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**PARITY**



Parity Group plc Report & Accounts 2004

**PARITY**

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# Business and Financial Summary

## Financial History

Year ended 31 December	2000	2001	2002	2003	2004
Turnover before discontinued operations	£262m	£241m	£178m	£159m <sup>■</sup>	£170m
Profit (loss) before goodwill amortisation, exceptional items, discontinued operations and taxation	£14.0m	£4.1m	(£1.9m)	£0.5m	(£2.8m)
Profit (loss) before taxation	£12.8m	(£3.3m)	(£24.6m)	(£18.7m)	(£6.9m)
Earnings (loss) per share <sup>+Δ</sup>					
– Basic	4.49p	(1.65p)	(12.89p)	(7.70p)	(2.24p)
– Diluted	4.46p	(1.65p)	(12.89p)	(7.70p)	(2.24p)
Earnings (loss) per share before goodwill amortisation, exceptional items, and discontinued operations <sup>+Δ</sup>					
– Basic	5.10p	1.83p	(1.20p)	1.04p	(0.95p)
– Diluted	5.07p	1.82p	(1.20p)	1.04p	(0.95p)
Dividends per share <sup>+Δ</sup>	1.32p	1.32p	0.14p	0.03p	–
Shareholders' funds	£42.2m	£35.9m	£9.4m	£13.5m <sup>*</sup>	£6.8m

- + After allowing for the three for one share split on 5 July 1999
- Δ After allowing for the 7 for 8 rights issue on 6 November 2003
- Restated, refer note 2
- ◆ Restated, refer notes 1 and 12

## 2004 Financial Summary

	Turnover £m		Profit £m <sup>◇</sup>	
	2004	% change ▲	2004	% change
Business Solutions*	23.1	(2.0)	0.7	(52.9)
Training	23.8	(6.1)	(1.5)	(208.9)
Resourcing Solutions – United Kingdom	81.3	26.1	1.4	20.1
Resourcing Solutions – mainland Europe	27.2	(2.5)	0.4	112.9
Parity Americas	14.5	(17.9)	0.1	–
Central costs and net interest	–	–	(3.9)	(3.6)
Exceptional costs*	–	–	(3.7)	35.0
<b>Total</b>	<b>169.9</b>	<b>6.9</b>	<b>(6.5)</b>	<b>(27.1)</b>

- \* Excluding discontinued operations
- ◇ Before goodwill amortisation, amounts written off investments and tax
- ▲ 2003 comparatives have been restated, refer note 2

## Chairman's Statement

### GROUP OVERVIEW AND RESULTS

#### Results

In the financial year to 31 December 2004, Parity Group plc reported revenues of £169.9m (2003: £158.9m restated and excluding discontinued operations) and losses before goodwill amortisation and tax of £6.3m (2003: £18.1m). Net debt at the year end was £13.7m (2003: £12.0m). The loss after goodwill amortisation and tax was £6.4m (2003: £15.6m) giving a basic loss per share of 2.24 pence compared to 7.70 pence in the previous period.

#### Dividend

The Board will not be recommending the payment of a final dividend in respect of the year ended 31 December 2004 (2003: 0.03p per share). No interim dividend was paid (2003: nil). This policy will be reviewed when cash resources allow.

#### Review

The last few years have clearly not been satisfactory with the Group reporting significant losses, regular restructuring charges and significant net cash outflows. Consequently, when I became Chairman at the end of last year I initiated a wide-ranging review of Parity's operations. This was completed on schedule and the detailed recommendations have been accepted by the Board. The key elements are summarised below.

The Group's past business strategy of moving towards larger contracts and managed services reflected industry trends and was sensible in principle but required more careful implementation. The significant additional overheads resulting from the strategy did not in general produce profitable business but did reduce available sales effort for core business. This redirection of sales effort produced disappointing results in Training last year in its core public course business. Reduced sales effort in Business Solutions and prudent revenue recognition on one particular project resulted in a breakeven second half and a low order book at the year end.

The UK and mainland Europe Resourcing Solutions businesses both saw good growth in improved market conditions. Margins were still tight in the UK but less so abroad where a significant investment in sales staff in the last quarter reduced profits. The US business moved into profit by good cost control and elimination of low margin and risky business.

#### The Way Forward

My objective following the review has been to create a business plan to ensure that Parity once again addresses the IT services market with an attractive, competitive offering, has a suitable overhead structure which is appropriate to the Group's size and scale, and a culture that encourages prudent budgeting and setting of expectations. As well as reducing debt, this plan must generate shareholder value by turning Parity into a growing, profitable, cash generative business.

#### Exceptional Costs

One of the initial findings of the review was that a degree of cost cutting was required, particularly at the centre, to bring overheads more in line with the Group's current size. As a first step we announced and have largely implemented a cost reduction programme which in particular included reducing staff numbers by over fifty and moving our head office into smaller temporary accommodation.

#### New Corporate Strategy

The future strategy of the Group must be to focus on the UK market with one coherent business with a number of niche service offerings, within a single marketing message designed to be competitive in today's IT services market.

## Chairman's Statement continued

### Market Strategy

The Group, uniquely for its size, can offer a one-stop shop for a wide range of IT services from consultancy to training, resources and project development to full managed services. The Parity marketing message is therefore clear and is one that is already proving to be a good sales differentiator. Users of IT services have in the past often had to deal with a number of different suppliers for closely related services, involving unnecessary overhead costs for the customer. Parity's competitive edge is its ability to make life simple for customers by providing a range of services to meet their overall requirements.

### Non-UK Businesses

*These changes will mean that the mainland Europe Resourcing Solutions business is not central to our new strategy and we are currently discussing a possible disposal with several parties, in full co-operation with the divisional management who see the opportunity of increasing the scale of their growing business through a combination with a larger group. This disposal will clearly reduce the level of debt in the Group.*

The US business has established a management link to the UK Resourcing Solutions division which enables the experience of this successful business to be transferred to the smaller US division. The strategic rationale for a US operation has not been proved in recent years but with new management and organisation we are expecting better performance ahead in an improving market, and the Board will review the strategic logic in the light of progress made.

### Reorganisation

The Group will therefore reorganise its UK operations this year. Group management becomes the UK management in this new scenario. There are currently three independent divisions of differing sizes with separate management, production, support functions, marketing and sales. We will now simplify the Group's structure, creating a number of niche service offerings under one UK marketing umbrella. There will be overall market sector management and coordination using a new Customer Relationship Management system installation, an area where we have considerable technical expertise. We will concentrate on our customer relationships with coordinated account management but retain specific sales activities in the individual service profit centres. We are also examining how the IT infrastructure services provided to the Group can be better attuned to requirements.

We will ensure that account management is our keystone and that each division's services are made available to all our clients in a co-ordinated manner. We will be a full service, integrated UK IT services business selling the complete range of IT services individually or together as required by our customers. We will carefully evolve into larger projects as we progress, when we can make sensible margins, and continue our drive into managed services which is the direction that the market is moving. Our approach to change is evolution not revolution.

Creating one UK company managing all Parity's operations (post the European disposal) will allow considerable simplification and the necessary significant cost savings going forward. The fruits of this strategy will not be visible until next year.

### Banking Facilities

It became clear early in my review that the level of debt was too high for the current size of the Group. The proposed disposal of mainland Europe and the cost savings associated with the reorganisation of UK operations will clearly help to address this issue and will reduce the future cash requirements of the Group. I am also pleased to report that the committed revolving loan facility with the Group's principal bankers, Lloyds TSB, has been successfully extended to the end of 2006.

### Board Changes

*Bill Cockburn retired as Chairman on 12 November 2004 having been appointed when I retired due to a serious illness in 2001. I would like to thank Bill for his stewardship during this difficult period. Ian Miller, the former Group Chief Executive, left the Board on 30 November 2004 and the Board asked me to assume an executive role in the short term whilst I completed my review of the business.*

## Chairman's Statement *continued*

John Maxwell had indicated to the previous Chairman that he wished to stand down due to a heavy workload and consequently will not stand for election at the AGM. John has been extremely helpful to me in understanding the last few years, as has our other Non-executive Director Alastair MacDonald, and I thank them for their openness and enthusiasm to improve performance. The Board intends to appoint at least one more Non-executive Director this year.

I am very pleased to announce that John Hughes, until recently Chief Operating Officer of Thales Group where he was responsible for their entire Information Technology and Services and Aerospace business areas, managing a €4.5 billion P&L, will join the Board on 2 May 2005 and take over from me as Executive Chairman now that my review is complete. I have known John for some years and we are fortunate that a person of his calibre is joining our Board. I am confident that John and I can complete an orderly transition and subsequently work together on the Board to continue the turn around of Parity – a vision we both share. We have discussed the new strategy in detail in recent weeks and he will bring just the skills and experience that Parity needs to refine and enact the new strategy and then drive the business forward over the years. I will step down to Deputy Chairman on a part-time basis for this year and then move to a Non-executive role next year.

It is with great sadness that I must inform you that Billy Carbutt who served as a Director of the Group from March 1994 to January 2004, acting as Chairman for three years during this period, has died after a long illness. We all very much appreciated Billy's counsel when we were serving together on the Board and will miss his wisdom and humour.

### **Employees**

I would like to thank all of our employees for their continued commitment and loyalty to the Group in what has been a difficult few years. I hope that 2005 will be a year of change for the good, not only for our shareholders but also for our employees whose enthusiasm to get the Company back to winning ways has been inspiring.

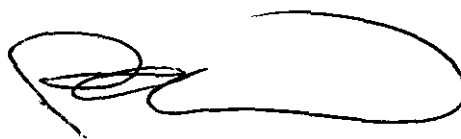
### **Current Trading and Prospects**

The Resourcing Solutions businesses in the UK and mainland Europe have continued to expand profitably this year in similar market conditions to last year. The Training division is recovering from its setback in the second half of last year, and is expecting to improve steadily through this year. Business Solutions looks to grow its order backlog in 2005 and will particularly benefit from the restructuring outlined above in returning to full health. There are signs of recovery in the US market and optimism in our US business for the first time for several years.

Central costs have been much reduced but given a high interest charge, contributions to the defined benefit pension deficit and goodwill amortisation, the Group cannot expect to return to overall profitability in 2005. The Board believes that the strategic and reorganisational changes will be of significant benefit in taking the Group forward with further cost cuts, lower debt and a return to overall growth in a simpler business model. Clearly 2005 will be a year of restructuring but the Board expects that the changes will then enable Parity to move into 2006 in much better shape.



Philip Swinstead OBE  
Chairman  
19 April 2005



## Financial Review

### Turnover and Profits

Revenue from continuing operations increased by 7% on the prior year to £169.9m (2003: £158.9m restated and excluding discontinued operations). Following further review the prior year comparative has been restated to show revenue from UK recruitment vendor management contracts based on net rather than gross fee income as the Directors no longer believe that it is appropriate to treat Parity as the principal in these contracts. Revenue growth was entirely driven by Resourcing Solutions UK which increased revenue by 26% (£16.8m) on the prior year as a result of an 18% increase in the number of contractors on billing and an 81% increase in revenue from permanent placements which now make up 12% of the total net fee income of this business unit. This growth was offset by revenue decreases in Training and Parity Americas of 6% and 18% respectively and smaller declines in Business Solutions (2%) and Resourcing Solutions mainland Europe (3%).

The Group produced a loss before goodwill amortisation, discontinued operations and exceptional items of £2.8m (2003: £0.5m profit) largely due to the £1.5m loss generated by Training, a £2.9m reduction in the profitability of this business unit compared to prior year, together with a £0.8m reduction in the year on year profitability of Business Solutions as a result of prudent revenue recognition in the second half of the year in respect of one problematic fixed price contract. The reversal in the profitability of the Training business resulted from a £1.5m reduction in revenue as the business focussed attention on pursuing large, long-term managed services contracts to the detriment of revenue from public courses. The remaining business units all improved profitability.

The loss after discontinued operations and goodwill amortisation but before tax, was £6.9m (2003: £18.7m) including a restructuring charge, explained below, of £3.7m (2003: £7.3m). The retained loss for the financial period was £6.4m (2003: £15.7m).

### Exceptional Costs

As announced in the pre-close trading update provided in January 2005, the Group has undergone a further restructuring in order to restore an appropriate revenue/cost balance in light of the decrease in revenue. The total operating restructuring charge of £3.7m (2003: £7.3m) is made up of redundancy provisions of £1.6m (2003: £1.2m), onerous lease provisions including a provision for the closure of the Group's head office in London of £1.8m (2003: £2.7m) and other provisions of £0.2m (2003: £1.8m). The 2005 cash cost of the restructuring is expected to be £2.0m.

### Discontinued Operations

As reported in the 2004 Interim Report, the result for the year includes a £0.2m recovery in respect of operations that were discontinued in 2003.

### Cash Flow and Net Debt

The Group produced a net cash inflow from operations before discontinued operations and exceptional items of £0.2m (2003: £0.1m). Exceptional costs resulted in a cash outflow of £1.6m (2003: £4.0m) of which £1.2m (2003: £1.3m) related to onerous lease costs. Net interest payments were £0.8m (2003: £1.0m). The Group spent a further £0.5m (2003: £0.5m) on essential capital expenditure resulting in a net cash outflow before financing, after dividends of £0.1m (2003: £0.1m), of £1.6m (2003: £6.2m).

Net debt at 31 December 2004 was £13.7m (2003: £12.0m), an increase of £1.7m compared to the closing position in 2003.

### Banking Facilities

The revolving loan facility of £18m with the Group's principal banker, Lloyds TSB, has been successfully renegotiated to 31 December 2006 but will reduce by at least £1m following the disposal of Resourcing Solutions mainland Europe. HSBC has announced that it has withdrawn from the market the debt purchase product that the Group currently uses to finance its French, German and US operations. The Group's existing facility with HSBC expires on 30 June 2005 but HSBC has indicated that it would be willing to extend the facility if the mainland Europe disposal process has not been completed by that time. The Board has confirmed that alternative financing arrangements for the US operation, which are likely to be debt purchase based, are available if required.



## Financial Review continued

### Treasury

The Group finances its operations by a combination of shareholders' funds, cash generated from operations and bank loans and overdrafts. The main risks arising from the Group's financial instruments are currency risk, interest rate risk and liquidity risk. The Directors regularly review policies for managing each of these risks. The Group does not currently use complex financial instruments in the management of these exposures.

**Currency risk** - the Group has limited transactional currency exposures as businesses trade primarily within their own national boundaries. Any significant currency exposures are hedged using forward foreign exchange contracts if no natural hedge exists through intercompany balances. Translational exchange movements arising on the net assets of overseas subsidiaries are taken through reserves.

