PARITY GROUP PLC

Parity Group plc Report and Accounts
Year ended 31 December 2013

About Parity

The Parity Group operates in two distinct fields:

IT Professional Services

PARITY PROFESSIONALS
Parity Resources provides skilled IT professionals, consultants and project managers to a wide range of leading UK companies on a temporary and permanent basis.

Parity Talent Management provides graduate selection, training, placement and career development services.

Digital Media & Marketing Services

PARITY DIGITAL SOLUTIONS
Building on its core expertise, Parity is creating a unique, Creative Technology, marketing services business. This division currently comprises:

Inition is a leading 3D technology specialist that creates leading edge marketing installations.

Systems provides business intelligence development and consulting to both the private and public sectors.

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Parity Group plc reports another good year of growth, increased profitability and investment for the future

- Revenues up 7.1% at £91.95m (2012: £85.89m)
- Adjusted EBITDA[1] of £2.53m (2012: £1.39m)
- Operating profit before non-recurring items £1.06m (2012: £0.65m)
- Group profit before non-recurring items and tax £0.65m (2012: £0.28m)
- Cash and cash equivalents £7.38m (2012: £2.87m)
- Net debt £2.53m (2012: £5.41m)
- New divisional structure established during the year
  - **Parity Professionals – Specialising in the sourcing, development and placing of professional staff**
    - Revenue £83.7m (2012: £77.5m)
    - Divisional contribution[2] £4.2m (2012: £4.7m)
    - Contractor numbers up 12.8% to 993 at year end (2012: 880)
    - Alan Rommel promoted to divisional CEO
  - **Parity Digital Solutions – Leading edge IT and digital marketing system development services**
    - Revenue £8.2m (2012: £8.4m)
    - Margins improved to 23.4% (2012: 18.4%)
    - Divisional contribution[2] £1.93m (2012: £1.55m)
    - Andy Law appointed as divisional Chairman in March 2014
    - Mark Andrews appointed as divisional CEO in March 2014

[1] In assessing the performance of the business, the directors use a non-GAAP measure "Adjusted EBITDA" being the measure of EBITDA, prior to non-recurring items, share based compensation and strategic initiative costs. Non-recurring items, share based compensation and strategic initiative costs are detailed in note 4. Adjusted EBITDA is reconciled to operating loss in note 4.

[2] Divisional contribution in this narrative refers to the segment contribution before central costs[3], tax, interest, non-recurring items and investment costs.

[3] Central costs represent all centrally managed costs, and include Corporate, Finance, HR, IT and Property costs.

Chairman's Statement
Philip Swinstead

2013 Results
I am pleased to report further progress in 2013 with an increase in both Group revenue, and profit before tax and non-recurring items. Revenues were up 7.1% at £91.95m (2012: £85.89m) and adjusted EBITDA increased to £2.53m (2012: £1.39m). Operating profit before non-recurring items was £1.06m (2012: £0.65m).

Central costs reduced to £4.68m (2012: £4.95m). In 2014 a large proportion of central costs will be delegated to the divisions which will be held directly accountable for those costs. As a result, it is anticipated that further operational efficiencies will be forthcoming.

We have completed the re-structuring of the Group into two independent divisions, Parity Professionals and Parity Digital Solutions, which we for the first time report separately in these accounts. We have invested substantially in people, systems and hardware to support our plans for growth under the new divisional structure.

Parity Professionals increased its revenues in an improving market in the second half of 2013; with margins starting to move upward in the past few months. The Talent Management business grew slowly in the second half due to delays in educational spending; but also with some encouraging signs late in the year.

Revenues in Parity Digital Solutions were stable. Good growth at Inition, the 3D experiential specialist business, was balanced by Systems revenues which reduced in an over-supplied market. Both, however, produced improved operating profits.

Before non-recurring items and tax the Group returned a profit of £0.65m (2012: £0.28m). Non-recurring items were £1.18m (2012: £1.22m) representing property provisions, restructuring and transaction costs. We expect a significant reduction in this area in 2014. Group loss for the year was £1.65m (2012: £1.39m) and was after non-recurring costs of £1.6m, strategic initiative costs of £1.1m, and a deferred tax charge of £0.7m all of which will significantly reduce in 2014.

Cash, Dividend and Pension
Cash at year end increased to £7.38m (2012: £2.87m). There was a share Placing to the net value of £6.5m at the time of the Group's move to AIM in July.

Banking arrangements with PNC have been in place since 2010, and the asset backed lending facility of up to £15m has been extended until December 2016.

Due to the continuing financial improvement of the Group, it has been possible to re-negotiate with the trustees of the Parity Group Retirement Plan, improvements to the assumptions underlying the valuation of pension scheme liabilities. The outcome of these negotiations was a significant fall in the deficit on a technical provisions basis and as a consequence, a substantial reduction in future annual payments. On an annualised basis these payments have now fallen from £1.09m to £0.68m but will be subject to a 5% per annum increase each August.

No dividend is payable for this year but the Board will keep the policy under review.

Move to AIM, Placing and Change of NOMAD
On 5th July 2013 the Group's shares commenced trading on the AIM market and their Official Listing was cancelled. The Board believes the AIM market is more suitable for the Company's current stage of development. At that time a Placing of 25,925,926 new Ordinary Shares was completed at a price of 27 pence raising £6.5m net.

On 23rd September the Group announced the appointment of Investec as its new Nominated Adviser and Broker.

Group Structure
The Group has implemented a new divisional structure in 2013 to better reflect, internally and externally, the different interests of the two parts of its business. This is now the reporting structure of the Group.

Parity Professionals, the largest division, contains the Parity Resources and Talent Management businesses.

Parity Digital Solutions contains the Group's systems integration business and its first acquisition, Inition, which has now earned its first year earn-out payment of £0.5m based on operating profit to 31 March 2013. Performance has continued to improve towards the likely achievement of its second year earn-out target.

Divisional results and current trading are discussed in the Operational Review.

Changes to the Main Board
On 26th September the Group announced a number of Board changes –

- Philip Swinstead became Executive Chairman from 1st October to drive the Group's digital strategy, now that the base business has achieved financial stability. Paul Davies remains as Group CEO and Alastair Woolley as Group FD.
- Mike Phillips, a non-executive director since 3rd November 2011 and Chairman of the Audit Committee since 22nd November 2011 has, as a result of other commitments, stepped down from the Board. The Board thanks him for his contribution and wishes him every success.
- Neal Ransome, MA FCA CF, aged 53, joined the Board as a Non-Executive Director and took over from Mike Phillips as Chairman of the Audit Committee. Neal had recently retired from PwC, where he was a Corporate Finance Partner and Chief Operating Officer of PwC's Advisory line of service.
- Due to the evolution of our strategic thinking, Stephen Whyte resigned as a director and executive in September 2013.
- Sir Peter Luff MP, FCIPR, aged 58, joined the Board as a Non-Executive Director. Peter was previously the Managing Director of a leading public affairs company, is currently a Member of Parliament and was Minister for Defence Equipment, Support and Technology from 2010-12.
- Suzanne Chase continued as our General Counsel but stepped down as a Director and took over the role of Company Secretary from Alastair Woolley.

Strategy
The Group has two distinct business divisions; with separate missions and strategies to achieve them.

Parity Professionals' mission is to be a premium supplier working closely with clients to source and develop talent, building capacity and capability to improve individual and organizational performance.

- The IT staffing business has broken down its offering into segments which are offered on a unique Resources as a Service basis.
- The Group has invested in expanding the training and career development offering of the Talent Management business across the UK from its traditional Northern Irish market.

Parity Digital Solutions is the base for the Group's technology systems offering, which has been retargeted to the digital marketing world. The IT services market is mature and one in which it is difficult for a small systems business to grow. However, the Board identified an opportunity to transfer the Group's experience of project management and business process to a marketing context as digital technology claims an increasing share of market spend.

- The Group has indicated since 2011 that it is looking to re-focus its systems integration capabilities into this new market by both acquisition of key skills and market position, and organic growth.
- With the successful acquisition and profit improvement of the 3D specialist Inition, the Group has demonstrated the relevance of its management skills to the new market.
- In a change of tactics the Board has decided that shareholder value can be best increased by further smaller acquisitions to create the skill base needed to grow a significant new style of technology services business in the digital marketing field; neither an advertising agency nor a digital agency.

The division has also been seeking to increase its own top management capabilities from the advertising and marketing world.

- Given his highly successful top level background in international marketing, the Board is pleased to announce the appointment of Andy Law as Chairman of the division on a three days a week basis. Andy has held senior positions at many of the top advertising agencies including Board Director at CDP and led the buyout from Omnicom of Chiat/Day creating the groundbreaking agency, St Lukes, which became one of London's leading agencies. He is also a successful writer and international speaker – including chairing sessions at Davos.
- I am also pleased to report today the appointment of Mark Andrews as CEO of this division. Mark is a highly experienced MD in the TV commercial and video production world. He started as a graphics designer and then commercial producer, becoming main board Head of TV at major award winning agency, CDP, and then MD at the world's largest video/commercial production company, Propaganda Films. In 1997 he founded Tsunami Films and then left in 2003 to become founder and proprietor of the MADE group.

The Group's TechLab joint venture with Royal Holloway and Bedford New College has now entered the commercialization phase. The Groupseer next-generation, patented, social media search engine now has a joint team working on ensuring that it has all the necessary functions, is fully tested and has a fluid interface. In parallel, early market feedback will be sought from selected potential users in a few target areas.

Current Trading and Future Prospects
The Group continues to trade in line with management expectations.

Parity Professionals is seeing the early signs of improvement in its market and margins, as hiring levels begin to rise. The Board is looking to this division to grow revenues and profits in future years, under the leadership of CEO, Alan Rommel, who along with other senior management, has experience of leading the business through a similar stage of the recovery cycle.

Parity Digital Solutions will be renamed in 2014 to reflect its new strategic direction. Inition is now operating with good margins and is investing in its marketing capabilities to build on the increased recognition of its augmented and virtual reality solutions. Under its strong management team, the division will seek to further extend its services into Digital Content Management and Content Production. We expect to make further small acquisitions this year to put the necessary skills in place and allow the expanded management team to grow the business offerings in a rapidly developing market.

2014 will see the end of nearly all of our unused property leases and the significant cash burden they impose. This together with reduced pension deficit payments, will significantly reduce our cash outflow and contribute towards the Group becoming cash generative.

After three tough years turning round the business, the good health, management and forecast market growth for both our divisions allows the Board to be confident about further improvement in shareholder value in 2014 and future years.

Philip Swinstead
Chairman
12 March 2014

Operating Review
Paul Davies

Overview
The three year turnaround programme set out by the new management team in 2010 has now been completed. This has seen the establishment of two separate, profitable and growing businesses in Parity Professionals (specialising in the sourcing, development and placing of professional staff) and Parity Digital Solutions (currently comprising Systems and Inition) forming a small but profitable platform focussed on the fast growing demand for technology solutions in digital marketing.

After an initial period of cost cutting and market realignment the Company has returned to solid revenue and Adjusted EBITDA growth of over 7% and 82% respectively.

The initiative to consolidate our operations into two separate divisions will allow us to report them on a separate basis going forward enabling clearer analysis of each as ‘independent’ businesses with only Group costs being shared.

To facilitate this, two Divisional Boards have been established under separate CEO’s with detailed Terms of Reference and Authority Levels and reporting to the Group Board on a monthly basis.

Group Operations
Much of Parity’s work remains short term in nature although several client and contract relationships have extended over a number of years. No individual client accounts for more than 14% of Group turnover. Whilst the Group maintains a degree of exposure to Government and Public Sector spending the breadth of our private sector portfolio and growing business in the Digital Marketing arena continues to increase and it is expected that this trend will continue.

New Finance and CRM Systems
In order to improve reporting and operating efficiencies the custom built, expensive and difficult to modify older finance system based on Microsoft AX has now been replaced.

The Parity Digital Solutions business has been successfully migrated onto a SAP By Design cloud based solution and we are in the final stages of migrating the Parity Professionals business onto a SAFE finance system specifically designed for a Resources style business. In parallel we are replacing our existing outdated CRM systems with a package by Bullhorn that has dedicated applications for staff resourcing which is expected to improve efficiency and data sharing between Parity Resources and Talent Management.

Parity Professionals
Reporting separately to the Board this newly formed division comprising Parity Resources and Talent Management was launched under the Parity Professionals banner earlier in the year and now has its own staff, infrastructure, offices, web presence and senior management team under CEO Alan Rommel.

Whilst the two component divisions currently address different market sectors (staff recruitment and graduate placement/talent development respectively) they have a common theme of sourcing, recruitment and development of professional staff at all stages of their career, providing consultancy skills to improve individual and organisational performance.

A number of opportunities have been identified as a result of combining these two business units, including cross selling to existing clients, collaboration of databases, and an enhanced overall proposition to the market.

Parity Resources’ continued focus on increasing contractor numbers, improving conversion rates and seeking out opportunities to increase margin (against a continued market pressure for rate reduction) has sustained the return to growth established in 2012.

This has required the further investment in sales and support staff, expansion of our offerings and improved systems. We have launched our unique Resources as a Service (RaaS), a segmented, menu driven procurement methodology proposition and are seeking to expand our limited presence in the permanent recruitment market.

As a result, we have increased our contractor numbers by 13% to 993 (2012: 880) and improved conversion rates to 33% (2012: 30%). In addition a number of existing contracts were extended and 70 new clients were signed up during the year (2012: 67) with improved average margins of 8.39% (2012: 7.95%).

In total, revenues in the year increased by 8.1% to £81.4m (2012: £75.3m) with a slightly reduced divisional contribution of £3.7m (2012: £4m) due to the continued investment in staff, training and offices.

