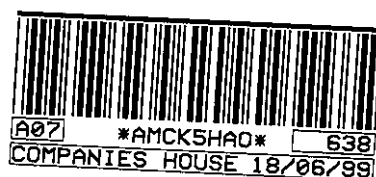
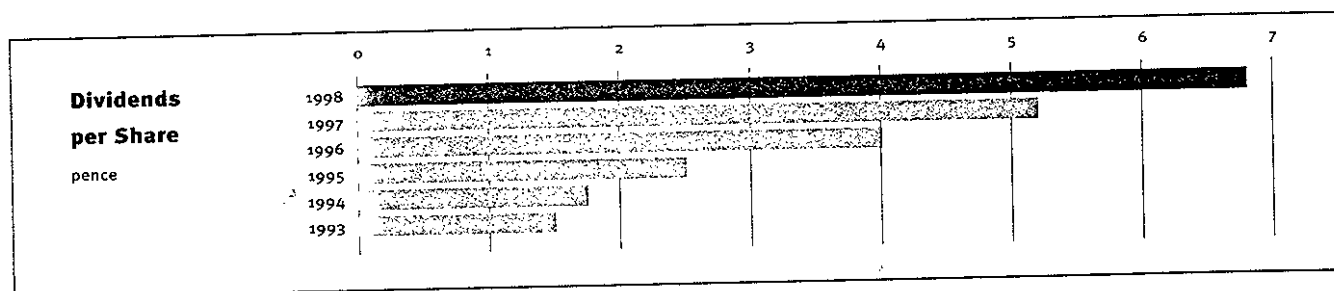
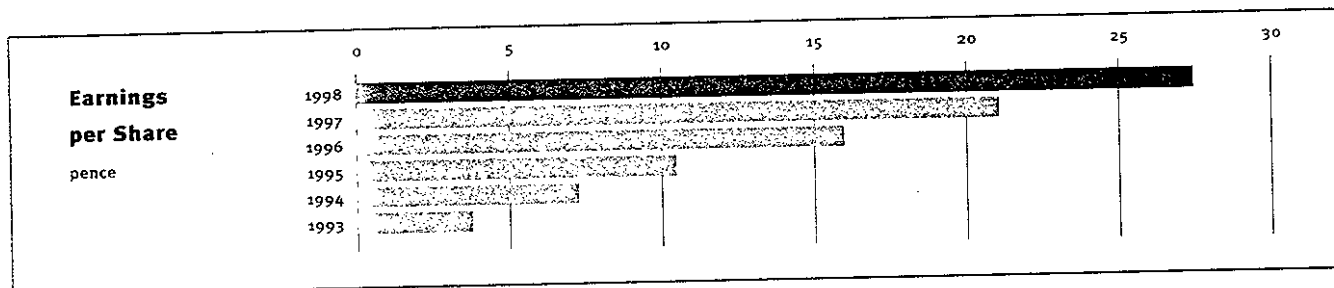
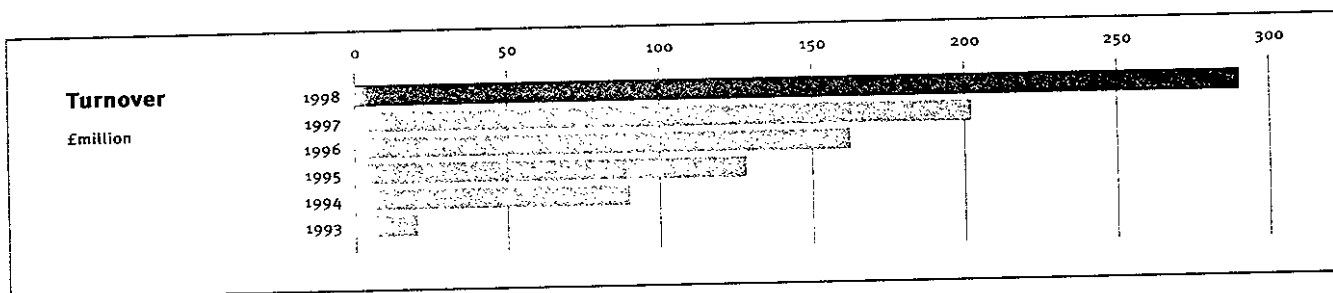


Financial Highlights

PARITY PLC.

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Year ended 31 December	1998	1997	1996	1995	1994	1993
Turnover	£290m	£202m	£162m	£128m	£89m	£20m
Profit before tax	£20.0m	£13.5m	£10.1m	£6.5m	£4.2m	£0.6m
Earnings per share (Basic)	27.44p	21.04p	15.96p	10.44p	7.24p	3.73p
Earnings per share (Diluted)	26.52p	20.29p	15.32p	10.22p	7.14p	3.72p
Dividends per share	6.80p	5.20p	4.00p	2.50p	1.75p	1.50p



Chairman's Statement

E-COMMERCE IN ALL ITS FORMS WILL CAUSE A FUNDAMENTAL REVOLUTION IN THE WAY COMPANIES DO BUSINESS. AS THESE SOPHISTICATED SYSTEMS AND PRODUCTS BECOME AVAILABLE, THERE WILL BE A GREAT DEMAND FOR THE ANALYTICAL AND SYSTEM DEVELOPMENT SKILLS REQUIRED TO IMPLEMENT E-COMMERCE ACROSS BUSINESS.



Parity, the IT Consultancy Group, had another excellent year in a continuing good market. When our current management team created Parity in 1993, it set a clear strategy to create a significant IT services business in five years, using a flexible approach to human resource management. The strategy envisaged two parts to the company: an international IT solutions business and a top quality IT staff agency in the UK. Parity has achieved this in 1998 with combined revenues approaching £300 million. Since 1993 we have acquired eleven companies and raised £50 million from our shareholders for this purpose. By a combination of margin improvement and organic growth, Parity has become a company with £20 million of pre-tax profits, a seven-fold increase in earnings per share and an average market capitalisation in 1998 of over £340 million.

Results

In the twelve months to 31 December 1998, turnover increased by 44% to £290 million (1997 – £202 million) and pre-tax profits were up 49% to £20 million

(1997 – £13.5 million). Earnings per share increased by 30% to 27.44 pence (1996 – 21.04 pence). There was a positive net cash balance of £9.5 million (1997 – £9.2 million) at the end of the year.

Dividends

The strength of our cash flow has allowed the Board to recommend an increased final dividend of 4.4 pence per share (1997 – 3.4 pence), bringing the total dividend for the year to 6.8 pence (net) per share (1997 – 5.2 pence), an increase of 31%. The final dividend will be payable on 1 July 1999 to shareholders on the register at close of business on 6 April 1999.

Group Review

1998 was another good year for Parity, with orders received during the year reaching £330 million, some 44% higher than in 1997. This performance is a tribute to the quality and professionalism of all our management and staff. The considered approach to acquisitions and their careful integration ensured that all three businesses purchased in the

previous year exceeded expectations in 1998, and all deferred payments to the vendors have now become payable.

Market conditions for IT services were buoyant in 1998, remaining strong into the last quarter. The IT services market has slowed twice in the past thirty years but it has never reduced in size, year on year. In fact, in a difficult economy, IT directors tend to reduce permanent headcount and depend more on services and outsourcing. As information technology has become an increasingly pervasive element of both personal and business life, so expenditure on IT has ceased to be discretionary.

Our operating performance is covered in detail in the Chief Executive's Review. The strong organic growth across all our businesses is the result of a Group-wide focus on building long-term client relationships. Our customer loyalty has been created by being sensitive to clients' needs and ensuring that Parity can provide the very latest skills combined with excellent project management. These relationships provide the stability to allow the recruitment and retention of top professionals to enable us to grow the business steadily, year after year.

