PARITY GROUP PLC
Company number: 3539413

Report and accounts for the year ended 31 December 2012

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Headlines

Parity Group plc reports good growth and a return to underlying profitability

- Revenues up 7 2% at £85 9m (2011 £80 1m)
- Adjusted EBITDA[1] of £1 27m (2011 £0 36m)
- Group Profit before non-recurring items and tax £0 28m (2011 £0 71m loss)
- Group loss for the year reduced to £1.39m (2011 £2 30m)
- Divisional results for 2012 –
    - **Resources**
        - £4 0m divisional contribution[2] (2011 £3 5m)
        - Contractor numbers up 15% to 880 at year end (2011 up 10% to 772)
        - Expanded portfolio now more balanced towards private sector
    - **Systems**
        - £1 29m divisional contribution[2] (2011. £1 86 m)
        - Margins remained stable at 20%
        - First TechLab IP initiative announced
    - **Talent Management**
        - £0 67m divisional contribution[2] (2011 £0 46m)
        - 14 clients gained following entry in GB market during 2012
        - Wins included Sheffield Hallam University, the Welsh Assembly and the National Skills Academy
    - **Inition** (acquired May 2012)
        - £0 26m divisional contribution[2]
        - Trading well with first earnout target achieved 3 months early
        - Clients in 2012 included Jaguar Land Rover, Gadget Show and Castrol

[1] In assessing the performance of the business, the directors use a non-GAAP measure "Adjusted EBITDA" being the statutory measure, prior to non-recurring items and share based compensation Non-recurring items and share based compensation are detailed in note 4 Adjusted EBITDA is reconciled to operating loss in note 4
[2] Divisional contribution in this narrative refers to the segment contribution before central costs3, tax, interest, non-recurring items and investment costs
[3] Central costs represent all centrally managed costs, and include Corporate, Finance, HR, IT and Property costs

Chairman's Statement

2012 Results

I am pleased to report that we made further good progress in 2012, returning to a Group profit before tax and non-recurring items for the first time since 2009 New growth-oriented strategies have been implemented by the Board across, all divisions and the results are apparent

Revenues increased to £85 9m in 2012 from £80 1m in 2011; and in a challenging market for IT services Resources increased its divisional contribution as did Talent Management which won 14 clients following its GB marketing initiative

In addition the Group made its first move into the digital media market with the acquisition of Inition Limited in May 2012, which has performed well achieving its first earn-out profit target three months early

The Group's Techlab initiative agreed in principle in January 2013, a joint venture with Royal Holloway, University of London to develop their innovative social media search algorithm

Before non-recurring items and tax the Group returned a profit of £0 28m compared to a loss of £0 71m in 2011 A Group loss for the year of £1 39m attributable to shareholders compares to £2 30m loss in 2011

Non-recurring items in the year were £1 22m including transaction costs of £0 84m relating to the acquisition of Inition, and other on-going and aborted acquisition costs

During the year we sublet 8,430 sq ft of unused office space in Wimbledon The Group now holds no empty office space

Divisional results and current trading are discussed in the CEO's Report

Cash, Dividend and Investments

Cash at year end was £2 87m (2011 £5 24m) following an outlay of £1 5m cash for the Inition first stage payment, pension deficit payments of £1 0m and transaction costs There were £0 46m of investment costs in 2012 (2011 £0 69m) which completed the two year investment programme intended to reduce costs, transition the Group into profitable work and initiate its digital media strategy The Board decided to place shares to the value of £0 6m (net) in January 2013 to provide funding for the Inition payment and on-going transaction costs

Banking arrangements with PNC have been in place since late 2010 with a maximum facility of £15m, which the Board believes is adequate for the Group's current and future requirements Recently this facility was extended to December 2014

The Board has decided not to pay a dividend for the 2012 financial year, but will continue to reconsider this policy each year

Strategy

Having returned the Group to profitability the Board can concentrate on growing its Resources, Talent Management, Systems and Inition divisions, whilst making strategic moves in the digital media market towards its ambition of becoming a significant early mover in the new Creative Technology sector of this market This will be underpinned by a strong technology edge, particularly in areas such as 3D, augmented and virtual reality, interactive applications and mobile App developments

In the last quarter of 2012 we set in motion an internal de-centralisation to separate our technology businesses (Systems and Inition) from our human resources businesses (Resources and Talent management) so that they could own the central functions and services they each need to carry out their business The former as our embryo digital division will in future be known as Parity Digital Solutions and the latter as Parity Professionals We expect this new structure to be more efficient and to enable further cost savings, as well as allowing a clearer focused strategy for each division

Appointments to the Main Board

I am pleased to announce today that Stephen Whyte has been appointed a director of Parity Group plc As CEO of Parity Digital Solutions he will lead the Group's digital media strategy. With over twenty five years management experience in marketing communications, including CEO at Acxiom Europe and McCann Erickson, he brings great experience and knowledge to our Board

On 1st February 2013 I was also pleased to report that Suzanne Chase, a qualified lawyer and a senior executive with extensive legal and commercial experience, joined our Board as our part-time general counsel Suzanne had previously worked with us for twelve months and her skills are very relevant to the acquisitive nature of our digital strategy

Chairman's Statement (continued)

Current Trading and Future Prospects

The Group's revenues have increased during 2012 and the Board is particularly encouraged by the steady improvements in profitability, which we expect to continue into 2013 In a quiet IT Services market our early moves away from slowing IT sectors and towards specific niche sectors have been successful, but we will continue to review our position in this competitive market carefully

This is a pivotal year for our Group as we press ahead with our digital media strategy, in relation to which the performance of Inition and positive market feedback received to date gives the Board increasing confidence With the strong management put in place over the last two years the Group is now well positioned to move forward with its plans Trading in the early weeks of the current year has been in line with expectations

The Board remains confident in its ability to significantly increase shareholder value through a combination of the growth of the current businesses and its new strategic initiative in digital media

Philip Swinstead OBE
Chairman
6 March 2013

Operating review

Overview

Over the past two years Parity has created a solid base from which to execute its expansion plans including further development of its digital marketing strategy All divisions now return healthy margins and the cost base has been reduced Several new initiatives announced last year are progressing well including expansion of our Talent Management business, evolution of a Parity Technology Laboratory and our first acquisition for a number of years

We are also consolidating our businesses into two distinct divisions The first is focused on developing and placing skilled people (getting professional people into work) The second is focused on addressing the exciting and emerging digital media market (using new technologies for marketing purposes) as identified in our corporate strategy two years ago From the second quarter of 2013 these two divisions will report separately to the Board under the headings of 'Parity Professionals' and 'Parity Digital Solutions' Future reporting will be on this basis

Adjusted EBITDA at £1 27m (2011 £0 36m) from a £1 98m loss in 2010 demonstrates the continued turnaround and improved profitability of the Group

Group Operations

Parity continued to operate during the year in the IT Services market and traded exclusively in the UK from offices in Wimbledon, Shoreditch, Camberley, Sale, Edinburgh and Belfast

In May 2012 we announced the acquisition of Inition Ltd, a specialist in 3D scanning and printing, advanced augmented reality systems and virtual reality installations operating in the UK from their offices in Shoreditch

Much of Parity's work remains short term in nature although several contract relationships have extended over a number of years No individual client accounts for more than 14% of Group turnover Whilst the Group maintains a degree of exposure to Government spending, the breadth of our private sector portfolio continues to increase and it is expected that this trend will continue

Our entry into the GB graduate development market with our Talent Management business and into the digital marketing arena with our Inition acquisition has broadened our customer base and is moving us into new and exciting sectors

Parity Resources

Our main objective for this division in 2012 was to reverse the decline in recent years of both revenues and contribution by extending services, increasing contractor numbers, improving conversion rates and maintaining overall margins This was accomplished against a backcloth of a depressed employment market which responded to continued economic pressures by seeking to reduce headcount, margins and utilisation wherever possible

During the period we invested in additional sales and support staff, built upon our reputation as a value-add provider, sought new business opportunities and extended our services beyond our traditional IT base

As a result we have increased our contractor numbers by 14% to 880 at year end (2011 - 772) and improved conversion rates to 30% (2011 26%) We have also seen increased activity with permanent recruitment and have newly established teams to focus on the engineering and digital skills markets

The investment in staff to fuel our growth ambitions had a minor impact on second half contributions but was considered essential to reinforce team size, particularly in our London office which was established in 2011, became self funding during 2012 and is now making a positive contribution

In total, revenues in the year increased by 10% to £75 3m (2011 £68 7m) with divisional contribution increasing by 14% to £4 0m (2011 £3 5m)

At the year end the ratio of Private/Government-Public Sector placings was 63/37 (end 2011 48/52) reflecting our ambitions to develop a more balanced portfolio whilst continuing to recognise the importance of the Government and Public Sector markets to our overall business

A number of existing contracts were extended and 67 new clients were signed up during the year (2011 60) Along with our investment in new staff and sectors, these will maintain our impetus for 2013 in what remains a competitive market This business will sit within our new Parity Professionals division going forward

Operating review (continued)

Parity Talent Management
This business was originally established 16 years ago around the successful graduate development programme for the Northern Ireland Government It was later extended to include the prestigious Faststream graduate recruitment programme run on behalf of HMRC Both contracts were renewed in 2012 for a further 3 years and 1 year respectively although delays in the Northern Ireland contract resulted in deferrals of expected revenues to later years
During 2011 a strategic decision was taken to invest in this business so as to extend the portfolio and introduce a number of graduate development programmes across the UK, focussing initially on Higher Education establishments and industry As a result we entered 2012 with an increased cost base, a unique and proven proposition, but only the two contracts referred to above
Our mission therefore was to address this new market and build upon our established capabilities and reputation
In the first quarter we won our first contract in the education sector with a range of graduate employability programmes for Sheffield Hallam University (SHU) This initial 18 month contract has led to a further partnership with SHU to win a graduate programme for the National Skills Academy Food Engineering Degree
On the back of this success the division has since won similar contracts with a further 3 English Universities together with a 3 year contract for the Welsh Assembly involving initially 4 Welsh Universities
As momentum built during the year operating margins improved from 21% in the first half to 33% in the second half, as our earlier investments began to pay off During the year 14 new contracts were signed across GB from this standing start with £3 7m of new business achieved
Having established a solid base in this market we are now seeking to invest further to extend our propositions and seek to address the equally attractive apprentice development market
Whilst investment and a contract delay resulted in a slow start to the year, subsequent successes resulted in revenues of £2 2m (2011 £2 3m) and contributions of £0 67m (2011 £0 46m) Overall divisional operating margins were also increased to 30 6% (2011 20 25%) This business will sit within our new Parity Professionals division going forward

Parity Systems
Over the past two years the division has been transformed from loss making to a stable operation with creditable operating margins This has been achieved by the removal of loss making business (primarily associated with legacy fixed price contracts), reductions in operating costs and a focus on established clients These actions, as anticipated, have resulted in revenue reductions whilst creating a stable and profitable platform with appropriate skill sets to operate within the new Digital Solutions division
Long standing contractual arrangements with our 3 major clients continue although we anticipate work with the Charity Commission to decline as they redirect their budgets Our close relationship with BAT has resulted in them extending their contract with us for a further year Similarly, we continue to provide services to the MOD and are currently introducing some potentially exciting 3D and augmented reality capabilities from our Inition Ltd acquisition to them
We have also had some success with our Business Intelligence initiative, announced last year, signing a consultancy and subsequent implementation contract with a major legal firm
During the year Parity maintained it's Gold partner status with Microsoft and Oracle
The Parity R&D Technology Laboratory initiative (Tech Lab) announced in January its first contract with the Northern Ireland Government to research emerging digital technologies More recently Tech Lab has agreed in principle a joint venture with Royal Holloway, University of London to develop their innovative social media search algorithm We will continue to use Tech Lab to establish potential sources of IP and to develop digital technology partnerships
Our planned exit from loss making and largely fixed price systems integration work has resulted in a decline in revenues to £6 5m (2011 £9 2m) Margins, however, have been stabilised for 2 years at around 20% (2011 20%) with a resultant contribution of £1 3m (2011 £1 9m) This business will sit within our new Parity Digital Solutions division going forward

Operating review (continued)

Initiion

On 29th May the Group announced its first step in implementing the stated strategy to move into the expanding digital media market with the acquisition of London based Inition a leading 3D specialist
Inition's founders have remained with the business and have achieved their first year profit based earn out 3 months early thereby demonstrating the commercial potential of this acquisition
The business can boast having worked on projects for a number of major corporations, including for example Jaguar Land Rover, Gadget Show, Castrol, Guardian and Edrington Group Project work during the period has included medical applications, augmented reality visualisation at a car launch, an immersive wing suit experience for a major manufacturer, holographic animation for advertising purposes and crowd gaming experiences for shows and exhibitions The list goes on and on, but is specialised and addresses the emerging new digital marketing space
Revenues for the 7 months from May were £1 9m with a contribution of £0 26m Inition has continued to run for earn out purposes with it's separately defined overhead structure It is anticipated that during 2013 some sharing of overheads with the remainder of the Group will occur with associated cost savings The business will sit within our new Parity Digital Solutions division going forward

Group Cost Savings

We continue to seek ways in which to improve operational efficiencies and in particular identified three areas for further savings

New Finance System

The company has for some time utilised a custom built bespoke finance reporting system based on Microsoft AX This system is expensive to maintain, difficult to modify and will increasingly become unsuitable as we extend our operations For this reason the decision has been made to move onto a more flexible and cost effective finance platform with a roll out programme having commenced in December
Initially our Systems and Inition businesses will be migrated onto a SAP Business By Design Cloud based solution with our Resources and Talent Management business migrating off AX during the course of 2013
As a result of this we have written off £0 7m which relates to the net book value of the Micro soft AX system as at 31st December 2012 The effect of this write off will be to reduce the annual depreciation charge from the 2012 level by £0 2m

Property

In June 2010 Parity Training, which was sold in February 2009, was placed in administration The Group remained guarantor on certain leases held by Parity Training and since had to bear significant costs on those leases During 2012, the final lease was disposed of and we no longer hold any legacy property formerly owned by Parity Training
In our head office in Wimbledon we had just under 9,000 sq ft of unused office space which due to the economic climate and short lease term remaining we felt would be very difficult to obtain a tenant for and therefore in 2011 provided for in full the lease costs on the vacant space to the end of the term We are pleased to report though that during 2012 we have managed to secure a sub-tenant for the remainder of the lease which will generate additional cash of £0 2m per year

Parity Professionals and Parity Digital Solutions

As a result of the internal de-centralisation to separate out our technology businesses (Systems and Intion) from our human resources businesses (Resources and Talent Management), we expect that this new structure will more efficient and enable further cost savings to be made

Investment in New Initiatives

In accordance with statements made during our May 2011 placing we have continued to invest in certain aspects of the business In particular we have established Talent Management across the UK, expanded our Resources portfolio, created Tech Lab, and achieved our first entry into the digital media market with the part cash acquisition of Inition
Additionally we have continued to invest in staff and advisors to research the digital technology arena and further enhance our corporate strategy in this respect
As a result some £0 46m has been spent in the year which brings to and end this investment programme

Operating review (continued)

Management and Staff

Once again our team has responded to the considerable challenges involved in positioning the company for profitable growth both in its existing markets and those identified in the Group strategy, particularly relating to the digital media market They continue to be responsive and embrace the challenges brought by change Without their skills and commitment we could not have set a solid base for future growth and this within a continued difficult economic climate The Board is again proud and grateful to them and wishes to express its thanks for their on-going support and loyalty

Paul Davies
Chief Executive Officer
6 March 2013

Financial review

Revenue

	2012	2011
	£'000	£'000
Continuing operations		
Resources	**75,289**	68,662
Systems	**6,504**	9,209
Talent Management	**2,202**	2,271
Inition	**1,892**	-
	85,887	80,142

Revenue in total has increased by 7 2% to £85 9m (2011 £80 1m) The Resources division has continued to see good growth from 2011, increasing its revenues by £6 6m (9 6%) from £68 7m to £75 3m Systems revenue has fallen by £2 7m since 2011 to £6 5m as the removal of loss making contracts (mainly associated with earlier fixed price contracts) has now been completed In Talent Management, government spending was cut back in the second half of 2011and this had a knock on affect into the first half of 2012 However, revenues during 2012 have steadily grown with revenue in the first half of £0 94m increasing to £1 27m in the second half Revenue for Inition of £1 89m represented the first 7 months since acquisition and on an annualised basis based on its results to 31st March 2012, showed growth of 22 8%

Divisional contribution

	2012	2011
	£'000	£'000
Continuing operations		
Resources	**4,000**	3,506
Systems	**1,288**	1,862
Talent Management	**674**	461
Inition	**258**	-
Divisional contribution before central costs, non-recurring items and investment costs	**6,220**	5,829

Divisional contribution has increased by £0 39m to £6 22m (2011 £5 83m) Divisional contribution has increased in Resources and Talent Management both in absolute terms and as a percentage of revenue Divisional contribution in Resources has increased to 5 3% (2011 5 1%) and in Talent Management to 30 6% (2011 20 3%) In Systems, margins have been gradually improving from 16% in the first half to 23 5% in the second half Note, however, that margins in the second half of 2011 were improved by a release of provisions on fixed price contracts, this not being the case in 2012 Inition, which was acquired on 29th May 2012 has made a divisional contribution in its first 7 months of £0 26m at a margin of 13 6% representing a significant improvement in profitability compared to the full year prior to acquisition, (Year to 31st March 2012) of £0 06m

Financial review (continued)

Reconciliation of divisional contribution to operating loss from continuing operations

