PARITY GROUP PLC

Report and Accounts 2000

PARITY SOLUTIONS

END-TO-END IT SOLUTIONS

BUSINESS AND IT CONSULTANCY, CREATIVE DESIGN, INTERNET ARCHITECTURE, SYSTEMS INTEGRATION AND SUPPORT, TRAINING

PARITY SOFTWARE SERVICES

INTERNATIONAL TECHNOLOGY STAFFING SOLUTIONS

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT IN THE UK, MAINLAND EUROPE AND THE USA

Parity Group is a leading provider of e-business services and technology staffing solutions and operates from over 50 offices across the UK, mainland Europe and the USA.

Parity's businesses are now well-positioned with a clear strategy for growth in their targeted market sectors, with strengthened management, an excellent blue chip client base, respectable profit margins and the latest skills and service offerings.

Francis Carbutt, Chairman

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Parity Group at a Glance

Financial History

Year ended 31 December	1995	1996	1997	1998	1999	2000
Turnover	£128m	£162m	£202m	£290m	£314m	£269m
Profit before taxation*	£6.5m	£10.1m	£13.5m	£20.0m	£21.3m	£13.9m
Earnings per share*+ (basic)	3.48p	5.32p	7.01p	9.15p	9.61p	6.30p
Earnings per share*+ (diluted)	3.41p	5.11p	6.76p	8.84p	9.42p	6.25p
Dividends per share+	0.83p	1.33p	1.73p	2.27p	2.50p	2.50p
Shareholders' funds	£6.6m	£8.7m	£14.0m	£24.3m	£38.8m	£43.3m

* Before goodwill amortisation (and exceptional items in 1999) + After allowing for the three-for-one share split on 5 July 1999

2000 Financial Highlights	Turnover £m		Profit before tax* £m	
	2000	% change	2000	% change
Parity Solutions	76.9	12.0	7.86	(21.7)
Parity Software Services				
UK	93.8	(31.3)	4.21	(43.0)
Mainland Europe	50.2	(22.8)	1.48	(62.0)
USA	48.3	10.0	4.86	13.1
	192.3	(21.6)	10.55	(32.2)
Central costs including net interest			(4.52)	(5.4)
Total	**269.2**	**(14.3)**	**13.89**	**(34.9)**

* Before goodwill amortisation and exceptional items

The results of Parity Solutions BV are included within Parity Solutions for 2000 and 1999; they were previously included within Parity Software Services.

STRONG RELATIONSHIPS WITH INTERNATIONAL BLUE CHIP CLIENTS

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT SERVICES

BUSINESS CONSULTANCY, WEB ARCHITECTURE

Chairman's Statement

The Group produced a creditable performance in 2000 in difficult market conditions following the Year 2000 slowdown and the continued reduction in classic IT services expenditure thereafter. Our investment programme has revitalised the businesses under strong new management. Over the last two years, we have created the strategy, management and market position to move forward with confidence as market conditions improve this year.

Parity Group produced solid profits in the second half of 2000 as market conditions stabilised. Group turnover for the year was £269.2m (1999: £314.2m) and profit before tax, goodwill amortisation and exceptional items was £13.9m (1999: £21.3m). Basic earnings per share on the same basis were 6.30p (1999: 9.61p). Return on sales of 5.2% for the year before goodwill amortisation and revenues down only 14% reflected both strong management and excellent customer relationships.

Dividend

The Board is recommending a final dividend for the year of 1.57p. The total dividends for the year are therefore unchanged at 2.50p per share. The final dividend will be payable on 2 July 2001 to all shareholders on the register at the close of business on 6 April 2001.

Organisation

During the year, we successfully created two new divisions within the Group. The evolution of Parity Solutions from a traditional systems integration house to a new technology solutions business, started in early 1999, is now nearly complete and the demand for its new technology services is growing rapidly. The division's ability to provide a full range of services from initial consultancy, including creative design, through to systems development, support and training provides a valuable competitive edge for the future. This division has a great opportunity for organic growth in the UK and internationally as the market for its services develops.

Parity Software Services has developed into a strong international technology staffing business with service offerings that include both permanent and temporary IT staff and outplacement. The division has made considerable investment to strengthen its management teams, open new offices and invest in new systems. Following its creation as a unified international business, Parity Software Services has won a significant number of new preferred supplier agreements with blue chip customers, including many international assignments.

Group Board

Following a recent illness, Philip Swinstead has stepped down from the chairman and chief executive roles that he has held for the last two years during the Group's strategic restructuring. He will continue as a non-executive member of the Board and expects to return to a more active involvement in Parity by late summer. I have been appointed Non-executive Chairman of the Group, a position that I previously held from 1994 to 1997.

APPLICATIONS MANAGEMENT AND TRAINING

SYSTEMS INTEGRATION,

FIFTY OFFICES ACROSS THE UK, MAINLAND EUROPE AND USA

BUSINESS CONSULTANCY, WEB ARCHITECTURE,

Over the last two years, we have created the strategy, management and market position to move forward with confidence

As announced on 6 March, Ian Miller has joined the Board as Group Chief Executive. Ian was until recently Head of the $1 billion global energy business of EDS, based in Dallas, having previously been a partner of PA Consulting for 16 years. Keith Jennings, Managing Director of Parity Solutions, has decided to leave the Group and Ian Miller will provide leadership for this division in addition to his role at Group level. The Board thanks Keith for his contribution to the Group and wishes him every success in the future.

Acquisitions

Idev and Comtec, which were acquired in December 1999, were fully integrated into Parity Solutions during the year. No acquisitions were made in 2000 but in January 2001 the Group acquired Prime Selection Limited, a London-based IT resourcing company, for £6.1m. This will strengthen Parity Software Services' position in the financial services, legal and media sectors and will serve to increase scale in permanent IT recruitment.

Parity People

Our people have worked extremely hard during a year of difficult market conditions. The Board very much appreciates their input and thanks everyone in Parity for their contribution over the past year.

Current trading and prospects

Market conditions in the UK and Europe have been stable to improving in recent months but the US market has softened somewhat due to short term economic uncertainty. Whilst the Board remains cautious after recent experiences, it expects improving market conditions as the year progresses and customers respond to the business advantages offered by the latest communication and application technology and the consequent redevelopment of inflexible legacy systems. Meanwhile the business will continue to be managed strongly to maintain margins and retain both skills and market coverage.

Parity's businesses are now well-positioned with a clear strategy for growth in their targeted market sectors, with strengthened management, an excellent 'blue chip' client base, respectable profit margins and the latest skills and service offerings.

Francis Carbutt FCA
Non-executive Chairman

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT SERVICES

STRONG RELATIONSHIPS WITH INTERNATIONAL BLUE CHIP CLIENTS

BUSINESS CONSULTANCY

Chief Executive's Review of Operations

2000 was one of the most difficult years ever seen by the IT services industry. Despite this, the Group was profitable because it managed its cost base in line with revenue.

During the last year, considerable time and resources have been spent by the Group on a focused investment programme to transform both parts of the business to reflect the changing demands of clients. The decision to make these investments in the face of a difficult market was bold and the right strategic move. As a result of this programme, Parity now has two distinct divisions with the skills, management and infrastructure to make them potential leaders in their sectors.

Parity Solutions is a true end-to-end technology solutions provider. The combination of business and IT consultancy, web design and architecture, systems integration and training services in one supplier provides a strong competitive offering to customers migrating their business processes to capitalise on the new economy.

Parity Software Services brings together Parity's technology staffing solutions businesses in the UK, mainland Europe and the USA under the Parity brand. This is a genuine international business, with an expanding range of offerings that include staff augmentation, permanent recruitment, outplacement and a full HR service to manage clients' IT staff resources.

Parity Solutions

Parity Solutions' performance in 2000 was in line with mid-year expectations, with annual revenues of £76.9 million, up 12% on 1999, including the acquisitions of Comtec and Idev in December 1999. Excluding acquisitions, underlying revenues in the UK were unchanged and declined slightly in the difficult market in the Netherlands.

A combination of market conditions in the traditional systems markets, together with the smaller size of new technology projects, impacted on staff utilisation and reduced return on sales to 10.2% overall (UK: 11.5%), with operating profits declining to £7.9 million. A disappointing performance by Parity Solutions BV resulted in a small loss for the year in the Netherlands. This business is being restructured to focus on its key strengths.

By the end of its year of transformation, Parity Solutions had rebuilt its team with a new range of skills, including a creative web design group operating as Parity Studio. The case studies in this review demonstrate how these skills were deployed to help blue-chip clients exploit the growing benefits of the digital economy. These new capabilities supplement the proven business and IT consultancy, systems integration and project management skills that have been the basis of Parity Solutions' strength and reputation over many years.

BUILDING ON OUR EXTENSIVE INTERNATIONAL CAPABILITIES

MANAGEMENT AND TRAINING

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT SERVICES

These new capabilities supplement the proven business and IT consultancy, systems integration and project management skills that have been the basis of Parity Solutions' strength and reputation over many years

The first half-year was quiet as the Year 2000 hiatus continued into the summer. However, in the second half, the flow of e-business projects increased as clients started to explore the opportunities presented by the new technologies and we helped them to develop and test their e-business strategies. A feature of these projects was the requirement for multi-disciplinary teams from our consultancy, systems integration and training units.

A good example of this multi-disciplinary approach is the on-line share-dealing service developed for comdirect, a subsidiary of Commerzbank AG. This project was started in 1999 with strategic consultancy, followed by front end web design and then full systems development and integration, before going live in 2000. For boxclever Technology, formed by the merger of Granada Technology and Thorn in June 2000, Parity Solutions was appointed to conduct a strategic review of boxclever's e-commerce systems architecture. This led to the development of the easyPOD e-commerce website as the first project in a systems integration programme that includes supply chain and B2B customer relationship solutions. The success of this project, together with similar projects for Domino Printing Sciences and Auctions to Business (A2B) led to Parity Solutions being appointed one of the first Microsoft Gold Certified Partners for e-commerce solutions in the UK.

There was good growth in knowledge management and intranet projects for clients across all market sectors, including Balfour Beatty, Dexion, LloydsTSB, Prudential and the Royal Bank of Scotland, as well as software and web content localisation for companies such as H.J. Heinz, Hewlett Packard, PSION and Sage.