Whilst the UK market remains challenging, with continued pressures on recruitment levels and margins, the last few months of the year saw a slight upturn in demand which we anticipate continuing into the first part of 2014.

The Talent Management business which has almost 20 years success in the sourcing, development and placing of graduates in Northern Ireland led to a strategic decision to invest in the business to extend the service across the UK. Addressing this new market by building upon our established capabilities and reputation has resulted in a number of successes and the business is committed to establishing its foothold in Great Britain from which to grow.

A traditional seasonal slow first half to the year was followed by an anticipated upturn resulting from the higher levels of graduate development and recruitment post mid year graduation. We continued our success in the ongoing prestigious Faststream graduate recruitment programme which we run on behalf of HMRC. This has again been renewed for a further year and won the Association of Graduate Recruiters annual award for Graduate Selection and Assessment.

Continued success in Northern Ireland resulted in the number of graduates sponsored by the Department of Employment and Learning for the Intro programme increasing to 160 (2012: 100) and the Management and Leadership Development Programme numbers increasing to 196 (2012: 24).

The number of new corporate clients across the UK also increased to 19 (2012: 16).

Despite market conditions in Higher Education remaining a challenge, we have maintained the foothold established in Great Britain during 2011 with revenues of £2.3m (2012: £2.2m) and contributions of £0.54m (2012: £0.67m). During this period we have further invested in sales and marketing, extended our offerings in order to build upon the platform established in our first two years in the GB higher education marketplace.

Having established a solid UK presence over the past two years the priority for 2014 is to take advantage of the sales opportunities identified and grow both revenue and profit within higher education and corporate clients.

Parity Digital Solutions

Reporting separately to the Board, this division currently comprises Parity Systems and Inition. The division has its own staff, infrastructure, offices, web presence and senior management team under CEO, Mark Andrews.

Parity Systems is a small systems integration business with all the functions necessary to deliver custom IT systems at a profit. It has been difficult for all such small systems businesses to win new customers in a recession. However, the business processes and SI systems have been invaluable in allowing the Inition experiential systems business to make good profits from the excellent business it has been doing for some years. As has been said before, the Board believe that the future for new growth in technology services is in the marketing arena; not in automating business systems. Therefore, the systems integration base that exists is the perfect platform for such an initiative as has been proved by the much improved performance of Inition.

In the year we further extended our long term relationship with BAT to include a framework for applications support, development and consultancy services and have also benefited from the return of previous clients purchasing this type of service. Our similarly long term relationship with the UK's Ministry of Defence continues with the provision of specialist technical support despite defence spending constraints, and our business with a large international legal firm started two years ago has led to further project work.

Together with Parity Resources, Parity Systems was successful in securing a place on the G-Cloud 3 UK Government procurement framework. This was followed up later in the year with further success on G-Cloud 4.

Parity Systems' exit from loss-making fixed price contracts, which was completed in 2012, has allowed the business to enhance margins and consolidate long term client relationships whilst focussing skill sets particularly aligned to the emerging digital market (web portals, business intelligence, and project management) in expectation of future business from the Group's strategic initiative in this area.

Our planned exit from these bad projects resulted in a decline in revenues but an increase in margins and contribution, as overheads were reduced. Focus on our traditional client base, together with some new business intelligence clients, has driven further margin improvement to 24% (2012: 20%) thereby stabilising contribution at £1.3m (2012: £1.3m) on a reduced revenue of £5.38m (2012: £6.5m).

The previously announced Parity R&D Technology Laboratory initiative with Royal Holloway and Bedford College of the University of London, to develop their innovative social media search algorithm, has resulted in a formal joint venture in which Parity has a 60% stake. A team is being assembled in Parity offices to complete the production of the software to market standards in parallel with further market research to define the most suitable applications for this patented technology.

Inition, which was acquired in May 2012, continues to be run for earn-out purposes with its separate overhead structure. It has benefitted during the year from the new reporting system referred to above and improved operational and project management assistance from Parity Systems. The second and final earn-out period completes in March 2014 and it seems likely at this time that the full earn-out amount will again become payable. This follows an excellent performance by the founding management, helped by our experience in delivering custom technology systems.

Revenues for the first full year were £2.85m (7 months 2012: £1.9m) with a contribution of £588k (7 months 2012: £260k).

Following the acquisition and integration into Parity Digital Solutions in 2012, Inition is a successful first move into project based professional services in marketing technology services. The performance would not have been possible without the Group's extensive experience in project based services in information technology. It was a successful test of management's belief that IT systems experience and processes are very pertinent in the digital marketing world.

Inition is now increasing its account management function to take its exciting capabilities to new market sectors and to extend its business in areas where it has already proved successful (e.g. automotive, property, retail and higher education sectors). A number of high profile installations have been launched in major London stores including Selfridges, John Lewis and Topshop. We are also introducing these new technologies to existing Parity clients such as the MOD, which includes working with Defence Science and Technology Laboratory (via a partnership with QinetiQ) to utilise emerging technologies for armed forces training.

Property

We have relocated the Parity Professionals finance and support team from Wimbledon to our existing sales office in Bath Place, Shoreditch. This had the duel effect of improving communications and increasing efficiency between the two teams. As a result only our Parity Digital Systems division currently has a presence in Wimbledon.

The Wimbledon office's lease expires in the second half of 2014. In the near future we expect further improvements in efficiency as the Group HQ and Systems divisions move into a further floor in Curtain Road, (where Inition are based) thus vacating the Wimbledon and Chancery Lane facilities.

To accommodate additional sales staff necessary to fuel further growth within Parity Professionals we have also in the year expanded both our Sale and Edinburgh offices. As a result, with the exception of shared offices in Belfast the two divisions operate from separate offices; Parity Professionals in Camberley, Shoreditch (Bath Place), Sale, Edinburgh and Parity Digital in Wimbledon, Shoreditch (Curtain Road).

Management and Staff

2013 was another period of positive development for Parity. During the year we made the necessary organisation changes to establish two distinct divisions both positioned to take advantage of the growth opportunities which now present themselves. In what continued to be challenging end markets we have returned the company to stable growth whilst absorbing the inevitable disruption of implementing the new business systems which will provide us with improved operating efficiencies in future.

We have additionally invested in training, increased our sales capacity and relocated a number of offices to accommodate increased headcount and continue the programme of vacating unsuitable legacy offices.

None of this could have been accomplished without the support of management and staff who repeatedly go the extra mile to ensure objectives are achieved.

On behalf of the Board I wish to offer them all our sincere thanks for their continued loyalty and commitment to Parity.

Paul Davies
Chief Executive Officer
12 March 2014

Financial Review
Alastair Woolley

Revenue

Continuing operations	2013 £'000	2012 £'000
Parity Professionals	**83,711**	77,491
Parity Digital	**8,238**	8,396
Group	**91,949**	85,887

Revenue for the group has increased by 7.1% to £91.95m (2012: £85.89m). The Parity Professional division has continued to see good growth particularly in its Resources business unit with divisional revenue increasing by £6.2m (8.0%) from £77.5m to £83.7m.

Parity Digital revenue has fallen by £0.16m to £8.24m (2012: £8.40m). The Systems business has experienced pressure from the spending constraints within the MOD, but has concentrated on consolidating its position with existing clients and maintaining margins. The objective in 2013 within the Inition business unit, the first full year post acquisition, was to improve internal systems and processes and further improve margins. This objective has been successfully achieved.

Divisional contribution

Continuing operations	2013 £'000	2012 £'000
Parity Professional	**4,206**	4,674
Parity Digital	**1,930**	1,546
Divisional contribution before central costs, non-recurring items and strategic initiative & acquisition costs	**6,136**	6,220

Divisional contribution has decreased slightly by £0.1m to £6.1m (2012: £6.2m). In Parity Professional emphasis has been placed within the Resources business unit on gaining contractor numbers and seeking out opportunities to increase margin. However, this has required investment during the year in sales and support staff and improved systems which has diluted the year end contribution.

In Parity Digital, margins grew strongly, improving from 18.4% in 2012 to 23.4% in 2013. The Systems business continues to maintain good margins and the focus at Inition, of improving internal processes as a result of experience from the Systems business unit has resulted in significantly improved margins.

Reconciliation of divisional contribution to operating loss from continuing operations

	2013 £'000	2012 £'000
Divisional contribution before central costs, non-recurring items and strategic initiative and acquisition costs	**6,136**	6,220
Central costs	**(3,607)**	(4,364)
Strategic initiative costs	**(1,076)**	(124)
Investment costs	**–**	(461)
Total central costs	**(4,683)**	(4,949)
Depreciation and amortisation	**(271)**	(497)
Share-based payment charges	**(120)**	(124)
Operating profit/(loss) before non-recurring items	**1,062**	650
Non-recurring items (continuing operations)	**(1,600)**	(1,350)
Operating (loss) from continuing operations	**(538)**	(700)

Total central costs have continued the trend from previous years and have decreased £0.2m to £4.7m (2012: £4.9m) despite the significant spend on strategic initiative costs. It is anticipated that in 2014, strategic initiative costs will be significantly lower. Depreciation has fallen by £0.2m in 2013 mainly due to the fact that the costs associated with the Microsoft Dynamic AX ERP system (discussed later under intangible fixed assets) are no longer having to be written off. The result of this is that operating profit has increased by £0.41m to £1.06m (2012: £0.65m).

Non-recurring items

Continuing operations	2013 £'000	2012 £'000
Restructuring	**173**	961
Strategic initiative costs	**695**	840
Property provisions	**732**	(451)
	1,600	1,350

Strategic Initiative costs refer to the professional fees incurred in the Group's acquisition programme.

The main element of the property provision charge is in relation to Wimbledon Bridge House. The lease on the property comes to an end in September 2014. In preparation for this and as part of the process of creating the two divisions of Parity Professional and Parity Digital, support and finance staff have been moved out of Wimbledon Bridge House and transferred to locations where sales and client service staff already operate from. This has further improved communications between the teams and will also lead to reduced occupancy costs. As a result of the termination of the Wimbledon office lease in September 2014, a further provision has been made for dilapidation costs. The total charge this year therefore comprises a mixture of onerous lease costs and an increase to the dilapidations provision.

Further details of the non-recurring costs are given in note 5.

Earnings per share and dividend
The basic loss per share from continuing operations was 1.88 pence (2012: 2.00 pence).

The Board does not propose a dividend for 2013 (2012: nil), but will continue to review this policy each year.

Statement of Financial Position
The balance sheet has strengthened since last year with net assets increasing to £9.7m (2012: £3.9m). This improvement was mainly as a result of the Placing that took place in July 2013 which raised net proceeds of £6.5m but also due to the reduction in the retirement benefit liability of £0.9m. These improvements to the net assets position have, however, been partially offset by the required increase in working capital to fund the continued growth of the group.

Intangible fixed assets
As reported last year, the Board decided to write off the remaining cost of the Microsoft Dynamics AX ERP system. This was a heavily customised system which had been installed 5 years ago at cost of over £1.7m and was inflexible, expensive to maintain and would not provide the correct platform for the company as we extended operations and split into the two distinct divisions. During the course of 2013 the Company has invested in new systems for both of its divisions. The systems have been selected to specifically address the business needs of each division rather than applying one generic solution that falls short of the operational benefits we are striving to achieve. Parity Digital successfully migrated its business units onto SAP by Design and the Inition business unit has been developing intellectual property for their augmented reality product lines. Parity Professional has selected and is in the process of implementing fully integrated solutions to replace its back, middle and front of office systems and these are due to go live early in 2014. It has also launched in the year a sophisticated and dedicated Parity Professionals website. At a group level, a new HR system has also been implemented which will improve efficiency and allow for the administration of the new auto enrolment requirements due to impact the company in 2014. The cost of these investments was £0.7m.

Trade receivables and accrued income
Trade receivables increased by £3.4m to £16.4m (2012: £13.0m) during the year, reflecting the increase in group revenue and to some extent the change in public/private sector mix. However, due to continued focus on working capital management, debtor days at the end of the year, calculated on billings on a countback basis, has only increased by 1 day to 27 (2012: 26).

Trade and other payables
Trade and other payables increased during the year to £10.4m (2012: £8.9m). As with trade receivables this is mainly due to the increase in trading volumes.

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. The asset-based lending facility provides for borrowing of up to £15m depending on the availability of appropriate assets as security. Interest on borrowings is charged at 2.5% over the prevailing base rate. The company has recently extended its facility until December 2016.

Cash flow and net debt
Cash generated from operations improved slightly compared to 2012 although there was still an outflow of £2.61m (2012: £2.64m). However, a substantial part of the outflow of funds in 2013 was as a result of the increased investment in working capital required to fund the continuing growth of the company and the payments to the retirement benefit plan.

Cash used in investing activities in 2013 was £1.39m. £0.5m of this was the first of the earnout payments following the acquisition of Inition. The terms of the acquisition included an earnout target of generating £0.3m operating profit for the year ended 31 March 2013. This was achieved and triggered the £0.5m payment. Investment of £0.7m has been made in substantially improving the systems in both Parity Professionals and Parity Digital. A programme was also undertaken during 2013 to replace most of the ageing PC's and laptops used by the company's staff.

Provisions

The net increase in provisions of £0.2m includes an increase to the empty property provision of £0.53m which mainly related to the Wimbledon office and an increase to the dilapidations provision of £0.19m also in respect of the Wimbledon office. Utilised in the year were £0.5m of empty property provisions in respect of the Wimbledon and Fleet offices.

Pension Fund

During 2013 the Group paid deficit reduction payments of £0.83m compared to £1.09m in 2012. As a result of the improving financial position, the Company was able to negotiate with the Trustees a revised actuarial position of the Plan. As a consequence the deficit on a technical provisions basis has been reduced by £2.33m to £6.33m and on-going payments to the Plan will reduce from an annualised basis of £1.09m to £0.68m and then only increasing as from 1 August 2013 at the rate of 5% per annum.

