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PARITY

the business enabler

Parity Group plc **Report & Accounts** 2002

Parity is a professional services company that works with organisations to achieve a step change in business performance, by ensuring the right people are in the right roles, using the right processes and technology, in the right way.

Parity is een professionele dienstverlener, die haar klanten ondersteunt in het bereiken van een maximaal bedrijfsresultaat door middel van op maat gesneden personeelsoplossingen, door gebruik te maken van de juiste processen en technologieën met als resultaat: de juiste persoon op de juiste plaats.

Parity est une société de services professionnels qui travaille en étroite collaboration avec de grands groupes afin de les aider à atteindre une amélioration radicale de leur performance. Pour ce faire, Parity s'assure du choix des professionnels, des procédés et des technologies les mieux adaptées aux besoins de ses partenaires.

Parity ist eine professionelle Servicefirma, die mit Organisationen zusammenarbeitet, um schrittweise Verbesserungen in der Geschaefts-performance zu erreichen. Dies wird erreicht indem wir sicherstellen, dass die richtigen Leute in der richtigen Rolle taetig sind und Prozesse und Technologien sinnvoll nutzen.

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Business and Financial Summary

Financial History

Year ended 31 December	1998	1999	2000	2001	2002
Turnover	£290m	£314m	£269m	£247m	£183m
Profit (loss) before taxation*	£20.0m	£21.3m	£13.9m	£3.3m	(£2.1m)
Earnings (loss) per share+					
– Basic	9.15p	7.92p	5.58p	(2.05p)	(16.01p)
– Diluted	8.84p	7.77p	5.53p	(2.03p)	(16.01p)
Earnings (loss) per share before goodwill amortisation and exceptional items+					
– Basic	9.15p	9.61p	6.30p	1.71p	(1.62p)
– Diluted	8.84p	9.42p	6.25p	1.68p	(1.62p)
Dividends per share+	2.27p	2.50p	2.50p	2.50p	0.26p
Shareholders' funds	£24.3m	£38.8m	£43.3m	£36.6m	£11.6m

* Before goodwill amortisation and exceptional items

\+ After allowing for the three for one share split on 5 July 1999

2002 Financial Summary

	Turnover £m		Profit (loss) before taxation £m*	
	2002	% change	2002	% change
Business Solutions	32.3	(16.5)	1.0	10.1
Training	27.1	2.2	0.1	(96.1)
Resourcing Solutions	100.9	(30.4)	(0.2)	(108.1)
Parity Americas	23.0	(37.5)	0.6	(76.0)
Central costs including net interest	–	–	(3.6)	23.8
Total	**183.3**	**(25.8)**	**(2.1)**	**(164.9)**

* Before goodwill amortisation and exceptional items

RESULTS

The Group has continued to adjust its business mix in response to the ongoing recession in the IT Services sector. This resulted in reduced Group revenues of £183.3m (2001: £246.9m), down 26% on the prior year. The Group's loss before goodwill amortisation, exceptional items and taxation was £2.1m (2001: £3.3m profit), including a loss of £0.6m generated in mainland Europe. After exceptional costs, goodwill amortisation and taxation the Group reported a loss of £24.2m (2001: £3.1m loss).

The Group incurred total exceptional costs for the year of £21.1m, comprising a restructuring charge of £3.6m, a goodwill impairment provision of £12.8m and a write down in the value of Parity shares held by the Employee Benefit Trust of £4.7m. Further details of the costs incurred and the resultant savings arising are provided in the Financial Review on page 7.

BOARD CHANGES

There were a number of changes to the Board in 2002, some of which were described in the 2001 Report and Accounts and are therefore not repeated here. Henry Angest resigned in November having been a Non-executive Director of Parity since 1997. Henry left the Board in order to devote more time to his executive responsibilities as Chairman of Secure Trust Bank Group plc. We very much appreciate Henry's contribution to Parity over the years and wish him every success in the future. John Maxwell was appointed as a Non-executive Director in August 2002. In January 2003 Rick Bacon stepped down from the Board in order to take up the non-Board position of Managing Director, Parity Resourcing Solutions.

EMPLOYEES

2002 has been another difficult and demanding year for Parity and I would like personally to thank all of our employees for their continued commitment and dedication. I am particularly proud of our team in Training who were recently awarded the top two accolades of Training Company of the Year and IT Trainer of the Year by the Institute of IT Training.

DIVIDEND

As stated in our interim results in the light of the ongoing recession in the IT industry, and the impact that this has had on share prices in the sector, the Board had decided to adjust the dividend yield in line with the sector generally. This will also enable the Group to focus its cash resources on rebuilding growth. The dividend policy will be kept under review.

The Board is recommending that the final dividend should be set at 0.06p, giving a total dividend for the year of 0.26p. The final dividend will be payable on 1 July 2003 to all shareholders on the register at the close of business on 30 May 2003.

CURRENT TRADING AND OUTLOOK

In the last year we took strong and appropriate action to reduce our cost base and have seen the benefits of the cost reductions implemented in 2001. Benefits will also accrue from last year's new large contract wins adding to our existing high quality blue chip customer base. The revenue benefits of these contracts are anticipated to be significantly larger in 2003 than in 2002. The Group now has 41% of its budgeted 2003 revenues sold forward or expected under framework agreements.

While the markets in which we operate are still uncertain and we are disappointed to report a loss for the year, the Group's increasing security of revenues, promising pipelines and lower cost base give us the confidence that we will make good progress in 2003.

Bill Cockburn
Chairman

GROUP STRATEGY

We announced at the time of our Strategy Review in May 2001 that the Group would seek to maximise the potential of its existing businesses by refocusing on larger, longer-running contracts, concentrating on the value of its reputation with its blue-chip client base, and making it more competitive by removing excess costs. In addition, we said that we would look for market opportunities that might allow us to get more synergy from the capabilities of the Group as a whole, and we would continue to look at different ways of improving shareholder value. That plan has seen some considerable success, though the ongoing recession has not yet allowed us to achieve the targeted level of profitability.

Each of the business units has sold contracts larger than ever before, and as a result now has more of its current year budgeted revenue sold forward than at any previous period in the Group's history. The proportion of our revenue coming from our Top 20 clients has increased from 19% in 2000 to 39% in 2002, improving our return on sales and demonstrating that client loyalty is valuable in a recession. We have taken £11m in costs out of the business since 2001 to improve competitiveness. That includes a 25% reduction in central costs.

While the cooperation between lines of business has worked from an early stage, the successes were in relatively small contracts. That changed in November 2002 when we were delighted to announce an £8.0m five year contract with the Cabinet Office to redevelop, manage and operate candidate handling and management for Fast Stream, the Civil Service's premiere graduate selection and recruitment programme. This contract will involve all three of Parity's service offerings, using the skills of Business Solutions to computerise the application and candidate tracking procedure, the recruitment knowledge of Resourcing Solutions to advise on the process, and the regional centres of Training to run the assessment tests. We believe that a market is opening for business process management in those aspects of HR that can benefit from better technology. Parity is very well positioned to manage this type of opportunity and will be actively pursuing this market space in 2003. Beyond that, we will be constantly seeking further ways of improving shareholder value.

BUSINESS SOLUTIONS

Business Solutions has continued to focus on larger contracts which improve utilisation and margins. While revenues declined by 16% compared with 2001 to £32.3m (2001: £38.6m), profit for the year before exceptional costs was £1.0m, an increase of 10% compared to 2001. The general market for Business Solutions remains highly competitive, and the Group's policy of not pursuing business on which it cannot make a reasonable profit resulted in revenues for the second half being lower than the first half. That position has now stabilised and revenues have flattened out. The mainland Europe business has benefited significantly from this focus, and has seen a commendable improvement in performance to show flat revenues year on year, and a loss of £0.8m in 2001 being reduced to a loss of £0.1m in 2002.

In the UK, revenues decreased by 19% to £26.6m (2001: £32.8m). Operating profit decreased by 35% to £1.2m (2001: £1.8m). Market sectors in decline were those most affected by the economy. The Communications Sector was down 93%, Energy by 65% and Finance by 76%, as sales effort was moved to those sectors with better prospects. Those sectors showing most growth were Government, which increased by 6% and Commercial, which recorded an increase of 80%. The Technical Authoring and Translation unit based in the UK, which relied to a large extent on work from declining sectors, was closed and the residual capability merged into mainstream units.

Margins continued the improvement made in the first half year as a result of increased utilisation of permanent staff following a combination of headcount reductions at the end of 2001 and in 2002. In addition, overheads have fallen by 19% year on year as a result of the restructuring actions taken in the second half of the year and tight control over discretionary expenditure.

TRAINING

Our Training business unit grew revenues by 2% in an extremely tough market which saw a number of its competitors shrink considerably or exit the market altogether. This impressive performance was achieved through a change in the sales mix, with a decline in the proportion of revenues generated from

TRAINING CONTINUED

public courses from 55% in 2001 to 49%, offset by an increase in in-house programmes and bought in courses. These were both driven by the large training outsourcing contracts won during the year, all of which came on-stream in quarters two and three. These included Halifax Bank of Scotland, the Department of Work and Pensions, Galileo and a large European hi-tech manufacturing and services group which took total Training outsourcing revenues to £10m per annum under framework agreements for the next two and a half years.

This has had an adverse impact on profitability in the short term as selling costs (£0.5m in 2002, £nil in 2001) and transition costs have been taken as incurred, and the transfer of business from the previous suppliers to Parity needs to be phased over several quarters. During this transfer process, Parity oversees the provision of services by third party training and facility providers with whom the outsourcing client has existing commitments. We have been working with these outsourcing clients to accelerate the migration of their third party commitments to Parity and by the fourth quarter we had already seen considerable progress. This reduction in the proportion of revenues generated from third party courses will result in a further increase in profitability from these contracts in 2003.

We were delighted that our successes in 2002 were recognised when we won both top prizes, Trainer of the Year and Training Company of the Year, awarded by the Institute of IT Training in February 2003.

On 18 March 2003 we announced the signing by Parity Training of an initial agreement to acquire the business of Technical Training Limited, an Edinburgh based training company. The consideration will be performance related, subject to a maximum of £0.7m in cash and will be payable, based on business revenues, over thirty six months from the date of acquisition. The acquisition will bring with it significant new blue chip clients which will add to Parity's UK coverage.

