



5th March 2008

PARITY GROUP PLC
Preliminary results for the year ended 31 December 2007

Parity Group plc, the UK IT services company, announces preliminary results for the year ended 31 December 2007.

Financial highlights

- Revenue from continuing operations up 2% to £160M (2006: £157M) following exit of low margin contracts.
- Adjusted operating profit from continuing operations up 216% to £4.6M (2006: £1.4M)*
- Profit from continuing operations before tax and exceptional item £2.6M (2006: loss of £0.2M).
- Profit before tax from continuing operations of £2.3M (2006: loss of £0.8M).
- Adjusted basic earnings per share from continuing operations of 3.79p (2006: loss per share of 1.98p).**
- Basic earnings per share of 1.08p (2006: 2.99p).
- Net debt of £6.6M (2006: £5.7M).

* Adjusted operating profit excludes share-based compensation of £551,000 (2006: £68,000) and exceptional item of £347,000 (2006: £600,000).

** Adjusted basic earnings per share from continuing operations is stated before exceptional item after tax of £243,000 (2006: £420,000) and deferred tax write downs of £1.039M (2006: nil)

Operational highlights

- Business now clearly focused on higher margin revenue opportunities, resulting in stronger and better quality pipeline.
- **Solutions:** strong margins driven by good project delivery and revenue growth.
- **Resources:** exit from low margin contracts resulting in margin improvement through the year; strong start to 2008.
- **Training:** accelerated shift in mix to strategic, higher margin products; investment to improve efficiency.
- Good progress made on property rationalisation and disposal.
- Strengthened management teams and significantly leaner operating structure.

Alwyn Welch, Chief Executive of Parity, said:

"2007 was a year during which we successfully continued the performance recovery whilst making a number of changes and investments to position the Group for further success.

"We achieved good margin progression in all three of our business streams, through a combination of top line growth, a better mix of services and greater control of costs. In addition, we have significantly improved our cash flow.

We have seen an encouraging start to 2008, although the current economic backdrop is uncertain. With our continued focus on higher margin activities in growth segments of the market, the Board remains confident of the Group's prospects."

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About Parity Group plc

Parity Group PLC is a UK-focused IT services company, operating via three core business units – Parity Resources, Parity Solutions and Parity Training.

Parity Resources is a leading IT recruitment specialist, with over 30 years experience in providing permanent and contract technology staff, temporary staff and managed recruitment services across all markets.

Parity Solutions specialises in providing IT, Projects and Consulting, using leading edge technologies and drawing upon the depth of experience of its consultants in Programme and Project Management.

Parity Training is one of the UK's leading Management and IT training providers. In addition to a comprehensive schedule of public courses, Parity delivers tailored learning solutions and customised programmes for major clients.

Parity is listed on the London Stock Exchange, with a ticker of PTY.LN.

Chairman's Statement

I have been much impressed, since joining the Board as Chairman in July 2007, by the quality of Parity's management and staff. In particular I single out our Chief Executive, Alwyn Welch, and our new Group Finance Director, Ian Ketchin.

Supported by the impressive depth of experience and qualifications of the executive management team and staff, your company has achieved a consistent and significant improvement in profitability. I am convinced that this will be maintained.

Your Board has been ably led in the recent past by John Hughes to whom we owe a particular debt of gratitude for his perseverance in restoring the Company to financial health. He remains Deputy Chairman.

Philip Swinstead has recently retired from the Board after giving much wise and experienced support on his return to the Company when it was needed most of all. On behalf of shareholders may I thank both John and Philip most sincerely.

My continuing duty to shareholders is clear: to lead a united Board in guiding our executive team and all our staff to deliver consistently improving financial returns. I know that together we shall succeed.

Lord Freeman
Chairman

Chief Executive's Review

Introduction

2007 saw a further period of business improvement throughout the Group. Having delivered a profit in the second half of 2006, we continued with our performance recovery programme in 2007 whilst making a number of changes and investments necessary to position the Group for continued growth. Trading was generally in line with both management and market expectations, driven by our strong focus on recurring revenues and higher quality work to add predictability to the business. Morale across the Group improved immensely, and our reputation in the marketplace has further improved.

The increasing robustness and momentum within the business allowed us to cope with the many challenges we faced throughout the year, whilst keeping our focus clear and making good progress. By the year end we successfully reduced the increased level of borrowings relating to working capital built up during the first half. Despite continued investment especially in facilities and IT, reduction in debtors and work in progress led to total net debt reducing to £6.6M at 31 December 2007. At the same time we have made excellent progress during 2007 and since the end of the year in closing down most of the remaining legacy issues.