	2012 £'000	2011 £'000
Divisional contribution before central costs, non-recurring items and investment costs	**6,220**	5,829
Central costs	**(4,488)**	(4,785)
Depreciation and amortisation	**(497)**	(537)
Share-based payment charges	**(124)**	(177)
Investment costs	**(461)**	(688)
Operating profit/(loss) before non-recurring items	**650**	(358)
Non-recurring items (continuing operations)	**(1,350)**	(1,437)
Operating (loss) from continuing operations	**(700)**	(1,795)

Central costs continue to be a focus of management's attention, as evidenced by the £0 30m reduction from £4 8m in 2011 to £4 5m in 2012 Investment costs refer to costs associated with new initiatives which were outlined in the Group's prospectus, issued in respect of the Firm Placing, and Placing and Open Offer of new ordinary shares in May 2011 The investment programme has now been completed The combination of improved divisional performance and further reduction in central costs has contributed to an improvement of £1m in operating profit turning the loss of £0 36m in 2011 into a profit of £0 65m in 2012

Non-recurring items

Continuing operations	2012 £'000	2011 £'000
Restructuring	**961**	491
Transaction costs	**840**	-
Property provisions	**(451)**	946
	1,350	1,437

Non-recurring items in the year include the writing off of the remaining investment in our Microsoft Dynamics AX ERP system of £0 72m The heavily customised system was installed 4 years ago and has shown itself to be inflexible, expensive to maintain, and will not provide the correct platform for the company as we extend our operations Initially our Systems and Inition businesses will be migrated onto SAP by Design, with the Resources and Talent Management businesses migrating off of AX during the course of 2013

Transaction costs refer to the professional fees incurred in our acquisition programme and relate to the acquisition of Inition Limited, an aborted acquisition, and on-going acquisition activity

The Board believed last year that due to the economic climate and because such a short period of lease remained on the vacant offices at Wimbledon, a provision should be made against the remaining previously un-provided costs to the end of the lease However, the Board is pleased to report that despite the difficulties, this unoccupied area has now been sublet and the release in provision reflects the contracted sub-let income to the end of the lease

Further details of the non-recurring costs are given in note 5

Earnings per share and dividend
The basic loss per share from continuing operations was 2 00 pence (2011 3 99 pence)

The Board does not propose a dividend for 2012 (2011 nil), but will continue to review this policy each year

Financial review (continued)

Statement of Financial Position

The most significant movements in the balance sheet were in the recognition of goodwill on the acquisition of Inition, the increase in the defined benefit scheme liability as a result of an actuarial loss, the write off of the investment in Microsoft AX ERP and the increase in net debt caused by acquisition activity and legacy payments The net impact of these movements was to reduce the Group's net assets by £1 84m

Trade receivables and accrued income
Trade receivables increased by £0 5m to £13 0m (2011 £12 5m) during the year, reflecting mainly the increase in group revenue and acquisition of Inition Limited Due to continued focus on working capital management, debtor days at the end of the year, calculated on billings on a countback basis, improved to 26 (2011 27)

Trade and other payables
Trade and other payables increased slightly during the year to £9 4m (2011 £8 8m) As with trade receivables this is mainly due to the increase in trading volumes and the acquisition of Inition Limited

Other financial liabilities
Other financial liabilities represent the Group's debt under the asset-based lending facility This is a working capital facility and is consequently linked to the same cycle as the trade receivables The increase in revenues and the improvements in working capital management had the impact of reducing borrowing requirements, however this was offset by the various acquisition and legacy payments made during the year The asset-based lending facility provides for borrowing of up to £15 0m depending on the availability of appropriate assets as security Interest on borrowings is charged at 2 5% over the prevailing base rate

Cash flow and net debt
Before working capital movements, the Group generated cash during 2012 of £0 67m compared to an outflow in 2011 of £1 13m but once working capital movements are taken into consideration there was a net outflow in 2012 of £2 6m (2011 £1 46m) Cash and cash equivalents fells by £2 37m during the year and coupled with an increase in loans and borrowings of £1 78m, net debt increased during the year by £4 1m This increase can be broken down into two types Firstly, acquisition based activity £1 2m represented the net acquisition costs of Inition Limited and £0 7m represented transaction costs on Inition and an aborted transaction The second type can be described as legacy payments and include £1m paid in deficit reduction contributions to the retirement benefit fund, £0 5m paid for the cancellation of the Group's outsourced contract for its internal IT system, and £0 43m in payments in respect of unused property

Provisions
The net reduction in provisions of £1 18m includes the release of excess empty property provisions in respect of the vacant offices in the Wimbledon of £0 45m, and a cash outflow against existing provisions of £0 43m

Pension Fund
During 2012 the Group paid deficit reduction payments of £1m into the defined benefit scheme but despite this and following the triennial valuation that took place in 2012, the liability increased by £0 58m to £3 05m (2011 £2 47m) At the year end an actuarial loss of £1 55m was recorded, mainly as a result of a reduction to the discount rate used in valuing the scheme liabilities

Financial review (continued)

Principal risks and uncertainties

Market

The Group continues to reduce its exposure to the public sector with 2012 revenues from public sector clients falling from 63% to 54% of total revenue during the year However, the Group remains exposed to potential further public sector budget cuts and recruitment freezes

The Group trades exclusively in the UK, and is very aware of the ongoing tough economic conditions that prevail As a result there is a major emphasis on addressing growth technologies in order to diversify the Group's offerings

People

Our people are the most important part of our service and having appropriately trained and motivated staff helps us reduce the risk of poor service delivery Share plans are used to incentivise and retain senior staff in the medium term HR policies and procedures are reviewed regularly to ensure the business recruits and retains appropriately trained and experienced staff

Technology

As an IT services provider the Group relies on its IT, telecommunications and infrastructure systems to perform and manage the services we provide to clients The Group reviews its own disaster recovery systems regularly in order to minimise the risk of prolonged disruption to systems

Legal

The Board recognises that non-compliance with relevant laws and regulations can result in substantial fines or penalties Suitable controls are built into our service delivery processes to reduce the risk of non-compliance

Alastair Woolley
Finance Director
6 March 2013

Board of Directors

Philip Swinstead OBE Chairman
Philip Swinstead, 69, was appointed Non-executive Chairman in June 2010 Philip is a UK software industry founder He started SD in 1969 and was Chairman for 20 years SD became the first software house to obtain a full listing in the UK in 1982, it entered the FTSE 250, and was renamed SD-Scicon before being sold to EDS in 1991 Philip arranged the buyout and refinancing of French systems company, GFI, which then went public in Paris in 1998 Philip Swinstead was co-founder of Parity plc in 1993, and Parity joined the FTSE 250 within five years More recently he has founded private companies in the software animation and mobile application sectors

Lord Freeman Non-Executive Deputy Chairman [1,2,3]
Roger Freeman, 70, was appointed Non-executive Chairman in July 2007 and is Chairman of the remuneration and nominations committees After qualifying as a Chartered Accountant in 1969 he joined Lehman Brothers, the US Investment Bank, and was a Partner in the London Office until 1983 when he entered the House of Commons He served as a Minister between 1986 and 1997 including Cabinet Minister for Public Service He became a Life Peer in 1997 and also became a Partner with PricewaterhouseCoopers for whom he now chairs their UK Advisory Board He is Chairman or Non-executive Director of a number of listed and private companies including Thales SA, Chemring Group plc and Savile Group plc

David Courtley Non-executive Director [1,2,3]
David Courtley, 55, was appointed to the Board as a non-executive Director on 8 June 2011 David has extensive experience within the IT services sector and has held senior executive positions within Fujitsu, EDS and SD-Scicon and Phoenix IT Group plc He was Chief Executive of Fujitsu Services between 2001 and 2009 and was instrumental in the transformation of that business David is also non-executive director of Sagentia Group plc and the French software company Axway

Mike Phillips Non-executive Director [1,2,3]
Mike Phillips, 50, was appointed to the Board as a non-executive Director on 3 November 2011 Mike has more than 10 years' experience as a public company director and is currently Chief Financial Officer of Micro Focus International plc Prior to this Mike was Group Finance Director and then Chief Executive Officer of Morse plc until its successful sale to 2e2 in June 2010 and from 1998 to 2007 was Group Finance Director at Microgen plc Earlier roles include seven years corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers where he led the UK technology team

Paul Davies Chief Executive Officer
Paul Davies, 64, was appointed as Chief Executive in June 2010 He was co-founder of Parity, together with Philip Swinstead, and Chief Executive until 1999 Previously Paul was MD of EASAMS, GEC's systems company Paul has been Deputy Chairman of Microgen plc since 1999 and for a period was Chairman of MSB International plc More recently he joined the operations board of Fujitsu Services for 2 years tasked with improving the performance of their portfolio of large IT programmes

Alastair Woolley Finance Director
Alastair Woolley, 51, was appointed in April 2011 Alastair trained with Deloitte and spent 11 years in various departments including audit and business services Since leaving Deloitte, Alastair has worked during the last 16 years in a variety of companies, mainly technology based, as Finance Director and also for a period of time, as Managing Director He has worked with Philip Swinstead previously as Finance Director and also lately with both Philip and Paul Davies as a consultant on a number of projects Alastair has responsibility for Finance, Property and Facilities and IT

Board of Directors (continued)

Directors appointed after the balance sheet date

Suzanne Chase Executive Director and General Counsel
Suzanne Chase, 50, was appointed on 1 February 2013 Suzanne is a qualified lawyer and a senior executive with extensive legal and commercial experience Suzanne joined the business as General Counsel on 1 February 2012 Previously she has held the positions of Group General Counsel and Company Secretary for Morse plc, Compliance Partner at King Sturge LLP, Group General Counsel and Company Secretary of The Big Food Group plc and General Counsel of Wickes plc Suzanne was also a solicitor at D J Freeman

Stephen Whyte CEO of Parity Digital Solutions
Stephen Whyte, 49, was appointed to the Board on 7th March 2013 Stephen has extensive knowledge of and over 25 years' experience in the marketing services, digital media and creative industry sectors, both in the UK and at an international level Most recently, he was European CEO of Acxiom Corporation, a major interactive and marketing services company specialising in consumer data and analytics, data integration, multi-channel marketing and consultancy Prior to that, he was Chief Executive at McCann Erickson and Leo Burnett, both top 10 UK agency groups Stephen graduated from Oxford University with a degree in Chemistry and is a Fellow of the Institute of Practitioners in Advertising (IPA) As CEO of Parity Digital Solutions he will lead the Group's digital media strategy

1 Member of the nominations committee

2 Member of the remuneration committee

3 Member of the audit committee

Directors' report

The Directors present their report and the audited accounts for the year ended 31 December 2012

Principal activities

The Group delivers a range of recruitment and business and technology solutions to clients across the public and private sectors During the period under review the Group operated through three divisions, Resources, Systems and Talent Management, and a fourth division, Inition, for the last 7 months of the period

The principal activity of the Resources division is to provide recruitment, predominately interim recruitment, and consultancy services, to a diverse range of clients In 2012 its clients' market sectors included central and local government within the public sector and FMCG, Insurance, Oil, and Transport in the private sector

The principal activities of the Systems division comprise innovative information technology solutions and application support Systems delivered its services during the year to central government departments in the public sector, and to Tobacco, IT and Telecommunications clients in the private sector

The principal activity of the Talent Management division is to provide graduate placement services In 2012 it operated predominantly in the public sector, and geographically between Northern Ireland and England

The principal activity of the Inition division is to provide 3D technology solutions, in the form of consultancy, systems integration, and the resale of 3D equipment In 2012 it operated predominately in the private sector delivering its offerings to clients in a wide range of sectors

Review of business and future developments

A review of the business and its outlook , including commentary on the key performance indicators of turnover, gross margin, contribution, debtor days and net debt, and the principal risks and uncertainties facing the Group is included in the Chairman's Statement, Operating Review and Financial Review on pages 2 to 11 The Group's social, environmental and ethical policies are set out on pages 18 and 19 A statement on the application of the going concern principle is set out below Details of financial instruments are set out in note 23 to the financial statements Each of the above is incorporated in this report by reference

Group results

The Group loss from continuing operations before taxation for the year was £1,066,000 (2011 £2,149,000) after charging non-recurring items of £1,350,000 (2011 £1,437,000) After a tax expense of £349,000 (2011 expense of £92,000) and a profit after tax from discontinued operations of £26,000 (2011 loss after tax of £58,000), the retained loss of £1,389,000 (2011 £2,299,000) has been transferred from reserves The results for the year are set out in the consolidated income statement on page 35

Dividends

The Directors do not recommend a final dividend (2011 nil pence per ordinary share) The total dividends for the year were nil pence per ordinary share (2011 nil pence per ordinary share).

Pension

The Group operates a defined contribution pension scheme There is also a defined benefit scheme which is closed both to new members and to future service accrual Details of the defined benefit pension scheme are given in note 25

Purchase of own shares

At the end of the year, the Company had authority, under the shareholders' resolution of 29 May 2012, to purchase in the market 6,874,157 of the Company's ordinary shares at prices ranging between two 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 The Directors intend to seek renewal of this authority at the forthcoming Annual General Meeting

Board of Directors

Biographical information on each of the Directors as at 6 March 2013 is set out on pages 12-13, together with details of membership of the Board committees
Suzanne Chase was appointed to the Board on 1 February 2013, and Stephen Whyte was appointed to the Board on 7 March 2013

In accordance with the Company's Articles of Association, Suzanne Chase and Stephen Whyte, who were appointed after the announcement of the 2012 AGM, will retire and offer themselves for re-election at the 2013 Annual General Meeting

Directors' interests

The Directors' beneficial interests in the ordinary share capital of the Company are set out within the remuneration report on page 31

Principal shareholders

At the close of business on 5 March 2013 (being the latest practical date prior to the signing of the Directors' Report) the Company had received notification of the following substantial interests representing over 3% of the issued share capital

	Number of Ordinary 2p shares	Percentage held
Philip Swinstead	12,180,543	16 25
Henderson Global Investors	6,877,066	9 17
David Courtley	6,521,739	8 70
Dominion Holdings	4,950,000	6 60
Artemis Investment Management	4,791,710	6 39
Slater Management	4,623,157	6 17
Hargreave Hale	2,596,753	3 46

Capital structure

The Company has two classes of shares in issue, ordinary shares of 2p and deferred shares of 0 04p The ordinary shares are listed on the London Stock Exchange and ordinary shareholders are entitled to vote at Company meetings, to receive dividends and to the return of their capital in the event of liquidation, with the exception of ordinary shares held by the Parity Group plc Employee Share Ownership Trust which are not entitled to receive dividends The deferred shares are not listed, have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation

The Directors are not aware of any restrictions on transfers of shares in the Company or on voting rights or of any agreements between holders of the Company's shares which may result in such restrictions

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above (Review of business and future developments) The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 8 to 11 and in note 23 to the financial statements Note 23 also includes the Group's objectives for managing capital

As outlined in note 23, the Group meets its day to day working capital requirements through an asset-based finance facility The facility contains certain financial covenants which have been met throughout the period The facility was recently extended to December 2014

Going concern *(continued)*

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facility for the foreseeable future The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued on acceptable terms

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 Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid In the event of a change of control, the share options held by Mr Davies under the Senior Executive Option Plan would vest There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid

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 United Kingdom and Ireland the Group agrees payment terms with its suppliers when it enters into binding purchase contracts At 31 December 2012 unpaid creditors of the Group amounted to 32 days of purchases (2011 39 days) Creditor days have not been calculated for the Company as it has no trade payables

Corporate social responsibility
The Group recognises its corporate social responsibilities and reports on these in a separate statement of social, environmental and ethical policies on pages 18 and 19 This statement covers the Group's Employment Policies, Environmental Policy and Health and Safety Policy

Contributions for charitable and political purposes
The Group made no charitable contributions during 2012 (2011 £nil) No payments were made for political purposes

Directors' and officers' liability insurance and indemnity
The Company has purchased insurance to cover its Directors and officers against their costs in defending themselves in any legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings

Disclosure of information to auditor
So far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information

Corporate Governance
The Corporate Governance Report on pages 20 to 25 forms part of the Directors' Report

Auditor
Resolutions will be proposed at the Annual General Meeting to reappoint KPMG Audit Plc as auditor to the Company and to authorise the Directors to determine their remuneration

Directors' report (continued)

Post Balance Sheet Events
Post balance sheet events are disclosed in note 32

Annual General Meeting
The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, will appear in the Notice of Annual General Meeting which will be circulated with the annual report when sent to all Shareholders

By order of the Board

Alastair Woolley
Director
6 March 2013

Social, environmental & ethical policies

Employment policies

As a professional services business, Parity's strength derives from the commitment, capability and cultural diversity of its employees The Group aims to adopt a policy of diversity at all levels including selection, role assignment, teamwork and individual career development 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 through road shows and the intranet The Group also conducts an annual Employee Survey to measure the satisfaction and engagement of its employees and receive suggestions for improvement, which is used to formulate and further develop its people-related plans and activities The Group incentivises employees through share-based incentives and the payment of bonuses and commissions linked to performance objectives All employees have an element of remuneration linked to performance Where appropriate these objectives are linked to profitability The Group also has a structured approach to performance appraisal and career development and ensures that every employee has an annual performance review and has clear objectives and performance standards

Health & safety

The health and safety of Parity's employees is paramount Group policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all employees and to provide such information, training and supervision as is needed for this purpose

Appropriate written health and safety information outlining the Group's policy in each area is issued to all new employees This includes