RESOURCING SOLUTIONS

Conditions in the staffing market remain very challenging. Revenues for the business unit as a whole have declined by 30% year on year although second half performance was only down by 17% compared to the same period in 2001. Leadership of the business unit was changed at the end of the year with a previous Managing Director, highly familiar with the business, transferred back into the role from a staff position in the corporate office.

Intense pressure on selling price and margins has resulted in a loss for the year of £0.2m with losses in mainland Europe of £0.4m outweighing a profit of £0.2m in the UK. The UK result includes a loss of £0.2m in respect of a sales unit established at the end of 2001. A decision was taken to close down this unit at the end of the year and the associated redundancy costs have been included in the restructuring charge.

Further costs were removed from both the UK and mainland Europe operations during the year in order to reduce the breakeven position in the face of declining margins. These cost reductions, combined with the BT Ignite contract previously announced and the Chimes agreement announced on 18 March 2003, should significantly improve the performance of both the UK and mainland Europe parts of this business unit.

Under the Chimes partnership agreement, Chimes will assign existing contracts to Parity which generated revenues of £15m in 2002. This vendor management solution fills a gap in the business units service offerings with the world's leading product, and gives us access to a number of new accounts. Unlike several competing vendor management solutions, the Chimes contract will be operated profitably and not as a loss-leader.

PARITY AMERICAS

Our US business has been severely impacted by the downturn in the American economy particularly given its reliance on the finance, IT and travel sectors. In 2001 these sectors contributed 67% of total revenues. In 2002 this increased to 70% but the absolute revenues earned decreased by 38% as clients in these sectors cut their spending. Revenues from our largest client fell by 49%. We were particularly affected by the trend amongst banking and financial institutions of converting contractors to permanent employees. We not only lost the future revenue stream associated with these contractors but, in common with market practice in the US, did not receive a conversion fee.

As in the UK there has also been severe pressure on margins which we have countered as far as possible by reducing overheads. Annualised cost savings arising as a result of this restructuring are estimated to be £0.5m.

In September 2002 we appointed a new Managing Director for this business unit in order to drive an increase in Solutions sales thereby protecting the deterioration in margins in our contractor business. We were pleased to announce the award of a £1.0m applications design and development contract with Renal Solutions Inc., a US supplier of dialysis products and services, building on our experience in the Healthcare sector. We have also been selected as a 'Tier 1' vendor for consulting work at CitiGroup. This client has reduced from an unlimited number of suppliers down to 19. The contract will not be fully implemented until May 2003 but we expect to see a significant benefit in 2003 based on details of projected spend provided by the client.

Ian Miller
Group Chief Executive

Cabinet Office

Bringing together Parity's unique skills to transform key recruitment process

Fast Stream, the Civil Service's premiere graduate selection and recruitment programme, was initiated to modernise the current recruitment process and enable the Civil Service to continue to secure the highest calibre of candidates.

In 2002, Parity won a £8 million outsourcing contract to redevelop, manage and operate candidate handling on Fast Stream, with responsibility for supporting the process from initial query through to final decision.

We are drawing on Parity's proven experience in outsourced HR business processes to radically improve our Fast Stream recruitment scheme. The improvements will contribute to a more progressive, online vision of Government.

Cabinet Office

Renal Solutions Inc.

Harnessing Parity's innovational capability to further medical treatment

Renal Solutions Inc. (RSI), provides Sorbent Haemodialysis (SHD) products and services, used for home, hospital and acute dialysis. Application design and development for state-of-the-art SHD embedded and PC based software for this complex medical device system is being undertaken by the Parity Americas team, building on the knowledge and experience obtained through previous successful projects undertaken in the Health Care sector.

Parity Americas has assembled a 'top-notch' team of industry experts that have hit the floor running on this critical development effort.

Dan Wellington –
Vice President of Product Development, RSI

HBOS

Improving the return on investment in training

To improve the effectiveness of training delivery across the organisation, Halifax Bank of Scotland chose to direct all IT training through one fully outsourced training service. A Parity administrative team, located at HBOS premises in Halifax, now sources desktop applications training for approximately 60,000 people and IT technical training for approximately 2,000. Quality is key and Parity and HBOS work closely together to define processes and to improve and expand on the service provided.

Parity was selected because they demonstrated a commitment to the best in learning and development, showed examples of innovation and understood how to best deliver their service.

Jayne Edwards –
Technology Training Manager, Learning and Development, HBOS

Tameside Metropolitan Borough Council

Drawing on Parity's internet capability to serve the public on-line

Tameside Metropolitan Borough Council wanted to give property managers the ability to advertise rental properties and to process applications from potential renters in the north west of England. The online solution, designed, built and implemented by Parity, enables the council to liaise directly with the Housing Trust, 18 housing associations and potential tenants for approximately 45,000 properties.

The service gives users the ability to search against specific criteria, and helps to maximise resources within the council.

We chose Parity for its experience in the e-government sector and its reputation as an established player in the market. Its team offered the right skills in the right applications and demonstrated that they understood our needs.

David Hutchings –
Strategic Project Manager, Tameside

Unisys

Relying on Parity's international resource-pool to deliver project success

Unisys is a worldwide information technology services and solutions company with locations in more than 100 countries. A relationship established with Parity in 2001 was formalised in August 2002 with the appointment of Parity as a preferred supplier for the provision of contract IT staff. Parity currently has over 100 contractors at Unisys across Germany, assisting with major projects and helping Unisys deliver services to its customers that include systems integration, outsourcing, infrastructure and server technology.

Parity sources Technology Installation Engineers to Unisys in Germany following their appointment as preferred suppliers in August 2002.

Maria Katharina Hofmann –
Communications Manager, Unisys

TURNOVER AND PROFITS

Group revenues declined by 26% to £183.3m (2001: £246.9m), resulting in a loss before goodwill amortisation, exceptional items and taxation of £2.1m (2001: £3.3m profit). After exceptional costs, goodwill amortisation and taxation the Group reported a loss of £24.2m (2001: £3.1m loss).

EXCEPTIONAL COSTS

As announced at the time of the interim results, in response to continued uncertainty in the sector the Board carried out a further restructuring exercise during the year in order to reduce the Group's cost base. The aim was to improve profitability, optimise the use of property across the Group, improve staff utilisation rates and streamline support functions.

This exercise was largely completed by the financial year end at a total cost of £3.6m which is being treated as an exceptional charge. The restructuring programme is expected to result in savings of over £4.6m on an annualised basis. The savings from this exercise attributable to 2002 are £1.6m. In total, more than £11.0m has been removed from the Group's cost base since 2001.

In view of the current economic climate the Board has conducted an impairment review of the carrying value of goodwill held on the balance sheet arising on previous acquisitions and the value of Parity shares held by the Employee Benefit Trust. This has resulted in exceptional provisions for impairment of £12.8m and £4.7m respectively. At 31 December 2002 the remaining carrying value of goodwill held on the balance sheet was £10.2m whilst shares held by the EBT were valued at £0.4m, based on the market price of Parity's shares at 31 December 2002 of 16.25p.

CASH FLOW

Trading activities before exceptional items generated a cash inflow of £3.9m (2001: £10.1m) including a cash inflow of £2.8m (2001: £3.0m) from working capital.

The net cash outflow from exceptional items was £3.1m of which £1.6m related to exceptional items accrued in 2001. Further cash costs relating to the restructuring programme will be incurred in 2003 but these have been fully provided for in 2002.

At year end the Group had net debt of £15.0m (2001: £12.7m), an increase of £1.7m compared to the position at the half year despite the payment of £2.7m of final 2001 and interim 2002 dividends in the second half. We continue to maintain tight control over our cash with capital and discretionary expenditure being approved only on the basis of a clear business need.

BANKING FACILITIES

The Group has successfully renegotiated an extension of its £18.0m committed revolver loan facility with Lloyds TSB until 31 March 2006. However, as this facility was not formally approved until 2003, the borrowings against the previous facility are shown as being repayable within one year in the Group balance sheet as the original facility was due to expire on 31 October 2003, less than twelve months after the balance sheet date.

This facility is secured over the trade debtors of our main UK operating companies.

The Group has total facilities, including overdrafts, of £24.0m and the Board remains confident of our ability to operate within these facilities for the foreseeable future.

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 Group does not currently use complex financial instruments in the management of these exposures. The directors regularly review policies for managing each of these risks.

Currency risk – The Group has limited transactional currency exposures as businesses trade primarily within their own national boundaries. Any significant currency exposures are hedged by currency borrowings or using forward foreign exchange contracts. 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 kept 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 against 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 regularly reviewed.

TAXATION

The effective tax rate for the Group for 2002 was 6.2% (2001: 9.0%) based on the loss before goodwill and amounts written off investments. The low effective rate was due mainly to the inability to utilise tax losses in jurisdictions where only limited tax relief was available. The exceptional costs gave rise to a tax credit of £0.7m.

At 31 December 2002 the Group had unrelieved tax losses of £1.9m which will be carried forward to be offset against future profits.

EARNINGS PER SHARE AND DIVIDENDS

The loss per share for the year was 16.01p, (2001: loss 2.05p). The loss per share before exceptional items and goodwill amortisation was 1.62p (2001: earnings 1.71p). The Group retained a loss for the year of £24.6m after dividends and exceptional items which has been transferred to reserves. The distributable reserves of the Company at year end were £24.5m.

The Board is proposing a final dividend of 0.06p per share, bringing the total for the year to 0.26p (2001: 2.50p).

ACCOUNTING POLICIES

United Kingdom Financial Reporting Standard 17 (FRS 17) 'Retirement Benefits' mandates that certain disclosures relating to retirement benefits be made in financial statements for accounting periods ending on or after 22 June 2001. These disclosures are shown in note 22 to the Accounts. The Accounting Standards Board has deferred mandatory full adoption of FRS 17 until periods beginning on or after 1 January 2005.

