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Parity plc

PARITY

Annual Report and Accounts 1994

The New Force in UK Information Technology Services

Parity plc is a new kind of value-for-money IT services company. Our innovative approach is designed to enable clients to control IT expenditure whilst gaining genuine added value for their businesses.

Contents

Financial Highlights

Year ended 31 December	1994	1993	1992
Turnover	**£88.8m**	£19.8m	£11.1m
Profit before tax and exceptional items	**£4.2m**	£0.6m	£0.4m
Adjusted earnings per share	**7.19p**	3.73p	3.70p
Dividends per share	**1.75p**	1.5p	1.5p
Gearing	**Nil**	Nil	Nil
Number of employees	**595**	159	42

Chairman's Statement

Parity plc made excellent progress in its first full reporting year since the change in strategic direction in 1993. The main trading activity during the year was the provision of contract IT staff and was carried out by CSS Trident - one of the leading UK agencies. CSS Trident had been acquired towards the end of 1993.

In the summer of 1994 we acquired Class Limited and the consulting business of LBMS for a total of £2.3 million. Subsequently, in November 1994 we raised £5.7 million (net) by way of a 1 for 7 placing and open offer to help finance the acquisition of BIS Training and ACT Business Systems for a total of £8.3 million. Our 1994 acquisitions have been merged to create our second main trading business, Parity Solutions, which contains Consulting, Training and Systems divisions.

Results

CSS Trident had a very good year with increased turnover, profits and order book. As anticipated Parity Solutions made a small positive contribution to profits in the period in which the acquisitions were within the Group.

Turnover for the twelve months was £88.8 million (1993 - £19.8 million) and profit before taxation increased to £4.2 million (1993 - £0.6 million, before exceptional charges of £0.8 million). Parity Solutions contributed £7.0 million and £0.1 million respectively to these results.

Earnings per share increased by 93% to 7.2 pence (1993 - 3.7 pence before exceptional items).

Cash balances at 31 December 1994 stood at £2.8 million (1993 - £3.4 million).

Chairman's Statement

Proposed Final Dividend
The Board has recommended a final dividend of 1.0p (net) per share (1993 - nil) payable on 6 July 1995 to shareholders on the register at the close of business on 26 May 1995. This payment will bring the total dividend for the year to 1.75p (net) per share (1993 - 1.5p). The shares will be marked ex-dividend on 9 May 1995.

Directors
In March 1994 I was appointed non-executive Chairman of your Board and in April we were delighted when Sir Thomas Stonor accepted our invitation to become a non-executive director of the Company. We are seeking to appoint a further non-executive Director in 1995, which will complete our full compliance with the Cadbury Code.

At the end of the year Philip Swinstead, who has been our Chief Executive during this formative phase, was appointed Executive Deputy Chairman of Parity plc which better reflects his strategic role in the Company. Group Managing Director, Paul Davies, continues to run the Company's operations as he did throughout 1994, with Richard Farr as Group Finance Director. In October 1994 Ian Scoggins moved to a new role as International Director, looking at opportunities for expansion abroad.

Strategic Progress
The IT agency industry in the UK is undergoing a radical restructuring with the emergence of a few large players including our own CSS Trident. Our strategic plan predicted this coming of age of the agency industry and its increasing share of the professional staff resourcing market.

Our strategy envisages a new kind of highly competitive IT services group including both contract agency and solutions businesses. In 1995 we shall be relaunching the acquired businesses under the Parity Solutions banner, and creating the marketing, operational and financial infrastructure necessary for the future growth of this business.

Current Trading and Prospects
The first quarter's results show that we have made a very promising start to 1995 in a good market for IT services. CSS Trident is a high quality growth business and has performed strongly in buoyant market conditions. It is also encouraging that even during a period of restructuring, Parity Solutions has produced very good profits from our consultancy, training and systems business. We look forward to the rest of this year and beyond with increasing confidence.

We continue to believe that Parity is in an excellent position to take advantage of a growing IT services market having a unique competitive edge due to its balance of permanent and contract IT professionals. Whilst we have created the fundamental trading structure demanded by our strategy, we shall continue to consider acquisition opportunities which offer both good value and strategic enhancement.

Billy Carbutt
Chairman
13 April 1995

Chief Executive's Report

Our good trading performance in 1994 reflected the organic growth and much improved operational efficiency of our main trading subsidiary CSS Trident, a leading UK agency for the provision of contract information technology specialists. Market conditions in the agency sector improved in 1994 after several years of low growth.

CSS Trident significantly increased both its revenues and its profits in the year, producing the underlying organic growth which nearly doubled the earnings per share of the Group. There was a continued trend towards the selection of preferred suppliers by major clients, which favours the few larger agencies created by the acquisitions activity seen in the industry in the last two years. At the year end the business had six main offices supporting some 450 clients. CSS Trident's carefully maintained contractor database currently contains details on over 70,000 IT professionals of which on average some 25,000 are updated in any three month period.

A number of initiatives were put in place during the year by Ron Moss, CSS Trident's Managing Director, to add value to the agency's services. These included focussed sector sale units, further improvements to the speed and quality of our response to client requirements and a Certified Software Specialist scheme in which we certify a contractor's qualifications and experience, and take up references from previous assignments. He also realigned the business in continental Europe to focus on Benelux and Switzerland, where the labour leasing laws make it easier to operate as an agency than elsewhere in Europe.

In the second half of 1994 Parity acquired other IT-related services needed to meet its strategic objectives. We bought the consultancy division of LBMS which combined both management and technical consultancy, and this was renamed Parity Consulting. The CLASS training business was also purchased mid-year to start Parity Training.

Chief Executive's Report

In November we completed the purchase of BIS Training and ACT Business Systems (ABS). The main part of ABS was a well established systems and software development business which became Parity Systems. The consultancy business within ABS became part of Parity Consulting. BIS Training moved into Parity Training with both BIS and CLASS still retaining their well known brand names in the IT training industry.

Following these acquisitions we created Parity Solutions, the second main trading subsidiary of the Group, alongside CSS Trident. Parity Solutions includes the Parity Systems, Parity Consulting and Parity Training divisions.

During the year we had been preparing for these moves by bringing in senior managers including Keith Jennings who was appointed Managing Director of Parity Solutions in December. It was clear that Parity Solutions could not support the level of non fee-earning staff that had been inherited and to our regret it was necessary to reduce staff numbers at once. This allowed both the creation of sensible budgets for 1995 and the restructuring of the sales methodology to allow our senior professional staff to be more closely in touch with clients.

One of the key business indicators on which we concentrate in our operations is the flow-through of profits into cash. We generated £4.5 million of cash from our operations during the year, more than our pre-tax profits of £4.2 million, even though our working capital requirement increased as we grew. At the year end we had cash balances of £2.8 million. Over the last two years we have written off all the goodwill generated from our various acquisitions amounting to £29 million. Looking ahead, our lack of gearing will allow us to consider, from our own resources, any small acquisitions which enhance the capabilities of our trading companies.