- First aid — Each office has a person qualified in first aid First aid boxes are readily accessible and records kept of all accidents and injuries
- Fire safety — Each office has an evacuation marshal who will liaise with building management or local emergency authorities, as appropriate Evacuation assembly points are agreed for every location and a full evacuation carried out every six months Fire alarms are tested regularly
- Employees' health — Any employee who believes he/she is suffering from an illness or condition related to their working environment is encouraged to report this to his/her manager for investigation

Annual Health and Safety audits are carried out at every Parity office to ensure high standards are maintained

As part of its benefits package Parity offers a number of benefits to support the health and well being of its staff, as well as an Employee Assistance helpline

Social responsibilities

It is Group policy to be a good corporate citizen wherever it operates As part of the Group's social responsibility, employees are encouraged to become involved in their local communities and fund raising events for charity

Environmental policy

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

Transport

Public transport is used whenever possible Interest-free season ticket loans are made to staff as part of the benefits package Teleconference facilities are extended to main office locations to minimise business travel and increase efficiency PCs (portable or desktop) are made available to staff where needed to facilitate home working and minimise the need to travel to offices

Social, environmental & ethical policies (continued)

Energy

Only energy-efficient computers and peripherals are acquired and they are turned off at the end of each day As a normal part of its operations the Group seeks to occupy offices which have efficient building management systems and, ideally, low energy lighting Office lighting is turned off at the end of each day

Whenever economically justifiable, the paper and other consumables used are made from environmentally-friendly or recycled material or from renewable resources

Recycling

The Group makes every effort to recycle office paper and envelopes Appropriate containers are provided at all offices and all paper collected is sent to recycling plants The Group also recycles as much other material, such as toner cartridges, as is economically viable When replaced, computers and peripherals are offered to employees, local schools or charities or sent to recycling plants

Ethics

Parity Group is committed to maintaining the highest standards of ethics, professionalism and business conduct as well as ensuring that we act in accordance with the law at all times The Group supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly A culture of teamwork, openness, integrity and professionalism forms a key element of our company principles and values which sets out the standards of behaviour we expect from all our employees

Corporate governance report

Introduction

The maintenance of high standards of corporate governance remains a key priority for the Board UK Listing Rules require listed companies to disclose how they have applied the principles of the UK Corporate Governance Code on Corporate Governance and whether they have complied with the provisions set out in section 1 of the UK Corporate Governance Code throughout the year If there are instances of non-compliance, companies must state which provisions they have not complied with, what period the non-compliance covered during the year and provide an explanation for the non-compliance This statement, together with the remuneration report on pages 26 to 32 describes how the Group has complied with the UK Corporate Governance Code during the year

Statement by the Directors of compliance with the provisions of the UK Corporate Governance Code

The Board considers that, throughout the period under review, the Group has complied with the provisions of the June 2010 UK Corporate Governance Code

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 Further details are outlined in the Directors' Report on page 14

The workings of the Board and its committees

The Board

During the period the Board consisted of the Chairman Philip Swinstead, the Deputy Chairman and Senior Independent Director Lord Freeman, the Chief Executive Officer Paul Davies, the Finance Director Alastair Woolley and Non-executive Directors David Courtley and Mike Phillips On 1 February 2013 Suzanne Chase was appointed Executive Director and General Counsel On 7 March 2013 Stephen Whyte was appointed Executive Director The Directors' biographies, which are set out on pages 12-13, demonstrate a range of business backgrounds and experience

Chairman

The Chairman, Philip Swinstead, is responsible for the leadership and efficient operation of the Board, on all aspects of its role This entails ensuring that Board meetings are held in an open manner, and allow sufficient time for agenda points to be discussed It also entails the regular appraisal of each director, providing feedback and reviewing any training or development needs He is also responsible for effective communications with shareholders, and relaying any shareholder concerns to the Directors

Senior Independent Director

Lord Freeman acts as the Senior Independent Director and his prime responsibility is to provide a communication channel between the Chairman and the Non-executive Directors and to ensure that the views of each Non-executive Director are given due consideration He is also an additional contact point for shareholders if they have reason for concern, when contact through the normal channels of the Chairman, Chief Executive and other executive directors has failed to resolve their concerns, or where such contact is inappropriate

Re-election of Directors

All Directors submit themselves for reappointment at the next Annual General Meeting following their appointment and retire by rotation, offering themselves for re-election The names of the Directors submitted for reappointment are set out in the Directors' report on page 14 and in the separate Notice of Annual General Meeting sent to all Shareholders The Chairman, and in the case of the Chairman himself, the Deputy Chairman confirms that the performance of each Director submitting themselves for reappointment continues to be effective and the individuals continue to demonstrate commitment to the role

Company Secretary

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed There is an agreed procedure for Directors to obtain independent professional advice, if necessary, at the Company's expense

The Board meets regularly throughout the year to set long term objectives and to monitor progress against those objectives A table showing the number of meetings of the Board and its committees held during the year and attendance at those meetings by each Board member is set out on page 22 The Board maintains close dialogue by email and telephone between formal meetings The Board has a formal schedule of matters reserved for its specific approval including review of Group strategic, operational and financial matters including proposed acquisitions and divestments It approves the annual accounts and interim report, 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 The review covers all controls, including financial, operational and compliance controls and risk management Authority is delegated to management through Group authorisation limits on a structured basis, ensuring that proper management oversight exists at the appropriate level The Group authorisation levels were reviewed by the Board in December 2012

In October 2012 the Board reviewed the role and responsibilities between the Chairman, Chief Executive Officer, the Senior Independent Director and the Non-executive directors

All members of the Board are supplied in advance of meetings with appropriate information covering the matters which are to be considered A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if required If a Director has any concerns about a particular issue, such concerns are recorded in the minutes of the relevant Board meeting In the event that a Director resigned over a matter that was of concern to him, such concerns would be communicated to the other Directors All Directors have the opportunity to undertake relevant training

The Managing Directors of each of the business units held regular meetings with the Chief Executive Officer and Group Finance Director during the year to discuss operating and financial performance and key issues arising from these meetings were reported to the Board The Chief Executive officer also holds monthly Executive Committee meetings which are attended by the Finance Director, General Counsel, the HR Director and the business unit Managing Directors

Performance evaluation

In the year the Board undertook an annual evaluation of its own performance and that of its committees and individual directors The performance of the Chairman was reviewed by the Deputy Chairman

Corporate governance report (continued)

Board balance and independence

The UK Corporate Governance Code requires a balance of Executive and Non-executive Directors such that no individual or small group of individuals can dominate the Board's decision making The number and quality of the Non-executive Directors on the Board, with their combination of diverse backgrounds and expertise, ensures that this principle is met

The importance of attaining an improved gender balance on the Board has been recognised by the current Board members On 1 February 2013 Suzanne Chase was appointed to the Board as Executive Director and General Counsel Gender diversity will continue to be a factor in any new appointments made

The Board considers that there are no relationships or circumstances which are likely to affect the independent judgement of the Non-executive Directors

Attendance at board meetings

The Board had 12 scheduled Board meetings in 2012 and 7 ad hoc meetings (included below) were convened as necessary to deal with urgent matters Detail of attendance at Board meetings is summarised below Committee attendance is shown for Committee members only

	Board	Audit	Nominations	Remuneration
Number held	19	3	2	2
Number attended [1]				
Philip Swinstead	17	-	-	-
Lord Freeman	15	3	2	2
Paul Davies	19	-	-	-
Alastair Woolley	18	-	-	-
David Courtley	17	2	2	2
Mike Phillips	15	3	2	2

1 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 29 May 2012

Committees

Each of the Board's three Committees has formal written terms of reference, which were reviewed in April 2012 These terms of reference are made available for inspection by Shareholders at the Annual General Meeting or, on request to the Company Secretary, can be inspected at the Company's head office and are also available in the Corporate Governance section of the Group's website

Corporate governance report (continued)

Audit committee
The audit committee which is chaired by Mike Phillips, meets three times a year Lord Freeman and David Courtley are the other members of the audit committee

The audit committee reviews and, as appropriate, actively engages in the processes for financial reporting, internal control, risk assessment, audit and compliance assurance, the consideration of the independence of the Group's external auditor and the effectiveness of the Group's system of accounting, its internal financial controls and external audit function

The committee's principal terms of reference include

- the oversight responsibilities described in the above paragraph,

- reviewing compliance with laws, regulations and the Group's code of conduct and policies,

- monitoring the integrity of the Group's financial statements and announcements relating to the Group's financial performance and reviewing significant financial reporting judgements, changes in accounting policies and practices, significant adjustments resulting from the audit and the application of the going concern assumption,

- reviewing the findings of the external audit with the external auditor,

- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor,

- monitoring and reviewing the external auditor's independence and the effectiveness of the audit process,

- developing and implementing policy on the engagement of the external auditors to supply non-audit services,

- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters, and

- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control, and risk management systems

In order to ensure an appropriate balance between cost effectiveness, objectivity and independence, the audit committee reviews the nature of all services, including non-audit work, provided by the external auditor each year The Group normally expects to retain the external auditor to provide audit-related services, including work in relation to shareholder circulars and similar services The external auditor provided audit-related services during 2012, details of which are set out in note 3 to the accounts

Audit committee meetings are attended by the external auditors and, by invitation of the committee, all of the Executive Directors The external auditors meet separately with the audit committee on request, without the presence of the Executive Directors, to ensure open communication

Remuneration committee
Details of the membership and responsibilities of The Remuneration Committee are set out in the remuneration report on pages 26 to 32

Nominations committee
The Nominations Committee comprises the non-executive Directors and is chaired by Lord Freeman It is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board, and succession planning Where necessary, recruitment consultants are used to assist the process

Corporate governance report (continued)

Investor relations
The Company engages where possible in regular dialogue with its major Shareholders through presentations and meetings after the announcement of the Group's full year and interim results Private and institutional shareholders are given an opportunity to communicate directly with the Board at the Annual General Meeting Shareholders' queries received via the Company Secretary's email address at cosec@parity net or by telephone to the Group's head office are responded to in person by the Company Secretary or by another appropriate employee

All members of the Board usually attend the Annual General Meeting The chairmen of the audit, remuneration and nominations committees will normally be available to answer Shareholders' questions at that meeting Notice of the Meeting is posted to Shareholders with the report and accounts no fewer than 21 working days prior to the date of the Annual General Meeting The information sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is proposed for each substantive matter The Group's annual report and accounts, interim report and other stock exchange announcements are published on the Group's website at www parity net

Annual Report
The Annual Report is designed to present a fair, balanced and understandable view of the Group's activities and prospects The Operating & Financial Review provides an assessment of the Group's affairs and position The Annual Report and Interim Report are sent to all Shareholders on the Register

Directors' responsibilities
The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company financial statements, the directors are required to

• select suitable accounting policies and then apply them consistently,

• make judgements and estimates that are reasonable and prudent,

• state whether they have been prepared in accordance with IFRSs as adopted by the EU, and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations

Website publication
The directors are responsible for ensuring the annual report and the financial statements are made available on the Parity Group website Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Company's website is the responsibility of the Directors The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein

Internal control
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness and is assisted in this respect by the audit committee Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss The Group's system of internal control, which complies with the Turnbull Guidance, has been in place throughout the year and up to the date of this report The Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls during the year

The Group did not consider it necessary to have a separate internal audit function, but will continue to keep the need under review

Risk management

The Group is exposed through its operations to the following financial risks

- Interest rate risk,
- Foreign currency risk,
- Liquidity risk, and
- Credit risk

The policies for managing these risks are set by the Board following recommendations from the Finance Director Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre The policies for each of the above risks, and the nature and extent of those risks, are described in detail in note 23 to the financial statements Other risks and uncertainties are discussed in the Financial Review on page 11

Directors' responsibilities pursuant to DTR4
The Directors confirm to the best of their knowledge

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group

- the annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent Company, together with a description of the principal risks and uncertainties that they face

Alastair Woolley

Alastair Woolley
Director
6 March 2013

Remuneration Report

Remuneration committee

The remuneration committee comprises Lord Freeman as Chairman, David Courtley and Mike Phillips Directors are excluded from discussions about their personal remuneration

The committee is responsible for reviewing the Group's remuneration policy, the emoluments of the Executive Directors and other senior management and the Group's pension arrangements and for making recommendations thereon to the Board The committee also makes recommendations to the Board in respect of awards of options under the Senior Executive Share Option Plan, Executive Share Option and Sharesave Schemes and in respect of employees who should be invited to participate in the Co-investment Scheme It also reviews the terms of service contracts with senior employees and Executive Directors and any compensation arrangements resulting from the termination by the Company of such contracts

The committee has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate In addition, committee members keep themselves fully informed of all relevant developments and best practice by reading the circulars on remuneration and related matters that the Company receives from its advisers and, if appropriate, by attending seminars Pension advice is provided by Cartwright Group Limited Advice on share options and Co-investment Plans is provided by Pinsent Masons, who also provide other legal services to the Group

The Board determines the remuneration of all Non-executive Directors within the limits set out in the Company's Articles of Association Non-executive Directors are not involved in any decisions about their own remuneration Details of Directors' remuneration for the year ended 31 December 2012 are set out in the table on page 31

Remuneration policy

Parity aims to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group and to encourage and reward appropriately superior performance in a manner which enhances shareholder value Accordingly, the Group operates a remuneration policy which ensures that there is a clear link to business strategy and a close alignment with shareholder interests and current best practice, and aims to ensure that senior executives are rewarded fairly for their respective individual contributions to the Group's performance

The four key elements of the remuneration package of senior executives, including Executive Directors, in the Group in 2012 were basic annual salary and benefits in kind, performance bonus payments, long term incentives including share options, and pension arrangements

Salaries and benefits are reviewed annually In order to assess the competitiveness of the pay and benefits packages offered by the Group, comparisons are made to those offered by similar companies These are chosen with regard to the size of the company (turnover, profits and employee numbers), the diversity and complexity of their businesses, the geographical spread of their businesses, and their growth, expansion and change profile In light of the economic conditions prevailing at the start of 2012 the policy applied as a result of the annual salary review was for increases to be given only where an individual's role had changed or where there was a pay anomaly No changes in Directors' remuneration arose as a result of this review

Performance bonus

The terms of the incentive bonus for Executive Directors are agreed annually. For 2012 a target for the full year was set No performance bonuses were earned by, or paid to, Executive Directors in 2012

Long-term incentive arrangements

The long-term incentive arrangements operated by the Company for Executive Directors comprise Share Option Schemes including a Co-investment Scheme

Share option schemes
During 2012 the Group operated three types of share option scheme an Executive Share Option Plan, a Savings Related Share Option Scheme (Sharesave Scheme), and a Senior Executive Share Option Plan

Executive share option plans
The Group operates both an HMRC Approved Share Option Plan and an Unapproved Share Option Plan for options awarded to UK employees in excess of the HMRC limit of £30,000 Share options are granted to Executive Directors and other senior employees over a period of time and according to performance

The rules of the Executive Share Option Plans allow for annual grants to be awarded equivalent to a value of up to one times salary or up to two times salary in exceptional circumstances A limit of 15% of the issued share capital of the Company in a ten year period, on a rolling basis, is applicable to the headroom available to award options over the life of the Schemes Rules of the current Plans expire in May 2019 The terms and conditions of existing share options have not been varied in the year

Executive Share Options granted after 2004 are exercisable in normal circumstances between three and ten years after the date of grant The exercise of the options is conditional upon the share price either outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector, or outperforming a target price

Options granted in 2003 and 2004 have a performance criterion of growth in EPS exceeding RPI plus an average of 3% per annum The year 2004 has been taken as the base year against which EPS growth is measured

The exercise of share options is satisfied either through shares issued by the Company or through purchases in the market via the Employee Benefit Trust In the event that an employee resigns, the options that they hold will lapse Options are granted at nil cost The option exercise price is set at the closing mid-market share price on date of grant without any discount

On 7 June 2011 300,000 share options were awarded under this scheme to Alastair Woolley The exercise price of the options is 28 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 35 pence The options will vest in 3 years and lapse in 10 years if not exercised

On 4 April 2012 a further 60,000 share options were awarded under this scheme to Alastair Woolley The exercise price of the options is 26 25 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 50 pence The options will vest in 3 years and lapse in 10 years if not exercised

Senior Executive Share Option Plan
The Senior Executive Share Option Plan was approved by shareholders on 19 February 2009 and renewed at an EGM on 25 October 2010 The maximum number of shares over which options may be granted under the Senior Executive Share Option Plan is 10% of the company's issued share capital

Following his appointment as CEO, Paul Davies was granted 2,851,633 options under the Senior Executive Share Option Plan in October 2010 The exercise price is 10 pence per share and there are no performance conditions The options had all vested by the balance sheet date

There are no other live options under the Senior Executive Share Option Plan

Remuneration report (continued)

Sharesave schemes

All UK employees, including the Executive Directors, are eligible to participate in the Group's savings related option scheme (Sharesave Scheme) which enables them to subscribe for ordinary shares in the Company Options granted under the Sharesave Scheme do not have performance related conditions attached to them

In April 2012, the Group made a grant of options under the Sharesave scheme Options were granted in conjunction with a three year savings contract, up to a monthly limit of £250 00 Options were granted at a discount of 10% to the market price None of the directors held options under the Sharesave scheme on 31 December 2012

Co-investment scheme

The Co-investment Scheme was approved by shareholders in 2004 Members are invited to join by the Board, having regard to the recommendations of the remuneration committee At present the scheme is open to the Chief Executive Officer, Group Finance Director and the Managing Directors of the business units and one other senior executive Under the rules of the scheme, members are entitled to invest up to 50% of the bonus that they earn under the Annual Performance Bonus Scheme in Parity shares The shares are held on behalf of the employee and, providing the employee remains in Parity's employment, any bonuses invested will be matched in number by the Company on a sliding scale of up to 1 5 for 1 at the end of a defined period of up to three years following the date of purchase

