

25 September 2003

Parity Group plc

Interim Results for the Six Months Ended 30 June 2003

Parity Group plc, the international IT services group, announces its results for the six months ended 30 June 2003 and its proposed, fully-underwritten £10.1m (gross) rights issue, details of which are announced separately today.

Group Summary:

- Group turnover £78.9m (H1/02: £96.0m)*
- Group pre-tax operating loss before discontinued operations and goodwill amortisation £1.4m (H1/02: loss £0.2m)**
- Retained loss for the period, including loss on termination of business £13.9m (H1/02: £1.3m)
- Basic loss per share 9.18p (H1/02: 0.63p)
- Basic loss per share before discontinued operations and goodwill amortisation 0.95p (H1/02: 0.17p)
- Improvement in operating profit before central costs and discontinued operations compared to H2/02
- £5.1m of cost savings for the period resulting from 17% reduction in costs (excluding discontinued operations and goodwill) compared to H1/02
- Parity Solutions BV, the Dutch subsidiary closed on 13 June 2003 with a trading loss of £3.2m and a loss on termination of £8.9m (including goodwill of £8.7m previously written off to Other Reserves)
- Proposed £10.1m (gross) rights issue to strengthen the Group's balance sheet
- No interim dividend proposed, in view of the proposed rights issue

* excludes turnover of £2.0m (H1/02: £3.0m) in respect of discontinued operations

** excludes operating loss of £3.2m (H1/02: profit £0.1m) in respect of discontinued operations

Divisional Summary

Business Solutions:

- UK contribution of £603k against H2/02 contribution of £217k
- Order book up 38% in the period
- Overheads reduced by further 11% against H2/02 and down 19% against the same period last year

Training:

- Contribution of £157k against H2/02 loss of £144k
- 27% of revenue from multi-year outsourcing contracts, up from 13% in H1/02
- Overheads down 9% against H2/02 and 12% against the same period last year

Resourcing Solutions:

- UK contribution of £94k compared to loss of £138k in H2/02
- Significant improvement in Mainland Europe over H2/02 from a loss of £372k to a positive contribution of £20k
- Overheads reduced by further 6% against H2/02 and down 24% against the same period last year

Americas:

- Decline in profitability arrested in Q2 – returned to profit in August
- Activity rates suggest strengthening US market
- Overheads down 19% against same period last year

Commenting on the results, Ian Miller, Chief Executive, said:

“We are continuing to make progress in refocusing the Group on higher value business and selling longer running contracts to our key accounts, including a £5m, five year contract with the Charity Commission won shortly after the period end amongst other contract wins that have strengthened our order book in the period.

Earlier this year we announced that we had identified irregularities at one of our Dutch subsidiaries, Parity Solutions BV, which resulted in an overstatement of the Group’s revenue and operating profit for 2002 of £1.6m. Following the examination of a number of options regarding the future of this business a petition to have the business put into receivership was granted and the Group’s liabilities were capped at that point. The full impact of the closure of this business is reflected in the interim accounts and there are no further potential liabilities to the Group in relation to Parity Solutions BV.

We have achieved significant savings from the restructuring initiatives announced in previous years coupled with tight control over discretionary spend. The reduction in costs resulting from these initiatives, together with enhanced sales effectiveness, have enabled us to improve performance in the UK and Mainland Europe compared to the second half of last year. In addition, we are now seeing signs of increased activity in the US IT staffing market.

In the second half we should benefit from our reduced cost base. There is still work to do to close the opportunities in the sales pipeline that we need to meet our revenue targets and we need to ensure that progress made in the performance of the Americas business unit in the latter part of the period continues. However, full year results for the continuing businesses are anticipated to be in line with our expectations.”

Commenting on the intention to raise funds through the proposed rights issue announced separately today, Bill Cockburn, Non-executive Chairman, added:

“In order to ensure our business is appropriately structured to take the Group forward effectively we are announcing today a proposed £10.1m (gross) rights issue to strengthen the Group’s balance sheet, facilitate the extension of its restructuring programme to further reduce overheads, provide working capital to accommodate increased activity across the Group and fund limited capital investment required to extract further savings in back office and support functions.”

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Interim Statement

Financial Performance

The IT services market in the first half has remained challenging and, as indicated in our AGM statement in June, turnover for the period was at a similar level to the second half of last year. Group turnover excluding discontinued operations was £78.9m (H1/02: £96.0m) giving rise to a loss before discontinued operations, interest and goodwill of £936k (H1/02: profit of £112k) but an improvement of £462k (32%) compared to the second half of 2002. The loss per share before discontinued operations and goodwill amortisation was 0.95p (H1/02: 0.17p). After goodwill amortisation, discontinued operations and exceptional items the loss for the period before taxation was £13.8m (H1/02: £0.8m) and the basic loss per share was 9.18p (H1/02: 0.63p).