We have made net provisions of £3.5 million in 1994 to provide for restructuring of our acquisitions and to bring their accounting policies into line with our own. These costs were expected in principle and were a main discussion point in the final stages of the negotiation to purchase ABS. The net cash cost of these provisions is under £2 million, all of which has been generated from the balance sheet of ABS. Most of this had been spent by the end of the first quarter of 1995.

We are a people company and the continued success of the business depends on our staff. We are fortunate to have such high calibre individuals. I would like to thank all our employees for the excellent 1994 results and the good start to 1995. It is the determination of our very capable management, the cheerful efficiency of our administrative functions and the enthusiasm shown by our professional staff that has made this possible and which bodes well for our future. As a management team we are committed to the continued involvement of all our staff in both strategic and tactical matters relating to the business.

Parity now offers the range of services envisaged when we embarked on our new strategy in June, 1993. There is no doubt that the market for these services has improved in 1995, and we have every intention of taking advantage of this as we continue to build a major IT services business.

Philip Swinstead
13 April 1995

Directors and Advisers

DIRECTORS

Francis Carbutt FCA*+
Non-executive Chairman
Francis (Billy) Carbutt (aged 59) was appointed a non-executive Director and Chairman on 1 March 1994. He was a senior partner at Ernst & Young until June 1994. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a past member of the Institute's Parliamentary and Law Committee.

Sir Thomas Stonor KCB*+
Non-executive
Sir Thomas (aged 59) was appointed a Director on 20 April 1994. He retired from the Royal Air Force in 1991. In 1988 he was promoted to Air Marshal and appointed Controller of the National Air Traffic Services and Group Director of the Civil Aviation Authority.

Philip Swinstead OBE*
Executive Deputy Chairman
Aged 51, founder of SD-Scicon plc which became one of Europe's leading software companies. He is a non-executive director of Ivory and Sime Enterprise Capital Trust.

Paul Davies
Group Managing Director
Aged 46, he was previously Managing Director of Easams, a division of GEC. Before this he ran the systems integration business of SD-Scicon plc. His earlier career was in Plessey, Philips and as Project Director of a Babcock International Group PLC subsidiary.

Richard Farr FCA
Group Finance Director
Aged 37, he qualified with Price Waterhouse in 1981. Prior to joining the Company he was Group Finance Director of Western Motor Holdings PLC, Babcock Prebon plc and Fulton Prebon Group Limited.

Ian Scoggins*+
International Director
Aged 58, he was Marketing Director of SD-Scicon plc from 1976 to 1991, following a career in the RAF and Ministry of Defence. In October 1994 he was appointed International Director.

*Member of the Audit Committee
+Member of the Remuneration Committee

Directors and Advisers

SECRETARY AND
REGISTERED OFFICE

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Victoria
London SW1W 0DH

Registered no. 1146236

ADVISERS

Auditors
Price Waterhouse
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32 London Bridge Street
London SE1 9SY

Merchant Bankers
Samuel Montagu & Co. Ltd.
10 Lower Thames Street
London EC3R 6AE

Bankers
Lloyds Bank Plc
Black Horse House
Progression Centre
42 Mark Road
Hemel Hempstead
Hertfordshire HP2 2DW

Stockbrokers
James Capel & Co. Limited
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Solicitors
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
West Midlands B63 3DA

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 1994.

Group Results

The Group made a profit for the year before taxation of £4,176,000 (1993 - Loss £228,000). After provision for tax of £1,471,000 and dividends paid and proposed of £694,000, profit retained for the financial year amounted to £2,011,000 and has been transferred to reserves.

Dividends

The Directors recommend a final dividend of 1.0p (1993 - nil) net per Ordinary share. The total dividend for the year will amount to 1.75p per share (1993 - 1.5p).

Principal Activities

The Group's principal activity during the year was the provision of services to the IT industry. A review of the business and future developments are contained within the Chief Executive's Report on pages 4 and 5.

Acquisitions during the Year

Financial details of these transactions are given in note 24 on pages 29 to 31.

Tangible Fixed Assets

The changes in tangible fixed assets during the year are summarised in note 12 to the financial statements.

Corporate Governance

The Board of Directors has carried out a full review of the Company's compliance with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance so far as it applies to the Company at 31 December 1994.

The results of this review indicated that the Company's systems of Corporate Governance were sound for a company of its size and complexity. There were some aspects of the Code with which the Company was not in full compliance which principally relate to the number of non-executive Directors on the Board.

The Company had no non-executive Directors following the death of our previous Chairman, Mr. Bernard Friend, in December 1993 until the appointment of Mr. Carbutt on 1 March 1994. A further non-executive Director, Sir Thomas Stonor was appointed on 20 April 1994. Whilst the Company therefore now fully complies with the CISCO recommendations on Corporate Governance, it intends to appoint a further non-executive Director during 1995 enabling it to comply fully with the requirements of the Cadbury Code relating to the Audit and Remuneration Committees.

The auditors have reported to the Board that in their opinion the Directors' statement on going concern on page 11 has provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and is not inconsistent with the information which came to their attention as a result of their audit work on the financial statements; and that the Directors' statement in the paragraph above appropriately reflects the Company's compliance with the other paragraphs of the Code specified for their review. Price Waterhouse were not required to perform the additional work necessary to and did not express any opinion on the effectiveness of the Company's corporate governance procedures nor on the ability of the Company to continue in operational existence.

Board of Directors

The names of the current Directors of the Company are shown on page 6. Mr P.E. Swinstead and Mr I.M. Scoggins, who are required to retire by rotation, and Mr F. Carbutt and Sir Thomas Stonor, who, as non-executive Directors, retire each year, will seek re-election at the forthcoming Annual General Meeting.

Directors' Report

Mr. Swinstead, Mr. Farr and Mr. Davies have service contracts with the Company terminable by either party on giving not less than 12 months notice. Mr. Scoggins has a fixed term contract expiring on 31 December 1996.

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

Directors' Interests

The Directors' interests in the Ordinary share capital of the Company at 31 December 1994 were as follows:

	At 31 December 1994 Beneficial interests in Ordinary shares	At 31 December 1993 or at date of appointment Beneficial interests in Ordinary shares	**At 31 December 1994 Outstanding options in Ordinary shares**	At 31 December 1993 or at date of appointment Outstanding options in Ordinary shares
F. Carbutt	14,285	-	-	-
Sir Thomas Stonor	-	-	-	-
P.E. Swinstead	3,055,000	3,055,000	250,000	-
I.M. Scoggins	-	-	250,000	250,000
R.E. Farr	-	-	500,000	250,000
P. Davies	-	-	500,000	250,000

On 5 January 1995 Sir Thomas Stonor acquired 2,000 Ordinary shares in the Company. There has been no other change in the Directors' interests between 31 December 1994 and 13 April 1995.

