitoring facilities for hands-on performance monitoring and a raft of automatically generated reports to help analyse the efficiency and efficacy of previous activities.

Park Online is also able to integrate the latest technology with the more traditional marketing approach. Services such as web enablement, SMS (short messaging service) and automated services are all available to add value to clients' propositions. Where a high volume of inbound response is expected, automated response handling and data gathering, teamed with our data capture and transcription service, provide a useful alternative to the live operator. If there is a heavy flow of information requests, data driven personalised information services can be deployed to alleviate peaks in operator demand and service after normal business hours.

At the heart of all direct marketing operations is data. Accordingly, Park Online has invested in a highly sophisticated data management infrastructure that can provide the marketing user with a powerful yet user friendly range of options. These include database hosting and management, data visualisation and analysis, profiling and segmentation, modelling, scoring and campaign management.

Drawing on many years of experience, Park Online is also able to handle high volumes of inbound mail and deliver high quality data capture services. It has large warehouse facilities, a major contract packing operation and nationwide distribution facilities. The operation can also laser print and fulfil outbound mail requirements.

Handling Solutions & Jetlag International

Gary Woods,
Managing Director,
Handling Solutions &
Jetlag International

Handling Solutions Limited

The group's hamper packing, distribution and supply chain operations are now controlled by the re-formed Handling Solutions Limited (HSL).

Based at the group's principal site in Valley Road, Birkenhead, HSL also undertakes third party work for a number of blue chip clients including L'Oreal and The Qualification & Curriculum Authority.

In addition to contributing significantly towards the recovery of overheads, these activities also allow HSL to employ a core team of permanent operatives throughout the year. Employees so retained are then able to fill the key supervisory positions as the unit gears up for the main hamper packing season commencing in September.

During the year the fulfilment and despatch of agent literature, new agent packs and day to day mail has also been transferred successfully back to HSL from Nelson.

"Performance has improved markedly in the year, a reduction in overheads resulting in significantly higher profits."

Jetlag International Limited

The design, retail gift set and travel/airline business of Jetlag has been re-established as a stand-alone company within marketing services.

Performance has improved markedly during the year, a reduction in overheads resulting in significantly higher profits. Although Jetlag still supplies some of the world's major airlines, the airline sector now accounts for only 20 per cent of its turnover. The retail gift market and partnerships with international leading brand cosmetics companies continue to be developed and last year the company filled in excess of 18 million miniatures for clients.

The core skills and services provided by Jetlag, particularly in miniature-sized gifts, and an innovative team of design and sourcing specialists, have combined to expand the retail client base which includes some of the UK's leading high street names.

Jetlag's commitment to providing superior quality products and services is underpinned by investment in its people and in quality management systems. It is this approach which is helping to secure new business.

Above: Handling Solutions Limited – offering high class distribution and supply chain operations with efficient packing operations, clients include L'Oreal.

Far right: Jetlag International – partnerships with international brand cosmetic companies continue to be developed.

Information Technology

Roger Staines,
IT Director

Increasingly the development of the group into new activities and markets, particularly the move into home collected credit, demands a system that is able to cope with these changes and meet future requirements.

Lack of a central database has prevented us from exploiting the information we held and it was becoming more difficult to maintain sufficiently high levels of customer service. In response, in January 2000, we launched project BLISS – Business Led Information System Strategy – to replace our outmoded systems with a fully integrated solution that could be implemented across the group, sharing information and common financial controls.

Park Financial Services was selected as the first company in the group to benefit from the new system, a tightly integrated mix of packaged software and a new agency system designed in-house. This co-operative approach has created a system which has improved dramatically the controls and information flow to the business. Agency orders are now entered in a single pass, allowing hour-by-hour monitoring of intake, instead of the previous three-phase, 24 hour process. At the same time, accounting entries are posted automatically on to the financial ledgers, saving days of manual effort each month.

The new system, with its relational database, improved the speed of data capture and also the service to our customers. It went live in two phases – in October 2000 we introduced the new Agency system and in April 2001 we switched on the financial package.

In a parallel project, we are currently testing the first phase of a new software package at Park Direct Credit which now manages the operational and financial transactions for one region. If successful we expect to extend this package to the rest of the company in the course of the current financial year.