STRONG RELATIONSHIPS WITH INTERNATIONAL BLUE CHIP CLIENTS
BUSINESS CONSULTANCY, WEB ARCHITECTURE, SYSTEMS INTEGRATION,
APPLICATIONS MANAGEMENT AND TRAINING

Chief Executive's Review of Operations continued

We continued to help clients gain the maximum benefit from their recent substantial investments in new systems and we see this as a significant area of opportunity for Parity. Projects were won with many of our long-standing clients including BAA, BAT, the Post Office, the Charitable Aids Foundation, Scottish Power, Northern Electric and others. Revenues from the Utilities sector were at a reduced level, down to 16% of our business compared with 26% in 1999 as work related to the deregulation of the sector washed through. This reduction was balanced by the growth in commercial sector work, which now represents 40% of our business, up from 26% in 1999.

The government sector also continued steadily, with further projects under the electronic government initiative for the Department of Environment, Trade and the Regions, HM Customs & Excise, the Department of Health, Department of Social Security, Ordnance Survey and others.

We were particularly pleased during the year to be appointed a Gold Level First Class Supplier for Software Development Services to the Post Office. The Post Office is now a major client and illustrates how we have expanded our range of services supplied to established clients to include the new technologies. In 1998, our projects for the Post Office were predominantly Year 2000 related; by 1999 we were providing applications management and data management services, but also working on a strategy for web-enablement, call centre systems integration and registered email. In 2000, while still providing services such as applications management and data management, the bulk of our work was on internet and intranet systems, employee performance support and customer relationships management.

Parity Training had an excellent year in a competitive market, with organic turnover growth of 16%, mainly through increasing market share. Though the first half-year was quiet, the market started to return during the third quarter and finished the year on a high point. Public courses grew very strongly as companies trained their staff on an ad hoc basis rather than through in-house courses.

This growth has been underpinned by consistent investment in courses. By the year end, Parity Training was offering a total of over 300 courses, an increase of 15% over 1999 including over 40 new technology courses. The Parity Web Academy was also launched in September to address the growing e-skills shortage and it will be expanded and developed to meet demand.

boxclever Technology was formed by the merger of Granada Technology Group and Thorn in June 2000 to create the UK's largest electrical appliance service organisation. As part of a strategic review of boxclever's e-commerce systems architecture, PARITY specified, designed and built a dedicated e-commerce test site. The solution, including a real-time interface with existing back-end systems controlling stock and installation bookings, was completed in eleven weeks. Said David Lawrance, boxclever's Interactive Business Director: "The purpose of the project was to develop our understanding of the e-commerce environment. It fulfilled all our objectives."

Major strengths of Parity Training continue to be its wide spread of courses, from technical and end-user training to general management development, and its blue-chip client base spread across all vertical market sectors. Significant new training clients won during the year include Intel Corporation, The Rent Service, HM Treasury, ING Barings, The Metropolitan Police, Barclays Bank, Britannic Building Society and the Environmental Agency.

Following the integration of Comtec, Parity Training is now one of the leading training companies in the UK, with an enviable reputation in the market. In a major survey carried out by IT Training magazine in April 2000, Parity Training was voted number one on quality by a considerable margin. This reputation was also reflected in Parity's appointment as a Gold Standard Accredited Training Provider by the Institute of IT Training, – the first UK training company to receive this accolade.

Parity Software Services

Parity Software Services is now a single integrated business operating in the UK, mainland Europe and the USA. Its performance was adversely affected by the Year 2000 slowdown and the quiet market conditions thereafter, with revenues down 22% to £192.3 million. Approximately one-third of this decrease reflected the decision to exit certain low margin business in the UK together with adverse exchange movements on translation of overseas results. With profits of £10.6 million, the division maintained a creditable 5.5% return on sales.

Parity Software Services made considerable investment, particularly in the second half, to strengthen management teams, open four new branches and invest in new systems. At the year end, the division had over 2000 consultants on billing and had won a number of new international or global preferred supplier agreements with major blue chip organisations. The leveraging of its international footprint and the expansion of its IT resource management solutions business will be an increasing emphasis of this division going forward.

UK

In a tough and very competitive market in the UK, Parity resources revenues fell 31% to £93.8million, although this also reflected the decision to withdraw from some low margin payroll business. Excluding this, the reduction in revenues would have been 18%. Operating profits were £4.2 million, down from £7.4 million in the previous year.

Now established as a leading on-line auction site, A2B is helping to transform the sale of plant and machinery in the UK and globally. The site trades assets as diverse as diggers and food processing lines to bottle-making plant and textile equipment. To develop the site, both front and back ends, A2B wanted an experienced partner with the expertise and knowledge of e-business. Said John Eddleston, CEO of A2B: "PARITY demonstrated a strong understanding of our requirements, providing excellent feedback and co-operation. We felt strongly that PARITY were part of our team and wanted the project to succeed."

Chief Executive's Review of Operations continued

The first half-year in the UK was very quiet following the Year 2000 lockdown; as a result, the focus was on controlling costs and maintaining margins. In the second half, the emphasis was on repositioning the business for growth by strengthening the sales teams and developing our service offerings. New offices were opened in Ipswich and Reading to support new and existing clients and we expanded our branches in Birmingham and Edinburgh. A new Chief Operating Officer was recruited to strengthen the management team and a management development programme was developed, which includes intensive training in customer account management.

As the market began to pick up in the third quarter, with improved margins and an increasing number of invitations to tender, the new team won a number of preferred supplier agreements with leading blue chip companies such as Shell, Unilever, PruTech and the Inland Revenue.

A highlight of the year was the expansion of Parity Selection, a dedicated permanent recruitment business. This business grew strongly throughout the year, gaining new clients such as Kellogg's, HSBC and New Look. We look forward to it making a good contribution to profits in 2001.

Mainland Europe

In common with the UK, mainland Europe also failed to pick up in the first quarter and this trend continued almost to mid-year. There were areas of buoyancy, particularly in demand for new technology skills. However, the main characteristic of the market was increased pressure on margins as IT consultancy firms, faced with weakening demand, reduced their use of contractors and sold their permanent staff into the contractor market. This was especially true in Switzerland and the Netherlands. In Germany, an additional factor was a degree of merger activity in the Finance sector, a key market for Parity EuroSoft.

As part of its flexible IT resourcing policy, Kellogg's Management Services (Europe) Limited requires a regular supply of contract and permanent IT staff with up-to-date skills and experience. To reduce administration costs and improve efficiency, the company conducted a strategic sourcing exercise during the year which reduced the number of suppliers of this service from approximately 25 to its current preferred supplier list of 4, appointing PARITY as one of its primary suppliers. In this role, PARITY provides a comprehensive service for both contract and permanent staff and has recently been rewarded with a Managed Resource Supply Agreement within Kellogg's IT Operations department. PARITY has established a dedicated Kellogg's Account Team to ensure the highest quality of service delivery.

As a result, overall revenues were down 17% at constant exchange rates to £50.2 million, while operating profit fell by 59% to £1.5 million on the same basis. A major factor in the drop in profit was the strategic decision to maintain the division's branch structure (twelve branches across five countries) through the downturn so that the business can return quickly to growth when markets improve.

The slowing demand for staff augmentation in the first half year stabilised in the second half, with the fourth quarter representing the strongest part of the year in all our national markets. In Germany, we saw good growth with clients such as Deutsche Bank, Siemens, Arnet, Cable & Wireless and Agilent. We also grew with IBM in both Germany and the Netherlands. In Switzerland, we increased our business strongly with Hewlett Packard after being appointed preferred supplier, while in France we made inroads into the retail sector with preferred supplier agreements with Auchan and Carrefour.

As in the UK, our permanent recruitment business grew strongly in mainland Europe from very low revenues in 1999 to over 1.4 million euros following the launch of the Parity Selection brand across Europe. The Netherlands operation did particularly well, ending the year with a significant number of recruitment requirements for new clients such as such as UUNet, Cable & Wireless, IBM and MCI Worldwide. There was also strong demand for this service in France, Switzerland and Germany, particularly in the final quarter and we expect this trend to continue into 2001.

USA

Parity TelTech had a very good year in difficult markets, growing its revenues 3% at constant exchange rates to £48.3 million equivalent. On the same basis profits increased by 6% to £4.9 million, and margins increased slightly to 10.1%.

The general business downturn in the USA affected revenues from most of Parity TelTech's clients, with traditionally strong areas such as banking, insurance and transportation producing revenues either lower or similar to the previous year.

In contrast, Parity TelTech grew its revenues by over 20% in the Technology and Media sector, into which it has been making inroads over the last two years. Early in the year,

Baxter Healthcare IV, a $2.6 billion division of the leading US pharmaceutical company, needed to implement a Quality Tracking System in its Cuernavaca, Mexico plant where intravenous solution (IV) is mixed in large batches and poured into plastic IV drip bags prior to being sterilised. The process of tracking all stages of the sterilisation and packaging process and maintaining a history of the regulatory data is currently a manual process. PARITY was selected to automate the tracking process and to enforce Baxter's quality process through barcode identification and barricade control.

Chief Executive's Review of Operations continued

Parity TelTech was appointed Prime Vendor to CableVision Inc., one of the largest and fastest growing cable and media conglomerates in the USA. This appointment led to the award of further projects from new technology transfer to providing general IT services in order to support their rapid growth. Good growth was also achieved with other clients in the sector, including Verizon.

The semiconductor sector also proved fertile ground. Parity TelTech supplied a large team of IT technicians to work on a range of projects for IBM Microelectronics' new silicon wafer fabrication plant in Fishkill NY, which in turn led to further projects with Philips Semiconductors towards the year end.

Strong inroads were also made into the Real Estate sector, where a major project for Insignia, a real estate management broker, involved sole responsibility for the roll-out of an entire technology platform, involving thousands of PC's, over a period of just 3 months. Overall, Parity TelTech won 450 new assignments in 2000 compared with 375 the previous year, though the average length of each contract was smaller.

A new office was opened in Tampa, Florida to support J.P.Morgan Chase, a key client in the finance sector, and to develop our business in Florida's technology and media sector. Major preferred supplier agreements continued to be won during the year and included the appointment as First-tier Supplier to Shell Services International, based in Houston, and as Master Service Provider with Sun Microsystems in California. This will provide an opportunity to expand Software Services' presence on the west coast.

