Parity Group plc **Report & Accounts** 2005

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Financial Summary

	Year ended 31.12.05 £'000	Year ended 31.12.04 £'000
		Consolidated
Revenue from continuing operations	**138,523**	132,466
Operating loss from continuing operations	**(6,488)**	(4,738)
Operating loss from continuing operations before exceptional items and goodwill impairment	**(1,698)**	(1,360)
Loss before taxation from continuing operations	**(8,425)**	(6,161)
(Loss) profit for the period from discontinued operations	**(1,035)**	504
Loss for the period transferred to reserves	**(9,222)**	(5,459)
Net debt	**(19,052)**	(13,693)
Equity shareholders' (deficit) funds	**(4,090)**	4,997
	Pence	Pence
Loss per ordinary share before discontinued operations and exceptional items		
Basic	**(2.28)**	(1.01)
Diluted	**(2.28)**	(1.01)
(Loss) earnings per ordinary share		
Basic	**(3.23)**	(1.91)
Diluted	**(3.23)**	(1.91)

Divisional Performance — Continuing Operations

	Revenue £'000	Year to 31.12.05 profit/(loss) before taxation £'000	Revenue £'000	Year to 31.12.04 profit/(loss) before taxation £'000
				Consolidated
Business Solutions	**22,587**	**21**	23,067	1,382
Training	**20,044**	**(1,161)**	23,771	(991)
Resources	**95,892**	**1,844**	85,628	1,239
Operating profit before central costs, exceptional items and goodwill impairment		**704**		1,630
Central costs		**(2,402)**		(2,990)
Net finance costs		**(1,937)**		(1,423)
Impairment of goodwill		**(2,500)**		—
Loss before tax, and exceptional items		**(6,135)**		(2,783)
Exceptional costs		**(2,290)**		(3,378)
	138,523	**(8,425)**	132,466	(6,161)

Chairman's Statement

Clearly 2005 has been a very challenging year for Parity. However, despite the unacceptable financial performance, a number of major positive steps have been taken to place the Group on the road to recovery. The strategic review which identified the UK-centric strategy has been implemented with the disposal of substantially all of the mainland European businesses post the year end and all of the Americas activity during 2005. In the UK significant costs have been eliminated and a simpler, more optimal structure, appropriate to the scale and ambitions of Parity has been put in place. Importantly, in the Training business unit, a major change is well advanced to transition the business from a fixed cost structure to one which is more variable in response to changes in volume; this work continues into 2006. Actions have been taken to reduce the burden of empty or underutilised property by exiting or sub-leasing significant parts of the Group's property portfolio, the benefit of which will show in the 2006 financials. Changes have been made in the sales and marketing efforts of the Group, which are already starting to show in terms of new wins and improved margins in Resources and should deliver improved results in both Business Solutions and Training in 2006. We shall continue to aggressively drive out costs wherever we can while at the same time improving our new orders rate and ensuring that we continue the quality of delivery for which the Parity brand is known. Additionally the cash improvement actions taken in 2005 are starting to bear fruit and we will remain tightly focused on managing our cash resources.

As identified in our restructuring update in December 2005, the Board has concluded that the balance sheet of the Group must be strengthened to exploit the opportunities which the new, slimmed down Group has in front of it and, to this end, we announced on 30 March 2006 a fully underwritten firm placing and open offer to raise approximately £14.7m, net of expenses. I am pleased to report that this placing and open offer was approved by the shareholders at an Extraordinary General Meeting on 24 April 2006.

Resources has experienced strong trading in the early period of 2006, leading us to believe that the growth seen in 2005 should continue this year, as should improvement in profit margins due to the highly skilled resources we provide and our moves to increase the higher margin elements of our business. We have seen the modest improvement in the number of opportunities for Business Solutions continuing into 2006 and believe that we are well positioned in a market which continues to grow. While our position with public sector clients and Microsoft competences are a plus, ambitions must be mitigated by the fact that the benefits of the strengthening of our sales channel in the second half of 2005 will take time to translate into an improving revenue position. The changes made in both the cost structure and the sales channel of our Training business unit should improve our trading position relative to 2005. Industry analysts expect a recovery in this market, from which we are well placed to benefit. Overall, we view the prospects of the Group with cautious optimism with trading in the year to date supporting this view.

Finally, I am delighted that we have been able to strengthen the executive team in early 2006 with the appointments of Alwyn Welch as our new Chief Executive Officer and Joe Kelly in his new role as Group Finance Director. These appointments along with the steps outlined above support a much more positive outlook for the Group and we expect to see significant improvements in 2006 and beyond.

John Hughes
Chairman

24 May 2006

Operating and Financial Review

Group restructuring to return Parity to profitability
Following several years of poor performance by the Group, the Group's new management team has been focused on restructuring the Group with the objective of returning it to profitability. This process began in November 2004 with a strategic review of the Group's operations, leading to an announcement in April 2005, which set out a new and clear business direction, having as its objectives a Group which addresses the UK IT services market with an attractive, competitive offering and an overhead structure appropriate to the Group's scale.

Implementation of UK-centric strategy
Since the appointment of John Hughes as Chairman in May 2005, significant progress has been achieved in implementing the UK-centric strategy. Following the disposal of the Group's US operations in November 2005 and the disposal of substantially all of the Group's mainland European operations in January 2006, the Group is now almost entirely refocused on the UK IT services market.

Restructuring of UK operations
The UK operations have also been significantly restructured with rationalisation of the Group's cost structure at both a central and operational level. Substantial costs have been eliminated at the head office and in each of the business units, with divisional infrastructures integrated and simplified so that the Group now consists of one integrated entity with three business units. The Group has also vacated property surplus to requirements, has entered into a number of sub-lease agreements and continues to work to sub-let or negotiate termination of empty or under-utilised properties previously provided for. The Group has in addition entered into a contract with a new outsourcing supplier for IT services which is of a different nature, more appropriate to the Group's size and structure and at a much lower ongoing cost than the previous arrangement.

Actions to reduce net debt
The final element of this restructuring phase is the reduction in the level of the Group's current indebtedness. As at 31 December 2005, Parity's net debt amounted to £19.0 million, an increase from £15.5 million as reported at 30 June 2005. The increase in debt levels in the six months to 31 December 2005 was due to the on-going effect of the restructuring measures referred to above, including continuing payments for surplus property which are only now starting to be mitigated by the sub-leases signed, the delay in the sale of the French and German businesses and associated working capital demands and the fact that proceeds from the US disposal will be received over a 15 month period. Additionally, as expected, the on-going losses coupled with an improvement in the performance of Resources requiring an increase in working capital requirements during the period resulted in an operating cash outflow in the second half of 2005.

Subsequent to 31 December 2005 the sale of the French and German businesses in January 2006 realised net proceeds totalling approximately £5.3 million and further proceeds of a minimum of £0.4 million from the sale of the US business are expected in 2006. However, while these proceeds will reduce Parity's net debt from its position at the end of 2005, this reduction will be offset by the continuing cash impact in 2006 of prior year restructuring charges (principally in relation to surplus property and amounting to £1.2 million), working capital investment and settlement of year end creditors (approximately £4.7 million) and the settlement (£1.3 million) of the Group's previous IT supply agreement referred to above. As at 3 March 2006, Parity's net debt amounted to £16.6 million.

Having now completed the main elements of the planned Group restructuring, the Directors believe that in order to grow the business going forward it is important that the overall debt position of the Group is reduced to a more appropriate level. The net proceeds of the firm placing and open offer will be used solely to reduce the net debt position of the Group. This will result in a strengthening of the Group's balance sheet and a reduction in the Group's interest charge and will in turn provide additional working capital to be invested in growing the business. While Parity has committed facilities of £18 million to 31 December 2007 and an overdraft facility of £2 million, it has agreed with its principal lending bank to discuss the terms of a new facility, more appropriate to its size of business, following completion of the firm placing and open offer.

The Board
A key element in developing the Group further has been the recent appointment of Alwyn Welch as Chief Executive Officer. He has over 25 years' experience in the technology sector with leading sector companies such as Unisys (where he was Managing Director of the UK operations), Cap Gemini (where he was CEO of the UK and Asia Pacific region and latterly CEO of the Nordic region) and Logica and has full day to day responsibility for the running of the business of the Group. The Board has also recently appointed Joe Kelly (previously Finance Director and latterly Managing Director of Parity's Resources business unit) as the Group's Finance Director, completing the rebuilding of the executive management team.

The strengthening of the senior management team marks the end of the period of major reorganisation and the Board now intends to continue its focus on the operational aspects of the Group's businesses with the objective of significantly improving its financial performance. Parity's three distinct business units, Resources, Solutions and Training, have strong capabilities and

inherent strengths on which to build. The Board intends to focus its near term attention on the objective of each of the three business units achieving upper quartile financial performance.

The Business

The Board believes that Parity can continue to use its strong brand and reputation in project and programme management to service its major public and private sector clients. They also believe that the initiatives put in place in 2005 will improve client engagements. In the private sector, Parity is increasingly becoming an outsourcer to a number of the major IT service companies.

Parity Resources (UK)

Parity Resources (UK) delivered strong results in 2005, reporting a 12 per cent. increase in its revenue and a 22 per cent. increase in operating profit before exceptional items, central costs and impairment of goodwill compared with the previous year. The objective for this business unit will be to continue to achieve above market growth and improvement of its margins through the focus on specific industry sectors and skills areas where margins are higher, together with a move away from some of the division's lower margin activities. Examples include the investment to grow capabilities in the 'spot' market for specific skills and the recent announcement that Parity has been selected as an approved supplier to the public sector by Catalist, the new procurement function of the Office of Government Commerce.

Parity Business Solutions

Parity Business Solutions operates in a diverse market. However, the business unit is concentrating on particular niches where it has demonstrable skills and expertise, such as Microsoft and Oracle technologies. Taken together with the strength of its client relationships and the Parity brand, its offering will be directed towards focused areas of client-side consultancy, systems development, integration and managed services.

Parity Training

The focus of Parity Training has been on transforming its cost base, historically characterised by primarily fixed costs, to one which is more variable and flexible. At the same time, a review of the course portfolio has resulted in a substantially reduced number of improved public courses, and a concentration on those courses where Parity Training has an established position and can expect to achieve high levels of utilisation. Additionally there has been significant work on improving the corporate training sales and marketing programmes which leverage many of Parity's core skills and competences and tie into the Group's managed services capabilities.

Financial Review

The Group's financial performance during the year reflects the transformation actions implemented to return the Group to profit and positive cash generation. These actions include the disposal of substantially all of the overseas operations together with the integration of support functions, rationalisation of property, resolution of contractual issues and plans to strengthen Parity's balance sheet and reduce bank debt.

Operating Results

Revenue from continuing operations increased by 5% to £138.5m (2004: £132.5m). Revenue growth was driven by Resources UK which increased revenue by 12% (£10.3m) principally as a result of a 10% increase in the number of contractors on billing. This growth was offset by revenue decreases in Training of 16% and a 2% decline in Business Solutions.

The focus on costs continued during 2005 with the Group seeking to vacate and sub-let surplus office space. The Head Office in the City was vacated in January 2005 and sub-let in November 2005 with operations moving to Holborn Circus where the Group had an unoccupied lease commitment. Training vacated premises in Fleet which is now being marketed for sub-let, with staff relocating to unoccupied premises in Camberley. Training also vacated premises in central Manchester and the Group successfully sub-let surplus space in its Wimbledon office. Exceptional charges in respect of onerous lease commitments were £573k. The Group also embarked upon other extensive cost saving exercises designed to significantly reduce the Group's cost base. These included:

- Consolidation of the Group's previously distributed divisional finance functions into one finance team which will utilise a single accounting system;
- Consolidation of a distributed HR function into a single Group-wide entity;
- Reduction in management overhead to allow the businesses to focus their investment on sales and revenue generating personnel;
- Actions to rebalance the Training business in order that it can operate with a lower fixed cost base;
- Gradual realignment of employment terms and conditions to be both more consistent across the Group, whilst remaining industry competitive;

- Minimising expenditure on external consultants and service providers;
- Negotiating the early termination of a contract with a third party supplier providing IT and network support services and replacing it with a combination of in-house Parity services and a new third party provider. This new arrangement is expected to yield substantial cost savings starting in 2006.

At the time of writing all the major cost-reduction programmes have now been substantially completed with the focus now being to sub-let the remaining surplus properties. These actions will support our objective of returning the Group to profitability in 2006.

The business units produced a profit before central costs, goodwill amortisation, discontinued operations and exceptional items of £0.7m (2004: £1.6m). Resources continued to increase profits, up 49% to £1.8m (2004: £1.2m) and is performing well in its market and the outlook remains robust. Profits declined in Business Solutions and the loss increased in Training as both businesses suffered from weak market conditions with the benefits from the transformation actions not accruing until after 2005. Central costs reduced to £2.4m (2004: £3.0m) and there was a goodwill impairment charge of £2.5m which related to the Training business unit.

The Group produced a loss after exceptional items (see below) and before discontinued operations of £8.4m (2004: £6.2m loss). The retained loss for the year was £9.2m (2004: £5.5m).

Exceptional Costs
As part of the restructuring programme the Group has incurred exceptional costs of £2.3m (2004: £3.4m) in order to execute the plans of the strategic review. The charge is made up of redundancy provisions of £0.5m (2004: £1.6m), onerous lease provisions £0.6m (2004: £1.6m), charges to exit onerous contracts of £1.2m (2004: nil) and other provisions of £nil (2004: £0.2m).

At the end of the year the Group's onerous lease provision was £2.5m (2004: £3.0m). During the year the Group sublet its property in St Martins Le Grand for the period to 2009 and part let an empty floor in a property in Bristol for the period to 2008. A new provision was created during the year in respect of a property in Fleet, and following changes in circumstances provisions were extended in relation to three properties and released in relation to a further two properties. The total provision now covers 8 properties (2005: 10). The cash cost of onerous leases in 2005 was £1.2m (2004: £1.2m). The cash cost of onerous leases in 2006 is expected to be £1.1m.

Interest
Net interest charged to the Group for the year was £1.9m compared with £1.5m for our continuing business in 2004. This increase resulted from higher average debt reflecting the cash impact of restructuring and the operating losses. Interest charged included interest on the Group's pension liabilities of £0.7m (2004: £0.6m) in accordance with IAS19.

Taxation
The tax credit of £0.2m represents 2.8% of pre tax losses and arises after adjustment for the tax impact of goodwill impairment (£0.7m), tax losses (£0.8m) and prior period adjustments (£0.3m).

Discontinued Operations
Activity to dispose of overseas operations to reduce bank debt and refocus the business on UK operations was a major feature of the year. On the 1 November 2005 the Group completed the disposal of Parity Americas, its US operation. The consideration for the sale comprised an initial payment of £145,000 plus a guaranteed minimum earnout of £445,000 receivable over 15 months to January 2007.

The Group also concluded the sale of the bulk of its Mainland European (ME) operations in January 2006. The total consideration of £5.3m was received in February 2006. The profit on sale will be recorded in the 2006 accounts of the Group. The trading results for both the US and the ME operations have been disclosed in the consolidated profit and loss account as discontinued operations. Revenue for discontinued operations was £38.1m (2004: £37.3m) and operating profit was £0.5m (2004: £0.4m).

Assets and liabilities relating to the ME sale have been re-categorised at the balance sheet date to "assets held for sale and included in disposal groups" (£8.7m) and "liabilities held for sale and included in disposal groups (£7.2m).

Cash Flow and Net Debt
The net cash used in operations was £5.3m (2004: £1.0m outflow) and reflects the 2005 trading losses and the cost of restructuring programmes from 2004, of £2.4m and £0.6m respectively together with the interest payments on bank borrowings of £1.4m. The cash outflow was funded by bank borrowings.

The 2006 cash impact from restructuring is expected to be £3.4m, comprising £1.2m final payments for the exit from onerous contracts, £1.6m for onerous property leases and redundancy payments of £0.6m. In February the Group received £5.3m from the sale of the bulk of its mainland European (ME) operations and in addition it will receive the guaranteed minimum earnout of £445k from the disposal of Parity Americas, over the period to January 2007.

Net debt at 31 December 2005 was £19.0m (2004: £13.7m), an increase of £5.3m for the period.

Banking Facilities
Total bank borrowings at 31 December 2005 were £19.0m. An analysis of the currency and maturity of debt is shown in note 28 to the Accounts on pages 50 to 52. The Group has a revolving credit facility of £18m with its principal banker together with a £2m overdraft facility. These facilities were extended in September 2005 and are committed to December 2007. The facilities include covenants relating to Net Borrowings to Earnings before interest, tax, depreciation and amortisation (EBITDA), EBITDA to Interest, Debtors Days and Debtors to Net Borrowings. There was no breach of covenants in 2005.

On 24 April 2006 the shareholders approved a Placing and Placing and Open Offer to raise £16.0m less estimated expenses of £1.3m. The funds raised will be used to reduce bank debt and reduce bank interest costs. The Group has agreed with its principal lending bank to discuss the terms of a new facility, more appropriate to its size of business, following completion of the firm placing and open offer.

Pensions
The Group operates a number of defined contribution pension schemes as well as a defined benefit scheme. Assets for the defined contribution schemes are held in separate, independently administered funds, contributions to these schemes were £0.6m (2004: £1.1m). The defined benefit scheme is now closed to both future members and future service accrual, although actuaries continue to advise the Trustees on the required funding rate. The Group has agreed a payment plan of £792,000 per annum over 4 years to reduce the current deficit of £4.7m (2004: £4.7m).

Treasury policy
The Group uses short term borrowings to finance its operation and to manage the interest rate risk and currency risk arising from those operations. The Group's strategy for financing its operations and managing the risks associated therewith is summarised below.

Financing and interest rates
The Group finances its operation mainly through the Group's banking facility and cash generated through its operations. In planning the maturity of debt the Group aims to ensure flexibility and continuity of funding. The interest rate exposure that arises from the Group's borrowings is managed through the use of short term revolving loans that allow the Group flexibility and ensure that interest rate charges are competitive.

The Group also has overdraft facilities with a UK clearing bank and the Group's current accounts are subject both to set off arrangements, covered by cross guarantees, and a cash pooling facility. All of the Group's borrowings are secured against an omnibus guarantee and set off agreement as well as debentures from the three UK trading companies.