Board changes

Since the year end, Ron Moss, one of the vendors of CSS Trident to Parity in 1993 and who was appointed to the Parity plc board in 1996, has decided to step down from the board and retired from the Company at the beginning of February. We would like to thank Ron for his contribution to the development of the Group over the last five years, and wish him every success in the future.

The Future

Looking ahead to the next five years, both our consultancy and agency businesses see expanding markets and great opportunity in their respective fields. Electronic commerce in all its forms will cause a fundamental revolution in the way companies do business. As these sophisticated systems and products become available, there will be a great demand for the analytical and system development skills required to implement e-commerce systems across business. No company will be immune from this change, which is one of the few genuinely revolutionary approaches to business information communication in the last thirty years. E-commerce and the use of internet and intranet technology will cause a fundamental review of IT infrastructure across all sizes of company.

Current trading

Parity has had a satisfactory first quarter with its performance fully meeting expectations, and continues to see good growth across its UK and international operations. Looking ahead, the Board expects the Group to achieve further growth both organically and from selected acquisitions and continues to anticipate another reliable performance for shareholders in 1999.



Philip Swinstead
Chairman

Chief Executive's Review

THIS EXCELLENT PERFORMANCE REFLECTS BOTH THE BUOYANT MARKETS IN WHICH WE OPERATE AND ALSO THE ACTIONS TAKEN DURING THE YEAR TO INTEGRATE OUR RECENT ACQUISITIONS FULLY INTO THE GROUP. ALL THESE COMPANIES NOW OPERATE IN THE PARITY WAY, WITH OUR TIGHT FINANCIAL CONTROLS, OPEN CULTURE AND FOCUS ON PROFITABLE GROWTH.



1998 was another successful year for Parity plc, with record turnover and profit. Turnover rose 44% to £290 million, over half of which was organic, and profit before tax increased by 49% to £20 million. This excellent performance reflects both the buoyant markets in which we operate and also the actions taken during the year to integrate our recent acquisitions fully into the Group. All these companies now operate in the Parity way, with our tight financial controls, open culture and focus on profitable growth.

The year also saw considerable investment in management development and in our company infrastructure, to build solid foundations for the future. A highlight of the year was the first annual Parity International Management Conference, attended by senior management throughout the Group. The event was a great success and we are already seeing the benefits in improved communications across the Group. We now have strong management in all our operations, and effective account management systems in place to drive our organic growth.

The overall profile of our business has changed since the acquisition of TelTech in December 1997, in line with our plans. 53% of the Group's turnover now comprises IT solutions, charged on a fee-rate basis, and this will be our main focus for future growth. Parity Resources, our UK-based IT staff agency business, now represents just 47% of our revenues.

The International IT Solutions business

Parity's solutions businesses consist of Parity Solutions and Parity Eurosoft in the UK and mainland Europe, and Parity TelTech in the USA. They provide consultancy, training, systems development, application management and support, and key additional skills. In 1998, turnover of this part of the Group rose to £155.1 million (1997 – £93.5 million), an increase of 66%. Operating profit rose to £13.6 million (1997 – £7.4 million), an increase of 84%.

Parity Solutions in the UK continued to build on its impressive reputation for bespoke

development adding a significant number of new clients to the customer base and maintaining strong revenue levels with all major clients. Systems were delivered across all sectors including billing software to major utilities for the de-regulation programmes, web enabling systems for the financial community and business intelligence systems for the telecommunications industry. Key skills included Internet technologies, client server and enterprise-wide system expertise with demand for e-commerce capability increasing.

There was strong demand for consultancy skills in business analysis, IT strategy, project management and development methods. For example, the UK arm of Sun Life of Canada commissioned Parity to undertake business analysis for a major strategic programme to revise their business practices. Parity also provided expertise on EMU to help early adopters prepare for the launch of the new currency, and strengthened its presence in the Application Management market. Over thirty strategic partnership

agreements have now been established and long term assignments were secured in the Utilities, Finance and Government sectors.

Parity Training experienced record growth offering 5,000 courses and training over 30,000 delegates. During the year, the division opened new training centres in Bristol and London, the latter doubling the capacity of its central London facility. Amongst a wide range of client specific programmes, the largest project was training 4,000 staff in Microsoft applications for British Aerospace. For Marks and Spencer, Parity Training delivered an innovative graduate training programme imparting vital IT skills in much shorter timescales than normally experienced. Our concentration on quality training helped Parity earn the prestigious "UK Training Company of the Year" award.

The 1998 results from Parity TelTech, our November 1997 USA acquisition, were excellent with both revenues and profits well up on the

TURNOVER BY SECTOR 1998

■	Finance - 22%
▨	Information Technology - 10%
▩	Utilities - 17%
▧	Government - 9%
▦	Telecoms - 26%
▥	Other - 16%



previous year. The management team deserves special mention for producing an outstanding performance in their first year in the Parity Group, following their solid 25 year track record as an independent business. Most importantly, all senior management have remained with the company and are today creating and implementing our future US strategy. Parity TelTech's continued success can be attributed to their emphasis on delivering high quality solutions, consultancy and training to blue chip clients. During 1998, TelTech achieved the distinction of prime vendor status at Merrill Lynch, Bankers Trust and Delta Airlines, among others. Parity TelTech is the base for the Group's expansion strategy in the USA, which looks to a combination of continued organic growth together with carefully selected and targeted acquisitions.

Our strong organic growth in mainland Europe was assisted by a full year's contribution from the May 1997 acquisition of Dedicate, a consultancy and training company based in Holland. During

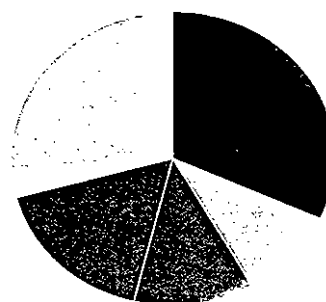
the year, Parity Eurosoft continued to invest for future growth by opening new offices and now has thirteen across Holland, Belgium, Germany, Switzerland and France. The management team for Europe was also reinforced and is now targeted to deliver increased margins from these offices as they grow and achieve critical mass. During the year, both managerial and technology ties with our UK solutions business were also enhanced, enabling us to provide a pan-European capability to our larger corporate clients.

The UK IT Staff Agency

Parity Resources is not a typical IT staff agency. The business applies a consultancy style of account management to ensure that its direct sales techniques build a base of loyal customers and self-employed consultants who prefer to work through us. The company had another successful year in 1998, with revenues increasing to £135.1 million (1997 - £108.6 million) and profits rising to £9 million (1997 - £7.8 million).

SOLUTIONS TURNOVER BY COUNTRY 1998

■	UK - 32%
□	Switzerland - 10%
▨	Benelux - 12%
▩	Germany - 17%
■	France - 3%
■	USA - 26%



Note
Parity Resources
turnover is 100% UK.

A market-leading IT infrastructure and the provision of additional value-added services such as training have differentiated our market offering, enabling us to win business by the long-term quality of our service. A substantial upgrade of the IT systems is under way in 1999 to ensure that the competitive edge remains. We have also relocated our permanent recruitment business to new purpose-built premises near Reading.

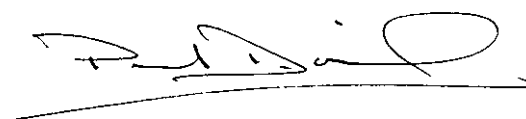
Parity Resources continues to concentrate on building strong client relationships and achieving substantial repeat business. Sales are focused through specialist industry groups such as telecoms, utilities, pharmaceuticals, petrochemical, banking & finance, IT and the public sector. The business continues to win preferred supplier status with important new clients such as Scottish Power. The customer base has been extended, particularly through new users of agency services, partnerships and managed services, the latter finding increasing acceptance with organisations such as the government's Information Technology Services Agency. Central government framework agreements continue to be operated successfully, particularly with the Environmental Agency and the Department of Health.