Ian Miller
Group Chief Executive

Domino Printing Sciences, a manufacturer of specialist printers sold through a global network of distributors, faced significant challenges in moving to on-line sales of printer consumables. PARITY's solution was to develop a series of microsites, so that customers can browse each distributor's entire catalogue in their own language and pay on-line. In addition to European languages, the sites can handle Chinese, Japanese and Korean. Said Terry Nicklin, Domino's Marketing Director, "We chose PARITY because it could provide a cost-effective solution that is scaleable, flexible and integrated into our back-end systems.

Financial Review

Turnover and profits

Following the aggressive spending on systems in recent years, much of which was linked to ensuring that computer systems were Year 2000 compliant, many companies did not initiate significant new IT projects from late 1999 onward. The advent of e-commerce in the UK and Europe also made many companies pause to consider the strategic implications of the internet for their businesses.

The resulting fall in demand for IT consultancy and technology staffing solutions reduced Group turnover in 2000 by 14% to £269.2 million (1999: £314.2 million). Profit before goodwill amortisation, exceptional items and taxation was 35% lower at £13.9 million (1999: £21.3 million). The 2000 results included investment programme revenue expenditure of approximately £3.1 million. The investment programme has allowed us to re-skill Parity Solutions and to establish Parity Software Services as a strong, integrated, international business.

In **Parity Solutions** turnover increased by £8.2 million (12%) to £76.9 million while operating profit was £2.1 million lower at £7.9 million (1999: £10.0 million). Return on sales remained in double figures at 10.2% (1999: 14.6%), a creditable performance given the weak market conditions. In the UK turnover rose by £10.0 million, reflecting the acquisitions of TMS, Idev and Comtec in 1999. Underlying revenues in the UK were similar to 1999 with strong growth in e-business and training revenues compensating for significantly weaker demand for traditional consultancy and systems services. Return on sales in the UK was 11.5% (1999 15.1%), the decrease reflecting market conditions in the traditional systems markets and the smaller average size of e-business projects which impacted on staff utilisation. The UK training business performed very well, particularly in the second six months, recording organic growth in sales of approximately 16% for the year.

Parity Solutions BV in the Netherlands, which was previously included within Software Services, produced a disappointing loss of £0.1 million (1999: profit of £1.0 million) on turnover of £7.2 million (1999: £9.0 million) and is being restructured to return it to profitability.

Investment programme expenditure in this division totalled £2.3 million, of which £2.1 million was revenue and £0.2 million capital. The programme involved re-skilling nearly 200 consultants in new technology skills through participation in the development of a number of new technology tools and applications, including an internal e-knowledge portal, 'web pack' tools to enable rapid deployment of internet applications, training in specific application software, creation of a new development methodology and the launch of the Parity Web Academy.

FIFTY OFFICES ACROSS THE UK, MAINLAND EUROPE AND USA

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT SERVICES

BUSINESS CONSULTANCY

Parity Software Services, was adversely affected by the Year 2000 hiatus, with weak market conditions persisting until past the middle of the year. Turnover of £192.3 million (1999: £245.5 million) was down 22%, although approximately one third of the decrease reflected a decision to exit certain low margin business in the UK, as well as the impact of foreign exchange on translating overseas results into Sterling which reduced turnover by £1 million.

Operating profit decreased by 32% to £10.6 million (1999: £15.6 million) and is stated after charging investment programme revenue costs of £1.0 million (UK £0.7 million, mainland Europe £0.3 million) to create an integrated international technology skills business from the three component companies. Expenditure was focused on strengthening management teams, opening new offices, establishing the Parity and Parity Selection brands internationally and investing in new systems. With strong control of costs the division achieved a return on sales of 5.5% (1999: 6.3%) and at the year end, Parity Software Services had over 2000 consultants on billing.

The performance of the Software Services division varied across its three operating regions. The UK was severely affected by the Year 2000 slowdown, with revenues down 31% (18% excluding the termination of certain low margin business) to £93.8 million and profits down 43% to £4.2 million. In mainland Europe, revenues at Parity EuroSoft fell 23% (17% at constant exchange rates) to £50.2 million, with operating profit down 62% (59% at constant exchange rates) to £1.5 million, reflecting the strategic decision to keep all of the twelve European offices open, notwithstanding the weak market. Parity TelTech in the USA experienced quiet market conditions and reported revenues of £48.3 million, up 10% (3% at constant exchange rates), with operating profit of £4.9 million, up 13% (6% at constant exchange rates), a much stronger performance than many of its competitors. Operating margins in the USA improved to 10.1% (1999: 9.8%).

Central costs increased by 2% to £4.2 million; none of the executive directors received a bonus in respect of 2000. Net interest payable increased by £0.2 million to £0.4 million, mainly reflecting the cost of funding associated with the acquisitions of Idev and Comtec in December 1999. As a result of these acquisitions, goodwill amortisation increased to £1.1 million (1999: £0.2 million).

Geographical contributions

The Group's largest geographical market continued to be the UK which generated revenues of £163.5 million (61% of Group revenues) and operating profit of £12.2 million (66% of the Group's profits before central costs and interest). Mainland Europe contributed revenues of £57.4 million (21%) and £1.4 million (7%) of profit. Parity TelTech in the USA produced revenues of £48.3 million (18%) and profits of £4.9 million (26% of Group profits).

STAFF AUGMENTATION, PERMANENT RECRUITMENT AND OUTPLACEMENT SERVICES BUSINESS CONSULTANCY, WEB ARCHITECTURE BUILDING ON OUR EXTENSIVE INTERNATIONAL CAPABILITIES

The investment programme has allowed us to re-skill Parity Solutions and to establish Parity Software Services as a strong, integrated, international business

Earnings per Share and Dividends

Basic earnings per share before goodwill and exceptional items was 6.30p, down 34% (1999: 9.61p). The effective tax rate on the same basis was 32.0% (1999: 33.2%). The decrease mainly reflected a tax saving of £0.4 million following the establishment of a QUEST, partly offset by a higher effective rate of tax in the USA.

The Board is proposing a final dividend of 1.57p per share, making the total dividends for the year 2.50p, unchanged from last year, with dividend cover of 2.5 times (pre goodwill amortisation). Retained profit for the year after dividends was £4.6 million (1999 £8.0 million post exceptional items).

Cash Flow

The Group recorded a net cash inflow from operations of £15.1 million (1999 £21.1 million). The decrease compared to 1999 reflected reduced profits together with a small working capital outflow of £1.4 million following unusually strong cash collections in December 1999 at the time of the millennium holiday. Other cash flows gave rise to a total outflow of £16.3 million including £3.7 million for purchases of Parity shares by the ESOP (1999: £29.8 million outflow, including £14.8 million for acquisitions). This resulted in a net cash outflow for the year of £1.2 million before financing items (1999: £8.7 million outflow). Net debt at 31 December was £2.2 million (1999: £1.6 million). The Group has an £18 million committed facility with Lloyds TSB which expires on 31 October 2003.

Treasury

At the year end, the Group had net cash balances of £2.1 million and variable rate borrowings of £4.3 million. The majority of the Group's borrowings and deposits are controlled centrally. Financial derivatives are not currently used in managing interest rate exposures.

The Group has relatively small transactional currency exposures as most businesses trade within their own national boundaries. Where significant exposures arise, they are hedged by currency borrowings or forward contracts. Currency exposures arising on short-term intra Group loans are hedged using forward foreign exchange contracts.

R King

Ray King
Group Finance Director

SYSTEMS INTEGRATION, APPLICATIONS MANAGEMENT AND TRAINING

STRONG RELATIONSHIPS WITH INTERNATIONAL BLUE CHIP CLIENTS

STAFF AUGMENTATION, PERMANENT RECRUITMENT

Board of Directors

Francis Carbutt FCA

Non-executive Chairman (1 2 3)

Francis (Billy) Carbutt (65) was appointed as a Director on 1 March 1994. He was a partner at Ernst & Young until June 1994. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a past member of the Institute's Parliamentary and Law Committee. He was reappointed as Group Chairman on 5 March 2001 having previously held this position from 1994 to 1997.

Ian Miller CA

Group Chief Executive

Ian Miller (53) was appointed to the Board as Group Chief Executive on 5 March 2001. He was previously President of EDS' Energy Global Industry Group based in Plano, Texas, helping major oil, gas and chemicals corporations succeed in the digital economy. Prior to joining EDS in 1994, he spent 16 years at PA Consulting Group, the last six as Partner responsible for the Global Energy practice, specialising in corporate strategy and business performance improvement. He qualified as a chartered accountant with a member firm of KPMG.

Raymond King FCA

Group Finance Director and Deputy Chief Executive

Ray King (47) was appointed as Group Finance Director on 2 August 1999 and Deputy Chief Executive on 7 September 2000. He was previously Director of Group Finance and Control at Diageo plc. Between 1993 and 1996, he was Group Finance Director of Southern Water plc, prior to which he worked for 14 years at ICI in the UK and USA. He qualified as a chartered accountant with Price Waterhouse in 1977.

Richard Bacon

Managing Director, Parity Software Services

Rick Bacon (46) was appointed to the Board on 2 August 1999. He was previously Director of Strategy and Acquisitions at Bullough plc, the engineering group. Prior to that, he worked in the USA and mainland Europe with British Petroleum, Williams plc and TLC Beatrice Inc., in each case responsible for operations and merger and acquisition strategy.

Philip Swinstead OBE

Philip Swinstead (57) led the management buy-in to create Parity in 1993. Previously he ran SD-Scicon plc for 22 years which became one of Europe's largest software services companies. Since 1980 he has been a director of various investment trusts and an active investor in a number of public and private technology businesses. Following a recent illness, he stepped down as Group Chairman and Chief Executive. He will continue as a non-executive member of the Board and expects to return to a more active involvement in Parity in late summer.

1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nominations Committee

Henry Angest

Non-executive (1 2)

Henry Angest (60) was appointed as a Director on 5 June 1997. He is Chairman and Chief Executive of Secure Trust Banking Group plc and Chairman of Arbuthnot Latham & Co. Limited and Secure Trust Bank plc. He is also Chairman of the Banking Committee of the London Investment Banking Association and a member of the Council and the Policy and Executive Committee of the Institute of Directors. He was appointed as Chairman of the Audit Committee on 5 March 2001.