The Group continually assess potential sources of funding with a view to obtaining alternative sources and types of funding where appropriate.

Currency rates
The majority of the Group's revenues and costs are denominated in Sterling, limiting the exposure to currency risk. Overseas operations bill their revenues and incur their costs in the same currency, further limiting any currency risk.

It continues to be the Group's policy not to hedge foreign currency exposures on the translation of its overseas profits to Sterling.

Going concern
After reviewing the Group's budgeted cash flows, the results of the restructuring programme, the conclusion of negotiations to extend the Group's banking facility and considering the funds received from the firm placing and open offer, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operation for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

Directors

John Hughes (1 2 3)
Executive Chairman
John Hughes (aged 54) joined the Group in May 2005 as Executive Chairman with over 30 years international experience in the IT industry. Previously he was Executive VP and Chief Operating Officer of Thales Group, held senior executive positions at Lucent Technologies and Hewlett Packard and has extensive experience of managing both services and product companies in high growth as well as re-focus/turnaround situations. He is Chairman of the Nominations Committee.

Philip Swinstead OBE (1 2 3)
Non-executive Deputy Chairman
Having founded Parity in 1993 and retired in 2001, Philip Swinstead (62) was invited to become Chairman again in November 2004. In May 2005, Mr. Swinstead stepped down to the Deputy Chairman role following the appointment of John Hughes and in October 2005, accepted the position of Non-executive Deputy Chairman. Before Parity, he had founded SD-Scicon in 1969 which became the first UK software house to obtain a full listing in London in 1982 and was CEO until the business was acquired in 1991, by which time it had revenues of some £250m. He then went on to create a management buy-out opportunity which grew to a similar size and became a major French quoted IT services Group. In parallel, he was a director of several public investment trusts for 15 years and runs his own active portfolio of technology and leisure businesses including Antics Technologies, a leading-edge software animation laboratory in Cambridge. He was Chairman of the Nominations Committee until September 2005 and from October 2005 until February 2006 he was Chairman of the Remuneration Committee.

Alastair Macdonald CB (1 2 3)
Non-executive Director
Alastair Macdonald, (65) was appointed to the Board as a Director on 28 February 2002 and is currently Chairman of the Remuneration Committee. He was previously Director General of the DTI's Industry Group with policy responsibility for the manufacturing and service industries, including the IT and telecommunications sectors, from 1992 to 2000 when he retired from the Civil Service. Since then, Alastair has filled a number of roles including Presidency of the British Computer Society and is the senior independent Non-executive Director.

Alwyn Welch
Chief Executive Officer
Alwyn Welch (48) was appointed to the Board as Chief Executive Officer on 13 February 2006. He has over 25 years experience in the technology sector in the UK and internationally. He joined Parity from Unisys where he recently worked as Vice President and General manager in the United Kingdom, Middle East and Africa. He served as Chief Executive of Cap Gemini's Nordic Region and had previously been CEO of Cap Gemini's UK and Asia Pacific region. He was also on the Executive Board of Logica responsible for the Americas, Management Consulting and Financial Products, served as Chairman of the IT National Training Organisation in the UK and was COO and a director of Brainspark plc.

Joe Kelly
Group Finance Director
Joe Kelly (41) was appointed to the Board as Group Finance Director on 10 March 2006. He joined the Group in 1995 as Financial Controller of the UK Resourcing business before becoming its Finance Director in 1998. He has also held positions as Finance Director for the Resourcing operations across Europe and the US, Managing Director of UK Resourcing and Parity's Transition Operations Director, where he has played a leading role in implementing the Company's transformation plan. Previously he was an audit manager with Price Waterhouse and Group Financial Controller at a subsidiary of Wolseley plc.

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

Directors' Report

The Directors present their Report and the audited accounts for the year ended 31 December 2005.

Principal Activities
The Group's principal activities during the year were technology staffing and a range of recruitment services, the provision of IT and business services and management and technology training. A review of the business is contained within the Chairman's Statement and the Operating and Financial Review on pages 2 to 6.

Group Results
The Group loss from continuing operations for the year before taxation was £8.4m (2004: loss of £6.2m) after charging goodwill impairment of £2.5m (2004: £nil), and total exceptional costs of £2.3m (2004: £3.4m). After a tax credit of £0.2m (2004: £0.2m) dividends paid and proposed of £nil (2004: £nil) and a loss of £1.0m (2004: £0.5m profit) from discontinued operations, the retained loss amounted to £9.2m (2004: loss £5.5m) and has been transferred to reserves.

Dividends
The Directors do not recommend a final dividend (2004: £nil per ordinary share). The total dividends for the year were nil p per share (2004: £nil).

Financial Risk Management
Details of the Group's Financial Risk Management are provided in the Risk Management note within Corporate Governance on page 14.

Post-Balance Sheet Events
Details of post-balance sheet events are set out in Note 35.

Property, Plant and Equipment
The changes in property, plant and equipment during the year are summarised in Note 12 to the Accounts on pages 41 to 43.

Purchase of Own Shares
At the end of the year, the Company had authority, under the shareholders' resolution of 18 June 2004, to purchase in the market 28,869,169 of the Company's ordinary shares at prices ranging between 5 pence and an amount equal to 105% of the average of the middle market prices quoted in the five business days immediately preceding the day of purchase. No purchases were made during the year. The Directors intend to renew this authority at the forthcoming Annual General Meeting on 28 June 2006.

Board of Directors
Biographical information on each of the Directors as at 24 May 2006 is set out on page 7, together with details of membership of the Board Committees. John Hughes was appointed as Chairman on 2 May 2005 following Philip Swinstead's decision to step down to the Non-executive Deputy Chairman's role. Alison Leyshon, the former Group Finance Director, left the Board on 29 July 2005. John Maxwell stepped down from the Board on 30 June 2005. All of the other Directors will retire and seek re-election at the Annual General Meeting. Alwyn Welch who joined the Board as Chief Executive on 13 February 2006 and Joe Kelly, who joined the Board as Finance Director on 10 March 2006, will also seek appointment as Directors at the Annual General Meeting.

Directors' Interests
The Directors' beneficial interests in the ordinary share capital of the Company at 31 December 2005 were as follows:

	Shareholding as at 31 December 2005	**% issued share capital**	Shareholding as at 31 December 2004	% issued share capital
Philip Swinstead	**8,360,643**	**2.896**	8,360,643	2.896
John Hughes	**150,000**	**0.052**	—	
Alastair Macdonald	**130,625**	**0.045**	80,625	0.028
Total	**8,641,268**	**2.993**	8,441,268	2.924

At 5 May 2005 and following the Capital Reorganisation and Firm Placing and Placing and Open Offer (see note 35), the beneficial interests of the Directors were as follows:

	Shareholding as at 31 December 2005	**% issued share capital**	Shareholding as at 5 May 2006*	% issued share capital
Philip Swinstead	**8,360,643**	**2.896**	1,230,050	3.25
John Hughes	**150,000**	**0.052**	53,000	0.14
Alastair Macdonald	**130,625**	**0.045**	9,868	0.03
Alwyn Welch	—	—	300,000	0.79
Joe Kelly	**199,000**	**0.068**	25,035	0.07

* Figures represent interests in shares after allowing for the fifty for one consolidation of shares following the Capital Reorganisation.

Details of the Directors' share options are given in the remuneration report on pages 16 to 22.

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 31 December 2005 apart from the following:

	Number of ordinary 5p shares	Percentage held
Spearhead, Inc.[1]	67,438,936	23.36
Aberforth Partners	33,444,109	11.57
Barclays Stockbrokers Ltd.	20,391,523	7.06
HBOS (Insight Investments)	19,012,500	6.58
SG Asset Management Ltd.	12,858,121	4.46
TD Waterhouse (Europe)	8,655,435	3.00

[1] On 25 January 2006 the shareholding attributed to Spearhead Inc., which had been increased to 67,738,936 shares, was transferred to Dominick Company AG. Subsequently, on 13 February 2006 Dominion Holdings Ltd. announced that they had acquired 55,000,000 of those shares and, in addition, by virtue of put and call options entered into with Dominick Company AG, were interested in a further 12,738,936 shares. The put and call options may be exercised at any time during a period of three years from the date of grant.

Following the Capital Reorganisation (see note 35) on 27 April 2006 the principal shareholders were as follows:

	Number of ordinary 2p shares*	Percentage held
Aberforth Partners	9,001,619	23.81
Dominion Holdings Ltd.[1]	4,400,000	11.64
HBOS (Insight Investments)	3,422,487	9.05
Framlington Investment Management	2,039,983	5.40
Merrill Lynch Investment Management	2,008,040	5.31
SG Asset Management	1,861,619	4.92
Gartmore Investment Management	1,242,086	3.28
BP Investment Management	1,232,221	3.26
Revera Asset Management	1,155,373	3.06
Philip Swinstead	1,230,050	3.25

* Figures represent interests in shares after allowing for the fifty for one consolidation of shares following the Capital Reorganisation (see note 35 on page 61).

[1] Dominion Holdings Ltd. have a further interest in 254,779 shares by virtue of put and call options entered into with Dominick Company AG. The put and call options may be exercised at any time during a period of three years from the date of grant.

Employment Policies

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

Payments to Suppliers

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

Environmental Policy

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

Health and Safety

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

Contributions for Charitable and Political Purposes

The Group made charitable contributions of £nil during 2005 (2004: £38,000). No payments were made for political purposes.

Auditors

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

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 28 June 2006 together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board

Joe Kelly
Company Secretary

24 May 2006

Corporate Governance

Introduction

The maintenance of high standards of corporate governance remains a key priority for the Board. The Financial Reporting Council published the Combined Code on Corporate Governance (the "Combined Code") in July 2003. The UK Listing Rules require listed companies to disclose how they have applied the principles of the Combined Code and whether they have complied with the provisions set out in section 1 of the Combined Code throughout the year. If there are instances of non-compliance companies must state which provisions they have not complied with, what period the non-compliance covered during the year and provide an explanation for the non-compliance. This statement, together with the Remuneration Report on pages 16 to 22, describe how the Group has complied with the Combined Code during the year.

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

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

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

- The members of the Audit Committee, Remuneration Committee and the Nominations Committee comprise the Non-executive Directors and the Chairman. Despite his executive status Philip Swinstead is a member of all three committees and acted as Chairman of the Nominations Committee until September 2005. The independent and other Directors believe that due to the current market capitalisation of the Company and the fact that the Company has only two Non-executive Directors that it is appropriate for him, in his executive role, to be a member of these Committees.

- No member of the Audit Committee has recent and relevant financial experience. The Board considers that the members of the Audit Committee have the financial experience and qualifications required and collectively the members have the requisite skills and attributes to enable the Audit Committee to properly discharge its responsibilities.

- John Hughes was appointed Executive Chairman on 2 May 2005. As a result of his executive capacity, Mr. Hughes did not meet the independent criteria of the Combined Code; however, as the Board included two independent Non-executive Directors the Board believes that there was a sufficient degree of independence.

- Due to procedures outlined under internal control below and after allowing for the internal checking procedures carried out under the Group's system of quality control, the Group did not consider it necessary to have a separate internal audit function.

Going Concern

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

The Workings of the Board and its Committees

The Board

The Board consists of the Executive Chairman, John Hughes, the Chief Executive Officer, Alwyn Welch, the Group Finance Director, Joe Kelly and the Non-executive Directors, Philip Swinstead and Alastair Macdonald. The Directors' biographies, which are set out on page 7, demonstrate a range of business backgrounds and experience.

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

John Maxwell was the Senior Independent Non-executive Director until he stepped down on 30 June 2005.

The Board has eight scheduled meetings a year and meets more frequently as required. A table showing the number of meetings of the Board and its committees held during the year and attendance at those meetings by each Board member is set out below. The Board maintains close dialogue by email and telephone between formal meetings, and during the year, Board members visited several Group sites. The Board has a formal schedule of matters reserved for its specific approval including review of Group strategic, operational and financial matters including proposed acquisitions and divestments. It approves the annual accounts and interim report, the annual budget, significant transactions and major capital expenditure and reviews the effectiveness of the system of internal control and the risks faced by the Group. The review covers all controls, including financial, operational and compliance controls and risk management. Authority is delegated to management through the Group Authorisation Limits on a structured basis, ensuring that proper management oversight exists at the appropriate level.

The managing directors and financial controllers of each of the business units held regular meetings with the Executive Chairman during the year to discuss operating and financial performance and key issues arising from these meetings were reported to the Board. All members of the Board are supplied in advance of meetings with appropriate information covering the matters which are to be considered. A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if required. If a Director has any concerns about a particular issue, such concerns are recorded in the minutes of the relevant Board meeting. In the event that a Director resigned over a matter that was of concern to him, such concerns would be communicated to the other Directors. All Directors have the opportunity to undertake relevant training, have full and timely access to relevant information and advice and to obtain the services of the Company Secretary.

All Directors submit themselves for reappointment at the next Annual General Meeting following appointment. The names of the Directors submitted for re-election are set out in the Directors' Report on page 8 and in the separate Notice of Annual General Meeting sent to all shareholders. The Chairman confirms that the performance of each Director resubmitting themselves for re-election continues to be effective and the individuals continue to demonstrate commitment to the role.

Attendance at Board Meetings
The Board had eight scheduled Board meetings in 2005 and ad hoc meetings (not included below) were convened as necessary to deal with urgent matters. Details of attendance at scheduled meetings is summarised below:

	Board	Audit	Nominations	Remuneration
Number held	8	4	3	3
Number attended[2]				
John Hughes[1]	4	2	1	3
Alastair Macdonald	8	3	3	3
John Maxwell[3]	2	—	1	1
Philip Swinstead	8	3	3	3
Alison Leyshon[3]	6	—	—	—

1 John Hughes was appointed to the Board on 2 May 2005
2 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 30 June 2005
3 Alison Leyshon and John Maxwell stepped down as Directors in July and June 2005 respectively

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

Committees
The following committees deal with the specific aspects of the affairs of the Group. The members of all Committees are the Non-executive Directors and the Chairman. The terms of reference of the three committees of the Board are made available for inspection by shareholders at the Annual General Meeting or, on request to the Company Secretary, can be inspected at the Company's head office.

Audit Committee
The Audit Committee meets at least twice annually and comprises the Non-executive Directors and the Executive Chairman. The Audit Committee is chaired by Alastair Macdonald. The Audit Committee reviews and, as appropriate, actively engages in the

processes for financial reporting, internal control, risk assessment, audit and compliance assurance, the consideration of the independence of the Group's internal and external auditors and the effectiveness of the Group's system of accounting, its internal financial controls and the internal and external audit functions.

No member of the Audit Committee has recent and relevant financial experience. The Board considers that the members of the Audit Committee have the financial experience and qualifications required and collectively the members have the requisite skills and attributes to enable the Audit Committee to properly discharge its responsibilities.

The Committee's principal terms of reference include:

- the oversight responsibilities described in the above paragraph;
- reviewing compliance with laws, regulations, the Group's code of conduct and policies;
- monitoring the integrity of the Group's financial statements and any announcements relating to the Group's financial performance and reviewing significant financial reporting judgements, changes in accounting policies and practices, significant adjustments resulting from the audit and the going concern assumption contained in them;
- reviewing the findings of the external audit with the external auditor;
- monitoring and reviewing the effectiveness of the internal controls;
- considering the major findings of internal control reviews and management's response;
- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditors;
- monitoring and reviewing the external auditors' independence and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services; and
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters.

In order to ensure an appropriate balance between cost effectiveness, objectivity and independence, the Audit Committee reviews the nature of all services, including non-audit work, provided by the external auditors each year. The Group normally expects to retain the external auditors to provide audit-related services, including work in relation to shareholder circulars and similar services. The external auditors have provided such services during 2005, details of which are set out in note 3 to the accounts on page 35. As part of the focus on costs, the Group conducted a competitive tender with potential suppliers and as a result the Group changed its auditors to BDO Stoy Hayward LLP.

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

The views of the Group's largest shareholders were sought by the Chairman of the Remuneration Committee in respect of the new Long-Term Incentive Plan which was approved at the Annual General Meeting on 30 June 2005.

Further details of the roles and responsibilities of the Committee are set out in the Remuneration Report on page 16.

Nominations Committee

The Nominations Committee comprises the Non-executive Directors and the Executive Chairman. The Committee is chaired by John Hughes having previously been chaired by Philip Swinstead. 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. John Hughes and Alwyn Welch were appointed to the Board in May 2005 and February 2006 respectively following an extensive external search. The search process for John Hughes was led by Philip Swinstead and the search process for Alwyn Welch was led by John Hughes.

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

All members of the Board usually attend the Annual General Meeting. The Chairmen of the Audit, Remuneration and Nominations Committees will normally be available to answer shareholders' questions at that meeting. Notice of the Meeting is posted to shareholders with the Report and Accounts not fewer than 20 working days prior to the date of the Annual General Meeting. The package sent to shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is proposed for each substantive matter. The Group's Annual Report and Accounts, Interim Report and other Stock Exchange announcements are published on the Group's website at www.parity.net. Copies of any presentations made to analysts or institutional shareholders are also published on the website.

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

Board Balance and Independence
The Combined Code requires a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the board's decision making. The number and quality of the Non-executive Directors on the Board, with their combination of diverse backgrounds and expertise, ensures that this principle is met. The Board considers that both of the Non-executive Directors are independent in character and judgement and that there are no relationships or circumstances which are likely to affect their independent judgement.

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

- Fair value and cash flow interest rate risk;
- Foreign currency risk;
- Liquidity risk;
- Credit risk

The policy for managing these risks is set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Fair Value and Cash Flow Interest Rate Risk
It is currently Group policy that all external Group borrowings (excluding overdraft facilities and finance lease payables) are fixed as part of a revolving loan facility with our bankers. Local operations are not permitted to borrow from external sources. Borrowings against the revolving loan facility are typically fixed for period of one week to one month. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates the cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of these risks.