United Kingdom Financial Reporting Standard 19 (FRS 19) 'Deferred Tax' requires that full provision be made for most timing differences between the recognition of profits for accounting purposes and the recognition of profits for tax purposes. Prior to the implementation of the standard, Parity applied United Kingdom Statement of Standard Accounting Practice 15 (SSAP 15) 'Deferred Tax' which required a method of partial provisioning. FRS 19 has been adopted by the Group for the year ended 31 December 2002 with no material impact.

Alison Leyshon
Group Finance Director

Board of Directors

William Cockburn CBE
Non-executive Chairman[1,2,3]

Bill Cockburn (60) was appointed to the Board as Chairman on 24 May 2001. He was previously Group Managing Director of BT plc responsible for all UK operations. Previously he was Chief Executive of W.H. Smith for two years following a long career at the Post Office which culminated in his term as Chief Executive from 1991 to 1995. He is a Non-executive Deputy Chairman of Business Post Group plc and a Non-executive Director of AWG Plc. He is Chairman of the Nominations Committee.

Francis Carbutt FCA
Non-executive Deputy Chairman[1,2,3]

Billy Carbutt (66) was appointed to the Board as a Director on 1 March 1994. He was a partner at Ernst & Young until June 1994. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He was re-appointed as Group Chairman on 5 March 2001 having previously held this position from 1994 to 1997, and stepped down to become Deputy Chairman on 24 May 2001 following the appointment of Bill Cockburn. He is Chairman of the Audit Committee.

Ian Miller CA
Group Chief Executive

Ian Miller (55) was appointed to the Board as Group Chief Executive on 5 March 2001. He was previously President of EDS' Energy Global Industry Group based in Plano, Texas, helping major oil, gas and chemicals corporations succeed in the digital economy. Prior to joining EDS in 1994, he spent 16 years with PA Consulting Group, the last six as the Partner responsible for the Global Energy practice, specialising in corporate strategy and business performance improvement. He qualified as a chartered accountant with a member firm of KPMG.

Alison Leyshon ACA
Group Finance Director and Company Secretary

Alison Leyshon (35) 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[1,2,3]

Alastair Macdonald, (62) was appointed to the Board as a Director on 28 February 2002. 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, he has filled a number of roles including Presidency of the British Computer Society. He is Chairman of the Remuneration Committee.

John Maxwell CA
Non-executive[1,2,3]

John Maxwell, (58) 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 The Big Food Group plc and Provident Financial plc. He was formerly Chairman of Wellington Underwriting plc until December 2002. He is a Governor of the Royal Ballet School and Chairman of the Institute of Advanced Motorists.

1 Member of the Audit Committee

2 Member of the Remuneration Committee

3 Member of the Nominations Committee

The Directors present their Report and the audited accounts for the year ended 31 December 2002.

GROUP RESULTS

The Group loss for the year before taxation was £24,567,000 (2001: loss £3,265,000) after charging goodwill amortisation of £1,385,000 (2001: £1,369,000), an exceptional goodwill impairment charge of £12,772,000 (2001: £nil), an exceptional write down in the value of Parity shares held by the Employee Benefit Trust of £4,690,000 (2001: £nil) and other exceptional items of £3,603,000 (2001: £5,157,000). After a tax credit of £357,000 (2001: credit £171,000) and dividends paid and proposed of £393,000 (2001: £3,778,000), the retained loss amounted to £24,603,000 (2001: loss £6,872,000) and has been transferred to reserves.

DIVIDENDS

The Directors recommend a final dividend of 0.06p (2001: 1.57p) per ordinary share. The total dividends for the year will amount to 0.26p per share (2001: 2.50p). The final dividend will be payable on 1 July 2003 to shareholders on the register at the close of business on 30 May 2003.

PRINCIPAL ACTIVITIES

The Group's principal activities during the year were the provision of IT and business services, 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, the Chief Executive's Review of Operations and the Financial Review on pages 2 to 8.

TANGIBLE ASSETS

The changes in tangible assets during the year are summarised in Note 10 to the Accounts on page 38.

PURCHASE OF OWN SHARES

At the end of the year, the Company had authority, under the shareholders' resolution of 12 June 2002, to purchase in the market 15,388,291 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 4 June 2003.

BOARD OF DIRECTORS

Biographical information on each of the Directors in place at 18 March 2003 is set out on page 9 together with membership of the Board Committees. In accordance with the Articles of Association, John Maxwell, who was appointed by the Board will be seeking election at the forthcoming Annual General Meeting. In addition, Alastair Macdonald and Ian Miller will retire by rotation and will also seek re-election at the Annual General Meeting.

Details of dates of appointment and resignation for those Directors who served during the year are set out in the Directors' emoluments table on page 18.

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

DIRECTORS' INTERESTS

The Directors' interests in the ordinary share capital of the Company at 31 December 2002 were as follows:

	At 31 December 2002 beneficial interests in ordinary shares	At 31 December 2001 beneficial interests in ordinary shares+
R Bacon	5,263	5,263
F Carbutt	42,855	42,855
W Cockburn	80,000	50,000
A Leyshon	17,000	7,000
A Macdonald+	43,000	–
J Maxwell+	100,000	–
I Miller	150,000	50,000

There has been no change in the Directors' interests between 31 December 2002 and 18 March 2003.
+ on date of appointment if later.

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 18 March 2003 apart from the following:

	Number of ordinary 5p shares	Percentage held
Henderson Global Investors Limited	21,308,963	13.84 %
Unicorn Asset Management Limited	20,603,362	13.38 %
Aberforth Partners	18,443,792	11.98 %
UBS Global Asset Management Limited	12,415,156	8.06 %

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 Dialogue, 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. Its 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 recyling 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 £45,000 during 2002 (2001: £66,000). No payments were made for political purposes.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 30 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 4 June 2003 together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board

Alison Leyshon
Secretary
18 March 2003

The maintenance of high standards of corporate governance remains a key priority for the Board. Details of how the principles of corporate governance are applied by the Company are set out below.

STATEMENT BY THE DIRECTORS OF COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year.

GOING CONCERN

The Board confirms that after making enquiries and having regard to the new facilities, 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 Chairman, Bill Cockburn, the Chief Executive, Ian Miller, the Group Finance Director, Alison Leyshon and the three other Non-executive Directors Billy Carbutt, John Maxwell and Alastair Macdonald. The Non-executive Directors are considered free from any business or other relationship which could interfere with the exercise of their independent judgement. Billy Carbutt acts as the Senior Independent Non-executive Director.

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

All Directors submit themselves for re-election at intervals of not longer than three years as prescribed by the Combined Code. In accordance with the Company's articles, each year one third of the Board resigns and offers itself up for re-election by shareholders at the Annual General Meeting.

A statement of the Directors' responsibilities in respect of the financial statements and internal controls is set out on page 14.

COMMITTEES

The following committees deal with the specific aspects of the affairs of the Group. With the exception of the Executive Committee, the members of all Committees are Non-executive Directors.

EXECUTIVE COMMITTEE

The Executive Committee comprises the Chief Executive, the Group Finance Director, the Group Commercial Director and the Managing Directors of the four business units, Business Solutions, Training, Resourcing Solutions and Parity Americas. The Committee meets regularly to discuss strategic and operational issues and operates under powers delegated to it by the Board. Minutes of Executive Committee meetings are circulated to the Board and those issues outside the delegated levels of authority are referred to the Board for decision as appropriate.

Audit Committee

The Audit Committee meets at least twice annually and comprises the Non-executive Directors under the Chairmanship of Billy Carbutt. The Committee's terms of reference include the review of the Interim and Annual Accounts before their submission to the Board and the monitoring of the system of internal financial controls to ensure the integrity of the information reported to the shareholders. Its responsibilities in respect of internal controls extend to directing and reviewing the work of Internal Audit.

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

Audit Committee meetings are attended by the Executive Directors at the invitation of the Committee. The external auditors 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 during the year was chaired by Henry Angest until his resignation on 30 November 2002, when Alastair Macdonald was appointed Chairman. The Committee meets regularly and is responsible for reviewing the emoluments of the Executive Directors, the Group's remuneration policy and its pension arrangements and for making recommendations thereon to the Board. The Committee consults the Chief Executive about its proposals and has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate.

Further details of the roles and responsibilities of the Committee are set out in the Remuneration Report on pages 15 to 22.

Nominations Committee

The Nominations Committee is chaired by Bill Cockburn and comprises the other Non-executive Directors. 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.

Investor Relations

Private and institutional shareholders are given an opportunity to communicate directly with the Board at the Annual General Meeting. Regular dialogue is also maintained with institutional shareholders through presentations and meetings after the announcement of the Group's full year and half year results.

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.

Internal Control and Risk Management

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 Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls during the year.

A process for identifying, evaluating and managing the significant risks faced by the Group is in place and is reviewed regularly by the Board. The Directors are satisfied that it meets the requirements of the guidance issued by the Turnbull Committee.

The management of each business is responsible for establishing detailed controls which are embedded within operational and financial procedures in order to manage business risks on a day-to-day basis. Changes in key business objectives which may impact on the risk profile of the Group and require changes to existing controls and procedures are monitored by the Chief Executive and Group Finance Director through the established framework of Executive Committee meetings, monthly reviews with the Managing Directors of each of the business units and quarterly business review meetings with the management teams of each business unit.

The findings and recommendations of internal audit work carried out during the 2002 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.

Recommendations Made by the Higgs and Smith Reports

The Board has considered the Corporate Governance recommendations set out in the Higgs and Smith reports published in January 2003. Whilst compliance with the proposed guidance is not required until 2004, the Board is comfortable that there are currently no significant areas of non-compliance which undermine effective corporate governance, for a group of Parity's size and complexity.

Statement of Directors' Responsibilities – Financial Statements and Internal Control

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

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

The Directors are responsible for ensuring 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

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

This report will be put to an advisory vote of the Company's shareholders at the Annual General Meeting on 4 June 2003.