Principal risks and uncertainties

Market

The Group continues to monitor its exposure to the public sector and while the Group's exposure has reduced over recent years, it still remains exposed to potential further public sector budget cuts and recruitment freezes.

The Group trades exclusively in the UK, and is very aware of the ongoing tough economic conditions that prevail. As a result there is a major emphasis on addressing growth technologies in order to diversify the Group's offerings.

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.

Financial

The Group actively monitors it liquidity position to ensure it has sufficient available funds and working capital in order to operate and meet its planned commitments and has a credit risk policy that requires appropriate status checks and or references as necessary.

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 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.

Alastair Woolley
Finance Director
12 March 2014

Board of Directors

Philip Swinstead OBE Executive
Chairman
Philip Swinstead, 70, re-joined Parity in June 2010 and was appointed Non-executive Chairman, and appointed Executive Chairman on 1 October 2013. 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 [1, 2, 3]
Roger Freeman, 71, 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.

David Courtley
Non-executive Director [1, 2, 3]
David Courtley, 56, was appointed to the Board as a non-executive Director on 8 June 2011. David has extensive experience within the IT services sector and has held senior executive positions within Fujitsu, EDS and SD-Scicon and Phoenix IT Group plc. He was Chief Executive of Fujitsu Services between 2001 and 2009 and was instrumental in the transformation of that business. David is also non-executive director of Sagentia Group plc and the French software company Axway.

Sir Peter Luff
Non-executive Director [1, 2, 3]
Peter Luff MP, FCIPR, 58, was appointed to the Board as a Non-Executive Director on 26th September 2013. Peter has more than 30 years' experience of working with and for the public sector and has been the Managing Director of a leading public affairs company. He is currently Member of Parliament for Mid Worcestershire and was Minister for Defence Equipment, Support and Technology from 2010-12. Previously (2005-10) Peter had been chairman of the Business, Innovation and Skills Committee of the House of Commons. He is also a non-executive director of Marlin Group Holdings plc, a manufacturer of advanced manufacturing systems, and an Honorary Fellow of the Chartered Institute of Public Relations.

Neal Ransome
Non-executive Director [1, 2, 3]
Neal Ransome, MA FCA CF, 53, was appointed to the Board as a Non-Executive Director on 26th September 2013 and has taken over from Mike Phillips as Chairman of the Audit Committee. Neal has recently retired from PwC, where he was a Corporate Finance Partner and Chief Operating Officer of PwC's Advisory line of service. In addition to his direct managerial experience in a large services organisation, Neal has over twenty years' experience of advising clients on their M&A activities.

Paul Davies
Chief Executive Officer
Paul Davies, 65, re-joined Parity in June 2010 and was appointed as Chief Executive. 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 was Deputy Chairman of Microgen plc from 1999 until April 2012 and for a period was Chairman of MSB International plc. More recently he joined the operations board of Fujitsu Services for 2 years tasked with improving the performance of their portfolio of large IT programmes.

Alastair Woolley
Finance Director
Alastair Woolley, 52, joined Parity in late 2010 and was appointed Finance Director in April 2011. Alastair trained with Deloitte and spent 11 years in various departments including audit and business services. After leaving Deloitte in 1996, Alastair has worked in a variety of companies, mainly technology based, as Finance Director and also for a period of time, as Managing Director. Alastair has responsibility for Finance, Property and Facilities and IT.

[1] Member of the nominations committee

[2] Member of the remuneration committee

[3] Member of the audit committee

Directors' Report

The Directors present their report and the audited accounts for the year ended 31 December 2013.

Principal activities
The Group delivers a range of recruitment and business and technology solutions to clients across the public and private sectors. During the period under review the Group operated through two divisions; Professionals and Digital.

The principal activity of the Professionals division is to provide recruitment, predominately interim recruitment, and graduate placement services, to a diverse range of clients. In 2013 its clients' market sectors included central and local government within the public sector and FMCG, Insurance, Oil, and Transport in the private sector.

The principal activities of the Digital division comprise creative technology solutions, business intelligence solutions, and the resale of 3D equipment. Digital delivered its services during the year to central government departments in the public sector, and to Tobacco, Retail, IT, Telecommunications and Automotive clients in the private sector.

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, contribution, 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 2 to 9. The Group's social, environmental and ethical policies are set out on page 12. A statement on the application of the going concern principle is set out below. Details of financial instruments are set out in note 22 to the financial statements. 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 £949,000 (2012: £1,066,000) after charging non-recurring items of £1,600,000 (2012: £1,350,000). After a tax expense of £743,000 (2012: expense of £349,000) and a profit after tax from discontinued operations of £41,000 (2012: profit after tax of £26,000), the retained loss of £1,651,000 (2012: £1,389,000) has been transferred from reserves. The results for the year are set out in the consolidated income statement on page 24.

Dividends
The Directors do not recommend a final dividend (2012: nil pence per ordinary share). The total dividends for the year were nil pence per ordinary share (2012 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 24.

Purchase of own shares
At the end of the year, the Company had authority, under the shareholders' resolution of 30 May 2013, to purchase in the market 7,509,809 of the Company's ordinary shares at prices ranging between two 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.

Board of Directors
Biographical information on each of the Directors as at 12 March 2014 is set out on page 10, together with details of membership of the Board committees.

In accordance with the Company's Articles of Association, Peter Luff and Neal Ransome, who were appointed after the announcement of the 2013 AGM, will retire and offer themselves for re-election at the 2014 Annual General Meeting.

The Company's articles of association also requires that each Director retire from office and seek reappointment at the third annual general meeting after the general meeting at which he was last appointed or re-appointed. Accordingly Mr P E Swinstead, Lord Freeman, Mr P Davies and Mr A Woolley each retire and offer themselves for re-election as a Director.

Directors' interests
The Directors' beneficial interests in the ordinary share capital of the Company are set out within the remuneration report on page 22.

Principal shareholders
At the close of business on 8 March 2014 (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
Hargreave Hale Limited	15,000,000	14.76
Philip Swinstead	13,186,470	12.97
Killik & Co	7,173,505	7.06
David Courtley	6,521,739	6.42
Slater Investments Limited	5,110,657	5.03
Dominion Holdings	4,950,000	4.87
Barclays Stockbrokers	4,022,964	3.96
TD Waterhouse	3,966,068	3.90
RBC Jersey Client	3,823,766	3.76
Artemis Investment Management	3,305,000	3.25
Henderson Global Investors	3,284,501	3.23

Capital structure
The Company has two classes of shares in issue, ordinary shares of 2p and deferred shares of 0.04p. 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 7 to 9 and in note 22 to the financial statements. Note 22 also includes the Group's objectives for managing capital.

As outlined in note 22, the Group meets its day-to-day working capital requirements through an asset-based finance facility. The facility contains certain financial covenants which have been met throughout the period. The facility was recently extended to December 2016.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facility for the foreseeable future. The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued on acceptable terms.

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. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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 and Ireland the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. At 31 December 2013 unpaid creditors of the Group amounted to 36 days of purchases (2012: 32 days). Creditor days have not been calculated for the Company as it has no trade payables.

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 13. 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 2013 (2012: £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 auditor
So far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

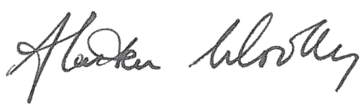
Corporate Governance
The Corporate Governance Report on pages 14 to 17 forms part of the Directors' Report.

Auditor
Our auditor, KPMG Audit Plc is currently in the process of transferring to KPMG LLP. The Board has therefore decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

Post Balance Sheet Events
There were no material post balance sheet events.

Annual General Meeting
The resolutions to be proposed at the Annual General Meeting, together with the explanatory notes, will appear in the Notice of the Annual General Meeting which will be circulated with the annual report when sent to all Shareholders.

By order of the Board



Alastair Woolley
Director
12 March 2014

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 incentivises employees through share-based incentives and the payment of bonuses and commissions linked to performance objectives. 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 & 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 at market value, 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.

Corporate Governance Report

Introduction
During the year the Company moved from the Main Market of the London Stock Exchange to AIM. On the 5 June 2013 shareholders resolved to cancel the listing of the Ordinary Shares on the Official List, to remove such Ordinary Shares from trading on the Main Market of the London Stock Exchange and to apply for the Ordinary Shares to be admitted to trade on AIM. On the 4 July 2013 the Company ceased from trading on the Main Market of the London Stock Exchange and its shares were admitted to AIM on 5 July 2013. As Parity plc is listed on AIM, it is neither required to comply with the UK Corporate Governance Code that was published in September 2012 by the Financial Reporting Council (the Code) nor issue a statement of compliance with it. Nevertheless, the Board fully supports the principles set out in the Code and seeks to follow these as best practice wherever this is appropriate; having regard to the size of the Company, the resources available to it and the interpretation of the Code in the Quoted Companies Alliance Corporate Governance Code for Small and Mid-sized Quoted Companies. Details are provided below of how the Company applies the elements of the Code that are deemed appropriate.

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 12.

The workings of the Board and its committees

The Board
At the date of this report the Board comprises of Executive Chairman Philip Swinstead, the Deputy Chairman and Senior Independent Director Lord Freeman, Chief Executive Officer Paul Davies, Group Finance Director Alastair Woolley, Non-executive Directors David Courtley, Sir Peter Luff and Neal Ransome. During the year Mike Phillips Non-executive Director, Suzanne Chase part-time Executive Director and General Counsel, and Stephen Whyte Chief Executive Officer of Parity Digital Solutions were also members of the Board but stepped down on 26 September 2013 at which time Sir Peter Luff and Neal Ransome were appointed to the Board. As from the 26 September 2013 Suzanne Chase continues as General Counsel and took over the role of Company Secretary from Alastair Woolley. The table on page 20 sets out the dates of tenure of the Directors on the Board during the year. The Directors' biographies, which are set out on page 10, demonstrate a range of business backgrounds and experience appropriate to the Company.

Executive Chairman
The Executive Chairman, Philip Swinstead, is responsible for the leadership and efficient operation of the Board, on all aspects of its role. This entails ensuring that Board meetings are held in an open manner, and allow sufficient time for agenda points to be discussed. It also entails the regular appraisal of each director, providing feedback and reviewing any training or development needs. He is also responsible for effective communications with shareholders, and relaying any shareholder concerns to the Directors. On the 1 October 2013 Philip Swinstead became Executive Chairman in order to closely direct the Group's digital strategy utilising his significant experience and leadership qualities. In his executive role the Executive Chairman reports to the Senior Independent Director, whilst remaining answerable to the Board at all times. Two independent Non-executive Directors were appointed in the year. During the year the Executive Chairman met the Non-Executive Directors without the Executive Directors present.

Senior Independent Director
Lord Freeman acts as the Senior Independent Director and his prime responsibility is to provide a sounding board for the Executive Chairman and to serve as an intermediary for the other Directors when necessary. He is also an additional contact point for shareholders if they have reason for concern, when contact through the normal channels of the Executive Chairman, Chief Executive Officer and other executive directors has failed to resolve their concerns, or where such contact is inappropriate. During the year the Senior Independent Director met the Non- Executive Directors without the Executive Chairman and the Executive Directors present.

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 11 and in the separate Notice of Annual General Meeting sent to all Shareholders. The Executive Chairman, and in the case of the Executive 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.

New directors receive a comprehensive, formal and tailored induction to the Group's operations including corporate governance, the legislative framework and visits to Group premises.

Board meetings
The Board meets regularly throughout the year to set long term objectives and to monitor progress against those objectives. 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 15. 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. The Group authorisation levels were reviewed by the Board in November 2013.

All members of the Board are supplied in advance of meetings with appropriate information covering the matters which are to be considered. If unable to attend a meeting a Director will provide feedback to the Executive Chairman, the chair of the Committee or the Company Secretary and their comments are then communicated at the meeting. 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.

During the reporting period the operational business was divided into two separate divisions, Parity Professionals and Parity Digital Solutions. The Board appointed a Chief Operating Officer for each division and established operational boards with formal terms of reference. Formal monthly business division reviews are held which are attended by the Executive Chairman, the Chief Executive Officer, Group Finance Director and Company Secretary/General Counsel together with the Chief Operating Officer of the relevant business division and members of their finance and operational teams. Any key issues arising from these reviews are reported to the Board. The Executive Directors ensure that informal contact is maintained with the Non-executive Directors who are invited to visit the Group's premises and are encouraged to have an informal dialogue with the Chief Operating Officers.

Performance evaluation

In the year the Board undertook an annual evaluation of its own performance and that of its committees and individual directors. The performance of the Executive Chairman was reviewed by the Deputy Chairman. The outcome of the evaluation of the Board is reviewed by the Board as a whole and the results are used to assist the Board in developing its approach going forward.

Board balance and independence

The 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 Non-executive Directors ensure that independent judgement is brought to Board discussions and decisions. The Board are aware of the importance of attaining an improved gender balance.

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 and committee meetings

During the year 10 scheduled Board meetings, and 8 ad hoc Board meetings were convened as necessary to deal with various matters. Details of attendance at Board meetings is summarised below. Committee attendance is shown for Committee members only.