Group revenue from continuing operations grew 2% to £159.9M (2006: £156.8M), with a strong performance from Solutions being offset by a reduction in Resources where our priority is quality of revenue rather than volume and where we exited certain low margin contracts. Operating profit (before exceptional items) has continued to show an excellent improvement to £4.0M (2006: £1.4M). Training and Solutions delivered good year on year margin improvement, and Resources, whilst flat compared to 2006, made excellent progress during the year.

Resources

Resources, after three years of strong revenue growth, saw a modest revenue decline of 4% to £110.3M (2006 £114.5M). Two significant low margin contracts ended during the first half of the year and this contributed to lower second half revenue. We chose not to seek higher volume, low margin, replacement business but instead to concentrate on growing higher quality business in niches where we can establish good differentiation and where demand is strong.

Operating profit (before exceptionals) therefore reduced slightly to £2.66M (2006 £2.71M), and the margin for the year held at 2.4%. However this masks an improvement from 2.0% in the first half of 2007 to 2.8% in the second half. Gross Margin (net fee income) was flat at £5.2M in both halves of the year, and sales costs were held at 44% of gross margin reflecting continued investment in new higher margin revenue streams. Good cost control delivered an operating profit of 25% of gross margin for the year and 28% in the second half.

The real strength of this operation is our Public Sector business, where we remain the largest supplier under the specialist contractor sections of the UK Government's Catalyst buying framework, with many large departments being clients. We experienced some margin pressure in the public sector during the early part of 2007 but through strong selling and high quality delivery we saw margins increase as the year progressed.

Our Commercial Sector business shrank due to the end of the two large lower margin contracts and we are investing in new business sales teams to replace this with higher margin business. We saw good traction in our new SAP practice, and we have recently strengthened the management team.

We remain focused on higher value skills, where we can attract better day rates and margins. This means concentrating on those skills in strong demand, typically those where

the continuing shift in technology is creating demand and where offshoring is not deflating salaries. Our primary skills focus is in project, programme and service management, and in skills such as SAP and .net. We continue to believe that a focus on these skills, combined with a strong reputation for delivery quality, is appropriate for continued business improvement during 2008 and beyond.

Solutions

Solutions continued the turnaround which commenced during the second half of 2006. Revenue for the year grew 30% to £31.0M (2006 £23.9M) and, despite the successful completion of the large Northern Ireland Electricity (“NIE”) contract during the second half of the year, still grew 7% in the second half compared to the same period in 2006. Operating profit increased 311% to £3.2M (2006: £0.78M) and margin showed an impressive increase from 3.3% to 10.3%.

Revenue excluding hardware, software and third party subcontractors, increased by 31% from £17.9M in 2006 to £23.4M in 2007 with the growth in the second half of 2007 34% higher than the same period in 2006. This removed the “lumpy” nature of large system integration contracts, and demonstrates the improvement in the underlying “own delivered” revenue. We also grew our managed services revenue, derived from longer term “annuity” contracts, from £2.2M to £4.7M, further contributing to an increased visibility and stability in the business.

This fast growth and return to profit has necessitated an investment in our sales capability and also a strengthening of our delivery management, whilst continuing to attack G&A costs. So whilst gross margin increased from £6.65M in 2006 to £8.20M in 2007, SG&A costs also decreased from £5.87M to £5.00M.

Our delivery quality remains good. In particular we received excellent feedback on the large NIE systems integration project, which we completed in good time for the client to be ready for the newly deregulated market in Ireland. The demands of this project, and also the growth in our Microsoft technology projects activity, led to us running at very high levels of utilisation during much of 2007 despite hiring efforts and a much reduced rate of staff attrition. This also had a knock-on impact on sales during the middle of the year, but we ended 2007 with a very strong pipeline and continued high overall utilisation.

Our market focus is on mid-sized organisations in the Public Sector, where demand for small scale projects remains high, as well as selected clients in the commercial arena and specifically in the Utility market, where NIE has given us excellent credentials. With a good capability in Oracle and Microsoft (especially Sharepoint) technology, combined with strong project management and a co-operative delivery culture, we aim to continue to strengthen this business to remain a strong player in the mid market. We will avoid opportunities that require offshore delivery and will continue to partner flexibly to broaden our reach as we grow to achieve long term sustainable mass in our chosen market.

Training

Training has been the business unit that required the most radical changes over the last two years to be both competitive and to target attractive areas of the market. During 2007 we continued to address the cost base, incurring one-off costs of approximately £150,000 in the year to reduce on-going costs in sales and delivery, where we exited delivery of technical training courses.

We are pleased to report that revenue showed a modest improvement at £18.6M (2006 £18.4M) after three years of decline. We have significantly changed the mix of business in Training. First, our more commoditised technical training declined by 25% to £3.5M, whilst our areas of focus (project and programme management, service management, business systems design, and other soft skills related to IT) grew by 14% to £11.1M. Second, we saw a continuation in the shift of business from public courses (inherently higher margin

but with little visibility) to training programmes and contracts for typically larger organisations, which give us far better revenue visibility at the expense of some margin. We also sold more e-learning material as part of these programmes.