REMUNERATION COMMITTEE

The Remuneration Committee comprises the Non-executive Directors. Its members are Billy Carbutt, Bill Cockburn, Alastair Macdonald (following his appointment to the Board on 28 February 2002) and John Maxwell (following his appointment to the Board on 29 August 2002). During the year the Committee was chaired by Henry Angest until his retirement on 30 November 2002, when Alastair Macdonald was appointed Chairman. Although he is not a member of the Committee, the Chief Executive attends meetings at the invitation of the Committee and is consulted on proposals relating to remuneration of the Executive Directors and senior employees. The Chief Executive is excluded from discussions about his personal remuneration. The Group's Deputy Company Secretary, Ellie Conner, acts as secretary to the Committee.

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. During the year professional advice in respect of the changes to the Executive Share Option and Sharesave Schemes rules, which were approved by shareholders at the Annual General Meeting on 12 June 2002, was received from Ashurst Morris Crisp. In April 2002 the Group changed its pensions advisor from Mercer Human Resource Consulting Limited to Gissings Consultancy Services following a competitive tender process. This appointment was approved by the Board.

The Committee meets regularly and is responsible for reviewing the Group's remuneration policy, the emoluments of the Executive Directors 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 Schemes, approves 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 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 2002 are set out in the table on page 18.

REMUNERATION POLICY

Parity Group 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 are four elements to the remuneration package of Senior Executives in the Group, including Executive Directors:

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

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.

ANNUAL PERFORMANCE BONUS

None of the Executive Directors or other members of the Executive Committee which includes the business unit managing directors received a performance bonus for 2002. The Executive Committee bonus scheme for 2003, which has been approved by the Remuneration Committee, is based on a combination of Group, business unit and individual targets in respect of revenue, profit and working capital management.

The bonus arrangements of the Executive Directors have three elements. First, a Group profit bonus which is triggered on the achievement of 100% of the Group profit budget. It is calculated on a sliding scale from an average of 13% of base salary for the achievement of budget Group profit, to an average of 90% of base salary for Group profit up to six times the Group profit budget. Secondly, the Executive Directors will each receive the average of the bonuses paid to the four business unit managing directors in respect of the profit performance of their business units. Thirdly, the Executive Directors are eligible for a further bonus of up to 40% of the second element, on the achievement of individual performance objectives as approved by the Remuneration Committee. The total bonus of an Executive Director is subject to a 'cap' at 125% of base salary.

Non-executive Directors are not entitled to a bonus.

SHARE OPTION SCHEMES

The Group operates two types of share option schemes; an Executive Share Option Plan and a savings related option scheme (Sharesave Scheme) which were approved by shareholders in July 1999. Amendments to the rules of these schemes were approved by shareholders at the Annual General Meeting held in June 2002. Details of specific changes to the Executive Share Option Plan are set out on page 19. In addition the inner-flow limits governing the headroom available to award options over the life of the schemes was reduced to a single limit of 10% of the issued share capital of the Company in a ten year period, on a rolling basis. The current scheme rules expire in July 2009.

The Group also has a number of closed schemes (the 1994 Schemes). The number of options outstanding under the 1994 Executive Share Option Plan and 1994 Sharesave scheme are set out on pages 19 to 20.

DIRECTORS' PENSION INFORMATION

The Executive Directors are members of the Parity Group plc Executive Pension Plan which has a normal retirement age of 65 years. Each Executive Director is entitled under contract to payments of 25% of basic salary to be made to his or her pension account within the Plan to provide pension at retirement not exceeding the maximum allowed under Inland Revenue rules. 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 Directors' pension entitlements exceed the Inland Revenue approved maximum percentage of net relevant earnings eligible for tax relief, the excess of their pension entitlement over the eligible amount is paid as additional salary.

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 significant contribution to the Group and are benchmarked against those fees paid by other UK listed companies. With the exception of the Chairman whose remuneration is set out in the table on page 18, the Non-executive Directors receive £25,000 per annum which is subject to income tax and statutory deductions. An additional fee of £5,000 is payable for the position of chairman of any sub-committee of the Board and for the position of Deputy Chairman. During the year, Henry Angest, Bill Cockburn and Alastair Macdonald each waived their right to receive the fee payable for their respective chairmanships of the Remuneration and Nominations Committees.

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

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. Non-executive Directors have Letters of Appointment which sets out the terms of their appointments. All Board appointments are subject to the Company's Articles of Association.

Contractual arrangements for all Directors are summarised below:

	Contract date	Contract/ unexpired term	Notice period	Contractual termination payments
Rick Bacon	1 Sept 1999	12 month rolling	12 months[1,2]	1 year's salary and benefits in kind
Alison Leyshon	31 July 2001	12 month rolling	12 months[1]	1 year's salary and benefits in kind
Ian Miller	29 January 2001	12 month rolling	12 months[1]	1 year's salary and benefits in kind
Billy Carbutt	29 May 2002	2 months	n/a[3]	n/a
Bill Cockburn	23 May 2001	1 year 5 months	12 months[3]	1 year's fees[4]
Alastair Macdonald	28 February 2002	2 months[5]	n/a[3]	n/a
John Maxwell	29 August 2002	8 months	n/a[3]	n/a
Henry Angest	29 May 2002	n/a[6]	n/a[3]	n/a
Lisa Gernon	31 November 2001	n/a[7]	n/a[3]	n/a
Philip Swinstead	5 July 2001	n/a[8]	n/a[3]	n/a

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

2 Rick Bacon stepped down as a director on 23 January 2003 to take up the role of Managing Director, Resourcing Solutions, a non Board position.

3 The appointment of Non-executive Directors, excluding the Chairman, is terminable at the will of the parties. The Chairman's appointment is terminable automatically by his resignation, or by the Company, each being required to give 12 months notice.

4 On termination by the Company, Bill Cockburn is entitled to one year's fees except where his termination is the result of his re-appointment not being approved by Shareholders at an AGM.

5 Alastair Macdonald's letter of appointment was renewed by the Board for one year with effect from 28 February 2003.

6 Henry Angest resigned from the Board on 30 November 2002.

7 Lisa Gernon resigned from the Board on 7 February 2002.

8 Philip Swinstead resigned from the Board on 31 January 2002.

Other 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.

DIRECTORS' REMUNERATION

The remuneration of the Directors for the year ended 31 December 2002 is set out below. None of the Executive Directors received performance bonuses for 2002 (2001: £nil) as the performance targets were not achieved.

	Salary/fees £'000	Benefits £'000	Other £'000	Total emoluments 2002 £'000	Total emoluments 2001 £'000	Company pension contributions 2002 £'000	Company pension contributions 2001 £'000
Executive Directors							
I. Miller+	300	40	21	361	471	54	43
A. Leyshon+	150	12	15	177	85	22	11
R. Bacon+∆	200	15	10	225	222	40	44
(resigned 23 January 2003)							
Non Executive Directors							
H. Angest	21	–	–	21	26	–	–
(resigned 30 November 2002)							
F. Carbutt	35	–	–	35	38	–	–
W. Cockburn	120	–	–	120	70	–	–
L. Gernon	2	–	–	2	4	–	–
(resigned 7 February 2002)							
A. Macdonald	21	–	–	21	–	–	–
(appointed 28 February 2002)							
J. Maxwell	9	–	–	9	–	–	–
(appointed 29 August 2002)							
P.E. Swinstead*+	356	–	–	356	352	–	16
(resigned 31 January 2002)							
Total	1,214	67	46	1,327	1,268	116	114

\+ 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'.

∆ Rick Bacon stepped down from the Board in order to take up the non-Board position of Managing Director, Parity Resourcing Solutions.

* Salary/fees of £356,000 disclosed in the table for P.E. Swinstead include £354,000 relating to consultancy fees. Mr. Swinstead received consultancy fees of £66,000 in respect of services provided to the Company up to the date of termination of his Consultancy Agreement on 30th June 2002. Included in the above total emoluments for 2002, Mr. Swinstead received a termination payment of £288,000 under the terms of the Consultancy Agreement which has been treated as an exceptional charge in 2002.

Executive Share Option Plan

The Group operates both an Inland Revenue Approved Share Option Plan and an Unapproved Share Option Plan for options awarded in excess of the Inland Revenue limit of £30,000. 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.

Following approval by shareholders at the Company's AGM on 12 June 2002, the Company amended the rules of its Share Option Plans to 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. The terms and conditions of existing share options have not been varied in the year. No share options were granted in the year ended 31 December 2002.

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 Executive Share Option Plans as it is easily visible to shareholders and executives.

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 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 both of these grants.

The exercise of share options is satisfied either through shares issued by the Company or through purchases in the market via the Employee Benefit Trust. In the event that an employee resigns, the options that they hold will lapse. Options are granted at nil cost. The option exercise price is set at the closing mid-market share price on the day prior to the award or at a higher price as determined by the Remuneration Committee.

At 31 December 2002, 96 employees including Executive Directors, held Executive Share Options (2001: 114). Options outstanding at that date are analysed below:

Date of Grant	Exercise price pence per share	As at 1 January 2002	Lapsed in year	As at 31 December 2002	Exercise period	
1994 Plans						
22 September 1997	185.6	60,000	–	60,000	2000 - 2007	a
6 October 1998	192.6	60,000	–	60,000	2001 - 2008	a
1999 Plans						
25 October 1999	226.0	836,600	199,060	637,540	2002 - 2009	b c
5 April 2000	432.0	456,300	67,160	389,140	2003 - 2010	b
13 June 2000	198.0	157,100	22,750	134,350	2003 - 2010	b
12 September 2000	162.0	1,067,325	89,700	977,625	2003 - 2010	b
16 March 2001	136.5	813,297	123,956	689,341	2004 - 2011	b
29 June 2001	57.5	951,000	193,800	757,200	2004 - 2011	b
23 November 2001	59.0	769,153	15,000	754,153	2004 - 2011	b
23 November 2001	150.0	100,000	–	100,000	2004 - 2011	b
23 November 2001	100.0	150,000	–	150,000	2004 - 2011	b
		5,420,775	711,426	4,709,349		

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 above.

c Options granted in October 1999 have not met the performance condition set for the three years 2000, 2001 and 2002. Retesting will take place over the four year period ending on 31 December 2003.

SAVINGS RELATED SCHEMES

All UK employees, including the Executive Directors, are eligible to participate in the Groups savings related option scheme (Sharesave Scheme) which enables them to subscribe for ordinary shares in the Company. The Sharesave Scheme is an Inland Revenue approved scheme and the 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.