Foreign currency risk
Foreign exchange risk arises because the Group has operations located in Europe and the US, whose functional currency is not the same as the primary functional currency of the Group (sterling). Following disposals in 2005 and early 2006 the scale of non

UK operations has been greatly reduced. The Group does not hedge its net investment in overseas operations as it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

It is Group policy that transactions between Group entities are always denominated in the selling Group entity's functional currency thereby giving rise to foreign exchange risk in the income statement of the purchasing Group entity and the Group. No external hedges are entered into in relation to these transactions as there is no exposure to consolidated net assets from intragroup transactions.

Liquidity risk

The liquidity of each Group entity is managed centrally, with daily transfers to operating entities to maintain a pre determined cash balance. The level of the Group facility is approved periodically by the Board and negotiated with the Group's current bankers.

Credit risk

The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally to assess credit risk of new customers before entering contracts. Such credit ratings are then factored into the credit assessment process to determine the appropriate credit limit for each customer. The Group does not enter into derivatives to manage credit risk.

Statement of Directors' Responsibilities — Accounts and Internal Control

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Remuneration Report

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

This report will be put to an advisory vote of the Company's shareholders at the Annual General Meeting on 28 June 2006.

Remuneration Committee
This part of the Remuneration Report is unaudited.
The Remuneration Committee comprises the Executive Chairman, Non-executive Deputy Chairman and the Non-executive Directors. During the year, its members were Alastair Macdonald, Philip Swinstead and John Hughes. John Maxwell was also a member of the Committee until his resignation in June 2005. The Committee was chaired by Alastair Macdonald until September 2005 and Philip Swinstead for the period from September 2005. In February 2006, Philip Swinstead resigned as Chairman of the Remuneration Committee and Alastair Macdonald was re-appointed. Directors are excluded from discussions about their personal remuneration.

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

The Committee has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate. In addition, Committee members keep themselves fully informed of all relevant developments and best practice by reading the circulars on remuneration and related matters that the Company receives from its advisors and if appropriate, by attending seminars. Pensions advice was provided by Gissings Consultancy Services during the year. In December 2005, the Group's pension advisors were changed to Cartwright Consulting Limited. Advice on share options, Co-investment and other Long-Term Incentive Plans is provided by Ashurst and Pinsent Masons. Ashurst and Pinsent Masons also provide other legal services to the Group.

The Board determines the remuneration of all Non-executive Directors within the limits set out in the Company's Articles of Association. Non-executive Directors are not involved in any decisions about their own remuneration. Details of Directors' remuneration for the year ended 31 December 2005 are set out in the table on page 20.

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

There were four key elements to the remuneration package of Senior Executives in the Group in 2005, including Executive Directors:

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

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

Any Executive Director or employee of a member of the Group is eligible to participate in the Long-Term Incentive Plan. However, it is intended that only the most senior key individuals will participate in the L-TIP. Those Executive Directors or employees who receive awards under the L-TIP will not be eligible for Executive Share Option incentives but will be eligible to participate in the Co-investment Scheme.

Salaries and Benefits

This part of the Remuneration Report is unaudited.

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

This part of the Remuneration Report is unaudited.

Philip Swinstead will not receive a performance bonus for 2005. John Hughes received a performance bonus of £20,000 for 2005. In addition, he received a guaranteed bonus of £40,000. This guaranteed bonus was agreed when he joined the Board in May 2005.

Co-investment Scheme

This part of the Remuneration Report is unaudited.

The Co-investment Scheme was approved by shareholders in 2004. Members are invited to join by the Board, having regard to the recommendations of the Remuneration Committee. At present the scheme is open to Executive Directors, the Managing Directors of the business units and during the year, one other senior executive. Under the rules of the scheme, members are entitled to invest up to 50% of the bonus that they earn under the Annual Performance Bonus Scheme in Parity shares. The shares are held on behalf of the employee and, providing the employee remains in Parity's employment, will be matched in number by the Company, on a one for one basis at the end of a defined period following the date of purchase. The award of matching shares will be subject to the achievement of an appropriate and demanding performance condition recommended by the Remuneration Committee and determined by the Board prior to the grant of the award, except in the initial year of operation of the Co-investment Scheme.

2005 is the first year of operation of the scheme following its approval by shareholders in 2004. In this initial year, the period that shares must be held before they are matched by the Company is twelve months and the matching award will not be subject to further performance conditions; this will mean that matching shares will vest in April 2006. In the second and later years of the scheme, the period during which the employee would have to hold shares before they were matched by the Company will rise from one year to three years. Depending on the Group's performance over those three years, the shares purchased by the employee will be matched on a sliding scale up to a maximum of 1.5-to-1 for outstanding performance.

Awards outstanding as at 31 December 2005 under the Co-investment Scheme are set out below:

This table is audited.

Date of Award	As at 1 January 2005	Awarded in year	Exercised in year	**As at 31 December 2005**	Exercise period
26 July 2005	—	359,000	—	**359,000**	1 year

Following the Capital Reorganisation (see note 35 on page 61) the Remuneration Committee will be considering what changes will be required to the current awards. Full details will be reported in the next Annual Report.

Long-Term Incentive Plan

This part of the Remuneration Report is audited.

The Long-Term Incentive Plan (L-TIP) was approved by shareholders in 2005. The L-TIP is open to the key individuals who are charged with leading the recovery in the Company's performance in the next three years. The L-TIP awards are intended to align the interests of these individuals with those of shareholders with a view to making substantial improvements in the Company's share price. Share price will be the key performance criterion for the L-TIP.

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

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

Awards outstanding as at 31 December 2005 under the Long-Term Incentive Plan are set out below:

This table is audited

Award Holder	Date of award	As at 1 January 2005	Awarded in year	Movement in year	**As at 31 December 2005**
John Hughes	4 July 2005	—	8,888,889	—	**8,888,889**
Philip Swinstead	4 July 2005	—	6,666,667	(4,416,667)	**2,250,000**
		—	15,555,556	(4,416,667)	**11,138,889**

The number of shares which may be issued under the L-TIP shall not exceed 12% of the Company's issued ordinary share capital.

During the year Mr. Swinstead's award under the L-TIP was reduced by 4,416,667 to reflect the change in his role from Chairman to Non-executive Deputy Chairman. In February 2006, Mr. Swinstead formally waived his awards under the existing L-TIP.

Following the Capital Reorganisation (see note 35 on page 61) the Remuneration Committee will be considering what changes will be required to the current awards. Full details will be reported in the next Annual Report.

Share Option Schemes

This part of the Remuneration Report is audited.

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

The Group also has a number of closed schemes (the 1994 Schemes). The number of options outstanding under the 1994 and 1999 Executive Share Option Plans and the 1994 and 1999 Sharesave scheme are set out on pages 20 to 22.

The aggregate share based payment charge for 2005 was £140,795 (2004: £169,083).

Directors' Pension Information

This part of the Remuneration Report is unaudited.

Both John Hughes and Philip Swinstead have waived their right to receive pension contributions from the Company for 2005. From 1 January 2006, John Hughes is entitled to a non contributory company pension contribution of 25% of basic salary.

Non-executive Directors' Remuneration

This part of the Remuneration Report is unaudited.

The Board determines the remuneration of the Non-executive Directors with the benefit of independent advice when required. The fees are set at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group and are benchmarked against those fees paid by other UK listed companies. Each of the Non-executive Directors receives a fee of £25,000 per annum which is subject to income tax and statutory deductions. As Non-executive Deputy Chairman, Philip Swinstead receives an annual fee of £75,000.

An additional fee of £5,000 is payable for the position of Chairman of any sub-committee of the Board. During the year, the Non-executive Directors each waived their right to receive the fee payable for their respective chairmanships of the Nominations, Remuneration and Audit Committees.

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

Executive Chairman's Remuneration

This part of the Remuneration Report is unaudited.

John Hughes joined the Company as Executive Chairman on 2 May 2005. He receives an annual salary of £200,000. He received a bonus of £60,000 for 2005, representing 30% of basic salary. From 2006 onwards he will be eligible to participate in the Group's Annual Performance Bonus arrangements. John Hughes waived his pension entitlement for 2005 but will be eligible for the normal executive pension arrangements, representing a non contributory company pension contribution of 25% of basic salary, from 1 January 2006. During the year he received 8,888,889 awards under the L-TIP. He is eligible for all other normal executive benefits and is also be eligible to participate in the L-TIP. His participation in the L-TIP means that he will not be granted any options under the Executive Share Option Plans.

Service Contracts and Letters of Appointment

This part of the Remuneration Report is unaudited.

The Group's policy is that no Director has a service contract with a notice period of greater than one year or has provision for pre-determined compensation on termination which exceeds one year's salary and benefits in kind except for specific arrangements which are set out below that have been agreed with Philip Swinstead in the event of a change of control. Non-executive Directors have Letters of Appointment which set out the terms of their appointments. All Board appointments are subject to the Company's Articles of Association.

Contractual arrangements for Directors who served during the year, are summarised below:

	Contract date	Notice period	Contractual termination payments
Alastair Macdonald[2,3]	1 March 2005	n/a	Renewable annually at the AGM and terminable at the will of the parties
Philip Swinstead[2,4]	Appointed non-executive director 1 October 2005	n/a	Terminable at the will of the parties
John Hughes[1]	2 May 2005	12 months	12 months rolling
John Maxwell[5]	27 July 2004	3 months	n/a
Alison Leyshon[5]	31 July 2001	12 months	1 year's salary and benefits in kind

1 The Company is required to give 12 months notice of termination of the Service Agreement to the Executive Director who is required to give 6 months notice to the Company.
2 The appointment of Non-executive Directors is terminable at the will of the parties.
3 Alastair Macdonald's letter of appointment dated 1 March 2005 was renewed by the Board at the AGM in June 2005.
4 The contract date is that of his original letter of appointment as Non-executive Deputy Chairman.
5 John Maxwell left the Board on 30 June 2005 and Alison Leyshon left the Board on 29 July 2005.

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

Other Non-executive Posts

This part of the Remuneration Report is unaudited.

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 (Audited)

The remuneration of the Directors for the year ended 31 December 2005 is set out below. John Hughes received a bonus of £60,000 for 2005 (included in Fees). This included a guaranteed amount of £40,000 that was agreed when he joined the Company in May 2005. No other bonuses were paid to Executive Directors during 2005 (2004: nil).

This table is audited.

	Salary/fees 2005 £'000	Benefits 2005 £'000	Compen-sation for loss of office £'000	Total emoluments 2005 £'000	Total emoluments 2004 £'000	Company pension contributions 2005 £'000	Company pension contributions 2004 £'000
Executive Directors							
J. Hughes[3]							
(appointed 2 May 2005)	193	10	—	203	—		—
I. Miller[1, 4]							
(resigned 30 November 2004)	6	—	210	216	372	1	58
A. Leyshon[1,5,]							
(resigned 29 July 2005)	107	8	234	349	202	22	30
Non-executive Directors							
P. Swinstead[2,3]							
(appointed 12 November 2004)	131	—	—	131	16	—	—
A. Macdonald[3]	25	—	—	25	25	—	—
J. Maxwell[3]							
(resigned 30 June 2005)	13	—	—	13	25		—
Total Emoluments	475	18	444	937	640	23	88

Notes

[1] Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors from the Company, up to the maximum percentage of earnings approved by the Inland Revenue.

[2] Philip Swinstead received an annual fee of £150,000 from the 1 December 2004 until 30 September 2005. This decreased to £75,000 with effect from 1 October 2005 to reflect his Non-executive status.

[3] An additional fee of £5,000 per annum is payable for the position of Chairman of any sub-committee of the Board. During the year, the Chairman of each sub-committee waived their right to receive the fee payable for their respective chairmanships of the Nominations, Remuneration and Audit Committees.

[4] Ian Miller left the Board in November 2004. During 2005, the Company settled a dispute regarding the financial terms of his departure. Details of the settlement have been disclosed in the above table.

[5] Alison Leyshon left the Board in July 2005. Her contractual terms are set out within the 2004 Report and Accounts.

Executive Share Option Plans

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

The rules of the Executive Share Option Plans (Plans) allow for annual grants to be awarded equivalent to a value of up to one times salary or up to two times salary in exceptional circumstances. A single inner-flow limit of 10% of the issued share capital of the Company in a ten year period, on a rolling basis, is applicable to the headroom available to award options over the life of the Plans. Rules of the current Plans expire in July 2009. The terms and conditions of existing share options have not been varied in the year. Details of options awarded and lapsed during the year are set out in the table on page 21. Details of the performance conditions attached to these options are set out below.

Executive share options granted prior to 31 December 2004 are exercisable in normal circumstances between three and ten years after the date of grant, provided that growth in earnings per share before goodwill amortisation and exceptional items over the three financial years following the date of grant exceeds RPI plus an incremental percentage determined by the Remuneration Committee. If growth is lower, there will be one re-test, using the same performance criterion, over the four financial years following the date of grant. With the exceptions noted below, where options are granted in the first six months of a year, the first financial year over which performance is measured is taken as the year of grant. EPS was chosen as an appropriate performance condition for the Plans as it is easily visible to shareholders and executives.

For Executive share options granted after 31 December 2004 the Company has moved to an arrangement whereby all executive share options are subject to performance conditions based on Total Shareholder Return, relative to an appropriate comparator group.

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

Options granted in 1999, 2000 and March 2001 have a performance criterion of growth in earnings per share exceeding RPI plus an average of 6% per annum. Options granted in June and November 2001, October 2003 and March and September 2004 have a performance criterion of growth in EPS exceeding RPI plus an average of 3% per annum. The year 2000 has been taken as the base year against which EPS growth is measured for options granted in 2001, the budget for the year 2004 has been taken as the base year for options granted in 2003 and March 2004 and the budget for the year 2005 has been taken as the base year for options granted in September 2004.

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

Options outstanding at 31 December 2005 are analysed below:

This table is audited.

Date of Grant	Exercise price per share	As at 1 January 2005	Awarded in year	Lapsed in year	As at 31 December 2005	Exercise period	
1994 Plans*							
22 September 1997	£1.86	31,050	—	—	31,050	2000–2007	a
06 October 1998	£1.93	45,000	—	(45,000)	—	2001–2008	a
1999 Plans							
13 June 2000	£1.98	30,800	—	(30,800)	—	2003–2010	b
16 March 2001	£1.37	10,000	—	(10,000)	—	2004–2011	b
29 June 2001	£0.58	69,400	—	(69,400)	—	2004–2011	b
23 November 2001	£0.59	516,237	—	(493,237)	23,000	2004–2011	b
23 November 2001	£1.50	100,000	—	(100,000)	—	2004–2011	b
23 November 2001	£1.00	150,000	—	(150,000)	—	2004–2011	b
21 October 2003	£0.10	5,060,000	—	(375,000)	4,685,000	2006–2013	b
30 March 2004	£0.11	1,545,000	—	(950,000)	595,000	2007–2014	b
22 September 2004	£0.10	525,000	—	(75,000)	450,000	2007–2014	b
27 September 2005	£0.075	—	1,850,000	—	1,850,000	2009–2015	b
	8,082,487	1,850,000	(2,298,437)	7,634,050			

* Figures stated after allowing for the three to one share adjustment following the July 1999 Scheme of Arrangement.

a Options granted in 1997 and 1998 under the 1994 Schemes are not subject to performance conditions.
b Performance conditions attached to options granted from 1999 are outlined above.

Following the Capital Reorganisation (see note 35 on page 61) the Remuneration Committee will be considering what changes will be required to the current awards. Full details will be reported in the next Annual Report.

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

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

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

Options outstanding as at 31 December 2005 under the Sharesave Scheme are set out below:
This table is audited.

	Year options granted	Exercise price pence per share	As at 1 January 2005	Awarded in year	Lapsed in year	**As at 31 December 2005**	Exercise period
1994 Scheme*							
27 March 1998	1998	218.30	6,252	—	(6,252)	—	2005
14 April 1999	1999	205.00	8,524	—	(8,524)	—	2005
1999 Scheme							
04 April 2000	2000	480.00	5,874	—	(2,109)	**3,765**	2003–2007
10 October 2000	2000	146.00	—	—	—	—	2003
02 November 2001	2001	38.00	798,500	—	(798,500)	—	2004
30 April 2004	2004	11.75	2,790,043	—	(867,236)	**1,922,807**	2007
Total			3,609,193	—	(1,682,621)	**1,926,572**	

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

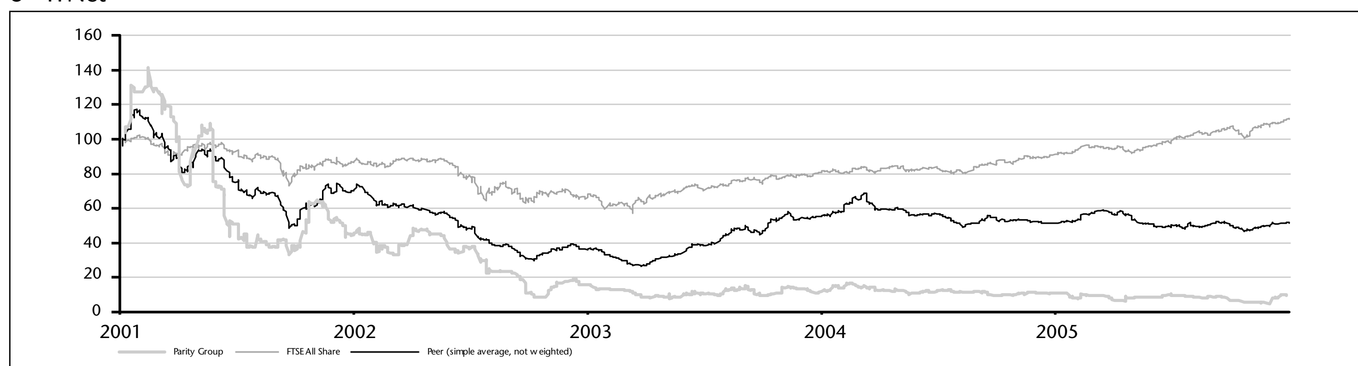
Following the Capital Reorganisation (see note 35 on page 61) the Remuneration Committee will be considering what changes will be required to the current awards. Full details will be reported in the next Annual Report.

None of the directors, who were directors at the year end, had any options under the Executive Share Option Plan or Sharesave Scheme.