Dutch Subsidiary

On 9 May 2003, we announced that we had identified irregularities at one of our Dutch subsidiaries, Parity Solutions BV, which resulted in an overstatement of the Group's revenue and operating profit for 2002 of £1.6m. A further announcement was made on 13 June 2003 stating that, following the examination of a number of options regarding the future of this business, the Board had concluded that the business was no longer viable due to the losses arising out of the irregularities identified and it was unable to justify its ongoing support by the Group. A petition to have the business put into receivership was granted by the Utrecht court and the Group's liabilities were capped at that point. The full impact of the closure of this business is reflected in these accounts and there are no further potential liabilities to the Group in relation to Parity Solutions BV. An insurance claim has been lodged and is currently being evaluated by the Group's insurers.

As indicated at the AGM in June 2003, the results of Parity Solutions BV for the period up to 13 June 2003 have been reported as discontinued operations. The operating loss for the period of £3.2m comprises an adjustment for the £1.6m overstatement of revenues in 2002 and a trading loss of £1.6m for the period up to 13 June 2003.

In addition we have reported a loss on the termination of this business of £8.9m which includes £8.7m of goodwill that had been written off directly to Other Reserves at the time of acquisition, in accordance with the required treatment under UK accounting standards at that time. For the purpose of calculating the loss on termination, the goodwill has been reinstated and written off through the profit and loss account and has therefore not impacted net assets. The loss on termination also includes net closure costs of £0.2m.

Cash Flow and Net Debt

There has been a net cash outflow of £0.6m during the period (H1/02: outflow of £4.5m). This included a cash outflow of £0.5m relating to discontinued operations and an outflow of £2.0m relating to previous restructuring initiatives. The net cash inflow from operating activities before discontinued operations was £0.4m. Borrowings against committed facilities increased by £2.5m in the period, resulting in net debt as at 30 June 2003 of £18.0m, an increase of £3.0m compared to 31 December 2002.

The Group has been concerned for some time about the impact of high debt levels on its ability to implement the right business decisions. The Group's strategy of focusing on larger, longer-term outsourcing contracts to produce more predictable and sustainable revenue streams has led to the need for a stronger balance sheet. Large clients need to be assured of the financial strength of the Group and we risk losing business as a result of our weak balance sheet and high level of debt.

Strenuous efforts have been made to manage cash. Net capital expenditure over the last eighteen months has been limited to a very conservative £0.5m compared to £4.2m in the prior eighteen months. Debtor days are running at 44 compared to the 2002 average of 49, and bad debts have been reduced considerably. In addition, the Board has seriously investigated the possible disposal of certain business units but has concluded that none of the offers made have fairly reflected the value of those businesses and it has not, therefore, been in the interests of shareholders to accept them. Further opportunities exist to reduce costs but these require investment of capital expenditure that the Group is not currently able to afford.

We have today announced details of a proposed £10.1m (gross) rights issue (contained in a separate announcement) to strengthen the Group's balance sheet, facilitate the extension of its restructuring programme to further reduce overheads, provide working capital to accommodate increased levels of activity in the Group's business and fund limited capital investment in IT systems required to extract further savings in back office and support functions.

Further Potential Restructuring and Other Exceptional costs

Between 2000 and 2002, Group overheads excluding goodwill and discontinued operations have been reduced by 19% (over £13m). In addition we are on track to deliver in 2003, the further savings of £4.6m arising from the 2002 restructuring programme described in the 2002 Report and Accounts.

Assuming the rights issue is successful, we now plan to extend our restructuring programme to take some £2.9m out of overheads on an annualised basis in order to improve profitability and enhance efficiency, through better divisional integration and shared central costs. Some of these savings will be realised as early as Q4 this year.

Some additional investment in new systems will be put in place in order to achieve greater levels of cost-effectiveness, while improving communication and control between the Group's divisions and geographic areas of operation. It is estimated that a restructuring charge of approximately £3.0m will be taken in the second half of 2003.

The Group continues to seek to sub-let or otherwise exit the onerous leases on the surplus properties vacated to reduce costs. However, the property market has been difficult and other rationalisation possibilities are being explored which may require additional exceptional provisions in H2/03 to those set up in 2001.

The costs incurred over the summer in respect of investigations into the disposal of certain businesses within the Group together with an accelerated depreciation charge on software licences and other fixed assets in connection with the restructuring will also form part of the exceptional charge for the year.