The award of matching shares is subject to the share price outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector and the period during which the employee has to hold shares before they are matched by the Company increases from one year to three years Depending on the Group's performance over those three years, the shares purchased by the employee will be matched on a sliding scale up to a maximum of 1 5-to-1 for outstanding performance

None of the Directors have awards outstanding under the Co-investment Scheme

Total shareholder return

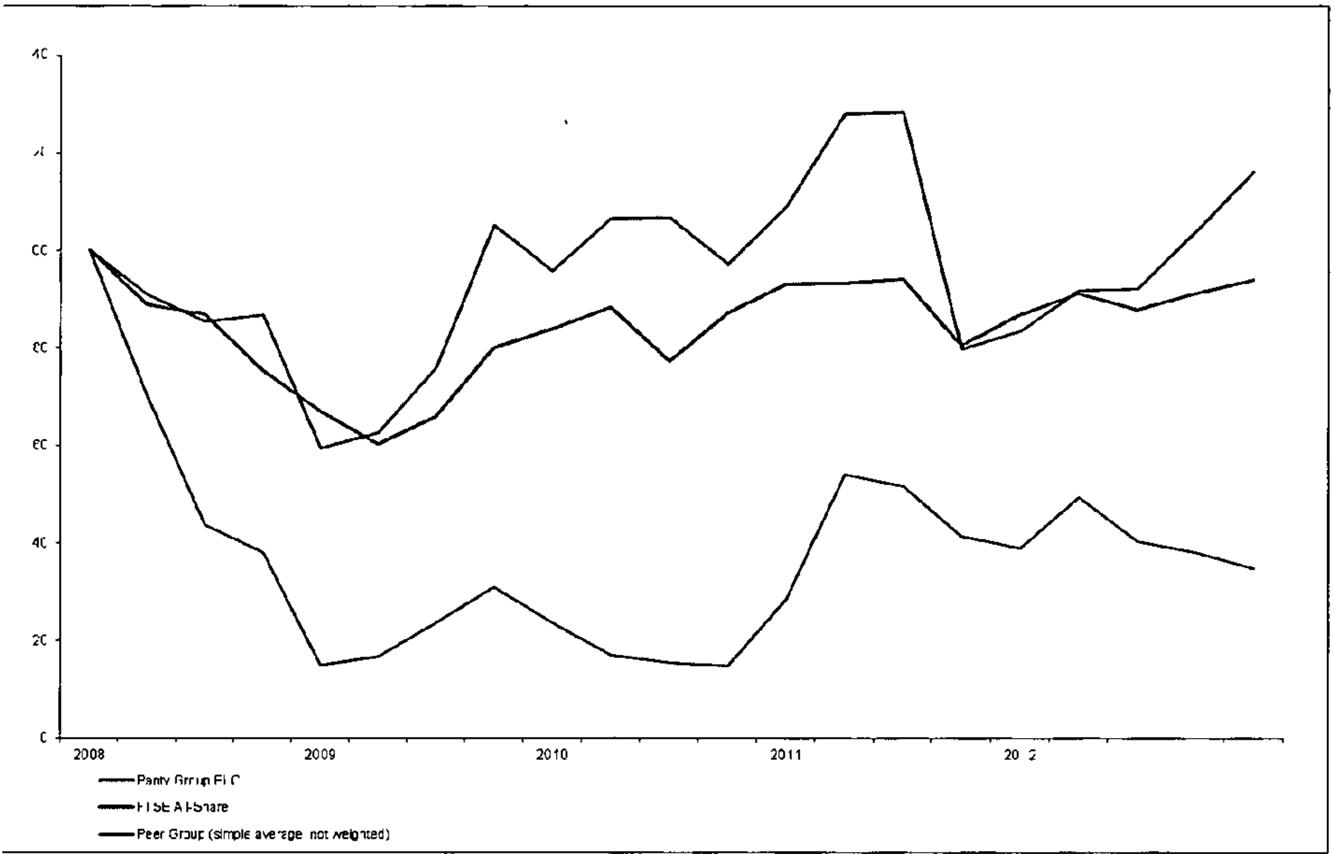
The graph below shows Parity's total shareholder return performance over the past five years compared to a comparator group which includes Parity and by reference to the FTSE All Share Index The comparator group was chosen to provide a benchmark against other companies in the same sector reflecting Group's two main lines of business, Resources and Systems Until February 2009 the Group also operated a Training business

At 31 December 2012 the comparator group comprised

- Anite
- Charteris
- Harvey Nash
- Hays
- ILX
- Interquest
- Kellan
- Nakama Group
- Phoenix IT
- Sci Sys
- SQS
- SThree
- The Rethink Group

Remuneration report (continued)

5 Year Total Shareholder Return graph — quarterly (rebased to 100)



Share price

The Parity Group plc mid market share price on 31 December 2012 was 18 5p During the period 1 January to 31 December 2012 shares traded at market prices between 18 5p and 27 35p

Directors' pension information

Paul Davies is entitled to a non-contributory company pension contribution of 11% of basic salary Alastair Woolley is entitled to a contributory company pension contribution of 5% of basic salary

Non-executive Directors' remuneration

The Board determines the remuneration of the Non-executive Directors with the benefit of independent advice when required The fees are set at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group and are benchmarked against those fees paid by other UK listed companies

The Non-executive Directors do not receive bonuses or pension contributions and are not eligible for grants under any of the Group's share incentive schemes They are entitled to be reimbursed for reasonable expenses incurred by them in carrying out their duties as Directors of the Company

Remuneration report (continued)

Service contracts and letters of appointment

The Group's policy is that no Director has a service contract with a notice period of greater than one year or has provision for pre-determined compensation on termination which exceeds one year's salary, bonus and benefits in kind Non-executive Directors have letters of appointment which set out the terms of their appointments All Board appointments are subject to the Company's articles of association

Contractual arrangements for current Directors are summarised below

Director	Contract date	Notice period	Contractual termination payment
Philip Swinstead[1]	1 June 2010	n/a	n/a
Lord Freeman [1]	1 July 2007	n/a	n/a
Paul Davies [2]	1 June 2010	12 months	12 months rolling
Alastair Woolley	1 April 2011	6 months	6 months rolling
David Courtley[1]	8 June 2011	n/a	n/a
Mike Phillips	3 November 2011	3 months	3 months rolling
Suzanne Chase	1 February 2013	3 months	3 months rolling
Stephen Whyte[3]	7 March 2013	6 months	6 months rolling

1 The appointment of Non-executive Directors, other than Mike Phillips, is terminable at the will of the parties
2 The Company is required to give 12 months notice of termination of the service agreement to the Chief Executive Officer who is required to give 6 months notice to the Company
3 As from 18th August 2013, Stephen Whyte's notice period to be given by either party will be increased to 12 months

Other non-executive posts

Subject to the approval of the Board, the Executive Directors may hold external non-executive appointments The Group 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

Remuneration report (continued)

Directors' remuneration (audited)

The remuneration of the Directors who served during the year is set out below

	Salary/ fees 2012 £'000	Benefits 2012 £'000	Compensation for loss of office 2012 £'000	Total emoluments 2012 £'000	Company pension contributions[1] 2012 £'000	Share Based Payment 2012 £'000
Executive Directors						
P Davies[1]	220	18	-	238	174	11
A Woolley	120	10	-	130	6	18
Non-executive Directors						
P Swinstead [2]	200	-	-	200	-	-
Lord Freeman	40	-	-	40	-	-
D Courtley	40	-	-	40	-	-
M Phillips	40	-	-	40	-	-
Total emoluments	**660**	**28**	-	**688**	**180**	**29**

	Salary/ fees 2011 £'000	Benefits 2011 £'000	Compensation for loss of office 2011 £'000	Total emoluments 2011 £'000	Company pension contributions[1] 2011 £'000	Share Based Payment 2011 £'000
Executive Directors						
P Davies	220	19	-	239	24	81
A Woolley[3]	90	8	-	98	4	9
I Ketchin[4]	38	3	113	153	2	-
Non-executive Directors						
P Swinstead [2]	200	-	-	200	-	-
Lord Freeman	30	-	-	30	-	-
D Courtley[5]	23	-	-	23	-	-
M Phillips[6]	6	-	-	6	-	-
N Tose[7]	27	-	-	27	-	-
Total emoluments	633	29	113	775	30	90

Notes

1. Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors of the company, with the exception of a contribution of £150,000 made to Paul Davies' pension, which was agreed by The Remuneration Committee
2. During 2012 and 2011 The Remuneration Committee elected to pay Philip Swinstead an additional fee of £150,000 for discharging services as Chairman As at 31 December 2012, £37,500 worth of these services remain accrued but unpaid
3. Appointed 1 April 2011
4. Resigned 31 March 2011
5. Appointed 8 June 2011
6. Appointed 3 November 2011
7. Resigned 22 November 2011

Executive Directors' share options (audited)

	As at 31 January 2011	Lapsed / Surrendered in the year	Exercised in the year	Awarded In the year	As at 31 December 2012	Exercise period	Exercise price per share
Paul Davies							
Senior Executive share option plan 2010	2,851,633	-	-	-	**2,851,633**	2011-2017	£0 10
Alastair Woolley							
Executive share option plan							
2011	300,000	-	-	-	**300,000**	2014-2021	£0 28
2012	-	-	-	60,000	**60,000**	2015-2022	£0 2625
Sub-total	300,000	-	-	60,000	**360,000**		
Total	3,151,633	-	-	60,000	**3,211,633**		

Remuneration report (continued)

Directors' interests in shares

The beneficial interests of the Directors who served during the year and their families in the ordinary share capital of the Company are shown below

	At 31 December 2011 (or date of appointment if later)	% issued share capital	**Shareholding as at 31 December 2012 (or date of resignation)**	**% issued share capital**
Philip Swinstead	12,180,543	17 72	**12,180,543**	**16.25**
Lord Freeman	6,250	0 01	**6,250**	**0.01**
Paul Davies	720,000	1 05	**720,000**	**0.96**
Alastair Woolley	56	-	**56**	**-**
David Courtley	6,521,739	9 49	**6,521,739**	**8.70**
Mike Phillips	-	-	**-**	**-**

For and on behalf of the Board

Lord Freeman
Chairman of the remuneration committee
6 March 2013

Independent Auditor's Report to the Members of Parity Group Plc

We have audited the financial statements of Parity Group Plc for the year ended 31 December 2012 set out on pages 35 to 81 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- information given in the Corporate Governance Statement set out on pages 20 to 25 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

Independent Auditor's Report to the Members of Parity Group Plc (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 14, in relation to going concern,
- the part of the Corporate Governance Statement on pages 20 to 25 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

Andrew Turner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
EC4Y 8BB
London
United Kingdom

6 March 2013

Parity Group plc
Consolidated income statement
for the year ended 31 December 2012

	Notes	Before non-recurring items 2012 £'000	Non-recurring items 2012 (note 5) £'000	Total 2012 £'000	Before non-recurring items 2011 £ 000	Non-recurring items 2011 (note 5) £ 000	Total 2011 £'000
Continuing operations							
Revenue	2	**85,887**	-	**85,887**	80,142	-	80,142
Employee benefit costs	3	**(8,032)**	**(226)**	**(8,258)**	(7,989)	-	(7,989)
Depreciation & amortisation	3	**(497)**	-	**(497)**	(537)	-	(537)
All other operating expenses	3	**(76,708)**	**(1,124)**	**(77,832)**	(71,974)	(1,437)	(73,411)
Total operating expenses		**(85,237)**	**(1,350)**	**(86,587)**	(80,500)	(1,437)	(81,937)
Operating profit/(loss)		**650**	**(1,350)**	**(700)**	(358)	(1,437)	(1,795)
Finance income	7	**695**	-	**695**	770	-	770
Finance costs	7	**(1,061)**	-	**(1,061)**	(1,124)	-	(1,124)
Profit/(loss) before tax		**284**	**(1,350)**	**(1,066)**	(712)	(1,437)	(2,149)
Taxation	11	**(497)**	**148**	**(349)**	(208)	116	(92)
Loss for the year from continuing operations		**(213)**	**(1,202)**	**(1,415)**	(920)	(1,321)	(2,241)
Discontinued operations							
Profit/(loss) for the year from discontinued operations	8	**45**	**(19)**	**26**	(22)	(36)	(58)
Loss for the year attributable to owners of the parent		**(168)**	**(1,221)**	**(1,389)**	(942)	(1,357)	(2,299)
Basic and diluted loss per share	12			**(2.00p)**			(3 99p)

The notes on pages 40-81 form part of the financial statements

Parity Group plc
Statements of comprehensive income and statements of changes in equity
for the year ended 31 December 2012

Statement of comprehensive income
for the year ended 31 December 2012

	Notes	Consolidated 2012 £'000	2011 £'000
Loss for the year		**(1,389)**	(2,299)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**(64)**	24
Actuarial (loss)/gain on defined benefit pension scheme	25	**(1,554)**	81
Deferred taxation on actuarial losses/gains on pension scheme taken directly to equity	17	**287**	(22)
Other comprehensive income for the year net of tax	11	**(1,331)**	83
Total comprehensive income for the year attributable to equity holders of the parent		**(2,720)**	(2,216)

Statements of changes in equity
for the year ended 31 December 2012

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2012	1,375	14,319	25,944	44,160	(80,079)	5,719
Loss for the year	-	-	-	-	(1,389)	(1,389)
Exchange differences on translation of foreign operations	-	-	-	-	(64)	(64)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(1,554)	(1,554)
Deferred taxation on actuarial loss on pension scheme taken directly to equity	-	-	-	-	287	287
Issue of new ordinary shares	62	-	693	-	-	755
Share options – value of employee services	-	-	-	-	124	124
At 31 December 2012	**1,437**	**14,319**	**26,637**	**44,160**	**(82,675)**	**3,878**

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2011	760	14,319	20,134	44,160	(78,040)	1,333
Loss for the year	-	-	-	-	(2,299)	(2,299)
Exchange differences on translation of foreign operations	-	-	-	-	24	24
Actuarial gain on defined benefit pension scheme	-	-	-	-	81	81
Deferred taxation on actuarial gains on pension scheme taken directly to equity	-	-	-	-	(22)	(22)
Issue of new ordinary shares	615	-	5,810	-	-	6,425
Share options – value of employee services	-	-	-	-	177	177
At 31 December 2011	1,375	14,319	25,944	44,160	(80,079)	5,719

Parity Group plc
Statement of changes in equity (continued)
for the year ended 31 December 2012

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2012	1,375	14,319	25,944	22,729	(45,381)	18,986
Loss for the year	-	-	-	-	(2,409)	(2,409)
Issue of new ordinary shares	62	-	693	-	-	755
Share options – value of employee services	-	-	-	-	32	32
At 31 December 2012	**1,437**	**14,319**	**26,637**	**22,729**	**(47,758)**	**17,364**

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2011	760	14,319	20,134	22,729	(42,488)	15,454
Loss for the year	-	-	-	-	(2,985)	(2,985)
Issue of new ordinary shares	615	-	5,810	-	-	6,425
Share options – value of employee services	-	-	-	-	92	92
At 31 December 2011	1,375	14,319	25,944	22,729	(45,381)	18,986

The notes on pages 40-81 form part of the financial statements

Parity Group plc
Statements of financial position
As at 31 December 2012

Company number 3539413

		Consolidated		Company	
	Notes	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Assets					
Non-current assets					
Intangible assets	13,14	**7,756**	5,547	-	-
Property, plant and equipment	15	**415**	593	-	-
Trade and other receivables	19	-	-	**69,763**	77,241
Investment in subsidiaries	31	-	-	**20,527**	20,527
Deferred tax assets	17	**1,318**	1,384	-	-
		9,489	7,524	**90,290**	97,768
Current assets					
Stocks and work in progress	18	**20**	116	-	-
Trade and other receivables	19	**13,044**	12,539	**2,619**	2,915
Cash and cash equivalents		**2,871**	5,241	**2,362**	5,107
		15,935	17,896	**4,981**	8,022
Total assets		**25,424**	25,420	**95,271**	105,790
Liabilities					
Current liabilities					
Loans and borrowings	20	**(8,283)**	(6,504)	-	-
Trade and other payables	21	**(8,938)**	(8,783)	**(2,491)**	(1,681)
Provisions	22	**(308)**	(881)	**(305)**	(737)
		(17,529)	(16,168)	**(2,796)**	(2,418)
Non-current liabilities					
Loans and borrowings	20	**(8)**	-	-	-
Trade and other payables	21	**(500)**	-	**(74,656)**	(83,328)
Provisions	22	**(462)**	(1,066)	**(455)**	(1,058)
Retirement benefit liability	25	**(3,047)**	(2,467)	-	-
		(4,017)	(3,533)	**(75,111)**	(84,386)
Total liabilities		**(21,546)**	(19,701)	**(77,907)**	(86,804)
Net assets		**3,878**	5,719	**17,364**	18,986
Shareholders' equity					
Called up share capital	26	**15,756**	15,694	**15,756**	15,694
Share premium account	24	**26,637**	25,944	**26,637**	25,944
Other reserves	24	**44,160**	44,160	**22,729**	22,729
Retained earnings	24	**(82,675)**	(80,079)	**(47,758)**	(45,381)
Total shareholders' equity		**3,878**	5,719	**17,364**	18,986