As a result we saw gross margins decline from 39% to 36%, but managed to offset this with lower SG&A costs, and therefore increased operating profit to £570,000 (2006 £308,000). We invested in a new IT system to run this operation during 2006 and the first part of 2007. Initial teething issues caused some additional costs and working capital during the third quarter of the year, but by year end the system was well bedded in and the business operating as usual.

We invested in three main areas in this business during the year. We expanded our product portfolio to include e-learning, which we are continuing in 2008 with our "Learning Plus" platform. We invested in people, both to provide consultancy in training and learning and to deliver more training courses. We had lost a number of our own trainers during 2005 and 2006, which was impacting the quality and the margin delivered by courses so we grew our headcount of employed trainers by 9 during the year whilst increasing utilisation from 72% to 78%, and decreasing use of contractors. Overall this was a year of significant challenge and change for this business, which the team met well.

SG&A Costs

(Sales, general and administrative costs (SG&A) are defined as total operating costs less cost of sales and before exceptional items.)

We continued to reduce SG&A costs during the year, particularly in the area of facilities and other centrally managed shared services. Most of the cost reduction has been in G&A as we have maintained and in places increased investment in sales.

We reduced SG&A across the business from £27.0M in 2005, to £23.4M in 2006 and again to £21.1M in 2007. (2005 and 2006 restated to exclude employed consultants).

We needed to continue the investment in re-furbishing and consolidating offices during 2007, and combined our Northern Ireland presence into a new facility in Belfast; closed the old company HQ in London and moved this function into Wimbledon; exited most of the Birmingham training facility; and invested in a single training facility in Moorgate in London which opened on 1st Jan 2008. We exited the previous two facilities in London in early 2008.

This significant capital investment has been made both to reduce overall running costs but also to ensure we have the working environment to attract both staff and clients.

Restructuring & Discontinued Operations

We have continued to make good progress in completing the closure of all items outstanding from the disposals of overseas operations made in 2005 and 2006. At our interim results we declared a modest profit on the recovery of a fully provided bad debt in Switzerland, and in the second half we have a further gain due to consideration received from a similarly provided bad debt in the USA. We have also realised a small gain in the USA and Europe as liabilities have been closed off. The total impact of these items during 2007 was a profit after tax of £257,000.

At the end of 2007 we also made good progress, finally, on surplus empty property, primarily the office in Fleet. This has stood empty since 2005 on a long lease in an area with low demand and excess capacity, where market rents have as a result declined. This has made it difficult to sub-let, but we have now agreed terms to sub-let for the remaining term of the lease albeit below our original head lease rent. This combined with a sub let of an empty floor in Leeds has required the charging of an exceptional cost of £347,000 before tax. However this will mean all our surplus property is sub-let, and the cash outflow associated with this legacy will decline significantly over the next 18 months.

Market

Parity operates wholly from locations within the UK and Ireland, and the vast majority of our services are sold and delivered to clients in this geography. This specific geographic focus has allowed us to concentrate our efforts on one of the largest IT services and recruitment markets in Europe without the distraction and cost of expanding further afield.

During the last year we have experienced generally favourable market conditions overall, and our market focus has been to concentrate on those areas where demand is stronger and Parity has good differentiation other than price. This has helped us improve margins despite the micro and macro economic pressures on our clients. We have experienced little impact so far from the pressure affecting the financial services market, nor the expected tightening of public sector spending. We will continue to seek niches of strong demand to counter any potential general market squeeze.

Focus

Our overall business objective remains to achieve margin improvement through concentration on higher margin services combined with cost control. We will invest prudently to help realise our objectives and to narrow our focus and improve long term sustainability of our business.

Training has exited delivery of technical courses to concentrate on higher value, IT-related areas such as project, programme and service management as well as business systems design. We continue to manage delivery of technical courses and have added more value around our base courses with e-learning components. Our client base increasingly comprises large organisations in the public and private sector, with a shift towards training programmes and away from “public” courses. This brings the benefit of size of contract and stability of revenue, but at a cost of lower margins and as a consequence we have made changes to our organisation and cost base to reflect this evolution.

Resources remains focused on the supply of temporary and permanent skilled staff into typically larger organisations within the Public and Private sectors. Our target market for recruitment is therefore similar to that of Training, where not only is the daily rate higher, but the excess of demand over supply allows us to create real value for clients by finding and attracting the people that their operations require. We will continue, within these broad skill areas, to focus on further sub-niches in areas such as applications (eg SAP), business issues (e.g. security) and narrow vertical segments (e.g. criminal justice).