Options outstanding as at 31 December 2002 under the Sharesave Scheme are set out below:

	Year options granted	Exercise price pence per share	No. of shares at 31 December 2001	Exercised in year	Lapsed in year	No. of shares at 31 December 2002	Exercise period
1994 Scheme*	1995	33.3	181,528	86,665	94,863	–	–
	1996	55.6	25,249	–	–	25,249	2003
	1997	134.3	122,705	–	111,150	11,555	2004
	1998	218.3	20,495	–	5,869	14,626	2003-2005
1999 Scheme	1999	205.0	75,927	–	57,141	18,786	2004-2006
	2000	480.0	13,425	–	1,451	11,974	2003-2007
	2000	146.0	217,212	–	57,853	159,359	2003-2004
	2001	38.0	3,726,500	–	1,328,500	2,398,000	2004-2005
			4,383,041	86,665	1,656,827	2,639,549	

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

Directors' Share Options

No Director was granted, exercised or had share options lapse during 2002. Details of options held by Directors under the Executive Share Option Plan and Sharesave Scheme are set out below:

Options held under the Executive Share Option Plan

	Date granted	Exercise price pence per share	At 1 January and 31 December 2002	Earliest exercise date*	Expiry date
R. Bacon	25 October 1999	226	199,100	31.12.2002	24.10.2009
	5 April 2000	432	34,700	04.04.2003	04.04.2010
	12 September 2000	162	50,000	31.12.2003	11.09.2010
	23 November 2001	59	201,915	31.12.2004	22.11.2011
			485,715		
A. Leyshon	25 October 1999	226	46,500	31.12.2002	24.10.2009
	12 September 2000	162	20,000	31.12.2003	11.09.2010
	29 June 2001	57.5	20,000	29.06.2004	28.06.2011
	23 November 2001	59	254,237	31.12.2004	22.11.2011
	23 November 2001	100	150,000	31.12.2004	22.11.2011
	23 November 2001	150	100,000	31.12.2004	22.11.2011
			590,737		
I. Miller	16 March 2001	136.5	659,341	16.03.2004	15.03.2011
	23 November 2001	59	200,000	31.12.2004	22.11.2011
			859,341		
			1,935,793		

* subject to performance criteria set out on page 19, EPS confirmed by reference to the Group's audited accounts for the respective periods.

Options held under the Sharesave Scheme

At 31 December 2002 two of the Directors had savings contracts open under the 1999 Sharesave Scheme. Ms. Leyshon and Mr. Miller each had a three year savings contract entered into on 1 December 2001 which, when completed, will entitle them to purchase Ordinary shares in the Company for 38p each. The maximum number of shares which these Directors would be entitled to purchase on completion of their savings contract in December 2004, is 25,000. At 31 December 2002 both Directors had contributed £3,250 (2001: £250) under their savings contract. Sharesave options held by Mr. Bacon lapsed in the year (2001: £250).

PERFORMANCE GRAPH

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 Group
- Axon
- Compel Group
- Diagonal
- ECSoft
- ITNet
- LogicaCMG
- Lorien
- Northgate Info Solutions
- QA
- Spring Group
- Xansa

The total return to shareholders is expressed as share price appreciation/depreciation plus dividends.

SHARE PRICE

Parity's mid market share price on 31 December 2002 was 16.25p. During the period 1 January to 31 December 2002 shares traded at market prices between 8.75p and 53.0p.

AUDITABLE PART OF REMUNERATION REPORT

In their audit opinion on page 23 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 18 showing total emoluments received by the directors in 2002
- The table on page 18 showing total pension contributions made on behalf of the directors in 2002
- The disclosures under the heading 'Directors Share Options' on page 21

For and on behalf of the Board

A J Macdonald

Alastair Macdonald
Chairman of the Remuneration Committee
18 March 2003

Independent Auditors' Report to the Shareholders of Parity Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' 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 financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' 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 financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the chief executive's review of operations, the financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 to 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 financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2002 and of the loss, total recognised losses and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
18 March 2003

Group Profit and Loss Account

For the year ended 31 December 2002

	Notes	2002 Before exceptional items £'000	2002 Exceptional items £'000	2002 Total £'000	2001 Before exceptional items £'000	2001 Exceptional items £'000	2001 Total £'000
Turnover	2	183,273	–	183,273	246,930	–	246,930
Operating costs before goodwill		(184,685)	(3,603)	(188,288)	(242,789)	(5,157)	(247,946)
Goodwill amortisation	9	(1,385)	–	(1,385)	(1,369)	–	(1,369)
Impairment of goodwill	9	–	(12,772)	(12,772)	–	–	–
Operating costs	3	(186,070)	(16,375)	(202,445)	(244,158)	(5,157)	(249,315)
Operating (loss) profit		(2,797)	(16,375)	(19,172)	2,772	(5,157)	(2,385)
Amounts written off investments	11	–	(4,690)	(4,690)	–	–	–
Net interest payable	5	(705)	–	(705)	(880)	–	(880)
(Loss) profit on ordinary activities before goodwill and taxation	2	(2,117)	(8,293)	(10,410)	3,261	(5,157)	(1,896)
Goodwill amortisation and impairment	9	(1,385)	(12,772)	(14,157)	(1,369)	–	(1,369)
(Loss) profit on ordinary activities before taxation	2	(3,502)	(21,065)	(24,567)	1,892	(5,157)	(3,265)
Taxation credit (charge) on (loss) profit on ordinary activities	6	(334)	691	357	(687)	858	171
(Loss) profit on ordinary activities after taxation		(3,836)	(20,374)	(24,210)	1,205	(4,299)	(3,094)
Dividends	7	(393)	–	(393)	(3,778)	–	(3,778)
Retained loss for the financial year		(4,229)	(20,374)	(24,603)	(2,573)	(4,299)	(6,872)

All amounts are related to continuing operations.

	Notes	2002	2001
Loss per ordinary share	8		
– Basic		(16.01p)	(2.05p)
– Diluted		(16.01p)	(2.03p)
(Loss) earnings per ordinary share before goodwill amortisation and exceptional items	8		
– Basic		(1.62p)	1.71p
– Diluted		(1.62p)	1.68p

Group Balance Sheet

At 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	9	10,245	24,380
Tangible assets	10	4,380	6,589
Investments	11	1,177	5,867
		15,802	36,836
Current assets			
Debtors	12	39,028	45,733
Cash at bank and in hand		3,608	5,948
		42,636	51,681
Creditors: amounts falling due within one year			
Variable rate loan notes payable	13	(28)	(4,014)
Other creditors	14	(44,438)	(33,307)
		(44,466)	(37,321)
Net current (liabilities) assets		(1,830)	14,360
Total assets less current liabilities		13,972	51,196
Creditors: amounts falling due after more than one year	14	-	(12,000)
Provisions for liabilities and charges	18	(2,364)	(2,620)
Net assets		11,608	36,576
Capital and reserves			
Called up share capital	19	7,698	7,694
Capital redemption reserve	20	50	50
Share premium account	20	3,729	3,701
Other reserves	20	35,320	35,320
Profit and loss account	20	(35,189)	(10,189)
Equity shareholders' funds		11,608	36,576

Approved by the Board of Directors on 18 March 2003

W. Cockburn CBE
Chairman

A. Leyshon
Group Finance Director

Company Balance Sheet

At 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	10	120	210
Investments	11	47,136	19,189
		47,256	19,399
Current assets			
Debtors			
– due within one year	12	2,127	963
– due after more than one year	12	73,590	68,602
Cash at bank and in hand		114	2,127
		75,831	71,692
Creditors: amounts falling due within one year			
Variable rate loan notes payable	13	(28)	(4,014)
Other creditors	14	(20,513)	(11,551)
		(20,541)	(15,565)
Net current assets		55,290	56,127
Total assets less current liabilities		102,546	75,526
Creditors: amounts falling due after more than one year	14	(29,771)	(40,240)
Provisions for liabilities and charges	18	(241)	(574)
Net assets		72,534	34,712
Capital and reserves			
Called up share capital	19	7,698	7,694
Capital redemption reserve	20	50	50
Share premium account	20	3,729	3,701
Other reserves	20	36,595	–
Profit and loss account	20	24,462	23,267
Equity shareholders' funds		72,534	34,712

Approved by the Board of Directors on 18 March 2003

W. Cockburn CBE
Chairman

A. Leyshon
Group Finance Director

Group Cash Flow Statement

For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Net cash flow from operating activities before exceptional items	15	3,874	10,067
Exceptional items	15	(3,075)	(1,182)
Net cash inflow from operating activities		799	8,885
Returns on investments and servicing of finance			
Interest received		126	54
Interest paid		(867)	(833)
Net cash outflow from returns on investments and servicing of finance		(741)	(779)
Taxation received (paid)		508	(4,607)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	10	(649)	(3,230)
Sale of tangible fixed assets		531	92
Purchase of other investments		–	(729)
Net cash outflow from capital expenditure and financial investment		(118)	(3,867)
Acquisitions and disposals			
Purchase of subsidiary undertakings		–	(1,921)
Net overdraft acquired with subsidiary undertaking		–	(575)
Net cash outflow from acquisitions and disposals		–	(2,496)
Equity dividends paid		(2,676)	(3,760)
Net cash outflow before financing		(2,228)	(6,624)
Financing			
Issue of ordinary shares		29	199
Repayment of loan notes	16	(3,986)	(750)
Increase in borrowings	16	3,000	8,492
Net cash (outflow) inflow from financing		(957)	7,941
(Decrease) increase in cash in the period	16	(3,185)	1,317

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Loss for the year attributable to shareholders		(24,210)	(3,094)
Dividends		(393)	(3,778)
Retained losses		(24,603)	(6,872)
Other recognised losses		(394)	(46)
Share options exercised		–	63
Shares issued to QUEST	20	29	137
Shares issued to vendors		–	(9)
Net decrease in shareholders' funds		(24,968)	(6,727)
Equity shareholders' funds at start of year		36,576	43,303
Equity shareholders' funds at end of year		11,608	36,576

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

	2002 £'000	2001 £'000
Loss for the year attributable to shareholders	(24,210)	(3,094)
Currency translation differences on foreign currency net investments	(394)	(46)
Total recognised losses for the year	(24,604)	(3,140)

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The Group accounts consolidate the accounts of Parity Group plc and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for Parity Group plc as permitted by section 230 of the Companies Act 1985.