Approved by the Directors and authorised for issue on 6 March 2013

The notes on pages 40-81 form part of the financial statements

Paul Davies
Chief Executive Officer

Alastair Woolley
Finance Director

Parity Group plc
Statements of cash flows
for the year ended 31 December 2012

	Notes	Consolidated 2012 £'000	Consolidated 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash flows from operating activities					
Loss for year:		**(1,389)**	(2,299)	**(2,409)**	(2,985)
Adjustments for					
Finance income	7	**(695)**	(770)	**(394)**	(386)
Finance expense	7	**1,061**	1,124	**1,044**	1,210
Share-based payment expense	10	**124**	177	**32**	91
Income tax expense/(credit)	11	**349**	95	**(641)**	(363)
Amortisation of intangible fixed assets	13	**233**	249	-	-
Depreciation of property plant and equipment	15	**264**	288	-	-
Impairment of intangible assets	13	**721**	-	-	-
Change in fair value of available-for-sale investment	16	-	7	-	-
		668	(1,129)	**(2,368)**	(2,433)
Working Capital					
Decrease in work in progress		**117**	121	-	-
(Increase)/decrease in trade and other receivables		**(229)**	2,260	**8,496**	(2,400)
(Decrease)/increase in trade and other payables		**(925)**	(2,570)	**(9,651)**	3,334
(Decrease)/increase in provisions		**(1,178)**	(139)	**(1,035)**	314
Payments to retirement benefit plan	25	**(1,090)**	-	-	-
Cash absorbed by operations		**(2,637)**	(1,457)	**(4,558)**	(1,185)
Income taxes paid		-	(3)	-	-
Net cash flows from operating activities		**(2,637)**	(1,460)	**(4,558)**	(1,185)
Investing activities					
Acquisitions (net of cash received)	9	**(1,138)**	-	-	-
Purchase of property, plant and equipment	15	**(113)**	(11)	-	-
Purchase of intangible assets	13	**(3)**	-	-	-
Proceeds from disposal of available for sale assets	16	-	123	-	-
Net cash used in investing activities		**(1,254)**	112	-	-
Financing activities					
Issue of ordinary shares	26	**5**	6,425	**5**	6,425
Proceeds from finance facility		**1,766**	150	-	-
Net movement on intercompany funding		-	-	**2,057**	(229)
Interest paid	7	**(250)**	(231)	**(249)**	-
Net cash (used in)/ from financing activities		**1,521**	6,344	**1,813**	6,196
Net (decrease)/increase in cash and cash equivalents		**(2,370)**	4,996	**(2,745)**	5,011
Cash and cash equivalents at the beginning of the year		**5,241**	245	**5,107**	96
Cash and cash equivalents at the end of the year		**2,871**	5,241	**2,362**	5,107

The notes on pages 40-81 form part of the financial statements

Notes to the accounts

1 Accounting policies

Basis of preparation

Parity Group plc (the "Company") is a company incorporated and domiciled in the UK

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

The principal accounting policies adopted in the preparation of the financial statements are set out below The policies have been consistently applied to all the years presented unless otherwise stated

The financial statements have been prepared on a going concern basis The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report (Review of business and future developments) The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 8 to 11 and in note 23 to the financial statements Note 23 also includes the Group's objectives for managing capital

As outlined in note 23, the Group meets its day to day working capital requirements through an asset-based finance facility The facility contains certain financial covenants which have been met throughout the period The facility has recently been extended to December 2014

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facility for the foreseeable future The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued on acceptable terms

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 Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012 Subsidiaries are entities controlled by the Group Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, the Group takes into consideration potential voting rights that are currently exercisable The acquisition date is the date on which control is transferred to the acquirer The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement or Statement of Comprehensive Income The loss for the year dealt with in the accounts of the Company was £2,409,000 (2011 £2,985,000)

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Business Combinations
The acquisition of subsidiaries is accounted for using the purchase method The related costs of acquisition other than those associated with the issue of debt or equity securities, are recognised in the profit and loss as incurred The acquiree's identifiable assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) "Business combinations" are recognised at their fair value at the acquisition date

Changes in accounting policies: new standards, interpretations and amendments effective in 2012 adopted by the Group and published standards not yet effective
No new standards, amendments to published standards or interpretations of existing standards effective in 2012 had a material impact on the Group's 2012 financial statements No published standards that are not yet effective are expected to have a material impact on the Group's financial statements

Measurement convention
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value derivative financial instruments and financial instruments classified as fair value through the profit or loss or as available-for-sale Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell

Revenue recognition
The Group generates revenue principally through the provision of recruitment and technology services, and to a lesser extent, through the resale of 3D equipment

The Group recognises revenue when certain criteria are met there is clear evidence that a contract exists, the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Group, the stage of completion can be measured reliably where services are delivered, and the significant risks and rewards of ownership, including effective control, are transferred to clients where equipment is sold Revenue is measured at the fair value of the consideration received or receivable, net of discounts, volume rebates and value added tax

Revenue on contracts for the supply of professional services at pre-determined rates is recognised as and when the work is performed, irrespective of the duration of the contract Permanent placement staffing revenue is recognised when candidates commence employment Rebates may be applicable on a sliding scale where the candidate's employment is terminated within 9 weeks Rebate provisions are not created based on the limited incidence of claims

Revenue is recognised on fixed price contracts while the contract is in progress, using the percentage of completion method, having regard to the proportion of the total contract costs which have been incurred at the reporting date Provision is made for all foreseeable future losses

Revenue from systems integration and consulting services under time and material arrangements is recognised as the services are rendered

Revenue for equipment sales is recognised at the point of delivery, which is the point when the significant risks and rewards of ownership of the equipment have passed to the buyer

Non-recurring items
Items which are both material and non-recurring are presented as non-recurring items within the relevant Income Statement category The separate reporting of non-recurring items helps provide a better indication of the Group's underlying business performance Events which may give rise to the classification of items as non-recurring, if of a significantly material value, include gains or losses on the disposal of a business, restructuring of a business, transaction costs, litigation and similar settlements, asset impairments, and onerous contracts

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

Financing income and expenses
Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on the retirement benefit scheme liabilities, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy) Financing income comprises the expected return on the retirement benefit scheme assets, interest receivable on funds invested, dividend income, and net foreign exchange gains

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method Dividend income is recognised in the income statement on the date the entity's right to receive payments is established Foreign currency gains and losses are reported on a net basis

Dividends
Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting Interim dividends, which do not require shareholder approval, are recognised when paid

Taxation
Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

Foreign currencies

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date All differences are taken to the Income statement

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined

1 Accounting policies *(continued)*

Foreign currencies *(continued)*

Group
On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in Other Comprehensive Income On disposal of a foreign operation, the cumulative exchange differences recognised in other comprehensive income relating to that operation up to the date of disposal are transferred to the consolidated Income Statement as part of the profit or loss on disposal

Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale

Discontinued operations are presented in the Income Statement (including in the comparative period) as a single line which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker The Chief Operating Decision Maker is the Operations Board comprising the Chief Executive, the Finance Director, the Business Unit Managing Directors and the HR Director

Intangible assets

Goodwill
Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired

After initial recognition, goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold in determining the gain or loss on disposal, except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from Shareholders' equity and remains indefinitely in Shareholders' equity

Software
The carrying amount of an intangible asset is its cost less any accumulated amortisation and any provision for impairment Software is amortised on a straight line basis over its expected useful economic life of three to seven years

Notes to the accounts (continued)

1 **Accounting policies** *(continued)*

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful economic life, as follows

Leasehold improvements	The lesser of the asset life and the remaining length of the lease
Office equipment	Between 3 and 5 years

The carrying value of property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Impairment of non-financial assets (excluding deferred tax assets)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the fair value less costs to sell associated with the CGU and its value in use Value in use calculations are performed using cash flow projections for the CGU to which the goodwill relates, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money

Impairment losses are recognised in profit or loss Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis

Goodwill is tested for impairment at each reporting date The carrying value of other intangible assets and property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate the carrying value many not be recoverable
For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit") The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU") Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination

An impairment loss in respect of goodwill is not reversed In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Financial assets
The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Financial assets *(continued)*

Loans and receivables these assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise principally through the provision of goods and services to customers (e g trade receivables) They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue, less provision for impairment

The effect of discounting on these financial instruments is not considered to be material

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within other operating expenses in the Income Statement

On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision

Available-for-sale non-derivative financial assets not included in the above categories are classified as available-for-sale and comprised the Group's investment in shares listed on the US stock exchange. They are carried at fair value with changes in fair value recognised directly in Other Comprehensive Income Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the Income Statement Purchases and sales of available-for-sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in Other Comprehensive Income On sale, the amount held in Other Comprehensive Income associated with that asset is removed from equity and recognised in the Income Statement Income from shares classified as available-for-sale is recognised in finance income in the Income Statement

Investments investments in subsidiary undertakings are recorded at cost The carrying values of investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable

Cash and cash equivalents cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, short term deposits and other short-term liquid investments In the Cash Flow Statement, cash and cash equivalents comprise cash and cash equivalents as defined above, net of bank overdrafts

Stocks and work in progress
Stocks are stated at the lower of cost and net realisable value Cost comprises equipment for resale Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

Costs recoverable on contracts which are expected to benefit performance and be recoverable over the life of the contracts are recognised in the Statement of Financial Position as work in progress and charged to the Income Statement over the life of the contract so as to match costs with revenues

Work in progress is stated at the lower of cost and net realisable amount and represents that element of start up costs which, at the reporting date, has not been charged to the Income Statement Cost includes materials, direct labour and an attributable portion of overheads based on normal levels of activity Net realisable amount is based on estimated selling price less further costs expected to be incurred to completion and disposal including provision for contingencies and anticipated future losses

Notes to the accounts (continued)

1 **Accounting policies** *(continued)*

Amounts recoverable on contracts and payments in advance
Amounts recoverable on contracts are stated at the net sales value of work done less amounts received as progress payments on account Where progress payments exceed the sales value of work done, they are included in payables as payments in advance

Financial liabilities
All of the Group's financial liabilities are classified as financial liabilities carried at amortised cost The Group does not use derivative financial instruments or hedge account for any transactions

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values

Financial liabilities include the following items
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method
- Finance leases which are initially measured at fair value and subsequently carried at amortised cost using the effective interest method
- Bank borrowings, which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated Statement of Financial Position Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding

Operating Leases
Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

From time to time the Group faces the potential of legal action in respect of employment or other contracts In such situations, where it is probable that a payment will be required to settle the action, provision is made for the Group's best estimate of the outcome

Where leasehold properties are surplus to requirements, provisions are made for the best estimates of the unavoidable net future costs

Provisions for dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on non-serviced properties

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Pensions

The Group operates a number of retirement benefit schemes With the exception of the 'Parity Retirement Benefit Plan', all of the schemes are defined contribution plans and the assets are held in separate, independently administered funds The Group's contributions to defined contribution plans are charged to the Income Statement in the period to which the services are rendered by the employees, and the Group has no further obligation to pay further amounts

The 'Parity Retirement Benefit Plan' is a defined benefit pension fund with assets held separately from the Group This fund has been closed to new members since 1995 and with effect from 1 January 2005 was also closed to future service accrual

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) and any unrecognised past service costs are deducted The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Group's obligations The calculation is performed by a qualified actuary using the projected unit credit method When the calculation results in a benefit to the Group, the recognised asset is limited to [the total of any unrecognised past service costs and] the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements

Share capital

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions

(a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group), and
(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

For the purposes of the disclosures given in note 23, the Group considers its capital to comprise its cash and cash equivalents, its asset-based bank borrowings, and its equity attributable to equity holders, comprising issued capital, reserves and retained earnings, as disclosed in the statement of changes in equity

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Financial guarantee contracts
Where Group companies enter into financial guarantee contracts and guarantee the indebtedness of other companies within the Group, the company considers these to be insurance arrangements and accounts for them as such In this respect, the company treats the guarantee contract as a contingent liability until such time that it becomes probable that any Group company will be required to make a payment under the guarantee

Employee Share Ownership Plan (ESOP)
As the Company is deemed to have control of its ESOP trust, it is treated as an agent and consolidated for the purposes of the consolidated financial statements The ESOP's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements The ESOP's investment in the Company's shares is deducted from shareholders' equity in the Consolidated Statement of Financial Position as if they were treasury shares

Share based payments transactions
Share-based payment arrangements in which the Group and Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group and Company

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Income Statement over the remaining vesting period

Where equity instruments are granted to persons other than employees, the fair value of goods and services received is charged against Other Comprehensive Income

Significant accounting estimates and judgements
The preparation of financial statements under IFRS requires the Group to make estimates and assumptions regarding the future Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances Actual results may differ from these estimates The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below

Property provisions Provisions for onerous lease costs are based on the future contractual lease obligations of the Group less future contractual sub-let income The estimated future sub-let income is based upon existing sub-lease contracts and it is assumed the contractual commitments will be fulfilled Dilapidations provisions are based on contractual lease obligations and management estimates and assumptions regarding the future costs of meeting those obligations The estimates are based upon the size and condition of each property, and past experience of dilapidation costs Changes in assumptions are not anticipated to have a material impact in the current year

Notes to the accounts (continued)

1 Accounting policies *(continued)*

Significant accounting estimates and judgements *(continued)*

Retirement benefit liability The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions Details of the key assumptions are set out in note 25 The Group takes advice from independent actuaries relating to the appropriateness of the assumptions Changes in the assumptions used may have a significant effect on the Income Statement and the Statement of Financial Position

Recoverability of deferred tax assets The deferred tax assets are reviewed for recoverability and recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised This is determined based on management estimates and assumptions as to the future profitability of the related business units The forecasts for the business used in this review were the same as those used in the review of impairment of goodwill (see note 14) If forecast future profitability for Parity Solutions Limited was 10% lower, a deferred tax asset write down of £35,000 would be considered necessary The deferred tax asset would not require writing down if the forecast future profitability of Parity Resouces limited was 10% lower

Impairment of goodwill The Group is required to test whether goodwill has suffered any impairment The recoverable amounts of cash generating units have been determined based on value-in-use calculations The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value (see note 14) If forecast future profitability were 10% lower, the goodwill would still not be impaired

Investments in subsidiaries The Company reviews its investment in subsidiaries to test whether any impairment has been suffered The recoverable amounts are determined using discounted future cash flows If forecast future cash generation were 10% lower the investment would still not be impaired

Intercompany receivables The Company reviews receivables due from subsidiary undertakings to test whether they are recoverable Provision is made for where there is uncertainty as to full recovery

2 Segmental information

Factors that management used to identify the Group's reporting segments

In accordance with IFRS 8 'Operating Segments' the Group's management structure, and the reporting of financial information to the Chief Operating Decision Maker (the Executive Committee), have been used as the basis to define reporting segments

Each reporting segment is headed up by a dedicated managing director, with direct responsibility for delivering the segmental contribution budget The internal financial information prepared for the Executive Committee includes contribution at a segmental level, and the Executive Committee allocates resources on the basis of this information Adjusted EBITDA as defined in note 4, profit before tax, and assets and liabilities are internally reported at a Group level

Description of the types of services from which each reportable segment derives its revenues

The Group has four segments

- Resources – this segment provides contract, interim and permanent IT recruitment services across all markets Resources provides 88% (2011 86%) of the continuing Group's revenues
- Systems – this segment delivers innovative technology solutions designed around client problems, including Cloud solutions, database solutions and collaborative information management Systems provides 8% (2011 11%) of the continuing Group's revenues
- Talent Management – this segment works with clients to recruit, develop and grow their talent through improving skills and capability early in employees' careers Talent Management provides 3% (2011 3%) of the continuing Group's revenues
- Inition - this segment was acquired by the Group on 29 May 2012 Inition specialises in leading-edge 3D technology consultancy, systems integration and equipment Inition provided 3% (2011 nil%) of the continuing Group's revenues, for the 7 months that it was part of the Group

Central costs include Corporate, Finance, HR, IT and Property costs, and are all managed centrally, and are not allocated to reporting segments for internal reporting purposes

Measurement of operating segment contribution

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies

The Group evaluates performance on the basis of contribution from operations before tax not including non-recurring items, such as restructuring costs

Inter-segment sales are priced on the same basis as sales to external customers, with a discount applied to encourage the use of group resources at a rate acceptable to the tax authorities.

