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## About Parity

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Parity is a business and IT solutions company with over 40 years' industry experience. Parity delivers a range of recruitment and business and IT solutions to clients across the public and private sectors.

### Why our clients choose Parity

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**IT starts with our people:** our clients enjoy the experience of working with Parity people who combine excellent skills with a refreshingly open way of working.

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**Proud of our delivery capabilities:** we deliver on high performance solutions and projects, enjoying the challenge of hugely complex problems or projects.

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**Investment in IT:** we partner with the best-of-breed technology companies and have invested in improving our own processes and systems to allow for improved efficiencies and cost savings.

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# Highlights of 2010

## Financial highlights

- Revenues of £93.0 million (2009: £119.0 million)
- Group operating loss from continuing operations before exceptional items of £2.6 million (2009: £0.8 million profit)
  - Resources division: £2.0 million operating profit before exceptional items (2009: £3.0 million)
  - Solutions division: £2.0 million operating loss before exceptional items (2009: £0.6 million loss)
- Group loss from continuing operations before tax and exceptional items of £3.1 million (2009: £0.3 million profit)
- Exceptional and discontinued business costs of £3.0 million (2009: £0.7 million)
- Net debt at year end reduced to £6.1 million (2009: £9.8 million)

## Operational highlights

- Founder Chairman and CEO both rejoined Board in June 2010, committed to improving shareholder value
- New Finance Director assumed role as from 1 April 2011
- Major management restructuring and cost-cutting undertaken in second half, reducing cost base by some £3.5 million
- Bidding on large fixed price contracts was stopped; problems on a number of projects have either been resolved or are near to resolution
- Important wins in the second half included the Cabinet Office and government Buying Solutions framework
- Solutions division improves to break-even in the last quarter of 2010
- New asset-based lending facility signed in December 2010, providing enhanced facilities
- New Divisional structure created, around Systems, Talent Management, and Resources
- Board now focused on implementing new strategies aimed at growth markets, with the necessary new management, marketing and consequent investment

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# Chairman's Statement

## Philip Swinstead OBE

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### Results

Revenues for the year were 22% lower at £93.0 million, and the Group recorded an operating loss before exceptional items of £2.6 million compared to a profit of £0.8 million the previous year. Exceptional costs from continuing activities relating to Board changes, restructuring and excess property amounted to £2.1 million compared to £0.3 million in 2009, with a further cost of £0.9 million (£0.5 million in 2009) relating to the discontinued business Parity Training, which was sold in 2009. This produced a loss attributable to shareholders for the year of £6.1 million (£0.3 million in 2009).

The revenue decline was caused primarily by the reduction in Government expenditure to which the business failed to react sufficiently quickly. There were also poor project controls, and the sale of Parity Training in 2009 with unsatisfactory contract conditions proved costly. These factors, when combined, led to a poor performance in 2010.

The Resources business stood up well to a freeze on spending on temporary IT staff by government in the autumn and increased its commercial work. Solutions, despite suffering from a difficult market, improved its operating performance to break-even by the year end.

### Cash

Borrowings at year end were £6.1 million, down from £9.8 million 12 months before. Cash was managed very tightly in the second half of 2010, and this continues into this year. We agreed new bank facilities with PNC in December 2010, and the Group now has a total invoice discounting and accrued revenue facility of up to £15.0 million. The adequacy of the company's capital is discussed further in the Directors Report and in Note 1.

### Management Action

Within days of rejoining the Board it was clear to the new management that immediate action was required to put the Group on a more secure footing. As a consequence, a £3.5 million cost reduction programme was initiated in two phases to balance revenues and costs. In parallel an immediate stop was put on all significant fixed price bidding until the necessary functions and processes were in place. There is further significant overhead cost savings possible, which will require some financial investment, and this will be addressed when possible.

### Divisional Reorganisation

In the second half the Solutions division was split into two separate entities: a Systems division under new management, and a Talent Management division focused on the graduate selection, training and placement market, which is so vital to the UK at this time.

The Group therefore now operates through three divisions: Systems, Talent Management and Resources. The divisions work closely together to provide a range of services including consultancy, development, application management, support, IT resources and graduate recruitment programmes.

The Systems and Resources divisions provide customers with a powerful Virtual Resource, able to quickly create multi-skilled project teams both from our permanent senior staff and the many thousands of skilled professionals available to us on contract.

### Market Trends

The Board sees major opportunities and changes ahead in both the skills base and the types of IT application required by customers. Parity has particular skills and experience in the Business Intelligence area but recognizes that technology trends will change the nature and delivery of such applications.

The Cloud revolution is gathering pace and new technology combined with the web enables quite different communication processes. In particular there is the corporate use of mobile internet devices, the requirement for visual rather than text communication, and the increasing relevance of IT technology to the marketing processes of all corporates through digital media and social networks. These trends are likely to produce a growing but different IT services requirement over the coming years and Parity is determined to position itself to take full advantage.

### Board

In June 2010, I rejoined the Board as Chairman, and Paul Davies, who co-founded Parity with me in 1994, rejoined as Chief Executive Officer.

Finance Director Ian Ketchin retired from the Board at the end of March and was replaced by Alastair Woolley FCA.

The current Board also includes Lord Freeman, Deputy Chairman, and Nigel Tose, Non-Executive Director. The Directors are looking to make further appointments to strengthen the Board as we move ahead.

### Future Prospects

The UK IT services market remains uncertain with some signs of recovery, including the Government sector. This will therefore be a year of consolidation with the focus obviously being on continuing to improve performance and finalising our new growth strategy. The Board will be further strengthening both management and technological capability in the coming months and pushing forward on new marketing initiatives. We will provide more detail, on these measures and on trading performance, as we move through the coming months.

### Philip Swinstead OBE

Chairman  
27 April 2011

# Operating Review

Paul Davies

## Resources Division

Despite winning the Buying Solutions framework agreement against strong competition early in the second half, Government spending cuts resulted in a revenue decline to £78.1 million (2009: £100.5 million) and an operating profit before exceptional items of £2.0 million (2009: £3.0 million) with an operating margin of 2.6% (2009: 3.0%).

New initiatives in the year to grow the commercial business have seen contractor numbers increase in this sector from 243 to 306 at year end. Additional sales resource has been recruited to continue this growth trend into 2011.

Overall, contractor numbers declined by 10% through the year to 700, with contractor margins being maintained at 8.4% (2009: 8.5%).

A reorganisation has commenced to increase our ability to compete in higher margin commercial sectors and the non-framework (spot market) environment where higher margins are available.

We therefore intend to continue to be a major player in the important public sector market whilst extending our sales and account management capabilities to encompass growing commercial and spot market opportunities.

## Solutions Division

The Solutions business had been overly dependent on a large fixed price projects initiative embarked upon several years ago, operating in a crowded, competitive market. It had a large and costly infrastructure with only a few contract wins, many of which proved to be loss-making due to poor control systems. This part of the business was discontinued in the second half resulting in considerable cost savings and reduced business risk. This also reflects a general IT services industry trend away from larger projects, and puts the business in a good position to capitalise on the opportunities around Cloud computing as this area of the market develops.

As a result we enter 2011 with a more stable platform with costs and income aligned. Having defined the skills we require to support our market strategies we commenced, towards the end of the year, a recruitment programme to enhance our technical and sales capabilities.

Revenues in the year were £14.8 million (2009: £18.5 million) with an operating loss of £2.0 million (2009: loss £0.6 million). As a result of the actions taken at half year a divisional operating loss of £1.5 million in the first half was reduced to £0.5 million in the second and break-even in the last quarter.

## Group Restructuring

The Company entered 2010 with an overhead structure more suited to a much larger organisation which, combined with poor performance in the fixed price contracts division and a reduction in public sector spend, resulted in a decline in operating profit.

An urgent business review, conducted by the new management team upon its appointment in June, resulted in a number of conclusions.

The central overheads needed to be considerably reduced and actions were immediately put in place to remove costs in the order of £1.5 million.

The decision made within the projects division of the Solutions business to migrate away from large fixed price programmes towards a lower risk business model has enabled a further £2.0 million of cost to be removed by year end.

There are substantial overhead costs which have been identified for subsequent reduction. These relate primarily to excess office space and a long-term outsourced IT contract which is materially oversized for the Company's requirements.

Some planned investments in new market initiatives and improved controls will partially dilute these savings going forward.

## Divisional Restructuring

Restructuring during the second half resulted in a number of organisational and management changes. The Solutions business unit was split in the second half into two distinct divisions. The largest is the Systems division based in Wimbledon and Belfast, which provides IT services and solutions.

A separate Talent Management division provides graduate selection and development programmes for the Northern Ireland Government and industry based in Belfast, and a graduate selection programme for the UK Cabinet Office from the Camberley office.

In 2011 the Talent Management division will operate as a separate business unit focusing on developing its considerable potential to provide graduate recruitment and development services to Government, universities and industry.

Both of these divisions are now run by managers identified from within Parity and they sit alongside the Resources division. The new management teams have responded positively to the challenges they face and have already demonstrated that they are determined to make Parity a major player.

## Management and Staff

In a services company the staff are without doubt the most important asset. At a time when we have seen some necessary downsizing within Parity it is particularly encouraging to note the enthusiasm expressed by so many and their commitment to ensuring the successful growth of the Company. The Board wishes to express its special thanks for their support and loyalty.

It is important that we maintain the skills and commitment of everyone as we seek to grow the Company. To that end we maintain a balanced and affordable approach to targeted training programmes and incentives, which include bonus plans, sales commissions, share options and an employee share save scheme.

### **Group Markets**

Parity continued to operate during the year in the IT Services and Resources market and traded almost exclusively in the UK from Wimbledon, Sale, Belfast, Edinburgh and Camberley, with no overseas offices. Much of Parity's work remains short-term in nature although several contract relationships have extended over several years.

No individual client accounted for more than 6% of Group turnover although the Company remained heavily dependent on public sector business (70% by revenue) which declined over the period as a result of Government spending reductions. To mitigate this trend increased attention has been paid to growing the commercial base by extending existing capabilities and expanding into new growth areas.

Increased attention has also been placed in the second half on strengthening our relationships with major IT industry partners. This will continue through 2011.

The market for our services continues to be uncertain and competitive, but we are making positive steps to develop our strategy to improve our competitive edge and move our offerings towards newer and more profitable emerging demands and technologies.

### **Paul Davies**

Chief Executive Officer  
27 April 2011

# Financial Review

## Alastair Woolley

### Revenue

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Resources	<b>78,117</b>	100,517
Solutions	<b>14,846</b>	18,507
	<b>92,963</b>	119,024

### Operating loss

	2010 £'000	2009 £'000 (as restated – note 1)
<b>Continuing operations</b>		
Resources	<b>2,041</b>	2,984
Solutions	<b>(1,985)</b>	(636)
Operating profit before central costs and exceptional items	<b>56</b>	2,348
Central costs	<b>(2,698)</b>	(1,568)
Operating loss before exceptional items	<b>(2,642)</b>	780

Following a poor first half of 2010 action was taken to restructure the business. The cost of workforce changes has been treated as an exceptional item. In Solutions, where much of the restructuring effort has been focused, the business returned to a small operating profit before exceptional items for the fourth quarter.

### Exceptional items

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Restructuring	<b>1,538</b>	271
Property provisions	<b>600</b>	–
	<b>2,138</b>	271

The restructuring during 2010 involved a change in senior management, the exit from fixed price contracts and a major downsizing of the Group's costs. Solutions headcount has been reduced by more than 30% year on year. This reduction in headcount also created vacant office space. Further details of the exceptional costs are given in note 4.

#### Discontinued business

Parity Training was sold in February 2009. Although potential consideration was up to £3.0 million, half of this depended on the performance of Parity Training in the year after disposal and half on the value of the net assets on completion. The business deteriorated after the sale was agreed which had the effect of reducing the net assets on completion. The market continued to deteriorate throughout 2009 and Parity Training also lost its major customer. Consequently no performance-related consideration became receivable. Consideration of £1.0 million was recognised in 2009, recognising the expected outcome of completion accounts. In June 2010 Parity Training was placed in administration. The remaining deferred consideration of £0.2 million was written off.

The buyer of Parity Training failed to take over the guarantee on certain Group leases, as envisaged in the sale contract, and the Group incurred a charge of £0.7 million in this respect, which is included in the discontinued operations line of the income statement.

#### Earnings per share and dividend

The basic loss per share was 16.15 pence (2009: 0.71 pence). The basic loss per share from continuing operations was 13.75 pence (2009: earnings of 0.59 pence).

The Board does not propose a dividend for 2010 (2009: nil).

## Statement of Financial Position

Restructuring the business to fit its revenues contributed £2.1 million to the reduction in net assets and the impact of the loss incurred in relation to the Training business, sold in 2009, was £0.9 million.

The recession and, in particular, the cuts in public sector spending had a major impact, resulting in a loss before exceptional items and tax of £3.1 million. The loss for the year led to a reduction in net assets from £7.1 million to £1.3 million.

The most significant movements in the balance sheet were in trade receivables and accrued income, financial liabilities, provisions and the retirement benefit liability.