**Interest rate risk** - the majority of the Group's borrowings are managed centrally and the low interest environment in the UK has meant that the Group has continued to keep all of its borrowings at floating rates of interest during the period under review. Financial derivatives are not currently used in managing interest rate exposures.

**Liquidity risk** - the Group ensures sufficient headroom is maintained in its debt facilities to enable the achievement of strategic objectives whilst taking into account the impact of short-term business cycle fluctuations on liquidity. Facilities are reviewed on a regular basis.

### Taxation

The Group Profit and Loss Account includes a tax credit for the year of £0.5m (2003: £3.1m) mainly relating to deferred tax (£0.5m) arising on trading losses carried forward for use in future years. The tax credit represents an effective tax rate of 7.3% compared to the statutory rate of 30% due to the fact that a deferred tax asset has not been recognised in respect of certain tax losses, largely relating to central costs, and also due to short term and other timing differences. A deferred tax asset of £4.1m (2003: £3.4m) is reflected in the Group Balance Sheet as at 31 December 2004 of which £1.4m (2003: £1.9m) relates to trading losses carried forward which are expected to be used in the foreseeable future and £2.7m (2003: £1.6m) relates to short-term and other timing differences. The Group has unrecognised deferred tax assets relating to tax losses of £2.9m (2003: £1.9m) where there is insufficient evidence of recoverability in the short-term. The Group also has an unrecognised deferred tax asset of £84.0m (2003: £84.0m) relating to capital losses crystallised in the parent company.

### Loss Per Share and Dividends

The basic loss per share for the year was 2.24p (2003: loss 7.70p). The loss per share before exceptional items, discontinued operations and goodwill amortisation was 0.95p (2003: earnings 1.04p). The Board is not proposing a final dividend for the year (2003: 0.03p) per share. The retained loss for the year of £6.4m (2003: £15.7m) has been transferred to reserves.

### Impairment Review

Following an impairment exercise conducted in the second half of the year in the light of the significant downturn in the performance of the Training business, the parent company had a deficit on its distributable reserves of £8.2m at the balance sheet date. Since year end, this deficit has been restored to a credit balance of £5.8m as a result of a series of investment transfers within the Group which have enabled the Company to effectively charge the impairment against 'other' reserves, rather than the profit and loss reserve.

### Onerous Leases

At year end, the Group's onerous lease provision was £3.0m (2003: £2.3m). During the year, the Group successfully sublet its property in Winnersh for the period to 2013, part-let the empty floor at Wimbledon Bridge House and swapped the lease on an empty floor in Holborn Circus for a refurbished floor which is now used for management training by the Training business unit. A new provision was created during the year in respect of the old head office in London and provisions were extended following changes in circumstances for two further properties. The total provision now covers 10 properties (2003: 11). The cash cost of onerous leases in 2004 was £1.2m. The cash cost of onerous leases in 2005 is expected to be £1.2m and should reduce to £0.7m in 2006, assuming properties are sublet in the timescales planned.

## Financial Review continued

### International Financial Reporting Standards

The Group is required to adopt International Financial Reporting Standards (IFRS) for the first time in 2005 and both its interim and full year results will be prepared on this basis, including prior year comparatives in respect of 2004. A review of the impact of the adoption of IFRS has been undertaken and 2004 balances are currently being restated on the new basis. The results of this exercise will be reported later in the year, prior to the announcement of the Interim Results.

### Accounting Policies

As mentioned under Turnover and Profits above the accounting policy for managed service revenue on recruitment vendor management contracts has been amended to show revenue on a net rather than gross fee income basis. Further information is provided in note 2.

UITF Abstract 38 "Accounting for ESOP Trusts" has been adopted for the first time in 2004. This has resulted in a reclassification of own shares of £448,000 at 31 December 2003 from investments to equity shareholders' funds. Further details are provided in note 12. In addition, UITF17 (Revised 2003) "Employee Share Schemes" has been adopted in 2004, although this has no impact on costs in 2003 or 2004.

### Retirement Benefit Plan

With effect from 1 January 2005, the Parity Retirement Benefit Plan ("the Plan") was closed for future service accrual and ongoing contributions, which have been agreed at a fixed rate, have been transferred to a money purchase scheme of each member's choice. This action removes the risk of asset volatility in respect of future contributions but still leaves the Group with the obligation of closing the deficit in the Plan. At the end of the year the deficit was £4.2m (2003: £3.8m) as calculated in accordance with SSAP 24. The cash cost of funding the deficit in 2005 will be £0.4m but this is expected to increase to £0.8m from 2006 when the new Pensions Act is introduced. The Board continues to monitor the deficit closely.



Alison Leyshon  
Group Finance Director  
19 April 2005



## Board of Directors

### DIRECTORS

#### **Philip Swinstead OBE**

**Executive Chairman** <sup>(1 2 3)</sup>

Having founded Parity in 1993 and retired in 2001, Philip Swinstead (61) was invited to become Chairman again in November 2004. Before Parity, he had founded SD-Scicon in 1969 which became the first UK software house to obtain a full listing in London in 1982 and was CEO until the business was acquired in 1991, by which time it had revenues of some £250m. He then went on to create a management buy-out opportunity which grew to a similar size and became a major French quoted IT services Group. In parallel, he was a director of several public investment trusts for 15 years and runs his own active portfolio of technology and leisure businesses including Antics Technologies, a leading-edge software animation laboratory in Cambridge. He is Chairman of the Nominations Committee.

#### **John Maxwell CA CCMl**

**Senior Independent Non-executive** <sup>(1 2 3)</sup>

John Maxwell, (60) was appointed to the Board as a Director on 29 August 2002. He was previously Director General (Chief Executive) of The Automobile Association until 2000, overseeing its demutualization and subsequent sale to Centrica. Prior to that he was Group Chief Executive of BPB Industries Plc and Executive Director, Corporate Development of the Prudential Corporation plc. He is currently a Non-executive Director of Provident Financial plc, Homeserve plc and Royal & Sun Alliance Insurance Group plc and Chairman of DX Services plc. He is a Governor of the Royal Ballet School and Chairman of the Institute of Advanced Motorists. He is Chairman of the Audit Committee.

#### **Alison Leyshon ACA**

**Group Finance Director and Company Secretary**

Alison Leyshon (37) was appointed to the Board as Group Finance Director on 10 July 2001 having been Group Financial Controller and Company Secretary for the previous two years. She qualified as a Chartered Accountant with Price Waterhouse, where she spent 11 years.

#### **Alastair Macdonald CB**

**Non-executive** <sup>(1 2 3)</sup>

Alastair Macdonald, (64) was appointed to the Board as a Director on 28 February 2002 and is currently Chairman of the Remuneration Committee. He was previously Director General of the DTI's Industry Group with policy responsibility for the manufacturing and service industries, including the IT and telecommunications sectors, from 1992 to 2000 when he retired from the Civil Service. Since then, Alastair has filled a number of roles including Presidency of the British Computer Society.

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Remuneration Committee

<sup>3</sup> Member of the Nominations Committee

## Directors' Report

The Directors present their Report and the audited accounts for the year ended 31 December 2004.

### Principal Activities

The Group's principal activities during the year were the provision of IT and business services, management and technology training, technology staffing and a range of recruitment services to a global customer base. A review of the business is contained within the Chairman's Statement and the Financial Review on pages 2 to 7.

### Group Results

The Group loss for the year before taxation was £6.9m (2003: loss of £18.7m) after charging goodwill amortisation of £0.6m (2003: £0.6m), a gain arising from discontinued operations of £0.2m (2003: loss of £12.2m) and total exceptional costs of £3.7m (2003: £6.4m). After a tax credit of £0.5m (2003: £3.1m) and dividends paid and proposed of £nil (2003: £0.1m), the retained loss amounted to £6.4m (2003: loss £15.7m) and has been transferred to reserves.

### Dividends

The Directors do not recommend a final dividend (2003: 0.03p per ordinary share). The total dividends for the year were nil p per share (2003: 0.03p).

### Tangible Assets

The changes in tangible assets during the year are summarised in Note 11 to the Accounts on pages 42 and 43.

### Purchase of own shares

At the end of the year, the Company had authority, under the shareholders' resolution of 18 June 2004, to purchase in the market 28,869,169 of the Company's ordinary shares at prices ranging between 5 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 renew this authority at the forthcoming Annual General Meeting on 30 June 2005.

### Board of Directors

Biographical information on each of the Directors as at 19 April 2005 is set out on page 8, together with details of membership of the Board Committees. Philip Swinstead was appointed as Chairman on 12 November 2004 following the retirement of Bill Cockburn. Ian Miller, the former Group Chief Executive, left the Board on 30 November 2004 and Philip Swinstead took on an executive role. John Maxwell has indicated that he will step down from the Board prior to the Annual General Meeting. All of the other Directors will retire and seek re-election at the Annual General Meeting. John Hughes, who will join the Company as Executive Chairman on 2 May 2005, will also seek appointment as a Director at the Annual General Meeting.

### Directors' Interests

The Directors' beneficial interests in the ordinary share capital of the Company at 31 December 2004 were as follows:

	Shareholding as at 31 December 2004	% Issued share capital	Shareholding as at 31 December 2003	% Issued share capital
Alison Leyshon	157,772	0.055	157,772	0.055
Alastair Macdonald	80,625	0.028	80,625	0.028
John Maxwell	187,500	0.065	187,500	0.065
Philip Swinstead*	8,360,643	2.896	—	—
TOTAL	8,786,540	3.044	425,897	0.148

There has been no change in the Directors' interests between 31 December 2004 and 19 April 2005.

\* At the date of his appointment on 12 November 2004, Philip Swinstead's shareholding was 8,360,643.

## Directors' Report continued

### Principal Shareholders

The Board is not aware of any party who is interested in three per cent or more of the issued share capital of the Company at 19 April 2005 apart from the following:

	Number of ordinary 5p shares	Percentage held
Aberforth Partners	33,444,109	11.58
J O Hambro Capital Management	25,903,614	8.97
Deutsche Asset Management Limited	22,578,799	7.82
UBS Global Asset Management Limited	19,930,107	6.90
HBOS (Insight Investments)	15,562,500	5.39
Barclays Stockbrokers Limited	15,156,656	5.25
SG Asset Management Limited	12,752,096	4.42
Killik & Co.	10,636,131*	3.68

\*Killik & Co. holding includes 7,242,187 shares held in a nominee account on behalf of Philip Swinstead. These shares are included in Philip Swinstead's holding of 8,360,643 shares shown in the Directors' Interests table on page 9.

### Employment Policies

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

### Payments to Suppliers

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

### 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 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.

### Health and Safety

The health and safety of Parity's employees is of great importance to the Board. The Group's 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.

### Contributions for charitable and political purposes

The Group made charitable contributions of £38,000 during 2004 (2003: £39,000). No payments were made for political purposes.

### Auditors

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

### Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 30 June 2005 together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board



Alison Leyshon  
Company Secretary  
19 April 2005



## Corporate Governance

The maintenance of high standards of corporate governance remains a key priority for the Board. The Financial Reporting Council published the Combined Code on Corporate Governance (the "Combined Code") in July 2003. The UK Listing Rules require listed companies to disclose how they have applied the principles of the Combined Code and whether they have complied with the provisions set out in section 1 of the Combined 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 15 to 24, describe how the Group has complied with the Combined Code during the year.

### Statement by the Directors of compliance with the provisions of the Combined Code

The Board considers that, throughout the period under review, the Group has complied with the provisions of the Combined Code, except in the following areas:

- Philip Swinstead was appointed Chairman on 12 November 2004 and has been operating in an executive capacity since the end of November. The independent and other Directors believed that it was in the best interests of shareholders that his extensive experience be retained on a full time basis while he completed a strategic review of the Group, the outcome of which was announced on 19 April 2005. As a result of his executive capacity, Mr. Swinstead did not meet the independence criteria of the Combined Code. Major shareholders were consulted prior to Mr Swinstead's appointment, and again prior to the decision that he should assume an executive role.

- The members of the Audit Committee, Remuneration Committee and the Nominations Committee comprise the Non-executive Directors and the Chairman. Despite his executive status Philip Swinstead is a member of all three committees and acts as Chairman of the Nominations Committee. The independent and other Director believe that due to the current market capitalisation of the Company and the fact that the Company has only two Non-executive Directors that it is appropriate for him, in his executive role, to be a member of these Committees.

### Going Concern

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

## The Workings of the Board and its Committees

### The Board

The Board consists of the Executive Chairman, Philip Swinstead, the Group Finance Director, Alison Leyshon and the Non-executive Directors, John Maxwell and Alastair Macdonald. The Director's biographies, which are set out on page 8, demonstrate a range of business backgrounds and experience.

John Maxwell acts as the Senior Independent Non-executive 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 the shareholders if they have reason for concern, when contact through the normal channels of the Executive Directors has failed to resolve their concerns or where such contact is inappropriate. During the year, major shareholders were offered meetings with Mr Maxwell in his capacity as Senior Independent Non-executive Director but declined the invitation on the grounds that they were satisfied with the level of contact that they had with the Company.

The Board has eight scheduled meetings a year and meets more frequently as required. 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 below. The Board maintains close dialogue by email and telephone between formal meetings, and during the year, Board members visited several Group sites. 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 the Group Authorisation Limits on a structured basis, ensuring that proper management oversight exists at the appropriate level.

The managing directors and financial controllers of each of the five business units held regular meetings with the Chief Executive and Finance Director during the year to discuss operating and financial performance and key issues arising from these meetings were reported to the Board. 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, have full and timely access to relevant information and advice and to obtain the services of the Company Secretary.

## Corporate Governance *continued*

All Directors submit themselves for reappointment at the next Annual General Meeting following appointment. The names of the Directors submitted for re-election are set out in the Directors' Report on page 9 and in the separate Notice of Annual General Meeting sent to all shareholders. The Chairman confirms that the performance of each Director resubmitting themselves for re-election continues to be effective and the individuals continue to demonstrate commitment to the role.

### Attendance at Board Meetings

The Board had eight scheduled meetings in 2004 and ad hoc meetings (not included below) were convened as necessary to deal with urgent matters. Details of attendance at scheduled meetings is summarised below:

	Board	Audit	Nominations	Remuneration
<b>Number held</b>	8	4	2	3
<b>Number attended</b>				
Bill Cockburn <sup>1</sup>	7	3	2	3
Alison Leyshon	8	4 <sup>4</sup>	–	–
Alastair Macdonald	8	4	2	3
John Maxwell	8	4	2	3
Ian Miller <sup>1</sup>	7	3 <sup>4</sup>	1 <sup>4</sup>	2 <sup>4</sup>
Philip Swinstead <sup>2</sup>	1	1	–	–

<sup>1</sup> Bill Cockburn and Ian Miller stepped down as Directors in November 2004

<sup>2</sup> Philip Swinstead was appointed to the Board on 12 November 2004

<sup>3</sup> All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 16 June 2004

<sup>4</sup> Attendance at the invitation of the Committee

### 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.

### Committees

The following committees deal with the specific aspects of the affairs of the Group. The members of all Committees are the Non-executive Directors and the Chairman. The terms of reference of the three committees of the Board 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.