Total Shareholder Return
This part of the Remuneration Report is unaudited.
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, Resources and Training.

In addition to Parity, the comparator group comprises:

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



Share Price
This part of the Remuneration Report is unaudited.
Parity's mid market share price on 31 December 2005 was 9.00p. During the period 1 January to 31 December 2005 shares traded at market prices between 4.25p and 9.87p.

Auditable Part of Remuneration Report
In their audit opinion on page 23 BDO Stoy Hayward 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 20 showing total emoluments received by the Directors in 2005
- The table on page 20 showing total pension contributions made on behalf of the Directors in 2005

The tables for share-based payment awards on pages 17, 18 and 22 also form part of the audited accounts.

For and on behalf of the Board
Alastair Macdonald
Chairman of the Remuneration Committee

Independent Auditors' Report to the Shareholders of Parity Group plc

We have audited the Group and parent company financial statements (the "financial statements") of Parity Group plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with those 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 other transactions is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
8 Baker Street, London, W1U 3LL, United Kingdom 24 May 2006

Consolidated Income Statement

for the year ended 31 December 2005

	Notes	**Before exceptional items year ended 31.12.2005 £'000**	**Exceptional items year ended 31.12.2005 £'000**	**Total year ended 31.12.2005 £'000**	Before exceptional items year ended 31.12.2004 £'000	Exceptional items year ended 31.12.2004 £'000	Total year ended 31.12.2004 £'000
Revenue	2	**138,523**	**—**	**138,523**	132,466	—	132,466
Employee benefit costs	3	**(23,642)**	**(483)**	**(24,125)**	(23,823)	(1,562)	(25,385)
Depreciation	3	**(766)**	**(194)**	**(960)**	(1,033)	—	(1,033)
Impairment of goodwill	11	**(2,500)**	**—**	**(2,500)**	—	—	—
All other operating expenses	3	**(115,813)**	**(1,613)**	**(117,426)**	(108,970)	(1,816)	(110,786)
Total operating expenses		**(142,721)**	**(2,290)**	**(145,011)**	(133,826)	(3,378)	(137,204)
Operating loss		**(4,198)**	**(2,290)**	**(6,488)**	(1,360)	(3,378)	(4,738)
Finance income	6	**6**	**—**	**6**	47	—	47
Finance costs	7	**(1,943)**	**—**	**(1,943)**	(1,470)	—	(1,470)
Loss before tax		**(6,135)**	**(2,290)**	**(8,425)**	(2,783)	(3,378)	(6,161)
Tax	9	**(378)**	**616**	**238**	(110)	308	198
Loss for the period from continuing operations		**(6,513)**	**(1,674)**	**(8,187)**	(2,893)	(3,070)	(5,963)
Discontinued operations							
(Loss) profit for the period from discontinued operations	8	**(472)**	**(563)**	**(1,035)**	717	(213)	504
Loss for the period attributable to equity shareholders of the company		**(6,985)**	**(2,237)**	**(9,222)**	(2,176)	(3,283)	(5,459)
Loss per share expressed in pence per share — Basic and diluted	10			**(3.23)**			(1.91)
Loss per share from continuing operations — Basic and diluted	10			**(2.87)**			(2.09)

Balance Sheets

at 31 December 2005

	Notes	*Consolidated* As at 31.12.05 £'000	*Consolidated* As at 31.12.04 £'000	*Company* As at 31.12.05 £'000	*Company* As at 31.12.04 £'000
Non-current assets					
Goodwill	11	**7,116**	9,616	**—**	—
Property, plant and equipment	12	**988**	1,920	**74**	21
Available for sale financial assets	13	**30**	30	**30**	30
Trade and other receivables	17	**—**	—	**74,220**	56,292
Investment in subsidiaries	14	**—**	—	**30,127**	44,127
Deferred tax assets	15	**4,954**	5,280	**—**	—
		13,088	16,846	**104,451**	100,470
Current assets					
Work in progress	16	**1,323**	1,664	**—**	—
Trade and other receivables	17	**35,539**	40,402	**667**	1,944
Current tax assets	18	**24**	687	**161**	125
Cash and cash equivalents	19	**749**	2,175	**—**	—
		37,635	44,928	**828**	2,069
Assets classified as held for sale and included in disposal groups	27	**8,746**	—	**—**	—
Total assets		**59,469**	61,774	**105,279**	102,539
Current liabilities					
Financial liabilities	20	**(18,039)**	(3,627)	**(21,481)**	(3,399)
Trade and other payables	21	**(29,550)**	(31,785)	**(3,842)**	(2,449)
Current tax liabilities	22	**(216)**	—	**—**	—
Provisions	23	**(1,718)**	(1,562)	**(579)**	(455)
		(49,523)	(36,974)	**(25,902)**	(6,303)
Non-current liabilities					
Financial liabilities	20	**(19)**	(12,241)	**—**	(12,200)
Trade and other payables	21	**—**	—	**(32,918)**	(33,809)
Provisions	23	**(2,129)**	(2,816)	**(633)**	(1,229)
Retirement benefit liability	30	**(4,657)**	(4,746)	**—**	—
		(6,805)	(19,803)	**(33,551)**	(47,238)
Liabilities classified as held for sale and included in disposal groups	27	**(7,231)**	—	**—**	—
Total liabilities		**(63,559)**	(56,777)	**(59,453)**	(53,541)
Net (liabilities) assets		**(4,090)**	4,997	**45,826**	48,998
Shareholders' (deficit) equity					
Called up share capital	31	**14,434**	14,434	**14,434**	14,434
Share premium account	29	**6,062**	6,062	**6,062**	6,062
Other reserves	29	**44,160**	44,160	**22,729**	36,729
Retained earnings	29	**(68,746)**	(59,659)	**2,601**	(8,227)
Total shareholders' (deficit) equity		**(4,090)**	4,997	**45,826**	48,998

Approved by the Board of Directors on 24 May 2006.

John Hughes
Chairman

Joe Kelly
Group Finance Director

Statements of Recognised Income and Expense

for the year ended 31 December 2005

	Consolidated		*Company*	
	Year ended 31.12.05 £'000	Year ended 31.12.04 £'000	**Year ended 31.12.05 £'000**	Year ended 31.12.04 £'000
Exchange differences on translation of foreign operations	**178**	(289)	**368**	(430)
Actuarial losses on defined benefit pension schemes	**(263)**	(924)	**—**	—
Deferred taxation on items taken directly to equity	**79**	277	**—**	—
Net (loss) gain recognised directly in equity	**(6)**	(936)	**368**	(430)
(Loss) profit for the period	**(9,222)**	(5,459)	**(3,579)**	(27,877)
Total recognised (expense) gain for the period	**(9,228)**	(6,395)	**(3,211)**	(28,307)

Cash Flow Statements

for the year ended 31 December 2005

	Notes	*Consolidated* **Year ended 31.12.05 £'000**	Year ended 31.12.04 £'000	*Company* **Year ended 31.12.05 £'000**	Year ended 31.12.04 £'000
Cash flows from operating activities					
Cash used in operations	24	**(4,460)**	(1,169)	**(4,741)**	(2,260)
Interest received		**23**	49	**3**	—
Interest paid		**(1,417)**	(884)	**(1,166)**	(797)
Tax received		**585**	1,006	**—**	90
Net cash used in operations		**(5,269)**	(998)	**(5,904)**	(2,967)
Cash flows used in investing activities					
Purchase of property, plant and equipment	12	**(327)**	(518)	**(78)**	(9)
Proceeds from disposal of property, plant and equipment		**155**	—	**18**	—
Net cash used in investing activities		**(172)**	(518)	**(60)**	(9)
Cash flows from financing activities					
Expenses from issue of ordinary shares		**—**	(56)	**—**	(56)
Repayment of loan notes		**(6)**	(8)	**(6)**	(8)
Net cash inflow from borrowings		**4,947**	2,475	**5,300**	1,200
Payment of capital element of finance leases		**(20)**	(17)	**—**	—
Equity dividends paid		**—**	(87)	**—**	(87)
Net cash from financing activities		**4,921**	2,307	**5,294**	1,049
Net (decrease) increase in cash and cash equivalents		**(520)**	791	**(670)**	(1,927)
Cash and cash equivalents at beginning of the period		**2,175**	1,393	**(3,393)**	(1,466)
Net foreign exchange difference		**83**	(9)	**82**	—
Cash and cash equivalents at end of the period	19	**1,738**	2,175	**(3,981)**	(3,393)

Notes to the Accounts

1 Accounting Policies

Basis of preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. This is the first time the company and Group has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK accounting standards. Details of how the transition from UK accounting standards to IFRSs has affected the Group's reported financial position, financial performance and cash flows are given in note 38.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent company (Parity Group plc) and its subsidiary undertakings (defined as where the Group has control). The financial statements of subsidiaries are prepared as of the same reporting date as the parent company, using consistent accounting policies.

The results of subsidiaries are consolidated, using the purchase method of accounting, from the date on which control of the net assets and operations of the acquired company are effectively transferred to the Group. Similarly, the results of subsidiaries divested cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group.

Going Concern

The Group's Revolving Loan Facility ('RLF') with its principal banker, Lloyds TSB ('LTSB') has been successfully renegotiated to 31 December 2007. The RLF, currently at £18m, will not be reduced following the disposal of Resources mainland Europe in January 2006.

In light of the ongoing committed RLF facility together with the proceeds received from the disposal of Resources mainland Europe and Parity Americas and the receipt of funds from the firm placing and open offer (see note 35), the Board believes that the adoption of the going concern basis is appropriate in the preparation of the 31 December 2005 Report and Accounts.

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

Changes in Accounting Policies

First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 January 2004, including those that were accounted for using the merger method of accounting under UK accounting standards has not been restated.
- The carrying amount of capitalised goodwill at 31 December 2003 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 January 2004. There were no identified adjustments for intangible assets that would have been required to be recognised in the acquiree's separate financial statements in accordance with IAS 38 'Intangible Assets', such as development costs.
- Goodwill written off directly to reserves on business combinations effected before 1 January 1998 has not retrospectively been capitalised and will not be transferred to the income statement on the disposal of a subsidiary to which it relates.
- Actuarial gains and losses of employee defined benefit plans have been recognised in full at 1 January 2004.
- Only those exchange differences arising on the retranslation of foreign operations since 1 January 2004 have been recognised as a separate component of equity.
- The requirements for hedge accounting were satisfied as at 1 January 2004 as no hedge transactions have been entered into. Given the absence of hedge transactions comparative information for financial instruments has not been restated from amounts previously reported in accordance with UK GAAP.
- Designation of financial assets as held for trading and available for sale was made on 1 January 2004.
- IFRS 2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2005.

Revenue Recognition

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

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

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

1 Accounting Policies continued

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

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

Under managed service contracts, with the exception of certain contracts currently operated by Resources UK where Parity does not consider itself principal, the Directors believe that the Group meets the definition of a principal in accordance with IAS 18 and consequently the value of services billed to clients is recognised on a gross basis as those services are performed.

Exceptional Items

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses, litigation and similar settlements, and asset impairments.

Dividends

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

Income Tax

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of certain assets and liabilities and their carrying amounts in the financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination or from an asset or liability, the initial recognition of which does not affect either taxable or accounting income. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Foreign Currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Group

The balance sheets of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The operating results are translated at the average rate where this approximates to the transaction date rate. The exchange differences arising on the retranslation of opening net assets, together with the results at actual rate, 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.

Non-current Assets Held for Sale and Disposal Groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

1 Accounting Policies continued

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed during the year are included in the consolidated income statement up to the date of disposal.

Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

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

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Costs that are directly attributable to the development or enhancement of internally built property, plant and equipment are capitalised.

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

Financial Assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

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.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short-term deposits and other short-term liquid investments. In the consolidated cash flow statement, cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Work in Progress

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

1 Accounting Policies continued

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

Amounts Recoverable on Contracts and Payments in Advance

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

Financial Liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Other financial liabilities

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at cost.
- Bank borrowings: such interest bearing liabilities are measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.

Leases

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

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

Property Provisions

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

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

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, where it is more likely than not that an outflow of resources will be required to settle the obligation, and where the amount can be reliably estimated.

Pensions and Other Post-employment Benefits

The Group operates a number of retirement benefit schemes. With the exception of the 'Parity Retirement Benefit Plan', all of the schemes are defined contribution plans and the assets are held in separate, independently administered funds. The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

The 'Parity Retirement Benefit Plan' is a defined benefit pension fund with assets held separately from the Group. This fund has been closed to new members since 1995 and with effect from 1 January 2005 was also closed to future service accrual. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method.

Past service costs are included where the benefits have vested otherwise they are amortised on a straight line basis over the vesting period. The expected return on the assets of the funded defined benefit pension plan is included within other operating costs in the income statement and the imputed interest on the pension plan liabilities is included within finance costs in the income statement. Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of recognised income and expense in full in the period in which they arise.

Defined benefit scheme surpluses and deficits are measured at the fair value of assets at the balance sheet date; less scheme liabilities using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities.

1 Accounting Policies continued

Derivative Financial Instruments

Parity has not sought to apply hedge accounting to the limited number of derivative instruments it uses and as such any gains or losses arising from changes in fair value are taken directly to the income statement.

Employee Share Ownership Plan (ESOP)

As the company is deemed to have control of its ESOP trust, it is treated as a subsidiary and consolidated for the purposes of the Group accounts. The ESOP's assets (other than investments in the company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements. The ESOP's investment in the company's shares is deducted from shareholders' funds in the Group balance sheet as if they were treasury shares, except that profits on the sale of ESOP shares are not credited to the share premium account.

The trustees of the EBT have discretionary powers to grant options to Group employees. At 31 December 2005, the ESOP held 2,756,238 (2004: 2,756,238) ordinary shares. At 31 December 2005, the market value of the ordinary shares held by the ESOP was £248,000 (2004: £272,000). The value of the ESOP's investment in the Company that has been deducted from shareholders deficit in the Group and Company's balance sheets is £448,000 (2004: £448,000).

Share-based Payments

The Group operates various share-based award schemes. The fair value of the award at the date of grant is recognised in the income statement (together with a corresponding increase in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting rests upon a market condition.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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

2 Segmental Analysis

The Group is organised into three primary business segments: Business Solutions, Training and Resources.

		Consolidated
	2005 **£'000**	2004 £'000 restated
Revenue — continuing operations		
Business Solutions	**22,587**	23,067
Training	**20,044**	23,771
Resources	**95,892**	85,628
	138,523	132,466
Revenue — discontinued operations		
Business Solutions	—	597
Training	—	624
Resources	**38,116**	36,173
	38,116	37,394
Geographical analysis		
United Kingdom	**134,087**	128,139
Mainland Europe	**4,436**	4,327
	138,523	132,466

2004 figures have been restated to reflect the sale of Mainland Europe and USA operations.

2 Segmental Analysis continued

	Operating result before exceptional items		*Exceptional items*		*Operating result after exceptional items*	
	2005 £'000	2004 £'000 restated	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
Continuing operations						
Business Solutions	**21**	1,382	**(607)**	(893)	**(586)**	489
Training	**(1,161)**	(991)	**(1,007)**	(218)	**(2,168)**	(1,209)
Resources	**1,844**	1,239	**5**	87	**1,849**	1,326
	704	1,630	**(1,609)**	(1,024)	**(905)**	606
Central costs	**(2,402)**	(2,990)	**(681)**	(2,354)	**(3,083)**	(5,344)
Impairment of goodwill	**(2,500)**	—	**—**	—	**(2,500)**	—
Segment results	**(4,198)**	(1,360)	**(2,290)**	(3,378)	**(6,488)**	(4,738)
Interest expense	**(1,943)**	(1,470)	**—**	—	**(1,943)**	(1,470)
Interest income	**6**	47	**—**	—	**6**	47
Loss before tax	**(6,135)**	(2,783)	**(2,290)**	(3,378)	**(8,425)**	(6,161)
Tax	**(378)**	(110)	**616**	308	**238**	198
Loss for the year from continuing operations	**(6,513)**	(2,893)	**(1,674)**	(3,070)	**(8,187)**	(5,963)

	Operating result before exceptional items		*Exceptional items*		*Operating result after exceptional items*	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
Discontinued operations						
Business Solutions	**—**	(87)		—		(87)
Training	**—**	53		—		53
Resources	**1,054**	763	**(563)**	(305)	**491**	458
Segment results	**1,054**	729	**(563)**	(305)	**491**	424
Interest expense	**(233)**	(120)	**—**	—	**(233)**	(120)
Interest income	**17**	4	**—**	—	**17**	4
Profit (loss) before tax	**838**	613	**(563)**	(305)	**275**	308
Tax	**(1,310)**	104	**—**	92	**(1,310)**	196
(Loss) profit for the year from discontinued operations	**(472)**	717	**(563)**	(213)	**(1,035)**	504

2 Segmental Analysis continued

31 December 2005	**Business Solutions £'000**	**Training £'000**	**Resources £'000**	**Unallocated £'000**	**Disposal Group £'000**	**Group £'000**
Segment total assets	**12,982**	**12,387**	**31,699**	**(6,345)**	**8,746**	**59,469**
Segment total liabilities	**(8,241)**	**(9,295)**	**(17,202)**	**(21,591)**	**(7,231)**	**(63,559)**
Other segment items						
Capital expenditure	**111**	**18**	**48**	**96**	**54**	**327**
Depreciation	**136**	**507**	**300**	**17**	**79**	**1,039**
Other non cash expenses	**47**	**35**	**33**	**26**	**—**	**141**

31 December 2004	Business Solutions £'000	Training £'000	Resources £'000	Unallocated £'000	Group £'000
Segment total assets	11,144	14,745	38,317	(2,432)	61,774
Segment total liabilities	(9,762)	(7,509)	(19,419)	(20,087)	(56,777)
Other segment items					
Capital expenditure	45	257	207	9	518
Depreciation	212	358	529	35	1,134
Other non cash expenses	50	36	54	28	168

Secondary Format — Geographical Segments

The Group manages its business segments on a global basis. The operations are based in four main geographical areas. The UK is the home country of the parent. The main operators in the principal territories are as follows:

United Kingdom
USA (disclosed as a discontinued operation)
Germany (disclosed as an asset held for sale)
Other mainland Europe countries

The revenue analysis on the table below is based on the location of the customer which is not materially different from the location of where the order is received and where the assets are located.