	Board	Audit	Nominations	Remuneration
Number held	18	3	5	4
Number attended[1]				
Philip Swinstead	17	–	–	–
Lord Freeman	16	3	5	4
Paul Davies	18	–	–	–
Alastair Woolley	18	–	–	–
David Courtley	14	3	5	4
Mike Phillips	10	2	3	2
Suzanne Chase	10	–	–	–
Stephen Whyte	7	–	–	–
Peter Luff	4	1	1	1
Neal Ransome	4	1	1	1

1 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 30 May 2013

Committees

Each of the Board's three Committees has formal written terms of reference, which were reviewed in April 2012 These terms of reference are made available 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

During the year the audit committee was chaired by Mike Phillips until 26 September 2013 and then by Neal Ransome, the current chairman. Details of Neal Ransome's recent and relevant financial experience are set out in his biography on page 10. The audit committee meets three times a year. Lord Freeman, David Courtley and Sir Peter Luff are the other members 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, and considers the independence of the Group's external auditor 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 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 auditor;
- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- monitoring and reviewing the external auditor's independence and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services;
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters; and
- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control, and risk management systems.

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 auditor each year. The Group normally expects to retain the external auditor to provide audit-related services, including work in relation to shareholder circulars and similar services. The external auditor provided audit-related services during 2013, details of which are set out in note 3 to the accounts.

Audit committee meetings are attended by invitation of the committee, by the external auditors and all of the Executive Directors. The external auditors meet separately with the audit committee on request, without the presence of the Executive Directors, 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 18 to 22. Where necessary, specialist external consultants are used to assist the committee.

Nominations committee
The Nominations Committee comprises all of the Non-executive Directors and is chaired by Lord Freeman. It is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board, and succession planning. During the year the committee considered the size, composition, skills, experience and independence of the Board having regard to the requirements of the business.

The process for new Board appointments includes an initial search, preliminary interviews and discussions including with the chairman of the committee. Informal meetings are also held with the Non-executive Directors. Following this process recommendations are then made to the committee and the Board on merit against objective criteria. 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 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 no fewer than 21 clear days prior to the date of the Annual General Meeting. The information 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.

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

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
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 group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Board does not currently consider it necessary to have a separate internal audit function, but will continue to keep the need under review.

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

- 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 22 to the financial statements. Other risks and uncertainties are discussed in the Financial Review on page 10.

Each of the persons who is a director as at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Suzanne Chase
Company Secretary
12 March 2014

Remuneration committee
The remuneration committee comprises Lord Freeman as Chairman, David Courtley and Peter Luff and Neal Ransome. 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 advisers 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 2013 are set out in the table on page 20.

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 2013 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 2013 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 2013 a target for the full year was set. No performance bonuses were earned by, or paid to, Executive Directors in 2013.

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 2013 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. The exercise of the options is conditional upon the share price either outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector, or outperforming a target price.

Options granted in 2003 had a performance criterion of growth in EPS exceeding RPI plus an average of 3% per annum. The year 2004 had been taken as the base year against which EPS growth is measured. All of these options lapsed during 2013.

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.

On 7 June 2011 300,000 share options were awarded under this scheme to Alastair Woolley. The exercise price of the options is 28 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 35 pence for 20 consecutive days. The options will vest in 3 years and lapse in 10 years if not exercised.

On 4 April 2012 a further 60,000 share options were awarded under this scheme to Alastair Woolley. The exercise price of the options is 26.25 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 50 pence for 20 consecutive days. The options will vest in 3 years and lapse in 10 years if not exercised.

On 8 March 2013 a further 300,000 share options were awarded under this scheme to Alastair Woolley. The exercise price of the options is 26.5 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 33.125 pence for 5 consecutive days. The options will vest in 3 years and lapse in 10 years if not exercised.

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 performance conditions. The options had all vested by the balance sheet date.

There are no other live options under the Senior Executive Share Option Plan.

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.

In April 2013, the Group made a grant of options under the Sharesave scheme. Options were granted in conjunction with a three year savings contract, up to a monthly limit of £250.00. Options were granted at a discount of 10% to the market price. None of the directors held options under the Sharesave scheme on 31 December 2013.

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, providing 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.

Share price
The Parity Group plc mid market share price on 31 December 2013 was 29.25 pence. During the period 1 January to 31 December 2013 shares traded at market prices between 18.5 pence and 44 pence.

Directors' pension information
Paul Davies is entitled to a non-contributory company pension contribution of 11% of basic salary. Alastair Woolley is entitled to a contributory company pension contribution of 5% of basic salary.

Non-executive Directors' remuneration
The Board determines the remuneration of the Non-executive Directors with the benefit of independent advice when required. The fees are set at a level which will attract individuals with the necessary experience and ability to make 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.

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.

Contractual arrangements for current Directors are summarised below:

Director	Contract date	Notice period	Contractual termination payment
Philip Swinstead[1]	1 June 2010	n/a	n/a
Lord Freeman[2]	1 July 2007	n/a	n/a
Paul Davies[1]	1 June 2010	12 months	12 months rolling
Alastair Woolley	1 April 2011	6 months	6 months rolling
David Courtley[2]	8 June 2011	n/a	n/a
Peter Luff[2]	26 September 2013	n/a	n/a
Neal Ransome[2]	26 September 2013	n/a	n/a

[1] The Company is required to give 12 months notice of termination of the service agreement to the Executive Chairman and Chief Executive Officer who are required to give 6 months notice to the Company.

[2] The appointment of Non-executive Directors is terminable at the will of the parties.

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.

Directors' remuneration (audited)

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

	Salary/ fees 2013 £'000	Benefits 2013 £'000	Compensation for loss of office 2013 £'000	Total emoluments 2013 £'000	Company pension contributions[8] 2013 £'000	Share Based Payment 2013 £'000
Executive Directors						
P Swinstead[1,2]	**200**	**–**	**–**	**200**	**–**	**–**
P Davies	**220**	**18**	**–**	**238**	**24**	**–**
A Woolley	**120**	**10**	**–**	**130**	**6**	**29**
S Chase[3]	**61**	**6**	**–**	**67**	**5**	**5**
S Whyte[4]	**151**	**8**	**148**	**307**	**10**	**–**
Non-executive Directors						
Lord Freeman	**40**	**–**	**–**	**40**	**–**	**–**
D Courtley	**40**	**–**	**–**	**40**	**–**	**–**
M Phillips[5]	**30**	**–**	**–**	**30**	**–**	**–**
P Luff[6]	**10**	**–**	**–**	**10**	**–**	**–**
N Ransome[7]	**10**	**–**	**–**	**10**	**–**	**–**
Total emoluments	**882**	**42**	**148**	**1,072**	**45**	**34**

Directors' remuneration (audited) continued

	Salary/ fees 2012 £'000	Benefits 2012 £'000	Compensation for loss of office 2012 £'000	Total emoluments 2012 £'000	Company pension contributions[8] 2012 £'000	Share Based Payment 2012 £'000
Executive Directors						
P Davies[8]	220	18	–	238	174	11
A Woolley	120	10	–	130	6	18
Non-executive Directors						
P Swinstead[1,2]	200	–	–	200	–	–
Lord Freeman	40	–	–	40	–	–
D Courtley	40	–	–	40	–	–
M Phillips[5]	40	–	–	40	–	–
Total emoluments	660	28		688	180	29

Notes

1 P Swinstead was appointed Executive Chairman on 1 October 2013. Previously Mr Swinstead was Non-executive Chairman.
2 During 2013 and 2012 The Remuneration Committee elected to pay Mr Swinstead an additional fee of £150,000 per annum for discharging services as Non executive Chairman.
3 Appointed 1 February 2013 on a part time basis (3 days a week). Resigned as a Board director on 26 September 2013, but continued employment as the Group's General Counsel and Company Secretary.
4 Engaged by the Group on 18 February 2013 and appointed to the Board on 7 March 2013. Mr Whyte resigned on 26 September 2013, and was appointed as an independent consultant to the Board for 6 months.
5 Mr Phillips stepped down on 26 September 2013.
6 Appointed 26 September 2013.
7 Appointed 26 September 2013.
8 Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors of the company, with the exception of a contribution of £150,000 made to Paul Davies' pension in 2012, which was agreed by The Remuneration Committee.

Executive Directors' share options (audited)

	As at 31 January 2012	Lapsed/ Surrendered in the year	Exercised in the year	Awarded In the year	**As at 31 December 2013**	Exercise period	Exercise price per share
Paul Davies							
Senior Executive share option plan 2010	2,851,633	–	–	–	**2,851,633**	2011-2017	£0.10
Alastair Woolley							
Executive share option plan							
2011	300,000	–	–	–	**300,000**	2014-2021	£0.28
2012	60,000	–	–	–	**60,000**	2015-2022	£0.2625
2013	–	–	–	300,000	**300,000**	2016-2023	£0.265
Sub-total	360,000	–	–	300,000	**660,000**		
Total	3,211,633	–	–	300,000	**3,511,633**		

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 31 December 2012 (or date of appointment if later)	% issued share capital	**Shareholding as at 31 December 2013 (or date of resignation)**	**% issued share capital**
Philip Swinstead	12,180,543	16.25	**13,186,470**	**12.97**
Lord Freeman	6,250	0.01	**6,250**	**0.01**
Paul Davies	720,000	0.96	**1,275,556**	**1.26**
Alastair Woolley	56	–	**56**	**–**
Suzanne Chase	–	–	**–**	**–**
David Courtley	6,521,739	8.70	**6,521,739**	**6.42**
Mike Phillips	–	–	**–**	**–**
Peter Luff	–	–	**–**	**–**
Neal Ransome	–	–	**33,000**	**0.03**

For and on behalf of the Board

Lord Freeman
Chairman of the remuneration committee
12 March 2014

Independent Auditor's Report to the Members of Parity Group Plc

We have audited the financial statements of Parity Group Plc for the year ended 31 December 2013 set out on pages 24 to 59. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 16, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 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 EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report, Directors' Report for the financial year for which the financial statements are prepared 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 where the Companies Act 2006 requires us 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.

Andrew Turner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
EC4Y 8BB
London
United Kingdom
12 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

	Notes	Before non-recurring items 2013 £'000	Non-recurring items 2013 (note 5) £'000	Total 2013 £'000	Before non-recurring items 2012 £'000	Non-recurring items 2012 (note 5) £'000	Total 2012 £'000
Continuing operations							
Revenue	2	**91,949**	**–**	**91,949**	85,887	–	85,887
Employee benefit costs	3	**(8,163)**	**(173)**	**(8,336)**	(8,032)	(226)	(8,258)
Depreciation & amortisation	3	**(271)**	**–**	**(271)**	(497)	–	(497)
All other operating expenses	3	**(82,453)**	**(1,427)**	**(83,880)**	(76,708)	(1,124)	(77,832)
Total operating expenses		**(90,887)**	**(1,600)**	**(92,487)**	(85,237)	(1,350)	(86,587)
Operating profit/(loss)		**1,062**	**(1,600)**	**(538)**	650	(1,350)	(700)
Finance income	7	**655**	**–**	**655**	695	–	695
Finance costs	7	**(1,066)**	**–**	**(1,066)**	(1,061)	–	(1,061)
Profit/(loss) before tax		**651**	**(1,600)**	**(949)**	284	(1,350)	(1,066)
Tax (charge)/credit	11	**(1,115)**	**372**	**(743)**	(497)	148	(349)
Loss for the year from continuing operations		**(464)**	**(1,228)**	**(1,692)**	(213)	(1,202)	(1,415)
Discontinued operations							
Profit/(loss) for the year from Discontinued operations	8	**(5)**	**46**	**41**	45	(19)	26
Loss for the year Attributable of owners of the parent		**(469)**	**(1,182)**	**(1,651)**	(168)	(1,221)	(1,389)
Basic and diluted loss per share	12			**(1.88p)**			(2.00p)

The notes on pages 29 to 59 form part of the financial statements.

Statements of Comprehensive Income

for the year ended 31 December 2013

	Notes	Consolidated 2013 £'000	2012 £'000
Loss for the year		**(1,651)**	(1,389)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(25)**	(64)
		(25)	(64)
Items that will never be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit pension scheme	24	**220**	(1,554)
Deferred taxation on actuarial gains/(losses) on pension scheme taken directly to equity	16	**(23)**	287
		197	(1,267)
Other comprehensive income for the year net of tax		**172**	(1,331)
Total comprehensive income for the year attributable to equity holders of the parent		**(1,479)**	(2,720)

The notes on pages 29 to 59 form part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2013

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2013	1,437	14,319	26,637	44,160	(82,675)	3,878
Loss for the year	–	–	–	–	(1,651)	(1,651)
Exchange differences on translation of foreign operations	–	–	–	–	(25)	(25)
Actuarial gain on defined benefit pension scheme	–	–	–	–	220	220
Deferred taxation on actuarial gain on pension scheme taken directly to equity	–	–	–	–	(23)	(23)
Issue of new ordinary shares	596	–	6,546	–	–	7,142
Share options – value of employee services	–	–	–	–	120	120
At 31 December 2013	**2,033**	**14,319**	**33,183**	**44,160**	**(84,034)**	**9,661**

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2012	1,375	14,319	25,944	44,160	(80,079)	5,719
Loss for the year	–	–	–	–	(1,389)	(1,389)
Exchange differences on translation of foreign operations	–	–	–	–	(64)	(64)
Actuarial loss on defined benefit pension scheme	–	–	–	–	(1,554)	(1,554)
Deferred taxation on actuarial loss on pension scheme taken directly to equity	–	–	–	–	287	287
Issue of new ordinary shares	62	–	693	–	–	755
Share options – value of employee services	–	–	–	–	124	124
At 31 December 2012	1,437	14,319	26,637	44,160	(82,675)	3,878

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2013	1,437	14,319	26,637	22,729	(47,758)	17,364
Loss for the year	–	–	–	–	(3,490)	(3,490)
Issue of new ordinary shares	596	–	6,546	–	–	7,142
Share options – value of employee services	–	–	–	–	34	34
At 31 December 2013	**2,033**	**14,319**	**33,183**	**22,729**	**(51,214)**	**21,050**

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2012	1,375	14,319	25,944	22,729	(45,381)	18,986
Loss for the year	–	–	–	–	(2,409)	(2,409)
Issue of new ordinary shares	62	–	693	–	–	755
Share options – value of employee services	–	–	–	–	32	32
At 31 December 2012	1,437	14,319	26,637	22,729	(47,758)	17,364

The notes on pages 29 to 59 form part of the financial statements.