In total, and on the assumption the rights issue is successfully achieved to finance the discretionary costs, we estimate that exceptional costs in the second half of 2003 will be in the order of £6.0m with an associated cash cost in 2003 of £1.7m.

Dividend

At the present time the Board considers it to be inappropriate to pay an interim dividend (2002: 0.2p per share).

Divisional Performance

	<i>6 months ended 30 June 2003</i>		<i>6 months ended 30 June 2002</i>		<i>Year ended 31 December 2002</i>	
	<i>Turnover 2003 £'000</i>	<i>Profit/(loss) before taxation 2003 £'000</i>	<i>Turnover 2002 £'000</i>	<i>Profit/(loss) before taxation 2002 £'000</i>	<i>Turnover 2002 £'000</i>	<i>Profit/(loss) before taxation 2002 £'000</i>
Business Solutions						
United Kingdom	11,582	603	14,321	967	26,529	1,184
Mainland Europe	-	-	2,986	63	5,732	(128)
	11,582	603	17,307	1,030	32,261	1,056
Training	12,777	157	13,516	209	27,138	65
Resourcing Solutions						
United Kingdom	31,590	94	38,031	379	69,100	241
Mainland Europe	14,250	20	17,095	(372)	31,739	(468)
	45,840	114	55,126	7	100,839	(227)
Parity US	8,706	(197)	13,009	422	23,035	618
Central costs		(1,616)		(1,494)		(2,924)
Interest (net)		(423)		(302)		(705)
Before goodwill and exceptional items	78,905	(1,362)	98,958	(128)	183,273	(2,117)
Goodwill amortisation	-	(315)	-	(692)	-	(1,385)
Exceptional items – prior year	-	-	-	-	-	(16,375)
Amounts written off investments	-	-	-	-	-	(4,690)
Discontinued Operations						
Trading result	1,999	(1,598)	-	-	-	-
Exceptional item	-	(1,600)	-	-	-	-
Loss on termination of operations	-	(175)	-	-	-	-
Net interest payable	-	(51)	-	-	-	-
Goodwill previously written off to reserves	-	(8,706)	-	-	-	-
	80,904	(13,807)	98,958	(820)	183,273	(24,567)

Operating Review

Business Solutions

Business Solutions revenues in the UK decreased from £14.3m in H1/02 to £11.6m in H1/03, and the unit's contribution was £0.6m compared to £1.0m in H1/02. However, against the second half of 2002, profitability before exceptionals increased from £0.2m showing the impact of the improved business mix and the reduced cost base. These results reflect the decision to focus on fewer, higher quality contracts in order to drive up utilisation rates and reduce selling costs.

Overhead costs were contained in line with the lower sales activity with a 19% reduction in cost compared with the first half of 2002, achieved through headcount reduction and continued tight control of discretionary expenditure.

We continued to focus on developing revenues from key accounts and longer term contracts which resulted in an increase of 38% in our order book over the six-month period. The proportion of revenues generated from key accounts increased to 63% compared with 55% for the first half of 2002.

This business unit now has seven contracts which will run for longer than one year, compared to only one contract two years ago. While progress has been made in the business unit's commercial key accounts, the attention given to securing more government work has resulted in this sector accounting for 54% of its revenues in the period (H1/02: 39%) and public sector orders of over £5.6m were secured during the period. Parity is one of the few companies to be qualified under the UK Government's S-CAT (pre-approved supplier) contract procedure for all of the IT and Human Capital Management categories, and that gives the Group a significant advantage in this important market.

The business unit's lower cost base and recognised quality make it highly competitive against far larger competitors and although pressure on pricing continued in the period, win rates remained steady. Going forward, the objective is to target selectively government and commercial key accounts to get the business unit back into high growth while maintaining gross margins and keeping down overhead costs.

Training

Training has continued to achieve significant gains in market share, moving from the seventh largest IT training provider in the UK to the second largest according to an industry survey published in 2003 (source – IT Training Magazine, July/August 2003). This performance and the achievement of profitability in a market populated by loss-making training companies is in large part due to Parity's focus on longer-term and more secure multi-year outsourcing contracts.

The business unit has not, however, been immune to the slowdown in the public training market and overall revenues fell by 5.5% against the first half of 2002. That compares to a contraction in the market of approximately 12 – 15% (source - IT Skills Research Group, September 2003). Profitability in H1/03 declined compared to H1/02 from £0.2m to £0.16m but against H2/02 we saw an improvement from a loss of £0.1m and this gain runs counter to the trend for training companies in the UK. In addition to protecting its revenue stream to the maximum extent possible, the business unit has been managing its costs tightly and overheads have been reduced by 12% since the first half of 2002.