Solutions focuses on the delivery of high quality, mainly fixed-price, projects and application-centric services to mid-tier clients. Our main targets are mid-sized contracts where the size and nature of the work, or where the type of activity or client sensitivity, generally precludes offshore delivery. Our main areas of technology are Microsoft (especially Sharepoint) and Oracle. We combine this with rigorous project management skills, and a delivery culture that encourages working together with clients. This culture also enables us to partner effectively to extend our reach and scope, and act as a true integrator of services. We can make use of our well-established Belfast operation to provide a modestly lower cost capability compared to south-east England, and this also gives us a strong presence in the Irish market.

People

As with any service company, the people who work for Parity are our main asset, and therefore critical to our success. We have therefore invested in improving our working environment and the rewards and benefits available to our employees, so that we can attract and retain the people we need. This, combined with our improved business performance, has helped us reduce unwanted staff attrition from over 30% in 2006 to 20% in 2007, which is closer to industry average. We recruited to grow our headcount during

the first half of 2007, particularly in the areas of Microsoft technology, recruiting sales and trainers.

We have had in place a new performance management system since 2006, and link the outcome of this to rewards including variable compensation. An element of the latter, principally related to profit, is in place for all staff in 2008. We have also started to update our benefits through the introduction of flexible benefits.

On behalf of the whole Board I would like to thank all the people who have worked for Parity over the last year for their support and strong delivery, which has driven the recovery of the Group.

Outlook

We have seen an encouraging start to 2008 although the current economic backdrop is uncertain. With our continued focus on higher margin activities in growth segments of the market, the Board remains confident of the Group's prospects.

Alwyn Welch
Chief Executive Officer

Financial review

2007 was a year of continued recovery for Parity. Following the disposal of overseas operations in 2006, the focus in 2007 was on generating improved margins in the UK and Ireland market. This, together with continuing cost action, has generated results that are again significantly improved on the previous year.

Revenue and operating margin from business units

Business unit	2007	2006	2007	2006	2007	2006
	Revenue £000	Revenue £000	Operating profit £000	Operating profit £000	Operating margin %	Operating margin %
Resources	110,279	114,517	2,656	2,710	2.41	2.37
Solutions	31,034	23,922	3,195	778	10.30	3.25
Training	18,625	18,406	570	308	3.06	1.67
Total	159,938	156,845	6,421	3,796	4.01	2.42

The Resources business exited two large, low margin contracts during the year and this was a major factor in both the revenue fall and the modest improvement in operating margin. Margin pressure was experienced in the public sector in the first half of 2007 but eased in the second half.

Solutions continued to drive operational efficiencies and successfully completed a large contract with Northern Ireland Electricity during 2007. This provided the step up in performance from the 2006 results.

Training has concentrated on delivering higher margin courses in softer skills and now subcontracts the delivery of technical training, which has become commoditised. There has also been a greater focus on in-house delivery rather than public courses. Whilst in-house courses attract lower gross margins the economies of scale more than compensate in S,G&A savings. Together with increased use of our own trainers this has resulted in a significant improvement in operating margin.

Across the business units, operational efficiencies yielded savings of close to £2.3M in S,G&A costs. This is the second consecutive year of substantial profit improvements.

Group trading summary

	2007	2006
	£000	£000
Operating profit from business units	6,421	3,796
Central costs	(2,409)	(2,419)
Operating profit before exceptional items	4,012	1,377
Net finance expense	(1,377)	(1,551)
Profit/(loss) before tax and exceptional item	2,635	(174)
Exceptional item	(347)	(600)
Profit/(loss) before tax	<u>2,288</u>	<u>(774)</u>

Group profit before tax and exceptional items from continuing operations was £2,635,000 (2006: loss of £174,000). Central costs were held at £2.4M after absorbing the cost of Board changes. Share option charges for 2007 were £551,000 (2006: £68,000). The exceptional item relates to provisions for unoccupied and sublet property in the UK (2006: £600,000). Net borrowing costs were £577,000 (2006: £865,000), while notional interest on the pension deficit was £800,000 (2006: £686,000).

Cashflow

Cash of £1.7M was generated from operations (2006: £4.5M outflow). There were significant non-trading outflows in the year, including £0.9M to the pension fund, £2.2M on capital items, principally on fit out of office buildings, and £0.9M on vacant property.

Days sales outstanding opened 2007 at a particularly low figure of 32. During the first half this deteriorated to 41 days at half year having peaked at 47 in May. This increase was caused by a number of specific client issues and also staff turnover. By the year end, after concerted effort, days sales outstanding stood at 35. Net borrowings opened the year at £5.7M and reached £9.3M at half year before being reduced down to £6.6M at the end of 2007.