#### Audit Committee

The Audit Committee meets at least twice annually and comprises the Non-executive Directors and the Chairman. The Audit Committee is chaired by John Maxwell.

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 internal and external auditors and the effectiveness of the Group's system of accounting, its internal financial controls and the internal and external audit functions.

John Maxwell is considered to have recent and relevant financial experience being a qualified chartered accountant and having served as finance director of other companies in the past.

The Committee's principal terms of reference include:

- the oversight responsibilities described in the above paragraph;
- reviewing compliance with laws, regulations, the Company's code of conduct and policies;
- monitoring the integrity of the Group's financial statements and any 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 going concern assumption contained in them;
- reviewing the findings of the external audit with the external auditor;
- monitoring and reviewing the effectiveness of the internal audit function;
- considering the major findings of internal audit investigations and management's response;
- 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 auditors;
- monitoring and reviewing the external auditors' independence and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services; and
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters.

## Corporate Governance continued

### Audit Committee continued

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 auditors each year. The Company normally expects to retain the external auditors to provide audit-related services, including work in relation to shareholder circulars and similar services. The external auditors have provided such services during 2004, details of which are set out in note 3 to the accounts on page 36. The provision of tax advisory services, which were supplied by the external auditors in 2003 were subject to a competitive tender process in 2004. Four firms were invited to tender for the tax advisory services and BDO Stoy Hayward LLP was subsequently appointed as tax advisors to the Group.

Audit Committee meetings are attended by the Executive Directors at the invitation of the Committee. The external auditors and Group Internal Auditor meet separately with the Audit Committee on request, without the presence of the Executive Directors, to ensure open communication.

### Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and the Chairman and is chaired by Alastair Macdonald. The Committee is responsible for reviewing the emoluments of the Executive Directors and other senior management, the Group's remuneration policy and its pension arrangements and for making recommendations thereon to the Board. The Committee also makes recommendations to the Board for the award of Executive and SAYE share options and other long term incentive awards. Up to the date that he left the Company, the Committee consulted the Chief Executive about its proposals. The Committee has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate. No Director is involved in determining their own remuneration. Non-executive Directors are not entitled to receive share options or other equity based awards.

*The views of the Group's largest shareholders were sought by the Chairman of the Remuneration Committee in respect of the changes that were proposed during 2004 for the Executive Share Option performance conditions and the creation of the Co-investment Scheme. The views of these shareholders have also been sought in respect of a new Long-Term Incentive Plan which all shareholders will be asked to approve at the Annual General Meeting on 30 June 2005.*

Further details of the roles and responsibilities of the Committee are set out in the Remuneration Report on pages 15 to 24.

### Nominations Committee

The Nominations Committee comprises the Non-executive Directors and the Chairman. The Committee is chaired by Philip Swinstead having previously been chaired by Bill Cockburn. It is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. Where necessary, recruitment consultants are used to assist the process. Philip Swinstead was appointed to the Board in November 2004 following an extensive external search. The search process was led by Alastair Macdonald to avoid the then Chairman being involved in the appointment of his successor. Major shareholders were consulted prior to the appointment. External recruitment consultants have been engaged in the search for the new Chairman and this process has been led by Philip Swinstead as the Non-executive directors believe that his knowledge and experience were essential in this exercise.

### Investor Relations

The Company engages in regular dialogue with its institutional shareholders through presentations and meetings after the announcement of the Group's full year and interims 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 Executive Directors 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 not fewer than 20 working days prior to the date of the Annual General Meeting. The package 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](http://www.parity.net). Copies of any presentations made to analysts or institutional shareholders are also published on the website.

### 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.



## Corporate Governance continued

### **Board Balance and Independence**

The Combined 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. John Maxwell has indicated that he intends to step down from the Board before the next AGM in order to reduce his workload. The Board intends to appoint at least one additional independent Non-executive Director in order to continue to ensure an appropriate mix of skills and experience.

The Board considers that both of the Non-executive Directors are independent in character and judgement and that there are no relationships or circumstances which are likely to affect their independent judgement.

### **Risk Management**

A process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the period and is reviewed regularly by the Board. The management of each business is responsible for establishing detailed controls which are embedded within operational and financial procedures in order to manage business risks on a day-to-day basis. Changes in key business objectives which may impact on the risk profile of the Group and require changes to existing controls and procedures were monitored during the year by the Chief Executive and Group Finance Director through the established framework of monthly reviews with the Managing Directors and Financial Controllers of each of the business units.

The findings and recommendations of internal audit work carried out during the 2004 financial year have been reported to the Audit Committee and a summary of the findings has been presented to the Board. The internal audit programme focuses on the key risks inherent in the businesses and the system of control necessary to manage such risks.

### **Statement of Directors' Responsibilities – Accounts and Internal Control**

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

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

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

# Remuneration Report

## Remuneration Report

This report sets out the remuneration policy for the Company's senior employees, including the Executive and Non-executive Directors, together with details of the Directors' remuneration packages and service contracts. The Board has adopted the principles of good governance relating to Directors' remuneration as set out in the 2003 Combined Code.

This report will be put to an advisory vote of the Company's shareholders at the Annual General Meeting on 30 June 2005.

## Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and the Chairman. During the year, its members were Alastair Macdonald, John Maxwell and Bill Cockburn and the Committee was chaired by Alastair Macdonald. Although he was not a member of the Committee, the previous Chief Executive attended meetings at the invitation of the Committee and was consulted on proposals relating to remuneration of the Executive Directors and senior employees. The Chief Executive was excluded from discussions about his personal remuneration. The Group's Deputy Company Secretary, acted as secretary to the Committee during the year. Philip Swinstead was appointed to the Committee on joining the Board.

The Committee meets regularly and 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 Executive Share Option and Sharesave Schemes and in respect of employees who should be invited to participate in the Co-investment Scheme, 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 advisors and if appropriate, by attending seminars. Pensions advice is provided by Gissings Consultancy Services, advice on share option, Co-investment and other Long-term Incentive Plans is provided by Ashurst and Pinsent Masons. Ashurst and Pinsent Masons 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 2004 are set out in the table on page 19.

## 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.

There were four key elements to the remuneration package of Senior Executives in the Group in 2004, including Executive Directors:

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

Senior executives are also eligible to participate in the Group's Co-investment Scheme, further details of which are provided on page 16.

The Board will be seeking shareholder approval at the Annual General Meeting on 30 June 2005 for a new Long-Term Incentive Plan, further details of which are provided on page 17. Any Executive Director or employee of a member of the Group is eligible to participate in the L-TIP. However, it is intended that only the most senior key individuals will participate in the L-TIP. Those Executive Directors or employees who receive awards under the L-TIP will not be eligible for Executive Share Option incentives but will be eligible to participate in the Co-investment Scheme.

## Salaries and Benefits

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:

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

## Remuneration Report *continued*

### **Annual Performance Bonus**

Neither Ian Miller nor Alison Leyshon received a performance bonus for 2004. Two of the five business unit Managing Directors received performance bonuses in recognition of the fact that they had achieved their profit targets for the year. These awards, which totalled £64,000, were scaled back because Group targets were not achieved. Both of these Managing Directors have elected to invest a proportion of their bonus in the Co-investment Scheme.

The bonus arrangements of the Managing Directors for 2005, which have been approved by the Remuneration Committee, are based on the achievement of profit targets for their individual business units. Bonuses will be calculated on a sliding scale, rising in response to profit performance which exceeds budget, up to a maximum of 75% of basic salary.

The bonus arrangements of the Finance Director for 2005 are based on the financial performance of the Group and on the achievement of certain personal objectives. Philip Swinstead will not receive a performance bonus for 2005. The bonus arrangements for John Hughes are set out under Executive Chairman's Remuneration on page 18.

### **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 Executive Directors, the Managing Directors of the five 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, will be matched in number by the Company, on a one for one basis at the end of a defined period following the date of purchase. The award of matching shares will be subject to the achievement of an appropriate and demanding performance condition recommended by the Remuneration Committee and determined by the Board prior to the grant of the award except in the initial year of operation of the Co-investment Scheme.

2005 is the first year of operation of the scheme following its approval by shareholders in 2004. In this initial year, the period that shares must be held before they are matched by the Company is twelve months and the matching award will not be subject to further performance conditions; this will mean that matching shares will vest in April 2006. In the second and later years of the scheme, the period during which the employee would have to hold shares before they were matched by the Company will rise 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.

## Remuneration Report *continued*

### Long Term Incentive Plan

The Board intends to introduce a new Long-Term Incentive Plan (L-TIP) for which approval from shareholders will be sought at the Annual General Meeting on 30 June 2005. The L-TIP will be open to key individuals who will be charged with leading the recovery in the Company's performance in the next three years. The L-TIP awards are intended to align the interests of these individuals with those of shareholders with a view to making substantial improvements in the Company's share price. Share price will be the key performance criterion for the L-TIP.

The L-TIP would deliver the equivalent of three times salary in shares, priced at the higher of the average share price in the three month period prior to the L-TIP being granted, or 9p, if the Company's share price increased to 20p before the end of a three year period from the date of grant and was maintained at this level for at least 60 successive days. An increase to 30p on the same terms would result in an award of shares equivalent to four times salary, with awards being made on a sliding scale for share prices between 20p and 30p. Awards would vest at the end of 2007 so long as Parity's share price had outperformed the average TSR performance of a comparator group of IT services companies selected by the Company's financial advisors and, over the 60 days before the end of the period, the Company's share price had averaged at least 15p.

An interim award of shares equivalent to three times salary would be made not earlier than eighteen months after the date of grant if during the period since grant, the share price had exceeded 20p for 60 successive days and Parity's share price had performed better than the average of the comparator group throughout the period. If the share price performance during the interim period meant that the awardholder was entitled to an award in excess of three times salary, the top-up award would not vest until the end of the three year period and would be subject to the share price outperforming the average TSR performance of the comparator group throughout the entire three year period and the share price over the 60 days before the end of the period averaging at least 15p. The awardholder would immediately be allowed to sell sufficient shares received under an interim award to meet any personal tax obligations arising as a result but would be required to hold the remaining shares for at least six months. In any event, the awardholder would not be allowed to sell more than 50% of the remaining shares received under the interim award until the end of the three year period.

In order to ensure that the Company has sufficient headroom to cover awards under the L-TIP, shareholders will also be asked to approve the exclusion of such awards from the current 10% in 10 years dilution limits which apply to the Company's existing share option schemes. The number of shares which may be issued under the L-TIP shall not exceed 12% of the Company's issued ordinary share capital.

Further details of the L-TIP are set out in the Notice of AGM.

### Share Option Schemes

The Group operates two types of share option schemes; two Executive Share Option Plans and a Savings Related Share Option Scheme (Sharesave Scheme) which were approved by shareholders in July 1999. Details of the Executive Share Option Plans and the savings related scheme are set out on pages 20 and 22.

The Group also has a number of closed schemes (the 1994 Schemes). The number of options outstanding under the 1994 and 1999 Executive Share Option Plans and the 1994 and 1999 Sharesave schemes are set out on pages 21 and 22.

### Directors' Pension Information

Alison Leyshon, and previously Ian Miller, is a member of the defined contribution Parity Group plc Executive Pension Plan which has a normal retirement age of 65 years. Alison Leyshon is entitled under contract to payments of 25% of basic salary to be made to her pension account within the Plan to provide pension at retirement not exceeding the maximum Inland Revenue pension. The Plan Actuary makes an annual assessment of the maximum rate of contribution permitted to ensure that the eventual pension will be unlikely to exceed the Inland Revenue maximum. Where the Director's pension entitlements exceed the Inland Revenue approved maximum percentage of net relevant earnings eligible for tax relief, the excess of her pension entitlement over the eligible amount is paid as additional salary.

Philip Swinstead has waived his right to receive pension contributions from the Company.

### 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. Each of the Non-executive Directors receives a fee of £25,000 per annum which is subject to income tax and statutory deductions. As Non-executive Chairman, Bill Cockburn received an annual fee of £60,000 in 2004, having waived his entitlement to 50% of his fee in 2003. An additional fee of £5,000 is payable for the position of Chairman of any sub-committee of the Board. During the year, Bill Cockburn, Alastair Macdonald and John Maxwell each waived their right to receive the fee payable for their respective chairmanships of the Nominations, Remuneration and Audit Committees. Philip Swinstead has also waived his right to receive the fee payable for his Chairmanship of the Nominations Committee.

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

### Executive Chairman's Remuneration

Philip Swinstead receives an annual fee of £150,000. He is also entitled to medical insurance cover. He has waived his right to life assurance, permanent health insurance, a pension and a company car. He will be eligible to participate in the Group's L-TIP subject to its approval by shareholders at the AGM on 30 June 2005.

John Hughes will join the Company as Executive Chairman on 2 May 2005. He will receive an annual fee of £200,000 and a bonus of £40,000 for 2005, representing 20% of basic salary. If the Group achieves its full year profit targets for 2005 this bonus will increase to 30% of salary. For 2006 onwards he will be eligible to participate in the Group's Annual Performance Bonus arrangements. John Hughes has waived his pension entitlement for 2005 but will be eligible for the normal executive pension arrangements from 2006. He will be entitled to all other normal executive benefits and will also be eligible to participate in the L-TIP. His participation in the L-TIP means that he will not be granted any options under the Executive Share Option Plans.

### 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 and benefits in kind except for specific arrangements which are set out below that have been agreed with Philip Swinstead in the event of a change of control. 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:

	Contract date	Contract/ unexpired term	Notice period	Contractual termination payments
Alison Leyshon	31 July 2001	12 months rolling	12 months <sup>1</sup>	1 year's salary and benefits in kind
Alastair Macdonald	1 March 2005	3 months <sup>3</sup>	n/a <sup>2</sup>	n/a
John Maxwell	27 July 2004	3 months <sup>4</sup>	n/a <sup>2</sup>	n/a
Philip Swinstead <sup>5</sup>	12 November 2004	12 months rolling	12 months	1 year's salary

1 The Company is required to give 12 months notice of termination of the Service Agreement to the Executive Director who is required to give 6 months notice to the Company.