### Trade receivables and accrued income

At the end of 2009 trade receivables were particularly high following changes to our own systems and in client processes. As a result of addressing these issues and continued improvements in working capital management, but also the fall in revenue levels, trade receivables and accrued income fell by £9.9 million to £13.2 million. Debtor days, calculated on billings on a countback basis, were 31 (2009: 40).

### Other financial liabilities

Other financial liabilities represent the Group's debt under the asset-based lending facility. This is a working capital facility and is consequently linked to the same cycle as the trade receivables. Whilst the fall in revenues and the improvements in working capital management had the impact of reducing borrowing requirements, the losses incurred in the year had the opposite effect. The combination of these changes reduced financial liabilities by £3.6 million.

In December 2010 the Group signed a new asset-based lending facility. This provides for borrowing of up to £15.0 million depending on the availability of appropriate assets as security. Interest on borrowings is charged at 2.5% over the prevailing base rate.

### Cash flow and net debt

At the start of the year the Group had net debt (working capital facility less cash and cash equivalents) of £9.8 million. During the year the Group generated net cash of £4.1 million from operating activities. This was primarily a result of the fall in revenues and improvements in management of working capital, as outlined above. £0.8 million was paid in respect of vacant property, of which £0.2 million related to Parity Training; and £1.8 million was paid in respect of the restructuring programme.

The Group had net debt of £6.1 million at the end of the year. The Group's borrowings are all under an asset-based facility. At the year end, headroom on the facility was £1.7 million.

## Provisions

The main provision increase relates to properties. The Group has vacated space as a result of the contraction of the business which it has not yet been able to sublet. Property provisions also increased as a result of the Group's position as guarantor on a Training property. On Parity Training entering administration in June 2010 the guarantee became active and provision has been made for the Group's future liability under this guarantee.

## Change in accounting policy

The presentation in the Income Statement of the amounts relating to the defined benefit pension scheme has been amended in the year. Previously the expected return on scheme assets was included within operating profit, while the notional interest on liabilities was included within finance costs. The expected return on assets is now presented within finance income and the comparative for 2009 has been adjusted. The impact is to reduce the 2009 operating profit and increase 2009 finance income by £0.7 million. This change has been made to give a fairer reflection of the trading performance of the business.

## Pension Fund

The Group has a legacy defined benefit pension scheme. The accounting deficit on this scheme fell by £0.9 million in the year mainly due to contributions paid of £0.8 million and increases in asset values. The contributions are a significant drain on the Group's cash resources. In order to help fund the restructuring of the business the Trustees of the fund agreed to a contribution holiday starting in November 2010. When contributions recommence in January 2012 they will be at an increased level of £1.1 million per annum compared to the previous level of £0.9 million, depending on asset performance. In December 2010 the Company issued one million share options at 9 pence each to the Scheme to be exercised at the discretion of the Trustees. Any gain from the exercise of these share options is to be used to reduce the Scheme deficit.

## Principal risks and uncertainties

### Market

The Group remains exposed to the public sector, with over 70% of 2010 revenues derived from this area. The reduction in Government spending in 2010 caused a reduction in the Group's revenues. Spending levels have stabilised but there remains uncertainty over public sector budgets in the new financial year starting in April 2011. In order to mitigate the risk, during 2010 the Group took action to reduce costs and align the cost base with expected revenues.

Following the reorganisation of the Group there is a major emphasis on addressing growth technologies and private sector clients.



**Adequacy of capital**

The losses of 2010 have depleted the capital of the Group. Should revenues fall further there is a risk that insufficient capital will be available to the Group. The Board regularly reviews the adequacy of resources available and considers the options available to increase them. The Board are actively pursuing other fund raising activities at present which are discussed in the Directors' Report.

**People**

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

**Technology**

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

**Legal**

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

**Requirement to prepare a Business Review**

The Directors, in preparing this Business Review, have complied with s417 of the Companies Act 2006.

This Business Review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Parity Group plc and its subsidiary undertakings when viewed as a whole.

**Alastair Woolley**

Finance Director  
27 April 2011

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# Board of Directors

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## Philip Swinstead OBE

Chairman<sup>1,2</sup>

Philip Swinstead, 67, was appointed Non-executive Chairman in June 2010. Philip is a UK software industry founder. He started SD in 1969 and was Chairman for 20 years. SD became the first software house to obtain a full listing in the UK in 1982, it entered the FTSE 250, and was renamed SD-Scicon before being sold to EDS in 1991. Philip arranged the buyout and refinancing of French systems company, GFI, which then went public in Paris in 1998. Philip Swinstead was co-founder of Parity plc in 1993, and Parity joined the FTSE 250 within five years. More recently he has founded private companies in the software animation and mobile application sectors.

## Lord Freeman

Non-executive Deputy Chairman<sup>1,2,3</sup>

Roger Freeman, 68, was appointed Non-executive Chairman in July 2007 and is Chairman of the remuneration and nominations committees. After qualifying as a Chartered Accountant in 1969 he joined Lehman Brothers, the US Investment Bank, and was a Partner in the London Office until 1983 when he entered the House of Commons. He served as a Minister between 1986 and 1997 including Cabinet Minister for Public Service. He became a Life Peer in 1997 and also became a Partner with PricewaterhouseCoopers for whom he now chairs their UK Advisory Board. He is Chairman or Non-executive Director of a number of listed and private companies including Thales SA, Chemring Group plc and Savile Group plc.

## Nigel Tose

Non-executive Director<sup>1,2,3</sup>

Nigel Tose, 67, was appointed to the Board as a Non-executive Director in 2006. He has over 30 years' experience in investment banking, serving until 2005 as Co-Head of Corporate Finance at Investec Bank (UK) Limited. Prior to joining Investec in 1994, he held a number of senior roles, both domestic and international, at financial organisations including Lloyds Merchant Bank and Lloyds Bank International. He is Chairman of Parity's audit committee.

## Paul Davies

Chief Executive Officer

Paul Davies, 62, was appointed as Chief Executive in June 2010. He was co-founder of Parity, together with Philip Swinstead, and Chief Executive until 1999. Previously Paul was MD of EASAMS, GEC's systems company. Paul has been Deputy Chairman of Microgen plc since 1999 and for a period was Chairman of MSB International plc. More recently he joined the operations board of Fujitsu Services for two years tasked with improving the performance of their portfolio of large IT programmes.

## Alastair Woolley

Finance Director

Alastair Woolley, 49, was appointed in April 2011. Alastair trained with Deloitte and spent 11 years in various department including audit and business services. Since leaving Deloitte, Alastair has worked during the last 16 years in a variety of companies, mainly technology based, as Finance Director and also for a period of time, as Managing Director. He has worked with Philip Swinstead previously as Finance Director and also lately with both Philip and Paul Davies as a consultant on a number of projects. Alastair has responsibility for Finance, Property and Facilities and our Legal and Contracts team.

<sup>1</sup> Member of the nominations committee

<sup>2</sup> Member of the remuneration committee

<sup>3</sup> Member of the audit committee

# Directors' Report

The Directors present their report and the audited accounts for the year ended 31 December 2010.

## Principal activities

The Group's principal activities during the year were technology staffing and the provision of IT and business solutions.

## Review of business and future developments

A review of the business and its outlook, including commentary on the key performance indicators of turnover, gross margin, debtor days and net debt, and the principal risks and uncertainties facing the Group, is included in the Chairman's Statement, Operating Review and Financial Review on pages 02 to 07. The Group's social, environmental and ethical policies are set out on page 11. A statement on the application of the going concern principle is set out below. Details of financial instruments are set out in note 21 to the accounts. Each of the above is incorporated in this report by reference.

## Group results

The Group loss from continuing operations before taxation for the year was £5,243,000 (2009: £20,000) after charging exceptional items of £2,138,000 (2009: £271,000). After a tax credit of £20,000 (2009: £245,000) and a loss from discontinued operations of £911,000 (2009: £496,000), the retained loss of £6,134,000 (2009: £271,000) has been transferred to reserves. The results for the year are set out in the consolidated income statement on page 22.

## Dividends

The Directors do not recommend a final dividend (2009: nil pence per ordinary share). The total dividends for the year were nil pence per ordinary share (2009: nil pence per ordinary share).

## Pension

The Group operates a defined contribution pension scheme. There is also a defined benefit scheme which is closed both to new members and to future service accrual. Details of the defined benefit pension scheme are given in note 23.

## Purchase of own shares

At the end of the year, the Company had authority, under the shareholders' resolution of 1 June 2010, to purchase in the market 3,802,178 of the Company's ordinary shares at prices ranging between 2 pence and an amount equal to 105% of the average of the middle market prices quoted in the five business days immediately preceding the day of purchase. No purchases were made during the year. The Directors intend to seek renewal of this authority at the forthcoming Annual General Meeting on 7 June 2011.

## Board of Directors

Biographical information on each of the Directors as at 27 April 2011 is set out on page 08, together with details of membership of the Board committees.

In accordance with the Company's Articles of Association, the following will retire and offer themselves for re-election at the 2011 Annual General Meeting:

- Philip Swinstead and Paul Davies, who were appointed after the announcement of the 2010 AGM;
- Alastair Woolley, who was appointed Finance Director on 1 April 2011; and
- Lord Freeman, who will have served three years since last being re-elected.

## Directors' interests

The Directors' beneficial interests in the ordinary share capital of the Company are set out within the remuneration report on page 20.

## Principal shareholders

At the close of business on 26 April 2011 (being the latest practical date prior to the signing of the Directors' Report) the Company had received notification of the following substantial interests representing over 3% of the issued share capital:

	Number of Ordinary 2p shares	Percentage held
Philip Swinstead	9,795,327	25.76
Dominion Holdings	4,400,000	11.57
Henderson Global Investors Ltd	1,933,970	5.01
Kristian Overend	1,250,000	3.29
BP Pension Trustees	1,232,221	3.24
Simon Marsh	1,200,000	3.16

## Capital structure

The Company has two classes of shares in issue, ordinary shares of 2 pence and deferred shares of 0.04 pence. The ordinary shares are listed on the London Stock Exchange and ordinary shareholders are entitled to vote at Company meetings, to receive dividends and to the return of their capital in the event of liquidation, with the exception of ordinary shares held by the Parity Group plc Employee Share Ownership Trust which are not entitled to receive dividends. The deferred shares are not listed, have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation.

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

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above (Review of business and future developments). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 05 to 07 and in note 21 to the accounts. Note 21 also includes the Group's objectives for managing capital.

As outlined in note 21, The Group meets its day-to-day working capital requirements through an asset-based finance facility. The current economic conditions create uncertainty particularly over the level of demand for the Group's services and the availability of bank finance in the foreseeable future.

In considering the appropriateness of the going concern assumption, the directors have taken into consideration cash flow projections together with expected funding and facilities.

Following a year of significant losses, the directors believe that it is necessary to increase its cash resources in order to increase working capital, allow further cost savings and to back its new growth initiatives. In the absence of additional funding the new initiatives and cost savings would need to be postponed and the directors believe that the company would not necessarily have adequate headroom to finance the business on a day to day basis. To address this, the directors have explored additional financing opportunities and are at advanced stages of successfully completing one of these opportunities.

It is on this basis that the directors consider it appropriate to prepare the financial statements on a going concern basis. However if the company was unable to secure further funding from the bank or from other sources the directors are of the view that the company might find itself under cash pressure which would jeopardise the preparation of accounts on a going concern basis and that consequent adjustments would therefore have to be made to the carrying value of both assets and liabilities.

The Directors believe that the going concern basis is the most appropriate basis on which to prepare the financial statements, although the fact that the funds have not yet been raised constitutes a material uncertainty that may cast significant doubt over the company's ability to continue as a going concern in that the company may be unable to realise its assets and liabilities in the normal course of business.

## Change of control

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. In the event of a change of control, the share options held by Mr Davies under the Senior

Executive Option Plan would vest. There are no other agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

## Payments to suppliers

The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. In the United Kingdom the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. At 31 December 2010 unpaid creditors of the Group amounted to 28 days of purchases (2009: 28 days). Creditor days have not been calculated for the Company as it has no trade creditors.

## Corporate social responsibility

The Group recognises its corporate social responsibilities and reports on these in a separate statement of social, environmental and ethical policies on page 11. This statement covers the Group's Employment Policies, Environmental Policy and Health and Safety Policy.

## Contributions for charitable and political purposes

The Group made no charitable contributions during 2010 (2009: £nil). No payments were made for political purposes.

## Directors' and officers' liability insurance and indemnity

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

## Disclosure of information to auditors

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

## Auditors

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

The senior statutory auditor, Julian Frost, was due to retire by rotation before the audit of the 2010 accounts, having served for five years. However, his tenure has been extended by two years. The business has undergone significant change in 2010 and the Audit Committee felt it important that with changes at both Board and senior management level, and the significant disruption of a major cost reduction exercise, it was important to have a senior auditor who knows Parity's business well in order to maintain audit quality and also to supplement the Board's knowledge of the Group's recent past history.

## Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 7 June 2011, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

## By order of the Board

### Alastair Woolley

Company Secretary  
27 April 2011

# Social, Environmental and Ethical Policies

## Employment policies

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

## Health and safety

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

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

**First aid** — Each office has a person qualified in first aid. First aid boxes are readily accessible and records kept of all accidents and injuries.