Notes to the accounts (continued)

2 Segmental information *(continued)*

	Resources 2012 £'000	Systems 2012 £'000	TMS 2012 £'000	Inition 2012 £'000	Total 2012 £'000
Revenue					
Total revenue	75,492	6,517	2,202	1,892	86,103
Inter-segment revenue	(203)	(13)	-	-	(216)
Revenue from external customers	75,289	6,504	2,202	1,892	85,887
Attributable costs	(71,289)	(5,216)	(1,528)	(1,634)	(79,667)
Segmental Contribution	**4,000**	**1,288**	**674**	**258**	**6,220**
Central costs					(4,488)
Adjusted EBITDA before investment costs					**1,732**
Investment costs*					(461)
Adjusted EBITDA					**1,271**
Depreciation and amortisation					(497)
Share based charges					(124)
Non-recurring items					(1,350)
Finance income					695
Finance costs					(1,061)
Loss before tax (continuing activities)					**(1,066)**

Notes to the accounts (continued)

2 Segmental information *(continued)*

	Resources 2011 £'000	Systems 2011 £'000	TMS 2011 £'000	Inition 2011 £'000	Total 2011 £'000
Revenue					
Total revenue	68,959	9,222	2,271	-	80,452
Inter-segment revenue	(297)	(13)	-	-	(310)
Revenue from external customers	68,662	9,209	2,271	-	80,142
Attributable costs	(65,156)	(7,347)	(1,810)	-	(74,313)
Segmental contribution	3,506	1,862	461	-	5,829
Central costs					(4,785)
Adjusted EBITDA before investment costs					1,044
Investment costs*					(688)
Adjusted EBITDA					356
Depreciation and amortisation					(537)
Share based charges					(177)
Non-recurring items					(1,437)
Finance income					770
Finance costs					(1,124)
Loss before tax (continuing activities)					(2,149)

* Investment costs refer to costs associated with new initiatives which were outlined in the Group's prospectus, issued in respect of the Firm Placing, and Placing and Open Offer of new ordinary shares (see note 23, "Capital disclosures")

The continuing Group operates exclusively in the UK All revenues are generated and all segment assets are located in those countries

51% (2011 62%) or £38 5m (2011 £42 5m) of the Resources revenue was generated in the Public Sector 52% (2011 63%) or £3 4m (2011 £5 8m) of the Systems revenue was generated in the Public Sector 76% (2011 86%) or £1 7m (2011 £2 0m) of the Talent Management revenue was generated in the Public Sector Inition's revenues are exclusively generated in the Private Sector
The largest single customer in Resources contributed revenue of £11 7m or 16% and was in the private sector (2011 of £9 9m or 14% and in the private sector) The largest single customer in Systems contributed revenue of £2 7m or 41% and was in the public sector (2011 £3 3m or 36% a in the public sector) The largest single customer in TMS contributed revenue of £0 9m or 40% and was in the public sector (2011 £1 2m or 51% in the public sector) The largest single customer in Inition contributed revenue of £0 2m or 11% and was in the private sector (2011 Inition not part of the Group)

Notes to the accounts (continued)

3 Operating costs

Continuing operations	**Consolidated 2012 £'000**	**2011 £'000**
Employee benefit costs		
- wages and salaries	**7,124**	6,972
- social security costs	**768**	787
- other pension costs	**366**	230
	8,258	7,989
Depreciation and amortisation		
Amortisation of intangible assets – software	**233**	249
Depreciation of tangible assets	**264**	288
	497	537
All other operating expenses		
Contractor costs	**71,917**	66,295
Sub-contracted direct costs	**990**	1,983
Operating lease rentals - plant and machinery	**52**	44
- land and buildings	**1,245**	1,154
Sub-let income – land and buildings	**(452)**	(304)
Other occupancy costs	**495**	591
IT costs	**514**	1,047
Net exchange loss	**5**	4
Equity settled share based payment charge	**124**	177
Other operating costs	**2,942**	2,420
	77,832	73,411
Total operating expenses	**86,587**	81,937

Disclosures relating to the remuneration of Directors are set out on page 26 to 32

During the year the Group obtained the following services for the Group's auditor, KPMG Audit plc

	Consolidated 2012 £'000	**2011 £'000**
Audit services:		
Statutory audit of the Company and Group financial statements	**10**	10
Statutory audit of the Company's subsidiaries pursuant to legislation	**68**	59
Amounts paid to previous auditor under legislation	**-**	20
	78	89
Non-audit services:	-	
Tax compliance	**23**	21
Other services	**289**	-
	312	21
	390	110

All non-audit services have been performed in the United Kingdom

On 25 October 2011, the previous auditor resigned as auditor to the Group Remuneration amounts in 2011 relate to the new auditor, unless otherwise stated

Other advice received in 2012 relates to services provided in relation to acquisition activity

Notes to the accounts (continued)

4 Reconciliation of operating loss to adjusted EBITDA

	Note	2012 £'000	2011 £'000
Operating loss from continuing operations		**(700)**	(1,795)
Non-recurring items	5	**1,350**	1,437
Share-based payment charges	3	**124**	177
Depreciation and amortisation	3	**497**	537
Adjusted EBITDA		**1,271**	356

The directors use EBITDA before non-recurring items and share-based payment charges ('Adjusted EBITDA') as a key performance measure of the business

5 Non-recurring items

	2012 £'000	2011 £'000
Continuing Operations		
Transaction costs	**840**	-
Restructuring		
- Employee benefit costs	**226**	-
- Other operating costs	**735**	491
Property provisions (other operating costs)	**(451)**	946
	1,350	1,437
Discontinued Operations		
Property provisions	**19**	36
	19	36

The continuing operations non-recurring charge for 2012 includes transaction costs, restructuring costs and a credit relating to surplus property Transaction costs refer to the professional services rendered in the Group's acquisition programme, and mainly relate to the acquisition of Inition Limited and an aborted acquisition Restructuring costs refer to the employee costs incurred in relation to the re-organisation of Parity Systems Other operating costs refers to the write off of the net book value of the Group's financial system (£721,000), and professional fees of £14,000 in relation to employees affected by the reorganisation New financial systems will be implemented across the Group, commencing with the Systems division, which plans to go-live in Q1 2013 The credit for surplus properties relates to the sublet of an unoccupied area of the Wimbledon head office, for which the lease costs had been previously provided for, and reflects the contracted sub-let income to the end of the sub-lease

The discontinued operations non-recurring charge relates to the costs payable for an ex-Parity Training Limited office, and the unwind of the provision discount in respect of discontinued properties

In 2011 the IT outsource contract was terminated early, with the IT infrastructure support service now being provided in-house The early termination payment incurred was £0 44m Secondly, it was decided that the Belfast office would relocate to a more suitable location, incurring costs of £0 12m Both of these decisions have resulted in cost savings to the Group In addition, the directors took the prudent view that the vacant office of the Wimbledon property was unlikely to be sub-let before the head lease expired, and therefore the previously unprovided costs to the end of the lease in 2014 of £0 95m were provided for

Discontinued operations in 2011 relates to the unwinding of the provision discount, and a small top-up of the provision for an ex Parity Training building

Notes to the accounts (continued)

6 Average staff numbers

	2012 number	2011 Number
Continuing operations		
Resources – United Kingdom [1]	**74**	75
Systems – United Kingdom, including corporate office [2]	**47**	60
Talent Management – United Kingdom	**29**	34
Inition - United Kingdom	**12**	-
	162	169

[1] Includes 29 (2011 27) employees providing shared services across the Group
[2] Includes 7 (2011 7) employees of the Company

At 31 December 2012, the Group had 156 continuing employees (2011 161)

7 Finance income and costs

	2012 £'000	2011 £'000
Finance income		
Expected return on pension scheme assets	**695**	770
	695	770
Finance costs		
Interest expense on financial liabilities	**250**	231
Notional interest on post retirement benefits	**811**	893
	1,061	1,124

The interest expense on financial liabilities represents interest paid on the Group's asset-based financing facilities A 1% increase in the base rate would increase annual borrowing costs by approximately £83,000

8 Discontinued operations

The results of discontinued operations include the results of other statutory entities still owned by the Group which sold their businesses in 2005 and 2006 These entities are not held for sale Their assets and liabilities will be reversed and eliminated in due course

The post-tax result of discontinued operations was determined as follows

	2012 £'000	2011 £'000
Income / (expenses) other than finance costs	**45**	(19)
Non-recurring costs (note 5)	**(19)**	(36)
Pre-tax profit (loss)	**26**	(55)
Taxation	**-**	(3)
Profit / (loss) for the year	**26**	(58)

For 2012 the pre tax profit represents the write back of various accruals where the directors consider there to be no liability, offset by company secretarial and accounting fees

For 2011 the pre-tax loss relates to legacy overseas subsidiaries of the Group, and comprises company secretarial and accounting fees

The Statement of Cash Flows includes a £274,000 (2011 £67,000) cash outflow from operating activities in respect of discontinued operations

9 Acquisition of subsidiary

On 29 May 2012, Parity Digital Solutions Limited, a wholly owned subsidiary of the Group, acquired 100% of the issued share capital of Inition Limited Inition is a UK based operator, specialising in 3D solutions

The fair values of the assets and liabilities acquired are set out in the table below

Inition Limited

	Note	Book value £'000	Fair value adjustments £'000	Fair value £'000
Property, plant and equipment		107	-	107
Trade and other receivables		143	-	143
Stock and other assets		137	-	137
Current tax asset		8	-	8
Cash and cash equivalents		*561*	-	*561*
Less cash repaid to vendors		*(200)*	-	*(200)*
Net cash and cash equivalents		(361)	-	(361)
Trade and other payables		(330)	-	(330)
Deferred income		(331)	-	(331)
Deferred tax liability		(4)	-	(4)
Net assets acquired		91	-	91
Consideration paid				
Cash paid				1,500
Shares issued	11			750
Contingent consideration				1,000
Total				3,250
Goodwill arising				3,159

The Sale and Purchase Agreement allowed for the repayment of surplus cash in excess of £250,000, up to a maximum surplus of £200,000 Since the acquired cash balance was £561,000, an amount of £200,000 became due to the vendors of Inition This liability was paid to the vendors during 2012

The directors have assessed the potential intangible assets of Inition, and concluded that none exist The directors have also assessed the fair value of the assets and liabilities acquired and concluded that they are not materially different from their book values

Inition contributed revenue of £1,892,000, a contribution of £258,000 and a profit before tax of £214,000 to the Group results for the year These results are included in the segmental analysis in Note 2

If Inition's results had been consolidated from 1 January 2012, then it would have contributed revenue of £3,099,000 and a profit before tax of £333,000

Notes to the accounts (continued)

9 Acquisition of subsidiary *(continued)*

Contingent consideration

The Group agreed to pay the vendors additional cash consideration subject to the on-going performance of Inition up to 31st March 2014 (an earn-out of £0 5 million is payable to the vendors if Inition makes at least £0 3 million profit before interest and tax in the year to 31st March 2013, and a further £0 5 million is payable if Inition makes a profit before interest and tax of at least £0 5 million in the following year) At 31 December 2012 Inition had already met the first earn-out profit target

Notes to the accounts (continued)

10 Share based payments

The Group operates several share based reward schemes for employees

- A United Kingdom tax authority approved scheme for executive directors and senior staff,
- An unapproved scheme for executive directors and senior staff,
- A Co-Investment Scheme for senior management,
- A Save As You Earn Scheme for all employees, and
- A Senior Executive Share Option Plan for Executive Directors

Under the approved and unapproved schemes and the Co-Investment Scheme, options vest if the Total Shareholder Return ("TSR") of the Group outperforms the average TSR of a peer group over a three year period from the date of grant Options lapse if the individual leaves the Group, except under certain circumstances such as leaving by reason of redundancy, when the options lapse 12 months after the leaving date

Save As You Earn options lapse if not exercised within six months after the vesting date They are also subject to continued employment within the Group

Options under the Senior Executive Share Option Plan have no performance conditions other than continued employment within the Group and must be exercised within five years of the date of grant

All employee options other than those issued under the Senior Executive Share Option Plan have a maximum term of ten years from the date of grant The total share-based remuneration recognised in the Income Statement was £124,000 (2011 £177,000)

	2012 Weighted average exercise price (p)	2012 Number	2011 Weighted average exercise price (p)	2011 Number
Outstanding at beginning of the year	12	6,368,668	11	6,458,568
Granted during the year	22	1,542,329	24	1,255,100
Exercised during the year	9	(62,500)	12	(285,000)
Lapsed during the year	24	(441,910)	22	(1,060,000)
Outstanding at the end of the year	14	7,406,587	12	6,368,668

The exercise price of options outstanding at the end of the year and their weighted average contractual life fell within the following ranges

2012			2011		
Exercise price (p)	**Weighted average contractual life (years)**	**Number**	Exercise price (p)	Weighted average contractual life (years)	Number
7.5 - 10	**5**	**5,039,133**	7 5 – 10	6	5,101,633
19-28	**6**	**2,357,429**	21 – 28	7	1,255,100
165-209	**1**	**10,025**	165 – 209	2	11,935
		7,406,587			6,368,668

Of the total number of options outstanding at the end of the year, 297,525 (2011 11,935) had vested and were exercisable at the end of the year The weighted average exercise price of those options was £0 15 (2011 £1 92)

The weighted average fair value of each option granted during the year was 22 pence (2011 17 pence)

10 Share based payments *(continued)*

The following information is relevant in determining the fair value of options granted during the year under equity–settled share-based remuneration schemes operated by the Group There are no cash-settled schemes

	2012 Stochastic	2011 Stochastic
Option pricing model		
Weighted average share price at grant date (p)	**25**	28
Weighted average exercise price (p)	**22**	24
Weighted average contractual life (years)	**7**	7
Weighted average expected life (years)	**4**	4
Expected volatility	**57-70%**	64 – 77%
Weighted average risk free rate	**1.18%**	1 26%
Expected dividend growth rate	**0%**	0%

The volatility assumption is calculated as the historic volatility of the share price over a 3 and 5 year period prior to grant date

The TSR performance condition was modelled by considering the volatility of the comparator companies and the correlation of this with the Group

Share options issued to defined benefit pension scheme
In December 2010 the Group issued 1,000,000 share options in Parity Group plc to the pension scheme at an exercise price of 9 pence per share These options may be exercised at the discretion of the Trustees, they vested on grant and have no expiry date Any gain on exercise is to be used to reduce the scheme deficit These options were valued using the stochastic method The share price on the grant date was 15 75 pence The expected life of the options is 8 years The expected volatility is 64 2% and the average risk free rate assumed was 3 4%

Notes to the accounts (continued)

11 Taxation

	2012 £'000	2011 £'000
Current tax expense		
Current tax on loss for the year	-	-
Total current tax	-	-
Deferred tax expense/(credit)		
Accelerated capital allowances	(33)	-
Origination and reversal of other temporary differences	1	(5)
Change in corporation tax rate	118	137
Retirement benefit liability	245	(33)
Trading losses	18	-
Adjustments in respect of prior periods	-	(7)
Total tax expense/(credit)	**349**	92

Income tax expense from continuing operations	349	92
Income tax expense from discontinued operations	-	3
	349	95

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2011) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively
This will reduce the company's future current tax charge accordingly It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly
The 2012 tax expense is after a tax credit of £148,000 (2011 £116,000) in respect of exceptional items

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows

	2012 £'000	2011 £'000
Loss for the year	(1,389)	(2,299)
Income tax expense / (credit) (including discontinued operations)	349	95
Loss before income tax	(1,040)	(2,204)
Expected tax credit based on the standard rate of United Kingdom corporation tax of 24 5% (2011 26 5%)	(256)	(584)
Expenses not allowable for tax purposes	264	105
Adjustment for under/(over) provision in prior years	3	8
Reduction in deferred tax asset due to change in enacted rate	118	137
Tax losses not recognised	220	429
	349	95

Tax on each component of other comprehensive income is as follows

	2012			2011		
	Before tax £'000	**Tax £'000**	**After tax £'000**	Before tax £'000	Tax £'000	After tax £'000
Exchange differences on translation of foreign operations	(64)	-	(64)	24	-	24
Actuarial gain on defined benefit pension scheme	(1,554)	287	(1,267)	81	(22)	59
	(1,618)	287	(1,331)	105	(22)	83

Notes to the accounts (continued)

12 Earnings per ordinary share

Basic earnings per share is calculated by dividing the basic earnings from continuing operations for the year by the weighted average number of fully paid ordinary shares in issue during the year

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares None of the potential ordinary shares are dilutive, as the Group made a loss on continuing activities during the year

	Earnings 2012 £'000	**Weighted average number of shares 2012 000's**	**Earnings per share 2012 Pence**	Earnings 2011 £'000	Weighted average number of shares 2011 000's	Earnings per share 2011 Pence
Basic loss per share	**(1,415)**	**70,578**	**(2.00)**	(2,241)	56,155	(3 99)
Effect of dilutive options					-	-
Diluted loss per share	**(1,415)**	**70,578**	**(2.00)**	(2,241)	56,155	(3 99)

As at 31 December 2012 the number of ordinary shares in issue was 71,835,594 (2011 68,741,567)
Basic and diluted earnings per share from discontinued operations was 0 04p (2011 basic and diluted loss 1 10p)

13 Intangible assets

	Software		Goodwill		Total	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Cost						
At 1 January	**1,555**	1,705	**4,594**	4,594	**6,149**	6,299
Additions	**3**	-	**3,159**	-	**3,162**	-
Impairment	**(1,555)**	-	**-**	-	**(1,555)**	-
Disposals	**-**	(150)	**-**	-	**-**	(150)
At 31 December	**3**	1,555	**7,753**	4,594	**7,756**	6,149
Accumulated amortisation						
At 1 January	**602**	503	**-**	-	**602**	503
Charge for the year	**233**	249	**-**	-	**233**	249
Impairment	**(835)**	-	**-**	-	**(835)**	-
Disposals	**-**	(150)	**-**	-	**-**	(150)
At 31 December	**-**	602	**-**	-	**-**	602
Net book amount	**3**	953	**7,753**	4,594	**7,756**	5,547

During the year the directors decided that the Group's financial system was no longer appropriate for the Group's needs The system will be replaced in 2013, using a phased approach to implement new systems for each business unit The impairment of the incumbent finance system was £721,000

As at 31 December 2012, the Group had signed contracts for a new financial system for its System's division at a cost of £16,000 Neither the Group nor the Company had any additional capital commitments for the purchase of intangible assets as at the balance sheet date

Notes to the accounts (continued)

14 Goodwill

The carrying amount of goodwill is allocated to the cash generating units (CGU's) as follows

	Goodwill carrying amount	
	2012	2011
	£'000	£'000
Resources	**1,470**	1,470
Solutions	**3,124**	3,124
Digital Solutions	**3,159**	-
	7,753	4,594