2 The appointment of Non-executive Directors, excluding the Chairman, is terminable at the will of the parties.

3 Alastair Macdonald's letter of appointment was renewed by the Board until the AGM with effect from 1 March 2005.

4 John Maxwell has indicated that he will step down from the board prior to the AGM.

5 Philip Swinstead's contract/unexpired term, notice period and contractual termination payments reflect his current executive status. The contract date is that of his original Letter of Appointment as Non-executive Chairman which has subsequently been varied to reflect his executive status.

As part of the negotiations with each of Philip Swinstead and John Hughes prior to their appointments on an executive basis, the Board has agreed that in the event of a change of control prior to being granted an award under the L-TIP that shareholders will be asked to approve at the AGM on 30 June 2005, they should receive a cash bonus depending on the bid price that is accepted by shareholders, assuming that they are still an Executive Director or employee at the time. If a bid of between 10p and 15p is accepted and declared unconditional in all respects they will receive a bonus of one times basic salary. This bonus will increase to two times salary for a successful bid in excess of 15p.

Awards under the proposed L-TIP will be triggered if a successful bid is received in excess of 20p. A cash bonus will continue to be payable to both Philip Swinstead and John Hughes once an L-TIP award has been granted if a successful bid is received in excess of 10p but less than 20p. The cash bonus will be calculated on a sliding scale starting at 10p, at which no bonus will be payable, and rising by a multiple of 0.2 times basic salary for each 1p increase in the bid price. If the parties are no longer Executive Directors at the time that a bid is received the Remuneration Committee will apply the same rules as set out in the L-TIP in determining whether any cash bonus should be payable based on the contribution of the Director to the performance of the Group whilst still holding an Executive position and will consider whether scaling back is appropriate.

## Remuneration Report continued

### 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. During the year, Ian Miller was appointed as a Non-executive Director of KBC Advanced Technologies plc. He received a fee of £6k for his services to KBC Advanced Technologies plc from the date of his appointment to 31 December 2004.

### Directors' Remuneration

The remuneration of the Directors for the year ended 31 December 2004 is set out below. None of the Executive Directors received performance bonuses for 2004 (2003: £nil) as the performance targets were not achieved.

	Salary/fees £'000	Benefits £'000	Other £'000	Total emoluments 2004 £'000	Total emoluments 2003 £'000	Company pension contributions 2004 £'000	2003 £'000
<b>Executive Directors</b>							
P. Swinstead <sup>3,5</sup> (appointed 12 November 2004)	16	—	—	16	—	—	—
I. Miller <sup>1,4</sup> (resigned 30 November 2004)	300	55	17	372	398	58	38
A. Leyshon <sup>1</sup>	175	13	14	202	194	30	23
R. Bacon <sup>1</sup> (resigned 23 January 2003)	—	—	—	—	19	—	3
<b>Non-executive Directors</b>							
F. Carbutt (resigned 30 January 2004)	3	—	—	3	34	—	—
W. Cockburn <sup>2,3</sup> (resigned 12 November 2004)	52	—	—	52	105	—	—
A. Macdonald <sup>3</sup>	25	—	—	25	25	—	—
J. Maxwell <sup>3</sup>	25	—	—	25	25	—	—
<b>Total Emoluments</b>	<b>596</b>	<b>68</b>	<b>31</b>	<b>695</b>	<b>800</b>	<b>88</b>	<b>64</b>

#### Notes

- 1 Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors from the Company, up to the maximum percentage of earnings approved by the Inland Revenue. Where these entitlements exceed Inland Revenue limits for approved pension schemes, the excess is paid directly to the Directors as additional salary and is separately disclosed in 'Other'.
- 2 Bill Cockburn was entitled to receive a fee of £120,000 in 2003 but waived 50% of his entitlement with effect from 1 October 2003 until the date of his resignation.
- 3 An additional fee of £5,000 is payable for the position of Chairman of any sub-committee of the Board. During the year, Bill Cockburn, Alastair Macdonald, John Maxwell and Philip Swinstead each waived their right to receive the fee payable for their respective chairmanships of the Nominations, Remuneration and Audit Committees.
- 4 Ian Miller left the Board in November 2004. There is an ongoing dispute between Mr Miller and the Company regarding the financial terms of his departure. His contractual terms are set out within the 2003 Report and Accounts. When resolved, details of the settlement payment will be disclosed in the following annual report. Amounts disclosed in the table reflect all amounts already paid in respect of his services during 2004.
- 5 Philip Swinstead received an annual fee of £60,000 from the date of his appointment as Non-executive Director. This increased to £150,000 with effect from 1 December 2004 to reflect his executive status.

## Remuneration Report continued

### Executive Share Option Plans

The Group operates both an Inland Revenue Approved Share Option Plan for share awards to UK employees of up to the Inland Revenue limit of £30,000 and an Unapproved Share Option Plan for all other option awards. Share options are granted to Executive Directors and other senior employees over a period of time and according to performance. Options are granted at the market price prevailing at the time of grant without any discount.

*The rules of the Executive Share Option Plans (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 single inner-flow limit of 10% 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 Plans. Rules of the current Plans expire in July 2009. The terms and conditions of existing share options have not been varied in the year. Details of options awarded and lapsed during the year are set out in the table on page 21. Details of the performance conditions attached to these options are set out below.*

Existing executive share options are exercisable in normal circumstances between three and ten years after the date of grant, provided that growth in earnings per share before goodwill amortisation and exceptional items over the three financial years following the date of grant exceeds RPI plus an incremental percentage determined by the Remuneration Committee. If growth is lower, there will be one re-test, using the same performance criterion, over the four financial years following the date of grant. With the exceptions noted below, where options are granted in the first six months of a year, the first financial year over which performance is measured is taken as the year of grant. EPS was chosen as an appropriate performance condition for the Plans as it is easily visible to shareholders and executives. However, the Company has decided to move to an arrangement whereby all executive share options are subject to performance conditions based on Total Shareholder Return, with options vesting on a sliding scale depending on the Company's TSR performance relative to an appropriate comparator group (the Company intends taking independent advice on the composition of that comparator group). The Company intends that in 2005 and in later years all options will be granted on a TSR basis. Options awarded in 2004 continued to be based on EPS performance to ensure consistency with the performance conditions attached to awards made in October 2003 which those who were granted options in 2004 had missed out on.

Options granted in 1999, 2000 and March 2001 have a performance criterion of growth in earnings per share exceeding RPI plus an average of 6% per annum.

Options granted in June and November 2001, October 2003 and March and October 2004 have a performance criterion of growth in EPS exceeding RPI plus an average of 3% per annum. The year 2000 has been taken as the base year against which EPS growth is measured for options granted in 2001, the budget for the year 2004 has been taken as the base year for options granted in 2003 and March 2004 and the budget for the year 2005 has been taken as the base year for options granted in October 2004.

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 normally lapse. Options are granted at nil cost to the employee. The option exercise price is set at the closing mid-market share price on the day prior to the award or at a higher price as determined by the Remuneration Committee.

## Remuneration Report continued

### Executive Share Option Plans continued

Options outstanding at 31 December 2004 are analysed below:

Date of Grant	Exercise price per share	As at 1 January 2004	Awarded in year	Lapsed in year	As at 31 December 2004	Exercise period
<b>1994 Plans*</b>						
22 September 1997	£1.86	60,000	–	(28,950)	31,050	2000-2007 a
06 October 1998	£1.93	60,000	–	(15,000)	45,000	2001-2008 a
<b>1999 Plans</b>						
25 October 1999	£2.26	332,800	–	(332,800)	–	2002-2009 b
05 April 2000	£4.32	219,040	–	(219,040)	–	2003-2010 b
13 June 2000	£1.98	134,350	–	(103,550)	30,800	2003-2010 b
12 September 2000	£1.62	502,500	–	(502,500)	–	2003-2010 b
16 March 2001	£1.37	679,341	–	(669,341)	10,000	2004-2011 b
29 June 2001	£0.58	556,400	–	(487,000)	69,400	2004-2011 b
23 November 2001	£0.59	538,237	–	(22,000)	516,237	2004-2011 b
23 November 2001	£1.50	100,000	–	–	100,000	2004-2011 b
23 November 2001	£1.00	150,000	–	–	150,000	2004-2011 b
21 October 2003	£0.10	5,585,000	–	(525,000)	5,060,000	2007-2013 b
30 March 2004	£0.11	–	1,695,000	(150,000)	1,545,000	2007-2014 b
22 September 2004	£0.10	–	525,000	–	525,000	2008-2014 b
		8,917,668	2,220,000	(3,055,181)	8,082,487	

\* Figures stated after allowing for the three to one share adjustment following the Scheme of Arrangement.

a Options granted in 1997 and 1998 under the 1994 Schemes are not subject to performance conditions.

b Performance conditions attached to options granted from 1999 are outlined on page 20.



## Remuneration Report *continued*

### Sharesave Schemes

All UK employees, including the Executive Directors, are eligible to participate in the Group's Sharesave Scheme which enables them to subscribe for ordinary shares in the Company. The Sharesave Scheme is an Inland Revenue approved scheme and the Group is therefore exempt from the provisions of UITF Abstract 17, "Employee Share Schemes". Options granted under the Sharesave Scheme do not have performance related conditions attached to them.

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

All options granted under the 1994 Scheme and those granted under the 1999 Scheme at an exercise price of 480p, were granted at a 20% discount to the market price. The options granted at an exercise price of 146p and 38p under the 1999 Scheme were granted at a 10% discount to the market price. All discounts were applied as permitted under Inland Revenue rules. The options granted at an exercise price of 11.75p on 30 April 2004 were granted at market price.

Options outstanding as at 31 December 2004 under the Sharesave Scheme are set out below:

	Year options granted	Exercise price pence per share	As at 1 January 2004	Awarded in year	Lapsed in year	As at 31 December 2004	Exercise period
<b>1994 Scheme*</b>							
02 April 1997	1997	134.30	11,555	–	(11,555)	–	2004
27 March 1998	1998	218.30	6,252	–	–	6,252	2005
14 April 1999	1999	205.00	15,494	–	(6,970)	8,524	2005
<b>1999 Scheme</b>							
04 April 2000	2000	480.00	7,342	–	(1,468)	5,874	2003-2007
10 October 2000	2000	146.00	137,335	–	(137,335)	–	2004
02 November 2001	2001	38.00	1,496,500	–	(698,000)	798,500	2004-2005
30 April 2004	2004	11.75	–	3,042,546	(252,503)	2,790,043	2007-2008
<b>TOTAL</b>			<b>1,674,478</b>	<b>3,042,546</b>	<b>(1,107,831)</b>	<b>3,609,193</b>	

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

## Remuneration Report continued

### Directors' Share Options

Details of Directors' options under the Executive Share Option Plan and Sharesave Scheme are set out below:

#### Options held under the Executive Share Option Plan

	Year options granted	Exercise price pence per share	No. of Shares at 1 January 2004	Granted in year	Lapsed in year	No. of Shares at 31 December 2004	Earliest exercise date*	Expiry date
Alison Leyshon	1999	226.00	46,500	–	(46,500)	–	31.12.2002	24.10.2009
	2000	162.00	20,000	–	(20,000)	–	31.12.2003	11.09.2010
	2001	57.50	20,000	–	(20,000)	–	29.06.2004	28.06.2011
	2001	59.00	254,237	–	–	254,237	31.12.2004	22.11.2011
	2001	100.00	150,000	–	–	150,000	31.12.2004	22.11.2011
	2001	150.00	100,000	–	–	100,000	31.12.2004	22.11.2011
	2004	11.25	–	550,000	–	550,000	30.03.2007	29.03.2014
			590,737	550,000	(86,500)	1,054,237		

\* subject to performance criteria set out on page 20, EPS confirmed by reference to the Group's audited accounts for the respective periods.

Alison Leyshon was also granted a shadow option on 30 March 2004 which will have the effect of reducing the exercise price of the executive share options granted on the same date to 10p in line with the exercise price of options granted to other senior managers in October 2003. The shadow option will be payable as a monetary amount if the executive options granted on 30 March 2004 are exercised.

At 31 December 2004 Alison Leyshon had a three year savings contract open under the 1999 Sharesave Scheme which was entered into on 1 June 2004 (granted 30 April 2004). When completed this contract will entitle her to purchase Ordinary shares in the Company for 11.75p each. The maximum number of shares which she would be entitled to purchase on completion of her savings contract in June 2007 is 26,630. At 31 December 2004 Alison Leyshon had contributed £581 under her savings contract.

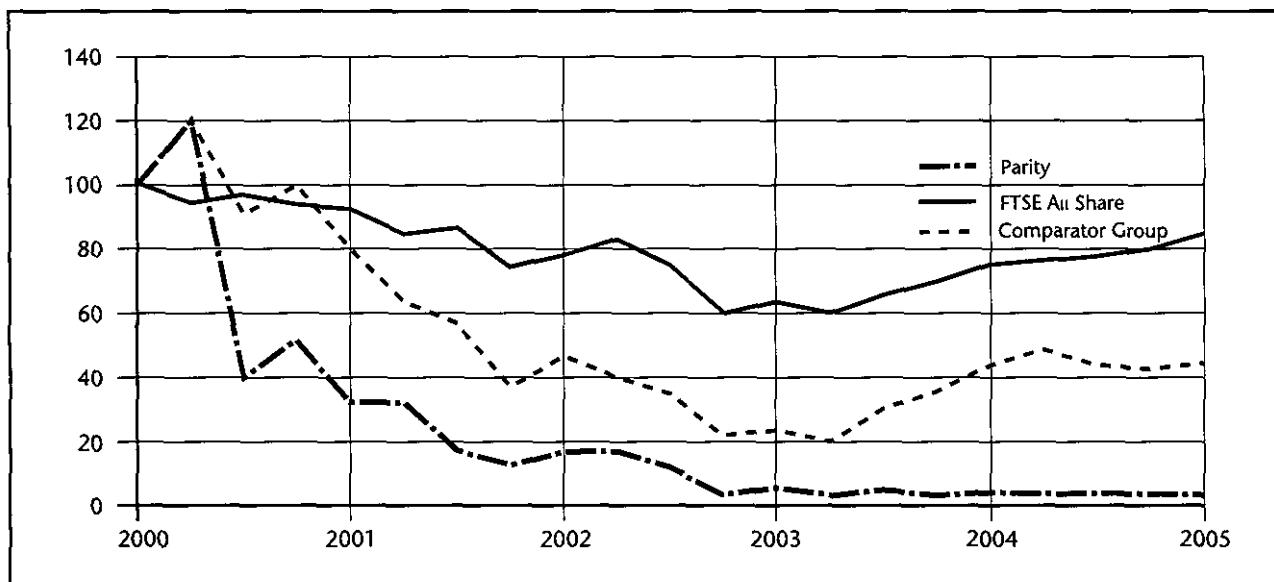
## Remuneration Report continued

### 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 all three lines of business; Business Solutions, Resourcing Solutions and Training.