The business continued to resist margin pressures which were still apparent in some areas. However, a low-margin high-volume arrangement with a major client, for managing contractors already employed directly by them, has caused the average margin for Parity Resources to reduce slightly. This innovative service offering was created to meet a specific client need and demonstrates the flexible approach

taken to support long-standing clients. This contract has now been renegotiated to bring margins more in line with others in this part of our business.

Parity people

At Parity, we realise that our people are our greatest asset and our culture reflects this. The way we select our people and our substantial investment in their training and development ensures that their skills are fully up-to-date and they are challenged and stimulated by the projects on which they work. We would like to thank them all for their effort and commitment over the past year. We are sure that they will again rise to the challenges that lie ahead in what we expect to be another good year for Parity.



Paul Davies
Chief Executive

Financial Review

SOME 82% OF GROUP PROFITS WERE CONVERTED INTO CASH BY THE YEAR END, COMPARED WITH 62% IN 1997. THIS STRONG CASH PERFORMANCE REFLECTS THE TIGHT FINANCIAL CONTROLS IN THE BUSINESS AND THE INCREASING IMPORTANCE OF THE SOLUTIONS BUSINESSES AS A PROPORTION OF THE GROUP'S ACTIVITIES.



Parity's 1998 results included full year contributions from the Group's three 1997 acquisitions, namely Dedicate Group BV (Holland), McCourt Consultants Limited (UK) and TelTech International Inc. (USA). In buoyant market conditions, the Group achieved strong organic growth both in its traditional business and in its recent acquisitions, which have now been fully integrated.

Turnover

In 1998, Group turnover increased by 44% to £290.2 million (1997 – £202.1 million). Of this total, £155.1 million (1997 – £93.5 million) was generated by the international IT solutions business, an increase of 66% on the previous year. The UK-based IT resourcing business generated £135.1 million (1997 – £108.6 million), up 24%.

Growth in the solutions business was fairly evenly spread across its geographic regions of operation. The UK growth of 19% to £49.6 million was entirely organic. Operations in mainland Europe grew 33% to £65.1 million by a combination of organic growth

and acquisition. Growth in the USA was also wholly organic, with the recent US acquisition, TelTech, increasing revenues by 28% on an annualised basis to £40.3 million.

Operating profit and cash flow

Group operating profit increased by 47% to £20.1 million (1997 – £13.7 million). At the pre-tax level, profits grew 49% to £20 million (1997 – £13.5 million).

Some 82% of Group profits were converted into cash by the year end, compared with 62% in 1997. This strong cash performance reflects the tight financial controls in the business and the increasing importance of the solutions businesses as a proportion of the Group's activities.

The Group cash flow statement is set out on page 21. The Group had a net free bank balance of £9.5 million at the end of 1998 compared with £9.2 million a year before. This is after paying a total deferred consideration of £5.2 million due to the vendors of the three acquisitions made in 1997.

Under the TelTech acquisition agreement, a final deferred payment of £1.5 million is payable in April 1999. This represents the maximum amount due after TelTech achieved \$6 million profit before tax in 1998, an excellent performance in its first year as part of the Parity Group.

Balance sheet

The Group balance sheet remains strong, with net assets of £24.3 million, up from the £14 million reported at the end of 1997. This includes £69.3 million of goodwill written off against reserves over the last six years.

Taxation

The tax charge for the Group in 1998 was 33% of the profit on ordinary activities. This is higher than the standard UK rate of corporate taxation of 31%, due to the increasing amount of the Group's activities which are located overseas, especially in Germany and the USA, where tax rates are above 40%.

Earnings per share and dividends

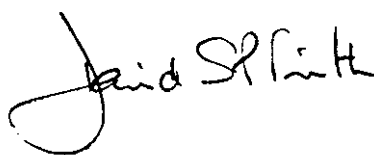
Earnings per share have been restated in accordance with FRS 14. Basic earnings per share increased by 30% to 27.44p (1997 – 21.04p). The diluted earnings per share of 26.52p (1997 – 20.29p) represents a 3.5% dilution due to outstanding options.

On the basis of these results and our continued strong cash generation, the Board is proposing a final dividend of 4.4p, bringing the total for the year to 6.8p (1997 – 5.20p), an increase of 31%. The dividend will be paid on 1 July 1999 to all shareholders on the register at the close of business on 6 April 1999.

Treasury management

The Group maintains a high level of internal financial control which includes the daily reporting and monitoring of the Group's cash balances and weekly forecasting of revenues, profits and cash. Risks associated with the Group's exposure to exchange rate fluctuations are managed wherever possible by matching revenues and costs in the same currency.

The Group has available bank facilities of £13 million with Lloyds Bank plc, £8 million of which is in the form of a revolving credit facility which is available until October 2000. In addition, the Group's overseas subsidiaries have working capital facilities totalling £4.5 million.



David Firth
Group Finance Director

Directors and Advisers

SECRETARY AND REGISTERED OFFICE

David Firth
18 Grosvenor Gardens
Victoria
London SW1W 0DH

Registered No. 1146236

ADVISORS

Auditors

PricewaterhouseCoopers
No. 1 London Bridge
London SE1 9QL

Stockbrokers

Dresdner Kleinwort Benson
PO Box 560
20 Fenchurch Street
London EC3P 3DB

Solicitors

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

Salans Hertzfeld & Heilbronn
HRK
Clements House
14-18 Gresham Street
London EC2V 7NN

Registrars

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DB

DIRECTORS

Philip Swinstead OBE†

Chairman

Aged 55, he led the management buy-in to create Parity in 1993. For 22 years previously, he ran SD-Scicon plc, which became one of Europe's largest software services companies. Since 1980 he has been a director of various investment trusts and an active investor in several private technology companies.

Paul Davies

Chief Executive

Aged 50, he was previously managing director of Easams, GEC's IT company. Before this he ran the systems integration business of SD-Scicon plc. His earlier career was with Plessey, Philips and as Project Director of a Babcock International Group PLC subsidiary.

David Firth FCA

Group Finance Director

Aged 38, he qualified with Thomson McIntock & Co. in 1985, and joined the Company in October 1993. He has previously held senior financial positions in a number of publicly quoted companies.

Henry Angest*†

Non-executive

Henry Angest (aged 58), was appointed a Director on 5 June 1997. He is the Chairman and Chief Executive of Secure Trust Banking Group plc and Chairman of Secure Trust Group plc and Arbuthnot Latham & Co. Ltd. He is a non-executive director of Lands Improvement Holdings plc and Chairman of the London Investment Banking Association.

Francis Carbutt FCA*†

Non-executive

Francis (Billy) Carbutt (aged 63) was appointed a Director on 1 March 1994. He was a 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. He is the Chairman of the Audit Committee.

Tom Murphy CBE*††

Non-executive

Tom Murphy (aged 70), was appointed a Director on 5 June 1997. From 1987 until 1995 he was the Managing Director of the Civil Aviation Authority, having previously spent 31 years with British Petroleum where he held a number of senior management positions. He is the Chairman of the Nominations Committee.

Sir Thomas Stonor KCB*††

Non-executive

Sir Thomas (aged 63) was appointed a Director on 20 April 1994. In 1988 as a serving Air Marshal, he was appointed Controller of the National Air Traffic Services and Group Director of the Civil Aviation Authority. Since his retirement in 1991 he has been senior consultant to Siemens Plessey Air Traffic Management Division (now part of Airsys ATM), a defence adviser to British Telecom and also a non-executive director of Siemens Plessey Electronic Systems plc. He is the Chairman of the Remuneration Committee.