Change in accounting policies

FRS 19 'Deferred Taxation' was introduced during the year but this had no impact on the current or prior year financial statements.

Revenue recognition

Turnover represents the value of work completed for clients including attributable profit and 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.

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.

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, associate 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.

1. ACCOUNTING POLICIES CONTINUED

Tangible fixed assets

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

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

Leasehold improvements	Between 5 and 10 years
Motor vehicles	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.

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 financial statements. 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.

1. Accounting Policies continued

Operating lease commitments

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

Surplus properties

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

Pensions

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

Financial instruments

The Group uses 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 actively 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.

2. Segmental Analysis

The Group provides information technology services through its Business Solutions, Training, Resourcing Solutions and Parity Americas business segments.

	2002			2001		
	Turnover £'000	Profit/(loss) before taxation £'000	Net assets £'000	Turnover £'000	Profit/(loss) before taxation £'000	Net assets £'000
Business Solutions						
United Kingdom	26,529	1,184	1,307	32,850	1,809	1,264
Mainland Europe	5,732	(128)	2,166	5,763	(850)	703
	32,261	1,056	3,473	38,613	959	1,967
Training – United Kingdom	27,138	65	616	26,563	1,681	2,915
Resourcing Solutions						
United Kingdom	69,100	241	6,667	97,463	3,439	8,898
Mainland Europe	31,739	(468)	2,001	47,418	(628)	3,947
	100,839	(227)	8,668	144,881	2,811	12,845
Parity Americas	23,035	618	1,409	36,873	2,573	2,993
Operating total before central costs	183,273	1,512	14,166	246,930	8,024	20,720
Central costs		(2,924)			(3,883)	
Net interest payable		(705)			(880)	
Non-operating assets and liabilities including net debt			(12,803)			(8,524)
Before goodwill and exceptional items		(2,117)	1,363		3,261	12,196
Goodwill amortisation		(1,385)			(1,369)	
Goodwill			10,245			24,380
Exceptional items (see note 3)		(16,375)			(5,157)	
Amounts written off investments		(4,690)			–	
	183,273	(24,567)	11,608	246,930	(3,265)	36,576

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 £1,264,000 (2001: £1,016,000) of inter-segmental turnover. Turnover for Business Solutions in the UK excludes £59,000 (2001: £nil) of inter-segmental turnover. Turnover for Business Solutions in mainland Europe as shown above excludes £97,000 (2001: £14,000) of inter-segmental turnover. Turnover for Training as shown above excludes £107,000 of inter-segmental turnover (2001: £185,000).

Of the goodwill amortisation charge for the year £1,078,000 (2001: £1,078,000) relates to Business Solutions (UK) and £307,000 (2001: £291,000) relates to Resourcing Solutions (UK).

The Training business has not previously been reported separately from Business Solutions. In recognition of the importance of the business unit within the Group, Training has been shown as a separate segment and comparative amounts have been restated accordingly.

3. Operating Costs

	2002 £'000	2001 £'000
Staff costs		
– wages and salaries	43,158	52,429
– social security costs	4,256	5,090
– other pension costs	1,307	1,519
	48,721	59,038
Depreciation of tangible assets+	2,366	2,908
Amortisation of goodwill	1,385	1,369
	3,751	4,277
Other operating costs		
Loss on disposal of fixed assets	108	37
Group audit fees and expenses of which the parent company was £30,000 (2001: £29,000)	266	254
Operating lease rentals		
– plant and machinery	1,850	2,085
– land and buildings	4,329	3,975
Net exchange (gain) loss in foreign currency borrowings	(207)	15
Net exceptional costs	16,225	5,157
Other	127,402	174,477
	149,973	186,000
	202,445	249,315

+ The depreciation charge for the year includes an exceptional charge of £150,000 (2001: £nil) relating to accelerated depreciation on leasehold improvements to surplus property.

Net exceptional costs of £16,375,000 (2001: £5,157,000) including the exceptional depreciation charge of £150,000 were incurred during the year in respect of the following items:

	2002 £'000	2001 £'000
Restructuring of operations		
Redundancy payments △	1,814	3,245
Property restructuring*	1,561	2,670
Other*	228	605
	3,603	6,520
Bad debts write-off in Resourcing Solutions mainland Europe*	–	540
Gain on settlement of litigation*	–	(1,903)
Impairment of goodwill (note 9)	12,772	–
	16,375	5,157

Of the total restructuring charge, £1,110,000 (2001: £2,562,000) relates to Resourcing Solutions, £498,000 (2001: £808,000) relates to Business Solutions, £901,000 (2001: £1,890,000) relates to Training, £501,000 (2001: £20,000) relates to Parity Americas and £593,000 (2001: £1,240,000) relates to the central costs.

Fees for non audit services payable to PricewaterhouseCoopers in 2002 totalled £303,000 (2001: £260,000) of which £122,000 is included in exceptional costs and relates to aborted transaction costs, and £85,000 is included in other operating costs and relates to work carried out with respect to the Group's banking arrangements. £96,000 of total non-audit fees was incurred in respect of tax advice and is included in other operating costs.

Disclosures relating to the remuneration of Directors are set out on pages 15 to 22.

△ Classified as staff costs under Companies Act 1985

* Classified as other operating costs under Companies Act 1985

4. AVERAGE STAFF NUMBERS

	2002 Number	2001 Number
Business Solutions		
United Kingdom*	307	371
Mainland Europe	113	143
Training	269	280
Resourcing Solutions		
United Kingdom	140	205
Mainland Europe	146	252
Parity Americas	207	295
	1,182	1,546

* includes corporate office employees

At 31 December 2002 the Group had 1,054 employees (2001: 1,433)

5. NET INTEREST PAYABLE

	2002 £'000	2001 £'000
Bank overdrafts and loans	(803)	(757)
Variable rate loan notes	(43)	(210)
Interest payable	(846)	(967)
Bank interest receivable	141	87
Net interest payable	(705)	(880)

6. Taxation on Loss on Ordinary Activities

	2002			2001
	Current tax credit (charge) on income £'000	Prior period adjustments credit (charge) £'000	Total credit (charge) £'000	Total credit (charge) £'000
Current taxation				
Based on the loss for the year:				
UK corporation tax at the rate of 30%	–	(105)	(105)	612
Overseas taxation	(260)	(115)	(375)	(784)
	(260)	(220)	(480)	(172)
Deferred taxation				
Origination and reversal of timing differences	703	134	837	343
	443	(86)	357	171

The tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	24,567	3,265
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	7,370	980
Adjustment relating to overseas tax rates	(108)	73
Adjustment relating to goodwill impairment	(3,832)	–
Adjustment relating to Employee Benefit Trust write-down	(1,407)	-
Adjustment relating to goodwill amortisation	(416)	(411)
Tax losses not recognised	(1,097)	(803)
Tax losses recognised in deferred tax	(714)	-
Adjustment in respect of prior years	(220)	285
Timing difference	11	(37)
Other	(67)	(259)
Current tax charge for the year	(480)	(172)

Prior period adjustments relate to over (under) provisions of corporation tax in previous years. A tax credit relating to net exceptional items of £691,000 (2001: £858,000) has been recorded during the year.

7. DIVIDENDS

	2002 £'000	2001 £'000
Ordinary - interim paid 0.20p (2001: 0.93p)	303	1,405
Ordinary - final proposed 0.06p (2001: 1.57p)	90	2,373
	393	3,778

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

8. EARNINGS PER ORDINARY SHARE

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 11) 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: 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; however during the year the exercise price was greater than the average market price of the companies ordinary shares and consequently the share options granted to employees are excluded from the diluted EPS calculations.

	2002			2001		
		(Loss) earnings per share			(Loss) earnings per share	
	(Loss) Earnings £'000	Basic pence	Diluted pence	(Loss) Earnings £'000	Basic pence	Diluted pence
Loss per ordinary share	(24,210)	(16.01)	(16.01)	(3,094)	(2.05)	(2.03)
Exceptional items	20,374	13.47	13.47	4,299	2.85	2.81
Goodwill amortisation	1,385	0.92	0.92	1,369	0.91	0.90
(Loss) earnings per ordinary share before goodwill amortisation and exceptional items	(2,451)	(1.62)	(1.62)	2,574	1.71	1.68

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

8. EARNINGS PER ORDINARY SHARE CONTINUED

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

	2002 Average number	2001 Average number
Basic		
i) Weighted average number of shares in issue	153,928,731	153,691,485
Adjustment for shares held by EBT	(2,756,238)	(2,756,238)
	151,172,493	150,935,247
Dilutive		
ii) Weighted average number of shares in issue	153,928,731	153,691,485
Adjustment for share options	–	1,785,392
Adjustment for shares held by EBT	(2,756,238)	(2,756,238)
	151,172,493	152,720,639

The number of ordinary shares in issue at 31 December 2002 was 153,969,570 (2001: 153,882,905).

9. INTANGIBLE ASSETS

Group	£'000
Cost	
At 1 January 2002	27,046
Adjustment to fair value of consideration paid	22
At 31 December 2002	27,068
Amortisation	
At 1 January 2002	2,666
Charge for the year	1,385
Provision for impairment	12,772
At 31 December 2002	16,823
Net book value at 31 December 2002	10,245
Net book value at 1 January 2002	24,380

The Directors have reviewed the carrying value of goodwill relating to past acquisitions. These purchases were made when the market was at its peak in the technology sector and a more prudent valuation has now been taken based on current market conditions. In accordance with the requirements of FRS 11 'Impairment of Fixed Assets and Goodwill', the carrying value of goodwill has been compared to its recoverable amount, represented by value in use to the group. The value in use calculations have been based on discounted cash flow projections covering the 20 year period from 1 January 2003. The discount rate used to arrive at these calculations was 9%.

This review has resulted in an exceptional impairment charge to operating costs of £12,772,000 in respect of TMS Information Solutions Limited, Interactive Developments Limited, Prime Selection Limited and Comtec Computer Training Limited.