**Fire safety** — Each office has an evacuation marshal who will liaise with building management or local emergency authorities, as appropriate. Evacuation assembly points are agreed for every location and a full evacuation carried out every six months. Fire alarms are tested regularly.

**Employees' health** — Any employee who believes he/she is suffering from an illness or condition related to their working environment is encouraged to report this to his/her manager for investigation.

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

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

## Social responsibilities

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

## Environmental policy

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

## Transport

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

## Energy

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

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

## Recycling

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

## Ethics

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

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# Corporate Governance Report

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## Introduction

The maintenance of high standards of corporate governance remains a key priority for the Board. UK Listing Rules require listed companies to disclose how they have applied the principles of the Combined Code on Corporate Governance 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 20, describes how the Group has complied with the Combined Code during the year. The revised UK Corporate Governance Code, published in May 2010, will be in force for 2011.

## 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 2008 Combined Code, except in the following areas:

- Under the code, as Chairman, Philip Swinstead is not considered independent. However, as the Board includes two other Non-executive Directors, the Board believes that there is a sufficient degree of independence.
- No member of the audit committee has recent and relevant financial experience as stipulated in the provisions of the Combined Code. However, the Board considers that the members of the audit committee have the financial experience and qualifications required and the requisite skills and attributes to enable the audit committee to properly discharge its responsibilities. The Board intends to appoint a new Non-executive Director with suitable financial qualifications.
- Due to procedures outlined under internal control on page 15, 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. The need for an internal audit function is kept under review.

## Going concern

The Board confirms that after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts. Further details are outlined in the Directors' Report on page 10.

## The workings of the Board and its committees

### The Board

The Board consists of the Chairman Philip Swinstead, the Deputy Chairman Roger Freeman, the Chief Executive Officer Paul Davies, the Group Finance Director Alastair Woolley and Non-executive Director Nigel Tose. The Directors' biographies, which are set out on page 08, demonstrate a range of business backgrounds and experience.

### Chairman

The Chairman, Philip Swinstead, is responsible for the leadership and efficient operation of the Board. He is also responsible for effective communications with shareholders.

## Senior Independent Director

Nigel Tose 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 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.

## Re-election of Directors

All Directors submit themselves for reappointment at the next Annual General Meeting following their appointment and retire by rotation, offering themselves for re-election. The names of the Directors submitted for reappointment are set out in the Directors' report on page 9 and in the separate Notice of Annual General Meeting sent to all shareholders. The Chairman, and in the case of the Chairman himself, the Deputy Chairman confirms that the performance of each Director submitting themselves for reappointment continues to be effective and the individuals continue to demonstrate commitment to the role.

## Company Secretary

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

The Board meets regularly throughout the year. A table showing the number of meetings of the Board and its committees held during the year and attendance at those meetings by each Board member is set out on page 13. The Board maintains close dialogue by email and telephone between formal meetings. The Board has a formal schedule of matters reserved for its specific approval including review of Group strategic, operational and financial matters including proposed acquisitions and divestments. It approves the annual accounts and interim report, the annual budget, significant transactions and major capital expenditure and reviews the effectiveness of the system of internal control and the risks faced by the Group. The review covers all controls, including financial, operational and compliance controls and risk management. Authority is delegated to management through Group authorisation limits on a structured basis, ensuring that proper management oversight exists at the appropriate level.

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

The Managing Directors of each of the business units held regular meetings with the Chief Executive Officer and Group Finance Director during the year to discuss operating and financial performance and key issues arising from these meetings were reported to the Board.

## Performance evaluation

Individual Board members' performance is evaluated through regular appraisals. The performance of the Chairman is evaluated annually by the Non-executive Directors.

## 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 there are no relationships or circumstances which are likely to affect the independent judgement of the Non-executive Directors.

## Attendance at Board meetings

The Board had 11 scheduled Board meetings in 2010 and ad hoc meetings (not included below) were convened as necessary to deal with urgent matters. Detail of attendance at scheduled Board meetings is summarised below. Committee attendance is shown for Committee members only.

	Board	Audit	Nominations	Remuneration
<b>Number held</b>	11	2	1	3
<b>Number attended</b> <sup>1</sup>				
Philip Swinstead <sup>2</sup>	7	1*	–	–
Roger Freeman	10	–*	1	3
Paul Davies <sup>2</sup>	7	–	–	–
Ian Ketchin <sup>4</sup>	11	–	–	–
Nigel Tose	11	2	1	3
Alwyn Welch <sup>3</sup>	4	–	–	–
John Hughes <sup>3</sup>	4	1	–	1

\* Philip Swinstead attended a meeting of the Audit Committee as Roger Freeman's alternate when he was unable to attend.

<sup>1</sup> All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 2 June 2010.

<sup>2</sup> Appointed 1 June 2010.

<sup>3</sup> Resigned 30 May 2010.

<sup>4</sup> Ian Ketchin stepped down as a Director with effect from 31 March 2011.

## Committees

Each of the Board's three Committees has formal written terms of reference, which were reviewed in 2010. These terms of reference are made available for inspection by shareholders at the Annual General Meeting or, on request to the Company Secretary, can be inspected at the Company's head office and are also available in the Corporate Governance section of the Group's website.

## Audit committee

The audit committee which is chaired by Nigel Tose, meets at least twice annually. Roger Freeman is the other member of the audit committee.

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

The committee's principal terms of reference include:

- the oversight responsibilities described in the above paragraph;
- reviewing compliance with laws, regulations and the Group's code of conduct and policies;
- monitoring the integrity of the Group's financial statements and 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 application of the going concern assumption;
- reviewing the findings of the external audit with the external auditors;
- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, reappointment and removal of the external auditors 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 auditors to supply non-audit services; and
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing 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 provided audit-related services during 2010, details of which are set out in note 3 to the accounts.

Audit committee meetings are attended by the external auditors and by the Finance Director at the invitation of the committee. The external auditors meet separately with the audit committee on request, without the presence of the Finance Director, to ensure open communication.

#### **Remuneration committee**

Details of the membership and responsibilities of the remuneration committee are set out in the remuneration report on pages 16 to 20.

#### **Nominations committee**

The nominations committee comprises the Non-executive Directors and is 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.

#### **Investor relations**

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

All members of the Board usually attend the Annual General Meeting. The chairmen of the audit, remuneration and nominations committees will normally be available to answer shareholders' questions at that meeting. Notice of the Meeting is posted to shareholders with the report and accounts not fewer than 21 working days prior to the date of the Annual General Meeting. The package sent to shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is proposed for each substantive matter. The Group's annual report and accounts, interim report and other stock exchange announcements are published on the Group's website at [www.parity.net](http://www.parity.net).

#### **Annual Report**

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

#### **Directors' responsibilities**

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- prepare a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



### Website publication

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

### Internal control

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

The review of internal controls revealed that certain contracts were taken on where there was an adverse balance of risk and reward. As a result of this, the Group suffered losses on several contracts. Following the review of internal controls, new authority limits have been set and this has resulted in bid reviews and project reviews chaired by the CEO for all major projects.

### 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; and
- Credit risk

The policies for managing these risks are set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policies for each of the above risks, and the nature and extent of those risks, are described in detail in note 21 to the financial statements. Other risks and uncertainties are discussed in the Financial Review on pages 06 and 07.

### Directors' responsibilities pursuant to DTR4

The Directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent Company, together with a description of the principal risks and uncertainties that they face.

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# Remuneration Report

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## Remuneration committee

The remuneration committee comprises Roger Freeman as Chairman and Nigel Tose. Directors are excluded from discussions about their personal remuneration.

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

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

The Board determines the remuneration of all Non-executive Directors within the limits set out in the Company's Articles of Association. Non-executive Directors are not involved in any decisions about their own remuneration. Details of Directors' remuneration for the year ended 31 December 2010 are set out in the table on page 19.

## Remuneration policy

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

The four key elements of the remuneration package of senior Executives, including Executive Directors, in the Group in 2010 were basic annual salary and benefits in kind; performance bonus payments; long-term incentives including share options; and pension arrangements.

Salaries and benefits are reviewed annually. In order to assess the competitiveness of the pay and benefits packages offered by the Group, comparisons are made to those offered by similar companies. These are chosen with regard to the size of the company (turnover, profits and employee numbers); the diversity and complexity of their businesses; the geographical spread of their businesses; and their growth, expansion and

change profile. In light of the economic conditions prevailing at the start of 2010 the policy applied as a result of the annual salary review was for increases to be given only where an individual's role had changed or where there was a pay anomaly. No changes in Directors' remuneration arose as a result of this review.

## Performance bonus

The terms of the incentive bonus for Executive Directors are agreed annually. For 2010 a first half target was set as well as the full year target. No performance bonuses were earned by, or paid to, Executive Directors in 2010.

## Long-term incentive arrangements

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

## Share option schemes

During 2010 the Group operated three types of share option scheme: an Executive Share Option Plan, a Savings Related Share Option Scheme (Sharesave Scheme), and a Senior Executive Share Option Plan.

## Executive share option plans

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

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

Executive Share Options granted after 2004 are exercisable in normal circumstances between three and ten years after the date of grant, provided that the share price has outperformed the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector.

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

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

There are no awards outstanding to the Directors under the Executive Share Option Plans.

### Senior Executive Share Option Plan

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

Following his appointment as CEO, Paul Davies was granted 2,851,633 options under the Senior Executive Share Option Plan in October 2010. The exercise price is 10 pence per share and there are no other performance conditions. The options vest quarterly in seven equal tranches starting 25 January 2011.

On 12 March 2009 options were granted under this scheme over 2,851,633 and 950,544 shares respectively to Alwyn Welch and Ian Ketchin. The exercise price was 20 pence per share and there was no other performance condition. Alwyn Welch's options lapsed on him leaving the Group in May 2010. Ian Ketchin surrendered his options on 31 December 2010.

### Sharesave schemes

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

There are no options outstanding under the Sharesave Scheme.

### Co-investment scheme

The Co-investment Scheme was approved by shareholders in 2004. Members are invited to join by the Board, having regard to the recommendations of the remuneration committee. At present the scheme is open to the Chief Executive Officer, Group Finance Director and the Managing Directors of the business units and one other senior executive. Under the rules of the scheme, members are entitled to invest up to 50% of the bonus that they earn under the Annual Performance Bonus Scheme in Parity shares. The shares are held on behalf of the employee and, provided the employee remains in Parity's employment, any bonuses invested will be matched in number by the Company on a sliding scale of up to 1.5 for 1 at the end of a defined period of up to three years following the date of purchase.

The award of matching shares is subject to the share price outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector and the period during which the employee has to hold shares before they are matched by the Company increases from one year to three years. Depending on the Group's performance over those three years, the shares purchased by the employee will be matched on a sliding scale up to a maximum of 1.5 to 1 for outstanding performance.

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

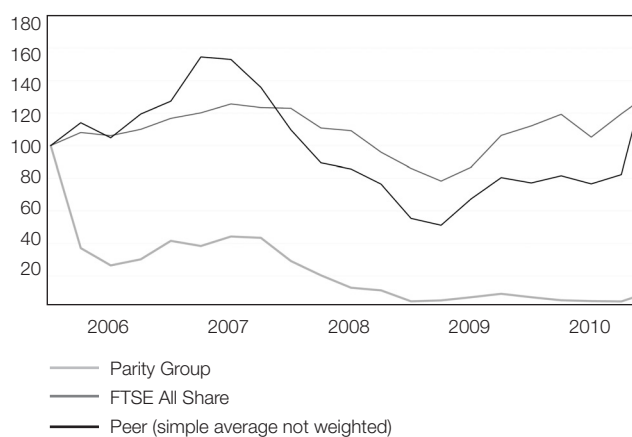
### Total shareholder return

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

At 31 December 2010 the comparator group comprised:

- Anite
- Charteris
- Harvey Nash
- Hays
- Highams Systems Services
- ILX
- Interquest
- Kellan
- Logica
- Maxima
- Phoenix IT
- SciSys
- SQS
- STthree
- The Rethink Group

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



### Share price

The Parity Group plc mid market share price on 31 December 2010 was 15.8 pence. During the period 1 January to 31 December 2010 shares traded at market prices between 6.25 pence and 15.8 pence.

### Directors' pension information

Paul Davies is entitled to a non-contributory company pension contribution of 11% of basic salary. Ian Ketchin was entitled to a contributory company pension contribution of 5% of basic salary.

# Remuneration Report continued

## Non-executive Directors' remuneration

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

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

Contractual arrangements for current Directors are summarised below:

Director	Contract date	Notice period	Contractual termination payment
Philip Swinstead	1 September 2010	n/a	n/a
Lord Freeman <sup>1</sup>	1 July 2007	n/a	n/a
Ian Ketchin <sup>2,3</sup>	17 May 2007	12 months	12 months rolling
Nigel Tose <sup>1</sup>	3 July 2006	n/a	n/a
Paul Davies <sup>2</sup>	2 June 2010	12 months	12 months rolling
Alastair Woolley <sup>4</sup>	1 April 2011	3 months	n/a

<sup>1</sup> The appointment of Non-executive Directors is terminable at the will of the parties.

<sup>2</sup> The Company is required to give 12 months' notice of termination of the service agreement to the Executive Director who is required to give six months' notice to the Company.

<sup>3</sup> Ian Ketchin stepped down as a Director with effect from 31 March 2011.