* Member of the Audit Committee

† Member of the Remuneration Committee

†† Member of the Nomination Committee

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 1998.

GROUP RESULTS

The Group made a profit for the year before taxation of £20,032,000 (1997 – £13,488,000). After provision for tax of £6,613,000 (1997 – £4,452,000) and dividends paid and proposed of £3,335,000 (1997 – £2,440,000), profit retained for the financial year amounted to £10,084,000 (1997 – £6,596,000) and has been transferred to reserves.

The financial statements reflect the changes in disclosure required by FRS10 and FRS14 and comparative figures have been restated where appropriate.

DIVIDENDS

The Directors recommend a final dividend of 4.4p (1997 – 3.4p) net per Ordinary share. The total dividend for the year will amount to 6.8p per share (1997 – 5.2p). The final dividend will be payable on 1 July 1999 to shareholders on the register at the close of business on 6 April 1999.

PRINCIPAL ACTIVITIES

The Group's principal activities during the year related to the provision of services to the IT industry. A review of the business and future prospects are contained within the Chairman's Statement, Chief Executive's Review and Financial Review on pages 2 to 9.

ACQUISITIONS DURING THE YEAR

The Group made no acquisitions during the year. Details of adjustments to the fair value of the net assets of businesses acquired in 1997 are given in note 23 to the financial statements.

TANGIBLE FIXED ASSETS

The changes in tangible fixed assets during the year are summarised in note 11 to the financial statements.

BOARD OF DIRECTORS

The names of the current Directors of the Company are shown on page 10. Mr. P.E. Swinstead, Mr. F. Carbutt and Sir Thomas Stonor, who are required to retire by rotation, will seek re-election at the forthcoming Annual General Meeting. Mr. T. Murphy is more than 70 years of age and therefore is required to seek re-election at the forthcoming Annual General Meeting.

Mr. R.A. Moss resigned as a Director of the Company on 3 February 1999.

Each of the Executive Directors have service contracts with the Company terminable by either party on giving not less than 12 months notice. None of the other Directors have any service or employment contracts with the Company.

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

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 introduced in 1994 a Sharesave Scheme for all its UK employees. 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.

DIRECTORS' INTERESTS

The Directors' interests in the ordinary share capital of the Company at 31 December 1998 were as follows:

	At 31 December 1998 Beneficial interests in Ordinary shares	At 31 December 1997 or at date of appointment Beneficial interests in Ordinary shares
P.E. Swinstead	1,579,125	1,841,625
H. Angest	24,146	14,644
F. Carbutt	14,285	14,285
T. Murphy	4,250	2,250
Sir Thomas Stonor	2,250	2,250
P. Davies	50,000	50,000
D.S.P. Firth	11,250	11,250
R.A. Moss	249,766	249,766

Details of options granted to Directors are shown in note 5 to the financial statements.

There has been no change in the Directors' interests between 31 December 1998 and 12 April 1999 or date of resignation if earlier.

PRINCIPAL SHAREHOLDERS

The Board is not aware of any person who is interested in three per cent or more of the issued share capital of the Company at 31 March 1999 apart from the following:

	Number of Ordinary 5p shares	Percentage held
Henderson Financial Management Limited	9,289,074	18.79%
Robert Fleming & Co Limited	1,780,156	3.60%
HSBC Asset Management	1,682,802	3.40%
Hermes Pension Management Limited	1,672,401	3.38%
Johnson Fry Asset Managers	1,600,000	3.24%

PAYMENTS TO SUPPLIERS

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

YEAR 2000

The Group has carried out a Year 2000 Assurance Review of its internal systems and business operations. Programmes to identify and mitigate the risk associated with the potential year 2000 problems which might arise at or before the turn of the century are well advanced. At this stage it is not anticipated that any material costs will be incurred.

EUROPEAN MONETARY UNION

The Group's European companies including those in the UK are capable of transacting business in the euro following its introduction in eleven European countries on 1 January 1999. The ability of the Group to conduct business in national currencies will be retained as long as necessary. The decision as to when to adopt the euro as a subsidiary's functional currency will be a local decision for each subsidiary in the European Union, having regard to the speed of transition to the euro in the individual economy. Costs incurred in 1998 on the euro programme had no material effect on the Group's results.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

The Group's contribution for charitable purposes during 1998 was £57,000 (1997 – £31,000).

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' AND OFFICERS' LIABILITY INSURANCE

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

AUDITORS

The Company's auditors, Price Waterhouse merged with Coopers & Lybrand on 1 July 1998 following which they resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as auditors.

Resolutions will be proposed at the Annual General Meeting for their reappointment and to authorise the Directors to determine their remuneration.

By order of the board

D.S.P. Firth, FCA
Secretary

12 April 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES – FINANCIAL STATEMENTS AND INTERNAL CONTROL

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 the Directors are required to select suitable accounting policies and apply them consistently; make reasonable and prudent judgements and estimates; and state whether applicable accounting standards have been followed. It is the responsibility of the Directors to prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring proper procedures exist for the maintenance of adequate accounting records. They are also responsible for the Group's system of internal financial controls and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

The Board is committed to high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. Set out below is a description of how the principles of corporate governance are applied to the Company and how the Company has complied with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year.

GOING CONCERN

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

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board

During the year the Board comprised the Chairman, the Chief Executive, two other Executive Directors, and four independent Non-Executive Directors. For the purposes of the Combined Code Mr. F. Carbutt is the senior independent Non-Executive Director. The biographies of each of the Directors appear on page 10.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors responsibilities in respect of the accounts is set out on page 13. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors to take independent professional advice, if necessary, at the expense of the Company.

The following committees deal with the specific aspects of the Group's affairs.

Audit Committee

The Audit Committee comprises the Non-Executive Directors and is chaired by Mr. F. Carbutt. It meets at least twice annually.

The Audit Committee is responsible for reviewing a wide range of financial matters including the half year and annual accounts before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders.

The Audit Committee advises the Board on the appointment and remuneration of the external auditors. The Committee discusses the nature and scope of the audit with the external auditors and provides a forum for reporting by the Group's external auditors.

The meetings are also attended, by invitation, by the Chairman, Chief Executive and Group Finance Director.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its costs. The Committee comprises the Non-Executive Directors and is chaired by Sir Thomas Stonor.

The report on Directors' remuneration is set out on page 16.

Nominations Committee

The Nominations Committee is chaired by Mr. T. Murphy and also comprises Sir Thomas Stonor and Mr. P.E. Swinstead. The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist the process.

Relations with Shareholders

The Board encourages both private and institutional shareholders to attend the Annual General Meeting as this gives the Directors an opportunity to communicate directly with investors in the Company. The Board aims to ensure that all the Non-Executive Directors are available at Annual General Meetings to answer questions.

There is regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year.

Internal Financial Control

Provision D2.1 to the Combined Code requires the Board to review the effectiveness of the Group's system of internal control. A working party of the Institute of Chartered Accountants of England and Wales is preparing guidance for Directors in regard to this matter. The guidance is due to be published by the summer of 1999. Until the guidance has been published, the London Stock Exchange has indicated that a Company will, in their view, satisfy the requirements of provision D2.1 of the Combined Code, as incorporated in the Listing Rules, by complying with the existing arrangements and by reporting on their internal financial controls. The Company has decided to take advantage of this concession.

The Directors are responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Group's internal financial control and monitoring procedures include:

- a) clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- b) the control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;
- c) detailed monthly budgeting and reporting of trading results, balance sheets and cash flows with regular review by management of variances from budgets;
- d) reporting on compliance with internal financial controls and procedures by senior group personnel. These reports are reviewed by the Audit Committee prior to the issue of the interim and annual reports.