Details of options granted to Directors are as follows:

	Date of grant	Number	Exercise Price
I.M. Scoggins	2 November 1993	250,000	85p
R.E. Farr	2 November 1993	250,000	85p
P. Davies	23 November 1993	250,000	93p
P.E. Swinstead	10 November 1994	250,000	135p
R.E. Farr	10 November 1994	250,000	135p
P. Davies	10 November 1994	250,000	135p

The Executive share options shown in the table above may be exercised between 3 years and 10 years after the date on which they were granted. All options were issued at no cost and no options lapsed during the year.

The market price of the Company's shares at 31 December 1994 was 126p. The Company's shares traded at a market price between 90p and 143p during 1994.

Details of Phantom options granted to Directors are as follows:

	Date of grant	Number	Exercise price	Maximum value if exercised
I.M. Scoggins	29 June 1993	150,000	60p	25p
P. Davies	23 November 1993	250,000	85p	8p

The share options shown in the table above are notional ("Phantom") options and when exercised will result in the Directors receiving a cash sum rather than shares in the Company. The Phantom options are exercisable only at the time that the individuals exercise their related Executive share options. The cash payments will be restricted to the lower of either the excess of the market value of the Company's shares over the Phantom share option price or the difference between the exercise price of the Phantom share options and that of the related Executive share options.

Directors' Report

Principal Shareholders

Other than the Directors, the Board is not aware of any person who was interested in three per cent or more of the issued share capital of the Company at 28 March 1995 apart from the following:

	Number of ordinary 5p shares	Percentage held
PDFM Limited	6,304,057	15.0%
Samuel Montagu & Co. Limited	3,857,474	9.2%
William John Ashdown Sharpe	2,059,382	4.9%
Allied Colloids Pension Trustees Company Limited	1,761,000	4.2%
Nutraco Nominees Limited	1,738,569	4.2%
Chase Nominees Limited	1,509,462	3.6%
Nortrust Nominees Limited	1,286,222	3.1%

Employment Policies

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate the very best staff regardless of sex, race, religion or disability. Good and effective employee communications are particularly important, and it is the Group's policy to promote the understanding and involvement of all its employees in the Group's business aims and performance.

Share Option Schemes

Believing that employee share ownership is an important contributor to employee involvement in the business, the Company announced on 23 February 1994 the introduction of a Sharesave Scheme for all its UK employees. On 14 March 1994 at an Extraordinary General Meeting of the Company, the Parity plc Sharesave Scheme 1994 was approved. On 7 November 1994 at an Extraordinary General Meeting of the Company, the Parity plc 1994 Executive Share Option Scheme was approved. In addition the Company has established the Parity plc Employee Benefit Trust, the purpose of which is to allow senior managers to participate in an option scheme over shares acquired by the Trust in the open market, in accordance with the rules approved by the Shareholders on 7 November 1994.

Contributions for Charitable and Political Purposes

The Group's contribution for charitable purposes during 1994 was £700 (1993 - £500).

No payments were made for political purposes.

Close Company Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

Directors' Report

Directors' and Officers' Liability Insurance

The Company purchases liability insurance covering the Directors and Officers of the Company and its subsidiaries.

Auditors

A resolution to re-appoint Price Waterhouse as auditors will be put to the members at the Annual General Meeting.

By order of the board

D.S.P. Firth ACA
Secretary
13 April 1995

Statement of Directors' Responsibilities

The Directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the results for the year. In preparing the accounts, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed. The Directors have satisfied themselves from internal forecasts and available bank facilities that the Group continues as a going concern.

The Directors are also responsible for ensuring proper procedures exist for the maintenance of adequate accounting records, for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities. To this end the Company has established financial control standards. Annual budgets are prepared and approved by the Directors, and the Directors have reserved capital expenditure and treasury authority levels to the Board and its delegated committees. The Group operates a system of regular monthly reporting including profit and cash forecasts. The Audit Committee review the financial controls and reporting of the Group.

Group Profit and Loss Account

for the year ended 31 December 1994

	Notes	1994 £'000	1993 £'000
Turnover			
Continuing operations		81,842	9,904
Acquisitions		6,949	9,864
	2	88,791	19,768
Operating Costs*	3	(84,751)	(19,902)
Operating Profit/(Loss)			
Continuing operations		3,976	(524)
Acquisitions		64	390
Operating Profit/(Loss)		4,040	(134)
Amounts written off investments		-	(62)
Net interest receivable/(payable)	8	136	(32)
Profit/(Loss) on Ordinary Activities before Taxation		4,176	(228)
Taxation on Ordinary Activities	9	(1,471)	32
Profit/(Loss) on Ordinary Activities after Taxation		2,705	(196)
Dividends	10	(694)	(96)
Retained Profit/(Loss) for the Financial Year		2,011	(292)
Earnings/(Loss) per Ordinary share	11	7.19p	(1.88p)
Adjusted Earnings per Ordinary share	11	7.19p	3.73p

*In 1993 there were exceptional items of £773,000 included in operating costs which principally related to the reorganisation following the management buy-in and in particular to the integration of the Comac agency business into CSS Trident, details of which are given in note 4 on page 19.

The difference between recognised gains and losses reported in the profit and loss account and the total recognised gains and losses amounts to £50,000 of exchange gains (1993 - £2,000 losses) which have been taken directly to reserves.

Group Balance Sheet

at 31 December 1994

	Notes	1994 £'000	1993 £'000
Fixed Assets			
Tangible assets	12	3,334	1,491
		3,334	1,491
Current Assets			
Deferred taxation recoverable in more than one year	14	1,358	419
Debtors	15	21,372	10,685
Cash at bank and in hand	16	2,849	3,920
Cash on restricted deposit account	16	10,214	9,964
		35,793	24,988
Creditors: amounts falling due within one year			
Variable rate loan notes payable	17	(10,121)	(9,964)
Other creditors	18	(18,581)	(6,103)
		(28,702)	(16,067)
Net Current Assets		7,091	8,921
Total Assets less Current Liabilities		10,425	10,412
Creditors: amounts falling due after more than one year	19	(2,000)	(438)
Provisions for Liabilities and Charges	20	(2,319)	(1,410)
		6,106	8,564
Capital and Reserves			
Called up share capital	21	2,094	1,828
Share premium account	22	6,249	25,189
Other reserves	22	(3,972)	(18,127)
Profit and loss account	22	1,735	(326)
		6,106	8,564