Sir Thomas Stonor KCB

Non-executive (1 2 3)

Sir Thomas (65) was appointed as a Director on 20 April 1994. In 1988, as a serving Air Marshal, he was appointed Controller of the National Air Traffic Services and Group Director of the Civil Aviation Authority. Since his retirement in 1991 he has been senior consultant to Siemens Plessey Air Traffic Management Division and defence advisor to the Government Accounts Division of British Telecom. Prior to its sale to British Aerospace, he was a non-executive director of Siemens Plessey Electronic Systems plc. He is Chairman of the Remuneration Committee.

Tom Murphy CBE

Non-executive (1 2 3)

Tom Murphy (72) was appointed as a Director on 5 June 1997. From 1987 until 1995 he was Managing Director of the Civil Aviation Authority, having previously spent 31 years with British Petroleum where he held a number of senior management positions. He is the Chairman of the Nominations Committee.

Advisors

Auditors
PricewaterhouseCoopers
1 Embankment Place
London WC2N 6RH

Stockbrokers
HSBC Investment Bank
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Solicitors
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Salans Herzfeld &
Heilbronn HRK
Clements House
14-18 Gresham Street
London EC2V 7NN

Baker & McKenzie
815 Connecticut Ave, NW
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Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Secretary and Registered Office

Alison Leyshon
16 St Martin's Le Grand
London EC1A 4NA
Registered No. 3539413

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 2000.

Group Results

The Group profit for the year, before taxation was £12,810,000 (1999 - £18,561,000) after charging goodwill amortisation of £1,078,000 (1999 - £219,000) and exceptional items of £nil (1999 - £2,542,000). After provision for tax of £4,440,000 (1999 - £6,819,000) and dividends paid and proposed of £3,763,000 (1999 - £3,773,000), retained profit amounted to £4,607,000 (1999 - £7,969,000) and has been transferred to reserves.

Dividends

The Directors recommend a final dividend of 1.57p (1999 - 1.57p) per ordinary share. The total dividends for the year will amount to 2.50p per share (1999 - 2.50p). The final dividend will be payable on 2 July to shareholders on the register at the close of business on 6 April 2001.

Principal Activities

The Group's principal activities during the year were the provision of e-business services, information technology solutions and a range of technology staffing solutions to a global customer base. A review of the business is contained within the Chairman's Statement, the Chief Executive's Review of Operations and the Financial Review on pages 2 to 13.

Tangible Assets

The changes in tangible assets during the year are summarised in Note 10 to the Accounts on page 37.

Purchase of Own Shares

At the end of the year, the Company had authority, under the shareholders' resolution of 7 June 2000, to purchase in the market 15,204,000 of the Company's ordinary shares at prices ranging between five pence and an amount equal to 105% of the average of the middle market prices quoted in the five business days immediately preceding the day of purchase. No purchases were made during the year by the Company. The Directors intend to renew this authority at the forthcoming Annual General Meeting on 6 June 2001.

Post Balance Sheet Events

On 16 January 2001 the Group acquired Prime Selection Limited ("Prime"), an IT resourcing company based in the UK, for £6.1m comprising loan notes of £4.0m and cash of £2.1m. Prime will form part of the UK operations of the Parity Software Services division.

Board of Directors

Biographical information on each of the Directors is set out on the preceding pages. Mr. I.K. Miller who was appointed by the Board on 5 March 2001 and Mr. T. Murphy who is more than 70 years of age, will be seeking re-election at the forthcoming Annual General Meeting. In addition, Mr. H. Angest and Mr. R. Bacon, who retire by rotation, will also seek re-election at the Annual General Meeting.

During the year none of the Directors had a material interest in any significant contract with the Company, or any subsidiary undertaking.

Directors' Interests

The Directors' interests in the ordinary share capital of the Company at 31 December 2000 were as follows:

	At 31 December 2000 Beneficial interests in ordinary shares	At 31 December 1999 Beneficial interests in ordinary shares
H. Angest	102,438	72,438
R.J. Bacon	5,263	-
F. Carbutt	42,855	42,855
K.M. Jennings	-	-
R. King	16,500	10,000
T. Murphy	23,922	12,750
Sir Thomas Stonor	6,750	6,750
P.E. Swinstead	4,459,010	4,737,375

There has been no change in the Directors' interests between 31 December 2000 and 30 March 2001.

Details of share options held by the Directors are set out in the Report of the Remuneration Commitee on pages 21 to 24.

Principal Shareholders

The Board is not aware of any party who is interested in three per cent or more of the issued share capital of the Company at 30 March 2001 apart from the following:

	Number of ordinary 5p shares	Percentage held
Henderson Global Investors	35,804,938	23.32%
Chase Fleming Asset Management	7,163,785	4.67%
UBS Asset Management	6,405,085	4.17%
Legal and General Investment Management	5,919,831	3.86%
Schroder Investment Management	5,788,467	3.77%
M&G Investment Management	5,493,600	3.58%
Goldman Sachs Equity Securities (UK)	4,956,600	3.23%
Hermes Pension Management	4,642,064	3.02%

Employment Policies

The Group is committed to offering equal employment opportunities and its policies are designed to attract, retain and motivate the very best staff regardless of sex, race, religion or disability. The Group encourages the participation of all employees in the operation and development of the business by offering open access to senior management, including the Executive Directors, and adopting a policy of regular communications. The Group incentivises employees through the payment of bonuses linked to performance objectives, which are agreed at the start of the year. Where appropriate these objectives are linked to growth in profits.

Payments to Suppliers

The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. In the UK the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. Creditor days have not been calculated for the Company as it has no trade creditors.

European Monetary Union

Group companies in Europe, including those in the UK, are capable of transacting business in euros following the introduction of the euro in eleven European countries on 1 January 1999. The ability of the Group to conduct business in national currencies will be retained as long as necessary.

Environmental Policy

While Parity's operations by their very nature have minimal environmental impact, the Group recognises its responsibilities to protect and sustain the environment and its resources. Its policy is to meet the statutory requirements in this area and it has adopted a code of good environmental practice, particularly in the main areas of energy efficiency, use and recycling of resources and transport.

Contributions for Charitable and Political Purposes

The Group made charitable contributions of £20,000 during 2000 (1999 - £91,900). No payments were made for political purposes.

Auditors

Resolutions will be proposed at the Annual General Meeting to reappoint PricewaterhouseCoopers as auditors and to authorise the Directors to determine their remuneration.

By order of the Board

A.J. Leyshon
Secretary
4 April 2001

Corporate Governance

The maintenance of high standards of corporate governance remains a key priority for the Board. Details of how the principles of corporate governance are applied by the Company and the Company's compliance with the provisions set out in Section 1 of the Combined Code, are given below:

Statement by the Directors of Compliance with the Provisions of the Combined Code

Provision A.2.1 of the Combined Code requires that the roles of the Group Chairman and Chief Executive should not be combined in one person. During the year, Mr. P.E. Swinstead continued to serve as Group Chairman and Chief Executive, at the request of the Board, which considered that Mr. Swinstead's knowledge and experience made him best placed to lead the Group through a period of restructuring which took place during the year. On 5 March 2001 Mr. Swinstead resigned as Group Chairman and Chief Executive following a recent illness and Mr. F. Carbutt was appointed as Non-executive Group Chairman. On the same date Mr. I.K. Miller was appointed as Group Chief Executive.

In all other respects, the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year.

In addition to his duties as Finance Director, Mr. R. King provided operational and strategic support to the Chairman throughout the year and was appointed as Deputy Chief Executive in September 2000.

Going Concern

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

The Workings of the Board and its Committees

The Board

During the year the Board consisted of the Chairman, Mr. P.E. Swinstead, three other Executive Directors and four Non-executive Directors. Directors' biographies are set out on pages 14 and 15. The Non-executive Directors are considered free from any business or other relationship which could interfere with the exercise of their independent judgement. Following the appointment of Mr. F. Carbutt as Chairman on 5 March 2001, Mr. H. Angest now acts as the Senior Independent Non-executive Director.

The Board meets regularly to review strategic, operational and financial matters including proposed acquisitions and divestments. It approves the annual and interim financial statements, the annual budget, significant transactions and major capital expenditure and reviews the effectiveness of the system of internal control and the risks faced by the Group. All members of the Board are supplied in advance of meetings with appropriate information covering the matters which are to be considered and have access to independent professional advice if required.

All Directors submit themselves for re-election at intervals of not longer than three years as prescribed by the Combined Code.

A statement of the Directors' responsibilities in respect of the accounts is set out on page 20.

The following committees deal with the specific aspects of the affairs of the Group:

Executive Committee

The Executive Committee comprises the Group Chief Executive, the other Executive Directors and the Group Commercial Director, who is not a member of the Board. The Committee meets regularly to discuss strategic and operational issues and operates under powers delegated to it by the Board. Minutes of Executive Committee meetings are circulated to the Board, and those issues outside the delegated levels of authority are referred to the Board for decision as appropriate.

Audit Committee

The Audit Committee, which meets at least twice annually, comprises the Non-executive Directors. During the year the Committee was chaired by Mr. F. Carbutt. Following Mr. Carbutt's appointment as Non-executive Group Chairman on 5 March 2001, the Committee is chaired by Mr. H. Angest. Its terms of reference include the review of the Interim and Annual Accounts before their submission to the Board and monitoring the system of internal financial controls to ensure the integrity of the information reported to the shareholders. Its responsibilities in respect of internal controls extend to directing and reviewing the work of Internal Audit.

The Audit Committee advises the Board on the remuneration of the external auditors. It discusses the nature and scope of the statutory audit with the external auditors and provides a forum for reporting by the external auditors of the Group.

Audit Committee meetings are attended by the Executive Directors at the invitation of the Committee. The external auditors attend each meeting and are granted a private audience with the Audit Committee following the main proceedings, on request.

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and is chaired by Sir Thomas Stonor. It meets at least annually and is responsible for reviewing the emoluments of the Executive Directors, the Group's remuneration policy and its pension arrangements, and for making recommendations thereon to the Board. The Committee consults the Chief Executive about its proposals and has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate.

The report of the Remuneration Committee is set out on pages 21 to 24.

Nominations Committee

The Nominations Committee is chaired by Mr. T. Murphy and also comprises Sir Thomas Stonor and Mr. F. Carbutt. Mr. Carbutt became a member of the Committee on 5 March 2001 following his appointment as Group Chairman. It is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. Where necessary, recruitment consultants are used to assist the process.

Shareholder Relationships

Private and institutional shareholders are given an opportunity to communicate directly with the Board at the Annual General Meeting. The Company also maintains regular dialogue with institutional shareholders through presentations and meetings after the Company's preliminary announcements of the full-year and half-year results.