The Directors have reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts.

Report on Directors' Remuneration

Parity plc's Remuneration Committee is a committee of the Company's Board with terms of reference approved by the Board.

The Committee consists of the four non-executive directors under the chairmanship of Sir Thomas Stonor. None of the Committee has any personal financial interests, other than as shareholders, in the matters to be decided, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the Chairman and the Chief Executive about its proposals and has access to professional advice from inside and outside the Company.

The Company has complied with the provisions of the Combined Code as relating to Directors' Remuneration annexed to the London Stock Exchange Listing Rules. Executive remuneration packages are designed to attract, motivate and retain Directors of the highest calibre needed to achieve the Group's objectives and to reward them for enhancing value to shareholders. There are five main elements of the remuneration package for Executive Directors and senior management:

- a) Basic annual salary and benefits in kind;
- b) Annual performance bonus payments;
- c) Long term bonus plans;
- d) Share option incentives; and
- e) Pension arrangements.

In assessing all aspects of pay and benefits the Company compares packages offered by similar companies. These companies are chosen having regard to:

- a) the size of the company (turnover, profits and number of people employed);
- b) the diversity and complexity of their businesses;
- c) the geographical spread of their businesses; and
- d) their growth, expansion and change profile.

Annual bonuses are based on the achievement of earnings per share growth targets which are approved by the Remuneration Committee each year.

A new longer term bonus plan for Executive Directors is currently being developed. The maximum payments under the previous scheme were paid based on the achievement of EPS growth targets for the three financial years from 1996 to 1998.

Share options are granted to Executive Directors over a period of time and according to performance. Options are granted at the market price prevailing at the time of grant without any discount.

The Company's current pension arrangement for the Executive Directors is to make contributions of 15% of basic salary to the personal pension plans of individual Directors.

No Director has a service contract with a notice period of greater than one year or has provisions for pre-determined compensation on termination which exceeds one year's salary and benefits in kind. The Committee believes that the Company can benefit from its Executive Directors holding a non-executive appointment and also believes that this represents a valuable opportunity in terms of personal and professional development. Such appointments are subject to the approval of the Board and it is the Company's practice that fees derived from such appointments may be retained by the Executive Director concerned.

The remuneration of the Non-Executive Directors is determined by the Board.

Details of the remuneration for each Director are shown in note 5 to the accounts.

Auditors' Report to the Shareholders of Parity plc

We have audited the financial statements on pages 18 to 36 which have been prepared under the historical cost convention and the accounting policies set out on page 23.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report including, as described on page 13, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company and the Group have not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 14 and 15 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or the Group's corporate governance procedures or its internal controls.

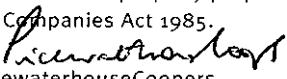
BASIS OF AUDIT OPINION

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 and the Group'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 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 the Group at 31 December 1998 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.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

No. 1 London Bridge
London
SE1 9QL

12 April 1999

Group Profit and Loss Account

for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
TURNOVER	2	290,200	202,078
OPERATING COSTS	3	(270,073)	(188,357)
OPERATING PROFIT		20,127	13,721
Net interest payable	7	(95)	(233)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		20,032	13,488
Taxation on Profit on Ordinary Activities	8	(6,613)	(4,452)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		13,419	9,036
Dividends	9	(3,335)	(2,440)
RETAINED PROFIT FOR THE FINANCIAL YEAR		10,084	6,596
EARNINGS PER ORDINARY SHARE – Basic	10	27.44p	21.04p
– Diluted	10	26.52p	20.29p

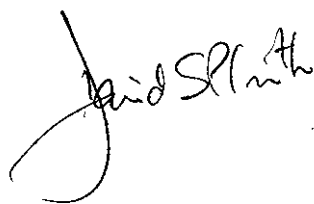
Group Balance Sheet

at 31 December 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	11	3,790	3,358
Investments	12	1,316	1,075
		5,106	4,433
CURRENT ASSETS			
Debtors	13	59,628	47,034
Taxation recoverable after more than one year	14	87	684
Cash at bank and in hand	15	12,446	10,105
Cash on restricted deposit account	16	–	596
		72,161	58,419
CREDITORS: amounts falling due within one year			
Variable rate loan notes payable	17	(590)	(717)
Other creditors	18	(51,023)	(45,266)
		(51,613)	(45,983)
NET CURRENT ASSETS		20,548	12,436
TOTAL ASSETS LESS CURRENT LIABILITIES		25,654	16,869
CREDITORS: amounts falling due after more than one year	19	–	(1,520)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(1,310)	(1,353)
NET ASSETS		24,344	13,996
CAPITAL AND RESERVES			
Called up share capital	21	2,468	2,467
Share premium account	22	35,350	35,336
Other reserves	22	26	26
Profit and loss account	22	(13,500)	(23,833)
EQUITY SHAREHOLDERS' FUNDS		24,344	13,996

Approved by the Board of Directors on 12 April 1999.

D.S.P. Firth, FCA
Group Finance Director



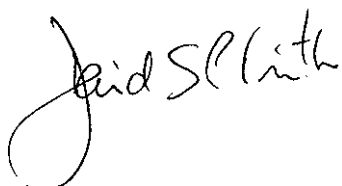
Company Balance Sheet

at 31 December 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	11	312	352
Investments	12	38,316	47,184
		38,628	47,536
CURRENT ASSETS			
Debtors	13	49,765	41,356
Taxation recoverable after more than one year	14	—	419
Cash at bank and in hand		3,386	850
Cash on restricted deposit account	16	—	596
		53,151	43,221
CREDITORS: amounts falling due within one year			
Variable rate loan notes payable	17	(590)	(717)
Other creditors	18	(21,402)	(22,092)
		(21,992)	(22,809)
NET CURRENT ASSETS		31,159	20,412
TOTAL ASSETS LESS CURRENT LIABILITIES		69,787	67,948
PROVISIONS FOR LIABILITIES AND CHARGES	20	(728)	(473)
NET ASSETS		69,059	67,475
CAPITAL AND RESERVES			
Called up share capital	21	2,468	2,467
Share premium account	22	35,350	35,336
Special reserve	22	25,673	25,673
Profit and loss account	22	5,568	3,999
EQUITY SHAREHOLDERS' FUNDS		69,059	67,475

Approved by the Board of Directors on 12 April 1999.

D.S.P. Firth, FCA
Group Finance Director



Group Cash Flow Statement

for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
NET CASH FLOW FROM OPERATING ACTIVITIES	4	16,451	8,510
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		181	129
Interest paid		(276)	(362)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(95)	(233)
TAXATION		(5,568)	(3,709)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(2,261)	(1,594)
Sale of tangible fixed assets		118	125
Purchase of shares in ESOP		(241)	(575)
Release from restricted deposit account		596	750
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(1,788)	(1,294)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings		–	(22,864)
EQUITY DIVIDENDS PAID		(2,862)	(1,888)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		6,138	(21,478)
FINANCING			
Issue of Ordinary shares		15	29,194
Repayment of loan notes		(627)	(755)
Payment of deferred consideration		(5,218)	–
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(5,830)	28,439
INCREASE IN CASH IN THE PERIOD	15	308	6,961

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the year attributable to shareholders	13,419	9,036
Dividends	(3,335)	(2,440)
Retained earnings	10,084	6,596
Other recognised gains/(losses)	387	(125)
Share capital issued	15	29,226
Goodwill on acquisitions deducted from reserves	(138)	(34,091)
Premium on shares issued to vendors	—	3,689
Net increase in shareholders' funds	10,348	5,295
Shareholders' funds at start of year	13,996	8,701
Shareholders' funds at end of year	24,344	13,996

Statement of Total Recognised Gains and Losses

for the year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the year attributable to shareholders	13,419	9,036
Currency translation differences on foreign currency net investments	387	(125)
Total recognised gains and losses for the year	13,806	8,911

Notes to the Accounts

at 31 December 1998

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 date of acquisition or disposal. Goodwill on acquisitions prior to 1 January 1998 has been eliminated during the year of purchase against reserves. Goodwill on acquisitions from 1 January 1998 is capitalised and amortised over its useful economic life. Adjustments to provisional fair values of assets acquired in the preceding period are reflected as adjustments to the original goodwill.