We have launched a project to utilise the services of a data management company to enhance our data with lifestyle and demographic indicators to improve campaign management and target offers to a more highly segmented and responsive audience. This will give us a better understanding of our customers and their needs.

During the year, we constructed a transactional internet site. We will build on this to deliver systems which allow people to interact with us over the internet, anticipating closer relationships with our customers and suppliers as a result. Being wholly dependent on our computer systems to deliver services to agents and customers, our aim for the future is to make the Park experience a most efficient and pleasant one for them.

Directors' Report

The directors submit their report and the audited accounts for the year ended 31st March 2001.

Results and Dividend

The group loss for the year after taxation was £0.921m (2000 – profit £0.147m).

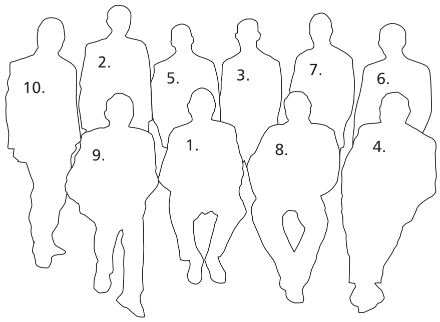
There is no dividend for the year (2000 – £nil).

Principal Activities and Business Review

A statement describing the business activities of the company and its subsidiary undertakings is set out on pages 5 to 11 with comments on current developments in the Chairman's statement on pages 2 and 3. The principal subsidiary undertakings and their activities are set out in note 9 to the accounts.

Directors

The directors who were in office at 31st March 2001 are listed on page 1. Mr. I. M. Howe and Mr. E. J. Billington, both non-executive directors and Mr. A. G. Kerr, chief executive at 31st March 2000, resigned from the board on 22nd September 2000.



1 Peter Johnson
2 Neil Alexander
3 Chris Houghton
4 Roger Staines
5 Jim Walls
6 Gary Woods
7 Andy Wright
8 George Marcall
9 Chris Baker
10 James Evans

1 Peter Johnson (61) is the company's founder and majority shareholder. Formerly non-executive chairman of the board, he has combined the roles of chairman and chief executive since the resignation of Mr. A. G. Kerr on 22nd September 2000. 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.

2 Neil Alexander (59) joined the group as group financial controller in 1985 and was appointed finance director in 1987, relinquishing this role in favour of Mr. Houghton on 29th March 2001. He also served as company secretary from October 1998 to October 2000. He has a service agreement with the company entered into on 17th January 2000 which continues until 1st October 2001. Mr. Alexander will not be seeking re-election to the board at the annual general meeting.

3 Chris Houghton (42), who has succeeded Mr. Alexander as finance director, was appointed to the board on 11th October 2000. Mr. Houghton is a Fellow of the Chartered Institute of Management Accountants and joined the group as group accountant in 1986. He became group financial controller in 1990 and finance director of Park Direct Credit in November 1999. He has a service agreement with the company entered into on 1st April 2001 which requires twelve months notice of termination by either party. He retires, and being eligible offers himself for re-election.

4 Roger Staines (54) was appointed to the board on 29th March 2001. He joined the group in 1998, to head the group's IT department, having previously been management information systems director at Virgin Retail Europe. He has a service agreement with the company entered into on 1st April 2001 which requires twelve months notice of termination by either party. He retires, and being eligible offers himself for re-election.

5 Jim Walls (37) was appointed to the board on 29th March 2001. He joined the group in 1999 as marketing director and subsequently became managing director of Park Financial Services. He had previously held a number of senior marketing and business development roles at Littlewoods Home Shopping Group. He has a service agreement with the company entered into on 1st April 2001 which requires twelve months notice of termination by either party. He retires, and being eligible offers himself for re-election.

6 Gary Woods (44) was appointed to the board on 29th March 2001. He joined the group with the acquisition of Chrisco Hampers in 1980 and has gained wide experience in divisional roles. He is managing director of Jetlag International and Handling Solutions. He has a service agreement with the company entered into on 1st April 2001 which requires twelve months notice of termination by either party. He retires, and being eligible offers himself for re-election.