In addition to Parity, the Comparator Group comprises:

- |                |                            |                |
|----------------|----------------------------|----------------|
| ● Anite        | ● LogicaCMC                | ● QA           |
| ● Axon         | ● Lorien                   | ● Spring Group |
| ● Compel Group | ● Northgate Info Solutions | ● Xansa        |
| ● ITNet        |                            |                |



### Share Price

Parity's mid market share price on 31 December 2004 was 9.875p. During the period 1 January to 31 December 2004 shares traded at market prices between 8.5p and 15.25p.

### Auditable Part of Remuneration Report

In their audit opinion on page 25 PricewaterhouseCoopers LLP refer to their audit of the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985. These comprise the following disclosures in this remuneration report:

- The table on page 19 showing total emoluments received by the Directors in 2004
- The table on page 19 showing total pension contributions made on behalf of the Directors in 2004
- The disclosures under the headings 'Executive Share Option Plans' on page 20

The share options tables on pages 21 and 22 also form part of the audited accounts.

For and on behalf of the Board

A J Macdonald

A J Macdonald

Alastair Macdonald  
Chairman of the Remuneration Committee  
19 April 2005

# Independent Auditors' Report to the Shareholders of Parity Group plc

## Independent Auditors' Report to the Shareholders of Parity Group plc

We have audited the accounts which comprise the group profit and loss account, the balance sheets, the group cash flow statement, the group statement of total recognised gains and losses, the group reconciliation of movements in equity shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report ("the auditable part").

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the accounts and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London – 19 April 2005

# Group Profit and Loss Account

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000 Restated <sup>+</sup>
<b>Turnover</b>	2		
– Continuing operations		169,860	158,883
– Discontinued operations		–	1,999
		169,860	160,882
<b>Operating costs before goodwill amortisation and exceptional items</b>		(171,761)	(161,045)
Goodwill amortisation	10	(629)	(629)
Exceptional items	4	(3,683)	(7,266)
<b>Operating costs</b>	3	(176,073)	(168,940)
<b>Operating Loss</b>			
– Continuing operations		(6,213)	(4,860)
– Discontinued operations		–	(3,198)
		(6,213)	(8,058)
Gain (loss) on termination of operations	4	220	(9,000)
Amounts written off investments	4	–	(724)
Net interest payable	6	(921)	(940)
<b>Loss on ordinary activities before goodwill amortisation, exceptional items and taxation</b>		(2,822)	(1,103)
Goodwill amortisation	10	(629)	(629)
Exceptional items			
– Operating exceptional costs	4	(3,683)	(7,266)
– Gain (loss) on termination of operations	4	220	(9,000)
– Amounts written off investments	4	–	(724)
<b>Loss on ordinary activities before taxation</b>		(6,914)	(18,722)
Taxation credit on ordinary activities	7	507	3,117
<b>Loss on ordinary activities after taxation</b>		(6,407)	(15,605)
Ordinary dividends on equity shares	8	–	(87)
<b>Retained loss for the financial period</b>	21	(6,407)	(15,692)
<b>Loss per ordinary share</b>			
– Basic	9	(2.24p)	(7.70p)
– Diluted		(2.24p)	(7.70p)
<b>(Loss) earnings per share before goodwill amortisation, discontinued operations and exceptional items</b>			
– Basic	9	(0.95p)	1.04p
– Diluted		(0.95p)	1.04p

<sup>+</sup> refer notes 1 and 2

# Group Balance Sheet

At 31 December 2004

	Notes	2004 £'000	2003 £'000 Restated <sup>+</sup>
<b>Fixed assets</b>			
Intangible assets	10	8,987	9,616
Tangible fixed assets	11	1,920	2,586
Investments	12	30	30
		<b>10,937</b>	<b>12,232</b>
<b>Current assets</b>			
Stock – work in progress	13	1,664	561
Debtors			
– due within one year	14	41,089	40,550
– due after more than one year	14	4,130	3,418
Cash at bank and in hand		5,641	3,241
		<b>52,524</b>	<b>47,770</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(38,803)</b>	<b>(30,942)</b>
<b>Net current assets</b>		<b>13,721</b>	<b>16,828</b>
<b>Total assets less current liabilities</b>		<b>24,658</b>	<b>29,060</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(12,241)</b>	<b>(11,058)</b>
<b>Provisions for liabilities and charges</b>	19	<b>(5,611)</b>	<b>(4,500)</b>
<b>Net assets</b>		<b>6,806</b>	<b>13,502</b>
<b>Capital and reserves</b>			
Called up share capital	20	14,434	14,434
Capital redemption reserve	21	50	50
Share premium account	21	6,062	6,062
Other reserves	21	44,110	44,110
Profit and loss account	21	(57,850)	(51,154)
<b>Equity shareholders' funds</b>		<b>6,806</b>	<b>13,502</b>

<sup>+</sup> refer notes 1 and 12

Approved by the Board of Directors on 19 April 2005



Philip Swinstead OBE  
Chairman



Alison Leyshon  
Group Finance Director




# Company Balance Sheet

At 31 December 2004

	Notes	2004 £'000	2003 £'000 Restated <sup>+</sup>
<b>Fixed assets</b>			
Tangible fixed assets	11	21	47
Investments	12	44,157	45,989
		<b>44,178</b>	<b>46,036</b>
<b>Current assets</b>			
Debtors			
– due within one year	14	2,069	2,722
– due after more than one year	14	56,292	75,272
Cash at bank and in hand		–	320
		<b>58,361</b>	<b>78,314</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(5,848)</b>	<b>(5,091)</b>
<b>Net current assets</b>		<b>52,513</b>	<b>73,223</b>
<b>Total assets less current liabilities</b>		<b>96,691</b>	<b>119,259</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(46,009)</b>	<b>(41,661)</b>
<b>Provisions for liabilities and charges</b>	19	<b>(1,684)</b>	<b>(318)</b>
<b>Net assets</b>		<b>48,998</b>	<b>77,280</b>
<b>Capital and reserves</b>			
Called up share capital	20	14,434	14,434
Capital redemption reserve	21	50	50
Share premium account	21	6,062	6,062
Other reserves	21	36,679	36,679
Profit and loss account	21	(8,227)	20,055
<b>Equity shareholders' funds</b>		<b>48,998</b>	<b>77,280</b>

<sup>+</sup> refer notes 1 and 12

Approved by the Board of Directors on 19 April 2005



Philip Swinstead OBE  
Chairman



Alison Leyshon  
Group Finance Director




# Group Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<b>Net cash flow from operating activities before discontinued operations and exceptional costs</b>	16	171	130
Cash flows from discontinued operations	16	220	(515)
Net cash flow from operating activities before exceptional items		391	(385)
Exceptional items	16	(1,560)	(4,050)
<b>Net cash outflow from operating activities</b>		<b>(1,169)</b>	<b>(4,435)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		49	46
Interest paid		(884)	(1,066)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(835)</b>	<b>(1,020)</b>
<b>Taxation received (paid)</b>		<b>1,006</b>	<b>(164)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	11	(518)	(509)
Sale of tangible fixed assets		-	27
Additions to fixed asset investments		-	(25)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(518)</b>	<b>(507)</b>
<b>Equity dividends paid</b>		<b>(87)</b>	<b>(90)</b>
<b>Net cash outflow before financing</b>		<b>(1,603)</b>	<b>(6,216)</b>
<b>Financing</b>			
Issue of ordinary share capital	20	-	10,104
Expenses of share issue	20	(56)	(979)
Proceeds on sale of nil paid rights in Employee Benefit Trust		-	84
Repayment of loan notes	17	(8)	(14)
Increase (decrease) in borrowings	17	2,475	(1,719)
Repayment of capital element of finance lease obligations	17	(17)	(14)
<b>Net cash inflow from financing</b>		<b>2,394</b>	<b>7,462</b>
<b>Increase in cash in the period</b>	17	<b>791</b>	<b>1,246</b>



## Group Reconciliation of Movements in Equity Shareholders' Funds

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000 Restated <sup>+</sup>
Loss for the year attributable to shareholders		(6,407)	(15,605)
Dividends		–	(87)
Retained loss		(6,407)	(15,692)
Other recognised (losses) gains	21	(289)	175
Shares issued net of issue costs		–	9,069
Gain on sale of nil paid rights in Employee Benefit Trust		–	84
Reversal of goodwill previously written off directly to reserves		–	8,706
Net (decrease) increase in shareholders' funds		(6,696)	2,342
Equity shareholders' funds at start of year		13,502	11,608
Prior year adjustment	1	–	(448)
<b>Equity shareholders' funds at end of year</b>		<b>6,806</b>	<b>13,502</b>

<sup>+</sup> refer notes 1 and 12

## Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 £'000	2003 £'000
Loss for the year attributable to shareholders	(6,407)	(15,605)
Currency translation differences on foreign currency net investments	(289)	175
<b>Total recognised losses for the year</b>	<b>(6,696)</b>	<b>(15,430)</b>

# Notes to the Accounts

At 31 December 2004

## 1. ACCOUNTING POLICIES

### Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

### Changes in accounting policies

During the year, the accounting policy for revenue recognition on managed service contracts in Resourcing Solutions UK has been amended and prior period results have been restated accordingly. Further details are provided in note 2.

UITF Abstract 38 "Accounting for ESOP Trusts" has been adopted for the first time in 2004. This has resulted in a reclassification of own shares of £448,000 at 31 December 2003 from investments to equity shareholders' funds. Further details are provided in note 12. In addition, UITF17 (Revised 2003) "Employee Share Schemes" has been adopted in 2004, although this has no impact on costs in 2003 or 2004.

### Basis of Consolidation

The consolidated financial statements incorporate the results of Parity Group plc and its subsidiary undertakings drawn up to 31 December each year.

The Group's Revolving Loan Facility ("RLF") with its principal banker, Lloyds TSB ("LTSB"), has been successfully renegotiated to 31 December 2006. The RLF, currently for £18m, will be reduced by at least £1m following the disposal of Resourcing Solutions mainland Europe. In the unlikely event that the mainland Europe disposal process has not been completed by 30 September 2005, LTSB will require the Group to take such other steps as it may require in order to achieve a £1m reduction in borrowings. Progress on the sale of mainland Europe is being monitored closely by the Board and in the event, at any stage, that the Board believes the disposal will not be completed by 30 September 2005, such other actions to reduce debt that the Board has at its disposal will be taken in order to allow the Group to remain within its banking facilities.

The Group also has a debt purchase facility with HSBC which it uses to finance its French, German and US operations. HSBC has announced that it has withdrawn this product and the Group's existing facility with HSBC will expire on 30 June 2005. In the event that the mainland Europe disposal process has not been completed by 30 June 2005, HSBC has indicated that it would be willing to extend the facility for the French and German operations to 30 September 2005 and for the US operations to 31 December 2005. Alternative funding arrangements to replace the US element of the HSBC facility have been explored and the Board is confident that these could be put in place by 30 June 2005, if required. However, such debt purchase financing would not be necessary following the sale of the mainland Europe business.

In the light of these facilities, the Group's cash flow forecasts and the progress being made regarding the sale of the mainland European operations, the Board believes that the adoption of the going concern basis is appropriate in the preparation of the 31 December 2004 Report and Accounts.

If the adoption of the going concern basis were not to be appropriate, adjustments would be required to reclassify fixed assets as current assets, to adjust assets to their recoverable values and to provide for any further liabilities that may arise.

### Revenue recognition

Turnover represents the value of work completed for clients including attributable profit, after adjusting for all foreseeable future losses, net of value added tax.

Turnover on contracts for the supply of professional services at pre-determined rates is recognised as and when the work is billable, irrespective of the duration of the contract.

Turnover is recognised on fixed price contracts while the contract is in progress, having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made for all foreseeable future losses.

Training turnover is recognised as and when the training event occurs.

## Notes to the Accounts *continued*

### 1. ACCOUNTING POLICIES *continued*

Contractor staffing services turnover is recognised when contractors render services. Permanent placement staffing turnover is recognised when employment candidates accept offers of permanent employment. Allowances are established to estimate losses due to placed candidates not remaining for the guarantee period.

*Under managed service contracts, with the exception of certain contracts currently operated by Resourcing Solutions UK where Parity does not consider itself principal, the Directors believe that the Group meets the definition of a principal in accordance with FRSS, Application note C and consequently the value of services billed to clients is recognised on a gross basis as those services are performed.*

#### Goodwill

Goodwill on acquisitions prior to 1 January 1998 was eliminated against reserves during the year of purchase. Goodwill previously eliminated against reserves was not reinstated on implementation of FRS 10. Positive goodwill arising on acquisitions since 1 January 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life, being the period over which the Directors estimate that the values of the underlying businesses are expected to exceed the values of the underlying tangible fixed assets, up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Adjustments to provisional fair values of assets acquired and consideration payable recognised in the preceding period are reflected as adjustments to goodwill.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

#### Deferred Taxation

Deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax, or a right to pay less tax, at a future date, have occurred at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in accounts. Deferred tax is measured at rates expected to apply in the periods in which the timing differences crystallise based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised when it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is recognised in respect of the unremitted earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

#### Foreign Currencies

##### Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

##### Group

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the retranslation of opening net assets, together with the year-end adjustment to closing rates of profit and loss accounts translated at average rates, are taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

#### Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases is included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the profit and loss account over the period of the leases and represent a constant proportion of the balance of capital repayments outstanding.

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

## Notes to the Accounts *continued*

### 1. ACCOUNTING POLICIES *continued*

#### Tangible Fixed Assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Costs that are directly attributable to the development or enhancement of internally built tangible fixed assets are capitalised.

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

Leasehold improvements	Between 5 and 10 years
Motor vehicles	4 years
Office equipment	Between 3 and 5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### Investments

Investments in subsidiary undertakings and other investments 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.

#### Stock - Work in Progress

Costs incurred in the start-up of long-term contracts which are expected to benefit performance and be recoverable over the life of the contracts are capitalised in the balance sheet as work in progress and charged to the profit and loss account over the life of the contract so as to match costs with revenues.

#### Stock - Work in Progress *continued*

Work in progress is stated at the lower of cost and net realisable value and represents that element of start up costs which, at the balance sheet date, has not been charged to the profit and loss account. Cost includes materials, direct labour and an attributable portion of overheads based on normal levels of activity. Net realisable value 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.