In addition to his contractual remuneration for the period to 30 June 2011, he will receive an ex gratia sum of £75,000.

<sup>4</sup> As from 1 October 2011 notice period to be given by either party will increase to 6 months.

## Other non-executive posts

Subject to the approval of the Board, the Executive Directors may hold external non-executive appointments. The Group believes that such appointments provide a valuable opportunity in terms of personal and professional development. Fees derived from such appointments may be retained by the Executive Director concerned.

Philip Swinstead, Lord Freeman, Nigel Tose and Paul Davies hold non-executive positions outside the Group.

## Service contracts and letters of appointment

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

## Directors' remuneration (audited)

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

	Salary/ fees 2010 £'000	Benefits 2010 £'000	Compensation for loss of office 2010 £'000	Total emoluments 2010 £'000	Company pension contributions <sup>4</sup> 2010 £'000
<b>Executive Directors</b>					
P Davies <sup>1</sup>	128	11	–	139	14
I Ketchin <sup>7</sup>	150	11	–	161	8
A Welch <sup>2</sup>	108	18	338	464	11
<b>Non-executive Directors</b>					
P Swinstead <sup>1,3</sup>	107	–	–	107	–
Lord Freeman	38	–	–	38	–
N Tose	30	–	–	30	–
J Hughes <sup>2</sup>	15	6	23	44	–
<b>Total emoluments</b>	<b>576</b>	<b>46</b>	<b>361</b>	<b>983</b>	<b>33</b>

	Salary/ fees 2009 £'000	Performance bonus 2009 £'000	Benefits 2009 £'000	Total emoluments 2009 £'000	Company pension contributions <sup>4</sup> 2009 £'000
<b>Executive Directors</b>					
A Welch <sup>5</sup>	249	4	19	272	26
I Ketchin <sup>5,7</sup>	144	3	11	158	8
<b>Non-executive Directors</b>					
Lord Freeman <sup>6</sup>	51	–	–	51	–
N Tose	30	–	–	30	–
J Hughes <sup>6</sup>	34	–	16	50	–
<b>Total emoluments</b>	<b>508</b>	<b>7</b>	<b>46</b>	<b>561</b>	<b>34</b>

<sup>1</sup> Appointed 1 June 2010.

<sup>2</sup> Resigned 31 May 2010.

<sup>3</sup> From 2 June 2010 to 31 August 2010, Philip Swinstead's services as Chairman were provided under a contract with e-Loan BV, a company incorporated in the Netherlands. As at 31 December 2010, these services together with those provided since 1 September 2010 remain accrued but unpaid.

<sup>4</sup> Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors from the Company.

<sup>5</sup> In 2009 Alwyn Welch and Ian Ketchin exchanged £9,952 and £5,769 of their salary respectively in return for additional, unpaid leave.

<sup>6</sup> In 2009 Roger Freeman and John Hughes waived £1,924 and £1,346 of their fees respectively.

<sup>7</sup> Ian Ketchin stepped down as a Director with effect from 31 March 2011.

# Remuneration Report continued

## Executive Directors' share options (audited)

	As at 1 January 2010	Lapsed / Surrendered in the year	Exercised in the year	Awarded in the year	As at 31 December 2010	Exercise period	Exercise price per share
<b>Paul Davies</b>							
Senior Executive share option plan							
2010	–	–	–	2,851,633	<b>2,851,633</b>	2011-2017	£0.10
<b>Ian Ketchin</b>							
Executive share option plan							
2007	174,698	174,698	–	–	–	2010-2017	£0.83
Senior Executive share option plan							
2009	950,544	950,544	–	–	–	2009-2015	£0.20
<b>Alwyn Welch</b>							
Senior Executive share option plan							
2009	2,851,633	2,851,633	–	–	–	2009-2015	£0.20

## Directors' interests in shares

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

	At 1 January 2010 or date of appointment	% issued share capital	Shareholding as at 31 December 2010 or date of resignation	% issued share capital
Philip Swinstead	9,795,327	25.762	<b>9,795,327</b>	<b>25.762</b>
Lord Freeman	5,000	0.013	<b>5,000</b>	<b>0.013</b>
Paul Davies	720,000	1.894	<b>720,000</b>	<b>1.894</b>
Nigel Tose	100,000	0.263	<b>100,000</b>	<b>0.263</b>
Ian Ketchin	30,000	0.079	<b>30,000</b>	<b>0.079</b>
Alwyn Welch	314,815	0.828	<b>314,815</b>	<b>0.828</b>
John Hughes	53,000	0.139	<b>53,000</b>	<b>0.139</b>
Total	11,018,142	28.978	<b>11,018,142</b>	<b>28.978</b>

For and on behalf of the Board

### Roger Freeman

Chairman of the remuneration committee  
27 April 2011

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

We have audited the financial statements of Parity Group plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent Company statements of changes in equity, the consolidated and parent Company statements of financial position, the consolidated and parent Company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

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

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

## Emphasis of Matter – Going Concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group is dependent on the raising of new funds in order to fund working capital and finance its strategy in a timely manner, in order to continue as a

going concern. While the Directors are confident that the required funds will be raised from additional financing opportunities, there are no binding agreements in place. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 10, in relation to going concern;
- the part of the corporate governance report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board in relation to Directors' remuneration.

## Julian Frost (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
27 April 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Income Statement

for the year ended 31 December 2010

	Notes	Before exceptional items 2010 £'000	Exceptional items 2010 (note 4) £'000	After exceptional items 2010 £'000	Before exceptional items (as restated – note 1) 2009 £'000	Exceptional items 2009 (note 4) £'000	After exceptional items (as restated – note 1) 2009 £'000
<b>Continuing operations</b>							
Revenue	2	92,963	–	92,963	119,024	–	119,024
Employee benefit costs	3	(9,881)	(1,421)	(11,302)	(12,214)	(271)	(12,485)
Depreciation & amortisation	3	(636)	–	(636)	(488)	–	(488)
All other operating expenses	3	(85,088)	(717)	(85,805)	(105,542)	–	(105,542)
Total operating expenses		(95,605)	(2,138)	(97,743)	(118,244)	(271)	(118,515)
<b>Operating (loss)/profit</b>		<b>(2,642)</b>	<b>(2,138)</b>	<b>(4,780)</b>	780	(271)	509
Finance income	6	773	–	773	674	–	674
Finance costs	6	(1,236)	–	(1,236)	(1,203)	–	(1,203)
<b>(Loss)/profit before tax</b>		<b>(3,105)</b>	<b>(2,138)</b>	<b>(5,243)</b>	251	(271)	(20)
<b>Taxation</b>							
Write-down of deferred tax asset		–	–	–	(300)	–	(300)
Other taxation		20	–	20	469	76	545
	9	20	–	20	169	76	245
<b>(Loss)/profit for the year from continuing operations</b>		<b>(3,085)</b>	<b>(2,138)</b>	<b>(5,223)</b>	420	(195)	225
<b>Discontinued operations</b>							
Loss for the year from discontinued operations	7	(231)	(680)	(911)	(496)	–	(496)
<b>Loss for the year attributable to owners of the parent</b>		<b>(3,316)</b>	<b>(2,818)</b>	<b>(6,134)</b>	(76)	(195)	(271)
Basic and diluted loss per share on loss for the year	10			<b>(16.15p)</b>			(0.71p)
Basic and diluted (loss)/ earnings per share from continuing operations	10			<b>(13.75p)</b>			0.59p



# Statement of Comprehensive Income

for the year ended 31 December 2010

		Consolidated	
	Notes	2010 £'000	2009 £'000
<b>Loss for the year</b>		<b>(6,134)</b>	(271)
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations		61	781
Actuarial gain/(loss) on defined benefit pension scheme	23	299	(2,088)
Deferred taxation on actuarial gains on pension scheme taken directly to equity	15	(57)	–
<b>Other comprehensive income for the year net of tax</b>	9	<b>303</b>	(1,307)
<b>Total comprehensive income for the year</b>		<b>(5,831)</b>	(1,578)

Our Performance

Our Governance

Our Financials

# Statements of Changes in Equity

for the year ended 31 December 2010

<b>Consolidated</b>	<b>Share capital £'000</b>	<b>Deferred shares £'000</b>	<b>Share premium reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 January 2010	760	14,319	20,134	44,160	(72,239)	7,134
Loss for the year	–	–	–	–	(6,134)	(6,134)
Other comprehensive income for the year net of tax	–	–	–	–	303	303
Total other comprehensive income	–	–	–	–	(5,831)	(5,831)
Share options — value of employee services	–	–	–	–	30	30
<b>At 31 December 2010</b>	<b>760</b>	<b>14,319</b>	<b>20,134</b>	<b>44,160</b>	<b>(78,040)</b>	<b>1,333</b>

<b>Consolidated</b>	<b>Share capital £'000</b>	<b>Deferred shares £'000</b>	<b>Share premium reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 January 2009	760	14,319	20,134	44,160	(70,714)	8,659
Loss for the year	–	–	–	–	(271)	(271)
Other comprehensive expense for the year net of tax	–	–	–	–	(1,307)	(1,307)
Total other comprehensive income	–	–	–	–	(1,578)	(1,578)
Share options — value of employee services	–	–	–	–	53	53
At 31 December 2009	760	14,319	20,134	44,160	(72,239)	7,134

<b>Company</b>	<b>Share capital £'000</b>	<b>Deferred shares £'000</b>	<b>Share premium reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 January 2010	760	14,319	20,134	22,729	(27,754)	30,188
Loss for the year	–	–	–	–	(14,774)	(14,774)
Share options — value of employee services	–	–	–	–	40	40
<b>At 31 December 2010</b>	<b>760</b>	<b>14,319</b>	<b>20,134</b>	<b>22,729</b>	<b>(42,488)</b>	<b>15,454</b>

<b>Company</b>	<b>Share capital £'000</b>	<b>Deferred shares £'000</b>	<b>Share premium reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 January 2009	760	14,319	20,134	22,729	(26,446)	31,496
Loss for the year	–	–	–	–	(1,263)	(1,263)
Share options — value of employee services	–	–	–	–	(45)	(45)
At 31 December 2009	760	14,319	20,134	22,729	(27,754)	30,188

# Statements of Financial Position

As at 31 December 2010

Company number 3539413

Assets	Notes	Consolidated		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Non-current assets</b>					
Intangible assets	11	5,796	6,124	-	-
Property, plant and equipment	13	870	1,159	-	-
Available for sale financial assets	14	134	117	-	-
Trade and other receivables	17	-	-	66,602	61,087
Investment in subsidiaries	29	-	-	20,527	30,127
Deferred tax assets	15	1,498	1,535	-	-
		<b>8,298</b>	<b>8,935</b>	<b>87,129</b>	<b>91,214</b>
<b>Current assets</b>					
Work in progress	16	237	451	-	-
Trade and other receivables	17	14,800	25,382	5,340	836
Cash and cash equivalents		245	128	96	36
		<b>15,282</b>	<b>25,961</b>	<b>5,436</b>	<b>872</b>
<b>Total assets</b>		<b>23,580</b>	<b>34,896</b>	<b>92,565</b>	<b>92,086</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Other financial liabilities	18	(6,354)	(9,913)	-	(81)
Trade and other payables	19	(11,385)	(13,476)	(2,636)	(1,997)
Provisions	20	(1,160)	(401)	(692)	(331)
		<b>(18,899)</b>	<b>(23,790)</b>	<b>(3,328)</b>	<b>(2,409)</b>
<b>Non-current liabilities</b>					
Trade and other payables	19	-	-	(72,995)	(59,019)
Provisions	20	(923)	(646)	(788)	(470)
Retirement benefit liability	23	(2,425)	(3,326)	-	-
		<b>(3,348)</b>	<b>(3,972)</b>	<b>(73,783)</b>	<b>(59,489)</b>
<b>Total liabilities</b>		<b>(22,247)</b>	<b>(27,762)</b>	<b>(77,111)</b>	<b>(61,898)</b>
<b>Net assets</b>		<b>1,333</b>	<b>7,134</b>	<b>15,454</b>	<b>30,188</b>
<b>Shareholders' equity</b>					
Called up share capital	24	15,079	15,079	15,079	15,079
Share premium account	22	20,134	20,134	20,134	20,134
Other reserves	22	44,160	44,160	22,729	22,729
Retained earnings	22	(78,040)	(72,239)	(42,488)	(27,754)
<b>Total shareholders' equity</b>		<b>1,333</b>	<b>7,134</b>	<b>15,454</b>	<b>30,188</b>

Approved by the Directors and authorised for issue on 27 April 2011.