7 Andy Wright (40) was appointed to the board on 29th March 2001. He joined the group at the beginning of 2000 as managing director of Park Direct Credit, having formerly been development director of Morses, the direct credit subsidiary of Great Universal Stores. He has a service agreement with the company entered into on 1st April 2001 which requires twelve months notice of termination by either party. He retires, and being eligible offers himself for re-election.

Non-Executive Directors

8 George Marcall (51) was appointed to the board as non-executive director on 29th March 2001 for a term of 3 years. He has formerly held directorships with Airtours plc and Yates Brothers Wine Lodges plc and is currently non-executive chairman of Dancexport Limited, a non-executive director of Marketing Manchester working with Manchester Airport plc and an executive director of Glyn Webb Limited. Mr. Marcall is chairman of the group's remuneration committee and a member of the audit committee. He retires, and being eligible offers himself for re-election.

9 Chris Baker (49) was appointed to the board as non-executive director on 29th March 2001 for a term of 3 years. He has formerly held senior management positions with The Littlewoods Organisation plc and Hill Samuel Bank Limited, and is currently non-executive director and chairman of the audit and remuneration committees of Convergent Communications plc and Jacques Vert plc. Mr. Baker is chairman of the group's audit committee, a member of the remuneration committee and the group's senior independent non-executive director. He retires, and being eligible offers himself for re-election.

Company Secretary

10 James Evans (55) succeeded Mr. Alexander as company secretary on 11th October 2000. Mr. Evans is a Fellow of the Institute of Chartered Secretaries and Administrators and joined the group in 1980. Following several years in group finance he was appointed company secretary to the group's subsidiaries and has served as assistant group secretary since 1987. Prior to joining the group he held senior finance and administration posts in the motor and photographic industries.

Share Capital

No shares were issued by the company in the year to 31st March 2001.

Under the rules of the Park Group Sharesave Scheme invitations were issued to all eligible employees on 18th July 2000. Applications were received from 56 employees who were granted options over an aggregate 2,271,923 shares of 2p each in the company at an exercise price of 11.5p per share.

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

		%
Mr. P. R. Johnson	101,649,325	62.56
KUS Pension Fund	16,135,386	9.93
Schroder UK Smaller Companies Fund	8,700,000	5.35

Directors' Share Interests

The beneficial interests in the share capital of the company of the directors in office at 31st March 2001 were as follows:

	Beneficial Shareholding		Park Group Sharesave Scheme – options over ordinary shares				
	31st March 2001	31st March* 2000	31st March 2001	31st March* 2000	Exercise price	Date exercisable	Expiry date
P. R. Johnson	101,649,325	101,649,325	–	–	–	–	–
N. Alexander	850,000	850,000	–	48,875	36.0p	30.09.04	31.03.05
			146,739	–	11.5p	30.09.05	31.03.06
C. Houghton	52,700	52,700	11,250	11,250	36.0p	30.09.04	31.03.05
G. A. Woods	23,453	23,453	–	–	–	–	–

* or date of appointment

Share price information is given in note 14 to the accounts. No share options have been exercised during the year.

Mr. P. R. Johnson has a beneficial interest in the KUS Pension Fund of which he is the sole beneficiary. He also has a non-beneficial interest, as a member and council member, in The Johnson Foundation, a registered charity with number 518660. At 31st March 2001 The Johnson Foundation held 3,415,000 shares in the company.

There were no changes to directors' interests in shares between 31st March 2001 and the date of this report.

Related Party Contracts

Details of related party contracts are given in note 19 to the accounts.

Executive Remuneration

Remuneration committee

The committee comprises the non-executive directors, Mr. R. G. Marcall and Mr. C. J. Baker, and the group chairman attends by invitation.

It makes recommendations to the board on the overall framework for executive remuneration and approves specific remuneration packages and service contracts for each of the executive directors of the company. It establishes remuneration policy and has access to external advisers if it so wishes.

Executive remuneration policy

The aim of the group's remuneration policy is to attract, motivate and retain high calibre executives and to ensure that they are rewarded with competitive salary and benefits packages which are linked to both individual and business objectives. These packages are reviewed each year to ensure that they are supportive of the group's business objectives and the creation of shareholder value.