#### 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 creditors as payments in advance.

#### Property provisions

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

Provisions for dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on empty properties and are built up over the period of the lease for occupied properties. No dilapidations provisions are created for any properties which have leases that expire in more than 10 years on the basis that the dilapidations charge cannot be accurately estimated when the remaining life of the lease is so long.

## Notes to the Accounts *continued*

### **1. ACCOUNTING POLICIES** *continued*

#### **Pensions**

Contributions in respect of defined contribution schemes are charged to the profit and loss account when incurred.

Employers' contributions to the defined benefit plan are charged to the profit and loss account on a basis which spreads the cost on a systematic basis over the remaining service lives of plan members. Actuarial surpluses and deficits arising are allocated over the average expected service lives of current employees. Differences between the amounts charged to the profit and loss account and payments made to the pension scheme are recognised as assets or liabilities.

#### **Financial Instruments**

The Group may use financial instruments to hedge its exposures to fluctuations in foreign exchange rates. The Group currently does not use complex financial instruments. It is not the Group's policy to trade in financial instruments.

*The Group has limited transactional currency exposures as businesses trade primarily within their own national boundaries. Significant exposures are hedged by currency borrowings or forward foreign exchange contracts. The majority of the Group's borrowings and deposits are controlled centrally; currency exposures arising on short-term intra Group loans are hedged using forward foreign exchange contracts. Gains and losses on foreign currency hedges are recognised on maturity of the underlying transaction, other than translational hedges of foreign currency investments which are taken to reserves. Gains or losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately.*

## Notes to the Accounts continued

### 2. SEGMENTAL ANALYSIS

	2004			2003		
	Turnover £'000	Profit (loss) before taxation £'000	Net assets £'000	Turnover £'000 Restated <sup>▲</sup>	Profit (loss) before taxation £'000	Net assets £'000 Restated <sup>+</sup>
<b>Continuing operations</b>						
<b>Business Solutions – United Kingdom</b>	23,067	721	(1,902)	23,527	1,530	517
<b>Training – United Kingdom</b>	23,771	(1,535)	2,133	25,302	1,410	3,218
<b>Resourcing Solutions</b>						
– United Kingdom	81,301	1,377	6,768	64,474	1,147	5,615
– Mainland Europe	27,232	379	2,285	27,936	178	1,621
<b>Parity Americas</b>	14,489	91	1,096	17,644	1	1,701
 Operating total before central costs, exceptional items and goodwill amortisation		1,033	10,380		4,266	12,672
Central costs		(2,934)			(2,831)	
Net interest payable		(921)			(889)	
Non-operating assets and liabilities including net debt			(12,561)			(8,786)
 (Loss) profit before tax, goodwill amortisation and exceptional items		(2,822)			546	
Goodwill amortisation		(629)			(629)	
Operating exceptional items (note 4)		(3,683)			(5,666)	
Amounts written off investments		–			(724)	
Intangible assets			8,987			9,616
	169,860	(7,134)	6,806	158,883	(6,473)	13,502
<b>Discontinued operations</b>						
<b>Business Solutions – Mainland Europe</b>		–		1,999	(1,598)	–
Operating exceptional items (note 4)		–			(1,600)	
Profit (loss) on termination of operations (note 4)		220			(9,000)	
Net interest payable		–			(51)	
	169,860	(6,914)	6,806	160,882	(18,722)	13,502

Turnover and profit are stated on the basis of origin. There is no material difference between turnover and profit by origin and by destination.

Turnover for Resourcing Solutions in the UK as shown above excludes £2,664,000 (2003: £1,977,000) of inter-segmental turnover and £12,600,000 (2003: £15,070,000) of turnover in respect of management service contracts, further details of which are provided in the Financial Review on page 5. Turnover for Business Solutions in the UK excludes £1,192,000 (2003: £709,000) of inter-segmental turnover. Turnover for Training as shown above excludes £33,000 of inter-segmental turnover (2003: £70,000).

Of the goodwill amortisation charge for the year, £543,000 (2003: £543,000) relates to Business Solutions in the UK and £86,000 (2003: £86,000) relates to Resourcing Solutions in the UK.

<sup>▲</sup> During the year, the accounting policy for revenue recognition in respect of Resourcing Solutions managed services contracts has been amended. Following the negotiation of new managed service contracts, which have different characteristics to the original managed service contracts, the directors no longer believe that it is appropriate to treat Parity as the principal in these contracts and therefore revenue has been shown on a net basis. Prior year figures have been restated to reflect this change, resulting in a reduction in Resourcing Solutions United Kingdom's revenue for 2003 of £15,070,000. There is no impact on group operating profit.

<sup>+</sup> Refer notes 1 and 12

## Notes to the Accounts continued

### 3. OPERATING COSTS

	2004 £'000	2003 £'000 Restated <sup>▲</sup>
Staff costs		
– wages and salaries	30,275	32,308
– social security costs	3,366	3,351
– other pension costs	2,054	1,343
	35,695	37,002
Depreciation of leased assets	33	29
Depreciation of tangible assets <sup>+</sup>	1,101	2,154
Amortisation of goodwill	629	629
	1,763	2,812
Loss on disposal of fixed assets	42	2
Group audit fees and expenses of which the parent company was £24,000 (2003: £24,000)	236	263
Operating lease rentals – plant and machinery	495	1,054
– land and buildings	3,376	3,385
Net exchange (gain) loss	(167)	64
Other operating costs	130,950	117,595
	134,932	122,363
Operating costs before operating exceptional costs	172,390	162,177
Operating exceptional costs – continuing operations <sup>+</sup>	3,683	5,163
– discontinued operations	–	1,600
<b>Total operating costs</b>	<b>176,073</b>	<b>168,940</b>

Of the total operating costs before exceptional items £nil (2003: £3,597,000) relates to discontinued operations.

<sup>+</sup> The depreciation charge for the year includes an exceptional charge of £nil (2003: £503,000) relating to accelerated depreciation on leasehold improvements to surplus property and office equipment.

<sup>▲</sup> Refer note 2

	2004 £'000	2003 £'000
Operating costs includes auditors' remuneration as follows:		
<b>Statutory</b>		
Audit fees	236	263
Regulatory work	33	26
	269	289
<b>Non audit services</b>		
Further assistance regarding restructuring – included in exceptional costs	35	8
Tax compliance	34	48
Tax advice	–	24
Other (charged against the Share Premium account and relates to work carried out with respect to the Group's rights issue)	–	111
	69	191

All non audit services with the exception of tax compliance of £34,000 (2003: £nil) have been performed in the United Kingdom. Disclosures relating to the remuneration of Directors are set out on pages 15 to 24.

## Notes to the Accounts continued

### 4. EXCEPTIONAL COSTS AND DISCONTINUED OPERATIONS

Operating exceptional costs of £3,683,000 (2003: £7,266,000) were incurred during the year in respect of the following items:

	2004 £'000	2003 £'000
Restructuring of operations		
Redundancy payments <sup>▲</sup>	1,648	1,163
Property restructuring*	1,810	2,723
Other*	175	363
	3,633	4,249
Property dilapidations*	50	551
Aborted transaction costs*	–	184
SSAP 24 pension charge <sup>▲</sup>	–	682
Operating exceptional costs on continuing operations	3,683	5,666
Operating exceptional costs on discontinued operations	–	1,600
Total operating exceptional costs	3,683	7,266
Amounts written off investments (note 12)	–	724
Total exceptional costs	3,683	7,990

#### Segmental analysis of operating exceptional costs:

	2004 £'000	2003 £'000
Business Solutions – United Kingdom	893	1,793
Training – United Kingdom	218	710
Resourcing Solutions		
United Kingdom	(104)	1,836
Mainland Europe	49	33
Parity Americas	273	220
Central costs	2,354	1,074
Discontinued operations	–	1,600
	3,683	7,266

<sup>▲</sup> Classified as staff costs under Companies Act 1985

\* Classified as other operating costs under Companies Act 1985



## Notes to the Accounts continued

### 4. EXCEPTIONAL COSTS AND DISCONTINUED OPERATIONS continued

#### Discontinued operations – non operating exceptional items

Discontinued operations relate to the results of Parity Solutions BV which was closed on 13 June 2003. The costs relating to the termination of this operation, including £8,706,000 regarding goodwill previously written off to reserves, were £9,000,000 for the year ended 31 December 2003 and a recovery of £220,000 in the 2004 year.

Details of the tax impact of exceptional costs are disclosed in note 7.

### 5. AVERAGE STAFF NUMBERS

	2004 Number	2003 Number
<b>Business Solutions – United Kingdom*</b>	<b>220</b>	<b>246</b>
<b>Training – United Kingdom</b>	<b>217</b>	<b>270</b>
<b>Resourcing Solutions</b>		
– United Kingdom	117	119
– Mainland Europe	129	115
<b>Parity Americas</b>	<b>160</b>	<b>176</b>
	<b>843</b>	<b>926</b>

Employee numbers include an average of 80 (2003: 75) employees in mainland Europe whose contracts of employment are co-terminus with the client contracts on which they are working. As such their status is more akin to that of a contractor and their costs are shown within 'other operating costs' rather than 'staff costs'.

\* includes corporate office employees.

At 31 December 2004, the Group had 818 employees (2003: 867).

### 6. NET INTEREST PAYABLE

	2004 £'000	2003 £'000
Bank overdrafts and loans	(965)	(970)
Finance lease contracts	(7)	(7)
Variable rate loan notes	–	(1)
Interest payable	(972)	(978)
Bank interest receivable	51	38
Net interest payable	(921)	(940)

Interest payable on bank overdrafts and loans includes interest paid by discontinued operations of £nil (2003: £51,000).

## Notes to the Accounts *continued*

### 7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2004		2003	
	Tax (charge) credit on income £'000	Prior period adjustments (charge) credit £'000	Total (charge) credit £'000	Total (charge) credit £'000
<b>Current taxation</b>				
Based on the loss for the year:				
UK corporation tax at the rate of 30%	(11)	8	(3)	(386)
Overseas taxation	(216)	272	56	883
	(227)	280	53	497
<b>Deferred taxation</b>				
Origination and reversal of timing differences	877	(423)	454	2,620
	650	(143)	507	3,117

The current tax credit for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%) on the results for the year. The differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	6,914	18,722
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	2,074	5,617
Adjustment relating to overseas tax rates	2	181
Adjustment for loss on termination of operations (note 4)	-	(2,040)
Tax losses utilised	384	-
Adjustment relating to goodwill amortisation	(189)	(189)
Tax losses not recognised	(1,304)	(518)
Tax losses recognised in deferred tax	(860)	(1,412)
Adjustment in respect of prior years	280	(54)
Timing differences	(307)	(1,208)
Other	(27)	120
Current tax credit for the year	53	497

Prior period adjustments relate to over (under) provisions of corporation tax in previous years. A tax credit of £400,000 (2003: £1,563,000) relating to exceptional items has been recorded during the year.

## Notes to the Accounts *continued*

### 8. ORDINARY DIVIDENDS ON EQUITY SHARES

	2004 £'000	2003 £'000
Ordinary – final proposed £nil (2003: 0.03p)	–	87

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

### 9. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Employee Benefit Trust (note 12) which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. In October 2003, and September 2004, the Company granted 5,585,000 and 525,000 share options under the Executive Share Option Plan and 2004 Employee Share Scheme respectively. These options have an exercise price of £0.10 which is less than the average price of the Company's ordinary shares during the year and therefore have been included in the diluted EPS calculations.

	2004 (Loss) earnings per share			2003 (Loss) earnings per share		
	(Loss) earnings £'000	Basic pence	Diluted pence	(Loss) earnings £'000	Basic pence	Diluted pence
Loss per ordinary share	(6,407)	(2.24)	(2.24)	(15,605)	(7.70)	(7.70)
Exceptional costs for continuing operations (net of tax credit)	3,283	1.15	1.15	4,827	2.38	2.38
Discontinued operations	(220)	(0.08)	(0.08)	12,249	6.05	6.05
Goodwill amortisation	629	0.22	0.22	629	0.31	0.31
(Loss) earnings per ordinary share before goodwill amortisation, discontinued operations and exceptional items	(2,715)	(0.95)	(0.95)	2,100	1.04	1.04

Supplementary basic and diluted EPS have been calculated to exclude the effect of goodwill amortisation, discontinued operations and exceptional items. The adjusted numbers have been provided in order that the effects of goodwill amortisation, discontinued operations and exceptional items on reported earnings can be fully appreciated.

## Notes to the Accounts *continued*

### 9. EARNINGS PER ORDINARY SHARE *continued*

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

	2004 Average number	2003 Average number
<b>Basic</b>		
i) Weighted average number of shares in issue	288,691,692	205,375,143
Adjustment for shares held by EBT	(2,756,238)	(2,756,238)
	<b>285,935,454</b>	<b>202,618,905</b>
<b>Dilutive</b>		
ii) Weighted average number of shares in issue	288,691,692	205,375,143
Adjustment for share options	441,075	46,783
Adjustment for shares held by EBT	(2,756,238)	(2,756,238)
	<b>286,376,529</b>	<b>202,665,688</b>

The number of ordinary shares in issue at 31 December 2004 was 288,691,692 (2003: 288,691,692).

### 10. INTANGIBLE ASSETS

Group	£'000
<b>Cost</b>	
At 1 January 2004	27,068
Additions	-
At 31 December 2004	<b>27,068</b>
<b>Amortisation</b>	
At 1 January 2004	17,452
Charge for the year	629
At 31 December 2004	<b>18,081</b>
Net book value at 31 December 2004	<b>8,987</b>
Net book value at 1 January 2004	<b>9,616</b>

The Directors are of the opinion that there has been no impairment to the carrying value of intangible assets, which comprise goodwill only, during the year and that the amortisation period continues to be appropriate. Goodwill is being amortised over 20 years.

## Notes to the Accounts *continued*

### 11. TANGIBLE ASSETS

Group	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2004	2,989	139	19,020	22,148
Exchange adjustments	(9)	–	(60)	(69)
Additions at cost	97	–	421	518
Disposals	(129)	–	(57)	(186)
At 31 December 2004	2,948	139	19,324	22,411
<b>Depreciation</b>				
At 1 January 2004	2,306	43	17,213	19,562
Exchange adjustments	(8)	–	(53)	(61)
Charge for the year (note 3)	119	15	1,000	1,134
Disposals	(97)	–	(47)	(144)
At 31 December 2004	2,320	58	18,113	20,491
Net book value at 31 December 2004	628	81	1,211	1,920
Net book value at 1 January 2004	683	96	1,807	2,586

As at 31 December 2004, the Group had no capital commitments contracted for but not provided (2003: £nil).