Approved by the Board of Directors on 13 April 1995

R.E. Farr, FCA
Group Finance Director

Company Balance Sheet

at 31 December 1994

	Note	1994 £'000	1993 £'000
Fixed Assets			
Tangible assets	*12*	232	116
Investments	*13*	26,372	20,231
		26,604	20,347
Current Assets			
Deferred taxation recoverable in more than one year	*14*	16	145
Debtors	*15*	11,026	4,827
Cash at bank and in hand	*16*	690	3,540
Cash on restricted deposit account	*16*	10,214	9,964
		21,946	18,476
Creditors: amounts falling due within one year			
Variable rate loan notes payable	*17*	(10,121)	(9,964)
Other creditors	*18*	(1,572)	(1,276)
		(11,693)	(11,240)
Net Current Assets		10,253	7,236
Total Assets less Current Liabilities		36,857	27,583
Creditors: amounts falling due after more than one year	*19*	(2,000)	(23)
Provisions for Liabilities and Charges	*20*	(28)	(114)
		34,829	27,446
Capital and Reserves			
Called up share capital	*21*	2,094	1,828
Share premium account	*22*	6,249	25,189
Special reserve	*22*	25,189	-
Profit and loss account	*22*	1,297	429
		34,829	27,446

Approved by the Board of Directors on 13 April 1995

R.E. Farr, FCA
Group Finance Director

Group Cash Flow Statement

for the year ended 31 December 1994

	Notes	1994 £'000	1993 £'000
Net Cash Flow from Operating Activities	5	4,517	116
Returns on Investments and Servicing of Finance			
Interest received		686	38
Interest paid		(541)	(60)
Finance lease interest paid		(9)	(10)
Dividends paid		(370)	(96)
Net Cash Outflow from Returns on Investments and Servicing of Finance		(234)	(128)
Taxation Paid		(746)	(249)
Investing Activities			
Purchase of tangible fixed assets		(551)	(82)
Sale of tangible fixed assets		136	-
Purchase of subsidiary undertakings	24	(5,953)	(7,669)
Settlement of amounts due by subsidiary undertakings	24	(3,824)	-
Establishment of restricted deposit account		(250)	(9,964)
Net Cash Outflow from Investing Activities		(10,442)	(17,715)
Net Cash Outflow before Financing		(6,905)	(17,976)
Financing			
Issue of Ordinary shares		6,437	21,334
Repayment of borrowings		(22)	(500)
Repayment of capital elements of finance lease rentals		(67)	(25)
Net Cash Inflow from Financing		6,348	20,809
(Decrease)/Increase in Cash and Cash Equivalents	16	(557)	2,833

Reconciliation of Movements in Shareholders' Funds

	1994 £'000	1993 £'000
Profit/(Loss) for the year attributable to shareholders	2,705	(196)
Dividends	(694)	(96)
Retained earnings/(losses)	2,011	(292)
Other recognised gains/(losses)	50	(2)
Share capital issued	6,515	25,780
Goodwill on acquisitions deducted from reserves	(11,034)	(18,127)
Net (decrease)/increase in shareholders' funds	(2,458)	7,359
Shareholders' funds at the start of the year	8,564	1,205
Shareholders' funds at the end of the year	6,106	8,564

Notes to the Accounts

at 31 December 1994

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The consolidated financial statements incorporate the results of Parity plc and its subsidiary undertakings drawn up to 31 December each year.

In the Company's financial statements, investments in subsidiaries are stated at historical cost less provision for any permanent diminution in value.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal. On the acquisition of a business or of an interest in an associated undertaking, the acquisition cost is allocated to the fair value of net tangible assets acquired after adjustments to bring accounting policies into line with those of the Group.

Goodwill arising on the acquisition of businesses and interests in associated undertakings is calculated by reference to the fair value of net assets acquired and is deducted from reserves.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within the profit and loss account caption to which they relate, and are separately disclosed either in the notes or on the face of the profit and loss account.

Depreciation

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

Leasehold improvements	between 5 and 10 years
Motor vehicles	25% per annum
Office equipment	20% per annum

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Foreign currencies

The profit and loss accounts of overseas subsidiary and associated undertakings are translated into Sterling at average rates of exchange. Balance sheets are translated at closing rates.

Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas subsidiary and associated undertakings, together with the year end adjustment to closing rates of profit and loss accounts translated at average rates, are taken to reserves.

Exchange differences arising in the normal course of trading and on the translation of monetary assets and liabilities are dealt with in the profit and loss account.

Notes to the Accounts

at 31 December 1994

1. ACCOUNTING POLICIES *(continued)*

Leasing and hire purchase commitments
Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

Surplus properties
When the Group has leasehold properties which are surplus to its requirements both now and in the foreseeable future, provisions are made against their net future costs.

Pensions
Contributions in respect of defined contribution schemes are charged to the profit and loss account when incurred. Amounts in respect of employers' contributions to defined benefit schemes are charged to the profit and loss account on a basis which spreads the costs over the service lives of scheme members.

2. GEOGRAPHICAL ANALYSIS

The Group has one principal activity, being the provision of information technology services. All activities are sourced from the United Kingdom.

Turnover represents the amounts derived from the provision of both permanent and contract computer consultants which fall within the Group's ordinary activities, stated net of value added tax.

The analysis of turnover by destination which is all to third parties is as follows:

	Continuing Operations £'000	**Acquisitions £'000**	**Total 1994 £'000**	Continuing Operations £'000	Acquisitions £'000	Total 1993 £'000
United Kingdom	70,736	6,949	77,685	7,284	8,667	15,951
Continental Europe	11,106	-	11,106	2,620	1,197	3,817
	81,842	6,949	88,791	9,904	9,864	19,768

Notes to the Accounts

at 31 December 1994

3. OPERATING COSTS

	Continuing Operations £'000	Acquisitions £'000	Total 1994 £'000	Continuing Operations £'000	Acquisitions £'000	Total 1993 £'000
Staff costs						
- wages and salaries	5,294	3,259	8,553	1,043	735	1,778
- social security costs	498	306	804	95	75	170
- other pension costs	123	118	241	47	17	64
Depreciation of assets						
- held under finance leases and hire purchase contracts	13	3	16	18	9	27
- other tangible fixed assets	311	160	471	13	18	31
Auditors' remuneration	54	45	99	40	10	50
Operating lease rentals						
- plant and machinery	68	311	379	57	1	58
- land and buildings	529	298	827	52	77	129
Exchange (gains)/losses	(24)	-	(24)	28	30	58
Rent receivable	-	-	-	-	(31)	(31)
Other operating costs	71,000	2,385	73,385	9,143	8,425	17,568
	77,866	6,885	84,751	10,536	9,366	19,902

In addition to audit services, an amount of £315,000 was paid to the Company's auditors for services relating to the acquisitions made in the year.

In 1993 central overheads of £216,000 remained unallocated. For the purposes of comparability these costs have now been allocated between continuing operations and acquisitions on the basis of turnover.