Internal Control and Risk Management

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. This system is designed to minimise rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls during the year.

In September 1999 the Turnbull Committee of the Institute of Chartered Accountants of England and Wales published its guidance for directors on how to implement the requirements of the Combined Code ('the Code') in respect of internal control.

A process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout 2000 and to date. This process has been reviewed by the Board during the year and the Directors are satisfied that it meets the requirements of the guidance issued by the Turnbull Committee.

The management of each business is responsible for establishing detailed controls which are embedded within operational and financial procedures in order to manage business risks on a day-to-day basis. The Executive Committee has used the existing framework of regular business review meetings with the management of each business to monitor any changes in key business objectives which may impact on the risk profile of the Group and require changes to existing controls and procedures.

Internal audit assists the Board in its review of the key risks inherent in the business and the system of control necessary to manage such risks. It also assesses the effectiveness of the key operational and financial controls at each of the operating businesses, and recommends improvements where any significant weaknesses exist. The findings and recommendations are discussed in detail with local management and with the relevant Group Director. Internal Audit reports the results of the work performed to the Audit Committee and a summary of the findings is presented to and considered by the Board.

Corporate Governance continued

Statement of Directors' Responsibilities – Financial Statements and Internal Control

The Directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the results for the year.

In preparing the accounts the Directors are required to select suitable accounting policies and apply them consistently, make reasonable and prudent judgements and estimates and state whether applicable accounting standards have been followed. It is the responsibility of the Directors to prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper procedures exist for the maintenance of adequate accounting records. They are also responsible for the Group's system of internal financial controls and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Remuneration Committee

Remuneration Policy

The key objective of the Group's remuneration policy is to attract, motivate and retain executives of the highest calibre and to reward them appropriately for achieving the objectives of the Group and enhancing shareholder value.

The remuneration package for Executive Directors and senior management comprises:

a) basic annual salary and benefits in kind;
b) annual performance bonus payments;
c) share option incentives; and
d) pension arrangements.

In order to assess the competitiveness of the pay and benefits packages offered by the Company, comparisons are made to those offered by similar companies. These are chosen with regard to:

a) the size of the company (turnover, profits and employee numbers);
b) the diversity and complexity of their businesses;
c) the geographical spread of their businesses; and
d) their growth, expansion and change profile.

The annual performance bonuses of Executive Directors are currently based on the annual targeted growth in Group earnings per share, as approved by the Remuneration Committee. The bonus entitlement for Executive Directors for achieving the target performance is 50% of salary, with provision for a maximum payment of 75% of salary for exceptional performance. Mr. P.E. Swinstead does not participate in this bonus scheme.

The Executive Directors receive contributions of 25% of basic salary to their personal pension arrangements. Where Directors' pension entitlements exceed the Inland Revenue approved maximum percentage of net relevant earnings eligible for tax relief, the excess of their pension entitlement over the eligible amount is paid as additional salary.

The Board determines the remuneration of the Non-executive Directors.

With the exception of Mr. R. King, no Director has a service contract with a notice period of greater than one year or has provision for predetermined compensation on termination which exceeds one year's salary and benefits in kind. Mr. King's service contract provides for a notice period of eighteen months, reducing to one year after he completes two years' service on 1 August 2001. Mr. King's terms of employment with his previous employer included a notice period of two years.

Subject to the approval of the Board, the Executive Directors may hold external non-executive appointments. The Company believes that such appointments provide a valuable opportunity in terms of personal and professional development. Fees derived from such appointments may be retained by the Executive Director concerned.

Report of the Remuneration Committee continued

Directors' Remuneration	Salary/fees £'000	Benefits £'000	Other £'000	Total 2000 £'000	Total 1999 £'000	Company pension contributions 2000 £'000	1999 £'000
Executive Directors							
R.J. Bacon**	188	15	2	205	158	45	16
R. King**	244	24	35	303	236	26	23
P.E. Swinstead**	300	49	41	390	368	34	34
K.M. Jennings** (resigned 5/3/2001)	188	13	–	201	94	47	13
P. Davies* (resigned 10/9/1999)	–	–	–	–	227	–	20
D.S.P. Firth (resigned 31/8/1999)	–	–	–	–	135	–	13
Non Executive Directors							
H. Angest	25	–	–	25	25	–	–
F. Carbutt	30	–	–	30	30	–	–
T. Murphy	30	–	–	30	30	–	–
Sir Thomas Stonor	30	–	–	30	30	–	–
R.A. Moss* (resigned 3/2/1999)	–	–	–	–	12	–	2
Total Emoluments	1,035	101	78	1,214	1,345	152	121

* In addition to the emoluments disclosed in the table above, severance payments, including pension contributions and other benefits, were made to P. Davies (£264,000) and R.A. Moss (£95,000) during 1999, bringing their total remuneration, including pension contributions, to £511,000 and £109,000 respectively.

** Since August 1999, the company has contributed 25% of basic salary towards the retirement arrangements of Executive Directors. Company pension contributions shown in the table above represent the maximum amounts paid into the pension plans of Directors. Any excess over Inland Revenue limits is paid to the Director concerned as additional salary and included in 'Other'.

The remuneration shown in the table above for 1999 is in respect of the services of the Directors of both Parity plc and Parity Group plc. The total remuneration paid to the Directors of Parity Group plc in 1999 was £747,000 of which £236,000 was attributable to the highest paid Director. The remuneration for Mr. R. Bacon, Mr. R. King and Mr. K. Jennings in 1999 relates to the period from their date of appointment as directors to 31 December 1999.

None of the Directors received bonuses for 2000 as the performance target, which was set in terms of growth in earnings per share, was not achieved.

Share Option Schemes

Executive Schemes

Share options are granted to Executive Directors and relevant employees over a period of time and according to performance. Options are granted at the market price prevailing at the time of grant without any discount.

Executive share options granted in the year ended 31 December 2000 are set out below:

Date of Award	Exercise price Pence per share	Number of options	Period during which options exercisable
6 April 2000	432	612,200	2003 – 2010
13 June 2000	198	157,100	2003 – 2010
12 September 2000	162	1,433,225	2004 – 2010
		2,202,525	

The options are exercisable in normal circumstances between three and ten years after the date of grant, provided that growth in earnings per share before goodwill amortisation and exceptional items over the three financial years following the date of grant exceeds RPI plus an average of 6% per annum. If growth is lower, there will be one re-test, using the same performance criterion, over the four financial years following the date of grant. Where options are granted in the first six months of the year, the first financial year over which performance is measured is taken as the year of grant.

At 31 December 2000, 85 employees including Executive Directors, held share options (1999 – 23).

The exercise of share options is satisfied either through shares issued by the Company or through purchases in the market via the Company's Employee Benefit Trust.

Details of Executive share options held by Directors are given below:

	Granted on	Exercise price Pence per share	At 1 January 2000	Awarded in year	Exercised in year	At 31 December 2000
R.J. Bacon	25 October 1999	226	199,100	–	–	199,100
	5 April 2000	432	–	34,700	–	34,700
	12 September 2000	162	–	50,000	–	50,000
			199,100	84,700	–	283,800
K.M. Jennings	25 October 1999	226	199,100	–	–	199,100
	5 April 2000	432	–	34,700	–	34,700
			199,100	34,700	–	233,800
R. King	25 October 1999	226	298,700	–	–	298,700
	5 April 2000	432	–	17,400	–	17,400
	12 September 2000	162	–	62,500	–	62,500
			298,700	79,900	–	378,600
			696,900	199,300	–	896,200

The Company's shares traded at market prices between 109.0p and 704.0p during 2000. The mid market price on 31 December 2000 was 114.5p.

Executive Schemes continued

Executive share options outstanding at 31 December 2000 are analysed below:

Year options granted	Number of options	Exercise price Pence per share	Period during which options exercisable
1994	75,000	43.3	1997 – 2004
1995	30,000	47.3	1998 – 2005
1997	60,000	185.7	2000 – 2007
1998	150,000	192.7 – 269.6	2001 – 2008
1999	1,504,200	226.0	2003 – 2009
2000	2,005,625	162.0 – 432.0	2003 – 2010

Savings Related Schemes

All UK employees, including Executive Directors, are eligible to participate in the Company's savings related option scheme (Sharesave Scheme) which enables them to subscribe for ordinary shares in the Company. The Sharesave Scheme is an Inland Revenue approved scheme and the Company is therefore exempt from the provisions of UITF Abstract 17, "Employee Share Schemes".

Prior to the Scheme of Arrangement in 1999, options were granted under the 1994 Scheme. The Company has since established a new scheme, the 1999 Scheme which, like its predecessor, provides for options granted to be exercised on completion of a savings contract.

Options outstanding as at 31 December 2000 under the Sharesave Scheme are set out below:

Year options granted	Number of options	Exercise price Pence per share*	Period during which options exercisable
1994 Scheme			
1995	200,266	33.3	2002
1996	511,775	55.6	2001 – 2003
1997	183,869	134.3	2002 – 2004
1998	135,339	218.3	2001 – 2005
1999	136,927	205.0	2003 – 2006
1999 Scheme			
2000	24,168	480.0	2003 – 2007
2000	753,689	146.0	2003 – 2004

* Figures stated after allowing for the three-for-one share adjustment following the Scheme of Arrangement

All options granted under the 1994 Scheme and those granted under the 1999 Scheme at an exercise price of 480p, were granted at a 20% discount to the market price. The options granted at an exercise price of 146p under the 1999 Scheme were granted at a 10% discount to the market price. All discounts were applied as permitted under Inland Revenue rules.

At 31 December 2000 two Directors had savings contracts open under the 1999 Sharesave Scheme. Mr. King and Mr. Bacon both had a three-year savings contract entered into on 1 December 2000 which, when completed, will entitle them to purchase Ordinary shares in the Company for 146p each. The maximum number of shares which each Director would be entitled to purchase on completion of their savings contract in December 2003, is 6,635. At 31 December 2000 each Director had contributed £250 under his savings contract.

Auditors' Report to the Shareholders of Parity Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes, and the information set out in the tables on pages 22 and 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 31 and 32.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Review of Operations, the Financial Review and the Corporate Governance statement.