The Goodwill arising on the acquisition of Inition (see note 9) is allocated to the Group's embryonic Digital Solutions division As at the balance sheet date this CGU is comprised solely of the Inition business, and the recoverable amount is based purely on Inition's projected pre-tax cash flows The Digital Solutions division is discussed in the Chairman's statement on strategy on page 2

Goodwill was tested for impairment in accordance with IAS 36 No impairment was recognised during the year The recoverable amounts of the CGU's are based on value in use calculations using the pre-tax cash flows based on budgets approved by management for 2012 Years from 2013 onward are based on the budget for 2012 projected forward at expected growth rates This is considered prudent based on current expectations of the long-term growth rate

Major assumptions are as follows

	Resources	Solutions	Digital Solutions
	%	%	%
2012			
Discount rate	**7.7**	**6.1**	**6.1**
Forecast revenue growth	**9.2**	**17.7**	**37.4**
Operating margin 2013	**2.8**	**4.7**	**10.6**
Operating margin 2014 onward	**3.2**	**5.1**	**9.5**
2011			
Discount rate	7 2	7 2	-
Forecast revenue growth	8 4	20 7	-
Operating margin 2012	3 4	4 7	-
Operating margin 2013 onward	3 6	11 3	-

Discount rates are based on the Group's weighted average cost of capital adjusted for the specific risks of each cash generating unit

Forecast revenue growth is expressed as the compound growth rate over the next 4 years, and is based on the workings used for impairment testing For Resources the rates are based on past experience of growth in revenues and future expectations of economic conditions For Solutions and Inition, the growth rates also incorporate the expected return on planned investment

Operating margins are based on past experience adjusted for investments, and cost action taken in 2012

A 10% change in any of the underlying assumptions used in the discounted cash flow forecasts would not lead to the carrying value of goodwill being in excess of its recoverable amount

Notes to the accounts (continued)

15 Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Total £'000
Consolidated			
At cost			
Balance at 1 January 2011	1,147	2,864	4,011
Additions	-	11	11
Disposals	-	(30)	(30)
Balance at 31 December 2011	1,147	2,845	3,992
Balance at 1 January 2012	1,147	2,845	3,992
Additions	17	96	113
Acquisitions through business combinations	-	250	250
Disposals	(234)	(41)	(275)
Balance at 31 December 2012	**930**	**3,150**	**4,080**
Accumulated depreciation			
Balance at 1 January 2011	440	2,701	3,141
Depreciation charge for the year	158	130	288
Disposals	-	(30)	(30)
Balance at 31 December 2011	598	2,801	3,399
Balance at 1 January 2012	598	2,801	3,399
Depreciation charge for the year	148	116	264
Acquisitions through business combinations	-	143	143
Disposals	(120)	(21)	(141)
Balance at 31 December 2012	**626**	**3,039**	**3,665**
Net book value			
At 1 January 2011	707	163	870
At 31 December 2011	549	44	593
At 31 December 2012	**304**	**111**	**415**

As at 31 December 2012, neither the Group nor the Company had any capital commitments contracted for but not provided, for the purchase of tangible assets (2011 £nil)

Leased plant and equipment

As a result of the acquisition of Inition, the Group acquired a 3D camera which is leased under a finance lease agreement The Group does not lease any other plant or equipment under finance lease agreements At 31 December 2012 the net carrying value of the leased equipment was £18,842 (2011 £nil)

16 Available for sale financial assets

	Consolidated	
	2012 £'000	2011 £'000
At 1 January	-	134
Revaluation	-	(7)
Exchange loss	-	(4)
Disposals	-	(123)
At 31 December	-	-

These assets comprise equity securities quoted in the US, which were sold on the open market during 2011

17 Deferred tax

	Consolidated	
	2012	2011
	£'000	£'000
At 1 January	**1,384**	1,498
Acquired in business combinations		
Depreciation in excess of capital allowances	**(22)**	-
Trading Losses	**18**	-
Recognised in other comprehensive income		
Actuarial gain on defined benefit pension scheme	**287**	(22)
Recognised in the income statement		
Change in enacted tax rate	**(118)**	(137)
Adjustments in relation to prior periods	**1**	7
Depreciation in excess of capital allowances	**33**	-
Retirement benefit liability	**(245)**	33
Trading Losses	**(18)**	-
Other short term timing differences	**(2)**	5
At 31 December	**1,318**	1,384

The deferred tax asset of £1,318,000 (2011 £1,384,000) comprises

	Consolidated	
	2012	2011
	£'000	£'000
Depreciation in excess of capital allowances	**893**	959
Retirement benefit liability	**314**	303
Short term and other timing differences	**111**	122
	1,318	1,384

A deferred tax asset on tax losses brought forward is not recognised unless it is more likely than not that there will be taxable profits in the foreseeable future against which the deferred tax asset can be offset The Directors believe that the deferred tax asset recognised is recoverable based on the future earning potential of the Group The forecasts for the business used in this review were the same as those used in the review of the impairment of goodwill (see note 14) Commentary on the Group's profitability and its future prospects is given in the Operating and Financial Review on pages 4 to 11
The commentary outlines the significant progress the current management team have made towards returning the Group to profitability, through a refocused sales strategy and actions taken to restructure its cost base The forecasts for the Group, based on current run rate and reasonable growth assumptions, show the Group returning sufficient probable profits to support the unwinding of the deferred tax asset

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2011) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively
The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date
It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly

17 Deferred tax *(continued)*

The movements in deferred tax assets during the period are shown below

	Asset 2012 £000	Acquired in business combinations 2012 £000	(Charged)/credited to income statement 2012 £000	(Charged)/credited to other comprehensive income 2012 £000
Depreciation in excess of capital allowances	893	(22)	(44)	-
Other short-term timing differences	111	-	(11)	-
Retirement benefit plan liability	314	-	(276)	287
Trading Losses	-	18	(18)	-
	1,318	(4)	(349)	287

	Asset 2011 £000	(Charged)/credited to income statement 2011 £000	(Charged)/credited to other comprehensive income 2011 £000
Depreciation in excess of capital allowances	959	75	-
Other short-term timing differences	122	26	-
Retirement benefit plan liability	303	(9)	22
	1,384	92	22

The Group has unrecognised carried forward tax losses of £23,649,000 (2011 £26,143,000) The Company has unrecognised carried forward tax losses of £17,216,000 (2011 £19,794,000) The Group has unrecognised capital losses carried forward of £281,875,386 (2011 £281,875,386) These losses may be carried forward indefinitely

18 Stocks and work in progress

	Consolidated 2012 £'000	Consolidated 2011 £'000
Stocks	20	-
Work in progress - net costs less foreseeable losses	-	116
	20	116

Stocks refers to 3D equipment purchased for resale, and are stated at the lower of cost and net realisable value

Work in progress represents the value of costs recoverable on contracts which are expected to benefit performance and be recoverable over the life of the contracts

Notes to the accounts (continued)

19 Trade and other receivables

	Consolidated		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Trade receivables	**7,626**	5,824	-	-
Accrued income	**4,351**	5,351	-	-
Amounts recoverable on contracts	**510**	637	-	-
Amounts owed by subsidiary undertakings	-	-	**2,613**	2,913
Corporation tax due to be refunded	**8**	-	-	-
Other receivables	**57**	299	-	-
Prepayments	**492**	428	**6**	2
	13,044	12,539	**2,619**	2,915
Amounts falling due after one year				
Amounts owed by subsidiary undertakings	-	-	**69,763**	77,241
Total	**13,044**	12,539	**72,382**	80,156

The fair values of trade and other receivables are not considered to differ from the values set out above

The Group's trade receivables of 7,626,000 (2011 £5,824,000) and £4,176,000 (2011 £4,739,000) of the Group's accrued income are pledged as collateral for the asset-based borrowings These borrowings fluctuate daily and at the year end totalled £8,270,000 (2011 £6,504,000)

The Group records impairment losses on its trade receivables separately from gross receivables Factors considered in making provisions for receivables include the ability of the customer to settle the debt, the age of the debt and any other circumstance particular to the transaction that may impact recoverability The movements on the allowance account during the year are included within operating costs in the consolidated income statement and are summarised below

	Consolidated	
	2012	2011
	£'000	£'000
Opening balance	**87**	111
(Decreases) / increases in provisions	**(36)**	12
Written off against provisions	**(18)**	(36)
Recovered amounts reversed	-	-
Closing balance	**33**	87

All balances provided at 31 December 2012 and 31 December 2011 were greater than 60 days old. The allowance account represents full provision against specific gross debts

As at 31 December 2012 trade receivables of £902,000 (2011 £1,301,000) were past due, but not impaired These relate to customers where there is no evidence of unwillingness or of an inability to settle the debt The ageing of Group trade receivables is as follows

			2012			2011
	Gross	**Impaired**	**Total**	Gross	Impaired	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Not past due	**6,724**	-	**6,724**	4,523	-	4,523
31-60 days, and past due	**605**	-	**605**	1,120	-	1,120
61-90 days	**211**	-	**211**	207	(26)	181
>90 days	**119**	**(33)**	**86**	61	(61)	-
Total	**7,659**	**(33)**	**7,626**	5,911	(87)	5,824

The Company had no provisions for trade receivables, as it has no trade receivables Other receivables in the Group and the Company were not past due and not impaired

Notes to the accounts (continued)

20 Loans & Borrowings

	Consolidated	
	2012 **£'000**	2011 £'000
Non-current		
Finance lease liabilities	**8**	-
	8	-
Current		
Bank and other borrowings due within one year or on demand		
Asset-based financing facility	**8,270**	6,504
Current portion of finance lease liabilities	**13**	-
	8,283	6,504

Finance lease liabilities

	Future minimum lease payments 2012 £'000	Interest 2012 £'000	Present value of minimum lease payments 2012 £'000	Future minimum lease payments 2011 £'000	Interest 2011 £'000	Present value of minimum lease payments 2011 £'000
Less than one year	13	1	12	-	-	-
Between one and two years	8	-	8	-	-	-
	21	1	20	-	-	-

Further details of the Group's banking facilities are given in note 23

21 Trade and other payables

	Consolidated		Company	
	2012 **£'000**	2011 £'000	**2012** **£'000**	2011 £'000
Amounts falling due within one year				
Payments in advance	**165**	185	-	-
Trade payables	**5,365**	5,946	-	5
Amounts due to subsidiary undertakings	-	-	**2,209**	1,391
Other tax and social security payables	**1,412**	986	**23**	72
Other payables and accruals	**1,996**	1,666	**259**	213
	8,938	8,783	**2,491**	1,681
Amounts falling due after one year				
Amounts due to subsidiary undertakings	-	-	**74,656**	83,328
Other payables and accruals	**500**	-	-	-
Total	**9,438**	8,783	**77,147**	85,009

Notes to the accounts (continued)

22 Provisions

Consolidated	Leasehold dilapidations £000	Onerous leases £000	**Total £000**
At 1 January 2012	**248**	**1,699**	**1,947**
Created in year	30	40	**70**
Utilised in year	(109)	(548)	**(657)**
Released in year	(35)	(606)	**(641)**
Unwind of discount	7	44	**51**
At 31 December 2012	**141**	**629**	**770**
Due within one year or less	-	308	308
Due after more than one year	141	321	462
Total	**141**	**629**	**770**

Company	Leasehold dilapidations £000	Onerous leases £000	Total £000
At 1 January 2012	**214**	**1,581**	**1,795**
Created in year	23	40	63
Utilised in year	(95)	(550)	(645)
Released in year	(15)	(486)	(501)
Unwind/(creation) of discount	6	42	48
At 31 December 2012	**133**	**627**	**760**
Due within one year or less	-	305	305
Due after more than one year	133	322	455
Total	**133**	**627**	**760**

Leasehold dilapidations

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms Dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on all non-serviced properties Based on current lease expiry dates it is estimated these provisions will be settled over a period of two to three years The main uncertainty relates to the estimation of the costs that will be incurred at the end of the lease

Onerous leases

This provision relates to office space no longer occupied by the Group, and represents the excess of rents payable over rents receivable on sub-let office space Of the non-current amounts provided, approximately £248,000 is expected to fall within 2014

Notes to the accounts (continued)

23 Financial instruments – risk management

The Group is exposed to risks that arise from its use of financial instruments This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them Further quantitative information in respect of these risks is presented throughout these financial statements

There have been no substantive changes in the Group's exposure to financial instrument risks and the methods used to measure them from previous periods unless otherwise stated in this note

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash and cash equivalents, quoted investments, trade and other payables and bank borrowings

A summary by category of the financial instruments held by the Group is provided below

Consolidated	**Amortised cost £'000**	**Loans and receivables £'000**	**Total £'000**
As at 31 December 2012			
Financial assets			
Net cash and cash equivalents	-	**2,871**	**2,871**
Trade and other short term receivables	-	**12,544**	**12,544**
	-	**15,415**	**15,415**
Financial liabilities			
Asset-based financing facility	**8,270**	-	**8,270**
Finance Lease liabilities	**21**	-	**21**
Trade and other short term payables	**8,773**	-	**8,773**
	17,064	-	**17,064**
As at 31 December 2011			
Financial assets			
Net cash and cash equivalents	-	5,241	5,241
Trade and other short term receivables	-	12,111	12,111
	-	17,352	17,352
Financial liabilities			
Asset-based financing facility	6,504	-	6,504
Finance Lease liabilities	-	-	-
Trade and other short term payables	8,598	-	8,598
	15,102	-	15,102

23 Financial instruments – risk management (continued)

A summary by category of the financial instruments held by the Company is provided below

Company	Amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 December 2012			
Financial assets			
Non-current trade and other receivables	-	**69,763**	**69,763**
Net cash and cash equivalents	-	**2,362**	**2,362**
Trade and other short term receivables	-	**2,613**	**2,613**
	-	**74,738**	**74,738**
Financial liabilities			
Trade and other short term payables	**2,492**	-	**2,492**
Non-current trade and other payables	**74,656**	-	**74,656**
	77,148	-	**77,148**
As at 31 December 2011			
Financial assets			
Non-current trade and other receivables	-	77,241	77,241
Net cash and cash equivalents	-	5,107	5,107
Trade and other short term receivables	-	2,913	2,913
	-	85,261	85,261
Financial liabilities			
Trade and other short term payables	1,681	-	1,681
Non-current trade and other payables	83,328	-	83,328
	85,009	-	85,009

General objectives, policies and processes – risk management

The Group is exposed through its operations to the following financial instrument risks credit risk, liquidity risk, interest rate risk, and foreign currency risk

The policy for managing these risks is set by the Board following recommendations from the Finance Director Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility The policy for each of the above risks is described in more detail below

23 Financial instruments – risk management (continued)

Credit risk

Credit risk arises from the Group's trade receivables It is the risk that the counterparty fails to discharge their obligation in respect of the instrument

The Group is mainly exposed to credit risk from credit sales It is Group policy to assess the credit risk of new customers before entering contracts Such credit ratings are then factored into the credit assessment process to determine the appropriate credit limit for each customer The Group does not collect collateral to mitigate credit risk

The Group operates exclusively in the UK Approximately 54% (2011 63%) of the Group's turnover is derived from the public sector The largest customer balance represents 20% (2011 19%) of the trade receivable balance

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 19

	2012 Carrying value £'000	Maximum exposure £'000	2011 Carrying value £'000	Maximum exposure £'000
Financial assets				
Cash and cash equivalents	**2,871**	**2,871**	5,241	5,241
Trade and other receivables	**12,544**	**12,544**	12,111	12,111
Total financial assets	**15,415**	**15,415**	17,352	17,352

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates

It is Group policy that all external Group borrowings are drawn down on the asset-based financing facilities arranged with our bankers which bear a floating rate of interest based on the PNC base rate Borrowings against the asset-based financing facilities are typically drawn or repaid on a daily basis in order to minimise borrowings and interest costs and transaction charges Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates, nor eliminates the cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of these risks

Throughout 2012 and 2011 the Group's variable rate borrowings were denominated in Sterling

If interest rates on borrowings had been 1% higher/lower throughout the year with all other variables held constant, the loss after tax for the year would have been approximately £83,000 higher/lower and net assets £83,000 lower/higher The Directors consider a 1% change in base rates is the maximum likely change over the next year, being the period to the next point at which these disclosures are expected to be made

23 Financial instruments – risk management *(continued)*

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates

The Group no longer has any active overseas operations, but does retain certain overseas subsidiaries that are not trading and are in the process of being closed down The Group's net assets arising from overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling The asset exposure is mainly in respect of intercompany balances

The Group does not hedge its net investment in overseas operations as it does not consider that the potential financial impact of such hedging techniques warrants the reduction in volatility in consolidated net assets

The continuing business has few transactions in foreign currency. The hedging of individual contracts is considered on a case by case basis Owing to the small value and volume of such contracts no hedging transactions were entered in 2012 or 2011

The currency profile of the Group's net financial assets was as follows

	Functional currency of individual entity							
	Sterling		Euro		US Dollar		**Total**	
Net foreign currency financial assets	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Sterling	**-**	-	**23,931**	23,449	**966**	966	**24,897**	24,415
Euro	**1**	-	**-**	-	**-**	-	**-**	-
US Dollar	**23**	4	**1,225**	1,247	**-**	-	**1,248**	1,251
Total net exposure	**24**	4	**25,156**	24,696	**966**	966	**26,145**	25,666

The profile of the Company's net financial assets was as follows

	Functional currency Sterling	
Net foreign currency financial assets	**2012 £000**	2011 £000
Sterling	**-**	-
Euro	**-**	-
US Dollar	**23**	4
Total net exposure	**23**	4

Notes to the accounts (continued)