	Revenue		*Segment assets*		*Capital expenditure*	
Continuing operations	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
United Kingdom	**134,087**	128,139	**52,133**	49,006	**240**	352
Mainland Europe countries	**4,436**	4,327	**3,274**	3,609	**15**	7
Unallocated assets	**—**	—	**(6,345)**	(2,432)	**18**	—
	138,523	132,466	**49,062**	50,183	**273**	359

	Revenue		*Segment assets*		*Capital expenditure*	
Discontinued operations	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
USA	**8,496**	14,489	**1,661**	4,155	**33**	148
Germany	**19,980**	17,173	**5,674**	5,569	**19**	11
Other mainland Europe countries	**9,640**	5,732	**3,072**	1,867	**2**	—
	38,116	37,394	**10,407**	11,591	**54**	159

3 Operating Costs

	2005 £'000	2004 £'000 restated
Employee Benefit Costs		
— wages and salaries	**21,139**	22,815
— social security costs	**2,435**	1,449
— other pension costs	**551**	1,121
	24,125	25,385
Impairment of goodwill	**2,500**	—
Depreciation of leased assets	**31**	33
Depreciation of tangible assets	**929**	1,000
	3,460	1,033
Loss (profit) on disposal of fixed assets	**18**	33
Group audit fees and expenses, of which the parent company was £44,000 (2004: £24,000)	**125**	236
Operating lease rentals — plant and machinery	**204**	404
— land and buildings	**1,984**	2,614
Net exchange (gain) loss	**(8)**	(206)
Other operating costs	**115,103**	107,705
	117,426	110,786
Total operating expenses (gain)	**145,011**	137,204

	2005 £'000	2004 £'000
Operating costs includes auditors' remuneration as follows:		
Statutory audit fees	**125**	236
Regulatory work	**36**	33
	161	269
Non audit services		
Assistance regarding restructuring — included in exceptional costs	—	35
Tax compliance	**37**	34
Other	**110**	—
	147	69

All non audit services with the exception of tax compliance of £nil (2004: £34,000) have been performed in the United Kingdom. Disclosures relating to the remuneration of Directors are set out on pages 16 to 22.

4 Exceptional Items

Continuing operations	**2005 £'000**	2004 £'000
Redundancy payments	**483**	1,562
Property restructuring	**573**	1,646
Network and IT Support Services exit costs	**1,234**	—
Other	**—**	170
Total exceptional items from continuing operations	**2,290**	3,378

The exceptional charge of £2,290,000 (2004: £3,378,000) for continuing operations relates to the restructuring of the Group and the implementation of a new UK-centric strategy as highlighted in the Chairman's Report on page 2. Redundancy payments related mainly to the centralisation of the Group's finance function, plus changes in senior management. Property restructuring includes additional onerous lease provisions for those vacant properties where the prospect of subletting in the short-term appears unlikely. Network and IT support services exit costs are directly attributable to the change in provider of outsourced IT services to the Group.

Discontinued operations	**2005 £'000**	2004 £'000
Redundancy payments	**60**	81
Property restructuring	**287**	214
Other	**216**	10
Total exceptional items from discontinued operations	**563**	305

Exceptional items from discontinued operations are shown gross of tax. The tax credit relating to exceptional items from discontinued operations is £nil (2004: £92,000).

5 Average Staff Numbers

	2005 no.	2004 no.
Continuing operations		
Business Solutions — United Kingdom*	**183**	220
Training — United Kingdom	**142**	217
Resources — United Kingdom	**130**	117
Resources — Mainland Europe	**35**	67
Discontinued operations		
Resources — Mainland Europe	**63**	62
Parity Americas	**113**	160
	666	843

* Includes corporate office employees. At 31 December 2005, the Group had 460 continuing employees (2004: 764).

6 Finance Income

	2005 £'000	2004 £'000
Bank interest receivable	**6**	47
Total finance income	**6**	47

7 Finance Costs

	2005 £'000	2004 £'000
Bank interest payable	**(1,246)**	(845)
Post-retirement benefits	**(692)**	(618)
Other interest payable	**(5)**	(7)
Total finance costs	**(1,943)**	(1,470)

8 Discontinued Operations

	2005 £'000	2004 £'000
Pre-tax profit from discontinued operations	**87**	88
Gain on disposal of subsidiary net tangible assets	**188**	220
Taxation	**(1,310)**	196
Net (loss) profit on disposal	**(1,122)**	416
Total	**(1,035)**	504

Effective 1 November 2005, the Group sold the business and certain assets of its US operations, Parity Americas. The consideration, comprising an initial payment of £145,000 and a guaranteed minimum earnout of £445,000 will be received over an earn-out period which commenced on 1 November 2005 and will conclude on 31 January 2007. The contingent element of the consideration, which is based on profitability of the business sold, has not been recognised at 31 December 2005.

Subsequent to year end the Group completed the sale of substantially all of its mainland European operations. As a consequence these operations have been disclosed as discontinued for the year ended 31 December 2005.

The tax charge of £1,310,000 (2004: £196,000 credit) relates to operations.

Cash flows from discontinued operation

	2005 £'000	2004 £'000
Net cash flows from operating activities	**198**	(1,695)
Net cash flows from investing activities	**60**	(159)
Net cash flows from financing activities	**(352)**	1,263
	(94)	(591)

Discontinued operations contributed £38,116,000 (2004: £37,394,000) to revenue, £275,000 (2004: £308,000) to pre-tax profit, after expenses of £37,841,000 (2004: £37,086,000) the taxation relating to discontinued operations was £1,310,000 expense (2004: £196,000 credit).

9 Tax

	2005 £'000	2004 £'000
Current tax:		
Continuing operations	**489**	(46)
Discontinued operations	**390**	(6)
	879	(52)
Deferred tax		
Continuing operations	**(727)**	(152)
Discontinued operations	**920**	(190)
	193	(342)
Taxation	**1,072**	(394)

The tax (credit) charge above includes a £616,000 tax credit for the year ended 31 December 2005 (2004: £308,000 charge) arising in respect of exceptional items. The total tax credit relating to continuing operations is £238,000 (2004: £198,000).

	2005 £'000	2004 £'000
Analysis of tax charge for the year		
Current tax:		
Tax on profits for the current year	**229**	236
Adjustments in respect of previous years	**260**	(282)
	489	(46)
Deferred tax:		
Origination and reversal of temporary timing differences	**(727)**	(152)
Total tax (credit)/charge on continuing operations	**(238)**	(198)

Tax on items charged to equity	2005 £'000	2004 £'000
Deferred tax relating to defined benefit pension scheme	**79**	277

9 Tax continued

	2005 £'000	2004 £'000
(Loss) profit on ordinary activities before tax	**(8,425)**	(6,161)
(Loss) profit on ordinary activities multiplied by rate of corporation tax in the UK of 30% (2004: 30%)	**(2,527)**	(1,848)
Effects of:		
Adjustments relating to overseas tax rates	**—**	10
Adjustments in respect of prior periods	**260**	(280)
Goodwill impairment not allowable	**750**	—
Tax losses not recognised	**873**	1, 240
Tax losses recognised in deferred tax	**—**	521
Tax losses utilised	**—**	(384)
Timing differences	**—**	441
Other	**406**	102
	(238)	(198)

10 Earnings Per Ordinary Share

Basic earnings per share is calculated by dividing the basic earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the ESOP Trust, which are treated as cancelled.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. The Group has one class of potential dilutive ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period. In April 2005, July 2005 and September 2005, the Company granted 359,000 awards under the Co-investments Scheme, 11,138,889 awards under the Long-Term Incentive Plan and 1,850,000 options under the Executive Share Option Scheme respectively. These awards/options have an exercise price which is below the average price of the Company's ordinary shares during the year. The incremental shares from the assumed exercise of these options/awards are not included in calculating the diluted per share amounts as they are antidilutive. This is due to the Group incurring a loss for the year (2004: loss).

10 Earnings Per Ordinary Share continued

	Earnings £'000	**2005 weighted average number of shares thousands**	**Per-share amount pence**	Earnings £'000	2004 weighted average number of shares thousands	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**(9,222)**	**288,692**		(5,459)	288,692	
Shares held by the ESOP Trust		**(2,756)**			(2,756)	
Effect of dilutive securities						
Options		—			—	
Diluted EPS						
Adjusted earnings	**(9,222)**	**285,936**	**(3.23)**	(5,459)	285,936	(1.91)
Earnings per share from continuing operations						
Basic EPS	**(9,222)**	**285,936**	**(3.23)**	(5,459)	285,936	(1.91)
Profit on sale of subsidiary	**(188)**		**(0.07)**	(220)		(0.08)
Pre-tax profits from discontinued operations	**(87)**		**(0.03)**	(88)		(0.03)
Tax on discontinued operations	**1,310**		**0.46**	(196)		(0.07)
Basic EPS from continuing operations	**(8,187)**	**285,936**	**(2.87)**	(5,963)	285,936	(2.09)
Diluted EPS	**(9,222)**	**285,936**	**(3.23)**	(5,459)	285,936	(1.91)
Profit on sale of subsidiary	**(188)**		**(0.07)**	(220)		(0.08)
Pre-tax profits from discontinued operations	**(87)**		**(0.03)**	(88)		(0.03)
Tax on discontinued operations	**1,310**		**0.46**	(196)		(0.07)
Diluted EPS from continuing operations	**(8,187)**	**285,936**	**(2.87)**	(5,963)	285,936	(2.09)
Earnings per share from discontinued operations						
Basic EPS						
Profit on sale of subsidiary	**188**	**285,936**	**0.07**	220	285,936	0.08
Pre-tax profits from discontinued operations	**87**		**0.03**	88		0.03
Tax on discontinued operations	**(1,310)**		**(0.46)**	196		0.07
Basic EPS from discontinued operations	**(1,035)**	**285,936**	**(0.36)**	504	285,936	0.18
Diluted EPS						
Profit on sale of subsidiary	**188**	**285,936**	**0.07**	220	285,936	0.08
Pre-tax profits from discontinued operations	**87**		**0.03**	88		0.03
Tax on discontinued operations	**(1,310)**		**(0.46)**	196		0.07
Diluted EPS from discontinued operations	**(1,035)**	**285,936**	**(0.36)**	504	285,936	0.18
Earnings per share from continuing operations before exceptional costs						
Basic EPS						
Earnings attributable to ordinary shareholders	**(9,222)**	**285,935**	**(3.23)**	(5,549)	285,935	(1.91)
Post-tax exceptional costs	**1,674**			3,070		
Profit on sale of subsidiary	**(188)**			(220)		
Pre-tax profits from discontinued operations	**(87)**			(88)		
Tax on discontinued operations	**1,310**			(196)		
Diluted EPS						
Adjusted earnings	**(6,513)**	**285,935**	**(2.28)**	(2,893)	285,935	(1.01)

On 24 April the shareholders approved the issue of 32,038,427 shares of 50p and the capital reorganisation of pre-existing ordinary shares, details of the capital reorganisation are given in note 35 on page 61.

Had this capital reorganisation taken place on 1 January 2005, the weighted average number of shares for the year to 31 December 2005 would have been 5,733,834 (2004: 5,733,834) and the basic and diluted loss per share for the year to 31 December 2005 would have been 161.5p (2004: 95.5p).

11 Goodwill

Group	*£'000*
Cost	
At 1 January 2004 and 1 January 2005	9,616
Aggregate impairment	
At 1 January 2004 and 1 January 2005	—
Charge for the year	(2,500)
At 31 December 2005	(2,500)
Net book value at 31 December 2005	**7,116**
Net book value at 1 January 2004 and 1 January 2005	9,616

During the year the carrying value of goodwill was tested for impairment in accordance with IAS 36. Following the impairment test, a goodwill charge of £2,500,000 has been recognised in respect of the Training business unit. The goodwill impairment resulted from the poor trading performance of this Business Unit over the past two years.

All of the recoverable amounts were measured based on value in use.

Details of goodwill allocated to cash generating units for which the amount of goodwill so allocated is significant in comparison to total goodwill is as follows:

	Goodwill carrying amount	
	2005	2004
	£'000	£'000
Business Solutions	**3,124**	3,124
Training	**2,522**	5,022
Resources	**1,470**	1,470
	7,116	9,616

The key assumptions used in the consideration of the carrying value of goodwill were:

A pre-tax discount rate of 10% was used in the value in use calculations and a period of 10 years has been assumed. Management believes that a discount period of less than 10 years does not accurately reflect the long-term nature of the initial investments and their overall contribution to the future profitability of the Group.

The budget gross margin was based on the achieved individual gross margins for each cash generating unit in 2005, uplifted for forecast improvements expected as part of the 2005 restructuring plan. Management believes that the assumed improvements are reasonably achievable.

As noted earlier, there has been an impairment charge in the accounts in respect of the Training business unit. The value in use estimate is £3,400,000 which is £860,000 higher than the carrying value of the goodwill post write down. Management does not believe that a further impairment is likely due to the £860,000 headroom against carrying value.

12 Property, Plant and Equipment

Group	**Leasehold improvements £'000**	**Motor vehicles £'000**	**Office equipment £'000**	**Total £'000**
Cost				
At 1 January 2005	**2,948**	**139**	**19,324**	**22,411**
Exchange adjustments	**6**	**—**	**8**	**14**
Additions at cost	**7**	**—**	**320**	**327**
Disposals	**(89)**	**(58)**	**(9)**	**(156)**
Disposals on sale of subsidiary	**(133)**	**—**	**(1,003)**	**(1,136)**
Classified as held for sale	**—**	**—**	**(550)**	**(550)**
At 31 December 2005	**2,739**	**81**	**18,090**	**20,910**

12 Property, Plant and Equipment continued

Group	**Leasehold improvements £'000**	**Motor vehicles £'000**	**Office equipment £'000**	**Total £'000**
Accumulated depreciation				
At 1 January 2005	**2,320**	**58**	**18,113**	**20,491**
Exchange adjustments	**5**	**—**	**4**	**9**
Charge for the year	**106**	**—**	**933**	**1,039***
Disposals	**(69)**	**(50)**	**(1)**	**(120)**
Disposals on sale of subsidiary	**(102)**	**—**	**(872)**	**(974)**
Classified as held for sale	**—**	**—**	**(523)**	**(523)**
At 31 December 2005	**2,260**	**8**	**17,654**	**19,922**
Net book value at 31 December 2005	**479**	**73**	**436**	**988**
Net book value at 1 January 2005	628	81	1,211	1,920

* The depreciation charge for the year includes £79,000 in respect of assets classified as held for sale.

As at 31 December 2005, the Group had no capital commitments contracted for but not provided (2004: £nil).

	Consolidated		*Company*	
Assets held under finance leases and capitalised in office equipment	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
Cost	**91**	91	**—**	—
Aggregate depreciation	**(91)**	(62)	**—**	—
Net book value	**—**	29	**—**	—

Company	**Leasehold improvements £'000**	**Motor vehicles £'000**	**Office equipment £'000**	**Total £'000**
Cost				
At 1 January 2005	**30**	**58**	**401**	**489**
Additions	**—**	**—**	**78**	**78**
Disposals	**—**	**(58)**	**—**	**(58)**
At 31 December 2005	**30**	**—**	**479**	**509**
Accumulated depreciation				
At 1 January 2005	**30**	**50**	**388**	**468**
Charge for the year	**—**	**—**	**17**	**17**
Disposals	**—**	**(50)**	**—**	**(50)**
At 31 December 2005	**30**	**—**	**405**	**435**
Net book value at 31 December 2005	**—**	**—**	**74**	**74**
Net book value at 1 January 2005	—	8	13	21

As at 31 December 2005, the Company had no capital commitments contracted for but not provided (2004: £nil).

12 Property, Plant and Equipment continued

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

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

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13 Available for Sale Financial Assets

	Consolidated		*Company*	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
At 1 January 2005 and 31 December 2005	**30**	30	**30**	30

Available for sale financial assets represent a holding of 7,665 shares of common stock in Unicru Inc. Unicru Inc. is the leading US provider of workforce selection and optimisation solutions.

14 Investment in Subsidiaries

	Company	
	2005	2004
	£'000	£'000
Shares in Group undertakings		
At 1 January	**44,127**	45,959
Impairment	**(14,000)**	(1,832)
At 31 December	**30,127**	44,127

Investment in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost. 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 in given in note 39.

Provision for impairment
At 31 December 2004 Parity Group carried out an impairment review of its parent company's investments in subsidiaries, as a result of which it has been necessary to record a provision of £23,268,000, in 2004, for impairment in the carrying value of its equity and loan investments in certain of those subsidiaries. This provision was charged through the parent company's income statement in 2004, resulting in a debit balance of £8,227,000 in the reserves at 31 December 2004. In order to mitigate the effect on the parent company's retained earnings, the parent company has undertaken a reorganisation, in 2005, of its investments in subsidiaries. This has resulted in part of the aforementioned 2004 impairment charge against the loan investments being reversed and the recording, against its amended equity investments, of an additional impairment provision of equivalent value. This new impairment against equity investments has been transferred to 'Other reserves', which relate to these investments. As a consequence, Parity Group plc's retained earnings have been restored by £14,000,000 in 2005.

15 Deferred Tax

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
At 1 January	**5,280**	4,404	—	33
Amounts taken directly to equity	**79**	276	—	—
Amounts transferred from current tax	**(117)**	258	—	—
Profit and loss charge	**(193)**	342	—	(33)
Other	**(90)**	—	—	—
Transferred to assets classified as held for resale and included in disposal groups (note 27)	**(5)**	—	—	—
	4,954	5,280	—	—

The movements in short-term timing differences have gone through the income statement apart from an amount of £79,000 (2004: £276,000) relating to taxation on actuarial gains and losses for the year, which have gone through the Statement of Recognised Income and Expense.