Statements of Financial Position

As at 31 December 2013

Company number 3539413

Assets	Notes	Consolidated 2013 £'000	Consolidated 2012 £'000	Company 2013 £'000	Company 2012 £'000
Non-current assets					
Intangible assets and goodwill	13,14	**8,459**	7,756	**–**	–
Property, plant and equipment	15	**334**	415	**2**	–
Trade and other receivables	18	**–**	–	**93,008**	69,763
Investment in subsidiaries	30	**–**	–	**20,527**	20,527
Deferred tax assets	16	**552**	1,318	**–**	–
		9,345	9,489	**113,537**	90,290
Current assets					
Stocks and work in progress	17	**19**	20	**–**	–
Trade and other receivables	18	**16,360**	13,044	**3,481**	2,619
Cash and cash equivalents		**7,376**	2,871	**37**	2,362
		23,755	15,935	**3,518**	4,981
Total assets		**33,100**	25,424	**117,055**	95,271
Liabilities					
Current liabilities					
Loans and borrowings	19	**(9,909)**	(8,283)	**–**	–
Trade and other payables	20	**(10,387)**	(8,938)	**(5,238)**	(2,491)
Provisions	21	**(895)**	(308)	**(895)**	(305)
		(21,191)	(17,529)	**(6,133)**	(2,796)
Non-current liabilities					
Loans and borrowings	19	**–**	(8)	**–**	–
Trade and other payables	20	**–**	(500)	**(89,806)**	(74,656)
Provisions	21	**(78)**	(462)	**(66)**	(455)
Retirement benefit liability	24	**(2,170)**	(3,047)	**–**	–
		(2,248)	(4,017)	**(89,872)**	(75,111)
Total liabilities		**(23,439)**	(21,546)	**(96,005)**	(77,907)
Net assets		**9,661**	3,878	**21,050**	17,364
Shareholders' equity					
Called up share capital	25	**16,352**	15,756	**16,352**	15,756
Share premium account	23	**33,183**	26,637	**33,183**	26,637
Other reserves	23	**44,160**	44,160	**22,729**	22,729
Retained earnings	23	**(84,034)**	(82,675)	**(51,214)**	(47,758)
Total shareholders' equity		**9,661**	3,878	**21,050**	17,364

Approved by the Directors and authorised for issue on 12 March 2014.

The notes on pages 29 to 60 form part of the financial statements.

Paul Davies
Chief Executive Officer

Alastair Woolley
Finance Director

Statements of Cash Flows

for the year ended 31 December 2013

	Notes	Consolidated 2013 £'000	Consolidated 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cash flows from operating activities					
Loss for year		**(1,651)**	(1,389)	**(3,490)**	(2,409)
Adjustments for:					
Finance income	7	**(655)**	(695)	**(738)**	(394)
Finance expense	7	**1,066**	1,061	**1,212**	1,044
Share-based payment expense	10	**120**	124	**34**	32
Income tax expense/(credit)	11	**743**	349	**(658)**	(641)
Amortisation of intangible assets	13	**21**	233	**–**	–
Depreciation of property plant and equipment	15	**250**	264	**1**	–
Impairment of intangible assets	13	**–**	721	**–**	–
		(106)	668	**(3,639)**	(2,368)
Working Capital					
Decrease in stocks and work in progress		**1**	117	**–**	–
(Increase)/decrease in trade and other receivables		**(3,324)**	(229)	**(2,486)**	8,496
Increase/(decrease) in trade and other payables		**1,454**	(925)	**2,217**	(9,651)
Increase/(decrease) in provisions		**203**	(1,178)	**201**	(1,035)
Payments to retirement benefit plan	24	**(833)**	(1,090)	**–**	–
Cash generated from operations		**(2,605)**	(2,637)	**(3,707)**	(4,558)
Income taxes received		**8**	–	**–**	–
Net cash flows from operating activities		**(2,597)**	(2,637)	**(3,707)**	(4,558)
Investing activities					
Acquisitions (net of cash received)	9	**(500)**	(1,138)	**–**	–
Purchase of intangible assets	13	**(724)**	(3)	**–**	–
Purchase of property, plant and equipment	15	**(169)**	(113)	**(4)**	–
Net cash used in investing activities		**(1,393)**	(1,254)	**(4)**	–
Financing activities					
Issue of ordinary shares	25	**7,142**	5	**7,142**	5
Proceeds from finance facility		**1,633**	1,766	**–**	–
Net movements on intercompany funding		**–**	–	**(5,522)**	2,057
Repayment of loans acquired through business combinations		**(46)**	–	**–**	–
Interest paid	7	**(234)**	(250)	**(234)**	(249)
Net cash from financing activities		**8,495**	1,521	**1,386**	1,813
Net increase/(decrease) in cash and cash equivalents		**4,505**	(2,370)	**(2,325)**	(2,745)
Cash and cash equivalents at the beginning of the year		**2,871**	5,241	**2,362**	5,107
Cash and cash equivalents at the end of the year		**7,376**	2,871	**37**	2,362

The notes on pages 29 to 59 form part of the financial statements.

Notes to the Accounts

1 Accounting policies

Basis of preparation
Parity Group plc (the "Company") is a company incorporated and domiciled in the UK.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

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

The financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report (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 7 to 9 and in note 22 to the financial statements. Note 22 also includes the Group's objectives for managing capital.

As outlined in note 22, the Group meets its day to day working capital requirements through an asset-based finance facility. The facility contains certain financial covenants which have been met throughout the period. The facility has recently been extended to December 2016.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facility for the foreseeable future. The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued on acceptable terms.

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. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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 £3,490,000 (2012: £2,409,000).

Business Combinations
The acquisition of subsidiaries is accounted for using the purchase method. The related costs of acquisition other than those associated with the issue of debt or equity securities, are recognised in the profit and loss as incurred. The acquiree's identifiable assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) "Business combinations" are recognised at their fair value at the acquisition date.

Changes in accounting policies: new standards, interpretations and amendments effective in 2013 adopted by the Group and published standards not yet effective
No new standards, amendments to published standards or interpretations of existing standards effective in 2013 had a material impact on the Group's 2013 financial statements. No published standards that are not yet effective are expected to have a material impact on the Group's financial statements.

Measurement convention
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the profit or loss or as available-for-sale. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

1 Accounting policies continued

Revenue recognition
The Group generates revenue principally through the provision of recruitment and technology services, and to a lesser extent, through the resale of 3D equipment.

The Group recognises revenue when certain criteria are met: there is clear evidence that a contract exists, the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Group, the stage of completion can be measured reliably where services are delivered, and the significant risks and rewards of ownership, including effective control, are transferred to clients where equipment is sold. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, volume rebates and value added tax.

Revenue on contracts for the supply of professional services at pre-determined rates is recognised as and when the work is performed, irrespective of the duration of the contract. Permanent placement staffing revenue is recognised when candidates commence employment. Rebates may be applicable on a sliding scale where the candidate's employment is terminated within 9 weeks. Rebate provisions are not created based on the limited incidence of claims.

Revenue is recognised on fixed price contracts while the contract is in progress, using the percentage of completion method, 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.

Revenue from systems integration and consulting services under time and material arrangements is recognised as the services are rendered.

Revenue for equipment sales is recognised at the point of delivery, which is the point when the significant risks and rewards of ownership of the equipment have passed to the buyer.

Non-recurring items
Items which are both material and non-recurring are presented as non-recurring items within the relevant Income Statement category. The separate reporting of non-recurring items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as non-recurring, if of a significantly material value, include gains or losses on the disposal of a business, restructuring of a business, transaction costs, litigation and similar settlements, asset impairments, and onerous contracts.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses
Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on the retirement benefit scheme liabilities, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises the expected return on the retirement benefit scheme assets, interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net 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.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

1 Accounting policies continued

Taxation continued
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

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 Operations Board comprising the Chief Executive, the Finance Director, the Business Unit Managing Directors and the HR Director.

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 stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

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	The lesser of the asset life and the remaining length of the lease
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.

1 Accounting policies continued

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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

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 many not be recoverable.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

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 other operating 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.

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.

Stocks and work in progress
Stocks are stated at the lower of cost and net realisable value. Cost comprises equipment for resale. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Costs recoverable on contracts which are expected to benefit performance and be recoverable over the life of the contracts are recognised 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.

1 Accounting policies continued

Stocks and work in progress continued
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.
- Finance leases which are initially measured 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 premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Operating Leases
Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

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, 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 non-serviced properties.

Pensions
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 services are rendered by the employees, and the Group has no further obligation to pay further amounts.

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.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) and any unrecognised past service costs are deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to [the total of any unrecognised past service costs and] the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

1 Accounting policies continued

Share capital
Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

For the purposes of the disclosures given in note 22, the Group considers its capital to comprise its cash and cash equivalents, its asset-based bank borrowings, and its equity attributable to equity holders, comprising issued capital, reserves and retained earnings, as disclosed in the statement of changes in equity.

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 an agent 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.

Share based payments transactions
Share-based payment arrangements in which the Group and Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group and Company.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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.

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. The estimated future sub-let income is based upon existing sub-lease contracts and it is assumed the contractual commitments will be fulfilled. Dilapidations provisions are based on contractual lease obligations and management estimates and assumptions regarding the future costs of meeting those obligations. The estimates are based upon the size and condition of each property, and past experience of dilapidation costs. Changes in assumptions are not anticipated to have a material impact in the current year.

1 Accounting policies continued

Significant accounting estimates and judgements continued

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 24. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the Income Statement and the Statement of Financial Position.

Recoverability of deferred tax assets. The deferred tax assets are reviewed for recoverability and recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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 14). The deferred tax asset would not require writing down if the forecast future profitability of Parity Resources Limited was 10% lower.

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 14). 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 the investment would still not be impaired.

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

Factors that management used to identify the Group's reporting segments
In accordance with IFRS 8 'Operating Segments' the Group's management structure, and the reporting of financial information to the Chief Operating Decision Maker (the Group Board), have been used as the basis to define reporting segments.

During the reporting period each reporting segment was headed up by a dedicated COO, with direct responsibility for delivering the segmental contribution budget. The internal financial information prepared for the Executive Committee includes contribution at a segmental level, and the Group Board allocates resources on the basis of this information.

Adjusted EBITDA as defined in note 4, profit before tax, and assets and liabilities are internally reported at a Group level.

Description of the types of services from which each reportable segment derives its revenues
The Group has two segments:

- Parity Professionals – this segment provides IT recruitment services across all UK markets. It also provides graduate selection, training, placement and career development services. 91% (2012: 90%) of the continuing Group's revenues.
- Parity Digital – this segment delivers unique 3D creative technology, and business intelligence solutions designed around client problems. Digital provides 9% (2012: 10%) of the continuing Group's revenues.

Central costs include Corporate, Finance, HR, IT and Property costs, and are all managed centrally, and are not allocated to reporting segments for internal reporting purposes.

Measurement of operating segment contribution
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 contribution 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.

2 Segmental information continued

	Parity Professionals 2013 £'000	Parity Digital 2013 £'000	Before non-recurring items £'000	Non-recurring items £'000	Total 2013 £'000
Revenue from external customers	**83,711**	**8,238**	**91,949**	**–**	**91,949**
Attributable costs	**79,505**	**6,308**	**85,813**	**–**	**85,813**
Segmental contribution	**4,206**	**1,930**	**6,136**	**–**	**6,136**
Central costs			**(3,607)**	**–**	**(3,607)**
Adjusted EBITDA			**2,529**	**–**	**2,529**
Strategic initiative costs*			**(1,076)**	**(695)**	**(1,771)**
Depreciation and amortisation			**(271)**	**–**	**(271)**
Share based payment			**(120)**	**–**	**(120)**
Other non-recurring items			**–**	**(905)**	**(905)**
Finance income			**655**	**–**	**655**
Finance costs			**(1,066)**	**–**	**(1,066)**
Profit/(loss) before tax (continuing activities)	**–**	**–**	**651**	**(1,600)**	**(949)**

	Parity Professionals 2012 £'000	Parity Digital 2012 £'000	Before non-recurring items £'000	Non-recurring items £'000	Total 2012 £'000
Revenue from external customers	77,491	8,396	85,887	–	85,887
Attributable costs	72,817	6,850	79,667	–	79,667
Segmental contribution	4,674	1,546	6,220	–	6,220
Central costs			(4,825)	–	(4,825)
Adjusted EBITDA			1,395	–	1,395
Strategic initiative costs*			(124)	(840)	(964)
Depreciation and amortisation			(497)	–	(497)
Share based payment			(124)	–	(124)
Other non-recurring items			–	(510)	(510)
Finance income			695	–	695
Finance costs			(1,061)	–	(1,061)
Profit/(loss) before tax	–	–	284	(1,350)	(1,066)

* Strategic initiative costs refer to costs associated with reviewing potential acquisition targets and other costs incurred as a result of pursuing the digital strategy.

The continuing Group operates exclusively in the UK. All revenues are generated and all segment assets are located in the UK.

55% (2012: 52%) or £45.8m (2012: £40.2m) of the Parity Professionals revenue was generated in the Public Sector. 32% (2012: 40%) or £2.7m (2012: £3.4m) of the Parity Digital revenue was generated in the Public Sector.

The largest single customer in Parity Professionals contributed revenue of £12.5m or 15% and was in the private sector (2012: £11.7m or 15% and in the private sector). The largest single customer in Parity Digital contributed revenue of £2.7m or 33% and was in the private sector (2012: £2.7m or 33% and in the private sector).