**Philip Swinstead OBE**  
Chairman

**Alastair Woolley**  
Group Finance Director

# Statements of Cash Flows

for the year ended 31 December 2010

	Notes	Consolidated		Company	
		2010 £'000	2009 (as restated – note 1) £'000	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>					
<b>Loss for year</b>		<b>(6,134)</b>	(271)	<b>(14,774)</b>	(1,263)
Adjustments for:					
Finance income	6	(773)	(674)	(264)	(169)
Finance costs	6	1,236	1,204	1,036	983
Loss on sale of discontinued operations, net of tax	7	–	208	–	–
Share-based payment expense	8	30	54	40	(45)
Income tax credit	9	(20)	(56)	(876)	(671)
Amortisation of intangible fixed assets	11	295	40	–	–
Impairment of intangible fixed assets	11	49	–	–	–
Depreciation of property plant and equipment	13	341	488	–	1
Change in fair value of available-for-sale investment	14	(17)	13	–	–
Impairment of investment in subsidiaries	29	–	–	9,600	–
		<b>(4,993)</b>	1,006	<b>(5,238)</b>	(1,164)
Decrease in work in progress		214	187	–	–
(Increase)/decrease in trade and other receivables		10,588	595	(3,452)	246
Decrease in trade and other payables		(2,036)	(4,136)	(308)	1,541
Increase/(decrease) in provisions		1,036	(273)	680	(250)
Payments to retirement benefit plan	23	(750)	(900)	–	–
<b>Cash generated from operations</b>		<b>4,059</b>	(3,521)	<b>(8,318)</b>	373
<b>Income taxes received</b>		–	1	–	–
<b>Net cash flows from operating activities</b>		<b>4,059</b>	(3,520)	<b>(8,318)</b>	373
<b>Investing activities</b>					
Net cash movement on disposal of subsidiary	7	–	(265)	–	–
Purchase of intangibles	11	(16)	(1,654)	–	–
Purchase of property, plant and equipment	13	(52)	(199)	–	–
<b>Net cash used in investing activities</b>		<b>(68)</b>	(2,118)	–	–
<b>Financing activities</b>					
Net repayment of/(proceeds from) closed finance facility		(9,913)	5,603	(81)	81
Net proceeds from new finance facility		6,354	–	–	–
Net movement on intercompany funding		–	–	8,459	(87)
Interest received		–	4	–	–
Interest paid	6	(315)	(341)	–	(341)
<b>Net cash (used in)/from financing activities</b>		<b>(3,874)</b>	5,266	<b>8,378</b>	(347)
Net increase/(decrease) in cash and cash equivalents		117	(372)	60	26
<b>Cash and cash equivalents at the beginning of the year</b>		<b>128</b>	500	<b>36</b>	10
<b>Cash and cash equivalents at the end of the year</b>		<b>245</b>	128	<b>96</b>	36

# 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 unless otherwise stated. The financial statements have been prepared on a going concern basis as outlined in the Director's Report on page 10. In considering the appropriateness of the going concern assumption, the directors have taken into consideration cash flow projections together with expected funding and facilities.

Following a year of significant losses, the directors believe that it is necessary to increase its cash resources in order to increase working capital, allow further cost savings and to back its new growth initiatives. In the absence of additional funding the new initiatives and cost savings would need to be postponed and the directors believe that the company would not necessarily have adequate headroom to finance the business on a day to day basis. To address this, the directors have explored additional financing opportunities and are at advanced stages of successfully completing one of these opportunities.

It is on this basis that the directors consider it appropriate to prepare the financial statements on a going concern basis. However if the company was unable to secure further funding from the bank or other sources the directors are of the view that the company might find itself under cash pressure which would jeopardise the preparation of accounts on a going concern basis and that consequent adjustments would therefore have to be made to the carrying value of both assets and liabilities.

The Directors believe that the going concern basis is the most appropriate basis on which to prepare the financial statements, although the fact that the funds have not yet been raised indicates the existence of a material uncertainty that may cast significant doubt over the company's ability to continue as a going concern in that the company may be unable to realise its assets and liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2010. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement or Statement of Comprehensive Income. The loss for the year dealt with in the accounts of the Company was £14,774,000 (2009: loss of £1,263,000).

### Changes in accounting policies: new standards, interpretations and amendments effective in 2010 adopted by the Group and published standards not yet effective

No new standards, amendments to published standards or interpretations of existing standards effective in 2010 had a material impact on the Group's 2010 financial statements. No published standards that are not yet effective are expected to have a material impact on the Group's financial statements.

### Change in accounting policy: Pension accounting

The Group operates a defined benefit pension scheme that is closed to new entrants and to future service accrual. Previously the expected return on scheme assets was included within operating costs in the Consolidated Income Statement and the unwinding of the discount on scheme liabilities was included as a finance cost. In order to give a clearer view of operating performance the presentation has been changed and return on scheme assets is now included in finance income and the unwinding of the discount on plan liabilities in finance costs. The 2009 comparative has also been adjusted.

As a result of this change in accounting policy the following adjustments were made to the consolidated financial statements:

For the year ended	31 December 2010 £000	31 December 2009 £000
Increase operating expenses	773	670
Increase finance income	773	670

Under paragraph 10(f) of IAS 1 "Presentation of Financial Statements", this change in accounting policy would ordinarily require the presentation of a consolidated statement of financial position as at the beginning of the earliest comparative period. However, as the change in accounting policy has no effect on the statement of financial position, the Directors do not consider that this would provide any additional information and, in consequence, have not presented it within these financial statements.

### 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.

## 1 Accounting policies continued

Revenue on contracts for the supply of professional services at pre-determined rates is recognised as and when the work is performed, irrespective of the duration of the contract. Permanent placement staffing revenue is recognised when candidates commence employment.

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 reporting date. Provision is made for all foreseeable future losses.

### Exceptional items

Items which are both material and non-recurring are presented as exceptional items within the relevant 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, if of a significantly material value, include gains or losses on the disposal of a business, restructuring of a business, litigation and similar settlements, and asset impairments.

### Finance income and costs

Finance income and costs are recognised on an accruals basis.

### Dividends

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

### 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 reporting 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 assets and liabilities are recognised where they have been acquired as part of a business combination.

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 charged or credited in the Income Statement or in Other Comprehensive Income, 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 Income Statement.

#### *Group*

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

### Discontinued operations

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

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

### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the management team comprising the Chief Executive and the Finance Director.

## 1 Accounting policies continued

### Intangible assets

#### Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing.

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

#### Software

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

### Property, plant and equipment

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

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

Leasehold improvements	Between 5 and 10 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.

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

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

Goodwill is tested for impairment at each reporting date. The carrying value of other intangible assets and property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

### Financial assets

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

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

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

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

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Income Statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

## 1 Accounting policies continued

### **Financial assets** continued

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

The fair value of the Group's investment in shares is their listed market price.

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

Cash and cash equivalents: cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, short-term deposits and other short-term liquid investments.

In the Cash Flow Statement, cash and cash equivalents comprise cash and cash equivalents as defined above, net of bank overdrafts.

### **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 Statement of Financial Position as work in progress and charged to the Income Statement over the life of the contract so as to match costs with revenues.

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

### **Amounts recoverable on contracts and payments in advance**

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

### **Financial liabilities**

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

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

Financial liabilities include the following items:

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

### **Leases**

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



## 1 Accounting policies continued

### 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.

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

Where leasehold properties are surplus to requirements, 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.

### 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 expected return on the assets of the funded defined benefit pension plan is included within finance income; and the imputed interest on the pension plan liabilities 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 Other Comprehensive Income in the period in which they arise.

Defined benefit scheme surpluses and deficits are measured at the fair value of assets at the reporting 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.

### Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

For the purposes of the disclosures given in note 21, the Group considers its capital to comprise its ordinary share capital, share premium and other reserves, net of accumulated retained losses. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements.

### Financial guarantee contracts

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

### Employee Share Ownership Plan (ESOP)

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

## 1 Accounting policies continued

### 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 reporting 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.

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

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

### Significant accounting estimates and judgements

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

Property provisions. Provisions for onerous lease costs are based on the future contractual lease obligations of the Group less future contractual sub-let income and management estimates and assumptions regarding potential future sub-let income. Dilapidations provisions are based on contractual lease obligations and management estimates and assumptions regarding the future costs of meeting those obligations. Changes in assumptions are not anticipated to have a material impact in the current year.

Legal provisions. Legal provisions are made having reviewed outstanding and potential legal cases. The opinions or views of legal advisors are sought to inform the Group's making of provisions.

Retirement benefit liability. The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 23. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions.

Recoverability of deferred tax assets. The deferred tax assets are reviewed for recoverability and recognised to the extent that they are expected to be recovered in the foreseeable future. This is determined based on management estimates and assumptions as to the future profitability of the related business units. The forecasts for the business used in this review were the same as those used in the review of impairment of goodwill (see note 12). If forecast future profitability were 10% lower, the deferred tax asset would still be considered recoverable.

Impairment of goodwill. The Group is required to test whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value (see note 12). If forecast future profitability were 10% lower, the goodwill would still not be impaired.

Investments in subsidiaries. The Company reviews its investment in subsidiaries to test whether any impairment has been suffered. The recoverable amounts are determined using discounted future cash flows. If forecast future cash generation were 10% lower, a further provision of £3.9 million would be required.

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

## 2 Segmental information

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

The Group has two segments:

- Resources — This segment provides contract, interim and permanent IT recruitment services across all markets. Resources provides 84% (2009: 84%) of the continuing Group's revenues.
- Solutions — This segment comprises two business streams which will be reported separately for 2011. Systems delivers innovative technology solutions designed around client problems, including Cloud solutions, database solutions and collaborative information management. Talent Management works with clients to recruit, develop and grow their talent through improving skills and capability early in employees' careers. Solutions provides 16% (2009: 16%) of the continuing Group's revenues.

Corporate costs and Board costs are recorded centrally and not allocated to the reporting segments.

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

The Group's reportable segments are strategic business units that offer different services. They are managed separately because each business requires different marketing strategies and uses personnel with differing skill sets. To date the revenues of the Talent Management business stream have been insufficient to justify separate management and reporting and, together with the results of Systems, have been included in the Solutions segment.

*Measurement of operating segment profit or loss, assets and liabilities*

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

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

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

Segment assets include allocated goodwill and deferred tax; and exclude assets used primarily for corporate purposes. Segment liabilities exclude corporation tax liabilities, financial liabilities and the defined benefit pension scheme deficit.

	Resources 2010 £'000	Solutions 2010 £'000	Total 2010 £'000
<i>Revenue</i>			
Total revenue	<b>78,286</b>	<b>14,876</b>	<b>93,162</b>
Inter-segment revenue	<b>(169)</b>	<b>(30)</b>	<b>(199)</b>
Revenue from external customers	<b>78,117</b>	<b>14,846</b>	<b>92,963</b>
Depreciation	<b>59</b>	<b>282</b>	<b>341</b>
Amortisation	<b>248</b>	<b>47</b>	<b>295</b>
Segment profit/(loss) before tax, interest, defined benefit pension scheme accounting and exceptional items	<b>2,041</b>	<b>(1,985)</b>	<b>56</b>
Exceptional items	<b>(93)</b>	<b>(897)</b>	<b>(990)</b>
Reportable segment assets	<b>15,290</b>	<b>7,211</b>	<b>22,501</b>
Reportable segment liabilities	<b>(6,996)</b>	<b>(2,517)</b>	<b>(9,513)</b>
Additions to non-current assets	<b>32</b>	<b>36</b>	<b>68</b>

## Notes to the Accounts continued

### 2 Segmental information continued

	Resources 2009 £'000	Solutions 2009 (as restated – note 1) £'000	Total 2009 (as restated – note 1) £'000
Revenue			
Total revenue	100,517	18,518	119,035
Inter-segment revenue	–	(11)	(11)
Revenue from external customers	100,517	18,507	119,024
Depreciation	78	276	354
Amortisation	103	31	134
Segment profit/(loss) before tax, interest, defined benefit pension scheme accounting and exceptional items	2,984	(636)	2,348
Exceptional items	(245)	–	(245)
Reportable segment assets	24,613	9,214	33,827
Reportable segment liabilities	(10,581)	(2,007)	(12,588)
Additions to non-current assets	1,538	235	1,773

Reconciliation of reportable segment profit or loss, assets and liabilities to the Group's corresponding amounts:

	2010 £'000	2009 (as restated – note 1) £'000
Total profit or loss for reportable segments	56	2,348
Corporate costs	(2,698)	(1,568)
Exceptional items	(2,138)	(271)
Finance income	773	674
Finance costs	(1,236)	(1,203)
Corporation tax	20	245
(Loss)/profit after tax on continuing activities	(5,223)	225

Central assets and liabilities include those of discontinued activities that are not held for sale, but rather represent assets and liabilities of closed businesses that will be realised and eliminated in due course.

	2010 £000	2009 £'000
<i>Assets</i>		
Total assets for reportable segments	22,501	33,827
Central prepayments and other debtors	493	641
Cash	245	128
Discontinued operations assets	341	300
Group's assets	23,580	34,896
<i>Liabilities</i>		
Total liabilities for reportable segments	(9,513)	(12,588)
Central liabilities	(3,540)	(1,472)
Discontinued operations liabilities	(415)	(463)
Pension deficit	(2,425)	(3,326)
Invoice finance debt and overdraft	(6,354)	(9,913)
Group's liabilities	(22,247)	(27,762)

The continuing Group operates solely in the UK and the Republic of Ireland. All revenues are generated and all segment assets are located in those countries.

70% (2009: 72%) or £55.6 million (2009: £72.9 million) of the Resources revenue was generated in the Public Sector. 75% (2009: 78%) or £11.2 million (2009: £14.4 million) of the Solutions revenue was generated in the Public Sector. The largest single customer in Resources contributed revenue of £6.6 million or 8% and was in the private sector (2009: £6.6 million or 7% and in the public sector). The largest single customer in Solutions contributed revenue of £4.0 million or 27% and was in the public sector (2009: £4.8 million or 26% in the public sector).