Property

Property consolidation and moves in 2007 reduced the portfolio by two properties and included opening a new training centre on the edge of the City of London in Moorgate and a new Belfast office. Terms have been agreed to sublet two vacant properties, in Fleet and Leeds, to the end of the respective leases. A further provision for vacant and sublet property of £347,000 was made for all known shortfalls between rental outgoings and income on sublets.

Discontinued activities

In line with the strategy of focus on the UK and Ireland, the group disposed of the last of its overseas activities in 2006. No revenue was generated in 2007 as the overseas businesses no longer trade. However provisions have been adjusted to reflect the anticipated costs of wind-up and we have also received cash or other consideration totalling £290,000 for two large debts, previously provided. The net result is a £257,000 profit after tax for discontinued activities.

Write down of deferred tax asset and impact of rate change

The Group carries a significant deferred tax asset arising from historic losses. In addition to the normal tax charge for 2007 there is a reduction of £1.039M in the value of this asset. The deferred tax asset in respect of the Training business was written down by £0.85M after an assessment of the visibility of future profits likely to be available to utilise this asset. The asset has also been reduced by £189,000 to reflect the change in the corporation tax rate at which relief for past losses will be received from 30% to 28%.

Other taxation

The tax charge on current year continuing activities was £1.096M (2006: £197,000) and is made up as follows:

	£'000
Profit for the year @ 30%	686
Disallowable expenses	260
Prior period adjustments	126
Timing and other differences	24
	<u>1,096</u>

Pensions

The Group operates a number of defined contribution pension schemes as well as a closed defined benefit scheme. Assets for the defined contribution schemes are held in separate, independently administered funds. Company contributions to the defined benefit scheme were £0.9M (2006: £0.8M). The defined benefit scheme is closed to both future

members and to future service accrual, although actuaries continue to advise the Trustees on the required funding rate. During 2006 the Group agreed a payment plan of £0.9M per annum to reduce the pension deficit. At 31 December 2007, the accounting deficit was £2.8M (2006: £4.7M). The reduction in accounting deficit reflects the 2007 cash payment and the impact of a higher discount rate on the scheme liabilities.

Earnings per share and dividend

The weighted average number of shares used in the calculation of basic earnings per share was 37.9M (2006: 27.9M). The basic earnings per share was 1.08p (2006: 2.99p). The basic earnings per share from continuing activities before exceptional item and deferred tax write-downs was 3.79p (2006: loss of 1.98p).

The Board does not propose a dividend for the year (2006: nil).

Ian Ketchin
Group Finance Director

Parity Group plc
Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 before exceptional Items (unaudited) £'000	2007 exceptional items (unaudited) £'000	2007 after exceptional Items (unaudited) £'000	2006 before exceptional Items (audited) £'000	2006 exceptional items (audited) £'000	2006 after exceptional Items (audited) £'000
Continuing operations							
Revenue	2	159,938	-	159,938	156,845	-	156,845
Employee benefit costs		(20,606)	-	(20,606)	(20,672)	-	(20,672)
Depreciation		(466)	-	(466)	(569)	-	(569)
All other operating expenses		(134,854)	(347)	(135,201)	(134,227)	(600)	(134,827)
Total operating expenses		(155,926)	(347)	(156,273)	(155,468)	(600)	(156,068)
Operating profit (loss)	2	4,012	(347)	3,665	1,377	(600)	777
Finance income		15	-	15	7	-	7
Finance costs		(1,392)	-	(1,392)	(1,558)	-	(1,558)
Profit/(loss) before tax		2,635	(347)	2,288	(174)	(600)	(774)
Write down of deferred tax asset and impact of rate change		(1,039)	-	(1,039)	-	-	-
Other taxation		(1,200)	104	(1,096)	(377)	180	(197)
Taxation		(2,239)	104	(2,135)	(377)	180	(197)
Profit (loss) for the year from continuing operations		396	(243)	153	(551)	(420)	(971)
Discontinued operations							
Profit for the year from discontinued operations	2	257	-	257	(366)	2,170	1,804
Profit (loss) for the year attributable to equity shareholders		653	(243)	410	(917)	1,750	833
Basic earnings per share on profit for the year	5			1.08p			2.99p
Basic earnings/(loss) per share from continuing operations	5			0.40p			(3.49p)
Diluted earnings per share on profit for the year	5			1.07p			2.99p
Diluted earnings/(loss) per share from continuing operations	5			0.40p			(3.49p)