3 Operating costs

	Consolidated 2013 £'000	Consolidated 2012 £'000
Continuing operations		
Employee benefit costs		
– wages and salaries	**7,294**	7,124
– social security costs	**816**	768
– other pension costs	**226**	366
	8,336	8,258
Depreciation and amortisation		
Amortisation of intangible assets – software	**21**	233
Depreciation of tangible assets	**250**	264
	271	497
All other operating expenses		
Contractor costs	**78,125**	71,917
Sub-contracted direct costs	**495**	990
Operating lease rentals – plant and machinery	**56**	52
– land and buildings	**1,472**	1,245
Sub-let income – land and buildings	**(522)**	(452)
Other occupancy costs	**442**	495
IT costs	**405**	514
Net exchange loss	**–**	5
Equity settled share based payment charge	**120**	124
Other operating costs	**3,287**	2,942
	83,880	77,832
Total operating expenses	**92,487**	86,587

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

During the year the Group obtained the following services for the Group's auditor, KPMG Audit plc:

	Consolidated 2013 £'000	Consolidated 2012 £'000
Audit of the Group's financial statements	**11**	10
Other services:		
Audit related assurance services	**62**	61
Interim review	**7**	7
Tax compliance	**26**	23
Other	**150**	289
	245	380
	256	390

All other services have been performed in the United Kingdom.

Other refers to services provided in relation to potential acquisition activity.

4 Reconciliation of operating loss to adjusted EBITDA

	Note	2013 £'000	2012 £'000
Operating loss from continuing operations		**(538)**	(700)
Strategic initiative costs	2	**1,076**	124
Non-recurring items	5	**1,600**	1,350
Share-based payment charges	3	**120**	124
Depreciation and amortisation	3	**271**	497
Adjusted EBITDA		**2,529**	1,395

The directors use EBITDA before strategic initiative costs, non-recurring items and share-based payment charges ('Adjusted EBITDA') as a key performance measure of the business.

5 Non-recurring items

	2013 £'000	2012 £'000
Continuing Operations		
Strategic initiative costs	**695**	840
Restructuring		
– Employee benefit costs	**173**	226
– Other operating costs	**–**	735
Property provisions (other operating costs)	**732**	(451)
	1,600	1,350
Discontinued Operations		
Property provisions	**(46)**	19
	(46)	19

The continuing operations non-recurring charge for 2013 includes strategic initiative costs, restructuring costs and a charge relating to surplus property. Strategic initiative costs refer to the professional services incurred in the Group's acquisition programme. Restructuring costs refer mainly to the compensation payment for loss of office paid to Stephen Whyte who resigned from the Board on 26 September 2013. Of the charge for surplus properties, £471,000 relates to onerous lease costs in respect of additional unoccupied space at the Wimbledon head office, following the relocation of staff to offices in Chancery Lane and Shoreditch. The charge also includes a top up of £162,000 to the dilapidations provision for the Wimbledon office. The lease expires in September 2014. £60,671 of the property charge relates to onerous lease costs in respect of unoccupied floors of the Camberley office. The remainder of the property charge (£38,000) relates to onerous lease cost for empty properties, which were exited during 2013 and for which the lease had expired by the end of 2013.

The discontinued operations non-recurring credit for 2013 relates to a payment received from the administrators of Parity Training Limited. The administration dividend related to a claim made by the Group in respect of costs it incurred under its obligation as guarantor on two Parity Training Limited properties, subsequent to the divestment of Parity Training Limited.

The continuing operations non-recurring charge for 2012 included strategic initiative costs, restructuring costs and a credit relating to surplus property. Strategic initiative costs referred to the professional services incurred in the Group's acquisition programme and included the costs relating to the acquisition of Inition Limited. Restructuring costs referred to the employee costs incurred in relation to the re-organisation of Parity Systems. Other operating costs referred to the write off of the net book value of the Group's financial system (£721,000), and professional fees of £14,000 in relation to employees affected by the reorganisation. The credit for surplus properties related to the sublet of an unoccupied area of the Wimbledon head office, for which the lease costs had been previously provided for, and reflected the contracted sub-let income to the end of the sub-lease.

The discontinued operations non-recurring charge for 2012 related to the costs payable for an ex-Parity Training Limited office, and the unwind of the provision discount in respect of discontinued properties.

6 Average staff numbers

	2013 Number	2012 Number
Continuing operations		
Professionals – United Kingdom[1]	**98**	103
Digital – United Kingdom, including corporate office[2]	**58**	59
	156	162

[1] Includes 27 (2012: 29) employees providing shared services across the Group.
[2] Includes 8 (2012: 7) employees of the Company.

At 31 December 2013, the Group had 148 continuing employees (2012: 156).

7 Finance income and costs

	2013 £'000	2012 £'000
Finance income		
Finance income in respect of post-retirement benefits	**655**	695
	655	695
Finance costs		
Interest expense on financial liabilities	**234**	250
Finance costs in respect of post-retirement benefits	**832**	811
	1,066	1,061

The interest expense on financial liabilities represents interest paid on the Group's asset-based financing facilities. A 1% increase in the base rate would increase annual borrowing costs by approximately £78,000.

8 Discontinued operations

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.

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

	2013 £'000	2012 £'000
(Expenses)/income other than finance costs	**(5)**	45
Non-recurring income/(expenses) (note 5)	**46**	(19)
Pre-tax profit	**41**	26
Taxation	**–**	–
Profit for the year	**41**	26

For 2013 the pre-tax profit before non-recurring items relates to legacy overseas subsidiaries of the Group, and comprises company secretarial and accounting fees.

For 2012 the pre-tax profit represents the write back of various accruals where the directors consider there to be no liability, offset by company secretarial and accounting fees.

The Statement of Cash Flows includes a £32,000 cash inflow (2012: £274,000 cash outflow) from operating activities in respect of discontinued operations.

9 Acquisition of subsidiary

On 29 May 2012, the Group acquired Inition Limited. During 2012 the initial cash consideration, less cash acquired, amounted to £1,138,000.

The Sale and Purchase agreement included additional cash consideration subject to the ongoing performance of Inition up to 31 March 2014 (an earn-out of £0.5 million was payable to the vendors if Inition made at least £0.3m profit before interest and tax in the year to 31 March 2013, and a further £0.5 million would become payable if Inition makes a profit before interest and tax of at least £0.5m in the year to 31 March 2014.)

Inition met its first earn-out target and consequently £0.5 million was paid to the vendors during 2013.

10 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 share price averages a target price for 20 consecutive days 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 £120,000 (2012: £124,000).

	2013 Weighted average exercise price (p)	**2013 Number**	2012 Weighted average exercise price (p)	2012 Number
Outstanding at beginning of the year	**12**	**7,406,587**	12	6,368,668
Granted during the year	**27**	**3,602,992**	22	1,542,329
Exercised during the year	**9**	**(737,500)**	9	(62,500)
Lapsed during the year	**26**	**(2,422,634)**	24	(441,910)
Outstanding at the end of the year	**16**	**7,849,445**	12	7,406,587

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)	**2013 Weighted average contractual life (years)**	**Number**	Exercise price (p)	2012 Weighted average contractual life (years)	Number
7.5 – 10	**3**	**4,301,633**	7.5 – 10	5	5,039,133
19 – 28	**6**	**3,547,812**	19 – 28	6	2,357,429
165 – 209	**–**	**–**	165 – 209	1	10,025
		7,849,445			7,406,587

Of the total number of options outstanding at the end of the year, 4,301,633 (2012: 297,525) had vested and were exercisable at the end of the year. The weighted average exercise price of those options was 10 pence (2012: 15 pence).

737,500 (2012: 62,500) options were exercised during the year at an average exercise price of 9 pence (2012: 9 pence)

The weighted average fair value of each option granted during the year was 13 pence (2012: 22 pence).

10 Share based payments continued

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.

	2013	2012
	Stochastic	Stochastic
Option pricing model		
Weighted average share price at grant date (p)	**26**	25
Weighted average exercise price (p)	**27**	22
Weighted average contractual life (years)	**10**	7
Weighted average expected life (years)	**5**	4
Expected volatility	**54 – 74%**	57 – 70%
Weighted average risk free rate	**0.86%**	1.18%
Expected dividend growth rate	**0%**	0%

The volatility assumption is calculated as the historic volatility of the share price over a 3 and 5 year period prior to grant date.

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 8 years. The expected volatility is 64.2% and the average risk free rate assumed was 3.4%.

11 Taxation

	2013	2012
	£'000	£'000
Current tax expense		
Current tax on loss for the year	**–**	–
Total current tax	**–**	–
Deferred tax expense/(credit)		
Accelerated capital allowances	**(25)**	(33)
Origination and reversal of other temporary differences	**(28)**	1
Change in corporation tax rate	**157**	118
Retirement benefit liability	**65**	245
Write down of deferred tax asset	**545**	
Trading losses	**–**	18
Adjustments in respect of prior periods	**29**	–
Total tax expense	**743**	349
Tax expense on continuing operations	**743**	349

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce from 23% to 21% from 1 April 2014 and, further, reduce to 20% from 1 April 2015. These changes were substantively enacted on 2 July 2013.

This will reduce the company's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

The 2013 tax expense is after a tax credit of £372,000 (2012: £148,000) in respect of exceptional items.

11 Taxation continued

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:

	2013 £'000	2012 £'000
Loss for the year	**(1,651)**	(1,389)
Income tax expense	**743**	349
Loss before income tax	**(908)**	(1,040)
Expected tax credit based on the standard rate of United Kingdom corporation tax of 23.25% (2012: 24.5%)	**(211)**	(256)
(Income)/expenses not allowable for tax purposes	**(20)**	264
Adjustment for under provision in prior years	**29**	3
Reduction in deferred tax asset due to change in enacted rate	**157**	118
Tax losses not recognised	**243**	220
Write down of deferred tax asset	**545**	–
	743	349

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

	2013			2012		
	Before tax £'000	**Tax £'000**	**After tax £'000**	Before tax £'000	Tax £'000	After tax £'000
Exchange differences on translation of foreign operations	**(25)**	**–**	**(25)**	(64)	–	(64)
Actuarial gain/(loss) on defined benefit pension scheme	**220**	**(23)**	**197**	(1,554)	287	(1,267)
	195	**(23)**	**172**	(1,618)	287	(1,331)

12 Earnings per ordinary share

Basic earnings per share is calculated by dividing the basic earnings from continuing operations for the year by the weighted average number of fully paid ordinary shares in issue during the year.

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 2013 £'000	**Weighted average number of shares 2013 000's**	**Earnings per share 2013 Pence**	Earnings 2012 £'000	Weighted avergae number of shares 2012 000's	Earnings per share 2012 Pence
Basic loss per share	**(1,651)**	**87,905**	**(1.88)**	(1,415)	70,578	(2.00)
Effect of dilutive options		**–**	**–**		–	–
Diluted loss per share	**(1,651)**	**87,905**	**(1.88)**	(1,415)	70,578	(2.00)

As at 31 December 2013 the number of ordinary shares in issue was 101,624,020 (2012: 71,835,594).

Basic and diluted earnings per share from discontinued operations was 0.05p (2012: basic and diluted loss per share 0.04p).

13 Intangible assets

	Software		Goodwill		Total	
	2013	2012	**2013**	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Cost						
At 1 January	**3**	1,555	**7,753**	4,594	**7,756**	6,149
Additions	**724**	3	**–**	3,159	**724**	3,162
Disposals	**–**	(1,555)	**–**	–	**–**	(1,555)
At 31 December	**727**	3	**7,753**	7,753	**8,480**	7,756
Accumulated amortisation						
At 1 January	**–**	602	**–**	–	**–**	602
Charge for the year	**21**	233	**–**	–	**21**	233
Disposals	**–**	(835)	**–**	–	**–**	(835)
At 31 December	**21**	–	**–**	–	**21**	–
Net book amount	**706**	3	**7,753**	**7,753**	**8,459**	**7,756**

In 2012 the directors decided that the Group's financial system was no longer appropriate for the Group's needs. The impairment of the incumbent finance system was £720,000.

As at 31 December 2013, the Group had implemented a new financial system and dedicated website for its Digital division at a cost of £160,000 and Inition has been developing intellectual property for its augmented reality product lines which amounts to an investment so far of £110,000. Projects were also in progress to implement a new financial system, a CRM system and to develop and launch a new sophisticated and dedicated website for its Professional division with costs to date of £408,000 being treated as intangible asset additions in 2013. At group level, a new HR system has also been implemented at a cost of £46,000.

Neither the Group nor the Company had any additional capital commitments for the purchase of intangible assets as at the balance sheet date.

14 Goodwill

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

	Goodwill carrying amount	
	2013	2012
	£'000	£'000
Resources	**1,470**	1,470
Solutions	**3,124**	3,124
Digital Solutions	**3,159**	3,159
	7,753	7,753

Goodwill was tested for impairment in accordance with IAS 36. No impairment was recognised during the year. The recoverable amounts of the CGU's are based on value in use calculations using the pre-tax cash flows based on budgets approved by management for 2013. Years from 2015 onward are based on the budget for 2014 projected forward at expected growth rates. This is considered prudent based on current expectations of the 2014 long-term growth rate.

14 Goodwill continued

Major assumptions are as follows:

	Resources %	Solutions %	Digital Solutions %
2013			
Discount rate	**11.9**	**6.8**	**8.9**
Forecast revenue growth	**8.3**	**1.5**	**21.9**
Operating margin 2014	**2.5**	**4.2**	**4.3**
Operating margin 2015 onward	**2.9**	**7.1**	**9.3**
2012			
Discount rate	7.7	6.1	6.1
Forecast revenue growth	9.2	17.7	37.4
Operating margin 2013	2.8	4.7	10.6
Operating margin 2014 onward	3.2	5.1	9.5

Discount rates are based on the Group's weighted average cost of capital adjusted for the specific risks of each cash generating unit.