Details of remuneration

Executive directors are remunerated through the provision of a basic salary, car benefit, medical and permanent health insurance cover. Executive directors are eligible for membership of the group pension scheme and enjoy benefits in kind such as the payment of certain telephone accounts and professional subscriptions.

Basic salaries

Base salaries for executive directors are reviewed with effect from April each year.

Share options

The company's executive share option scheme, in so far as the granting of new options is concerned, has been closed since 29th September 1998. The directors' participation in the Park Group Sharesave Scheme is shown above.

Contracts

Executive directors', with the exception of Mr. Alexander, have service contracts which provide for notice periods of up to one year. Non-executive directors do not have service contracts.

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.

Directors' Emoluments

The emoluments of directors for the year ended 31st March 2001 were:

	Salary or fees £'000	Compensation for loss of office £'000	Benefits £'000	Total 2001 £'000	Total 2000 £'000	Pension costs 2001 £'000	Pension costs 2000 £'000
Executive							
N. Alexander (highest paid director)	150	–	15	165	124	264	171
P. R. Johnson	75*	–	32*	107*	106**	–	31**
A. G. Kerr (resigned 22.09.00)	121	316	6	443	257	25	43
C. Houghton (appointed 11.10.00)	34	–	4	38	–	3	–
	380	316	57	753	487	292	245
Non-Executive							
I. M. Howe (resigned 22.09.00)	7	–	–	7	15	–	–
E. J. Billington (resigned 22.09.00)	7	–	–	7	15	–	–
	14	–	–	14	30	–	–
	394	316	57	767	517	292	245

* of which 50% as non-executive chairman

** of which all as non-executive chairman

The other executive directors (R. J. Staines, J. Walls, A. Wright, G. A. Woods), and the non-executive directors (C. J. Baker and R. G. Marcall) having been appointed to the board on 29th March 2001 received no emoluments as directors in the financial year to 31st March 2001.

Pensions – Defined Benefit Arrangements

The company currently operates two defined benefit pension schemes. Mr. Alexander is the only active member of Scheme 1.

Scheme 1.

	Age at 31st March 2001	Increase in accrued pension during year £'000	Accrued pension at 31st March 2001 £'000	Accrued pension at 31st March 2000 £'000
N. Alexander	59	23	80	57

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

Mr. Alexander is not required to make any contribution to the pension scheme.

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

Mr. Alexander has the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.

Under this scheme the normal retirement age is 60; a spouse's pension is payable at the rate of 2/3rds of the member's pension on the death of the member and pension increases are guaranteed at the rate of 8.5% per annum, or the increase in the Retail Prices Index, if lower.

Scheme 2.

	Age at 31st March 2001	Increase in accrued pension during year £'000	Accrued pension at 31st March 2001 £'000	Accrued pension at 31st March 2000 £'000
C. Houghton	42	1	12	11

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

Mr. Houghton is required to make contributions at 5% of scheme salary.

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

Members have the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.

Under this scheme the normal retirement age is 65; a spouse's pension is payable at the rate of 1/2 of the member's pension on the death of the member and pension increases, for pensions earned post 5th April 1997, are guaranteed at the rate of 5% per annum, or the increase in the Retail Prices Index, if lower. For pension earned prior to 6th April 1997, increases are at the discretion of the Trustees.

Accrued pension benefits at the end of the year for the directors appointed on 29th March 2001 and who are members of scheme 2 are:

R. J. Staines – £3,139
G. A. Woods – £12,697
A. Wright – £1,028

Pensions – Money Purchase Arrangements

	Company contributions paid £'000
A. G. Kerr	23

Corporate Governance

The company has in place appropriate policies and control procedures to enable it to comply with the principles of good governance, in so far as they relate to companies, set out in the Combined Code contained in the Listing Rules issued by the Financial Services Authority.

At the beginning of the year the board comprised five directors, being a non-executive chairman, chief executive, finance director and two independent non-executive directors. There existed fully functioning audit and remuneration committees.

The resignations of the two independent non-executive directors and the chief executive were received on 22nd September 2000.

At that time Mr. Johnson, as chairman, reverted to executive status. Appointments to the board have been made subsequently; one executive appointment on 11th October 2000; four executive and two independent non-executive appointments on 29th March 2001.