Assets held under finance leases and capitalised in office equipment	2004 £'000	2003 £'000
<b>Cost</b>	91	91
<b>Aggregate depreciation</b>	(62)	(29)
<b>Net book value</b>	29	62

## Notes to the Accounts *continued*

### 11. TANGIBLE ASSETS *continued*

Company	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2004	30	58	394	482
Additions	–	–	7	7
At 31 December 2004	30	58	401	489
<b>Depreciation</b>				
At 1 January 2004	27	36	372	435
Charge for the year	3	14	16	33
At 31 December 2004	30	50	388	468
Net book value at 31 December 2004	–	8	13	21
Net book value at 1 January 2004	3	22	22	47

As at 31 December 2004, the Company had no capital commitments contracted for but not provided (2003: £nil).

## Notes to the Accounts *continued*

### 12. INVESTMENTS

	Group			Company	
	Investment £'000 restated	Investments in subsidiary undertakings £'000	Investment in own shares £'000 restated	Other investments £'000	Total £'000 restated
At 1 January 2004 as previously stated	478	45,959	448	30	46,437
Prior year reclassification <sup>+</sup> – refer note 1	(448)	–	(448)	–	(448)
At 1 January 2004 restated	30	45,959	–	30	45,989
Provision for impairment (see below)	–	(1,832)	–	–	(1,832)
At 31 December 2004	30	44,127	–	30	44,157

<sup>+</sup> UITF Abstract 38 – Accounting for ESOP Trusts, which is effective from 22 June 2004, resulted in the prior year adjustment and requires the Group's investment in own shares to be disclosed as a reduction in shareholders' funds. Previously this investment was held as an investment in the balance sheet.

Group investments comprise Other investments.

#### Investment in own shares

The investment in own shares represents shares held by the Parity Group 1999 Employee Benefit Trust (EBT). Costs relating to the operation of the EBT are included in the profit and loss account for the year.

The trustees of the EBT have discretionary powers to grant options to Group employees. At 31 December 2004, the EBT held 2,756,238 ordinary shares (2003: 2,756,238). No options were granted by the Trustees in the year (2003: nil) and no options over ordinary shares were exercised (2003: nil).

At 31 December 2004, the market value of the ordinary shares held by the EBT was £272,000 (2003: £296,000).

#### Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A list of principal subsidiary undertakings is given in note 26.

## Notes to the Accounts *continued*

### Provision for Impairment

Parity Group has carried out an impairment review of its parent company's investments in subsidiaries, as a result of which it has been necessary to record a provision of £23,268,000 for impairment in the carrying value of its equity and loan investments in certain of those subsidiaries. This provision has been charged through the parent company's profit and loss reserves for 2004, resulting in a debit balance of £8,227,000 in these reserves at the end of the year. In order to mitigate the effect on the parent company's profit and loss reserves, subsequent to the year end, the parent company has undertaken a reorganisation of its investments in subsidiaries. This has resulted in part of the aforementioned 2004 impairment charge against the loan investments (some £14m of the total) being reversed and the recording, against its amended equity investments, of an additional impairment provision of equivalent value. This new impairment against equity investments has been transferred to 'Other reserves', which relate to these investments. As a consequence, Parity Group plc's profit and loss reserves have been restored by £14m in 2005.

### Other investments

Other investments represent a holding of 38,323 shares of common stock in Unicru Inc., a US company which acquired the business of Xperius Inc. during 2003. Unicru Inc. is the leading US provider of workforce selection and optimisation solutions.

The carrying value of the investment was reviewed at 31 December 2003 in light of the fact that Parity's original investment in Personix Inc., which was acquired in 2001, has changed hands twice since the original acquisition. Unicru Inc. is a private company with no free market in its shares and financial information is not readily available. The Directors therefore considered it prudent to write down the carrying value of this investment by £724,000 to £30,000 at 31 December 2003, based on the Group's share of the net assets of Unicru Inc. in its latest available accounts at that time.

## 13. STOCK – WORK IN PROGRESS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Work in progress				
Net costs less foreseeable losses	1,664	561	–	–



## Notes to the Accounts *continued*

### 14. DEBTORS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amount falling due within one year:				
Trade debtors	24,169	21,878	-	-
Accrued income	13,622	13,076	-	-
Amounts recoverable on contracts	124	763	-	-
Amounts owed by subsidiary undertakings	-	-	1,510	2,401
UK corporation tax	477	-	125	-
Overseas corporation tax	210	2,040	-	-
Other debtors	708	842	141	47
Prepayments	1,779	1,951	293	274
	41,089	40,550	2,069	2,722
Amounts falling due after one year:				
Deferred taxation	4,130	3,418	-	33
Amounts owed by subsidiary undertakings	-	-	56,292	75,239
	4,130	3,418	56,292	75,272
	45,219	43,968	58,361	77,994

	Group £'000	Company £'000
<b>Movement in deferred tax asset</b>		
Balance at 1 January 2004	3,418	33
Created	1,028	-
Utilised/released	(574)	(33)
Transfer from current tax	258	-
Balance at 31 December 2004	4,130	-

The deferred tax balance of £4,130,000 (2003: £3,418,000) comprises:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trading losses carried forward	1,420	1,858	-	-
Short term and other timing differences	2,710	1,560	-	33
	4,130	3,418	-	33

## Notes to the Accounts *continued*

### 14. DEBTORS *continued*

The Group has unrecognised deferred tax assets relating to tax losses of £2,891,000 (2003: £1,902,000), Company £2,699,000 (2003: £1,442,000). The Group has unrecognised deferred tax assets of approximately £84,000,000 (2003: £84,000,000) relating to capital losses.

A deferred tax asset is recognised in respect of tax losses carried forward where 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. A deferred tax asset is not recognised where there is insufficient evidence of short-term recoverability.

### 15. CREDITORS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<i>Amounts falling due within one year:</i>				
Bank overdraft (note 18)	3,466	1,848	3,393	1,786
Other bank borrowings (note 18)	3,602	2,339	-	-
Variable rate loan notes 2004 (note 18)	6	14	6	14
Obligations under finance leases (note 18)	19	19	-	-
Payments in advance	3,108	3,460	-	-
Trade creditors	15,771	13,038	-	-
UK corporation tax	-	62	-	35
Amounts due to subsidiary undertakings	-	-	195	2,135
Other taxes and social security costs	2,390	2,145	46	57
Other creditors and accruals	10,441	7,930	2,208	977
Dividend payable	-	87	-	87
	<b>38,803</b>	<b>30,942</b>	<b>5,848</b>	<b>5,091</b>
<i>Amounts falling due after one year:</i>				
Bank loans (note 18)	12,200	11,000	12,200	11,000
Obligations under finance leases (note 18)	41	58	-	-
Amounts due to subsidiary undertakings	-	-	33,809	30,661
	<b>12,241</b>	<b>11,058</b>	<b>46,009</b>	<b>41,661</b>
	<b>51,044</b>	<b>42,000</b>	<b>51,857</b>	<b>46,752</b>

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

Further details of the Group's banking facilities are given in note 18.

## Notes to the Accounts *continued*

### 16. RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE EXCEPTIONAL ITEMS

Continuing operations	2004 £'000	2003 £'000
Operating loss	(6,213)	(8,058)
Operating exceptional items	3,683	7,266
Operating loss before exceptional items	(2,530)	(792)
Depreciation of tangible assets	1,134	1,680
Amortisation of intangible assets	629	629
Loss on disposal of tangible assets	42	2
Increase in stock	(1,103)	(561)
Increase in debtors	(1,891)	(4,148)
Increase in creditors	1,551	3,202
Increase in provisions	2,339	118
Net cash flow from operating activities before exceptional items	171	130

The total net cash outflow from exceptional items during the year was £1,560,000 (2003: £4,050,000). The cash outflow from exceptional costs incurred in 2004 was £189,000. Cash outflows in 2004 relating to exceptional costs incurred in 2003 and prior years was £1,371,000.

Depreciation of tangible assets excludes an exceptional charge of £nil (2003: £503,000) relating to accelerated depreciation on tangible fixed assets.

#### **Discontinued Operations**

In 2004, discontinued operations contributed £220,000 (2003: £515,000 outflow) to the net operating cash outflow, paid £nil (2003: £51,000) in respect of servicing of finance, paid £nil (2003: £nil) in respect of taxation and utilised £nil (2003: £16,000) for capital expenditure.

## Notes to the Accounts *continued*

### 17. ANALYSIS OF NET DEBT

<i>Group</i>	At 1 January 2004 £'000	Cash flow £'000	Exchange movements £'000	At 31 December 2004 £'000
Cash at bank and in hand	3,241	2,409	(9)	5,641
Overdrafts	(1,848)	(1,618)	–	(3,466)
	1,393	791	(9)	2,175
Bank loans	(11,000)	(1,200)	–	(12,200)
Other bank borrowings	(2,339)	(1,275)	12	(3,602)
Obligations under finance leases	(77)	17	–	(60)
Variable rate loan notes 2004	(14)	8	–	(6)
	(12,037)	(1,659)	3	(13,693)

#### Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Increase in cash in the period	791	1,246
(Increase) decrease in borrowings	(2,475)	1,719
Repayment of obligations under finance leases	17	14
Variable rate loan notes 2004 repaid	8	14
Change in net debt resulting from cash flows in the period	(1,659)	2,993
Exchange movements	3	56
Other non cash changes	–	(91)
Movement in net debt in the period	(1,656)	2,958
Net debt at 1 January 2004	(12,037)	(14,995)
Net debt at 31 December 2004	(13,693)	(12,037)

$$10^{-10} \text{ mol/l} \times 10^3 \text{ g/mol} \times 10^3 \text{ l} = 10^{-4} \text{ g}$$

10. *Journal of Management Studies*, 1997, 34, 1, 1-14.

1. *Introduction*

$$\begin{aligned} \mathbf{F} &= \mathbf{F}^T \\ g &= 100 \\ \mathbf{A} &= \begin{bmatrix} 1 & 0 & 0 \\ 0 & 1 & 0 \\ 0 & 0 & 1 \end{bmatrix} \\ \mathbf{b} &= \begin{bmatrix} 1 \\ 1 \\ 1 \end{bmatrix} \\ \mathbf{c} &= \begin{bmatrix} 1 & 1 & 1 \end{bmatrix} \\ \mathbf{d} &= \begin{bmatrix} 1 & 1 & 1 \end{bmatrix} \end{aligned}$$

## Notes to the Accounts *continued*

### 18. FINANCIAL INSTRUMENTS

Short-term debtors and creditors have been excluded from all of the disclosures, other than the currency exposure details set out on page 51.

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

As at 31 December 2004	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
<b>Financial assets</b>					
Cash	–	1,576	3,405	660	5,641
Other investments	–	30	–	–	30
	–	1,606	3,405	660	5,671

<b>Financial liabilities</b>					
Overdrafts	3,466	–	–	–	3,466
Bank loans	12,200	–	–	–	12,200
Other bank borrowings	–	777	2,825	–	3,602
Variable rate loan notes 2004	6	–	–	–	6
Obligations under finance leases	60	–	–	–	60
Property provisions	4,208	170	–	–	4,378
	19,940	947	2,825	–	23,712

As at 31 December 2003	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
<b>Financial assets</b>					
Cash	425	486	1,764	566	3,241
Other investments	–	30	–	–	30
	425	516	1,764	566	3,271

<b>Financial liabilities</b>					
Overdrafts	1,848	–	–	–	1,848
Bank loans	11,000	–	–	–	11,000
Other bank borrowings	–	–	2,339	–	2,339
Variable rate loan notes 2004	14	–	–	–	14
Obligations under finance leases	77	–	–	–	77
Property provisions	3,629	–	7	–	3,636
	16,568	–	2,346	–	18,914

## Notes to the Accounts continued

### 18. FINANCIAL INSTRUMENTS continued

#### Financial assets

The financial assets of the Group consist of £5,641,000 (2003: £3,241,000) cash, which is invested at money market floating rates of interest where the rate is reset more than once a year and other investments of £30,000 (2003: £30,000) which are non interest bearing. Details of other investments are set out in note 12.

#### Financial liabilities

Disclosure of the Group's objectives for holding financial instruments are contained in the Finance Review on page 6. All financial liabilities, except for finance lease obligations which are at a fixed rate of interest and property provisions which are non interest bearing, are at floating rates of interest.

#### Overdrafts

The Group has available bank overdrafts which are used to manage short-term fluctuations in cash flow. These facilities are uncommitted and hence expire within one year or less. All overdrafts are subject to floating rates of interest, linked to Bank of England base rate. The bank overdrafts are secured by a charge over the trade debtors of certain subsidiaries within the Parity Group.

#### Bank loans

The Lloyds TSB banking facility expires in March 2006 and bank loans have therefore been disclosed as a long-term creditor. The facility is an £18,000,000 (2003: £18,000,000) committed revolving credit facility denominated in Sterling of which £12,200,000 (2003: £11,000,000) had been drawn down at 31 December 2004. Borrowings under the facility carry a floating interest rate linked to LIBOR. The bank loans are secured by a charge over the trade debtors of certain subsidiaries within the Parity Group.

#### Other Bank Borrowings

The revolving multicurrency undisclosed debt purchase facility of £4,000,000 with HSBC Bank plc expires on 30 June 2005 and borrowings have therefore been disclosed as a short-term creditor. At 31 December 2004 £2,825,000 (2003: £2,339,000) had been drawn down in Euro's and £777,000 (2003: £nil) had been drawn down in US dollars. Borrowings under the facility carry a floating interest rate linked to Bank of England base rate. Borrowings under this facility are secured by a charge over the trade debtor balances of certain subsidiaries within the Parity Group.

#### Variable Rate Loan Notes 2004

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April or 1 October each year until 31 December 2004 at the election of the note holders. Interest is payable at a variable rate of 0.5% below six month LIBOR, fixed on 1 April and 1 October of each year. Lloyds TSB Bank plc has guaranteed the repayment of the remaining principal and interest of £6,000 (2003: £14,000) of the variable rate loan notes. All loan notes are denominated in Sterling.

#### Property Provisions

Property provisions represent the estimated cost of unavoidable future liabilities in respect of leasehold properties which are surplus to the requirements of the Group, plus provisions for dilapidations that are provided for in accordance with the Group's accounting policy (note 1). There is no material difference between the value of the property provision recorded in the Accounts and the net present value of the future costs. Provisions for dilapidations are not discounted. Property provisions are not interest bearing.

#### Finance lease obligations

The Group has used finance leases to finance the acquisition of certain items of office equipment. The leases expire in October 2007 and are subject to a fixed rate of interest set at 9.8%.