New contract wins and extensions in the year to date included a pilot project with an estimated value of £1.4m in partnership with the GMB to provide learning opportunities for basic skills for adults, ongoing outsourcing work with HBOS plc estimated at £2.0m per annum; and an extension for the twelfth consecutive year of our work with the Northern Irish government worth over £1.3m in the current financial year.

The business unit now generates more than 27% of its revenues from contracts running for more than one year, against 13% two years ago. One of the reasons for the continued success of this business is its reputation for quality. It won the IT Training Company of the Year Award, and the individual Trainer of the Year Award through one of its members of staff, in February 2003.

Resourcing Solutions

This business unit saw a fall in revenue from £55.1m in H1/02 to £45.8m in H1/03 (-17%). However, against the second half of 2002, revenues for the first half of 2003 increased by 0.3%. We have seen signs of the sales position continuing to strengthen over the traditionally slow summer period although it is too early to determine if this is an overall improvement in the market or the effect of our tighter sales focus. The Chimes outsourcing contracts transferred to the Group in July 2003 will have a significant impact on revenues in the second half of 2003, though only a marginal impact on profitability. The advantage of the Chimes relationship is in providing access for the Group to Chimes' world-leading package in temporary staff contractor management enhancing our ability to compete in the growing contractor management outsourcing market.

Despite the deterioration in sales, profitability was improved from near break-even in H1/02 to a profit of £0.11m in H1/03. Against the second half of 2002, profitability improved from a loss of £0.23m, demonstrating the benefits of the programme of cost reduction that has been ongoing since 2001. Overhead costs have been reduced by 24% compared to H1/02 and continue to be tightly managed.

In the UK, the business unit gained ground in the first half of 2003, seeing a 2% growth in revenues over the second half of 2002 and an improvement in profitability over the same period from a loss of £0.14m to a profit of £0.09m. The increased contribution from commercial and government Preferred Supplier Agreements (PSAs) offset weaker demand in permanent recruitment. These PSAs now account for over 90% of the UK revenue of this business unit.

In mainland Europe, revenue declined by 3% against the second half of 2002, but profitability was improved. A second half loss of £0.1m was turned into a contribution of £0.02m for the period. Contractor numbers fell in the period from March to June, almost entirely due to the completion of a major project for a client in Germany. However, numbers on billing have risen again - even in the summer holiday period - which is contrary to the normal seasonal trend. In part this is due to the award of several new contracts, but it may also indicate an increasing willingness on the part of customers to outsource project work to contractors rather than employ new permanent staff to undertake temporary assignments.

Americas

This business unit operates in the staffing, business solutions and training markets in the east of the US, but also operates on a project basis elsewhere in The Americas. New management was put in place in late 2002 to refocus the business and to reduce its cost base following an extended period of declining financial performance. Following this change overheads have been reduced by 19% compared to the first half of 2002. Despite this action the business unit reported a loss for the period of £0.2m (H1/02: profit £0.4m) as the market sectors in which it has traditionally been strongest continued to be impacted by the depressed economic climate in the US. However, as a result of the cost reduction actions taken during the period and an increase in the number of contractors on billing, this business unit returned to profitability in August. Additional cost reduction actions have already been taken in the second half of the year and if numbers on billing continue to increase we should see a better performance in the second half.

Outlook and Prospects

We are continuing to make progress in refocusing the Group on higher value business and selling longer running contracts to our key accounts, including a £5m, five year contract with the Charity Commission won shortly after the period end amongst other contract wins that have strengthened our order book in the period.

We have achieved significant savings from the restructuring initiatives announced in previous years coupled with tight control over discretionary spend. The reduction in costs resulting from these initiatives, together with enhanced sales effectiveness, have enabled us to improve performance in the UK and mainland Europe, as compared to the second half of last year. In addition, we are now seeing signs of increased activity in the US IT staffing market.

In the second half we should benefit from our reduced cost base. There is still work to do to close the opportunities in the sales pipeline that we need to meet our revenue targets and we need to ensure that progress made in the performance of the Americas business unit in the latter part of the period continues. However, full year results for the continuing businesses are anticipated to be in line with our expectations.

In order to ensure our business is appropriately structured to take the Group forward effectively we are also announcing today a proposed £10.1m (gross) rights issue to strengthen the Group's balance sheet, facilitate the extension of its restructuring programme to further reduce overheads, provide working capital to accommodate increased levels of activity in the Group's business and fund limited capital investment in IT systems required to extract further savings in back office and support functions.