4. EXCEPTIONAL ITEMS

	1994 £'000	1993 £'000
Redundancies	-	383
Reorganisation costs	-	336
Overseas payroll taxes	-	54
Exceptional operating costs	-	773
Amounts written off investments	-	62
Total	-	835

Exceptional items principally related to the reorganisation following the management buy-in in June 1993 and in particular to the integration of the Comac agency business into CSS Trident. The exceptional operating costs are included within other operating costs under Continuing Operations in note 3 above.

Notes to the Accounts

at 31 December 1994

5. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH FLOW

	1994 £'000	1993 £'000
Operating profit/(loss)	4,040	(134)
Depreciation	487	58
Loss on disposal of tangible fixed assets	27	60
(Increase)/Decrease in debtors	(663)	667
Increase/(Decrease) in creditors	936	(590)
Increase in provisions	33	114
Utilisation of provisions	(343)	(59)
Net cash flow from operating activities	4,517	116

Included in net cash flow for 1993 was £175,000 relating to the exceptional items referred to in note 4.

6. DIRECTORS' EMOLUMENTS

	1994 £'000	1993 £'000
Basic salaries	331	305
Performance related bonuses	231	-
Directors' fees	23	10
Benefits in kind	31	10
Pension contributions	15	14
National insurance	64	24
Compensation for loss of office	79	92
Total emoluments	774	455
Emoluments of the Chairmen:		
Mr. M.J. Teacher until 14 June 1993	-	8
Mr. B.E. Friend until 23 December 1993	-	10
Mr. P.E. Swinstead until 28 February 1994	-	-
Mr. F. Carbutt from 1 March 1994	12	-
None of the Chairmen were entitled to performance related bonuses or pension contributions.		
Emoluments of the highest paid Director:		
Remuneration	87	82
Performance related bonus	56	-
Compensation for loss of office	79	-
Total	222	82

The emoluments (excluding pension contributions) of the other Directors fell within the following ranges:

	1994 Number	1993 Number
£ 10,001 - £ 15,000	1	-
£ 15,001 - £ 20,000	-	2
£ 20,001 - £ 25,000	-	1
£ 35,001 - £ 40,000	-	1
£ 45,001 - £ 50,000	-	2
£ 55,001 - £ 60,000	-	1
£ 60,001 - £ 65,000	-	1
£110,001 - £115,000	1	-
£160,001 - £165,000	1	-
£170,001 - £175,000	1	-

Notes to the Accounts

at 31 December 1994

6. DIRECTORS' EMOLUMENTS *(continued)*

The performance related bonuses awarded to the Executive Directors in 1994 were based upon the achievement of profit targets for 1994 only.

Details of the Directors' interests in the Company's Executive Share Option Schemes are given in the Directors' Report on page 9.

7. STAFF NUMBERS

The average weekly number of employees (including the Directors) during the year was as follows:

	1994 Number	1993 Number
Average number of employees	267	83

At 28 March 1995, a total number of 595 employees (including the Directors) were employed by the Group.

8. NET INTEREST RECEIVABLE/(PAYABLE)

	1994 £'000	1993 £'000
Bank overdrafts and loans	(7)	(35)
Invoice discounting	-	(25)
Finance leases	(9)	(10)
Variable rate loan notes	(534)	(44)
Interest payable	(550)	(114)
Bank interest receivable	127	38
Restricted deposit account	559	44
Interest receivable	686	82
Net interest receivable/(payable)	136	(32)

9. TAXATION ON ORDINARY ACTIVITIES

The taxation charge/(credit) is made up as follows:

	1994 £'000	1993 £'000
Based on the profit for the year:		
UK Corporation tax at the rate of 33% (1993 - 33%)	791	111
Overseas taxation	1	(5)
Deferred taxation	679	(138)
	1,471	(32)

10. DIVIDENDS

	1994 £'000	1993 £'000
Ordinary - interim paid 0.75p (1993 - 1.5p)	276	96
Ordinary - final proposed 1.0p (1993 - nil)	418	-
	694	96

Notes to the Accounts

at 31 December 1994

11. EARNINGS/(LOSS) PER ORDINARY SHARE

The calculation of earnings per Ordinary share is based on a profit of £2,705,000 (1993 - loss £196,000), and on 37,625,925 Ordinary shares, being the weighted average number of Ordinary shares in issue during the year (1993 - 10,410,078).

Earnings per share has also been calculated by reference to earnings before exceptional items and related taxation since the Directors consider that this provides a useful additional indication of underlying performance. This adjusted earnings per Ordinary share is calculated with the following information:

	1994 £'000	1993 £'000
Profit/(Loss) after taxation	2,705	(196)
Exceptional items	-	835
Taxation on exceptional items	-	(251)
Adjusted profit after taxation	2,705	388

The comparative figures have been adjusted to reflect the bonus element of the placing and open offer in November 1994. The dilutive effect of unexercised options on earnings per share is not material.

The number of Ordinary shares in issue at 31 December 1994 was 41,885,449.

12. TANGIBLE FIXED ASSETS

Group

	Freehold property £'000	Leasehold property £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost					
At 1 January 1994	400	306	996	1,940	3,642
Additions	-	121	95	335	551
Disposals	-	-	(403)	(128)	(531)
Acquisition of subsidiary undertakings	-	1,736	227	4,988	6,951
Provisions made on acquisition	-	(400)	-	-	(400)
At 31 December 1994	**400**	**1,763**	**915**	**7,135**	**10,213**
Depreciation					
At 1 January 1994	-	232	424	1,495	2,151
Charge for the year	-	30	141	316	487
Disposals	-	-	(248)	(120)	(368)
Acquisition of subsidiary undertakings	-	755	173	3,581	4,509
Provisions made on acquisition	-	100	-	-	100
At 31 December 1994	**-**	**1,117**	**490**	**5,272**	**6,879**
Net book value at 31 December 1994	**400**	**646**	**425**	**1,863**	**3,334**
Net book value at 1 January 1994	400	74	572	445	1,491

Included in the cost of leasehold property is £75,000 relating to property under a lease of over 50 years in duration.

The net book value of motor vehicles above includes £54,000 (1993 - £121,000) in respect of assets held under finance and hire purchase contracts.

Notes to the Accounts

at 31 December 1994

12. TANGIBLE FIXED ASSETS *(continued)*

Company

	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost			
At 1 January 1994	129	–	129
Additions	85	165	250
Disposals	(30)	(65)	(95)
At 31 December 1994	184	100	284
Depreciation			
At 1 January 1994	13	-	13
Charge for the year	35	18	53
Disposals	(8)	(6)	(14)
At 31 December 1994	40	12	52
Net book value at 31 December 1994	144	88	232
Net book value at 1 January 1994	116	–	116

The net book value of motor vehicles above includes £19,000 (1993 - £37,000) in respect of assets held under finance and hire purchase contracts.