Turnover

Turnover represents the value of services 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.

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 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 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.

Operating leases

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 for the best estimates of the unavoidable 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 remaining service lives of scheme members.

2. GEOGRAPHICAL AND SEGMENTAL ANALYSIS

The Group has two principal activities, being the provision of international information technology consultancy services (Solutions) and a UK information technology staffing agency (Resources).

	Turnover 1998 £'000	Profit before Taxation 1998 £'000	Net Assets 1998 £'000	Turnover 1997 £'000	Profit before Taxation 1997 £'000	Net Assets 1997 £'000
SOLUTIONS						
United Kingdom	49,633	5,966	(2,409)	41,888	4,272	(2,054)
Rest of Europe	65,109	4,090	13,080	48,963	2,975	8,349
USA	40,327	3,538	4,838	2,624	200	7,572
	155,069	13,594	15,509	93,475	7,447	13,867
RESOURCES						
United Kingdom	135,131	8,950	16,179	108,603	7,786	11,964
Unallocated Central Costs and Net Interest	-	(2,512)	-	-	(1,745)	-
Non-operating assets and liabilities	-	-	(7,344)	-	-	(11,835)
	290,200	20,032	24,344	202,078	13,488	13,996

Turnover for Resources as shown above excludes £2,914,000 (1997 – £3,173,000) of intersegmental turnover.

3. OPERATING COSTS

	Total 1998 £'000	Total 1997 £'000
Staff costs		
Wages and salaries	49,988	29,120
Social security costs	4,391	2,757
Other pension costs	1,169	893
Depreciation of tangible fixed assets	1,753	1,477
Auditors' remuneration	257	156
Operating lease rentals		
Plant & machinery	2,195	1,807
Land & buildings	2,207	2,032
Exchange (gains)/losses	(57)	232
Other operating costs	208,170	149,883
	270,073	188,357

Of the Group audit fee of £257,000 (1997 – £156,000), £35,000 (1997 – £30,000) related to the audit of the Company.

Fees for non-audit services in 1998 were £13,000 (1997 – £228,000).

4. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	1998 £'000	1997 £'000
Operating profit	20,127	13,721
Depreciation	1,753	1,477
(Profit)/loss on disposal of tangible fixed assets	(51)	30
Increase in debtors	(12,350)	(8,933)
Increase in creditors	7,015	2,805
Decrease in provisions	—	(355)
Utilisation of provisions	(43)	(235)
Net cash flow from operating activities	16,451	8,510

5. DIRECTORS' EMOLUMENTS

	1998 Salary/fees £'000	1998 Performance related bonus £'000	Benefits in kind £'000	Total 1998 £'000	Total 1997 £'000	Longer Term Bonus Plan 1998 £'000	Longer Term Bonus Plan 1997 £'000	Total 1998 £'000	Total 1997 £'000
EXECUTIVE DIRECTORS									
P.E. Swinstead	113	—	20	133	168	—	—	133	168
P. Davies	187	45	16	248	246	300	100	548	346
D.S.P. Firth	110	55	14	179	173	115	25	294	198
R.A. Moss	125	63	8	196	192	60	40	256	232
NON EXECUTIVE DIRECTORS									
H. Angest	22	—	—	22	13	—	—	22	13
F. Carbutt	29	—	—	29	29	—	—	29	29
T. Murphy	22	—	—	22	13	—	—	22	13
Sir Thomas Stonor	22	—	—	22	22	—	—	22	22
Total emoluments	630	163	58	851	856	475	165	1,326	1,021

Total emoluments, including pension contributions were £1,455,000 (1997 – £1,136,000). Pension contributions made by the Company on behalf of the Executive Directors were as follows: P.E. Swinstead £15,000 (1997 – £23,000); P. Davies £71,000 (1997 – £59,000); D.S.P. Firth £16,000 (1997 – £15,000); R.A. Moss £19,000 (1997 – £18,000). No pension contributions were made by the Company on behalf of the Non-executive Directors (1997 – nil).

During 1998, Mr. P.E. Swinstead's Executive responsibilities were part-time. The Board has agreed that Mr. Swinstead should assume a full-time Executive role as from 1 January 1999.

The 1998 annual performance related bonus scheme was determined by the Remuneration Committee and was based on the achievement of a challenging earnings per share target. The earnings per share achieved in 1998 exceeded this target and therefore the maximum bonus for that year under the scheme became payable.

The longer term bonus plan paid fixed amounts based on achievements of EPS annual growth of 41%, 38% and 25% respectively, for the three financial years 1996 to 1998. The Remuneration Committee approved the final payment under this scheme in 1998. A new longer term bonus plan for Executive Directors is currently being developed for implementation from 1999.

Directors' Emoluments – continued

Details of Executive Share Options, which are exercisable between three and ten years from date of grant, are as follows:

	At Exercise Price	1 January 1998	At Exercised in year	31 December 1998	Date of Grant
P. Davies	146p	250,000	–	250,000	14.09.1995
D.S.P. Firth	142p	125,000	–	125,000	22.08.1995
R.A. Moss	142p	50,000	–	50,000	22.08.1995

The market price of the Company's shares at 31 December 1998 was 573p. The Company's shares traded at a market price between 389p and 863p during 1998.

In addition to the options shown above, Messrs. Davies, Firth and Moss participate in the Company's Sharesave Scheme which is open to all UK employees. This involves, for each of these Directors, a five year savings contract entered into on 1 June 1994 which when completed will entitle the participant to purchase Ordinary shares in the Company for 100p each. The maximum number of shares which the Director would be entitled to purchase on completion of the savings contract, in June 1999, is 17,250. At 31 December 1998 each Director had contributed £14,000 (1997 – £11,000) under their savings contract.

6. STAFF NUMBERS

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

	1998 Number	1997 Number
United Kingdom	780	695
Rest of Europe	287	178
USA	472	27
Average number of employees	1,539	900

7. NET INTEREST PAYABLE

	1998 £'000	1997 £'000
Bank overdrafts and loans	(248)	(317)
Variable rate loan notes	(28)	(45)
Interest payable	(276)	(362)
Bank interest receivable	159	86
Restricted deposit account	22	43
Interest receivable	181	129
Net interest payable	(95)	(233)

3. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	1998 £'000	1997 £'000
Based on the profit for the year:		
UK Corporation tax at the rate of 31% (1997 – 31.5%)	3,642	3,470
Overseas taxation	2,793	1,069
Deferred taxation	178	(87)
	6,613	4,452

9. DIVIDENDS

	1998 £'000	1997 £'000
Ordinary – interim paid 2.4p (1997 – 1.8p)	1,175	774
Ordinary – final proposed 4.4p (1997 – 3.4p)	2,160	1,666
	3,335	2,440

Total dividends as disclosed above exclude dividends of £21,000 (1997 – £18,000) relating to shares held by the Parity plc Employee Benefit Trust.

10. EARNINGS PER ORDINARY SHARE

The calculation of earnings per Ordinary share is based on a profit after taxation of £13,419,000 (1997 – £9,036,000).