#### Fair value of financial instruments

At 31 December 2004, there are no material differences between the book value and the fair value of the Group's financial assets and liabilities. There are no derivative financial instruments at 31 December 2004 (2003: nil).

#### Currency exposures

The only Companies within the Group with monetary assets and liabilities in non-functional currencies as at 31 December 2004 were Parity Eurosoft Limited, which held cash of €1,999,000 (£1,415,000) (2003: €969,000 (£683,000)), and CHF1,142,000 (£523,000) (2003: CHF902,000 (£406,000)) and Parity Group plc which held cash of €1,153,000 (£816,000) (2003: €nil) and US\$ 1,734,000 (£903,000) (2003: US\$nil). The cash amounts hedge Euro and US dollar payables within the UK of £2,825,000 (2003: £2,339,000) and £777,000 (2003: £nil) respectively.

## Notes to the Accounts continued

### 18. FINANCIAL INSTRUMENTS continued

#### Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals at 31 December, was as follows:

	Debt £'000	Finance lease obligations £'000	Other financial liabilities £'000	2004 Total £'000	Debt £'000	Finance lease obligations £'000	Other financial liabilities £'000	2003 Total £'000
In one year or less, or on demand	7,074	19	1,562	8,655	4,201	19	1,526	5,746
In more than one year but not more than two years	12,200	19	1,133	13,352	–	19	791	810
In more than two years but not more than five years	–	22	1,052	1,074	11,000	39	262	11,301
In more than five years	–	–	631	631	–	–	1,057	1,057
	<b>19,274</b>	<b>60</b>	<b>4,378</b>	<b>23,712</b>	<b>15,201</b>	<b>77</b>	<b>3,636</b>	<b>18,914</b>

Other financial liabilities include property provisions.



## Notes to the Accounts *continued*

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Pensions £'000	Property provisions £'000	Total £'000
Balance at 1 January 2004	864	3,636	4,500
Created	893	1,978	2,871
Utilised	(524)	(1,226)	(1,750)
Released	–	(10)	(10)
Balance at 31 December 2004*	1,233	4,378	5,611

Property provisions comprise provisions for onerous leases and dilapidations of £2,988,000 (2003: £2,435,000) and £1,390,000 (2003: £1,201,000) respectively.

Company	Property provisions £'000	Total £'000
Balance at 1 January 2004	318	318
Created	1,417	1,417
Utilised	(51)	(51)
Balance at 31 December 2004	1,684	1,684

\*See notes 24 and 18 regarding a description of the provisions.

### 20. SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised:		
450,000,000 ordinary shares of 5p each		
(2003: 450,000,000 ordinary shares of 5p each)	22,500	22,500
Share capital allotted, called up and fully paid:		
288,691,692 ordinary shares of 5p each		
(2003: 288,691,692 ordinary shares of 5p each)	14,434	14,434

On 6 November 2003, the Company issued 134,722,122 new ordinary shares under a 7 for 8 rights issue at 7.5p per share. The total value of the shares allotted on the issue was £10,104,159. Issue expenses of £1,035,000 arising on the allotment of the shares were charged to the share premium account.

Disclosures relating to options issued under share option schemes are shown in the Remuneration Report on pages 20 to 22.

## Notes to the Accounts continued

### 21. RESERVES

Group	Capital redemption reserve £'000	Share premium £'000	Other reserves £'000	Profit & loss account £'000 restated	Total £'000
At 1 January 2004 as previously stated	50	6,062	44,110	(50,706)	(484)
Prior year adjustment – notes 1 and 12	–	–	–	(448)	(448)
At 1 January 2004 as restated	50	6,062	44,110	(51,154)	(932)
Retained loss for the year	–	–	–	(6,407)	(6,407)
Exchange adjustments	–	–	–	(289)	(289)
At 31 December 2004	50	6,062	44,110	(57,850)	(7,628)

The cumulative amount of unamortised goodwill which has been written off to reserves is £60,585,000 (2003: £60,585,000).

Company	Capital redemption reserve £'000	Share premium £'000	Other reserves £'000	Profit & loss account £'000 restated	Total £'000
At 1 January 2004 as previously stated	50	6,062	36,679	20,503	63,294
Prior year adjustment – notes 1 and 12	–	–	–	(448)	(448)
At 1 January 2004 as restated	50	6,062	36,679	20,055	62,846
Retained loss for the year	–	–	–	(27,852)	(27,852)
Exchange adjustments	–	–	–	(430)	(430)
At 31 December 2004	50	6,062	36,679	(8,227)	34,564

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The loss for the year dealt with in the accounts of the Company was £27,852,000 (2003 loss: £3,835,000).

The retained loss for the year includes a provision for writedown in value of investments of £1,832,000 (2003: £724,000) and a provision for write down in the value of amounts due from subsidiary undertakings of £21,436,000 (2003: £nil).

## Notes to the Accounts *continued*

### 22. FINANCE LEASE OBLIGATIONS

	2004 £'000	2003 £'000
Amounts payable:		
Within one year	24	24
Within two to five years	45	69
	69	93
Less: finance charges allocated to future periods	(9)	(16)
	60	77

Analysis of changes in finance lease obligations during the year:

	2004 £'000	2003 £'000
At 1 January 2004	77	–
Finance leases entered into during the year	–	91
Capital element of finance lease rental payments	(17)	(14)
At 31 December 2004	60	77

### 23 OPERATING LEASE COMMITMENTS

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

Group	2004		2003	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire :				
Within one year	85	128	226	426
Between two and five years	1,284	238	1,380	418
Over five years	1,611	–	1,758	–
	2,980	366	3,364	844

The company has no operating lease commitments.

## Notes to the Accounts *continued*

### 24. PENSION SCHEMES

The Group operates a number of pension schemes. With the exception of the scheme described below, all of the schemes are defined contribution plans and the assets are held in separate, independently administered funds. Payments to the defined contribution plans during the year were £1,161,000 (2003: £671,000).

In March 1995, the Group established the Parity Retirement Benefit Plan, renamed as the Parity Group Retirement Benefit Plan ("The Parity Scheme") following the Scheme of Arrangement in 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 will be paid into money purchase arrangements.

A new accounting standard, FRS 17, on retirement benefits was introduced in 2000 and would have been fully implemented for the year ending 31 December 2005 if the Group was not now required to adopt International Financial Accounting Standards. FRS 17 requires major changes to be made to the way in which the Group's defined benefit pension scheme is accounted for. The most significant change is to require the assets and liabilities of the pension scheme to be incorporated into the Group's balance sheet, which will inevitably lead to greater volatility in the level of net assets as investment values and interest rates rise and fall. Under the transitional arrangements the Group is required to disclose the consolidated net assets, profit and loss reserve, profit and loss account and statement of total recognised gains and losses that would have been disclosed under FRS 17 had the standard been fully implemented in the year.

#### SSAP 24

An actuarial valuation of the Parity Scheme was carried out as at 5 April 2004 by independent consulting actuaries using the "attained age" method and updated to 31 December 2004. At this date the value of the scheme's assets was £8.2m and the estimated actuarial value of these assets represented 66% of the benefits accrued to members after allowing for expected increases in earnings, giving rise to a deficit at year end of £4.2m (2003: £3.8m). The principal assumptions used in the actuarial valuation are those related to the differentials between rates of return on investments and the rates of increases in earnings and pensions.

It has been assumed that the investment return will exceed price inflation of 3.0% by 3.0% pa prior to retirement and 2.5% p.a. after retirement.

The pension charge has been calculated based on the estimated valuation as at 31 December 2004 in accordance with accounting standard SSAP 24 as the best estimate of providing ongoing benefits over the average remaining working life of the current membership, allowing for the shortfall between the Parity Scheme's assets and liabilities to be eliminated over the same period.

The SSAP 24 charge to the profit and loss account in 2004 relating to the Parity Scheme was £893,000 (2003: £1,354,000) of which £nil (2003: £682,000) has been disclosed as an exceptional item. During the year contributions of £524,000 (2003: £490,000) were paid. The provision held in the balance sheet as at 31 December 2004 with respect to the SSAP 24 pension charge is £1,233,000 (2003: £864,000).

In accordance with the requirements of the Pensions Act 1995, a Minimum Funding Requirement (MFR) valuation was also carried out as at 5 April 2004. At this date the Parity Scheme's assets totalled £7.3m and represented 79% of its valued liabilities. The MFR deficit amounted to £2.0m. The shortfall on this basis must, by law, be eliminated over a specified period, which is different to that used for calculating the pension charge. The Company increased its contribution rate during the year to meet the requirement of the MFR regulations.

## Notes to the Accounts *continued*

### 24. PENSION SCHEMES *continued*

FRS 17

The major assumptions used by the actuary in assessing the FRS 17 position are set out below. The 2004 figures are based on a roll-forward by the actuary from the last formal valuation carried out at 5 April 2004.

	2004	2003	2002
Rate of increase in pensionable salaries	n/a*	3.50%	2.90%
Rate of increase in pensions in payment	3.50%	3.50%	3.50%
Discount rate	5.40%	5.50%	5.75%
Inflation assumption	3.00%	3.00%	2.40%

\* Not applicable due to closure of plan to future service

The assets of the scheme and the expected rate of return were:

	Long term rate of return expected			Value		
	2004	2003	2002	2004 £'000	2003 £'000	2002 £'000
<b>Assets</b>						
Equities	7.5%	6.8%	7.0%	4,893	4,259	3,301
Bonds / cash	5.0%	5.0%	5.0%	3,316	2,840	2,642
Total market value of assets				8,209	7,099	5,943
Present value of scheme liabilities				(12,955)	(11,168)	(9,984)
Deficit in the scheme				(4,746)	(4,069)	(4,041)
Related deferred tax asset				1,424	1,221	1,212
Net pension liability				(3,322)	(2,848)	(2,829)

## Notes to the Accounts continued

### 24. PENSION SCHEMES continued

#### FRS 17 continued

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss reserve at 31 December 2004, and 31 December 2003 would be as follows:

	2004 £'000	2003 £'000 restated
Net assets excluding FRS 17 pension liability	6,806	13,502
Add net pension liability recorded in Group balance sheet at year end	1,233	864
Less net pension liability recognised under FRS 17	(3,322)	(2,848)
Net assets including FRS 17 pension liability	4,717	11,518
Profit and loss reserve excluding pension liability	(57,850)	(51,154)
Less net pension liability recorded in Group balance sheet at year end	1,233	864
Add net pension liability recognised under FRS 17	(3,322)	(2,848)
Profit and loss reserve including FRS 17 pension liability	(59,939)	(53,138)

If FRS17 had been fully effective on 31 December 2004, then the following would have been:

	2004 £'000	2003 £'000
A Charged to operating profit		
Current service cost	(279)	(251)
Curtailments	173	-
Total operating charge	(106)	(251)
B Net charge to interest		
Expected return on the Plan's assets	447	382
Interest on the Plan's liabilities	(618)	(578)
Total interest cost	(171)	(196)
C Recognised in the statement total recognised gains and losses (STRGL)		
Actual return less expected return on the Plan's assets	260	328
Experience gains and losses arising on the Plan's liabilities	(103)	318
Changes in assumptions underlying the present value of the Plan's liabilities	(1,081)	(717)
Actuarial loss recognised in the STRGL	(924)	(71)

	£'000	£'000
Reconciliation of change in deficit:		
Deficit in Plan at beginning of year	(4,069)	(4,041)
Movement during year:		
- current service cost	(279)	(251)
- contributions	524	490
- curtailment	173	-
- other finance expense	(171)	(196)
- actuarial loss	(924)	(71)
Deficit in Plan at end of year	(4,746)	(4,069)

## Notes to the Accounts *continued*

### 24. PENSION SCHEMES *continued*

#### History of experience gains and losses

The Plan's experience gains and losses over the period 31 December 2002 to 31 December 2004 were as follows:

	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on the Plan's assets			
– Amount	260	328	(851)
– Percentage of the Plan's assets	3.2%	4.6%	14.3%
Experience gains and losses on the Plan's liabilities:			
– Amount	(103)	318	(809)
– Percentage of the present value of the Plan's liabilities	(0.8%)	(2.8%)	8.1%
Total actuarial loss recognised in statement of total recognised gains and losses:			
– Amount	(924)	(71)	(2,217)
– Percentage of the present value of the Plan's liabilities	(7.1%)	(0.6%)	22.2%

### 25. CONTINGENT LIABILITIES

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.

## Notes to the Accounts *continued*

### 26. SUBSIDIARY UNDERTAKINGS

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

#### **Name of company**

Parity Holdings Limited<sup>+</sup>

Parity Limited<sup>++</sup>

Parity Solutions Limited<sup>\*1</sup>

Parity Training Limited<sup>\*2</sup>

Parity Resources Limited<sup>\*3</sup>

Parity EuroSoft Limited<sup>\*3</sup>

Parity EuroSoft GmbH<sup>\*3</sup>

(Registered in Germany)

Parity EuroSoft SARL<sup>\*3</sup>

(Registered in France)

Parity EuroSoft SA<sup>\*3</sup>

(Registered in Switzerland)

Parity EuroSoft BV<sup>\*3</sup>

(Registered in The Netherlands)

Parity EuroSoft SA<sup>\*3</sup>

(Registered in Belgium)

Parity International BV<sup>++</sup>

(Registered in The Netherlands)

Parity US Holdings Inc.<sup>++</sup>

(Registered in USA)

TelTech International Corp<sup>\*1 2 3</sup>

(Registered in USA)

Parity Solutions (Dublin 1999) Limited<sup>\*2 3</sup>

(Registered in Republic of Ireland)

<sup>+</sup> holding company

<sup>\*</sup> held by a subsidiary undertaking

All of the subsidiary undertakings have the same accounting reference date as Parity Group plc.

The Group's principal activities during the year were the provision of IT and business services<sup>1</sup>, training<sup>2</sup>, technology staffing<sup>3</sup> and a range of recruitment services to a global customer base. A review of the business is contained within the Chairman's Statement and the Financial Review on pages 2 to 7.



## Corporate Information

### Registered Office

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### Registrars

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The Causeway, Worthing, West Sussex, BN99 6DA  
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Lloyds TSB Registrars also now offer a range of information on-line. You can access information on your share holding, indicative share prices and dividend details and find practical help on transferring shares or updating your details at [www.shareview.co.uk](http://www.shareview.co.uk).

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

### 2005 Financial Calender

Annual General Meeting 30 June 2005  
Interim Results September 2005

### Investor Relations

Further information for shareholders including copies of the Annual and Interim Reports can be obtained from the Investor Relations department at the registered office address below or from the Parity Group website at [www.parity.net](http://www.parity.net)

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