Forecast revenue growth is expressed as the compound growth rate over the next 4 years, and is based on the workings used for impairment testing. For Resources the rates are based on past experience of growth in revenues and future expectations of economic conditions. For Solutions and Digital Solutions, the growth rates also incorporate the expected return on planned investment.

Operating margins are based on past experience adjusted for investments, and cost action taken in 2013.

A 10% change in any of the underlying assumptions used in the discounted cash flow forecasts would not lead to the carrying value of goodwill being in excess of its recoverable amount.

15 Property, plant and equipment

Consolidated	Leasehold improvements £'000	Office equipment £'000	Total £'000
At cost			
Balance at 1 January 2012	1,147	2,845	3,992
Additions	17	96	113
Acquisitions through business combinations	–	250	250
Disposals	(234)	(41)	(275)
Balance at 31 December 2012	930	3,150	4,080
Balance at 1 January 2013	930	3,150	4,080
Additions	6	163	169
Disposals	–	–	–
Balance at 31 December 2013	**936**	**3,313**	**4,249**
Accumulated depreciation			
Balance at 1 January 2012	598	2,801	3,399
Depreciation charge for the year	148	116	264
Acquisitions through business combinations	–	143	143
Disposals	(120)	(21)	(141)
Balance at 31 December 2012	**626**	**3,039**	**3,665**
Balance at 1 January 2013	626	3,039	3,665
Depreciation charge for the year	142	108	250
Disposals	–	–	–
Balance at 31 December 2013	**768**	**3,147**	**3,915**
Net book value			
At 1 January 2012	549	44	593
At 31 December 2012	304	111	415
At 31 December 2013	**168**	**166**	**334**

15 Property, plant and equipment continued

Company	Leasehold improvements £'000	Office equipment £'000	Total £'000
At cost			
Balance at 1 January 2012	–	–	–
Balance at 31 December 2012	–	–	–
Balance at 1 January 2013	–	–	–
Additions	1	2	3
Balance at 31 December 2013	**1**	**2**	**3**
Accumulated amortisation			
Balance at 1 January 2012	–	–	–
Balance at 31 December 2012	–	–	–
Balance at 1 January 2013	–	–	–
Depreciation charge for the year	1	–	1
Balance at 31 December 2013	**1**	**–**	**1**
Net book value			
At 1 January 2012	–	–	–
At 31 December 2012	–	–	–
At 31 December 2013	**–**	**2**	**2**

As at 31 December 2013, neither the Group nor the Company had any capital commitments contracted for but not provided, for the purchase of tangible assets (2012: £nil).

Leased plant and equipment
As a result of the acquisition of Inition during 2012, the Group acquired a 3D camera which is leased under a finance lease agreement. The Group does not lease any other plant or equipment under finance lease agreements. At 31 December 2013 the net carrying value of the leased equipment was £10,509 (2012: £18,842).

16 Deferred tax

	Consolidated	
	2013 £'000	2012 £'000
At 1 January	**1,318**	1,384
Acquired in business combinations		
Depreciation in excess of capital allowances	**–**	(22)
Trading Losses	**–**	18
Recognised in other comprehensive income		
Actuarial gain/(loss) on defined benefit pension scheme	**(23)**	287
Recognised in the income statement		
Change in enacted tax rate	**(157)**	(118)
Adjustments in relation to prior periods	**(29)**	1
Depreciation in excess of capital allowances	**25**	33
Retirement benefit liability	**(65)**	(245)
Write down	**(545)**	–
Trading Losses	**–**	(18)
Other short term timing differences	**28**	(2)
At 31 December	**552**	1,318

16 Deferred tax continued

The deferred tax asset of £552,000 (2012: £1,318,000) comprises:

	Consolidated 2013 £'000	2012 £'000
Depreciation in excess of capital allowances	**457**	893
Retirement benefit liability	**–**	314
Short term and other timing differences	**95**	111
	552	1,318

A deferred tax asset on tax losses brought forward is not recognised unless 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 14).

The forecasts for Resources comfortably support the unwinding of the deferred tax asset held by this business of £552,000 (2012: £602,000). However, as a result of the creation of the two divisions which involved the transfer of the Talent Management business from the Systems business unit to the Parity Professionals division, the Directors do not believe there are now sufficient taxable profits in the short to medium term to justify the recognition of the deferred tax asset associated with the System's business (2012: £716,000). This has resulted in a write down of the tax asset by £545,000, after other movements, during the year.

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce from 23% to 21% from 1 April 2014 and, further, reduce to 20% from 1 April 2015. These changes were substantively enacted on 2 July 2013. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

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

	Asset 2013 £'000	**Acquired in business combinations 2013 £'000**	**(Charged)/ credited to income statement 2013 £'000**	**(Charged)/ credited to other comprehensive income 2013 £'000**
Depreciation in excess of capital allowances	**457**	**–**	**(436)**	**–**
Other short-term timing differences	**95**	**–**	**(16)**	**–**
Retirement benefit plan liability	**–**	**–**	**(291)**	**(23)**
	552	**–**	**(743)**	**(23)**

	Asset 2012 £'000	Acquired in business combinations 2012 £'000	(Charged)/ credited to income statement 2012 £'000	(Charged)/ credited to other comprehensive income 2012 £'000
Depreciation in excess of capital allowances	893	(22)	(44)	–
Other short-term timing differences	111	–	(11)	–
Retirement benefit plan liability	314	–	(276)	287
Trading Losses	–	18	(18)	–
	1,318	(4)	(349)	287

The Group has unrecognised carried forward tax losses of £27,928,000 (2012: £23,649,000). The Company has unrecognised carried forward tax losses of £21,899,000 (2012: £17,216,000). The Group has unrecognised capital losses carried forward of £281,875,386 (2012: £281,875,386). These losses may be carried forward indefinitely.

17 Stocks and work in progress

	Consolidated	
	2013	2012
	£'000	£'000
Stocks	**19**	20
	19	20

Stocks refers to 3D equipment purchased for resale, and are stated at the lower of cost and net realisable value.

18 Trade and other receivables

	Consolidated		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Amounts falling due within one year:				
Trade receivables	**8,939**	7,626	**–**	–
Accrued income	**5,575**	4,351	**–**	–
Amounts recoverable on contracts	**1,262**	510	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,479**	2,613
Corporation tax due to be refunded	**–**	8	**–**	–
Other receivables	**32**	57	**–**	–
Prepayments	**552**	492	**2**	6
	16,360	13,044	**3,481**	2,619
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	**–**	–	**93,008**	69,763
Total	**16,360**	13,044	**96,489**	72,382

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

£8,173,000 (2012: £7,626,000) of the Group's trade receivables, and £5,116,000 (2012 £4,176,000) 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 £9,904,000 (2012: £8,270,000).

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 income statement and are summarised below:

	Consolidated	
	2013 £'000	2012 £'000
Opening balance	**33**	87
(Decreases)/increases in provisions	**48**	(36)
Written off against provisions	**(42)**	(18)
Recovered amounts reversed	**(6)**	–
Closing balance	**33**	33

All balances provided at 31 December 2013 and 31 December 2012 were greater than 60 days old. The allowance account represents full provision against specific gross debts.

As at 31 December 2013 trade receivables of £1,146,000 (2012: £902,000) 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 Group trade receivables is as follows:

			2013			2012
	Gross	**Impaired**	**Total**	Gross	Impaired	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Not past due	**7,793**	**–**	**7,793**	6,724	–	6,724
31-60 days, and past due	**548**	**–**	**548**	605	–	605
61-90 days	**385**	**–**	**385**	211	–	211
>90 days	**246**	**(33)**	**213**	119	(33)	86
Total	**8,972**	**(33)**	**8,939**	7,659	(33)	7,626

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

19 Loans & Borrowings

	Consolidated 2013 £'000	Consolidated 2012 £'000
Non-current		
Finance lease liabilities	**–**	8
	–	8
Current		
Bank and other borrowings due within one year or on demand:		
Asset-based financing facility	**9,904**	8,270
Current portion of finance lease liabilities	**5**	13
	9,909	8,283

Finance lease liabilities

	Future minimum lease payments 2013 £'000	**Interest 2013 £'000**	**Present value of minimum lease payments 2013 £'000**	Future minimum lease payments 2012 £'000	Interest 2012 £'000	Present value of minimum lease payments 2012 £'000
Less than one year	**5**	**–**	**5**	13	1	12
Between one and two years	**–**	**–**	**–**	8	–	8
	5	**–**	**5**	21	1	20

Further details of the Group's banking facilities are given in note 22.

20 Trade and other payables

	Consolidated 2013 £'000	Consolidated 2012 £'000	Company 2013 £'000	Company 2012 £'000
Amounts falling due within one year:				
Payments in advance	**312**	165	**–**	–
Trade payables	**6,767**	5,365	**126**	–
Amounts due to subsidiary undertakings	**–**	–	**4,961**	2,209
Other tax and social security payables	**1,260**	1,412	**26**	23
Other payables and accruals	**2,048**	1,996	**125**	259
	10,387	8,938	**5,238**	2,491
Amounts falling due after one year:				
Amounts due to subsidiary undertakings	**–**	–	**89,806**	74,656
Other payables and accruals	**–**	500	**–**	–
Total	**10,387**	9,438	**95,044**	77,147

21 Provisions

Consolidated	Leasehold dilapidations £'000	Onerous leases £'000	Total £'000
At 1 January 2013	**141**	**629**	**770**
Created in year	186	528	714
Utilised in year	–	(516)	(516)
Unwind of discount	–	5	5
At 31 December 2013	**327**	**646**	**973**
Due within one year or less	317	578	895
Due after more than one year	10	68	78
Total	**327**	**646**	**973**
Company			
At 1 January 2013	**133**	**627**	**760**
Created in year	185	528	713
Utilised in year	–	(517)	(517)
Unwind of discount	–	5	5
At 31 December 2013	**318**	**643**	**961**
Due within one year or less	317	578	895
Due after more than one year	1	65	66
Total	**318**	**643**	**961**

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. Dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on all non-serviced properties. Based on current lease expiry dates it is estimated these provisions will be settled over a period of two to three 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 office space no longer occupied by the Group, and represents the excess of rents payable over rents receivable on sub-let office space. The total non-current amount provided of £68,000 is expected to fall within 2015.

22 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, trade and other payables and bank borrowings.

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

Consolidated	Amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 December 2013			
Financial assets			
Net cash and cash equivalents	**–**	**7,376**	**7,376**
Trade and other short term receivables	**–**	**15,808**	**15,808**
	–	**23,184**	**23,184**
Financial liabilities			
Asset-based financing facility	**9,904**	**–**	**9,904**
Finance Lease liabilities	**5**	**–**	**5**
Trade and other short term payables	**10,074**	**–**	**10,074**
	19,983	**–**	**19,983**
As at 31 December 2012			
Financial assets			
Net cash and cash equivalents	–	2,871	2,871
Trade and other short term receivables	–	12,544	12,544
	–	15,415	15,415
Financial liabilities			
Asset-based financing facility	8,270	–	8,270
Finance Lease liabilities	21	–	21
Trade and other short term payables	8,773	–	8,773
	17,064	–	17,064

22 Financial instruments – risk management continued

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

Company	Amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 December 2013			
Financial assets			
Non-current trade and other receivables	**–**	**93,008**	**93,008**
Net cash and cash equivalents	**–**	**37**	**37**
Trade and other short term receivables	**–**	**3,479**	**3,479**
	–	**96,524**	**96,524**
Financial liabilities			
Trade and other short term payables	**5,125**	**–**	**5,125**
Non-current trade and other payables	**89,806**	**–**	**89,806**
	94,931	**–**	**94,931**
As at 31 December 2012			
Financial assets			
Non-current trade and other receivables	–	69,763	69,763
Net cash and cash equivalents	–	2,362	2,362
Trade and other short term receivables	–	2,613	2,613
	–	74,738	74,738
Financial liabilities			
Trade and other short term payables	2,492	–	2,492
Non-current trade and other payables	74,656	–	74,656
	77,148	–	77,148

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 does not collect collateral to mitigate credit risk.

The Group operates exclusively in the UK. Approximately 53% (2012: 54%) of the Group's turnover is derived from the public sector. The largest customer balance represents 14% (2012: 20%) of the trade receivable 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 18.

	2013 Carrying value £'000	**Maximum exposure £'000**	2012 Carrying value £'000	Maximum exposure £'000
Financial assets				
Cash and cash equivalents	**7,376**	**7,376**	2,871	2,871
Trade and other receivables	**15,808**	**15,808**	12,544	12,544
Total financial assets	**23,184**	**23,184**	15,415	15,415

22 Financial instruments – risk management continued

Interest rate risk

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

It is 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 PNC 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 2013 and 2012 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 £78,000 higher/lower and net assets £78,000 higher/lower. 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 or 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 2013 or 2012.

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	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Sterling	**–**	–	**24,545**	23,931	**966**	966	**25,511**	24,897
Euro	**31**	1	**–**	–	**–**	–	**31**	1
US Dollar	**3**	23	**1,231**	1,225	**–**	–	**1,234**	1,248
Total net exposure	**34**	24	**25,776**	25,156	**966**	966	**26,776**	26,146

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

	Functional currency: Sterling	
	2013	2012
Net foreign currency financial assets	**£'000**	£'000
Sterling	**–**	–
Euro	**31**	–
US Dollar	**3**	23
Total net exposure	**34**	23

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 2 weeks to 30 days. 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.