An audit and a remuneration committee, each comprising the two independent non-executive directors, have now been re-established. Best practice under the Combined Code requires that the audit committee should comprise at least three non-executives. The board operated without audit and remuneration committees for a period of approximately six months.

Because of the changes in the composition of the board of directors and its committees and the timing thereof, it is not possible to report that the company has complied throughout the year under review with the related provisions of the Code.

A The board of directors

The board has six scheduled meetings per annum to consider operational reports and those other matters specifically reserved to the board, including major policy decisions, capital and funding issues, budget and forecast approvals. It meets on other occasions as necessary.

The executive chairman is responsible for running the board and currently supervises day to day operations which have largely been delegated to the other six executive directors. The board takes the view that under current circumstances this is an appropriate modus operandi.

Information reported to the board is done so in a timely manner and is in a form and of a quality to enable it to discharge its duties.

The board has three committees – an audit committee, a remuneration committee and risk management committee – to which has been delegated certain specific board responsibilities. The membership of the audit and remuneration committees comprises the two independent non-executive directors. A proper, open procedure applies for new appointments to the board and the board feels it inappropriate to have a nomination committee. 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 will seek 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. 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 pages 15 to 17.

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. Presentations are made 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 which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. 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. This extends the previous requirement in respect of internal financial control to cover all other controls including those relating to operating, compliance and risk management.

The directors are responsible for, and have reviewed, the effectiveness of the group's system of internal 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.

The directors are responsible for the risk management process. This is now being carried out through a recently formed risk management sub-committee of the board whose terms of reference include:

- identification of business risk throughout the group's operations
- determination of the controls necessary to manage identified risk
- evaluation of the effectiveness of those controls
- continuous assessment and reporting to the board.

The board has considered the need to have an internal audit function and has determined that given the current size and scope of its operations it would not be appropriate, except in the case of Park Direct Credit where compliance managers have been appointed to ensure through continuous review that staff are complying with all stipulated operational procedures.

In addition to the issues surrounding the composition of the board referred to above the group has failed to comply with the Code of Best Practice for companies as set out in the Combined Code, as follows:

(a) There has been no continuous review process throughout the period.

(b) There is no chief executive. Mr. Johnson, as executive chairman, has effectively combined the role of chairman and CEO since September 2000.

(c) The non-executive directors do not comprise at least one third of the board.

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

The board is satisfied that the steps taken so far will result in closer compliance with Turnbull guidance on internal controls.

Financial Instruments

The group's financial instruments comprise short term borrowing facilities, cash and liquid resources and various items such as trade debtors, trade creditors etc, that arise directly from operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group has negligible borrowing requirements throughout the year and places surplus funds on short term cash deposit at fixed market rates. The group has a £1m overdraft facility which was not utilised at 31st March 2001. The overdraft shown in notes 12 and 18 to the accounts represents unpresented cheques, the value of which was covered by short term cash deposits. The group does not hedge against interest rate risk. Liquidity risk is managed by preparing detailed budgets and cash flow forecasts which are used to ensure that appropriate facilities are in place to finance future operations.

The group does not have a material foreign currency risk; any transaction exposure on purchases is hedged with forward contracts. Group policy with regard to credit risk has been operated since flotation in 1983 and treasury exposures are limited by our treasury policy which limits the amounts deposited with each of the members of a defined list of institutions which is periodically reviewed and approved by the board.

Post Balance Sheet Events

On 4th May 2001 Park Online Limited disposed of its promotional fulfilment activity based in Nelson, Lancashire and the results of this activity are shown as discontinued operations in the result for the year.

The group has received notice from two Country Hamper franchisees of their desire to surrender their franchises in the year to 31st March 2002.

Full details are contained in notes 19 and 20 to the accounts.

Political and Charitable Contributions

During the year ended 31st March 2001 the group contributed £5,360 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 2001 the number of days of parent company purchases outstanding was 18 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.

On behalf of the board

Birkenhead
7th June 2001

J. E. Evans
Secretary

Auditors' Report

to the members of Park Group plc

We have audited the financial statements on pages 22 to 36.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report. As described on page 18 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 17 to 19 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 2001 and of the loss 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
7th June 2001

KPMG Audit Plc
Chartered Accountants
Registered Auditor