The deferred tax balance of £4,954,000 (2004: £5,280,000) comprises:

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Trading losses carried forward	**1,535**	1,420	—	—
Short-term and other timing differences	**3,419**	3,860	—	—
	4,954	5,280	—	—

The Group has unrecognised carried forward tax losses of £17,657,000 (2004: £9,636,000), of which £5,294,000 relates to the USA; Company £3,163,000 (2004: £2,699,000). The Group has unrecognised capital losses carried forward of approximately £281,407,000 (2004: £281,407,000).

A deferred tax asset is recognised in respect of tax losses carried forward where it is more likely than not that there will be taxable profits in the foreseeable future against which the deferred tax asset can be offset. Commentary on Group profitability is given in the Chairman's Statement on page 2. A deferred tax asset is not recognised where there is insufficient evidence of short-term recoverability.

16 Work in Progress

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Work in progress:				
Net costs less foreseeable losses	**1,323**	1,664	—	—

17 Trade and Other Receivables

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Amount falling due within one year:				
Trade debtors	**19,931**	24,169	—	—
Accrued income	**10,808**	13,622	—	—
Amounts recoverable on contracts	**2,387**	124	—	—
Amounts owed by subsidiary undertakings	—	—	—	1,510
Other debtors	**1,057**	708	**330**	141
Prepayments	**1,356**	1,779	**337**	293
	35,539	40,402	**667**	1,944
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	—	—	**74,220**	56,292
	—	—	**74,220**	56,292
	35,539	40,402	**74,887**	58,236

18 Current Tax Assets

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
UK corporation tax	—	477	**161**	125
Overseas corporation tax	**24**	210	—	—
	24	687	**161**	125

19 Cash and Cash Equivalents

	Consolidated		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**749**	5,641	—	—
Overdrafts (note 20(a) and note 28)	—	(3,466)	**(3,981)**	(3,393)
	749	2,175	**(3,981)**	(3,393)
Cash and cash equivalents held in assets classified as held for sale and in disposal groups	**989**	—	—	—
Total cash and cash equivalents	**1,738**	2,175	**(3,981)**	(3,393)

The Group includes bank overdrafts in cash and cash equivalents for financial reporting purposes. The Group's banking facilities with Lloyds TSB Bank plc allow for cash and bank overdrafts to be offset. The Company's bank overdraft is included within financial liabilities.

20 Financial Liabilities — Borrowings

Current	Consolidated 2005 £'000	Consolidated 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank and other borrowings due within one year or on demand:				
Bank overdrafts[a]	—	—	**3,981**	3,393
Bank loans[a] (note 28)	**17,500**	—	**17,500**	—
Other bank borrowings[b] (note 28)	**518**	3,602	—	—
Variable rate loan notes 2004 (note 28)	—	6	—	6
Obligations under finance leases (note 28)	**21**	19	—	—
	18,039	3,627	**21,481**	3,399
Borrowings included in liabilities classified as held for sale and disposal groups				
Other bank borrowings[b]	**2,157**	—	—	—
Invoice factoring facility[c]	**574**	—	—	—
	2,732	—	—	—
	20,770	3,627	**21,481**	3,399

Non-current	Consolidated 2005 £'000	Consolidated 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank and other borrowings due after one year:				
Bank loans (note 28)	—	12,200	—	12,200
Obligations under finance leases (note 28)	**19**	41	—	—
	19	12,241	—	12,200

[a] The bank overdraft and bank loans are secured by a charge over the trade debtors of certain subsidiaries within the Parity Group.
[b] Other bank borrowing represent a revolving multicurrency undisclosed debt purchase facility with HSBC Bank plc. Borrowings under this facility are secured by a charge over the trade debtor balances of certain subsidiaries within the Parity Group.
[c] Borrowings under the invoice factoring facility are secured by the debtors purchased under the facility.

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

Further details of the Group's banking facilities are given in note 28.

21 Trade and Other Payables

	Consolidated 2005 £'000	Consolidated 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due within one year:				
Payments in advance	**2,177**	3,108	—	—
Trade creditors	**14,788**	15,771	—	—
Amounts due to subsidiary undertakings	—	—	**767**	195
Other taxes and social security costs	**3,737**	2,390	—	46
Other creditors and accruals	**8,848**	10,516	**3,075**	2,208
	29,550	31,785	**3,842**	2,449
Amounts falling due after one year:				
Amounts due to subsidiary undertakings	—	—	**32,918**	33,809
	—	—	**32,918**	33,809
	29,550	31,785	**36,760**	36,258

22 Current Tax Liabilities

	Consolidated		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
UK corporation tax	**216**	—	—	—
	216	—	—	—

23 Provisions

Group	Property provisions £'000	Total £'000
Balance at 1 January 2005	4,378	4,378
Created	1,040	1,040
Utilised	(1,275)	(1,275)
Released	(296)	(296)
Balance at 31 December 2005	**3,847**	**3,847**

Property provisions comprise provisions for onerous leases and dilapidations of £2,543,000 (2004: £2,988,000) and £1,304,000 (2004: £1,390,000) respectively.

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

Company	Property provisions £'000	Total £'000
Balance at 1 January 2005	1,684	1,684
Created	210	210
Utilised	(553)	553
Reclassified	(129)	(129)
Balance at 31 December 2005	**1,212**	**1,212**

	Consolidated		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Current	**1,718**	1,562	**579**	455
Non-current	**2,129**	2,816	**633**	1,229
	3,847	4,378	**1,212**	1,684

24 Reconciliation of Operating Loss After Tax to Net Cash Flow

Continuing operations	**2005 £'000**	2004 £'000
Net (loss) profit for the period	**(8,187)**	(5,963)
Adjustments for:		
Tax	**(238)**	(198)
Depreciation	**960**	1,033
Equity settled share based payments	**141**	169
Impairment of goodwill	**2,500**	—
Loss (profit) on disposal of tangible fixed assets	**18**	33
Interest income	**(6)**	(47)
Interest expense	**1,943**	1,470
Changes in working capital		
Decrease (increase) in work in progress	**341**	(1,103)
(Increase) in trade and other receivables	**(2,910)**	(162)
Increase in trade and other payables	**2,352**	4,356
(Decrease) increase in provisions	**(751)**	337
Change in retirement benefit liability	**(1,123)**	(865)
Cash used in continuing operations	**(4,960)**	(940)
Discontinued operations		
Net (loss) profit for the period	**(1,035)**	504
Adjustments for:		
Tax	**1,310**	(196)
Depreciation	**79**	101
Loss on disposal of tangible fixed assets	**23**	8
Interest income	**(17)**	(4)
Interest expense	**233**	120
Changes in working capital		
Decrease in trade and other receivables	**52**	(1,729)
(Decrease) in trade and other payables	**(378)**	562
Increase in provisions	**233**	405
Cash used in discontinued operations	**500**	(229)
Total net cash flow from operating activities	**(4,460)**	(1,169)

Cash generated from operations includes cash outflows relating to exceptional items recorded in prior years of £2,663,000 (2004: outflow of £1,560,000).

25 Consolidated Reconciliation of Net Cash Flow to Movement in Net Borrowings

	31.12.05 £'000	31.12.04 £'000
Decrease in cash in the period	**(520)**	791
Increase in bank loans	**(5,300)**	(1,200)
Decrease in other bank borrowings	**913**	(1,275)
Increase in invoice factoring facility	**(571)**	—
Repayment of obligations under finance leases	**20**	17
Repayment of loan notes	**6**	8
Exchange movements	**93**	3
Movement in net debt in the period	**(5,359)**	(1,656)
Net debt at 1 January 2005	**(13,693)**	(12,037)
Net debt at 31 December 2005	**(19,052)**	(13,693)

26 Analysis of Net Borrowings

	01.01.05 £'000	Cash flow £'000	Exchange Movements £'000	**31.12.05 £'000**
Cash and cash equivalents				
Cash at bank and in hand	5,641	(3,986)	83	**1,738**
Overdrafts	(3,466)	3,466	—	—
	2,175	(520)	83	**1,738**
Borrowings				
Bank loans	(12,200)	(5,300)	—	**(17,500)**
Other bank borrowings	(3,602)	913	13	**(2,676)**
Invoice factoring facility	—	(571)	(3)	**(574)**
Obligations under finance leases	(60)	20	—	**(40)**
Variable rate loan notes	(6)	6	—	—
Net borrowings	(13,693)	(5,452)	93	**(19,052)**

Cash and cash equivalent includes cash held in assets held for sale and disposal groups of £989,000. Borrowing includes other bank borrowings and invoice factoring facilities of £2,157,000 and £574,000 respectively, held in liabilities held for sale and disposal groups.

27 Assets and Liabilities Classified as Held For Sale and Included in Disposal Groups

The Company announced during the year that it planned to dispose of its mainland Europe operations. The disposal of substantially all of this business was completed on 31 January 2006 (refer note 35). The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the consolidated balance sheet.

	Parity Europe £'000	Total £'000
Assets classified as held for sale		
Property, plant and equipment	27	27
Trade and other receivables	7,725	7,725
Cash and cash equivalents	989	989
Deferred tax assets	5	5
	8,746	8,746
Liabilities classified as held for sale		
Borrowings	2,731	2,731
Trade and other payables	4,202	4,202
Current tax liabilities	298	298
	7,231	7,231

Assets and liabilities classified as held for sale and included in disposal groups were previously included in the **Resources** segment information.

28 Financial Instruments

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

As at 31 December 2005	**Sterling £'000**	**US dollars £'000**	**Euro £'000**	**Swiss francs £'000**	**Total £'000**
Financial assets					
Cash and cash equivalents	**(5,032)**	**1,991**	**4,124**	**655**	**1,738**
Other investments	**—**	**30**	**—**	**—**	**30**
Trade and other short-term debtors	**19,038**	**1,150**	**7,110**	**102**	**27,400**
	14,006	**3,171**	**11,234**	**757**	**29,168**
Financial liabilities					
Bank loans	**17,500**	**—**	**—**	**—**	**17,500**
Other bank borrowings	**—**	**519**	**2,157**	**—**	**2,676**
Invoice factoring facility	**—**	**—**	**574**	**—**	**574**
Obligations under finance leases	**40**	**—**	**—**	**—**	**40**
Trade and other short-term creditors	**26,180**	**541**	**4,171**	**683**	**31,575**
	43,720	**1,060**	**6,902**	**683**	**52,365**

Financial assets include £914,000 cash held as Euro and £75,000 cash held as Sterling relating to assets classified as held for sale and in disposal groups. Financial liabilities include other bank borrowings £2,157,000, and an Invoice factoring facility of £574,000 relating to liabilities classified as held for sale and in disposal groups.

As at 31 December 2004	Sterling £'000	US dollars £'000	Euro £'000	Swiss francs £'000	Total £'000
Financial assets					
Cash and cash equivalents	—	1,576	3,405	660	5,641
Other investments	—	30	—	—	30
Trade and other debtors	17,298	1,628	5,816	135	24,877
	17,298	3,234	9,221	795	30,548
Financial liabilities					
Overdrafts	3,466	—	—	—	3,466
Bank loans	12,200	—	—	—	12,200
Other bank borrowings	—	777	2,825	—	3,602
Variable rate loan notes 2004	6	—	—	—	6
Obligations under finance leases	60	—	—	—	60
Trade and other short-term creditors	22,501	1,367	4,472	337	28,677
	38,233	2,144	7,297	337	48,011

28 Financial Instruments continued

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

As at 31 December 2005	**Sterling £'000**	**US dollars £'000**	**Euro £'000**	**Total £'000**
Financial assets				
Trade and other short-term debtors	**48**	—	—	**48**
Other investments	—	**30**	—	**30**
	48	**30**	—	**78**
Financial liabilities				
Bank overdrafts	**6,673**	**(1,543)**	**(1,149)**	**3,981**
Bank loans	**17,500**	—	—	**17,500**
Trade and other short-term creditors	**2,855**	—	—	**2,855**
	27,028	**(1,543)**	**(1,149)**	**24,336**

As at 31 December 2004	Sterling £'000	US dollars £'000	Euro £'000	Total £'000
Financial assets				
Trade and other short-term debtors	141	—	—	141
Other investments	—	30	—	30
	141	30	—	171
Financial liabilities				
Bank overdrafts	5,112	(903)	(816)	3,393
Bank loans	12,200	—	—	12,200
Variable rate loan notes 2004	6	—	—	6
Trade and other short-term creditors	2,254	—	—	2,254
	19,572	(903)	(816)	17,853

Financial Assets

The financial assets of the Group consist of £1,738,000 (2004: £5,641,000) cash and cash equivalents, which is invested at money market floating rates of interest where the rate is reset more than once a year and available for sale financial assets of £30,000 (2004: £30,000) which are non interest bearing. Details of available for sale financial assets are set out in note 13. Details of cash and cash equivalents are set out in note 19.

Financial Liabilities

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

Overdrafts

The Group has available bank overdrafts which are used to manage short-term fluctuations in cash flow. These facilities are uncommitted and hence expire within one year or less. All overdrafts are subject to floating rates of interest, linked to Bank of England base rate. The bank overdrafts are secured by a charge over the trade debtors of certain subsidiaries within the Parity Group. Bank overdrafts are offset against cash and cash equivalents for balance sheet and cash flow reporting. The Lloyds TSB banking facility allows for cash and overdraft balances to be offset.

Bank Loans

The Lloyds TSB banking facility expires on 31 December 2006 and bank loans have therefore been disclosed as a current liability. The facility is an £18,000,000 (2004: £18,000,000) committed revolving credit facility denominated in Sterling of which £17,500,000 (2004: £12,200,000) had been drawn down at 31 December 2005. Borrowings under the facility carry a floating interest rate linked to LIBOR. The bank loans are secured by a charge over the trade debtors of certain subsidiaries within the Parity Group. Subsequent to 31 December 2005, the revolving £18,000,000 credit facility was successfully renegotiated to 31 December 2007.

Other Bank Borrowings

The revolving multicurrency undisclosed debt purchase facility of £2,676,000 (2004: £4,000,000) with HSBC Bank plc expires on 31 January 2006 and borrowings have therefore been disclosed as a short-term creditor. At 31 December 2005 £2,157,000 (2004: £2,825,000) had been drawn down in Euros and £519,000 (2004: £777,000) had been drawn down in US dollars. Borrowings under the facility carry a floating interest rate linked to the HSBC base rate. Borrowings under this facility are secured by a charge over the trade debtor balances of certain subsidiaries within the Parity Group. Borrowings drawn on this facility were repaid on 31 January 2006.

28 Financial Instruments continued

Variable Rate Loan Notes 2004

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April or 1 October each year until 31 December 2004 at the election of the note holders. Interest is payable at a variable rate of 0.5% below six month LIBOR, fixed on 1 April and 1 October of each year. Lloyds TSB Bank plc has guaranteed the repayment of the remaining principal and interest of £nil (2004: £6,000) of the variable rate loan notes. All loan notes are denominated in Sterling. The variable rate loan notes were repaid during 2005.

Invoice Factoring Facility

Parity Eurosoft SARL has entered into an invoice factoring facility with Fortis Commercial Finance. Borrowings under the facility are dependent upon the value of invoices raised and are subject to a maximum drawdown of €1,250,000. Borrowings under the facility carry a floating interest rate linked to EURIBOR.

Finance Lease Obligations

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

Fair Value of Financial Instruments

At 31 December 2005, there are no material differences between the book value and the fair value of the Group's financial assets and liabilities. There are no derivative financial instruments at 31 December 2005 (2004: nil).

Currency Exposures

The only Companies within the Group with monetary assets and liabilities in non-functional currencies as at 31 December 2005 were Parity Eurosoft Limited, which held cash of €2,794,000 (£1,923,000) (2004: €1,999,000 (£1,415,000)), and SwFr790,000 (£349,000) (2004: SwFr1,142,000 (£523,000)), Parity Eurosoft SARL, which held cash of US$124,000 (€105,000) (2004: US$20,000 (€15,000)) and Parity Group plc which held cash of €1,670,000 (£1,149,000) (2004: €1,153,000 (£816,000)) and US$2,653,000 (£1,542,000) (2004: US$1,734,000 (£903,000)). The cash amounts hedge Euro and US dollar payables within the UK of £2,158,000 (2004: £2,825,000) and £518,000 (2004: £777,000) respectively.

Maturity of Financial Liabilities

The maturity profile of the carrying amount of financial liabilities, at 31 December, was as follows:

Group	**Debt £'000**	**Finance lease obligations £'000**	**Other short-term creditors £'000**	**2005 Total £'000**	Debt £'000	Trade and finance lease obligations £'000	Other short-term creditors £'000	2004 Total £'000
In one year or less, or on demand	**20,750**	**21**	**31,575**	**52,346**	7,074	19	28,677	35,770
In more than one year but not more than two years	—	**19**	—	**19**	12,200	19	—	12,219
In more than two years but not more than five years	—	—	—	—	—	22	—	22
	20,750	**40**	**31,575**	**52,365**	19,274	60	28,677	48,011

Company	**Debt £'000**	**Finance lease obligations £'000**	**Other short-term creditors £'000**	**2005 Total £'000**	Debt £'000	Trade and finance lease obligations £'000	Other short-term creditors £'000	2004 Total £'000
In one year or less, or on demand	**21,481**	—	**2,855**	**24,336**	3,399	—	2,254	5,653
In more than one year but not more than two years	—	—	—	—	12,200	—	—	12.200
In more than two years but not more than five years	—	—	—	—	—	—	—	—
	21,481	—	**2,855**	**24,336**	15,599	—	2,254	17,853

29 Statement of Changes in Shareholders' (Deficit) Equity

Consolidated	**Share capital £'000**	**Share premium reserve £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2005	**14,434**	**6,062**	**44,160**	**(59,659)**	**4,997**
Net loss for the period	—	—	—	**(9,222)**	**(9,222)**
Share options — value of employee services	—	—	—	**141**	**141**
Net loss recognised directly in equity	—	—	—	**(6)**	**(6)**
At 31 December 2005	**14,434**	**6,062**	**44,160**	**(68,746)**	**(4,090)**

Company	**Share capital £'000**	**Share premium reserve £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2005	**14,434**	**6,062**	**36,729**	**(8,227)**	**48,998**
Net loss for the period	—	—	—	**(3,579)**	**(3,579)**
Transfer from retained earnings to other reserves	—	—	**(14,000)**	**14,000**	—
Share options — value of employee services	—	—	—	**39**	**39**
Net gain recognised directly in equity	—	—	—	**368**	**368**
At 31 December 2005	**14,434**	**6,062**	**22,729**	**2,601**	**45,826**

Consolidated	Share capital £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2004	14,434	6,062	44,160	(53,346)	11,310
Net loss for the period	—	—	—	(5,459)	(5,459)
Share options — value of employee services	—	—	—	169	169
Dividend paid	—	—	—	(87)	(87)
Net loss recognised directly in equity	—	—	—	(936)	(936)
At 31 December 2004	14,434	6,062	44,160	(59,659)	4,997

Company	Share capital £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2004	14,434	6,062	36,729	20,142	77,367
Net loss for the period	—	—	—	(27,877)	(27,877)
Share options — value of employee services	—	—	—	25	25
Dividend paid	—	—	—	(87)	(87)
Net loss recognised directly in equity	—	—	—	(430)	(430)
At 31 December 2004	14,434	6,062	36,729	(8,227)	48,998

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The loss for the year dealt with in the accounts of the Company was £3,579,000 (2004 loss: £27,852,000). The retained loss for the year includes a provision for the write down in the value of investments of £14,000,000 (2004: £1,832,000). This provision has been transferred to other reserves.