Of the goodwill impairment provision of £12,772,000, £9,492,000 relates to Business Solutions UK and £3,280,000 relates to Resourcing Solutions UK. The remaining net book value of goodwill of £10,245,000 will be amortised in accordance with the Group's accounting policies.

10. TANGIBLE ASSETS

Group	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2002	3,368	213	20,115	23,696
Exchange adjustments	(11)	2	77	68
Reclassification	–	90	(90)	–
Additions at cost	66	–	583	649
Disposals	(507)	(92)	(537)	(1,136)
At 31 December 2002	2,916	213	20,148	23,277
Depreciation				
At 1 January 2002	1,968	24	15,115	17,107
Exchange adjustments	(7)	1	55	49
Reclassification	–	90	(90)	–
Charge for the year (note 3)	164	35	2,167	2,366
Disposals	(94)	(75)	(456)	(625)
At 31 December 2002	2,031	75	16,791	18,897
Net book value at 31 December 2002	885	138	3,357	4,380
Net book value at 1 January 2002	1,400	189	5,000	6,589

As at 31 December 2002 the Group had no capital commitments contracted for but not provided (2001: £30,000).

Company	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2002	30	191	393	614
Additions	–	–	1	1
Disposals	–	(88)	–	(88)
At 31 December 2002	30	103	394	527
Depreciation				
At 1 January 2002	15	84	305	404
Charge for the year	6	31	41	78
Disposals	–	(75)	–	(75)
At 31 December 2002	21	40	346	407
Net book value at 31 December 2002	9	63	48	120
Net book value at 1 January 2002	15	107	88	210

As at 31 December 2002 the Company had no capital commitments contracted for but not provided (2001: £nil).

11. INVESTMENTS

	Group				Company
	Investments £'000	Investments in subsidiary undertakings £'000	Investment in own own shares £'000	Other investments £'000	Total £'000
At 1 January 2002	5,867	13,322	5,138	729	19,189
Net transfers from (to) subsidiary undertakings	–	32,637	–	–	32,637
Provision for impairment	(4,690)	–	(4,690)	–	(4,690)
At 31 December 2002	1,177	45,959	448	729	47,136

Group investments comprise investment in own shares and 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 2002, the EBT held 2,756,238 ordinary shares (2001: 2,756,238). No options were granted by the Trustees in the year (2001: 823,297) and no options over ordinary shares were exercised (2001: nil).

At 31 December 2002, the market value of the ordinary shares held by the EBT was £448,000 (2001: £1,350,556).

The carrying value of the shares held in the EBT has been reviewed in the light of recent stock market conditions and the impact on the Company's share price. The Directors consider that there has been a permanent diminution in value of the investment in own shares and a provision of £4,690,000 has been made to write down the investment to market value at year end.

Investment in subsidiary undertakings

The capital structure of the Group was re-organised during the year and as a result the Company increased its investment in subsidiary undertakings by £38,412,000. The Company's investment in Prime Selection Limited was transferred at book value of £5,775,000 to Parity Resources Limited during the year.

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 23.

Other investments

Other investments represent a warrant to acquire 72,000 shares of common stock in Xperius Inc., a US private company which acquired the business of Personic Inc. during the year. Xperius Inc. is a global provider of software for Human Capital Management and Recruiting. Under an alliance agreement, Xperius has given Parity the right to sell, install and train users on Xperius Inc. products throughout the EU and Switzerland (note 17).

12. DEBTORS

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amount falling due within one year:				
Trade debtors	24,660	29,876	–	–
Accrued income	9,490	9,851	–	–
Amounts owed by subsidiary undertakings	–	–	1,915	363
UK corporation tax	55	788	25	472
Overseas corporation tax	974	1,229	–	–
Other debtors	741	1,684	53	30
Prepayments	2,022	2,305	101	98
Deferred taxation (note 18)	1,086	–	33	–
	39,028	45,733	2,127	963
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	–	–	73,590	68,602
	39,028	45,733	75,717	69,565

13. VARIABLE RATE LOAN NOTES PAYABLE

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Variable rate loan notes 2004	28	4,014	28	4,014

All loan notes are denominated in Sterling.

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April or 1 October each year until 31 December 2004 at the election of the note holders. Interest is payable at a variable rate of 0.5% below six month LIBOR, fixed on 1 April and 1 October of each year. Lloyds TSB Bank plc has guaranteed the repayment of the principal and interest of £28,000 (2001: £4,014,000) of the variable rate loan notes.

On 8 April 2002 the Company repaid variable rate loan notes 2004 to the value of £3,986,000.

14. Other Creditors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Bank overdraft (note 17)	3,575	2,608	328	63
Bank loan (note 17)	15,000	–	15,000	–
Payments in advance	3,125	2,877	–	–
Trade creditors	10,884	13,375	–	–
Amounts due to subsidiary undertakings	–	–	4,348	8,182
Other taxes and social security costs	2,164	3,127	37	–
Other creditors and accruals	9,600	8,947	710	933
Dividend payable	90	2,373	90	2,373
	44,438	33,307	20,513	11,551
Amounts falling due after one year:				
Bank loans (note 17)	–	12,000	–	12,000
Amounts due to subsidiary undertakings	–	–	29,771	28,240
	–	12,000	29,771	40,240
	44,438	45,307	50,284	51,791

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.

The bank loan of £15,000,000 shown within amounts falling due within one year relates to borrowings against the Group's committed facility with Lloyds TSB. As at the balance sheet date this facility was due to expire in October 2003. This facility was extended after the balance sheet date and is now due to expire in March 2006. Borrowings under this facility will be classified as falling due after one year in the Interim Accounts for the six months ending 30 June 2003.

15. Reconciliation of Operating (Loss) Profit to Net Cash Inflow from Operating Activities

	2002 £'000	2001 £'000
Operating (loss) profit before exceptional items	(2,797)	2,772
Depreciation of tangible assets	2,366	2,908
Amortisation of intangible assets	1,385	1,369
Loss on disposal of tangible assets	108	37
Decrease in debtors	6,748	12,349
Decrease in creditors	(4,253)	(11,638)
Increase in provisions	317	2,270
Net cash flow from operating activities before exceptional items	3,874	10,067

The net cash outflow during the year from exceptional items was £3,075,000. The cash outflow from exceptional costs incurred in 2002 was £1,466,000. Cash outflows in 2002 relating to exceptional costs incurred in 2001 were £1,609,000.

16. Analysis of Net Debt

Group	At 1 January 2002 £'000	Cash Flow £'000	Exchange Movements £'000	At 31December 2002 £'000
Cash at bank and in hand	5,948	(2,285)	(55)	3,608
Overdrafts	(2,608)	(900)	(67)	(3,575)
	3,340	(3,185)	(122)	33
Bank loans	(12,000)	(3,000)	–	(15,000)
Variable rate loan notes 2004	(4,014)	3,986	–	(28)
	(12,674)	(2,199)	(122)	(14,995)

Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
(Decrease) increase in cash in the period	(3,185)	1,317
Variable rate loan notes 2004 repaid	3,986	750
Increase in bank loans	(3,000)	(8,492)
Loan notes issued on acquisition of Prime Selection Limited	–	(3,986)
Change in net debt resulting from cash flows in the period	(2,199)	(10,411)
Exchange movements	(122)	(13)
Movement in net debt in the period	(2,321)	(10,424)
Net debt at 1 January 2002	(12,674)	(2,250)
Net debt at 31 December 2002	(14,995)	(12,674)

17. Financial Instruments

Disclosure of the Group's objectives for holding financial instruments is contained in the Finance Review on pages 7 to 8.

Short-term debtors and creditors have been excluded from all of the disclosures, other than the currency exposure details set out on page 44.

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

As at 31 December 2002	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
Financial assets					
Cash	146	1,353	1,301	808	3,608
Other investments	–	729	–	–	729
	146	2,082	1,301	808	4,337
Financial liabilities					
Overdrafts	391	–	3,184	–	3,575
Bank loans	15,000	–	–	–	15,000
Variable rate loan notes 2004	28	–	–	–	28
Provision for surplus properties	2,198	–	165	–	2,363
	17,617	–	3,349	–	20,966

As at 31 December 2001	Sterling £'000	US Dollars £'000	Euro £'000	Swiss Francs £'000	Total £'000
Financial assets					
Cash	2,943	1,151	1,723	131	5,948
Other investments	–	729	–	–	729
	2,943	1,880	1,723	131	6,677
Financial liabilities					
Overdrafts	2,101	–	507	–	2,608
Bank loans	12,000	–	–	–	12,000
Variable rate loan notes 2004	4,014	–	–	–	4,014
Provision for surplus properties	2,338	21	357	148	2,864
	20,453	21	864	148	21,486

Financial assets

The financial assets of the Group consist of cash of £3,608,000 (2001: £5,948,000), which is invested at money market floating rates of interest where the rate is reset more than once a year and other investments of £729,000 (2001: £729,000) which are non interest bearing. The other investments represent a warrant to purchase 72,000 common shares in Xperius Inc. The warrants expire on 25 February 2004 and have a purchase price of US$0.01 per share.

17. FINANCIAL INSTRUMENTS CONTINUED

Financial liabilities

All financial liabilities, except for the provision for surplus properties which is 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 LIBOR or EURIBOR.

Bank loans

The Group has a committed revolving credit facility denominated in Sterling with Lloyds TSB Bank of £18,000,000 (2001: £18,000,000) of which £15,000,000 (2001: £12,000,000) had been drawn down at 31 December 2002. Borrowings under the facility carry a floating interest rate linked to LIBOR. The facility matures in October 2003.

Subsequent to 31 December 2002 the Group successfully renegotiated an extension of the £18,000,000 committed revolving credit facility with Lloyds TSB Bank. The new facility matures in March 2006.

Loan notes

Details of the denomination, interest rates and repayment terms of the loan notes are set out in note 13.

Provision for surplus properties

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

Fair value of financial instruments

At 31 December 2002 there are no material differences between the book value and the fair value of the Group's financial assets and liabilities. There are no derivatives at 31 December 2002.