### 3 Operating costs

	Consolidated	
	2010 £'000	2009 (as restated) £'000
<b>Continuing operations</b>		
<i>Employee benefit costs</i>		
— wages and salaries	9,910	10,966
— social security costs	1,074	1,168
— other pension costs	318	351
	<b>11,302</b>	<b>12,485</b>
Depreciation and amortisation		
Amortisation of intangible assets – software	295	134
Depreciation of tangible assets	341	354
	<b>636</b>	<b>488</b>
<i>All other operating expenses</i>		
Contractor costs	75,462	97,329
Subcontracted direct costs	2,357	1,644
Group statutory audit fees and expenses	21	23
Other services supplied by auditor under legislation	80	75
Operating lease rentals — plant and machinery	33	31
— land and buildings	1,129	1,498
Sub-let income — land and buildings	(389)	(536)
Other occupancy costs	673	813
IT costs	1,405	1,118
Net exchange loss	21	28
Equity-settled share-based payment charge	30	53
Other operating costs	4,983	3,466
	<b>85,805</b>	<b>105,542</b>
Total operating expenses	<b>97,743</b>	<b>118,515</b>

Disclosures relating to the remuneration of Directors are set out on pages 16 to 20.

	Consolidated	
	2010 £'000	2009 £'000
<b>Operating costs include auditors' remuneration as follows:</b>		
Statutory audit of the consolidated financial statements	21	23
Statutory audit of the Company's subsidiaries pursuant to legislation	60	54
Other services supplied under legislation	20	21
	<b>101</b>	<b>98</b>
<b>Non-audit services:</b>		
Tax compliance	31	52
Other advice	32	33
	<b>63</b>	<b>85</b>
	<b>164</b>	<b>183</b>

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

## Notes to the Accounts continued

### 4 Exceptional items

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Restructuring		
— Employee benefit costs	1,421	271
— Other operating costs	117	—
Property provisions (other operating costs)	600	—
	<b>2,138</b>	271
	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Discontinued operations</b>		
Property provisions	680	—
	<b>680</b>	—

During 2010 there was a significant restructuring of the business involving a change in senior management, the exit from delivering contracts on a fixed price basis and a major down-sizing of the business, including both frontline staff, primarily in the Solutions business, and support functions. The Group also incurred legal costs associated with the down-sizing. The reduction in headcount also created vacant office space. The tax credit relating to these costs was £nil.

In June 2010 Parity Training, which was sold in February 2009, was placed in administration. The Group remained as guarantor on certain leases held by Parity Training and incurred a charge of £0.7 million in this respect. More information on the disposal of Parity Training is given in note 7 and in the Financial Review.

The restructuring costs in 2009 related to the closure of an office and the associated relocation of roles. The roles related to finance staff supporting the Resources business and some Corporate staff. The tax credit relating to this exceptional item was £76,000.

### 5 Average staff numbers

	2010 number	2009 number
<b>Continuing operations</b>		
Resources — United Kingdom <sup>1</sup>	84	105
Solutions — United Kingdom, including corporate office <sup>2</sup>	117	142
	<b>201</b>	247
<b>Discontinued operations</b>		
	—	14
	<b>201</b>	261

<sup>1</sup> Includes 35 (2009: 46) employees providing shared services across the Group.

<sup>2</sup> Includes 6 (2009: 6) employees of the Company.

At 31 December 2010, the Group had 165 continuing employees (2009: 222).

## 6 Finance income and costs

	2010 £'000	2009 (as restated) £'000
<i>Finance income</i>		
Expected return on pension scheme assets	773	670
Interest received on bank deposits	-	4
	<b>773</b>	<b>674</b>
<i>Finance costs</i>		
Interest expense on financial liabilities	315	341
Notional interest on post retirement benefits	921	862
	<b>1,236</b>	<b>1,203</b>

The interest expense on financial liabilities represents interest paid on the Group's invoice financing facilities. A 1% increase in the base rate would increase annual borrowing costs by approximately £100,000.

## 7 Discontinued operations

In February 2009 the Group sold Parity Training Limited. The pre-disposal trading results of this unit and the loss on disposal are included within the Income Statement in the line item "loss for the year on discontinued operations".

More detail on the disposal of Parity Training is given in the Financial Review.

A loss on disposal of £3,267,000 was recorded in 2008, being a goodwill write off of £2,522,000 and disposal expenses of £745,000. The post-tax loss on disposal of Parity Training recorded in 2009 was determined as follows:

	2009 £'000
Cash consideration	834
Deferred consideration	166
	<b>1,000</b>
Cash disposed of	776
<i>Net assets disposed (other than cash):</i>	
Property, plant and equipment	488
Intangibles	320
Trade and other receivables	2,091
Trade and other payables	(2,520)
	<b>1,155</b>
Disposal expenses	(53)
Pre and post-tax loss relating to Parity Training	<b>(208)</b>

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

Parity Training entered administration in June 2010. Parity Group remained as guarantor on certain leases of properties operated by Parity Training. The results below include £680,000 in respect of the onerous obligations and dilapidations of these leases. The deferred consideration of £166,000 was also written off.

## Notes to the Accounts continued

### 7 Discontinued operations continued

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

	2010 £'000	2009 £'000
Revenue	—	2,197
Expenses other than finance costs	<b>(231)</b>	(2,296)
Tax charge	—	(189)
Exceptional costs (note 4)	<b>(680)</b>	—
Loss on disposal of Parity Training after tax	—	(208)
Loss for the year	<b>(911)</b>	(496)

The discontinued operations revenue in 2009 related entirely to Parity Training. The 2009 pre-tax trading result for Training before disposal was a loss of £245,000. For 2010 it was £222,000, representing the write-off of consideration due and legal expenses. The pre-tax loss for other discontinued operations was £9,000 (2009: profit of £146,000). The £146,000 profit for 2009 primarily represents the release of surplus accruals.

The Statement of Cash Flows includes a £343,000 (2009: £234,000) cash outflow from operating activities and nil (2009: £265,000) from investing activities in respect of discontinued operations.

### 8 Share-based payments

The Group operates several share-based reward schemes for employees:

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

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

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

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

All employee options other than those issued under the Senior Executive Share Option Plan have a maximum term of ten years from the date of grant. The total share-based remuneration recognised in the Income Statement was £30,000 (2009: £54,000).

	2010 Weighted average exercise price (p)	2010 Number	2009 Weighted average exercise price (p)	2009 Number
Outstanding at beginning of the year	<b>28</b>	<b>6,923,353</b>	52	3,402,038
Granted during the year	<b>9</b>	<b>5,451,633</b>	18	4,777,177
Lapsed during the year	<b>29</b>	<b>(5,916,418)</b>	54	(1,255,862)
Outstanding at the end of the year	<b>11</b>	<b>6,458,568</b>	28	6,923,353



## 8 Share-based payments continued

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

Exercise price (p)	2010		Exercise price (p)	2009	
	Weighted average contractual life (years)	Number		Weighted average contractual life (years)	Number
7.5 – 10	7	5,676,633	9	9	975,000
25 – 39	8	770,000	20	4	3,802,177
165 – 209	3	11,935	25 – 39	9	930,000
			52.5 – 86.5	7	1,204,241
			105 – 209	4	11,935
		<b>6,458,568</b>			<b>6,923,353</b>

Of the total number of options outstanding at the end of the year, 416,935 (2009: 1,641,439) had vested and were exercisable at the end of the year. The weighted average exercise price of those options was 21 pence (2009: 21 pence).

No options were exercised during the year.

The weighted average fair value of each option granted during the year was 4 pence (2009: 2 pence).

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

	2010 Stochastic	2009 Stochastic
Option pricing model:		
Weighted average share price at grant date (p)	9	9
Weighted average exercise price (p)	9	18
Weighted average contractual life (years)	7	6
Weighted average expected life (years)	4	3
Expected volatility	62 – 71%	56 – 67%
Weighted average risk free rate	1.18%	1.81%
Expected dividend growth rate	0%	0%

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

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

### Share options issued to defined benefit pension scheme

In December 2010 the Group issued 1,000,000 share options in Parity Group plc to the pension scheme at an exercise price of 9 pence per share. These options may be exercised at the discretion of the Trustees; they vested on grant and have no expiry date. Any gain on exercise is to be used to reduce the scheme deficit. These options were valued using the stochastic method. The share price on the grant date was 15.75 pence. The expected life of the options is eight years. The expected volatility is 64.2% and the average risk free rate assumed was 3.4%.

## Notes to the Accounts continued

### 9 Taxation

	2010 £'000	2009 £'000
<b>Current tax expense</b>		
Current tax on loss for the year	-	(163)
Adjustments in respect of prior periods	-	(360)
Total current tax	-	(523)
<b>Deferred tax (credit)/expense</b>		
Accelerated capital allowances	(32)	(51)
Origination and reversal of other temporary differences	13	29
Change in corporation tax rate	55	-
Retirement benefit liability	75	-
Write-down of deferred tax asset	-	300
Adjustments in respect of prior periods	(131)	-
<b>Total tax credit excluding tax on sale of discontinued operations</b>	<b>(20)</b>	<b>(245)</b>
Income tax expense from continuing operations	(20)	(245)
Income tax expense from discontinued operations (excluding loss on sale)	-	189
	<b>(20)</b>	<b>(56)</b>

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

Loss for the year	(6,134)	(271)
Income tax credit (including discontinued operations)	(20)	(56)
Loss before income tax	(6,154)	(327)
Expected tax credit based on the standard rate of United Kingdom corporation tax of 28% (2009: 28%)	(1,723)	(92)
Expenses not allowable for tax purposes	85	94
Adjustment for under/(over) provision in prior years	(208)	(334)
Reduction in deferred tax asset due to change in enacted rate	54	-
Tax losses not recognised	1,772	176
Deferred tax not provided	-	(168)
Utilisation of tax losses	-	(32)
Deferred tax write-down	-	300
	<b>(20)</b>	<b>(56)</b>

Tax on each component of other comprehensive income is as follows:

	2010			2009		
	Before tax £'000	Tax £'000	After tax £'000	Before tax £'000	Tax £'000	After tax £'000
Exchange differences on translation of foreign operations	61	-	61	781	-	781
Actuarial gain/(loss) on defined benefit pension scheme	299	(57)	242	(2,088)	-	(2,088)
	<b>360</b>	<b>(57)</b>	<b>303</b>	<b>(1,307)</b>	<b>-</b>	<b>(1,307)</b>

## 10 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 2010 (2009: 43,143).

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

	Earnings 2010 £'000	Weighted average number of shares 2010 000's	Earnings per share 2010 Pence	Earnings 2009 £'000	Weighted average number of shares 2009 000's	Earnings per share 2009 Pence
Basic (loss)/ per share	<b>(6,134)</b>	<b>37,979</b>	<b>(16.15)</b>	(271)	37,979	(0.71)
Effect of dilutive options		-	-		-	-
Diluted (loss)/ per share	<b>(6,134)</b>	<b>37,979</b>	<b>(16.15)</b>	(271)	37,979	(0.71)
Basic (loss)/earnings per share from continuing operations	<b>(5,223)</b>	<b>37,979</b>	<b>(13.75)</b>	225	37,979	0.59
Effect of dilutive options		-	-		-	-
Diluted (loss)/earnings per share from continuing operations	<b>(5,223)</b>	<b>37,979</b>	<b>(13.75)</b>	225	37,979	0.59

As at 31 December 2010 the number of ordinary shares in issue was 38,021,784 (2009: 38,021,784).

Basic and diluted loss per share from discontinued operations was 2.40 pence (2009: basic and diluted 1.31 pence).

## 11 Intangible assets

	Software		Goodwill		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Cost</b>						
At 1 January	<b>1,689</b>	93	<b>4,594</b>	4,594	<b>6,283</b>	4,687
Additions	<b>16</b>	1,596	-	-	<b>16</b>	1,596
At 31 December	<b>1,705</b>	1,689	<b>4,594</b>	4,594	<b>6,299</b>	6,283
<b>Accumulated amortisation</b>						
At 1 January	<b>159</b>	25	-	-	<b>159</b>	25
Charge for the year	<b>295</b>	134	-	-	<b>295</b>	134
Impairment	<b>49</b>	-	-	-	<b>49</b>	-
At 31 December	<b>503</b>	159	-	-	<b>503</b>	159
<b>Net book amount</b>	<b>1,202</b>	1,530	<b>4,594</b>	4,594	<b>5,796</b>	6,124

The remaining amortisation period of the software is three to five years.

As at 31 December 2010, neither the Group nor the Company had any capital commitments for the purchase of intangible assets.