The weighted average number of Ordinary shares used in the calculation of the basic and diluted earnings per share are as follows:

	1998 Average Number	1997 Average Number
i) Basic weighted average number of shares		
Shares in issue	49,353,430	43,300,480
Adjustment for shares held by ESOP	(437,670)	(356,812)
	48,915,760	42,943,668
ii) Dilutive weighted average number of shares		
Shares in issue	49,353,430	43,300,480
Adjustment for options	1,260,609	1,239,055
	50,614,039	44,539,535

The number of Ordinary shares in issue at 31 December 1998 was 49,363,554.

11. TANGIBLE FIXED ASSETS

<i>Group</i>	Leasehold Improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
COST				
At 1 January 1998	1,518	456	9,241	11,215
Exchange adjustments	(1)	-	52	51
Additions	129	108	2,024	2,261
Disposals	-	(281)	(533)	(814)
At 31 December 1998	1,646	283	10,784	12,713
DEPRECIATION				
At 1 January 1998	809	133	6,915	7,857
Exchange adjustments	-	2	58	60
Charge for the year	217	77	1,459	1,753
Disposals	-	(195)	(552)	(747)
At 31 December 1998	1,026	17	7,880	8,923
Net book value at 31 December 1998	620	266	2,904	3,790
Net book value at 1 January 1998	709	323	2,326	3,358

<i>Company</i>	Leasehold Property £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
COST				
At 1 January 1998	109	267	282	658
Additions	-	107	32	139
Disposals	-	(133)	-	(133)
At 31 December 1998	109	241	314	664
DEPRECIATION				
At 1 January 1998	65	91	150	306
Charge for the year	22	62	58	142
Disposals	-	(96)	-	(96)
At 31 December 1998	87	57	208	352
Net book value at 31 December 1998	22	184	106	312
Net book value at 1 January 1998	44	176	132	352

There were no material capital commitments as at 31 December 1998, (1997 - nil).

12. INVESTMENTS

	Group		Company	
	Investment in own shares £'000	Investment in subsidiary undertakings £'000	Investment in own shares £'000	Total £'000
At 1 January 1998	1,075	46,109	1,075	47,184
Additional investment/(transfer)	241	(9,109)	241	(8,868)
At 31 December 1998	1,316	37,000	1,316	38,316

The movement on investment in subsidiary undertakings reflects the transfer from the Company of an investment to another subsidiary undertaking.

Investment in own Shares

The investment in own shares represents shares held by the Parity plc Employee Benefit Trust (ESOP) which are valued at cost. The trustees of the ESOP have discretionary powers to grant options over the shares held by the trust to Group employees. At 31 December 1998 the ESOP held 437,670 Ordinary shares (1997 – 356,812) and had granted 385,000 options (1997 – 285,000). During the year no options over Ordinary shares were exercised (1997 – 150,000).

At 31 December 1998 the market value of the Ordinary shares held was £2,507,849 (1997 – £2,269,324). Costs relating to the ESOP are included in the accounts.

Subsidiary undertakings

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

Name of company

Parity Solutions Limited	
Parity Solutions (Ireland) Limited	(Incorporated in Northern Ireland)
Parity Training Limited	
Parity Resources Limited	
Parity Selection Limited	
Parity Resources (Ireland) Limited*	(Incorporated in the Republic of Ireland)
Eurosoft Services Limited	
Parity International BV	(Incorporated in The Netherlands)
Dedicate Group BV*	(Incorporated in The Netherlands)
Eurosoft Deutschland GmbH*	(Incorporated in Germany)
TPI Eurosoft GmbH*	(Incorporated in Germany)
Eurosoft Solutions SARL*	(Incorporated in France)
IC Eurosoft (Suisse romande) SA*	(Incorporated in Switzerland)
IC Eurosoft (Schweiz) AG*	(Incorporated in Switzerland)
IC Eurosoft Benelux BV*	(Incorporated in The Netherlands)
Eurosoft Belgium SA*	(Incorporated in Belgium)
Parity US Holdings Inc.*	(Incorporated in USA)
TelTech International Corp*	(Incorporated in USA)
Personnel Solutions Inc.*	(Incorporated in USA)

* held by a subsidiary undertaking

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

13. DEBTORS

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Trade debtors	41,792	33,856	—	—
Accrued income	13,946	9,700	—	—
Amounts owed by subsidiary undertakings	—	—	48,961	40,690
Corporation tax recoverable	715	471	715	471
Other debtors	2,134	1,858	—	120
Prepayments	1,041	1,149	89	75
	59,628	47,034	49,765	41,356

14. TAXATION RECOVERABLE AFTER MORE THAN ONE YEAR

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
ACT recoverable	—	419	—	419
Deferred taxation recoverable	87	265	—	—
	87	684	—	419

Analysis of deferred taxation recoverable

	Group	
	1998 £'000	1997 £'000
Provision for taxation on overseas undistributed reserves	(380)	(380)
Other timing differences	467	645
	87	265

Deferred taxation

	Group £'000
Balance at 1 January 1998	265
Credited in the year	(178)
Balance at 31 December 1998	87

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

There are no unprovided deferred taxation amounts.

15. ANALYSIS OF NET CASH

Group	At 1 January 1998 £'000	Cash flow £'000	Other non-cash changes £'000	Exchange movements £'000	At 31 December 1998 £'000
Cash in hand/at bank	10,105	2,246	—	95	12,446
Overdrafts	(927)	(1,938)	—	(140)	(3,005)
	9,178	308	—	(45)	9,441
Variable rate loan notes	(717)	627	(500)	—	(590)
Total	8,461	935	(500)	(45)	8,851

Reconciliation of net cash flow to movement in net cash	£'000
Increase in cash in the period	308
Cash outflow from decrease in debt	627
New loan notes	(500)
Translation difference	(45)
Movement in net cash in the period	390
Net cash at 1 January 1998	8,461
Net cash at 31 December 1998	8,851

16. CASH ON RESTRICTED DEPOSIT

The cash on restricted deposit of nil (1997 – £596,000) represents money held as security by HSBC Investment Bank plc for the guarantees they have provided in respect of the variable rate loan notes of the same amount issued to the vendors of Parity Resources Limited (formerly CSS Trident plc).

17. VARIABLE RATE LOAN NOTES PAYABLE

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Variable rate loan notes 2000	—	596	—	596
Variable rate loan notes 2004	60	61	60	61
Variable rate loan notes 2007	30	60	30	60
Variable rate loan notes 2008	500	—	500	—
	590	717	590	717

Variable Rate Loan Notes Payable – continued

The variable rate loan notes 2000 were repaid in full on 30 June 1998. Interest was payable at a variable rate of 0.5% below LIBOR fixed on 30 June and 31 December of each year. HSBC Investment Bank plc guaranteed the repayment of the principal and interest.

The variable rate loan notes 2004 are repayable in whole or in part on either 1 April or 1 October until 2004 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 has guaranteed the repayment of the principal and interest.

The variable rate loan notes 2007 are repayable in whole or in part on either 1 April or 1 October until 2007 at the election of the note holders. Interest is payable at a variable rate of 1% below LIBOR fixed on 1 April and 1 October each year. Lloyds Bank Plc has guaranteed the repayment of the principal and interest.

The variable rate loan notes 2008 are repayable in whole or in part on either 1 April or 1 October until 2008 at the election of the note holders. Interest is payable at a variable rate of 1% below LIBOR fixed on 1 April and 1 October each year. Lloyds Bank Plc has guaranteed the repayment of the principal and interest.