13. INVESTMENTS

Company

The Company's investment in subsidiary undertakings is as follows:

	Total £,000
At 1 January 1994	20,231
Additions (see note 24)	
Cost of investment in the ABS companies	5,620
Cost of investment in Class Limited	521
At 31 December 1994	26,372

Subsidiary undertakings

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

Name of company	
BIS Training Limited	
Class Limited	
CSS Trident plc	
IC Software Limited*	
IC Software SA*	(Registered in Switzerland)
IC Software Benelux BV*	(Registered in Holland)
Parity Solutions Limited	
Parity Solutions (Ireland) Limited	(Registered in Northern Ireland)

**held by a subsidiary undertaking*

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

Notes to the Accounts
at 31 December 1994

14. DEFERRED TAXATION RECOVERABLE

	Group £'000	Company £'000
Balance at 1 January 1994	419	145
Charged in the year	(679)	(129)
Acquisition adjustments	1,618	-
Balance at 31 December 1994	1,358	16

The above balance is recoverable after more than one year.

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Difference between depreciation and capital allowances	(8)	92	(5)	13
Other timing differences	1,366	327	21	132
	1,358	419	16	145

Other timing differences take into account the effect on future tax liabilities of adjustments made on acquisition and for reorganisation and other provisions.

There are no unprovided deferred taxation liabilities.

15. DEBTORS

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Trade debtors	19,237	10,119	-	1,372
Amounts owed by subsidiary undertakings	-	-	10,214	3,313
Corporation tax recoverable	276	119	258	85
Other debtors	1,028	170	509	4
Prepayments	831	277	45	53
	21,372	10,685	11,026	4,827

Advance corporation tax of £105,000 (1993 - £24,000) is recoverable in more than one year.

Included in other debtors is a loan of £350,000 (1993 - Nil) from the Company to the Parity plc Employee Benefit Trust.

Notes to the Accounts

at 31 December 1994

16. CASH AND CASH EQUIVALENTS

Group

	1994 £'000	1993 £'000	Change in year £'000
Cash at bank and in hand	2,849	3,920	(1,071)
Cash on restricted deposit account	10,214	9,964	250
	13,063	13,884	(821)
Bank overdraft	-	(514)	514
	13,063	13,370	(307)
Cash and cash equivalents	2,849	3,406	(557)

Company	1994 £'000	1993 £'000
Cash at bank and in hand	690	3,540
Cash on restricted deposit account	10,214	9,964
	10,904	13,504

The cash on restricted deposit includes £9,964,000 which represents money held as security by Samuel Montagu & Co. Ltd. for the guarantee they have provided in respect of the variable rate loan notes of the same amount issued to the vendors of CSS Trident plc, and £250,000 which represents money held as security by Lloyds Bank Plc for the guarantee they have provided in respect of the variable rate loan notes of £157,000 issued to the vendors of Class Limited.

17. VARIABLE RATE LOAN NOTES PAYABLE

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Variable rate loan notes 2000	9,964	9,964	9,964	9,964
Variable rate loan notes 2004	157	-	157	-
	10,121	9,964	10,121	9,964

The variable rate loan notes 2000 are repayable in whole or in part on either 30 June and 31 December until 2000 at the election of the note holders. Interest is payable at a variable rate of 0.5% below LIBOR fixed on 30 June and 31 December of each year. Samuel Montagu & Co. Ltd. have guaranteed the repayment of the principal and interest. The Company has entered into a floating charge over the whole of its undertaking in favour of Samuel Montagu & Co. Ltd. In addition, Samuel Montagu & Co. Ltd. have a charge over a cash deposit account of up to £9,964,000 which is equal to its contingent liabilities under the guarantee referred to above.

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April and 1 October until 1999 at the election of the note holders. Interest is payable at a variable rate of 0.5% below LIBOR fixed on 1 April and 1 October of each year. Lloyds Bank Plc have guaranteed the repayment of the principal and interest.

Notes to the Accounts
at 31 December 1994

18. OTHER CREDITORS

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Bank overdrafts	-	514	-	30
Other loans	412	22	-	-
Trade creditors	5,385	2,371	-	444
Payments in advance	448	-	-	-
UK corporation tax	1,085	844	473	24
Overseas corporation tax	51	75	-	-
Other taxes and social security costs	2,942	987	100	68
Other creditors and accruals	7,755	1,130	556	601
Finance lease obligations	82	63	22	12
Dividend payable	421	97	421	97
	18,581	6,103	1,572	1,276

Other creditors and accruals of the Group include £2,311,000 relating to continuing operations and £5,444,000 relating to acquired operations. Included in the balance for acquired operations is £2,757,000 relating to the fair value adjustments described in note 24.

19. CREDITORS: amounts falling due after more than one year

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Finance lease obligations	-	26	-	23
Other loans	-	412	-	-
Deferred consideration payable	2,000	-	2,000	-
	2,000	438	2,000	23

The Company and its main subsidiary undertakings have entered into an unlimited first debenture, omnibus guarantee and set-off arrangement with Lloyds Bank Plc in order to secure its working capital facilities and the guarantee given by Lloyds Bank Plc for the payment of the deferred consideration payable to the ACT Group in November 1996.

Notes to the Accounts

at 31 December 1994

20. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Surplus Property £'000	Other Provisions £'000	Total £'000
Balance at 1 January 1994	615	795	1,410
Charged in the year	-	33	33
Acquisition adjustments	844	375	1,219
Utilised in the year	(220)	(123)	(343)
Balance at 31 December 1994	1,239	1,080	2,319

Other provisions relate principally to provisions made for past overseas trading and tax exposures.

Company

	Surplus Property £'000
Balance at 1 January 1994	114
Charged in the year	-
Utilised in the year	(86)
Balance at 31 December 1994	28

21. SHARE CAPITAL

	1994 £'000	1993 £'000
Authorised: 58,000,000 Ordinary shares of 5p each (1993 - 48,000,000)	2,900	2,400
Share capital allotted, called up and fully paid: 41,885,449 Ordinary shares of 5p each (1993 - 36,564,768)	2,094	1,828

During the year the Company issued the following share capital:

	Number	£'000
To the vendors of Class Limited	65,000	3
Exercise of share options	20,000	1
Placing and open offer	5,235,681	262
	5,320,681	266

The proceeds of the placing and open offer were used to finance the acquisition of the ACT companies described in note 24 on pages 29 to 31.

Options subsisting under share options schemes at 31 December 1994 were:

Year options granted	Number of options	Exercise price pence per share	Period during which options exercisable
1993	750,000	85-93	1996-2003
1994	1,506,088	100-135	1997-2004

Notes to the Accounts

at 31 December 1994

22. RESERVES

Group

	Share Premium Account £'000	Other Reserves £'000	Profit and Loss Account £'000	Total £'000
Balance at 1 January 1994	25,189	(18,127)	(326)	6,736
Transfers	(25,189)	25,189	-	-
Acquisition of Class Limited	75	-	-	75
Exercise of share options	18	-	-	18
Placing and open offer	6,283	-	-	6,283
Costs of share issues	(127)	-	-	(127)
Goodwill arising on consolidation	-	(11,034)	-	(11,034)
Retained profit for the year	-	-	2,011	2,011
Exchange adjustments	-	-	50	50
Balance at 31 December 1994	**6,249**	**(3,972)**	**1,735**	**4,012**

On 12 January 1994, the Court approved the cancellation of the Share Premium Account. Goodwill arising on consolidation has been set against the Special Reserve so created.