We review whether the Corporate Governance statement on pages 18 to 20 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 Company'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 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place, London, WC2N 6RH
4 April 2001

Group Profit and Loss Account

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Turnover	2	269,228	314,154
Operating costs before goodwill amortisation and exceptional items		(254,971)	(292,634)
Goodwill amortisation		(1,078)	(219)
Exceptional items		–	(2,542)
Operating costs	3	(256,049)	(295,395)
Operating profit		13,179	18,759
Net interest payable	5	(369)	(198)
Profit on ordinary activities before goodwill amortisation, exceptional items and taxation	2	13,888	21,322
Goodwill amortisation		(1,078)	(219)
Exceptional items		–	(2,542)
Profit on ordinary activities before taxation	2	12,810	18,561
Taxation on profit on ordinary activities	6	(4,440)	(6,819)
Profit on ordinary activities after taxation		8,370	11,742
Dividends	7	(3,763)	(3,773)
Retained profit for the financial year	20	4,607	7,969
Earnings per ordinary share	8		
– Basic		5.58p	7.92p
– Diluted		5.53p	7.77p
Earnings per ordinary share before goodwill amortisation and exceptional items	8		
– Basic		6.30p	9.61p
– Diluted		6.25p	9.42p

Group Balance Sheet

At 31 December 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Intangible assets	9	20,266	22,370
Tangible assets	10	6,283	6,123
Investments	11	5,138	1,497
		31,687	29,990
Current assets			
Debtors	12	53,568	57,117
Cash at bank and in hand	14	4,078	12,997
		57,646	70,114
Creditors: amounts falling due within one year			
Variable rate loan notes payable	15	(778)	(810)
Other creditors	16	(44,554)	(59,751)
		(45,332)	(60,561)
Net current assets		12,314	9,553
Total assets less current liabilities		44,001	39,543
Provisions for liabilities and charges	18	(698)	(767)
Net assets		43,303	38,776
Capital and reserves			
Called up share capital	19	7,675	7,598
Shares to be issued	20	22	1,986
Capital redemption reserve	20	50	50
Share premium account	20	3,440	1,554
Other reserves	20	35,308	34,390
Profit and loss account	20	(3,192)	(6,802)
Equity shareholders' funds		43,303	38,776

Approved by the Board of Directors on 4 April 2001

F. Carbutt, FCA
Chairman

R. King, FCA
Group Finance Director

Company Balance Sheet

At 31 December 2000

	Notes	2000 Total £'000	1999 Total £'000
Fixed assets			
Tangible assets	10	221	335
Investments	11	12,670	9,029
		12,891	9,364
Current assets			
Debtors	12	42,087	45,818
Cash at bank and in hand		586	727
		42,673	46,545
Creditors: amounts falling due within one year			
Variable rate loan notes payable	15	(778)	(810)
Other creditors	16	(33,668)	(27,694)
		(34,446)	(28,504)
Net current assets		8,227	18,041
Total assets less current liabilities		21,118	27,405
Provisions for liabilities and charges	18	(758)	(693)
Net assets		20,360	26,712
Capital and reserves			
Called up share capital	19	7,675	7,598
Shares to be issued	20	1	27
Capital redemption reserve	20	50	50
Share premium account	20	3,440	1,554
Profit and loss account	20	9,194	17,483
Equity shareholders' funds		20,360	26,712

Approved by the Board of Directors on 4 April 2001

F. Carbutt, FCA
Chairman

R. King, FCA
Group Finance Director

Group Cash Flow Statement

For the year ended 31 December 2000

	Notes	2000 Total £'000	1999 Total £'000
Net cash flow from operating activities before exceptional items	13	15,345	23,404
Exceptional items		(244)	(2,298)
Net cash flow from operating activities		15,101	21,106
Returns on investments and servicing of finance			
Interest received		160	229
Interest paid		(536)	(411)
Net cash outflow from returns on investments and servicing of finance		(376)	(182)
Taxation paid		(5,903)	(8,338)
Capital expenditure and financial investment			
Purchase of tangible assets		(2,716)	(2,980)
Sale of tangible assets		79	69
Purchase of own shares by ESOP		(3,710)	(560)
Cash received by ESOP on excercise of options		82	545
Net cash outflow from capital expenditure and financial investment		(6,265)	(2,926)
Acquisitions and disposals			
Purchase of subsidiary undertakings		–	(15,674)
Cash received from businesses acquired		–	861
Net cash outflow from acquisitions and disposals		–	(14,813)
Equity dividends paid		(3,793)	(3,547)
Net cash outflow before financing		(1,236)	(8,700)
Financing			
Issue of ordinary shares		520	2,752
Repayment of loan notes		(32)	(2,105)
Payment of deferred consideration		–	(1,544)
(Decrease)/increase in borrowings		(6,820)	10,236
Net cash (outflow)/inflow from financing		(6,332)	9,339
(Decrease)/increase in cash in the period	14	(7,568)	639

Reconciliation of Movements In Shareholders' Funds

For the year ended 31 December 2000

	2000 Total £'000	1999 Total £'000
Profit for the year attributable to shareholders	8,370	11,742
Dividends	(3,763)	(3,773)
Retained earnings	4,607	7,969
Other recognised gains/(losses)	426	(1,200)
Share options exercised	15	1,177
Shares issued to QUEST	505	-
Shares issued to vendors	938	4,500
Shares to be issued to vendors	(1,964)	1,986
Net increase in shareholders' funds	4,527	14,432
Equity shareholders' funds at start of year	38,776	24,344
Equity shareholders' funds at end of year	43,303	38,776

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2000

	2000 Total £'000	1999 Total £'000
Profit for the year attributable to shareholders	8,370	11,742
Currency translation differences on foreign currency net investments	426	(1,200)
Total recognised gains and losses for the year	8,796	10,542

Notes to the Accounts

At 31 December 2000

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the results of Parity Group plc and its subsidiary undertakings drawn up to 31 December each year. The combination of Parity Group plc and Parity Limited (formerly Parity plc) which took place on 5 July 1999, was accounted for on a merger accounting basis as if it had occurred on 1 January 1999.

Turnover

Turnover represents the value of information technology services provided by the Group, stated net of value added tax.

Goodwill and amortisation

Goodwill on acquisitions prior to 1 January 1998 has been eliminated during the year of purchase against reserves. Goodwill on acquisitions from 1 January 1998 is capitalised and amortised over its useful economic life. Adjustments to provisional fair values of assets acquired and consideration payable in the preceding period are reflected as adjustments to goodwill.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful economic life, as follows:

Leasehold improvements	Between 5 and 10 years
Motor vehicles	25% per annum
Office equipment	20% per annum

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Foreign currencies

Exchange differences arising in the normal course of trading and on the translation of monetary assets and liabilities are dealt with in the profit and loss account.

In the Group accounts the profit and loss accounts of overseas subsidiary undertakings are translated into sterling at average rates of exchange; balance sheets are translated at closing rates.

Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas subsidiaries, together with the year-end adjustment to closing rates of profit and loss accounts translated at average rates, are taken to reserves.

Operating lease commitments

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Surplus properties

Where leasehold properties are surplus to requirements, both now and in the foreseeable future, provisions are made for the best estimates of the unavoidable net future costs.

Notes to the Accounts

At 31 December 2000

1. Accounting policies continued

Pensions

Contributions in respect of defined contribution schemes are charged to the profit and loss account when incurred. Employers' contributions to defined benefit schemes are charged to the profit and loss account on a basis which spreads the cost on a systematic basis over the remaining service lives of scheme members.

2. Segmental analysis

The Group provides information technology services through its Parity Solutions and Parity Software Services business segments.

	2000			1999		
	Turnover £'000	Profit before taxation £'000	Net assets £'000	Turnover £'000	Profit before taxation £'000	Net assets £'000
Parity Solutions						
United Kingdom	69,666	7,984	5,191	59,692	9,031	1,342
Mainland Europe	7,187	(123)	1,127	8,952	1,014	938
	76,853	7,861	6,318	68,644	10,045	2,280
Parity Software Services						
United Kingdom	93,838	4,205	6,693	136,567	7,373	10,430
Mainland Europe	50,205	1,478	7,206	65,008	3,891	7,332
USA	48,332	4,863	5,730	43,935	4,300	4,894
	192,375	10,546	19,629	245,510	15,564	22,656
Central costs including net interest payable		(4,519)			(4,287)	
Non-operating assets and liabilities including net debt			(2,910)			(8,286)
Before goodwill and exceptional items		13,888	23,037		21,322	16,650
Goodwill		(1,078)	20,266		(219)	22,370
Exceptional items		–	–		(2,542)	(244)
	269,228	12,810	43,303	314,154	18,561	38,776

There is no material difference between turnover and profit by origin and by destination.
Turnover for Parity Software Services in the UK as shown above excludes £2,050,000 (1999 – £3,532,000) of inter-segmental turnover.

The results and net assets of Parity Solutions BV have been included within Parity Solutions. Net debt has been transferred out of the net assets of each business and is shown within non-operating assets and liabilities. 1999 comparatives in both cases have been restated accordingly.

Notes to the Accounts

At 31 December 2000

3. Operating costs

	Total 2000 £'000	Total 1999 £'000
Staff costs		
- wages and salaries	54,668	54,509
- social security costs	5,698	4,897
- other pension costs	1,435	1,310
Depreciation of tangible assets	2,529	1,890
Auditors' remuneration	233	230
Operating lease rentals		
- plant and machinery	3,058	2,038
- land and buildings	2,434	2,584
Exchange losses	40	10
Amortisation of goodwill	1,078	219
Exceptional costs	–	2,542
Other operating costs	184,876	225,166
	256,049	295,395

In 1999 exceptional costs of £2,542,000 were incurred in respect of the Scheme of Arrangement and associated corporate finance activities (£1,639,000) and the restructuring of the Board and senior management (£903,000).

Of the Group audit fee of £233,000 (1999 – £230,000), £28,000 (1999 – £38,000) related to the audit of the Company.

Fees for non-audit services payable to PricewaterhouseCoopers in 2000 totalled £183,000 (1999 – £591,000, of which £499,000 was included within exceptional costs).

Disclosures relating to the remuneration of Directors are set out on pages 21 to 24.

Operating costs include £3,050,000 relating to the Investment Programme which was announced during the year:

	External Costs £'000	Internal Costs £'000	Total Revenue Costs £'000	Capital Costs £'000
Parity Solutions	778	1,272	2,050	215
Parity Software Services	1,000	–	1,000	–
	1,778	1,272	3,050	215

Internal costs represent the cost of salaries and associated payroll overheads in respect of consultants working on Investment Programme projects.