18. OTHER CREDITORS

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bank overdraft	3,005	927	–	–
Trade creditors	14,785	12,994	–	–
Payments in advance	4,537	3,244	–	–
UK corporation tax	4,237	4,003	1,061	1,016
Overseas corporation tax	1,771	1,313	–	–
Other taxes and social security costs	6,697	4,762	44	76
Other creditors and accruals	12,317	10,646	1,547	1,321
Amounts due to subsidiary undertakings	–	–	16,578	15,347
Deferred consideration payable	1,502	5,699	–	2,654
Dividend payable	2,172	1,678	2,172	1,678
	51,023	45,266	21,402	22,092

The Company and its main UK 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 other financing facilities.

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

	Group	
	1998 £'000	1997 £'000
Deferred consideration	–	1,520

The deferred consideration payable to the vendors of TelTech International Corp. is scheduled for settlement in 1999 and accordingly is shown in note 18 above, translated at year end exchange rates.

20. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Pensions £'000	Surplus property £'000	Other provisions £'000	Total £'000
Balance at 1 January 1998	350	611	392	1,353
Utilised in the year	—	(43)	—	(43)
Balance at 31 December 1998	350	568	392	1,310

Other provisions relate principally to provisions made for past overseas trading and tax exposures. The provision in respect of pensions was established as a fair value adjustment.

Company

	Surplus property £'000	Deferred taxation £'000	Total £'000
Balance at 1 January 1998	189	284	473
Charged in the year	255	—	255
Balance at 31 December 1998	444	284	728

Analysis of deferred taxation payable

	1998 £'000
Provision for taxation on overseas undistributed reserves	380
Other timing differences	(96)
	284

There has been no movement in deferred taxation payable during the year. There are no unprovided deferred taxation amounts.

21. SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
68,000,000 Ordinary shares of 5p each (1997 – 68,000,000)	3,400	3,400
Share capital allotted, called up and fully paid:		
49,363,554 Ordinary shares of 5p each (1997 – 49,347,604)	2,468	2,467
During the year the Company issued the following share capital:		
	Number	£'000
Exercise of Share options (SAYE)	15,950	1

Share Capital – continued

Options subsisting under share options schemes at 31 December 1998 were:

Year options granted	Number of options	Exercise price pence per share	Period during which options exercisable
1994	235,000	100	1998 – 2001
1995	930,000	100 – 146	1998 – 2005
1996	296,000	167 – 237	1999 – 2006
1997	148,000	403	2000 – 2004
1998	120,000	655	2001 – 2005

22. RESERVES

Group	Share Premium Account £'000	Other Reserves £'000	Profit and Loss Account £'000	Total £'000
Balance at 31 December 1997 as previously stated	35,336	(39,765)	15,958	11,529
Goodwill reclassification	–	39,791	(39,791)	–
Balance at 1 January 1998	35,336	26	(23,833)	11,529
Exercise of share options	14	–	–	14
Goodwill arising on consolidation	–	–	(138)	(138)
Retained profit for the year	–	–	10,084	10,084
Exchange adjustments	–	–	387	387
Balance at 31 December 1998	35,350	26	(13,500)	21,876

The balance at 31 December 1998 includes the following amounts relating to goodwill written off directly to reserves as a matter of accounting policy in previous years. It will be charged in the profit and loss account on any subsequent disposal of the businesses to which it relates.

Goodwill previously written off	–	(29,362)	(39,791)	(69,153)
Goodwill adjustment in 1998 (Note 23)	–	–	(138)	(138)
	–	(29,362)	(39,929)	(69,291)

Company	Share Premium Account £'000	Special Reserve £'000	Profit and Loss Account £'000	Total £'000
Balance at 1 January 1998	35,336	25,673	3,999	65,008
Exercise of share options	14	–	–	14
Retained profit for the year	–	–	1,569	1,569
Balance at 31 December 1998	35,350	25,673	5,568	66,591

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 £4,925,000 (1997 – £3,868,000).

The Special Reserve was created in 1994 following the Court approval of the cancellation of the Share Premium Account.

23. ACQUISITIONS MADE IN PREVIOUS YEARS

TelTech International Corp. and Personnel Solutions Inc. (PSI) were acquired on 4 December 1997.

The provisional fair value adjustments have now been reviewed and the following additional adjustments identified. Firstly, debtors were overstated by £78,000 for sales discounts earned during 1997; secondly creditors and accruals were understated by £60,000 for advisors costs associated with legal and tax compliance of TelTech International and PSI prior to the acquisition.

	Book value at acquisition £'000	Provisional fair value adjustment at 31 December 1997 £'000	Additional adjustments in 1998 £'000	Fair value of assets acquired £'000
Tangible fixed assets	289	(61)	—	228
Investment	18	(18)	—	—
Cash	5,741	—	—	5,741
Debtors	4,577	(46)	(78)	4,453
Creditors and accruals	(4,332)	(286)	(60)	(4,678)
Taxation	(712)	—	—	(712)
Deferred taxation	80	(5)	—	75
	5,661	(416)	(138)	5,107

24. LEASE COMMITMENTS

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

Group	Land and buildings £'000	1998 Plant and machinery £'000	Land and buildings £'000	1997 Plant and machinery £'000
Operating leases which expire:				
within one year	198	625	71	450
between two and five years	811	1,637	1,124	1,678
over five years	1,074	—	1,046	—
	2,083	2,262	2,241	2,128
Company		1998 Land and buildings £'000		1997 Land and buildings £'000
Operating leases which expire:				
within one year		225		—
between two and five years		—		420
over five years		39		48
		264		468

25. 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.

The Group established the Parity plc Defined Benefit Scheme (the Parity Scheme) in March 1995 in order to facilitate the continuance of pension entitlements for staff transferring from other company group schemes following acquisitions in 1994. This is a funded scheme.

An actuarial valuation of the Parity Scheme was carried out as at 1 April 1998 by independent consulting actuaries using the "attained age" method. At the valuation date the market value of the scheme's assets was £5.6 million, and the actuarial value of these assets represented 92% of the benefits accrued to members after allowing for expected increases in earnings. The principal assumptions used in the actuarial valuation are those related to the differentials between rates of return on investments and the rates of increases in earnings and pensions. It has been assumed that the investment return would exceed price inflation by $4\frac{1}{4}\%$ and that earnings would exceed price inflation by $2\frac{1}{2}\%$. The revisions to the financial assumptions take into account the impact of the 1997 Finance Act, which removed the ability of pension schemes to reclaim tax credits on UK equity dividends.

From the valuation date the Company continued to contribute to the scheme at the rate of 12.6% of pensionable salaries. However, on the advice of the actuary, the Company has increased its contribution rate to 15.7% from 1 January 1999. It is anticipated that the shortfall between the values placed on the scheme's assets and accrued liabilities will be eliminated over the average remaining working life of the current membership.

The charge to the profit and loss account in 1998 relating to the Parity Scheme was £226,000 (1997 – £217,000).

1999 Financial Calendar

PRELIMINARY STATEMENT ON FULL YEAR RESULTS	3 MARCH 1999
ANNUAL REPORT & ACCOUNTS APPROVED	12 APRIL 1999
ANNUAL GENERAL MEETING	2 JUNE 1999
FINAL DIVIDEND PAYABLE	1 JULY 1999
INTERIM RESULTS	AUGUST 1999
1999 INTERIM DIVIDEND PAYABLE	NOVEMBER 1999

REPORT AND ACCOUNTS

Further copies of the annual and interim reports can be obtained from:

The Company Secretary
Parity plc
18 Grosvenor Gardens
London SW1W 0DM

or by email to: roseco@parity.co.uk

SHAREHOLDER INFORMATION

Further information for shareholders can be obtained from the Company Secretary's office at the above address or from the Parity plc website: www.parity.co.uk