The cumulative amount of goodwill which has been written-off to Other Reserves is £29,161,000 (1993 - £18,127,000).

Company

	Share Premium Account £'000	Special Reserve £'000	Profit and Loss Account £'000	Total £'000
Balance at 1 January 1994	25,189	-	429	25,618
Transfers	(25,189)	25,189	-	-
Acquisition of Class Limited	75	-	-	75
Exercise of share options	18	-	-	18
Placing and open offer	6,283	-	-	6,283
Costs of share issues	(127)	-	-	(127)
Retained profit for the year	-	-	868	868
Balance at 31 December 1994	**6,249**	**25,189**	**1,297**	**32,735**

In accordance with Section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account. The profit for the year dealt with in the accounts of the holding company was £1,562,000 (1993 - £465,000).

Notes to the Accounts

at 31 December 1994

23. ANALYSIS OF CHANGES IN FINANCING

	Share Capital (including Share Premium) £'000	Loans and Finance Lease Obligations £'000
Balance at 1 January 1994	27,017	10,487
Transfer to Other Reserves	(25,189)	-
Shares issued for cash consideration	6,564	-
Shares issued for non cash consideration	78	-
Loan notes issued for non cash consideration	-	157
Loans and finance leases of subsidiary undertakings acquired	-	60
Cash outflows from financing	-	(89)
Underwriting commission	(127)	-
Deferred consideration payable to the ACT Group	-	2,000
Balance at 31 December 1994	**8,343**	**12,615**

24. ACQUISITIONS

(a) CSS Trident plc

Following a final review at 30 June 1994 of the fair value adjustments made in relation to the acquisition of CSS Trident plc in 1993, the following further provisions have been made:

	£'000
Surplus property	276
Redundancy settlements	275
Other provisions	100
Taxation	(132)
	519

(b) The ABS companies

The acquisition of ACT Business Systems Limited, ACT Business Systems (Ireland) Limited and BIS Training Limited ("the ABS companies") was completed on 10 November 1994. The acquisitions and the results of the acquired business have been included in the consolidated profit and loss account from this date and have been accounted for as follows:

	Net Assets Acquired £'000	Acquisition Adjustments £'000	Adjusted Net Assets Acquired £'000
Tangible fixed assets	2,368	(500)	1,868
Deferred taxation recoverable	-	1,310	1,310
Debtors	9,884	(111)	9,773
Bank overdraft	(92)	-	(92)
Taxation	(6)	-	(6)
Finance leases	(60)	-	(60)
Creditors	(11,121)	(3,619)	(14,740)
Provisions for liabilities and charges	-	(568)	(568)
	973	(3,488)	(2,515)
Consideration			(5,620)
Goodwill			(8,135)

Notes to the Accounts

at 31 December 1994

24. ACQUISITIONS *(continued)*

The consideration consisted of:	£'000
Cash	2,476
Deferred consideration payable in November 1996	2,000
Fees and other costs incurred	1,144
	5,620

In addition to the consideration shown above, liabilities of £3,824,000 payable by the ABS companies to the ACT Group were settled on completion.

The acquisition adjustments referred to above have been made in order to provide for the cost of the redundancies that occurred in December 1994 and January 1995, to bring accounting policies in line with those of the Group, and to reflect the re-appraisal of property and asset values. They are as follows:

	£'000
Other creditors and accruals*	
Redundancies	1,687
Accruals	1,056
Contract appraisals	876
Potential future costs of surplus property	568
Fixed asset write-downs	500
Provisions for debtors	111
Taxation	(1,310)
	3,488

*The balance outstanding as at 31 December 1994 was £2,757,000.

The net outflow of cash and cash equivalents in respect of the purchase is as follows:

	£'000
Cash consideration	(2,476)
Fees and other costs paid	(1,144)
Bank overdrafts of acquired subsidiary undertakings	(92)
Settlement of amounts due by subsidiary undertakings	(3,824)
	(7,536)

The acquisition of the ABS companies had the following effect on the Group's cash flow:

	£'000
Net cash flow from operating activities	707
Returns on investment and servicing of finance	(4)
Investing activities	(52)
Net cash flow before financing	651
Financing	(2)
Increase in cash and cash equivalents	649

Notes to the Accounts

at 31 December 1994

24. ACQUISITIONS *(continued)*

In the period from the date of acquisition to 31 December 1994 the ABS companies made a contribution to Group profit before taxation of £60,000 compared to a loss before taxation of £1,415,000 in the period from 1 April 1994 to the date of acquisition. ACT Business Systems Limited reported a profit before taxation of £592,000 for the year to 31 March 1994. The businesses acquired with BIS Training Limited and ACT Business Systems (Ireland) Limited reported a combined loss before taxation of £1,776,000 for the fifteen month period ended 31 March 1994.

(c) Other acquisitions

The consulting business of LBMS was purchased on 7 July 1994 and renamed Parity Consulting. Class Limited was purchased on 1 August 1994 and the results of the acquired businesses have been included in the consolidated profit and loss account from these dates. The two acquisitions have been accounted for as follows:

Fair value of net assets acquired	Class Limited £'000	Consulting Business £'000
Tangible fixed assets	46	28
Cash	61	-
Deferred taxation recoverable	-	176
Debtors	96	16
Creditors and accruals	(90)	(176)
	113	44
Consideration	(521)	(2,016)
Goodwill	408	1,972

There were no material fair value adjustments to the book values of the net assets acquired.

The consideration consisted of:	Class Limited £'000	Consulting Business £'000
Ordinary shares issued at £1.20	78	-
Variable rate loan notes payable	157	-
Cash	265	1,750
Fees and other costs incurred	21	266
	521	2,016

The net outflow of cash and cash equivalents in respect of the purchases are as follows:

	Class Limited £'000	Consulting Business £'000
Cash consideration	(265)	(1,750)
Fees and other costs paid	(21)	(266)
Cash at bank of acquired subsidiary undertakings	61	-
	(225)	(2,016)

In the period from the date of acquisition to 31 December 1994 Class Limited made a loss before taxation of £8,000 compared to a loss before taxation of £24,000 in the period from 1 July 1994 to the date of acquisition and a profit before taxation of £90,000 in the year ended 31 March 1994.

The purchase of the ABS companies, the Consulting Business and Class Limited during the year have been accounted for as acquisitions.