Currency exposures

The only Company within the Group with monetary assets and liabilities in non-functional currencies as at 31 December 2002 was Parity Eurosoft Limited, which held overdrafts of €2,262,169 (£1,474,494); (2001: €3,248,000 (£1,987,000)). These overdrafts hedge Euro receivables within the UK.

17. 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	Other financial liabilities £'000	2002 Total £'000	Debt £'000	Other financial liabilities £'000	2001 Total £'000
In one year or less, or on demand	18,603	2,255	20,858	6,622	1,432	8,054
In more than one year but not more than two years	–	108	108	12,000	1,432	13,432
	18,603	2,363	20,966	18,622	2,864	21,486

Other financial liabilities comprise the provision for surplus properties.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Pensions £'000	Surplus property (note 17) £'000	Deferred tax £'000	Total £'000
Balance at 1 January 2002	5	2,864	(249)	2,620
Created	–	1,499	(703)	796
Utilised	–	(1,506)	–	(1,506)
Released	(4)	(494)	(134)	(632)
Transfer to deferred tax asset (note 12)	–	–	1,086	1,086
Balance at 31 December 2002	1	2,363	–	2,364

Company	Surplus property £'000	Deferred tax £'000	Total £'000
Balance at 1 January 2002	670	(96)	574
Created	17	–	17
Utilised	(97)	7	(90)
Released	(349)	56	(293)
Transfer to deferred tax asset (note 12)	–	33	33
Balance at 31 December 2002	241	–	241

18. Provisions for Liabilities and Charges continued

The net deferred tax balance of £1,086,000 as at 31 December 2002 (2001: £249,000) comprises:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Tax losses carried forward	714	–	–	–
Short term and other timing differences	372	249	33	96
	1,086	249	33	96

A deferred tax asset has been recognised in respect of tax losses carried forward where it is more likely than not that there will be future taxable profits in the short term against which the deferred tax asset can be offset.

The Group has unrecognised deferred tax assets relating to tax losses of £1,900,000 (2001: £803,000), Company £757,000 (2001: £nil).

19. Share Capital

	2002 £'000	2001 £'000
Authorised : 300,000,000 ordinary shares of 5p each (2001: 300,000,000 ordinary shares of 5p each)	15,000	15,000
Share capital allotted, called up and fully paid : 153,969,570 ordinary share of 5p each (2001: 153,882,905 ordinary shares of 5p each)	7,698	7,694

During the year the Company issued the following share capital :

	Number	£'000
Issued to QUEST	86,665	4

Disclosures relating to options subsisting under share option schemes are shown in the Remuneration Report on pages 19 to 20.

20. RESERVES

Group	Capital redemption reserve £'000	Share premium £'000	Other reserves £'000	Profit & loss account £'000	Total £'000
At 1 January 2002	50	3,701	35,320	(10,189)	28,882
Shares issued to QUEST	–	28	–	(3)	25
Retained loss for the year	–	–	–	(24,603)	(24,603)
Exchange adjustments	–	–	–	(394)	(394)
At 31 December 2002	50	3,729	35,320	(35,189)	3,910

The cumulative amount of unamortised goodwill which has been taken to reserves is £69,291,000 (2001: £69,291,000).

Company	Capital redemption reserve £'000	Share premium £'000	Other reserves £'000	Profit & loss account £'000	Total £'000
At 1 January 2002	50	3,701	–	23,267	27,018
Shares issued to QUEST	–	28	–	(3)	25
Retained profit for the year	–	–	–	1,284	1,284
Exchange adjustments	–	–	–	(86)	(86)
Other movements (note 11)	–	–	36,595	–	36,595
At 31 December 2002	50	3,729	36,595	24,462	64,836

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit for the year dealt with in the accounts of the Company was £1,677,000 (2001 profit: £17,825,000).

The movement in other reserves relates to the re-organisation of the capital structure of the Group as explained in note 11. The movement of £36,595,000 resulting from this re-organisation is non-distributable.

21. Operating Lease Commitments

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

	2002		2001	
Group	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire :				
Within one year	117	949	363	975
Between two and five years	1,383	790	1,051	853
Over five years	2,201	–	2,343	–
	3,701	1,739	3,757	1,828

The Company has no operating lease commitments.

22. 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.

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.

A new accounting standard, FRS 17, on retirement benefits was introduced in 2000 and must be fully implemented for the year ending 31 December 2005. 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 rise and fall in relation to the Scheme's liabilities. 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.

22. PENSION SCHEMES CONTINUED

SSAP 24

An actuarial valuation of the Parity Scheme was carried out as at 5 April 2001 by independent consulting actuaries using the "attained age" method and updated to 31 December 2002. At 31 December 2002 the market value of the scheme's assets was £5,943,000 (2001: £6,386,000), and the estimated actuarial value of these assets on a SSAP 24 basis represented 59% of the benefits accrued to members after allowing for expected increases in earnings. The principal assumptions used in the actuarial valuation are those related to the differentials between rates of return on investments and the rates of increases in earnings and pension.

It has been assumed that the investment return would exceed price inflation of 2.5% by 4.0% prior to retirement and 2.5% after retirement and that earnings would exceed price inflation by 0.5%.

The pension charge has been calculated 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. However, for funding purposes an actuarial valuation was carried out as at 5 April 2001 in accordance with the Minimum Funding Requirement introduced by the Pensions Act 1995. At this date the Scheme's assets totalled £6,386,000 and represented 81% of its valued liabilities. The MFR deficit amounted to £1,498,000. The shortfall on this basis must, by law, be eliminated over a different period from that used for calculating the pension charge. The Company increased its contribution rate to meet the requirement of the MFR regulations and is currently reviewing the defined benefit scheme arrangements.

The charge for 2002 was £426,000 (2001: £421,000) equivalent to the contributions made to the Parity Scheme under the MFR.

FRS 17

The major assumptions used by the actuary in assessing the FRS 17 position are set out below. The 2002 figures are based on a roll-forward by the actuaries from the last formal valuation carried out at 5 April 2001.

	2002	2001
Rate of increase in pensionable salaries	2.90%	3.00%
Rate of increase in pensions in payment	3.50%	3.50%
Discount rate	5.75%	5.83%
Inflation assumption	2.40%	2.50%

22. PENSION SCHEMES CONTINUED

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

Assets	Long term rate of return expected 2002	Long term rate of return expected 2001	Value 2002 £'000	Value 2001 £'000
Equities	7.0%	7.0%	3,301	3,950
Other	5.0%	5.0%	2,642	2,436
Total market value of assets			5,943	6,386
Present value of scheme liabilities			(9,984)	(8,330)
Deficit in the scheme			(4,041)	(1,944)
Related deferred tax asset			1,212	583
Net pension liability			(2,829)	(1,361)

If the above amounts had been recognised in the financial statements the Group's net assets and profit and loss reserve at 31 December 2002, and 31 December 2001 would be as follows:

	2002 £'000	2001 £'000
Net assets excluding pension liability	11,608	36,576
Net pension liability	(2,829)	(1,361)
Net assets including pension liability	8,779	35,215
Profit and loss reserve excluding pension liability	(35,189)	(10,189)
Net pension liability	(2,829)	(1,361)
Profit and loss reserve including pension reserve	(38,018)	(11,550)

22. Pension Schemes continued

If FRS 17 had been fully effective on 31 December 2002 then the following would have been:

	£'000
A Charged to operating profit	
Current service cost	(231)
Total operating charge	(231)
B Net charge to interest	
Expected return on the Scheme's assets	408
Interest on the Scheme's liabilities	(483)
Total interest cost	(75)
C Recognised in the statement of total recognised gains and losses (STRGL)	
Actual return less expected return on the Scheme's assets	(851)
Experience gains and losses arising on the Scheme's liabilities	(809)
Changes in assumptions underlying the present value of the Scheme's liabilities	(557)
Actuarial loss recognised in the STRGL	(2,217)

Reconciliation of change in deficit:	£'000
Deficit in Scheme at beginning of year	(1,944)
Movement during year:	
– current service cost	(231)
– contributions	426
– other finance expense	(75)
– actuarial loss	(2,217)
Deficit in Scheme at end of year	(4,041)

History of experience gains and losses

The Scheme's experience gains and losses over the period 31 December 2001 to 31 December 2002 were as follows:

	£'000
Difference between the expected and actual return on the Scheme's assets	
– Amount	(851)
– Percentage of the Scheme's assets	14.3%
Experience gains and losses on the Scheme's liabilities:	
– Amount	(809)
– Percentage of the present value of the Scheme's liabilities	8.1%
Total actuarial loss recognised in statement of total recognised gains and losses:	
– Amount	(2,217)
– Percentage of the present value of the Scheme's liabilities	22.2%

23. SUBSIDIARY UNDERTAKINGS

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

Name of company	
Parity Holdings Limited	
Parity Limited*	
Parity Solutions Limited*	
Parity Training Limited*	
Parity Resources Limited*	
Parity EuroSoft Limited*	
Parity Selection Limited*	
Parity EuroSoft GmbH*	(Registered in Germany)
Parity EuroSoft SARL*	(Registered in France)
Parity EuroSoft SA*	(Registered in Switzerland)
Parity EuroSoft BV*	(Registered in The Netherlands)
Parity EuroSoft SA*	(Registered in Belgium)
Parity International BV	(Registered in The Netherlands)
Parity Solutions BV*	(Registered in The Netherlands)
Parity US Holdings Inc.*	(Registered in USA)
TelTech International Corp*	(Registered in USA)
Parity Solutions (Dublin 1999) Limited*	(Registered in Republic of Ireland)

*held by a subsidiary undertaking

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

The main activity of these subsidiary undertakings is the provision of IT services.

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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.

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

Share Dealing Service
A low cost, execution only, postal dealing service for the purchase and sale of Parity Group plc shares has been set up by HSBC Bank plc. Commission is 1% with a minimum charge of £10. For further details please contact: HSBC Bank plc, Stockbroker Services, Postal Unit, Exchange Place, Poseidon Way, Leamington Spa CV34 6BY Tel 01926 834064

2003 Financial Calender

Annual General Meeting	4 June 2003
Final Dividend payable	1 July 2003
Interim Results	September 2003

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

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