23 Financial instruments – risk management *(continued)*

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges on its borrowings under its asset-based financing arrangements It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due

The liquidity of each Group entity is managed centrally, with daily transfers to operating entities to maintain a pre-determined cash balance Normal supplier terms range from 2 weeks to 30 days The level of the Group facility is approved periodically by the Board and negotiated with the Group's current bankers At the reporting date, cash flow projections were considered by the Board and the Group is forecast to have sufficient funds and available funding facilities to meet its obligations as they fall due

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities

Consolidated *At 31 December 2012*	*Up to 1 month £000*	*Over 1 month £000*	*Total £000*
Trade and other payables	*8,938*	*500*	*9,438*
Borrowings	*8,270*	*21*	*8,291*
Total	*17,208*	*521*	*17,729*

Consolidated *At 31 December 2011*	*Up to 1 month £000*	*Over 1 month £000*	*Total £000*
Trade and other payables	*8,783*	-	*8,783*
Borrowings	*6,504*	-	*6 504*
Total	*15 287*	-	*15 287*

Company *At 31 December 2012*	*Up to 1 month £000*	*Between 1 and 12 months £000*	*Over 1 year £000*	*Total £000*
Trade and other payables	*2,491*	-	*74,656*	*77,147*
Borrowings	-	-	-	-
Total	*2,491*	-	*74,656*	*77,147*

Company *At 31 December 2011*	*Up to 1 month £000*	*Between 1 and 12 months £000*	*Over 1 year £000*	*Total £000*
Trade and other payables	*1,681*	-	*83,328*	*85 009*
Borrowings	-	-	-	-
Total	*1 681*	-	*83,328*	*85,009*

More detail on trade and other payables is given in note 21

Notes to the accounts (continued)

23 Financial instruments – risk management *(continued)*

Capital disclosures

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders, and asset-based finance There is no long-term external debt, except for a finance lease which the Group acquired through its purchase of Inition The lease represents a liability of £21,000 and is repayable within two years The Company is funded through equity and intercompany loans

The Group uses an asset-based finance facility with PNC Business Credit, a member of The PNC Financial Services Group, Inc The facility, which enables the Group to borrow against both trade debt and accrued income and provides for borrowing of up to £15 0m depending on the availability of appropriate assets as security

On 11 May 2011 the Group published a prospectus in respect of a Firm Placing of 20,873,087 New Ordinary Shares and a Placing and Open Offer of 9,561,696 New Ordinary Shares at the Issue Price of 23 pence per New Ordinary Share Qualifying shareholders were able to subscribe for Open Offer shares on the basis of one Open Offer Share for every four Existing Ordinary Shares held Shareholder approval for the issue was sought and received at an extraordinary general meeting held on 27 May 2011

Net proceeds from this Firm Placing and Placing and Open Offer amounted to £6,389,514 The proceeds have been used by management to provide additional working capital, invest in new initiatives, and take advantage of opportunities to reduce the cost base

The Group's and Company's objectives when maintaining capital are

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk

	2012	2011
	£'000	£'000
Cash and cash equivalents	**2,871**	5,241
Asset-based borrowings	**(8,270)**	(6,504)
Net Debt	**(5,399)**	(1,263)

The Board regularly reviews the adequacy of resources available and considers the options available to increase them The asset-based borrowing facility contains certain externally imposed financial covenants which have been met throughout the period

The Company does not have distributable reserves available for dividend payments A capital reconstruction would be necessary to create reserves available for distribution

On the 10 January 2013, the Group issued 3,125,000 new ordinary shares raising approximately £600,000 (net of expenses) See note 32

24 Reserves

The Board is not proposing a dividend for the year (2011 nil pence per share)

The following describes the nature and purpose of each reserve within owners' equity

Share capital is the amount subscribed for ordinary share capital at nominal value
On 29 May 2012, the Group issued 3,031,527 New Ordinary Shares as partial consideration for the acquisition of Inition Limited (see note 10) Following the issue of the shares, and also the exercising of 62,500 share options, the share capital increased from £15,693,948 to £15,755,829

Deferred share capital is the nominal value assigned to the deferred share capital

Share premium is the amount subscribed for share capital in excess of nominal value
Following the shares issued as partial consideration for the acquisition of Inition Limited at a price of 24 74 pence in May 2012, the share premium increased from £25,944,124 to £26,637,869

Other reserves of the Group of £44,160,000 comprise £30,440,000 created in the Group's shareholders' equity as a result of the merger accounting applied for the Scheme of Arrangement in July 1999. The remaining balance in Other reserves relates principally to share premium on shares issued to vendors and option holders together with the reversal of an £8,706,000 goodwill write off which arose in 2003 on the termination of a business unit
The difference between the Other Reserves of the Group (£44,160,000) and the Company (£22,729,000) relates to provisions for the impairment of investments

Retained earnings represent the cumulative net gains and losses recognised in the Income Statement

Consolidated retained earnings are stated after adjustment for the ESOP's investment in the Company's shares of £351,000 (2011 £351,000)

25 Pension commitments

The Group operates a number of pension schemes With the exception of the Parity Group Retirement Benefit Plan, all of the schemes are defined contribution plans and the assets are held in separately administered funds
Contributions to defined contribution schemes were £216,000 (2011 £206,000)

Defined benefit plan
In March 1995, the Group established the Parity Retirement Benefit Plan, renamed as the Parity Group Retirement Benefit Plan, following a Scheme of Arrangement in 1999, in order to facilitate the continuance of pension entitlements for staff transferring from other schemes following acquisitions in 1994 This is a funded defined benefit scheme and has been closed to new members since 1995 With effect from 1 January 2005 this scheme was also closed to future service accrual and future contributions paid into money purchase arrangements

Principal actuarial assumptions	**2012** %	2011 %
Rate of increase of pensions in payment	**3.6%**	**3.6%**
Discount rate	**4.3%**	**4.7%**
Retail price inflation	**3.0%**	**3.0%**
Consumer price inflation	**2.2%**	**2.0%**
Expected return on plan assets	**4.5%**	**4 6%**

Note the rate of increase in pensionable salaries is no longer applicable as the scheme is closed for future service

Notes to the accounts (continued)

25 Pension commitments (continued)

The expected return on plan assets is equal to the weighted average return appropriate to each class of asset within the scheme The return attributed to each class has been reached following discussions with the Group's actuaries At 31 December 2012, yields on gilts were approximately 2 5% and on corporate bonds were 4 3% Equities are assumed to carry a risk premium over gilt returns of 6 5% The bank base rate of 0 5% has been used as the yield on cash The scheme's assets are invested in equities, gilts and bonds in approximately equal proportions

The underlying mortality assumption used for 2012 is in accordance with the standard table known as S1PA Light using the CMI 2011 projection based on year of birth with a long term rate of improvement of 1 5% p a The 2011 assumption is based upon the standard table known as PCA00 on a year of birth usage with long cohort future improvement factors, subject to a minimum annual rate of future improvement equal to 0 5% per annum

Contribution holiday
In November 2010 the Group agreed a contribution holiday Until November 2010 deficit reduction contributions were £900,000 per annum Contributions resumed in January 2012, at the rate of £1,090,020 per annum

In addition to the increase in deficit reduction contributions on resumption in January 2012, the principal terms of the contribution holiday were the issue to the Plan of 1,000,000 share options in Parity Group plc at an exercise price of 9 pence per share to be exercised at the discretion of the Trustees and any gain to be used for the benefit of the Plan These options vested on grant and have no expiry date

Reconciliation to consolidated statement of financial position

	2012	2011
	£'000	£'000
Fair value of plan assets	**16,620**	15,206
Present value of funded obligations	**(19,667)**	(17,673)
At the end of the year	**(3,047)**	(2,467)

Reconciliation of plan assets

	2012	2011
	£'000	£'000
At the beginning of the year	**15,206**	14,550
Expected return	**695**	770
Contributions by Group	**1,090**	-
Benefits paid	**(833)**	(869)
Actuarial gain	**462**	755
At the end of the year	**16,620**	15,206

Composition of plan assets

	2012	2011
	£'000	£'000
Equities	**5,938**	5,214
Gilts	**5,168**	5,008
Bonds	**5,287**	4,770
Options in Parity Group plc	**96**	96
Cash	**131**	118
Total	**16,620**	15,206

25 Pension commitments (continued)

Reconciliation of plan liabilities

	2012 £'000	2011 £'000
At the beginning of the year	**17,673**	16,975
Interest cost	**811**	893
Benefits paid	**(833)**	(869)
Actuarial loss	**2,016**	674
At the end of the year	**19,667**	17,673

The actuarial loss for the year of £2,016,000 (2011 £674,000) in respect of plan liabilities is mainly as a result of the change in the discount rate over the period, which has increased the value of the scheme liabilities

The cumulative amount of actuarial losses recognised since 1 January 2002 in other comprehensive income is £6,389,000 (2011 £4,835,000) The Group is unable to disclose how much of the pension scheme deficit recognised on 1 January 2002 and taken directly to equity is attributable to actuarial gains and losses since inception of the pension scheme because that information is not available

Amounts recognised in the consolidated income statement

	2012 £'000	2011 £'000
Included in Finance Income		
Expected return on plan assets	**695**	770
Included in Finance Costs		
Unwinding of discount on plan liabilities (interest cost)	**811**	893

The actual return on plan assets was £1,157,000 (2011 £1,525,000) This represents the sum of the expected return on assets and the actuarial gain

Defined benefit obligation trends

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Plan assets	**16,620**	15,206	14,550	13,261	11,973
Plan liabilities	**(19,667)**	(17,673)	(16,975)	(16,587)	(13,919)
Deficit	**(3,047)**	(2,467)	(2,425)	(3,326)	(1,946)
Experience adjustments on assets	**462**	755	529	206	(876)
	2.9%	5 2%	3 7%	1 6%	(7 3%)
Experience adjustments on liabilities	**2,016**	674	321	(169)	(193)
	11.4%	4 0%	1 9%	(1 0%)	(1 4%)

26 Share capital

Authorised share capital

	Ordinary shares 2p each		Deferred shares of 0 04p each		Total
	2012 number	**2012 £000**	2012 number	**2012 £000**	**2012 £000**
Authorised at 1 January	409,044,603	**8,181**	35,797,769,808	**14,319**	**22,500**
Authorised at 31 December	409,044,603	**8,181**	35,797,769,808	**14,319**	**22,500**

Issued share capital

	Ordinary shares 2p each		Deferred shares of 0 04p each		Total
	2012 number	**2012 £000**	2012 number	**2012 £000**	**2012 £000**
Issued and fully paid at 1 January	68,741,567	**1,375**	35,797,769,808	**14,319**	**15,694**
New Issue (fully paid)	3,031,527	**61**	-	-	**61**
Share options exercised	62,500	**1**	-	-	**1**
Issued and fully paid at 31 December	71,835,594	**1,437**	35,797,769,808	**14,319**	**15,756**

On 29 May 2012, the Group issued 3,031,527 New Ordinary Shares as partial consideration for the acquisition of Inition Limited (see note 9) The deemed cash value of the issue was £0 75m representing an issue price per ordinary share of 24 74 pence, being the average of closing mid-market share prices of the Group over the 30 previous trading days before completion

In May 2011, the Group published a prospectus in respect of a firm placing of 20,873,087 New Ordinary Shares and a Placing and Open Offer of 9,561,696 New Ordinary Shares at the Issue Price of 23 pence per New Ordinary Share Shareholder approval for the placing was received at an EGM, and 30,434,783 new ordinary shares were issued at 23 pence each

The deferred shares are not listed on the London Stock Exchange, have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation

Shares held by ESOP / Treasury Shares	**2012 Number**	2011 Number
Ordinary shares held by the ESOP	**43,143**	43,143

The shares held by the ESOP are expected to be issued under share option contracts

27 Operating lease commitments

Operating leases – lessee

The total future minimum rents payable under non-cancellable operating leases are as follows

	Land and buildings 2012 £'000	Plant and machinery 2012 £'000	Land and buildings 2011 £'000	Plant and machinery 2011 £'000
Continuing operations				
Amounts payable				
Within one year	**1,248**	**51**	1,133	52
Between two and Five years	**1,062**	**71**	2,073	76
	2,310	**122**	3,206	128
Discontinued operations				
Amounts payable				
Within one year	-	-	355	-
Between two and five years	-	-	-	-
-	-	-	355	-

Operating leases – lessor

Certain properties may have been vacated by the Group prior to the end of the lease term Where possible the Group always endeavours to sublet such vacant space An onerous provision is recognised where the rents receivable over the lease term are less than the obligation to the head lessor

The total future minimum rents receivable under non-cancellable operating leases on sublet properties are as follows

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
Continuing operations		
Amounts receivable		
Within one year	**522**	305
Between two and five years	**484**	644
	1,006	949
Discontinued operations		
Amounts receivable		
Within one year	-	215
Between two and five years	-	-
	-	215

28 Contingencies

In the normal course of business, the Group is exposed to the risk of claims in respect of contracts where the customer or supplier is dissatisfied with the performance, pricing and/or completion of the contracted service or product Such claims are normally resolved by a combination of negotiation, further work by Parity or the supplier, and/or monetary settlement without formal legal process being necessary Occasionally, such claims progress into legal action At the present time, Group management believes the resolution of any known claims or legal proceedings will not have a material further impact on the financial position of the Group

29 Key management remuneration

Key management comprises the Board of Directors The total remuneration received by key management for 2012 was £896,000 (2011 £895,000) This comprises emoluments received, pension contributions, compensation for loss of office and share based payment charges Key management remuneration is disclosed in detail within the remuneration report

	2012	2011
	£'000	£'000
Salary and fees	**660**	633
Other short term benefits	**28**	29
Post employments benefits	**180**	30
Termination benefits	**-**	113
Share-based payments	**28**	90
	896	895

30 Related party transactions

Company

Details of the Company's holding in Group undertakings are given in note 31 The Company entered into transactions with other Group undertakings as shown in the table below

	Operating costs 2012 £'000	**Finance income 2012 £'000**	**Finance expense 2012 £'000**	Operating costs 2011 £'000	Finance income 2011 £'000	Finance expense 2011 £'000
Amounts incurred from Group subsidiaries	**(719)**	**-**	**(795)**	(1,324)	-	(979)
Amounts charged to Group subsidiaries	**-**	**394**	**-**	-	386	-

At 31 December, the Company had the following amounts payable to / recoverable from Group undertakings

	2012	2011
	£'000	£'000
Amounts owed by subsidiary undertakings		
Falling due within one year (note 19)	**2,613**	2,913
Falling due after one year (note 19)	**69,763**	77,241
Amounts due to subsidiary undertakings		
Falling due within one year (note 21)	**(2,209)**	(1,391)
Falling due after one year (note 21)	**(74,656)**	(83,328)

During the year, other related party transactions were as follows

Related party relationship	**Type of transaction**	**Transaction Amount 2012 £'000**	Transaction Amount *2011* *£'000*
Directors	Purchase of Group shares	**-**	**556**

Notes to the accounts (continued)

31 Subsidiaries

The principal subsidiaries of Parity Group plc, which have been included in these consolidated financial statements, are Parity Resources Limited, Parity Solutions Limited and Inition Limited Parity Resources Limited and Parity Solutions Limited are wholly owned by Parity Holdings Limited and incorporated in the United Kingdom Inition Limited is wholly owned by Parity Digital Solutions Limited and is incorporated in the United Kingdom Parity Digital Solutions Limited is a direct subsidiary of Parity Holdings Limited, and Parity Holdings Limited is a direct subsidiary of Parity Group plc

Parity Resources Limited is a specialist IT recruitment company Parity Solutions Limited delivers technology solutions and talent management services Inition Limited specialises in 3D solutions and equipment

The Company's investment in subsidiary was reviewed for impairment at the year end owing to the performance during 2012 A discounted future cash flow method was employed for the review As a result of this review, no provision was deemed necessary, leaving a carrying value of 20,527,000 (2011 £20,527,000) The assessment was performed on a value in use basis using discount rates of between 6 1% and 7 7% (2011 7 2%) and the other parameters used in the goodwill impairment review, as outlined in note 14

A full list of the Group's subsidiaries can be obtained at the address below

Company Secretary
Parity Group plc
Wimbledon Bridge House
1 Hartfield Road
Wimbledon
London
SW19 3RU

32 Post Balance Sheet Events

On the 10 January 2013, the Group announced the issue of 3,125,000 new ordinary shares of 2p each at 20 pence per share to raise approximately £600,000 (net of expenses) The issue price represents a discount of 7 0% to the closing middle market price on 9 January 2013 (being the last dealing day prior to the announcement) The proceeds will be used to fund the first earn-out in relation to the acquisition of Inition as announced on 29 May 2012 and potential future transaction costs Inition has performed beyond expectations, earning the founders their first year earn-out in only seven months, reinforcing the Board's confidence in its digital media strategy The Company has already funded the upfront £1 5 million cash cost of the Inition acquisition

Corporate information

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Registrars
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Aspect House, Spencer Road, Lancing,
West Sussex, BN99 6DA
Tel 0870 600 3964
Fax 0870 600 3980

Equiniti offer a range of information on-line You can access information on your shareholding, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www shareview co uk

Enquiries concerning shareholdings in Parity Group plc should be directed, in the first instance, to the Registrars, Equiniti, as above

Investor relations
MHP Communications
60 Great Portland Street
London
W1W 7RT
Tel 020 3128 8100

Further information for shareholders including copies of the Annual and Interim Reports can be obtained from the company secretary's office at the registered office address below or from the Parity Group website at www parity net

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Or by email to cosec@parity net

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