22 Financial instruments – risk management continued

Foreign exchange risk continued

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

Consolidated **At 31 December 2013**	**Up to 1 month £'000**	**Over 1 month £'000**	**Total £'000**
Trade and other payables	**9,887**	**500**	**10,387**
Borrowings	**9,904**	**5**	**9,909**
Total	**19,791**	**505**	**20,296**

Consolidated **At 31 December 2012**	Up to 1 month £'000	Over 1 month £'000	Total £'000
Trade and other payables	8,938	500	9,438
Borrowings	8,270	21	8,291
Total	17,208	521	17,729

Company **At 31 December 2013**	**Up to 1 month £'000**	**Between 1 and 12 months £'000**	**Over 1 year £'000**	**Total £'000**
Trade and other payables	**5,238**	**–**	**89,806**	**95,044**
Borrowings	**–**	**–**	**–**	**–**
Total	**5,238**	**–**	**89,806**	**95,044**

Company **At 31 December 2012**	Up to 1 month £'000	Between 1 and 12 months £'000	Over 1 year £'000	Total £'000
Trade and other payables	2,491	–	74,656	77,147
Borrowings	–	–	–	–
Total	2,491	–	74,656	77,147

More detail on trade and other payables is given in note 20.

Capital disclosures

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders, and asset-based finance. There is no long-term external debt, except for a finance lease which the Group acquired through its purchase of Inition. The lease represents a liability of £5,000 and is repayable within one year. The Company is funded through equity and intercompany loans.

The Group uses an asset-based finance facility with PNC Business Credit, a member of The PNC Financial Services Group, Inc. The facility, which enables the Group to borrow against both trade debt and accrued income and provides for borrowing of up to £15.0m depending on the availability of appropriate assets as security.

On 15 January 2013 the Group issued 3,125,000 New Ordinary Shares at 20 pence per share. The issue price represented a discount of 7.0% to the closing middle market price on the 9 January 2013. Net proceeds from this issue amounted to £576,199. The proceeds have been used by management to fund the first earn-out in relation to the acquisition of Inition, and other transaction costs.

On 27 May 2013 the Group announced its proposal to delist to AIM and, at the same time, proposed a Placing of 25,925,926 New Ordinary Shares at a price of 27 pence per share, representing a discount of 23.4% to the closing share price on 16 May 2013. The Placing was completed on 5 July 2013. The net proceeds of £6,502,140 will be used by the Group to initiate its acquisition strategy in the digital media market.

The Group's and 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.

22 Financial instruments – risk management continued
Capital disclosures continued

	2013 £'000	2012 £'000
Cash and cash equivalents	**7,376**	2,871
Asset-based borrowings	**(9,904)**	(8,270)
Net Debt	**(2,528)**	(5,399)

The Board regularly reviews the adequacy of resources available and considers the options available to increase them. The asset-based borrowing facility contains certain externally imposed financial covenants which have been met throughout the period.

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

23 Reserves
The Board is not proposing a dividend for the year (2012: 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.

During 2013, the Group issued a total of 29,050,926 New Ordinary Shares. Following the issue of the shares, and also the exercising of 737,500 share options, the share capital increased from £15,755,829 to £16,351,588.

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.

Following the shares issued as exercised during 2013, the share premium increased from £26,637,869 to £33,183,314.

Other reserves of the Group of £44,160,000 comprise £30,440,000 created in the Group'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.

The difference between the Other Reserves of the Group (£44,160,000) and the Company (£22,729,000) relates to provisions for the impairment of investments.

Retained earnings represent 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 (2012: £351,000).

24 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 £226,000 (2012: £216,000).

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	**2013 %**	2012 %
Rate of increase of pensions in payment	**3.7% – 4.0%**	3.6%
Discount rate	**4.5%**	4.3%
Retail price inflation	**3.4%**	3.0%
Consumer price inflation	**2.4%**	2.2%

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

24 Pension commitments continued

Restated comparatives

In accordance with the revised IAS19, the assumption for future investment returns is the same discount rate (4.5%) used in calculating the pension liabilities. The restated 2012 amounts have also been calculated on this basis. The scheme's assets are invested in equities, gilts and bonds in approximately equal proportions.

The underlying mortality assumption used for 2013 is in accordance with the standard table known as S1PA_H or S1PA_L mortality, dependent on the size of each member's pension, using the CMI_2011 projection based on year of birth with a long term rate of improvement of 1.25% p.a. The 2012 assumption is based upon the standard table known as S1PA light using the CMI_2011 projection based on year of birth with a long term rate of improvement of 1.5% p.a.

Contribution holiday

In November 2010 the Group agreed a contribution holiday. Until November 2010 deficit reduction contributions were £900,000 per annum. Contributions resumed in January 2012, at the rate of £1,090,020 per annum. From 1 August 2013, contributions were reduced to £680,000 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

	2013 £'000	2012 £'000
Fair value of plan assets	**17,421**	16,620
Present value of funded obligations	**(19,591)**	(19,667)
At the end of the year	**(2,170)**	(3,047)

Reconciliation of plan assets

	2013 £'000	2012 Restated £'000	2012 £'000
At the beginning of the year	**16,620**	15,206	15,206
Expected return	**713**	716	695
Contributions by Group	**833**	1,090	1,090
Benefits paid	**(653)**	(833)	
Expenses met by scheme	**(58)**	–	(833)
Actuarial (loss)/gain	**(34)**	441	462
At the end of the year	**17,421**	16,620	16,620

Composition of plan assets

	2013 £'000	2012 £'000
Equities	**6,385**	5,938
Gilts	**5,389**	5,168
Bonds	**5,494**	5,287
Options in Parity Group plc	**96**	96
Cash	**57**	131
Total	**17,421**	16,620

Reconciliation of plan liabilities

	2013 £'000	2012 £'000
At the beginning of the year	**19,667**	17,673
Interest cost	**832**	811
Benefits paid	**(653)**	(833)
Actuarial (gain)/loss	**(255)**	2,016
At the end of the year	**19,591**	19,667

24 Pension commitments continued

Reconciliation of plan liabilities continued

The actuarial gain for the year of £255,000 (2012: loss of £2,016,000) in respect of plan liabilities is mainly as a result of the change in the mortality assumption in the period, which has decreased the value of the scheme liabilities.

The cumulative amount of actuarial losses recognised since 1 January 2002 in other comprehensive income is £6,169,000 (2012: £6,389,000). 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.

Amounts recognised in the consolidated income statement

	2013 £'000	2012 Restated £'000	2012 £'000
Included in Finance Income			
Expected return on plan assets	**655**	716	695
Included in Finance Costs			
Unwinding of discount on plan liabilities (interest cost)	**832**	811	811

The actual return on plan assets was £679,000 (2012: £1,157,000). This represents the sum of the expected return on assets and the actuarial gain.

Defined benefit obligation trends

	2013 £'000	2012 Restated £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Plan assets	**17,421**	16,620	16,620	15,206	14,550	13,261
Plan liabilities	**(19,591)**	(19,667)	(19,667)	(17,673)	(16,975)	(16,587)
Deficit	**(2,170)**	(3,047)	(3,047)	(2,467)	(2,425)	(3,326)
Experience adjustments on assets	**(34)**	441	462	755	529	206
	(0.2%)	2.7%	2.9%	5.2%	3.7%	1.6%
Experience adjustments on liabilities	**(255)**	2,016	2,016	674	321	(169)
	(1.3%)	11.4%	11.4%	4.0%	1.9%	(1.0%)

25 Share capital

Authorised share capital

	Ordinary shares 2p each		**Deferred shares of 0.04p each**		**Total**
	2013 number	**2013 £'000**	**2013 number**	**2013 £'000**	**2013 £'000**
Authorised at 1 January	**409,044,603**	**8,181**	**35,797,769,808**	**14,319**	**22,500**
Authorised at 31 December	**409,044,603**	**8,181**	**35,797,769,808**	**14,319**	**22,500**

Issued share capital

	Ordinary shares 2p each		**Deferred shares of 0.04p each**		**Total**
	2013 number	**2013 £000**	**2013 number**	**2013 £000**	**2013 £000**
Issued and fully paid at 1 January	**71,835,594**	**1,437**	**35,797,769,808**	**14,319**	**15,756**
New Issue (fully paid)	**29,050,926**	**581**	**–**	**–**	**581**
Share options exercised	**737,500**	**15**	**–**	**–**	**15**
Issued and fully paid at 31 December	**101,624,020**	**2,033**	**35,797,769,808**	**14,319**	**16,352**

On 15 January 2013 the Group issued 3,125,000 New Ordinary Shares at 20 pence per share. Net proceeds from this issue amounted to £576,199.

On 5 July 2013 the Group completed a Placing of 25,925,926 New Ordinary Shares at a price of 27 pence per share, generating net proceeds of £6,502,140.

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.

Shares held by ESOP/Treasury Shares	**2013 Number**	2012 Number
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.

26 Operating lease commitments

Operating leases – lessee

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

	Land and buildings 2013 £'000	**Plant and machinery 2013 £'000**	Land and buildings 2012 £'000	Plant and machinery 2012 £'000
Continuing operations				
Amounts payable:				
Within one year	**1,098**	**40**	1,248	51
Between two and five years	**474**	**19**	1,062	71
	1,572	**59**	2,310	122

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:

	Land and buildings 2013 £'000	Land and buildings 2012 £'000
Continuing operations		
Amounts receivable:		
Within one year	**339**	522
Between two and five years	**146**	484
	485	1,006

27 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.

28 Key management remuneration

Key management comprises the Board of Directors. The total remuneration received by key management for 2013 was £1,151,000 (2012: £896,000). 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.

	2013 £'000	2012 £'000
Salary and fees	**882**	660
Other short term benefits	**42**	28
Post employments benefits	**45**	180
Compensation for loss of office	**148**	–
Share-based payments	**34**	28
	1,151	896

29 Related party transactions

Consolidated

During the period the Group transacted with one entity over which one of the Group's directors had control or significant influence, as follows:

		Transaction value		Balance outstanding	
		2013	2012	**2013**	2012
Director	Transaction	**£'000**	£'000	**£'000**	£'000
D. Courtley	IT interim recruitment	**152**	–	**37**	–

The Group provided IT contractors to Mozaic Services Limited, a company that is significantly influenced by Mr D Courtley. Amounts were billed at normal market rates for such services, and were due and payable under standard client payment terms.

Company

Details of the Company's holding in Group undertakings are given in note 30. The Company entered into transactions with other Group undertakings as shown in the table below.

	Operating costs 2013 £'000	**Finance income 2013 £'000**	**Finance expense 2013 £'000**	Operating costs 2012 £'000	Finance income 2012 £'000	Finance expense 2012 £'000
Amounts incurred from Group subsidiaries	**(721)**	**–**	**(978)**	(719)	–	(795)
Amounts charged to Group subsidiaries	**–**	**738**	**–**	–	394	–

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

	2013 £'000	2012 £'000
Amounts owed by subsidiary undertakings		
Falling due within one year (note 18)	**3,479**	2,613
Falling due after one year (note 18)	**93,008**	69,763
Amounts due to subsidiary undertakings		
Falling due within one year (note 20)	**(4,961)**	(2,209)
Falling due after one year (note 20)	**(89,806)**	(74,656)

During the year, other related party transactions were as follows:

Related party relationship	**Type of transaction**	**Transaction Amount 2013 £'000**	Transaction Amount 2012 £'000
Directors	Purchase of Group shares	**10**	–

30 Subsidiaries

The principal subsidiaries of Parity Group plc, which have been included in these consolidated financial statements, are Parity Resources Limited, Parity Solutions Limited and Inition Limited. Parity Resources Limited and Parity Solutions Limited are wholly owned by Parity Holdings Limited and incorporated in the United Kingdom. Inition Limited is wholly owned by Parity Digital Solutions Limited and is incorporated in the United Kingdom. Parity Digital Solutions Limited is a direct subsidiary of Parity Holdings Limited, and 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. Inition Limited specialises in 3D solutions and equipment.

The Company's investment in subsidiaries was reviewed for impairment at the yearend based on the performance of 2013 and on subsequent years forecast projections. A discounted future cash flow method was employed for the review. As a result of this review, no provision was deemed necessary, leaving a carrying value of £20,527,000 (2012: £20,527,000). The assessment was performed on a value in use basis using discount rates of between 6.8% and 11.9% (2012: between 6.1% and 7.7%) and the other parameters used in the goodwill impairment review, as outlined in note 14.

A full list of the Group's subsidiaries can be obtained at the address below:

Company Secretary
Parity Group plc
Wimbledon Bridge House
1 Hartfield Road
Wimbledon
London
SW19 3RU

Corporate information

Registered office
Wimbledon Bridge House
1 Hartfield Road, Wimbledon
London, SW19 3RU
Tel: 0845 873 0790
Fax: 020 8545 6355
Registered in England & Wales No. 3539413

Registrars
Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex, BN99 6DA
Tel: 0870 600 3964
Fax: 0870 600 3980

Equiniti offer a range of information on-line. You can access information on your shareholding, indicative share prices and dividend details and find practical help on transferring shares or updating your details at **www.shareview.co.uk**

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

Investor relations
MHP Communications
60 Great Portland Street
London
W1W 7RT
Tel: 020 3128 8100

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**

The Company Secretary
Parity Group plc
Wimbledon Bridge House
1 Hartfield Road, Wimbledon,
London, SW19 3RU

Or by email to: **cosec@parity.net**

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KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Bankers

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9th Floor	8-14 The Broadway
280 Bishopsgate	Hayward's Heath
London	West Sussex
EC2M 4RB	RH16 3AP

Nominated advisors & brokers
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2 Gresham Street
London
EC2V 7QP

Solicitors
Pinsent Masons
30 Crown Place
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EC2A 4ES

Parity has offices in:
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Camberley
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For all general enquires call 0845 873 0790

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