Notes to the Accounts

at 31 December 1994

25. LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

Group	1994 Land and buildings £'000	1994 Plant and machinery £'000	1993 Land and buildings £'000	1993 Plant and machinery £'000
Operating leases which expire:				
within one year	33	397	166	26
between two and five years	314	858	82	36
over five years	1,992	-	242	-
	2,339	1,255	490	62

Company	1994 Land and buildings £'000	1994 Plant and machinery £'000	1993 Land and buildings £'000	1993 Plant and machinery £'000
Operating leases which expire:				
within one year	-	-	2	21
between two and five years	38	-	-	4
over five years	39	-	39	-
	77	-	41	25

26. PENSION SCHEMES

The Group operates a number of pension schemes in the UK. With the exception of the schemes described below all the Group's schemes are defined contribution plans and the assets are held in separate independently administered funds.

In relation to the acquisition of the ABS companies in November 1994 the Group participated in a number of schemes previously established by the vendor group. This was to facilitate the continuance of pension entitlements for staff transferring from the vendor group to the Group's employment. Two of these schemes in which the Group participates are defined benefit arrangements. The assets of these schemes are held in separate trustee administered funds and the Group is contributing at a rate agreed at the time of the acquisition of the ABS companies and is calculated by the independent actuary to these schemes.

The Group has established its own defined benefit scheme with effect from the end of March 1995. Under the terms of the acquisition of the ABS companies a transfer payment is expected to be paid from the two schemes. The amount of such transfer payment will be calculated on a basis agreed at the time of acquisition and in respect of employees who wish to transfer their past service rights into the Group's new scheme.

Auditors' Report to the Shareholders of Parity plc

We have audited the financial statements on pages 12 to 32 which have been prepared under the historical cost convention and the accounting policies set out on page 17 and 18.

Respective Responsibilities of Directors and Auditors

As described on page 11 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

13 April 1995

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Parity plc will be held at Salters Hall, 4 Fore Street, London EC2Y 5DE on 6 June 1995 at 11.00 a.m. for the following purposes:

FINANCIAL STATEMENTS

1. To receive and adopt the Financial Statements for the year ended 31st December 1994 and the reports of the Directors and the Auditors thereon.

DIVIDEND

2. To declare a final dividend.

ELECTION OF DIRECTORS

3. To re-elect F. Carbutt as a Director.

4. To re-elect Sir Thomas Stonor as a Director.

5. To re-elect I.M. Scoggins as a Director.

6. To re-elect P.E. Swinstead as a Director.

AUDITORS

7. To re-appoint Price Waterhouse as Auditors of the Company and to authorise the Directors to fix their remuneration.

AUTHORITY TO ALLOT SHARES

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution.

ORDINARY RESOLUTION

8. That, in substitution for any and all existing such authorities, the Directors be, and they are hereby, generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 to exercise all of the powers of the Company to allot relevant securities (as defined in section 80(2) of that Act) up to an aggregate nominal amount of £692,000. This authority shall expire five years from the date of this resolution and shall be capable of previous revocation or variation by the Company in general meeting and renewal from time to time by the Company in general meeting for a further period not exceeding five years, provided always that the Company may make an offer or arrangement before the expiry of such authority which would or might require relevant securities to be allotted after such authority has expired and the Directors may allot relevant securities in pursuance of any such offer or arrangement as if such authority had not expired.

Notice of Annual General Meeting

DISAPPLICATION OF PRE-EMPTION RIGHTS

To consider and, if thought fit, to pass the following resolution as a Special Resolution.

SPECIAL RESOLUTION

9. That, in substitution for any and all existing such authorities, the Directors be, and they are hereby, empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94(2) of that Act) for cash pursuant to the authority conferred by resolution 8 above as if section 89(1) of that Act did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue in favour of holders of all relevant equity securities where the equity securities respectively attributable to the interests of all holders of relevant equity securities are proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £104,713 (representing approximately 5% of the existing issued equity share capital of the Company)

and shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the date of this Annual General Meeting save that the Company may before such expiry make an offer, agreement or arrangement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer, agreement or arrangement as if this power had not expired.

Dated 13 April 1995

BY ORDER OF THE BOARD
D.S.P. FIRTH, SECRETARY

Registered Office: 18 Grosvenor Gardens, Victoria, London, SW1W 0DH

Note:

1. Any member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company. A form of proxy is enclosed for the use of members.

2. To be effective, the form of proxy, duly executed together with the power of attorney (if any) under which it is signed, must be lodged at the address shown on the form of proxy not later than 48 hours before the meeting. Members who have lodged proxy forms are not thereby prevented from attending the meeting and voting in person if they so wish.

DOCUMENTS AVAILABLE FOR INSPECTION

The register of Directors' share transactions and copies of Directors' service contracts (or a memorandum of terms for such contracts) will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the Annual General Meeting and at the place of the meeting for at least 15 minutes prior to the meeting and during the meeting.

Notice of Annual General Meeting

EXPLANATORY NOTES ON THE BUSINESS OF THE ANNUAL GENERAL MEETING TO BE HELD ON 6 JUNE 1995

Resolution 1 – Accounts

English company law requires the Directors to present the accounts to a general meeting of shareholders.

Resolution 2 – Dividend

The Directors are recommending a final dividend of 1.0p per Ordinary Share, payable on 6 July 1995 to shareholders on the register at the close of business on 26 May 1995. Shareholder approval is required before a final dividend can be paid.

Resolutions 3 and 4 – Re-election of non-executive Directors

It is the Board's policy that all of the Company's non-executive Directors are to retire each year though they may offer themselves for re-election.

Resolutions 5 and 6 – Re-election of Directors retiring by rotation

The Company's Articles of Association require that one third of the Directors must retire each year, though they may offer themselves for re-election.

Resolution 7 – Re-appointment of auditors

The Company's independent auditors must be appointed each year at the annual general meeting. The Directors have recommended retaining Price Waterhouse.

Resolution 8 – Authority to allot shares

Under the Companies Act 1985, the directors of a company may only allot unissued shares if authorised to do so by the shareholders in general meeting. The aggregate nominal value of new securities which can be allotted under the proposed authority is limited to £692,000 (being the nominal value of the unissued Ordinary share capital, less those shares reserved for the exercise of employee share options, at the date of this Notice), representing approximately 33% of the Company's existing issued share capital. The authority will expire after 5 years, the maximum period allowed under the Companies Act 1985, and replaces the exiting such authority. The Directors have no present intention of exercising such authority.

Resolution 9 – Disapplication of pre-emption rights

The Company is proposing a limited disapplication of the statutory pre-emption rights contained in the Companies Act 1985. This will allow the Company to make rights issues of shares not strictly in accordance with the pre-emption provisions of that Act and will also allow the Company the general flexibility to issue shares on a non pre-emptive basis but having a maximum aggregate nominal amount of £104,713, representing 5% of the existing issued share capital of the Company at the date of this Notice.

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