## Notes to the Accounts continued

### 12 Goodwill

The carrying amount of goodwill is allocated to the cash generating units (CGUs) as follows:

	Goodwill carrying amount	
	2010 £'000	2009 £'000
Resources	1,470	1,470
Solutions	3,124	3,124
	<b>4,594</b>	4,594

Goodwill was tested for impairment in accordance with IAS 36. No impairment was recognised during the year. The recoverable amounts of the CGUs are based on value-in-use calculations using the pre-tax cash flows based on budgets approved by management for 2011. Years from 2012 onward are based on the budget for the second half of 2011 projected forward at a nil growth rate. This is considered prudent based on current expectations of the long-term growth rate. Other major assumptions are as follows:

	Resources %	Solutions %
<b>2010</b>		
<b>Discount rate</b>	<b>8.5</b>	<b>8.5</b>
<b>Operating margin 2011</b>	<b>3.1</b>	<b>5.4</b>
<b>Operating margin 2012 onward</b>	<b>3.7</b>	<b>11.7</b>
<b>2009</b>		
Discount rate	6.9	6.9
Operating margin 2010	2.9	6.0

Discount rates are based on the Group's weighted average cost of capital. Operating margins are based on past experience adjusted for cost action taken in 2010 and on future expectations of economic conditions.

The Directors believe there is no reasonably possible change in a key assumption that would cause the carrying value of goodwill to exceed its recoverable amount.

### 13 Property, plant and equipment

<b>Consolidated</b>	Leasehold improvements £'000	Office equipment £'000	Total £'000
<b>At cost</b>			
Balance at 1 January 2009	2,457	13,408	15,865
Additions	115	55	170
Disposals	(13)	(5,234)	(5,247)
Balance at 31 December 2009	2,559	8,229	10,788
Balance at 1 January 2010	2,559	8,229	10,788
Additions	2	50	52
Disposals	(1,414)	(5,415)	(6,829)
<b>Balance at 31 December 2010</b>	<b>1,147</b>	<b>2,864</b>	<b>4,011</b>
<b>Accumulated depreciation</b>			
Balance at 1 January 2009	1,574	12,948	14,522
Depreciation charge for the year	136	218	354
Disposals	(13)	(5,234)	(5,247)
Balance at 31 December 2009	1,697	7,932	9,629
Balance at 1 January 2010	1,697	7,932	9,629
Depreciation charge for the year	157	184	341
Disposals	(1,414)	(5,415)	(6,829)
<b>Balance at 31 December 2010</b>	<b>440</b>	<b>2,701</b>	<b>3,141</b>
<b>Net book value</b>			
At 1 January 2009	883	460	1,343
At 31 December 2009	862	297	1,159
<b>At 31 December 2010</b>	<b>707</b>	<b>163</b>	<b>870</b>

<b>Company</b>	Office equipment £'000	Total £'000
<b>At cost</b>		
Balance at 1 January 2009	399	399
Disposals	(399)	(399)
Balance at 31 December 2009	–	–
Balance at 1 January 2010	–	–
<b>Balance at 31 December 2010</b>	<b>–</b>	<b>–</b>
<b>Accumulated depreciation</b>		
Balance at 1 January 2009	398	398
Depreciation charge for the year	1	1
Disposals	(399)	(399)
Balance at 31 December 2009	–	–
Balance at 1 January 2010	–	–
<b>Balance at 31 December 2010</b>	<b>–</b>	<b>–</b>
<b>Net book value</b>		
At 1 January 2009	1	1
At 31 December 2009	–	–
<b>At 31 December 2010</b>	<b>–</b>	<b>–</b>

As at 31 December 2010, neither the Group nor the Company had any capital commitments contracted for but not provided (2009: £nil).

## Notes to the Accounts continued

### 14 Available for sale financial assets

	Consolidated	
	2010 £'000	2009 £'000
At 1 January	117	130
Revaluation	17	(13)
<b>At 31 December</b>	<b>134</b>	<b>117</b>

These assets comprise equity securities quoted in the US. The fair value is based on published market prices.

### 15 Deferred tax

	Consolidated	
	2010 £'000	2009 £'000
At 1 January	1,535	1,813
<i>Recognised in other comprehensive income</i>		
Actuarial gain on defined benefit pension scheme	(57)	–
<i>Recognised in income statement</i>		
Change in enacted tax rate	(55)	–
Adjustments in relation to prior periods	131	–
Accelerated capital allowances	32	51
Retirement benefit liability	(75)	–
De recognition of deferred tax asset	–	(300)
Other short-term timing differences	(13)	(29)
At 31 December	1,498	1,535

The deferred tax asset of £1,498,000 (2009: £1,535,000) comprises:

	Consolidated	
	2010 £'000	2009 £'000
Accelerated capital allowances	1,034	844
Retirement benefit liability	316	545
Short-term and other timing differences	148	146
	1,498	1,535

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. The Directors believe that the deferred tax asset recognised is recoverable based on the future earning potential of the Group. The forecasts for the business used in this review were the same as those used in the review of the impairment of goodwill (see note 12). Commentary on the Group's profitability and its future prospects is given in the Operating and Financial Review on pages 03 to 07. A deferred tax asset is not recognised where there is insufficient evidence of short-term recoverability.

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

	Asset 2010 £000	Charged/ (credited) to	Charged/ (credited) to
		income statement 2010 £000	other comprehensive income 2010 £000
Accelerated capital allowances	1,034	190	–
Other short-term timing differences	148	2	–
Retirement benefit plan liability	316	(172)	(57)
	1,498	20	(57)

## 15 Deferred tax continued

	Asset 2009 £000	Credited to income statement 2009 £000	Charged to other comprehensive income 2009 £000
Accelerated capital allowances	844	(249)	–
Other short-term timing differences	146	(29)	–
Retirement benefit plan liability	545	–	–
	1,535	(278)	–

The Group has unrecognised carried forward tax losses of £26,255,000 (2009: 18,690,000). The Company has unrecognised carried forward tax losses of £19,073,000 (2009: £11,693,000). The Group and Company have unrecognised capital losses carried forward of approximately £282,000,000 (2009: 282,064,000). These losses may be carried forward indefinitely.

## 16 Work in progress

	Consolidated	
	2010 £'000	2009 £'000
Work in progress:		
Net costs less foreseeable losses	<b>237</b>	451

Work in progress represents the value of services provided on contracts that were incomplete as at the reporting date.

## 17 Trade and other receivables

	Consolidated		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts falling due within one year:				
Trade receivables	<b>7,835</b>	13,438	–	–
Accrued income	<b>5,319</b>	9,568	–	–
Amounts recoverable on contracts	<b>752</b>	1,218	–	–
Amounts owed by subsidiary undertakings	–	–	<b>5,260</b>	834
Other receivables	<b>419</b>	788	<b>15</b>	–
Prepayments	<b>475</b>	370	<b>65</b>	2
	<b>14,800</b>	25,382	<b>5,340</b>	836
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	–	–	<b>66,602</b>	61,087
Total	<b>14,800</b>	25,382	<b>71,942</b>	61,923

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

The Group's trade receivables of £7,835,000 and £4,316,000 of the Group's accrued income are pledged as collateral for the asset-based borrowings. These borrowings fluctuate daily and at the year end totalled £6,354,000 (2009: £9,832,000).

## Notes to the Accounts continued

### 17 Trade and other receivables continued

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

	Consolidated	
	2010 £'000	2009 £'000
Opening balance	120	277
Increases in provisions	157	30
Written off against provisions	(101)	(173)
Recovered amounts reversed	(65)	(14)
Closing balance	111	120

All balances provided at 31 December 2010 and 31 December 2009 were greater than 90 days past due. The allowance account represents full provision against specific gross debts.

As at 31 December 2010 trade receivables of £2,822,000 (2009: £6,381,000) were past due but not impaired. These relate to customers where there is no evidence of unwillingness or of an inability to settle the debt. The ageing of these receivables is as follows:

	2010 £'000	2009 £'000
30-60 days	2,326	3,317
60-90 days	294	1,549
>90 days	202	1,515
Total	2,822	6,381

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

### 18 Other financial liabilities

	Consolidated		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Current</b>				
Bank and other borrowings due within one year or on demand:				
Overdraft	-	81	-	81
Asset-based financing facility	6,354	9,832	-	-
	6,354	9,913	-	81

The Group has no non-current financial liabilities. Further details of the Group's banking facilities are given in note 21.

### 19 Trade and other payables

	Consolidated		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts falling due within one year:				
Payments in advance	229	216	-	-
Trade payables	7,070	9,741	-	-
Amounts due to subsidiary undertakings	-	-	2,088	1,924
Other tax and social security payables	1,782	1,488	133	62
Other payables and accruals	2,304	2,031	415	11
	11,385	13,476	2,636	1,997
Amounts falling due after one year:				
Amounts due to subsidiary undertakings	-	-	72,995	59,019
Total	11,385	13,476	75,631	61,016



## 20 Provisions

	Legal £000	Leasehold dilapidations £000	Onerous leases £000	Total £000
<b>Consolidated</b>				
At 1 January 2010	–	123	924	1,047
Created in year	412	141	1,374	1,927
Utilised in year	–	(10)	(766)	(776)
Released in year	–	(18)	(195)	(213)
Reclassified	–	–	98	98
<b>At 31 December 2010</b>	<b>412</b>	<b>236</b>	<b>1,435</b>	<b>2,083</b>
Due within one year or less	412	–	748	1,160
Due after more than one year	–	236	687	923
<b>Total</b>	<b>412</b>	<b>236</b>	<b>1,435</b>	<b>2,083</b>
<b>Company</b>				
At 1 January 2010	–	16	785	801
Created in year	–	117	1,380	1,497
Utilised in year	–	–	(676)	(676)
Released in year	–	–	(195)	(195)
Reclassified	–	53	–	53
<b>At 31 December 2010</b>	<b>–</b>	<b>186</b>	<b>1,294</b>	<b>1,480</b>
Due within one year or less	–	–	692	692
Due after more than one year	–	186	602	788
<b>Total</b>	<b>–</b>	<b>186</b>	<b>1,294</b>	<b>1,480</b>

### Legal

The Group currently has a number of legal disputes. The amount provided represents the Directors' best estimate of the Group's legal liability, having taken legal advice. Uncertainties relate to whether claims will be settled out of court or, if not, whether the Group is successful in defending any action. It is expected that all these disputes will be settled in 2011. Further information has not been disclosed as the Directors believe this would be seriously prejudicial to the Group's position in defending the respective cases.

### Leasehold dilapidations

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The cost is recognised over the life of the lease or, if shorter, the period to the end of the next lease break. Based on current lease expiry dates it is estimated these provisions will be settled over a period of two to five years. The main uncertainty relates to the estimation of the costs that will be incurred at the end of the lease.

### Onerous leases

This provision relates to the excess of rents payable over rents receivable on vacant and sub-let office space. The main uncertainties in measuring the provision are the estimates of the time to sub-let and the rentals achievable. Of the non-current amounts provided, approximately £400,000 is expected to fall within 2012.

## Notes to the Accounts continued

### 21 Financial instruments – risk management

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

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

#### Principal financial instruments

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

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

<b>Consolidated</b>	Amortised cost £'000	Loans and receivables £'000	Available- for-sale £'000	Total £'000
<b>As at 31 December 2010</b>				
<b>Financial assets</b>				
Net cash and cash equivalents	–	245	–	245
Available-for-sale financial assets	–	–	134	134
Trade and other short term receivables	–	8,254	–	8,254
	–	8,499	134	8,633
<b>Financial liabilities</b>				
Asset-based financing facility	6,354	–	–	6,354
Trade and other short-term payables	11,156	–	–	11,156
	17,510	–	–	17,510
<b>As at 31 December 2009</b>				
<b>Financial assets</b>				
Net cash and cash equivalents	–	128	–	128
Available-for-sale financial assets	–	–	117	117
Trade and other short-term receivables	–	14,250	–	14,250
	–	14,378	117	14,495
<b>Financial liabilities</b>				
Asset-based financing facility	9,832	–	–	9,832
Overdrafts	81	–	–	81
Trade and other short-term payables	13,260	–	–	13,260
	23,173	–	–	23,173

## 21 Financial instruments – risk management continued

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

<b>Company</b>	Amortised cost £'000	Loans and receivables £'000	Total £'000
<b>As at 31 December 2010</b>			
<b>Financial assets</b>			
Non-current trade and other receivables	–	66,602	66,602
Investment in subsidiary	20,527	–	20,527
Net cash and cash equivalents	–	96	96
Trade and other short term receivables	–	5,275	5,275
	<b>20,527</b>	<b>71,973</b>	<b>92,500</b>
<b>Financial liabilities</b>			
Trade and other short-term payables	2,636	–	2,636
Non-current trade and other payables	72,995	–	72,995
	<b>75,631</b>	<b>–</b>	<b>75,631</b>
<b>As at 31 December 2009</b>			
<b>Financial assets</b>			
Non-current trade and other receivables	–	61,087	61,087
Investment in subsidiary	30,127	–	30,127
Net cash and cash equivalents	–	36	36
Trade and other short term receivables	–	836	836
	30,127	61,959	92,086
<b>Financial liabilities</b>			
Trade and other short term payables	1,997	–	1,997
Overdrafts	81	–	81
Non-current trade and other payables	59,019	–	59,019
	61,097	–	61,097

### General objectives, policies and processes – risk management

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

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

#### Credit risk

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

The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts. Such credit ratings are then factored into the credit assessment process to determine the appropriate credit limit for each customer.

The Group operates primarily in the UK. Approximately 70% of the Group's turnover is derived from the public sector. No single customer accounts for more than 6% of the trade receivables balance.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 17.