Notes to the Accounts

At 31 December 2000

4. Average staff numbers

	2000 Number	1999 Number
Parity Solutions		
United Kingdom	698	636
Mainland Europe	182	201
Parity Software Services		
United Kingdom	150	158
Mainland Europe	323	361
USA	360	365
	1,713	1,721

Parity Solutions BV staff numbers have been included within Parity Solutions and 1999 comparatives have been restated accordingly.

5. Net interest payable

	2000 £'000	1999 £'000
Bank overdrafts and loans	(492)	(412)
Variable rate loan notes	(55)	(36)
Interest payable	(547)	(448)
Bank interest receivable	178	250
Net interest payable	(369)	(198)

Notes to the Accounts

At 31 December 2000

6. Taxation on profit on ordinary activities

	Current tax on income £'000	Prior period adjustments £'000	2000 Total £'000	1999 Total £'000
Based on the profit for the year:				
UK corporation tax at the rate of 30% (1999 – 30.25%)	1,892	15	1,907	3,959
Overseas taxation	2,524	(88)	2,436	2,776
Deferred taxation	97	–	97	84
	4,513	(73)	4,440	6,819

The charge for UK corporation tax for 2000 has been reduced by £427,000 as a result of payments by Parity Group plc to the Parity Group Qualifying Employee Share Ownership Trust (QUEST). Payments by Parity Group plc to the QUEST in respect of share options exercised, which are deductible for corporation tax purposes, are charged directly to reserves (see note 20).

7. Dividends

	2000 £'000	1999 £'000
Ordinary – interim paid 0.93p (1999 – 0.93p)	1,407	1,387
Ordinary – final proposed 1.57p (1999 – 1.57p)	2,356	2,386
	3,763	3,773

The Parity Group plc 1999 Employee Benefit Trust has waived its rights to dividends in excess of 0.01p per share.

8. Earnings per ordinary share

The calculation of basic and diluted earnings per ordinary share is based on the following:

	2000			1999		
		Earnings per share			Earnings per share	
	Earnings £'000	Basic Pence	Diluted Pence	Earnings £'000	Basic Pence	Diluted Pence
Earnings per ordinary share	8,370	5.58	5.53	11,742	7.92	7.77
Exceptional items	–	–	–	2,287	1.54	1.51
Goodwill amortisation	1,078	0.72	0.72	219	0.15	0.14
Earnings per ordinary share before goodwill amortisation and exceptional items	9,448	6.30	6.25	14,248	9.61	9.42

8. Earnings per ordinary share continued

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share is as follows:

		2000 Average Number	1999 Average Number
i)	Basic weighted average number of shares in issue	152,743,963	149,165,867
	Adjustment for shares held by ESOP	(2,756,238)	(907,938)
		149,987,725	148,257,929
ii)	Dilutive weighted average number of shares in issue	152,743,963	149,165,867
	Adjustment for share options	1,237,587	2,946,563
	Adjustment for shares held by ESOP	(2,756,238)	(907,938)
		151,225,312	151,204,492

The number of ordinary shares in issue at 31 December 2000 was 153,500,578, (31 December 1999 – 151,957,011).

9. Intangible assets

Group	£'000
Cost	
At 1 January 2000	22,589
Adjustment to fair value of consideration paid	(1,026)
At 31 December 2000	21,563
Amortisation	
At 1 January 2000	219
Charge for the year	1,078
At 31 December 2000	1,297
Net book value at 31 December 2000	20,266
Net book value at 1 January 2000	22,370

Goodwill arising on the acquisition of TMS, Idev and Comtec is being amortised over 20 years, being the period over which the Directors estimate that the values of the underlying businesses are expected to exceed the values of the underlying tangible assets.

The adjustment to cost of £1,026,000 relates to the revaluation of the deferred consideration payable in respect of the acquisition of Idev, to reflect the mid market price of the Company's shares at the date at which they were issued to the vendors during the year and the revaluation of the remaining shares to be issued at the mid market price of the Company's shares as at 31 December 2000. A further 17,918 shares are due to be issued in 2001.

Notes to the Accounts

At 31 December 2000

10. Tangible assets

Group	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2000	2,873	457	14,945	18,275
Exchange adjustments	8	–	118	126
Additions	139	–	2,577	2,716
Disposals	–	(132)	(48)	(180)
At 31 December 2000	3,020	325	17,592	20,937
Depreciation				
At 1 January 2000	1,613	129	10,410	12,152
Exchange adjustments	4	–	83	87
Charge for the year	186	81	2,262	2,529
Disposals	–	(80)	(34)	(114)
At 31 December 2000	1,803	130	12,721	14,654
Net book value at 31 December 2000	1,217	195	4,871	6,283
Net book value at 1 January 2000	1,260	328	4,535	6,123

The Group had capital commitments of £889,000 as at 31 December 2000 (1999 – £nil).

Company	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2000	30	268	363	661
Additions	–	–	29	29
Disposals	–	(96)	–	(96)
At 31 December 2000	30	172	392	594
Depreciation				
At 1 January 2000	3	95	228	326
Charge for the year	6	55	38	99
Disposals	–	(52)	–	(52)
At 31 December 2000	9	98	266	373
Net book value at 31 December 2000	21	74	126	221
Net book value at 1 January 2000	27	173	135	335

The Company had no material capital commitments as at 31 December 2000 (1999 – £nil).

Notes to the Accounts
At 31 December 2000

11. Investments

	Group	Company		
	Investment in own shares £'000	Investment in subsidiary undertakings £'000	Investment in own shares £'000	Total £'000
At 1 January 2000	1,497	7,532	1,497	9,029
Additional investment	3,710	–	3,710	3,710
Issue of shares to option holders	(69)	–	(69)	(69)
At 31 December 2000	5,138	7,532	5,138	12,670

Investment in own shares
The investment in own shares represents shares held by the Parity Group 1999 Employee Benefit Trust (EBT) which are valued at cost.

The trustees of the EBT have discretionary powers to grant options to Group employees. At 31 December 2000 the EBT held 2,756,238 ordinary shares (1999 – 907,938). 2,202,325 options were granted by the Trustees during the year (1999 – nil) and 60,000 options over ordinary shares were exercised (1999 – 690,000).

At 31 December 2000 the market value of the ordinary shares held was £3,155,893 (1999 – £3,395,688). Costs relating to the operation of the EBT are included in the profit and loss account for the year. The Directors are of the opinion that there has been no permanent diminution in the value of the investment in own shares and therefore no provision has been made to write down the investment to market value.

12. Debtors

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Trade debtors	36,433	38,228	–	–
Accrued income	12,581	13,680	–	–
Amounts owed by subsidiary undertakings	–	–	41,952	45,385
Other debtors	2,105	3,737	111	361
Prepayments	2,449	1,472	24	72
	53,568	57,117	42,087	45,818

13. Reconciliation of operating profit to net cash inflow

	2000 £'000	1999 £'000
Operating profit before exceptional items	13,179	21,301
Depreciation of tangible assets	2,529	1,890
Amortisation of intangible assets	1,078	219
Gain on issue of own shares held by ESOP to option holders	(13)	(166)
(Profit)/loss on disposal of tangible assets	(13)	20
Decrease in debtors	3,771	5,594
Decrease in creditors	(5,020)	(4,914)
Decrease in provisions	(166)	(540)
Net cash flow from operating activities before exceptional items	15,345	23,404

14. Analysis of net debt

Group	At 1 January 2000 £'000	Cash Flow £'000	Exchange Movements £'000	At 31 December 2000 £'000
Cash at bank and in hand	12,997	(9,089)	170	4,078
Overdrafts	(3,555)	1,521	(8)	(2,042)
	9,442	(7,568)	162	2,036
Variable rate credit facilities	(10,244)	6,820	(84)	(3,508)
Variable rate loan notes	(810)	32	-	(778)
	(1,612)	(716)	78	(2,250)

Reconciliation of net cash flow to movement in net debt	£'000
Decrease in cash in the period	(7,568)
Loan notes repaid	32
Decrease in borrowings under variable rate credit facilities	6,820
Exchange movements	78
Movement in net debt in the period	(638)
Net debt at 1 January 2000	(1,612)
Net debt at 31 December 2000	(2,250)

Notes to the Accounts
At 31 December 2000

15. Variable rate loan notes payable

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Variable rate loan notes 2004	778	810	778	810

All loan notes are denominated in sterling.

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April or 1 October each year until 31 December 2004 at the election of the note holders. Interest is payable at a variable rate of 0.5% below six month LIBOR, fixed on 1 April and 1 October of each year. Lloyds TSB Bank plc has guaranteed the repayment of the principal and interest of £28,000 of the variable rate loan notes.

16. Other creditors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank overdraft	2,042	3,555	1,915	3,555
Bank loans	3,508	10,244	3,500	9,000
Trade creditors	14,818	15,887	-	-
Payments in advance and accrued income	4,155	4,891	-	-
UK corporation tax	1,247	2,726	-	-
Overseas corporation tax	997	1,235	-	-
Other taxes and social security costs	3,868	4,483	61	83
Other creditors and accruals	11,563	14,344	1,187	2,149
Amounts due to subsidiary undertakings	-	-	24,649	10,521
Dividend payable	2,356	2,386	2,356	2,386
	44,554	59,751	33,668	27,694

The Company and its main UK subsidiary undertakings have entered into an omnibus guarantee and set-off arrangement with Lloyds TSB Bank plc in respect of its working capital facilities and other financing facilities.

Notes to the Accounts

At 31 December 2000

17. Financial instruments

Policy

The Group currently does not use complex financial instruments.

The Group has limited transactional currency exposures as most businesses trade within their own national boundaries. Significant exposures are hedged by currency borrowings or forward foreign exchange contracts. The majority of the Group's short term borrowings and deposits are controlled centrally; currency exposures arising on short-term intra Group loans are hedged using forward foreign exchange contracts. Currency exposures are reviewed regularly.

Group borrowings are subject to floating interest rates. Financial derivatives are not currently used in managing interest rate exposures.

Short-term debtors and creditors have been excluded from all of the following disclosures, other than the currency exposure details set out on page 42.