Other reserves relates principally to the reserve created as a result of the Scheme of Arrangement in July 1999 whereby Parity Group plc became the new holding company of Parity and then merged with Parity Group plc.

Under a Scheme of Arrangement in July 1999 Parity group plc became the new ultimate parent company for Parity and merger accounting was applied to the reserves of Parity Group plc and Parity plc, whereby the difference between the Parity Group plc share capital and the shareholders funds (excluding profit and loss reserves) resulted in the creation of "Other Reserves" to the sum of £30,440,000.

The remaining balance in Other Reserves relates principally to share premium on shares issued to vendors and option holders together with the £8,706,000 reversal of goodwill write off which arose in 2003 on the termination of the operations of a business unit. This amount had previously been written off to reserves.

30 Pension Commitments

The Group operates a number of pension schemes. With the exception of the Parity Group Retirement Benefit Plan, all of the schemes are defined contribution plans and the assets are held in separate, independently administered funds.

Contributions to defined contribution schemes were as follows:

	Group **2005 £'000**	2004 £'000
Defined contribution schemes	**551**	1,121

30 Pension Commitments continued

Defined Benefit Plan

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

The major assumptions used by the actuary in assessing the IAS 19 position are set out below. The figures are based on a roll-forward by the actuary from the last formal valuation carried out on 5 April 2004.

	2005	2004
	%	%
Rate of increase of pensions in payment	**3.5**	3.5
Discount rate	**4.75**	5.4
Inflation	**2.75**	3.0
Expected return on plan assets	**6.0**	6.5

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

Pension Obligations

The amounts recognised in the balance sheet are determined as follows:

	2005	2004
	£'000	£'000
Present value of funded obligations	**(14,612)**	(12,955)
Fair value of plan assets	**9,955**	8,209
Deficit in the scheme	**(4,657)**	(4,746)
Related deferred tax asset	**1,397**	1,424
Net liability recognised in the balance sheet	**(3,260)**	(3,322)

	2005	2004
	£'000	£'000
Reconciliation to balance sheet		
Scheme assets	**9,955**	8,209
Scheme liabilities	**(14,612)**	(12,955)
Unrecognised actuarial (gains)/losses	**—**	—
Unrecognised past service cost	**—**	—
	(4,657)	(4,746)

	2005	2004
	£'000	£'000
Reconciliation of scheme assets		
At beginning of year	**8,209**	7,099
Expected return	**542**	447
Contributions by Group	**502**	524
Benefits paid	**(288)**	(121)
Actuarial gain/(loss)	**990**	260
At end of year	**9,955**	8,209

	2005	2004
	£'000	£'000
Composition of scheme assets		
Equities	**5,296**	4,893
Bonds/cash	**4,659**	3,316
	9,955	8,209

30 Pension Commitments continued
Pension Obligations continued

	2005 £'000	2004 £'000
Reconciliation of scheme liabilities		
At beginning of year	**(12,955)**	(11,168)
Curtailment gain	—	173
Interest cost	**(692)**	(618)
Current service cost	—	(279)
Benefits paid	**288**	121
Actuarial gain/(loss)	**(1,253)**	(1,184)
At end of year	**(14,612)**	(12,955)

	2005 £'000	2004 £'000
Composition of scheme liabilities		
Schemes wholly unfunded	—	—
Schemes wholly or partly funded	**(14,612)**	(12,955)
	(14,612)	(12,955)
Unrecognised actuarial gains/(losses)		
At beginning of year		
Recognised during the year	—	—
Arising during the year	—	—
At end of year	—	—

	2005 £'000	2004 £'000
Experience adjustments on liabilities		
Amount	**582**	(103)
As a % of scheme liabilities	**4.0%**	(0.8%)
Experience adjustments on assets		
Amount	**957**	260
As a % of scheme assets	**10.0%**	3.2%
The amounts recognised in the income statement are as follows:		
Current service cost	—	(279)
Interest cost	**(692)**	(618)
Expected return on plan assets	**542**	447
Past service cost	—	—
Effect of curtailments	—	173
Pension costs included in the income statement	**(150)**	(277)
Actuarial losses recognised	**(263)**	(924)
Pension costs recognised in the SORIE	**(263)**	(924)

Analysis of the Movement in the Balance Sheet Liability

	2005 £'000	2004 £'000
As at 1 January	**(4,746)**	(4,069)
Movement during the year:		
— current service cost	—	(279)
— contributions	**502**	524
— curtailment	—	173
— other finance expense	**(150)**	(171)
— actuarial loss	**(263)**	(924)
Liability at the end of year	**(4,657)**	(4,746)

Information for the previous four annual periods in respect of the present value of the defined benefit obligation, the fair value of the plan assets, the deficit in the plan and experience adjustments is unavailable and has therefore not been provided.

31 Share Capital

	2005 £'000	2004 £'000
Authorised: 450,000,000 ordinary shares of 5p each (2004: 450,000,000 ordinary shares of 5p each)	**22,500**	22,500
Share capital allotted, called up and fully paid: 288,691,692 ordinary shares of 5p each (2004: 288,691,692 ordinary shares of 5p each)	**14,434**	14,434

An extraordinary general meeting on the 24 April 2006 approved the issue of 32,038,247 new ordinary shares at a price of 50p as well as a capital reorganisation in respect of existing shares. Details of the share issue and capital reorganisation are given in note 35 on page 61.

Potential Issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the company at prices ranging from £nil to £4.80 under the Group's various incentive schemes. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below.

	Exercise price	Exercise period	1 Jan 04 numbers	Awarded 2004	Lapsed 2004	31 Dec 04 numbers	Awarded 2005	Lapsed 2005	**31 Dec 05 numbers**
Executive share option plans									
1997	£1.86	2000–2007	60,000	—	(28,950)	31,050	—	—	**31,050**
1998	£1.93	2001–2008	60,000	—	(15,000)	45,000	—	(45,000)	—
1999	£2.26	2002–2009	332,800	—	(332,800)	—	—	—	—
2000	£4.32	2003–2010	219,040	—	(219,040)	—	—	—	—
2000	£1.98	2003–2010	134,350	—	(103,550)	30,800	—	(30,800)	—
2000	£1.62	2003–2011	502,500	—	(502,500)	—	—	—	—
2001	£1.37	2004–2011	679,341	—	(669,341)	10,000	—	(10,000)	—
2001	£0.58	2004–2011	556,400	—	(487,000)	69,400	—	(69,400)	—
2001	£0.59	2004–2011	538,237	—	(22,000)	516,237	—	(493,237)	**23,000**
2001	£1.50	2004–2011	100,000	—	—	100,000	—	(100,000)	—
2001	£1.00	2004–2011	150,000	—	—	150,000	—	(150,000)	—
2003	£0.10	2006–2013	5,585,000	—	(525,000)	5,060,000	—	(375,000)	**4,685,000**
2004	£0.11	2007–2014		1,695,000	(150,000)	1,545,000	—	(950,000)	**595,000**
2004	£0.10	2007–2014		525,000	—	525,000	—	(75,000)	**450,000**
2005	£0.08	2008–2015					1,850,000	—	**1,850,000**
			8,917,668	2,220,000	(3,055,181)	8,082,487	1,850,000	(2,298,437)	**7,634,050**
Co-investment scheme									
2005	—	2006					359,000	—	**359,000**
Long-term investment plan									
2005	—	2007					11,138,889	—	**11,138,889**
Sharesave schemes									
1997	£1.34	2004	11,555	—	(11,555)	—	—	—	—
1998	£2.18	2005	6,252	—	—	6,252	—	(6,252)	—
1999	£2.05	2005	15,494	—	(6,970)	8,524	—	(8,524)	—
2000	£4.80	2003–2007	7,342	—	(1,468)	5,874	—	(2,109)	**3,765**
2000	£1.46	2004	137,335	—	(137,335)	—	—	—	—
2001	£3.80	2004	1,496,500	—	(698,000)	798,500	—	(798,500)	—
2004	£0.12	2007		3,042,546	(252,503)	2,790,043	—	(867,236)	**1,922,807**
			1,674,478	3,042,546	(1,107,831)	3,609,193	—	(1,682,621)	**1,926,572**
			10,592,146	5,262,546	(4,163,012)	11,691,680	13,347,889	(3,981,058)	**21,058,511**

The aggregate number of share options exercisable at the year end was 57,815 (2004: 1,756,861).

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

The rules of the Executive Share Option Plans (Plans) allow for annual grants to be awarded equivalent to a value of up to one times salary or up to two times salary in exceptional circumstances. A single inner-flow limit of 10% of the issued share capital of the Company in a ten year period, on a rolling basis, is applicable to the headroom available to award options over the life of the Plans. Rules of the current Plans expire in July 2009.

Existing executive share options are exercisable in normal circumstances between three and ten years after the date of grant, provided that growth in earnings per share before 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. Prior to 31 December 2004 EPS was chosen as an appropriate performance condition for the Plans as it is easily visible to shareholders and executives. However, the Company has decided to move to an arrangement whereby all executive share options are subject to performance conditions based on Total Shareholder Return, with options vesting on a sliding scale depending on the Company's TSR performance relative to an appropriate comparator group.

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

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

For Executive share options granted after 31 December 2004 the Company has moved to an arrangement whereby all executive share options are subject to performance conditions based on Total Shareholder Return, relative to an appropriate comparator group.

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

Options were valued using the Cox Ross Rubinstein binomial model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	21 Oct 2003	30 March 2004	30 Sept 2004	**26 Sept 2005**
Share price at grant date (p)	10.00	11.25	9.00	**7.50**
Exercise price (p)	10.00	11.25	10.00	**7.50**
Number of employees	39	2	3	**5**
Shares under option	4,685,000	595,000	450,000	**1,850,000**
Vesting period (years)	3	3	3	**3**
Expected volatility	85%	85%	85%	**70.1%**
Option life (years)	10	10	10	**10**
Expected life (years)	5	5	5	**5**
Risk free rate	4.899%	4.7739%	4.8265%	**4.240%**
Expected dividends expressed as a dividend yield	1.5%	1.5%	1.5%	—
Expectations of meeting performance criteria	N/A	N/A	100%	**88%**
Fair value per option (p)	6.43	7.223	5.653	**4.571**

The expected volatility is based on historical volatility over the last 5 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on a Treasury Gilt of a term consistent with the assumed option life. Refer to page 21 for a summary of option movements over the year to 31 December 2005.

Details of options outstanding at 31 December 2005 are given in the Remuneration report on page 21.

31 Share Capital continued

Co-investment Scheme

The Co-investment Scheme was approved by shareholders in 2004. Members are invited to join by the Board, having regard to the recommendations of the Remuneration Committee. At present the scheme is open to Executive Directors, the Managing Directors of the five business units and one other senior executive. Under the rules of the scheme, members are entitled to invest up to 50% of the bonus that they earn under the Annual Performance Bonus Scheme in Parity shares. The shares are held on behalf of the employee and, providing the employee remains in Parity's employment, will be matched in number by the Company, on a one for one basis at the end of a defined period following the date of purchase. The award of matching shares will be subject to the achievement of an appropriate and demanding performance condition recommended by the Remuneration Committee and determined by the Board prior to the grant of the award except in the initial year of operation of the Co-investment Scheme.

2005 is the first year of operation of the scheme following its approval by shareholders in 2004. In this initial year, the period that shares must be held before they are matched by the Company is twelve months and the matching award will not be subject to further performance conditions; this will mean that matching shares will vest in April 2006. In the second and later years of the scheme, the period during which the employee would have to hold shares before they were matched by the Company will rise from one year to three years. Depending on the Group's performance over those three years, the shares purchased by the employee will be matched on a sliding scale up to a maximum of 1.5-to-1 for outstanding performance.

Awards were valued using the Cox Ross Rubinstein binomial model. No performance conditions were included in the fair value calculations. The fair value per award and the assumptions used in the calculation are as follows:

Grant date	26 April 2005
Share price at grant date (p)	7.5
Exercise price	—
Number of employees	2
Shares under award	359,000
Vesting period (years)	1
Expected volatility	76.56%
Award life (years)	1
Expected life (years)	1
Risk free rate	4.55%
Expected dividends expressed as a dividend yield	0%
Expectations of meeting performance criteria	100%
Fair value per award (p)	7.5

The expected volatility is based on historical volatility over the last year. The expected life is one year. The risk free rate of return is the yield on a Treasury Gilt of a term consistent with the assumed award life. Refer to page 17 for a summary of award movements over the year to 31 December 2005.

Details of awards outstanding under the Co-investment scheme at 31 December 2005 are given in the Remuneration report on page 17.

Long-term Incentive Plan

The long-term Incentive Plan (L-TIP) was approved by shareholders in 2005. The L-TIP is open to the key individuals who are charged with leading the recovery in the Company's performance in the next three years. The L-TIP awards are intended to align the interests of these individuals with those of shareholders with a view to making substantial improvements in the Company's share price. Share price will be the key performance criterion for the L-TIP.

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

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

31 Share Capital continued
Awards outstanding as at 31 December 2005 under the Long-Term Incentive Plan are set out below:

Date of award	As at 1 January 2005	Awarded in year	Movement in year	**As at 31 December 2005**
4 July 2005	—	15,555,556	(4,416,667)	11,138,889

In order to ensure that the Company has sufficient headroom to cover awards under the L-TIP, in 2005 shareholders approved the exclusion of such awards from the current 10% in 10 years dilution limits which apply to the Company's existing share option schemes. The number of shares which may be issued under the L-TIP shall not exceed 12% of the Company's issued ordinary share capital.

During the year Philip Swinstead's award under the L-TIP was reduced by 4,416,667 to reflect the change in his role from Executive Chairman to Non-executive Deputy Chairman.

Awards were valued using the Cox Ross Rubinstein binomial model. No performance conditions were included in the fair value calculations. The fair value per award and the assumptions used in the calculations are as follows:

Grant date	4 July 2005
Share price at grant date (p)	8.75
Exercise price (p)	—
Number of employees	2
Shares under award	11,138,889
Vesting period (years)	3
Expected volatility	65.2%
Award life (years)	3
Expected life (years)	3
Risk free rate	4.06%
Expected dividends expressed as a dividend yield	0%
Expectations of meeting performance criteria*	0%
Fair value per award	0

*As the share price was significantly below the target price the probability of the performance criteria being met is considered to be zero and accordingly the fair value per award is zero.

The expected volatility is based on historical volatility over the last 3 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on a Treasury Gilt of a term consistent with the assumed award life. Refer to page 18 for a summary of award movements over the year to 31 December 2005.

Details of outstanding L-TIP awards at 31 December 2005 are given in the Remuneration report on page 18.

Sharesave Schemes
All UK employees, including the Executive Directors, are eligible to participate in the Group's Sharesave Scheme which enables them to subscribe for ordinary shares in the Company. The Sharesave Scheme is an Inland Revenue approved scheme. Options granted under the Sharesave Scheme do not have performance related conditions attached to them.

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

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

Awards were valued using the Cox Ross Rubinstein binomial model. No performance conditions were included in the fair value calculations. The fair value per option and the assumptions used in the calculations are as follows:

Grant date	30 April 2004
Share price at grant date (p)	11.25
Exercise price (p)	11.75
Number of employees	107
Shares under option	1,922,807
Vesting period (years)	3.5
Expected volatility	80%
Option life (years)	3.5
Expected life (years)	3.2
Risk free rate	5.1968
Expected dividends expressed as a dividend yield	1.5%
Possibility of ceasing employment before vesting	12%
Expectations of meeting performance criteria	N/A
Fair value per option	5.817

The expected volatility is based on historical volatility over the last 3 years. The risk free rate of return is the yield on a Treasury Gilt of a term consistent with the option life. Refer to page 22 for a summary of award movements over the year to 31 December 2005.

Details of options outstanding at 31 December 2005 are given in the Remuneration report on page 22.

Following the Capital Reorganisation (see note 35 on page 61) the Remuneration Committee will be considering what changes will be required to the current awards under all the share based payment schemes. Full details of any amendments will be reported in the next Annual Report.

32 Finance Lease Obligations

	Consolidated		Company	
	2005	2004	**2005**	2004
Amounts payable:				
Within one year	**24**	24	—	—
Within two to five years	**20**	45	—	—
	44	69	—	—
Less: finance charges allocated to future periods	**(4)**	(9)	—	—
	40	60	—	—

Analysis of changes in finance lease obligations during the year:

	Consolidated		Company	
	2005	2004	**2005**	2004
At 1 January 2005	**60**	77	—	—
Finance leases entered into during the year	—	—	—	—
Capital element of finance lease rental payments	**(20)**	(17)	—	—
At 31 December 2005	**40**	60	—	—

33 Operating Lease Commitments

	2005		2004	
Continuing operations	**Land and buildings £'000**	**Plant and machinery £'000**	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	**151**	**21**	169	32
Between two and five years	**1,707**	**463**	2,736	306
Over five years	**12,009**	—	13,446	—
	13,867	**484**	16,351	338
Discontinued operations				
Operating leases which expire:				
Within one year	**230**	**45**	3	4
Between two and five years	**692**	**45**	429	159
Over five years	**265**	—	98	—
	1,187	**90**	530	163

Operating leases — lessor

Certain properties may have been vacated prior to the end of the lease term. Where possible the Group always endeavours to sub-lease such vacant space on short-term lets. An onerous provision is recognised where the rents receivable over the lease term are less than the obligation to the head lessor (see note 23). The sub-lease rental income at 31 December 2005 was £117,833 (2004: £74,063).