Parity Group plc
Balance Sheet
As at 31 December 2007

	<i>Consolidated</i>	
	<i>As at</i> 31.12.07 <i>£'000</i> <i>unaudited</i>	<i>As at</i> 31.12.06 <i>£'000</i> <i>audited</i>
Non-current assets		
Goodwill	7,116	7,116
Intangible assets - software	370	-
Property, plant and equipment	2,071	615
Available for sale financial assets	124	-
Deferred tax assets	2,635	5,102
	12,316	12,833
Current assets		
Work in progress	706	998
Trade and other receivables	35,680	39,494
Cash and cash equivalents	770	736
	37,156	41,228
Total assets	49,472	54,061
Current liabilities		
Financial liabilities	(7,397)	(6,394)
Trade and other payables	(24,168)	(28,687)
Current tax liabilities	(268)	(201)
Provisions	(967)	(677)
	(32,800)	(35,959)
Non-current liabilities		
Financial liabilities	-	(1)
Provisions	(1,067)	(2,369)
Retirement benefit liability	(2,846)	(4,703)
	(3,913)	(7,073)
Total liabilities	(36,713)	(43,032)
Net assets	12,759	11,029
Shareholders' equity		
Called up share capital	15,079	15,075
Share premium account	20,134	20,020
Other reserves	44,160	44,160
Retained earnings	(66,614)	(68,226)
Total shareholders' equity	12,759	11,029

Parity Group plc
Statement of Recognised Income and Expense
For the year ended 31 December 2007

	<i>Consolidated</i>	
	<i>Year ended 31.12.07 £'000 unaudited</i>	<i>Year ended 31.12.06 £'000 audited</i>
Exchange differences on translation of foreign operations	(111)	152
Actuarial gains/(losses) on defined benefit pension schemes	1,090	(762)
Deferred taxation on items taken directly to equity	(328)	229
Net profit/(loss) recognised directly in equity	651	(381)
Profit for the year	410	833
Total recognised income for the year attributable to equity shareholders	1,061	452

Parity Group plc
Cash Flow Statement
For the year ended 31 December 2007

	<i>Note</i>	<i>Consolidated</i>	
		<i>Year ended 31.12.07</i> <i>£'000</i> <i>unaudited</i>	<i>Year ended 31.12.06</i> <i>£'000</i> <i>audited</i>
Cash flows from operating activities			
Cash generated from operations	6	1,711	(4,508)
Interest received		15	11
Interest paid		(592)	(872)
Tax received		-	-
Net cash from operations		1,134	(5,369)
Cash flows from investing activities			
Purchase of intangible assets – software		(295)	-
Purchase of property, plant and equipment		(1,913)	(272)
Net proceeds from disposal of subsidiary undertakings		-	4,649
Proceeds from disposal of available for sale assets		-	71
Proceeds from disposal of property, plant and equipment		-	-
Net cash (used in)/from investing activities		(2,208)	4,448
Cash flows from financing activities			
Issue of ordinary shares		118	14,599
Cash (outflow) in respect of repayment of bank borrowing		-	(20,176)
Net movement on invoice financing		2,017	4,804
Payment of capital element of finance leases		(19)	(19)
Net cash from/(used in) financing activities		2,116	(792)
Net increase/(decrease) in cash and cash equivalents		1,042	(1,713)
Cash and cash equivalents at beginning of the year		(260)	1,738
Net foreign exchange difference		(12)	(285)
Cash and cash equivalents at end of the year		770	(260)

Parity Group plc
Unaudited Notes to the Preliminary Results

1 Accounting Policies

Basis of preparation

These preliminary results do not constitute full Financial Statements within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2007 has been extracted from the unaudited financial statements of Parity Group plc for the year ended 31 December 2007 which will be delivered to the Registrar of Companies in due course. The results for the year ended 31 December 2006 have been extracted from the audited accounts for the year ended 31 December 2006. The auditors have issued an unqualified opinion on the Group's statutory financial statements for the year ended 31 December 2006, which have been filed with the Registrar of Companies and did not contain statements under Section 237 (2)-(3) of the Companies Act 1985, or include reference to any matters to which the auditors wished to draw attention by way of emphasis without qualifying their report.

2 Segmental Analysis

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

	<i>Consolidated</i>	
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
	<i>unaudited</i>	<i>audited</i>
<i>Revenue - continuing operations</i>		
Solutions	31,034	23,922
Training	18,625	18,406
Resources	110,279	114,517
	159,938	156,845
<i>Geographical analysis</i>		
United Kingdom and Ireland	159,938	156,845
	159,938	156,845
<i>Revenue - discontinued operations</i>		
Resources – Mainland Europe	-	3,380