# Notes to the Accounts continued

## 21 Financial instruments – risk management continued

	2010 Carrying value £'000	Maximum exposure £'000	2009 Carrying value £'000	Maximum exposure £'000
<b>Financial assets</b>				
Cash and cash equivalents	245	245	128	128
Trade and other receivables	13,906	13,906	24,224	24,224
Available-for-sale investments	134	134	117	117
<b>Total financial assets</b>	<b>14,285</b>	<b>14,285</b>	24,469	24,469

### Interest rate risk

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

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

Throughout 2010 and 2009 the Group's variable rate borrowings were denominated in sterling.

If interest rates on borrowings had been 1% higher/lower throughout the year with all other variables held constant, the loss after tax for the year would have been approximately £100,000 higher/lower and net assets £100,000 lower/higher. The Directors consider a 1% change in base rates is the maximum likely change over the next year, being the period to the next point at which these disclosures are expected to be made.

### Foreign exchange risk

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

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

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

The continuing business has few transactions in foreign currency. The hedging of individual contracts is considered on a case by case basis. Owing to the small value and volume of such contracts no hedging transactions were entered in 2010 or 2009.

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

	Functional currency of individual entity									
	Sterling		Euro		US Dollar		Total			
Net foreign currency financial assets	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Sterling	–	–	22,910	22,557	857	870	23,767	23,427		
Euro	2	2	–	–	–	–	2	2		
US Dollar	70	30	1,251	1,182	–	–	1,321	1,212		
<b>Total net exposure</b>	<b>72</b>	<b>32</b>	<b>24,161</b>	<b>23,739</b>	<b>857</b>	<b>870</b>	<b>25,090</b>	<b>24,641</b>		

## 21 Financial instruments – risk management continued

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

	Functional currency: Sterling	
	2010	2009
	£000	£000
Net foreign currency financial assets		
Euro	2	2
US Dollar	70	30
Total net exposure	72	32

### Liquidity risk

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

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

The following table sets out the contractual maturities (representing undiscounted contractual cashflows) of financial liabilities:

Consolidated	Up to 1 month	Over 1 month	Total
At 31 December 2010	£000	£000	£000
Trade and other payables	9,814	1,571	11,385
Borrowings	6,354	–	6,354
<b>Total</b>	<b>16,168</b>	<b>1,571</b>	<b>17,739</b>

Consolidated	Up to 1 month	Over 1 month	Total
At 31 December 2009	£000	£000	£000
Trade and other payables	13,476	–	13,476
Borrowings	9,913	–	9,913
<b>Total</b>	<b>23,389</b>	<b>–</b>	<b>23,389</b>

Company	Up to 1 month	Over 1 year	Total
At 31 December 2010	£000	£000	£000
Trade and other payables	2,636	72,995	75,631
Borrowings	–	–	–
<b>Total</b>	<b>2,636</b>	<b>72,995</b>	<b>75,631</b>

Company	Up to 1 month	Over 1 year	Total
At 31 December 2009	£000	£000	£000
Trade and other payables	1,997	59,019	61,016
Borrowings	81	–	81
<b>Total</b>	<b>2,078</b>	<b>59,019</b>	<b>61,097</b>

More detail on trade and other payables is given in note 19.

## Notes to the Accounts continued

### 21 Financial instruments – risk management continued

#### Capital disclosures

The Group is presently funded through equity and asset-based finance. There is no long-term external debt. The Company is funded through equity and intercompany loans.

In December 2010 the Company signed a new asset-based finance facility with PNC Business Credit, a member of The PNC Financial Services Group, Inc. This new facility, which enables the Group to borrow against both trade debt and accrued income replaced an invoice discounting facility with RBS Invoice Finance Ltd. The new facility provides for borrowing of up to £15.0 million depending on the availability of appropriate assets as security.

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

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

During 2010 the Group's focus with respect to capital has been on managing working capital tightly in order to be able to accommodate the restructuring programme embarked upon in the middle of the year and the operating losses being made. The Group reduced net borrowings in the year despite the losses sustained.

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Cash and cash equivalents	<b>245</b>	128
Asset-based borrowings	<b>(6,354)</b>	(9,913)
Net debt	<b>(6,109)</b>	(9,785)

The Board regularly reviews the adequacy of resources available and considers the options available to increase them.

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

### 22 Reserves

The Board is not proposing a dividend for the year (2009: nil pence per share).

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

Share capital is the amount subscribed for ordinary share capital at nominal value.

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

Share premium is the amount subscribed for share capital in excess of nominal value.

Other reserves of £30,440,000 were created in the Company's shareholders' equity as a result of the merger accounting applied for the Scheme of Arrangement in July 1999. The remaining balance in Other reserves relates principally to share premium on shares issued to vendors and option holders together with the reversal of an £8,706,000 goodwill write off which arose in 2003 on the termination of a business unit. A further deduction of £14,000,000 to Other reserves was made in 2005 to reflect the transfer, from retained earnings, of a provision for the impairment of investments, leaving the balance of £22,729,000.

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

Consolidated retained earnings are stated after adjustment for the ESOP's investment in the Company's shares of £351,000 (2009: £351,000).

## 23 Pension commitments

The Group operates a number of pension schemes. With the exception of the Parity Group Retirement Benefit Plan, all of the schemes are defined contribution plans and the assets are held in separately administered funds. Contributions to defined contribution schemes were £299,000 (2009: £351,000).

### Defined benefit plan

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

Principal actuarial assumptions	2010 %	2009 %
Rate of increase of pensions in payment	3.7	3.7
Discount rate	5.4	5.7
Retail price inflation	3.5	3.5
Consumer price inflation	3.0	n/a
Expected return on plan assets	5.5	5.9

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

The expected return on plan assets is equal to the weighted average return appropriate to each class of asset within the scheme. The return attributed to each class has been reached following discussions with the Group's actuaries. At 31 December 2010, yields on gilts were approximately 4% and on corporate bonds were 5.4%. Equities are assumed to carry a risk premium over gilt returns of 3%. The bank base rate of 0.5% has been used as the yield on cash. The scheme's assets are invested in equities, gilts and bonds in approximately equal proportions.

The underlying mortality assumption used for both 2010 and 2009 is based upon the standard table known as PCA00 on a year of birth usage with long cohort future improvement factors, subject to a minimum annual rate of future improvement equal to 0.5% per annum.

### Contribution holiday

In November 2010 the Group agreed a contribution holiday. Until November 2010 deficit reduction contributions were £900,000 per annum. When contributions resume in January 2012, they will be at the rate of £1,090,020 per annum.

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

### Reconciliation to consolidated statement of financial position

	2010 £'000	2009 £'000
Fair value of plan assets	14,550	13,261
Present value of funded obligations	(16,975)	(16,587)
Net liabilities	(2,425)	(3,326)

## Notes to the Accounts continued

### 23 Pension commitments continued

#### Reconciliation of plan assets

	2010 £'000	2009 £'000
At beginning of year	<b>13,261</b>	11,972
Expected return	<b>773</b>	670
Contributions by Group	<b>750</b>	900
Issue of options in Parity Group plc	<b>96</b>	–
Benefits paid	<b>(859)</b>	(487)
Actuarial gain	<b>529</b>	206
At end of year	<b>14,550</b>	13,261

#### Composition of plan assets

	2010 £'000	2009 £'000
Equities	<b>5,102</b>	4,506
Gilts	<b>4,671</b>	4,294
Bonds	<b>4,627</b>	4,278
Options in Parity Group plc	<b>96</b>	–
Cash	<b>54</b>	183
Total	<b>14,550</b>	13,261

#### Reconciliation of plan liabilities

	2010 £'000	2009 £'000
At beginning of year	<b>16,587</b>	13,919
Interest cost	<b>921</b>	862
Benefits paid	<b>(859)</b>	(487)
Actuarial loss	<b>326</b>	2,293
At end of year	<b>16,975</b>	16,587

The cumulative amount of actuarial losses recognised since 1 January 2002 in other comprehensive income is £4,916,000 (2009: £5,119,000). The Group is unable to disclose how much of the pension scheme deficit recognised on 1 January 2002 and taken directly to equity is attributable to actuarial gains and losses since inception of the pension scheme because that information is not available.



## 23 Pension commitments continued

### Amounts recognised in the consolidated income statement

	2010 £'000	2009 £'000
<i>Included in Finance Income</i>		
Expected return on plan assets	773	670
<i>Included in Finance Costs</i>		
Unwinding of discount on plan liabilities (interest cost)	921	862

The actual return on plan assets was £1,302,000 (2009: £876,000). This represents the sum of the expected return on assets and the actuarial gain.

### Defined benefit obligation trends

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Plan assets	14,550	13,261	11,973	11,575	10,873
Plan liabilities	(16,975)	(16,587)	(13,919)	(14,421)	(15,586)
Deficit	(2,425)	(3,326)	(1,946)	(2,846)	(4,713)
Experience adjustments on assets	529	206	(876)	(425)	(80)
	3.7%	1.6%	(7.3%)	(3.7%)	(0.7%)
Experience adjustments on liabilities	321	(169)	(193)	131	(787)
	1.9%	(1.0%)	(1.4%)	0.9%	(5.0%)

## 24 Share capital

	2010 Number	2010 £'000
Authorised at 1 January and 31 December:		
Ordinary shares of 2 pence each	409,044,603	8,181
Deferred shares of 0.04 pence each	35,797,769,808	14,319
		22,500

Issued and fully paid at 1 January and 31 December:

Ordinary shares of 2 pence each	38,021,784	760
Deferred shares of 0.04 pence each	35,797,769,808	14,319
		15,079

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

	2010 Number	2009 Number
Shares held by ESOP/Treasury Shares		
Ordinary shares held by the ESOP	43,143	43,143

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

## Notes to the Accounts continued

### 25 Operating lease commitments

#### Operating leases – lessee

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

	<b>Land and buildings 2010 £'000</b>	<b>Plant and machinery 2010 £'000</b>	Land and buildings 2009 £'000	Plant and machinery 2009 £'000
<b>Continuing operations</b>				
Amounts payable:				
Within one year	<b>1,204</b>	<b>27</b>	1,129	37
Between two and five years	<b>3,241</b>	<b>91</b>	3,872	56
After five years	<b>132</b>	<b>–</b>	441	–
	<b>4,577</b>	<b>118</b>	5,442	93
<b>Discontinued operations</b>				
Amounts payable:				
Within one year	<b>407</b>	<b>–</b>	141	–
Between two and five years	<b>354</b>	<b>–</b>	280	–
	<b>761</b>	<b>–</b>	421	–

#### Operating leases – lessor

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

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

	<b>Land and buildings 2010 £'000</b>	Land and buildings 2009 £'000
<b>Continuing operations</b>		
Amounts receivable:		
Within one year	<b>304</b>	389
Between two and five years	<b>948</b>	1,107
After five years	<b>–</b>	146
	<b>1,252</b>	1,642
<b>Discontinued operations</b>		
Amounts receivable:		
Within one year	<b>213</b>	123
Between two and five years	<b>215</b>	244
	<b>428</b>	367

### 26 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.

## 27 Key management remuneration

Key management comprises the Board of Directors. The total remuneration received by key management for 2010 was £1,056,000 (2009: £670,000). This comprises emoluments received, pension contributions, compensation for loss of office and share based payment charges. Key management remuneration is disclosed in detail within the remuneration report.

	2010 £'000	2009 £'000
Salary and fees	576	508
Other short-term benefits	46	53
Post-employments benefits	33	34
Termination benefits	361	–
Share-based payments	40	75
	<b>1,056</b>	<b>670</b>

## 28 Related party transactions

### Company

Details of the Company's holding in Group undertakings are given in note 29. The Company entered into transactions with other Group undertakings as shown in the table below.

	2010 £'000	2009 £'000
Interest received from subsidiaries	264	169
Interest paid to subsidiaries	721	642

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

	2010 £'000	2009 £'000
Amounts owed by subsidiary undertakings		
Falling due within one year (note 17)	5,260	834
Falling due after one year (note 17)	66,602	61,087
Amounts due to subsidiary undertakings		
Falling due within one year (note 19)	2,088	1,924
Falling due after one year (note 19)	72,994	59,019

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.

## 29 Subsidiaries

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

Parity Resources Limited is a specialist IT recruitment company. Parity Solutions Limited delivers technology solutions and talent management services.

The Company's investment in subsidiary was reviewed for impairment at the year end owing to the performance during 2010. A discounted future cash flow method was employed for the review. As a result of this review, a provision of £9,600,000 was recorded against the carrying value of this investment, leaving a carrying value of £20,527,000 (2009: £30,127,000). The assessment was performed on a value in use basis using a discount rate of 8.5% and the other parameters used in the goodwill impairment review, as outlined in note 12.

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# Corporate Information

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## Registered office

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Fax: 020 8545 6355  
Registered in England & Wales No. 3539413

## Registrars

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

Equiniti offer a range of information online. 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](http://www.shareview.co.uk)

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

## Financial calendar 2010

Annual General Meeting:	7 June 2011
Interim management statement:	16 May 2011
Interim results:	August 2011

## Investor relations

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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](http://www.parity.net)

## The Company Secretary

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Wimbledon Bridge House  
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Or by email to: [cosec@parity.net](mailto:cosec@parity.net)

## Advisors

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### Bankers

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