The minimum rent receivable under non-cancellable operating leases is as follows:

	2005 £'000	2004 £'000
Not later than one year	—	—
Later than one year but not later than five years	**1,273**	488
Later than five years	—	—
	1,273	488

34 Contingencies

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

35 Post-Balance Sheet Events

Disposal of Mainland European Operations

On 31 January 2006 the Company completed the sale of substantially all of its mainland European operations. Parity has concluded an agreement with GFT Technologies AG ("GFT"), a listed German Corporation, under which GFT will acquire the issued capital of a number of Parity's European subsidiaries in Germany and France. GFT has acquired Parity's German businesses, Parity Beteiligungsgesellschaft GmbH, and its subsidiaries, and Parity's French business, Parity Eurosoft SARL for a total cash payment of €7,700,000 as well as assumption of external borrowing amounting to €700,000. The cash payment comprises €5,900,000 for the share capital of the businesses acquired and settlement of €1,800,000 of intra-group and third party debt.

Firm Placing and Placing and Open Offer

On 30 March 2006 the Company published a prospectus in respect of the fully underwritten issue of a Firm Placing of 16,000,000 New Ordinary Shares and a Placing and Open Offer of 16,038,427 New Ordinary Shares to qualifying shareholders holding ordinary shares at the close of business on 29 March. A capital reorganisation was also proposed to subdivide and redesignate each Ordinary share of 5p into one ordinary share of 2p and 124 deferred shares. Shareholder approval for the issue and capital reorganisation was sought and received at an extraordinary general meeting held on 24 April 2006.

In order to issue shares at below the pre-existing nominal price of 5p the company has also completed a capital reorganisation on 27 April 2006 such that:

- Each issued ordinary share of 5p has been redesignated into one ordinary share of 2p (every 50 shares to be consolidated into one New ordinary share) and 124 deferred shares.
- Every 2 unissued ordinary shares of 5p have been redesignated into 5 New ordinary shares.

Deferred shares will not be listed on the London Stock Exchange; will have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation.

Proceeds from this firm placing and placing and open offer amounted to £16,019,213 with expected costs of approximately £1,300,000.

36 Key Management Remuneration

Key management comprises the Board of Directors. Key management remuneration is disclosed within the remuneration report.

37 Related Party Transactions

Company

Details of the Company's shares in Group undertakings are given in note 14. The Company entered into transactions with other Group undertakings as shown on the table below.

	2005 £'000	2004 £'000
Interest received from subsidiaries (note 6)	**532**	121
Interest paid to subsidiaries (note 7)	—	—

At 31 December 2005, the Company had the following amounts payable and receivable to/from Group undertakings.

	2005 £'000	2004 £'000
Amounts owed by subsidiary undertakings		
Falling due within one year (note 17)	—	1,510
Falling due after one year (note 17)	**74,220**	56,292
Amounts due to subsidiary undertakings		
Falling due within one year (note 21)	**767**	195
Falling due after one year (note 21)	**32,918**	33,809

During the current and preceding year the Company recharged other Group undertakings for various administrative expenses incurred on their behalf. The Company also received administrative cost recharges from other Group undertakings. It is not practicable to analyse the high volume of funding transactions between the Company and other Group undertakings.

38 Reconciliation of Net Assets and Profit under UK GAAP to IFRS

Parity Group plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004. The analysis below shows a reconciliation of net assets and profit reported under UK GAAP as at 31 December 2004 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this company being 1 January 2004.

(a) Reconciliation of (loss) profit to 31 December 2004 from UK GAAP to IFRS

		Consolidated Year ended 31.12.04			*Company* Year ended 31.12.04		
	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Continuing Operations							
Revenue		169,860	—	169,860	—	—	—
Staff costs	(f)ii (f) iii	(34,047)	1,050	(32,997)	(1,412)	(25)	(1,437)
Depreciation and amortisation	(f)i	(1,763)	629	(1,134)	(35)	—	(35)
All other operating expenses		(136,580)	—	(136,580)	(544)	—	(544)
Total operating expenses before exceptional items		(172,390)	1,679	(170,711)	(1,991)	(25)	(2,016)
Exceptional items		(3,683)	—	(3,683)	(2,354)	—	(2,354)
Total operating expenses		(176,073)	1,679	(174,394)	(4,345)	(25)	(4,370)
Operating profit (loss)		(6,213)	1,679	(4,534)	(4,345)	(25)	(4,370)
Finance income		51	—	51	121	—	121
Finance costs	(f)ii	(972)	(618)	(1,590)	(797)	—	(797)
Impairment of receivables from Group undertakings and investments in subsidiaries		—	—	—	(23,268)	—	(23,268)
Profit (loss) before tax		(7,134)	1,061	(6,073)	(28,289)	(25)	(28,314)
Tax	(f)iv	507	(113)	394	217	—	217
(Loss) for the period from continuing operations		(6,627)	948	(5,679)	(28,072)	(25)	(28,097)
Discontinued operations							
Profit for the period from discontinued operations		220	—	220	220		220
(Loss) profit for the period							
		(6,407)	948	(5,459)	(27,852)	(25)	(27,877)

(b) Reconciliation of UK GAAP loss to IFRS profit (loss)

	Notes	*Consolidated* year ended 31.12.04 £'000	*Company* year ended 31.12.04 £'000
Loss for period as reported under UK GAAP		(6,407)	(27,852)
Adjustments for:			
Goodwill not amortised after date of transition	(f)i	629	—
IAS 19 pension interest cost	(f)ii	(618)	—
Add UKGAAP charge in respect of employee benefits		893	—
Add IFRS credit in respect of employee benefits		326	—
Share based payments charge	(f)iii	(169)	(25)
Deferred tax on IAS 19	(f)iv	(164)	—
Deferred tax on share based payments	(f)iv	51	—
Total profit (loss) as reported under IFRS		(5,459)	(27,877)

38 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

(c) Reconciliation of equity as at 1 January 2004 and 31 December 2004 from UK GAAP to IFRS

		As at 1 January 2004			*As at 31 December 2004*		
Consolidated	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets							
Goodwill	(f)i	9,616	—	9,616	8,987	629	9,616
Property, plant and equipment		2,586	—	2,586	1,920	—	1,920
Available for sale financial assets		30	—	30	30	—	30
Deferred tax assets	(f)iv	3,418	986	4,404	4,130	1,150	5,280
		15,650	986	16,636	15,067	1,779	16,846
Current assets							
Inventories		561	—	561	1,664	—	1,664
Trade and other receivables		38,510	—	38,510	40,402	—	40,402
Current tax assets		2,040	—	2,040	687	—	687
Cash and cash equivalents		3,241	—	3,241	5,641	—	5,641
		44,352	—	44,352	48,394	—	48,394
Total Assets		60,002	986	60,988	63,461	1,779	65,240
Current liabilities							
Borrowings		(4,220)	—	(4,220)	(7,093)	—	(7,093)
Trade and other payables	(f)ii (f)v	(26,660)	27	(26,633)	(31,710)	(75)	(31,785)
Current tax liabilities		(62)	—	(62)	—	—	—
Provisions		—	(1,526)	(1,526)	—-	(1,562)	(1,562)
		(30,942)	(1,499)	(32,441)	(38,803)	(1,637)	(40,440)
Non-current liabilities							
Borrowings		(11,058)	—-	(11,058)	(12,241)	—-	(12,241)
Provisions		(3,636)	1,526	(2,110)	(4,378)	1,562	(2,816)
Retirement benefit liability	(f)ii	(864)	(3,205)	(4,069)	(1,233)	(3,513)	(4,746)
		(15,558)	(1,679)	(17,237)	(17,852)	(1,951)	(19,803)
Total liabilities		(46,500)	(3,178)	(49,678)	(56,655)	(3,588)	(60,243)
Net assets		13,502	(2,192)	11,310	6,806	(1,809)	4,997
Shareholders' equity							
Called up share capital		14,434	—	14,434	14,434	—	14,434
Share premium account		6,062	—	6,062	6,062	—	6,062
Capital redemption reserve		50	—	50	50	—	50
Other reserves		44,110	—	44,110	44,110	—	44,110
Retained earnings		(51,154)	(2,192)	(53,346)	(57,850)	(1,809)	(59,659)
Total shareholders' equity		13,502	(2,192)	11,310	6,806	(1,809)	4,997

38 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

(d) Reconciliation of equity as at 1 January 2004 and 31 December 2004 from UK GAAP to IFRS

		As at 1 January 2004			*As at 31 December 2004*		
Company	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets							
Property, plant and equipment		47	—	47	21	—	21
Available for sale financial assets		30	—	30	30	—	30
Trade and other receivables		75,239	—	75,239	56,292	—	56,292
Investments in subsidiaries		45,959	—	45,959	44,127	—	44,127
Deferred tax assets	(g)iv	33	—	33	—		—
		121,308		121,308	100,470		100,470
Current assets							
Trade and other receivables		2,722	—	2,722	1,944	—	1,944
Current tax assets		—	—	—	125	—	125
Cash and cash equivalents		(1,466)	—	(1,466)	(3,393)	—	(3,393)
		1,256	—	(1,256)	(1,324)	—	(1,324)
Total Assets		122,564	—	122,564	99,146	—	99,146
Current liabilities							
Financial liabilities		(14)		(14)	(6)	—	(6)
Trade and other payables	(g)ii (g)v	(3,256)	87	(3,169)	(2,449)	—	(2,449)
Current tax liabilities		(35)	(35)	—	—	—	
Provisions		(318)	—	(318)	(455)	—	(455)
		(3,623)	87	(3,536)	(2,910)	—	(2,910)
Non-current liabilities							
Financial liabilities		(11,000)	—	(11,000)	(12,200)	—	(12,200)
Trade and other payables		(30,661)	—	(30,661)	(33,809)	—	(33,809)
Provisions		—		—	(1,229)	—	(1,229)
		(41,661)		(41,661)	(47,238)	—	(47,238)
Total liabilities		(45,284)	87	(45,197)	(50,148)	—	(50,148)
Net assets		77,280	87	77,367	48,998	—	48,998
Shareholders' equity							
Called up share capital		14,434	—	14,434	14,434	—	14,434
Share premium account		6,062	—	6,062	6,062	—	6,062
Other reserves		36,729	—	36,729	36,729		36,729
Retained earnings		20,055	87	20,142	(8,227)	—	(8,227)
Total shareholders' equity		77,280	87	77,367	48,998		48,998

38 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

(e) Reconciliation of equity from UK GAAP to IFRS

		Consolidated		*Company*	
		01.01.04	31.12.04	01.01.04	31.12.04
	Notes	£'000	£'000	£'000	£'000
Total equity as reported under UK GAAP		13,502	6,806	77,280	48,998
Adjustments for:					
Goodwill not amortised after date of transition	(f)i	—	629	—	—
Dividends not recognised as liability until declared	(f)v	87	—	87	—
IAS 19 employee benefits	(f)ii	(3,265)	(3,588)	—	—
Deferred tax on IAS 19 employee benefits	(f)iv	980	1,093	—	—
Deferred tax on share based payments	(f)iv	6	57	—	—
Total equity as reported under IFRS		11,310	4,997	77,367	48,998

(f) IFRS — Explanation of impact

i Goodwill

Under UK GAAP, capitalised goodwill was amortised over its useful economic life of up to 20 years and goodwill previously written off to shareholders' equity was recycled in the income statement as part of the profit or loss on disposal of a business.

Under IFRS, capitalised goodwill is not amortised but is instead tested at least annually for impairment. Goodwill amortisation charged under UK GAAP of £629,000 for the year ended 31 December 2004 has been reversed under IFRS.

Goodwill arising on business combinations on or before 31 December 1997 has been deducted from shareholders' equity. This amounted to £60,585,000 at 1 January 2004 and will not be recycled through the income statement on any disposal.

As permitted by IFRS 1, the Group has chosen to apply IFRS 3 prospectively from 1 January 2004 and has not restated previous business combinations. Goodwill is therefore stated at 1 January 2004 at its UK GAAP carrying value of £9,616,000.

ii IAS 19 — Employee benefits

Under UK GAAP, Parity accounted for pensions under SSAP 24; FRS 17 information was also disclosed in the notes to the financial statements. Parity accounts for pensions in accordance with IAS 19 on the adoption of IFRS.

IAS 19 was amended on 16 December 2004 to allow a company to account for actuarial gains and losses (which arise as a result of a Plan's experience in the year differing from the actuarial assumptions made at the start of that year) under the Statement of Recognised Income and Expenditure method (SORIE). Under this method, experienced actuarial gains and losses will be recognised immediately in the balance sheet. The actuarial gains and losses are likely to be the most volatile item of pension cost. This volatility is recognised and is one of the reasons why it is not deemed appropriate to include it in the profit and loss account.

The impact of this policy is to recognise an additional pension liability of £3,205,000 in the Group's IFRS opening balance sheet at 1 January 2004, and £3,513,000 at 31 December 2004.

The impact of the policy on operating profit for the year ended 31 December 2004 is an improvement in operating profit of £1,234,000 with a £618,000 increase in finance costs, giving a net increase in profit of £616,000 in the income statement.

As a result of further guidance in IAS 19, a £60,000 increase in the Group's holiday pay accrual has been reflected on transition and £75,000 at 31 December 2004. The impact of the policy on operating profit for the year ended 31 December 2004 is a reduction of £15,000 in the income statement.

iii IFRS 2 — Share based payments

Parity operates a number of share-based incentive schemes. Parity did not recognise any expense in the profit and loss account under UK GAAP for the intrinsic value of awards under the schemes. Under IFRS, an expense is recognised for all awards under share-based incentive schemes, based on the fair value at the date of grant, calculated using a valuation model. The fair value of awards post 7 November 2002 (in accordance with the transitional provisions of IFRS 2) under the Group's Executive Share Option Plans and Savings Related Option Scheme have been calculated using a Cox Ross Rubinstein binomial model and a Black-Scholes valuation model respectively.

The fair values are calculated on the date of grant of the awards and the total fair value is charged to the profit and loss account over the relevant vesting periods, adjusted to reflect expected levels of lapses and in the case of Executive Share Options, expected achievement of vesting conditions.

The charge to the profit and loss account for the year to 31 December 2004 is £169,000. There is no impact of this charge on net assets since the credit is reflected in equity.

38 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

iv IAS 12 — Income taxes

IAS 12 requires full provision for all taxable temporary differences. A temporary difference arises where there is a difference between the carrying amount of an asset or liability and its tax value. A temporary difference is taxable if it will result in taxable amounts in the future, when the carrying amount of the asset is recovered or the liability is settled.

On transition to IFRS, Parity recognised additional deferred tax assets totalling £986,000 representing deferred tax on the IAS 19 — employee benefits of £980,000 and deferred tax of the IFRS 2 charge of £6,000. At 31 December 2004, the Company recognised cumulative deferred tax assets totalling £1,150,000 representing deferred tax on the IAS 19 — employee benefits of £1,093,000 and deferred tax of the IFRS 2 charge of £57,000.

v IAS 10 — Events after the balance sheet date

In accordance with IAS 10 — events after balance sheet date, proposed dividends can no longer be accrued at the balance sheet date if they have not been approved as at that date. Parity's final dividend at 31 December 2003 was £87,000 but it was not approved by shareholders until the AGM in June 2004. As the dividend was not approved as at 31 December 2003, it has been excluded from the opening IFRS balance sheet.

vi IAS 14 — Segment information

Segmental reporting is addressed within IAS 14 Segment Reporting, which requires the entity to look at its organisational structure and internal reporting system to identify reportable segments for external financial reporting purposes.

Parity's primary business segments comprise IT and business services (Business Solutions), Training, and technology staffing (Resources). The impact of IAS 14 will result in some subtle changes to the way Parity has previously reported under UK GAAP. Under UK GAAP, Parity reported the results of its US business, 'Parity Americas' and Resources — mainland Europe as separate primary business segments. These businesses are predominantly technology staffing companies and as such will now be included within the Resources business segment. Geographical segments are Parity's secondary reporting format.

vii Cash flow statement for the year ended 31 December 2004

The only changes to the cash flow are presentational. The key changes include:

- Classifying tax cash flows as relating to operating activities
- Classifying equity dividends as relating to financial activities

39 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	Country of incorporation	Proportion of ownership interest	Principal activity
Parity Holdings Limited	England and Wales	100%	Holding
Parity Limited	England and Wales	100%	Holding
Parity Solutions Limited	England and Wales	100%	IT and business services
Parity Training Limited	England and Wales	100%	Training services
Parity Resources Limited	England and Wales	100%	Technology staffing services
Parity Eurosoft Limited*	England and Wales	100%	Technology staffing services
Parity Eurosoft AG*	Switzerland	99%	Technology staffing services
Parity Eurosoft BV*	The Netherlands	100%	Technology staffing services
Parity Eurosoft SA*	Belgium	100%	Technology staffing services
Parity International BV*	The Netherlands	100%	Holding
Parity US Holdings Inc.*	Delaware, USA	100%	Holding
TelTech International Corp*	New York State, USA	100%	IT business services, training and technology staffing services
Parity Solutions (Dublin 1999) Limited*	The Republic of Ireland	100%	Training and technology services

* held by subsidiary undertaking
† holding company

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

The Group's principal activities during the year were the provision of IT and business services (1), training (2), technology staffing (3) and a range of recruitment services and a review of the business is contained within the Chairman's Statement and the Operating and Financial Review on pages 2 to 6.

Shareholder Notes

Shareholder Notes

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Lloyds TSB Registrars also now offers a range of information on-line. You can access information on your shareholding, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk

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

2006 Financial Calendar
Annual General Meeting 28 June 2006
Interim Results September 2006

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

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