2 Segmental Analysis continued

	<i>Operating result before exceptional items</i>		<i>Exceptional items</i>		<i>Operating profit</i>	
	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>audited</i>
Continuing operations						
Resources	2,656	2,710	-	-	2,656	2,710
Solutions	3,195	778	-	-	3,195	778
Training	570	308	-	-	570	308
	6,421	3,796	-	-	6,421	3,796
Central costs	(2,409)	(2,419)	(347)	(600)	(2,756)	(3,019)
Segment results	4,012	1,377	(347)	(600)	3,665	777
Interest expense	(1,392)	(1,558)	-	-	(1,392)	(1,558)
Interest income	15	7	-	-	15	7
Profit/(loss) before tax	2,635	(174)	(347)	(600)	2,288	(774)
Tax	(2,239)	(377)	104	180	(2,135)	(197)
Profit/(loss) for the year from continuing operations	396	(551)	(243)	(420)	153	(971)

	<i>Operating result before exceptional items</i>		<i>Exceptional items</i>		<i>Operating profit</i>	
	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>audited</i>
Discontinued operations						
Resources	314	(462)	-	2,170	314	1,708
Segment results	314	(462)	-	2,170	314	1,708
Interest income	13	4	-	-	13	4
Profit (loss) before tax	327	(458)	-	2,170	327	1,712
Tax	(70)	92	-	-	(70)	92
Profit (loss) for the year from discontinued operations	257	(366)	-	2,170	257	1,804

3 Exceptional Items

	<i>Consolidated</i>	
	2007 £'000 unaudited	2006 £'000 audited
<i>Continuing operations</i>		
Property restructuring	347	600
Total exceptional items from continuing operations	347	600

The exceptional charge of £347,000 for 2007 (2006: £600,000) for continuing operations relates to unoccupied property in the UK. The tax credit relating to the exceptional item is £104,000 (2006: £180,000).

	<i>Consolidated</i>	
	2007 £'000 unaudited	2006 £'000 audited
<i>Discontinued operations</i>		
Gain on disposal of subsidiaries	-	2,170
Total exceptional items from discontinued operations	-	2,170

The exceptional item in 2006, from discontinued operations, relates to the gain on disposal of subsidiaries in Mainland Europe. Exceptional items from discontinued operations are shown gross of tax. The tax credit relating to exceptional items from discontinued operations is £nil (2006: £nil).

4 Discontinued Operations

	2007 £'000 unaudited	2006 £'000 audited
Pre tax profit (loss) from discontinued operations	327	(458)
Gain on disposal of subsidiary net tangible assets	-	2,170
Profit before tax	327	1,712
Taxation	(70)	92
Total	257	1,804

In May 2006 the Group completed the disposals of the major elements of its Continental European businesses. These disposals were in line with the strategy of streamlining the business to focus on the UK and Ireland.

The 2006 tax credit of £92,000 relates to trading operations.

Cash flows from discontinued operations

	2007 £'000 unaudited	2006 £'000 audited
Net cash flows used in operating activities	(45)	(23)
Net cash flows from investing activities	-	-
Net cash flows used in financing activities	-	(3,249)
Total	(45)	(3,272)

Discontinued operations contributed nil (2006: £3,380,000) to revenue, other income of £314,000 (2006: nil), £nil (2006: £3,838,000) to expenses, a gain on disposal in 2006 of £2,170,000 and the taxation relating to discontinued operations was £70,000 (2006: £92,000 credit).

5 Earnings Per Ordinary Share

Basic earnings per share is calculated by dividing the basic earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the ESOP Trust, which are treated as cancelled. The ESOP Trust held 43,143 shares at 31 December 2007 (2006:46,950).

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 year. These options, where held under the Executive Share Option Scheme, are not dilutive as the performance criteria had not been met. 551,578 of these options are under the Share Save Scheme, have no performance criteria and are dilutive.

In March 2007, June 2007, September 2007 and November 2007 respectively the Company granted 411,555, 174,698, 393,063 and 440,000 options under the Executive Share Option Scheme and in June 2007 551,578 awards under the Share Save Scheme. In September 2006 and October 2006, the Company granted 2,023,805 options under the Executive Share Option Scheme and 2,560,000 awards under the Long-Term Incentive Plan respectively.

	<i>Earnings</i> £'000	<i>2007</i> <i>Weighted</i> <i>ave. no. of</i> <i>shares</i> <i>000's</i>	<i>Pence</i> <i>per share</i>	<i>Earnings</i> £'000	<i>2006</i> <i>Weighted</i> <i>ave. no. of</i> <i>Shares</i> <i>000's</i>	<i>Pence</i> <i>per share</i>
Basic earnings per share	410	37,896	1.08	833	27,857	2.99
Effect of dilutive options		468				
Diluted earnings per share	410	38,364	1.07	833	27,857	2.99
Basic earnings/(loss) per share from continuing operations	153	37,896	0.40	(971)	27,857	(3.49)
Effect of dilutive options		468				
Diluted earnings/(loss) per share from continuing operations	153	38,364	0.40	(971)	27,857	(3.49)
Basic earnings per share	410	37,896	1.08	833	27,857	2.99
Effect of adjusting items	1,025			(1,384)		
Adjusted basic earnings per share from continuing operations *	1,435	37,896	3.79	(551)	27,857	(1.98)
Diluted earnings per share	410	38,364	1.07	833	27,857	2.99
Effect of adjusting items	1,025			(1,384)		
Adjusted diluted earnings/(loss) per share from continuing operations*	1,435	38,364	3.74	(551)	27,857	(1.98)

* Adjusted earnings per share from continuing operations is stated before discontinued operations, the exceptional item after tax and deferred tax write down and rate change.