The profile of the Group's financial assets and liabilities was as follows:

As at 31 December 2000	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
Financial assets					
Cash	742	1,082	1,864	390	4,078
Financial liabilities					
Overdrafts	829	–	1,213	–	2,042
Bank loans	3,508	–	–	–	3,508
Loan notes	778	–	–	–	778
Provision for surplus properties	564	–	–	–	564
	5,679	–	1,213	–	6,892

As at 31 December 1999	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
Financial assets					
Cash	4,564	1,686	5,903	844	12,997
Financial liabilities					
Overdrafts	2,532	–	1,023	–	3,555
Bank loans	9,012	1,232	–	–	10,244
Loan notes	810	–	–	–	810
Provision for surplus properties	511	–	–	–	511
	12,865	1,232	1,023	–	15,120

Financial assets

The financial assets of the Group consist of £4.1m cash, which is invested at floating rates of interest where the rate is reset more than once a year.

Notes to the Accounts

At 31 December 2000

17. Financial instruments continued

Financial liabilities

Overdrafts

The Group has available bank overdrafts and money market facilities which are used to manage short-term fluctuations in cash flow. These facilities are uncommitted and hence expire within one year or less. All overdrafts are subject to floating rates of interest.

Bank loans

The Group has a committed revolving credit facility denominated in sterling with Lloyds TSB Bank of £18m, of which £3.5m had been drawn down at 31 December 2000. Borrowings under the facility carry a floating interest rate linked to LIBOR.

Loan notes

Details of the denomination, interest rates and repayment terms of the loan notes are set out in note15.

Provision for surplus properties

The provision for surplus properties represents the estimated cost of unavoidable future liabilities in respect of leasehold properties which are surplus to the requirements of the Group. There is no material difference between the value of the provision recorded in the Accounts and the net present value of the future costs.

Maturity of financial liabilities

Overdrafts and bank loans mature in less than one year. Loan notes are repayable at the option of the loan note holder on either 1 April or 1 October until 2004. The Group is committed to pay £166,000 of the surplus property provision within one year. All other financial liabilities mature in more than one year.

Fair value of financial instruments

At 31 December 2000 there are no material differences between the book value and the fair value of the Group's financial assets and liabilities.

Currency exposures on monetary assets and liabilities

The only company within the Group with monetary assets and liabilities in non-functional currencies as at 31 December 2000 that would give rise to currency gains and losses recognised in the profit and loss account, was Parity Group plc, which held overdrafts of 1,731,000 euros (£1,088,000); (1999 – 1,643,000 euros (£1,023,000)). These overdrafts hedge currency receivables within the UK. At the same date the Company had a bank deposit denominated in US dollars of $750,000 (£502,000); (1999 – £nil).

Notes to the Accounts

At 31 December 2000

18. Provisions for liabilities and charges

Group	Group pensions £'000	Surplus property £'000	Other provisions £'000	Deferred taxation £'000	Total £'000
At 1 January 2000	223	511	36	(3)	767
Created	–	229	–	97	326
Utilised	(183)	(12)	–	–	(195)
Released	–	(164)	(36)	–	(200)
At 31 December 2000	40	564	–	94	698

Analysis of deferred taxation payable:

	2000 £'000
Provision for taxation on overseas undistributed reserves	380
Other timing differences	(286)
	94

Company	Surplus property £'000	Deferred taxation £'000	Total £'000
At 1 January 2000	409	284	693
Created	229	–	229
Released	(164)	–	(164)
At 31 December 2000	474	284	758

Analysis of deferred taxation payable:

	2000 £'000
Provision for taxation on overseas undistributed reserves	380
Other timing differences	(96)
	284

The Group has no unprovided deferred tax (1999–£nil).

Notes to the Accounts

At 31 December 2000

19. Share capital

	2000 £'000	1999 £'000
Authorised:		
300,000,000 ordinary shares of 5p each	15,000	15,000
(1999 – 300,000,000 ordinary shares of 5p each)		
Share capital allotted, called up and fully paid:		
153,500,578 ordinary shares of 5p each	7,675	7,598
(1999 – 151,957,011 ordinary shares of 5p each)		

During the year the Company issued the following share capital:

	Number	£'000
Issued to vendors	401,755	20
Exercise of share options	30,505	2
Issued to QUEST	1,111,307	55

Disclosures relating to options subsisting under share option schemes are shown in the Report of the Remuneration Committee on pages 21 to 24.

Notes to the Accounts

At 31 December 2000

20. Equity shareholders' funds

Group	Ordinary share capital £'000	Shares to be issued £'000	Capital redemption reserve £'000	Share premium £'000	Other reserves £'000	Profit & loss account £'000	Total £'000
Shareholders' funds as at 1 January 2000	7,598	1,986	50	1,554	34,390	(6,802)	38,776
Share options exercised	2	–	–	13	–	–	15
Shares issued to QUEST	55	–	–	1,873	–	(1,423)	505
Shares issued to vendors	20	(1,502)	–	–	918	–	(564)
Shares to be issued to vendors	–	(462)	–	–	–	–	(462)
Retained profit for the year	–	–	–	–	–	4,607	4,607
Exchange adjustments	–	–	–	–	–	426	426
Shareholders' funds as at 31 December 2000	7,675	22	50	3,440	35,308	(3,192)	43,303

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The loss for the year dealt with in the accounts of the Company was £3,070,000 (1999 profit – £21,306,000).

The premium of £918,000 arising on the shares issued to vendors as part of the deferred purchase consideration for Idev has been taken to other reserves in accordance with Section 131 of the Companies Act.

The cumulative amount of goodwill which has been taken to reserves, including £1,078,000 amortised during the year, was £70,588,000, (1999 – £69,510,000).

Notes to the Accounts
At 31 December 2000

20. Equity shareholders' funds continued

Company	Ordinary share capital £'000	Shares to be issued £'000	Capital redemption reserve £'000	Share premium £'000	Profit & loss account £'000	Total £'000
Shareholders' funds as at						
1 January 2000	7,598	27	50	1,554	17,483	26,712
Share options exercised	2	–	–	–	–	2
Shares issued to QUEST	55	–	–	1,873	(1,423)	505
Shares issued to vendors	–	(20)	–	13	–	(7)
Shares to be issued to vendors	20	(6)	–	–	–	14
Retained loss for the year	–	–	–	–	(6,833)	(6,833)
Exchange adjustments	–	–	–	–	(33)	(33)
Shareholders' funds as at						
31 December 2000	7,675	1	50	3,440	9,194	20,360

21. Operating lease commitments

Annual commitments at 31 December under non-cancellable operating leases were as follows:

	2000		1999	
Group	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	453	728	282	508
Between two and five years	441	1,477	840	1,412
Over five years	1,647	–	999	–
	2,541	2,205	2,121	1,920

Notes to the Accounts

At 31 December 2000

22. Pension schemes

The Group operates a number of pension schemes in the UK. With the exception of the scheme described below all the schemes of the Group are defined contribution plans and the assets are held in separate independently administered funds.

In March 1995 the Group established the Parity Retirement Benefit Plan, renamed as the Parity Group Retirement Benefit Plan (the Parity Scheme), following the Scheme of Arrangement, in order to facilitate the continuance of pension entitlements for staff transferring from other pension schemes following acquisitions in 1994. This is a funded scheme.

An actuarial valuation of the Parity Scheme was carried out as at 1 April 1998 by independent consulting actuaries using the "attained age" method. At the valuation date the market value of the scheme's assets was £5.6 million, and the actuarial value of these assets represented 92% of the benefits accrued to members after allowing for expected increases in earnings. The principal assumptions used in the actuarial valuation are those related to the differentials between rates of return on investments and the rates of increases in earnings and pensions. It has been assumed that the investment return would exceed price inflation by 4¼% and that earnings would exceed price inflation by 2½%. The revisions to the financial assumptions take into account the impact of the 1997 Finance Act, which removed the ability of pension schemes to reclaim tax credits on UK equity dividends.

The pension charge has been calculated as the best estimate of providing ongoing benefits over the average remaining working life of the current membership, allowing for the shortfall between the scheme's assets and liabilities to be eliminated over the same period. However, under the Minimum Funding Requirement introduced by The Pensions Act 1995 the Parity Scheme has a shortfall which must, by law, be eliminated over a shorter period. Consequently the Company is currently paying contributions at a rate higher than the pension charge.

The SSAP24 charge in 2000 relating to the Parity Scheme was £231,000 (1999 – £256,000).

Notes to the Accounts

At 31 December 2000

23. Subsidiary undertakings

The principal subsidiary undertakings affecting the consolidated results of the Group which are wholly owned and registered in England, except where indicated, are as follows:

Name of company	
Parity Limited	
Parity Solutions Limited*	
Parity Solutions (Ireland) Limited*	(Registered in Northern Ireland)
Parity Training Limited*	
Parity Resources Limited*	
Parity EuroSoft Limited*	
Parity Selection Limited*	
Comtec Computer Training Limited*	
Interactive Developments Limited*	
TMS Information Solutions Limited*	
Parity EuroSoft GmbH*	(Registered in Germany)
EuroSoft TPI GmbH*	(Registered in Germany)
Parity EuroSoft SARL*	(Registered in France)
Parity EuroSoft SA*	(Registered in Switzerland)
Parity EuroSoft BV*	(Registered in the Netherlands)
Parity EuroSoft SA*	(Registered in Belgium)
Parity International BV	(Registered in the Netherlands)
Parity Solutions BV*	(Registered in the Netherlands)
Parity Resources (Ireland) Limited*	(Registered in the Republic of Ireland)
Parity US Holdings Inc.*	(Registered in USA)
TelTech International Corp*	(Registered in USA)
Personnel Solutions Inc.*	(Registered in USA)

*held by a subsidiary undertaking
All of the subsidiary undertakings have the same accounting reference date.
The main activity of these subsidiary undertakings is the provision of IT services

2001 FINANCIAL CALENDAR

Annual General Meeting	6 June 2001
Final Dividend Payable	2 July 2001
Interim Results	September 2001
Interim Dividend Payable	November 2001

REPORT AND ACCOUNTS

Further copies of the Annual and Interim Reports can be obtained from:

The Company Secretary
Parity Group plc
16 St. Martin's Le Grand
London EC1A 4NA

or by email to: cosec@parity.co.uk

SHAREHOLDER INFORMATION

Further information for shareholders can be obtained from the Investor Relations Department at the above address or from the Parity Group website at www.parity.co.uk.

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