6 Reconciliation of Profit /(Loss) to Net Cash Flow

	<i>Consolidated</i>	
	2007 £'000 unaudited	2006 £'000 audited
<i>Continuing operations</i>		
Profit/(loss) for the year	153	(971)
Adjustments for:		
Tax	2,135	197
Depreciation and amortisation	466	569
Equity settled share based payments	551	68
Profit on disposal of available for sale assets	-	(41)
Loss on disposal of tangible fixed assets	21	76
Interest income	(2)	(7)
Interest expense	1,392	1,558
<i>Changes in working capital</i>		
Decrease in work in progress	292	325
Decrease/(increase) in trade and other receivables	3,301	(3,836)
Decrease in trade and other payables	(3,961)	(437)
Decrease in provisions	(1,012)	(580)
Change in retirement benefit liability	(1,567)	(1,402)
Cash from /(used in) continuing operations	1,769	(4,481)
<i>Discontinued operations</i>		
Profit (loss) for the year	257	1,804
Adjustments for:		
Tax	70	(92)
Impairment of available for sale assets	26	-
Interest income	(13)	(4)
Profit on disposal of discontinued operations	-	(2,170)
Interest expense	-	-
<i>Changes in working capital</i>		
Decrease in trade and other receivables	258	2,111
Decrease in trade and other payables	(656)	(1,455)
Increase/(Decrease) in provisions	-	(221)
Cash used in discontinued operations	(58)	(27)
Total net cash flow from/(used in) operating activities	1,711	(4,508)

Cash generated from operations includes cash outflows relating to exceptional items recorded in prior years of £880,000 (2006: outflow of £3,535,000).

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

	2007 £'000 <i>unaudited</i>	2006 £'000 <i>audited</i>
Increase/(decrease) in cash in the year	46	(717)
Decrease/(increase) in overdrafts	996	(996)
Decrease (increase) in bank loans	-	17,500
Decrease in other bank borrowings	-	2,676
Increase in invoice financing facility	(2,017)	(4,804)
Repayment of obligations under finance leases	19	19
Exchange movements	(12)	(285)
Movement in net debt in the year	(968)	13,393
Net debt at 1 January	(5,659)	(19,052)
Net debt at 31 December	(6,627)	(5,659)

8 Statement of Changes in Shareholders' Equity

<i>Consolidated</i>	<i>Share capital £'000</i>	<i>Deferred shares £'000</i>	<i>Share premium reserve £'000</i>	<i>Other reserves £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
At 1 January 2007	756	14,319	20,020	44,160	(68,226)	11,029
Net profit for the year	-	-	-	-	410	410
Net gain recognised directly in equity	-	-	-	-	651	651
Issue of new shares	4	-	114	-	-	118
Share options – value of employee services	-	-	-	-	551	551
At 31 December 2007	760	14,319	20,134	44,160	(66,614)	12,759

<i>Consolidated</i>	<i>Share capital £'000</i>	<i>Deferred shares £'000</i>	<i>Share premium reserve £'000</i>	<i>Other reserves £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
At 1 January 2006	14,434	-	6,062	44,160	(68,746)	(4,090)
Net profit for the year	-	-	-	-	833	833
Net gain recognised directly in equity	-	-	-	-	(381)	(381)
Capital restructure	(14,319)	14,319	-	-	-	-
Issue of new shares	641	-	13,958	-	-	14,599
Share options – value of employee services	-	-	-	-	68	68
At 31 December 2006	756	14,319	20,020	44,160	(68,226)	11,029

The Board is not proposing a dividend for the year (2006: nil per share)

9 Issue of New Shares

During the year 209,524 shares were issued on the exercise of share options.

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 2006. A capital reorganisation was also proposed to subdivide and re-designate each ordinary share of 5p into one new 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 completed a capital reorganisation on 28 April 2006 such that:

- Each issued ordinary share of 5p was re-designated into one ordinary share of 2p
- Every 50 shares were consolidated into one New ordinary share and 124 deferred shares
- Every 2 unissued ordinary shares of 5p were re-designated into 5 New ordinary shares

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

Net proceeds from this firm placing and placing and open offer amounted to £14,599,000.