Group Profit and Loss Account

	<i>Continuing operations 6 months ended 30 June 2003 £'000 (unaudited)</i>	<i>Discontinued operations 6 months ended 30 June 2003 £'000 (unaudited)</i>	<i>Total 6 months ended 30 June 2003 £'000 (unaudited)</i>	<i>6 months ended 30 June 2002 £'000 (unaudited)</i>	<i>Year ended 31 Dec 2002 £'000 (audited)</i>
TURNOVER	78,905	1,999	80,904	98,958	183,273
Operating costs before goodwill amortisation and exceptional items	(79,844)	(3,597)	(83,441)	(98,784)	(184,685)
Goodwill amortisation	(315)	-	(315)	(692)	(1,385)
Exceptional items	-	(1,600)	(1,600)	-	(16,375)
Operating costs	(80,159)	(5,197)	(85,356)	(99,476)	(202,445)
OPERATING LOSS	(1,254)	(3,198)	(4,452)	(518)	(19,172)
Loss on termination of operations	-	(175)	(175)	-	-
Goodwill previously written off to reserves	-	(8,706)	(8,706)	-	-
Amounts written off investments	-	-	-	-	(4,690)
Net interest payable	(423)	(51)	(474)	(302)	(705)
Loss on ordinary activities before taxation and goodwill amortisation	(1,362)	(1,824)	(3,186)	(128)	(2,117)
Amounts written off investments	-	-	-	-	(4,690)
Goodwill previously written off to reserves	-	(8,706)	(8,706)	-	-
Goodwill amortisation	(315)	-	(315)	(692)	(1,385)
Exceptional items	-	(1,600)	(1,600)	-	(16,375)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,677)	(12,130)	(13,807)	(820)	(24,567)
Taxation on ordinary activities	(79)	-	(79)	(133)	357
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(1,756)	(12,130)	(13,886)	(953)	(24,210)
Dividends	-	-	-	(303)	(393)
RETAINED LOSS FOR THE FINANCIAL PERIOD	(1,756)	(12,130)	(13,886)	(1,256)	(24,603)
LOSS PER ORDINARY SHARE					
-Basic			(9.18p)	(0.63p)	(16.01p)
-Diluted			(9.18p)	(0.63p)	(16.01p)
LOSS PER SHARE BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS					
-Basic			(0.95p)	(0.17p)	(1.62p)
-Diluted			(0.95p)	(0.17p)	(1.62p)

Group Balance Sheet

	<i>30 June 2003 £'000 (unaudited)</i>	<i>30 June 2002 £'000 (unaudited)</i>	<i>31 December 2002 £'000 (audited)</i>
FIXED ASSETS			
Intangible assets	9,930	23,688	10,245
Tangible assets	3,468	5,599	4,380
Investments	1,177	5,867	1,177
	<hr/> 14,575	<hr/> 35,154	<hr/> 15,802
CURRENT ASSETS			
Debtors	39,632	48,276	39,028
Cash at bank and in hand	2,554	3,282	3,608
	<hr/> 42,186	<hr/> 51,558	<hr/> 42,636
CREDITORS: amounts falling due within one year			
Variable rate loan notes payable	(21)	(28)	(28)
Bank loan	(17,500)	-	(15,000)
Other creditors	(31,054)	(37,627)	(29,438)
	<hr/> (48,575)	<hr/> (37,655)	<hr/> (44,466)
NET CURRENT (LIABILITIES) ASSETS	<hr/> (6,389)	<hr/> 13,903	<hr/> (1,830)
TOTAL ASSETS LESS CURRENT LIABILITIES	<hr/> 8,186	<hr/> 49,057	<hr/> 13,972
CREDITORS: amounts falling due after more than one year	-	(12,000)	-
PROVISIONS FOR LIABILITIES AND CHARGES	(1,466)	(1,773)	(2,364)
	<hr/> 6,720	<hr/> 35,284	<hr/> 11,608
NET ASSETS	<hr/> 6,720	<hr/> 35,284	<hr/> 11,608
CAPITAL AND RESERVES			
Called up share capital	7,698	7,698	7,698
Capital redemption reserve	50	50	50
Share premium account	3,729	3,729	3,729
Other reserves	44,026	35,320	35,320
Profit and loss account	(48,783)	(11,513)	(35,189)
	<hr/> 6,720	<hr/> 35,284	<hr/> 11,608
EQUITY SHAREHOLDERS' FUNDS	<hr/> <hr/> 6,720	<hr/> <hr/> 35,284	<hr/> <hr/> 11,608

Group Cash Flow Statement

	<i>30 June 2003 £'000 (unaudited)</i>	<i>30 June 2002 £'000 (unaudited)</i>	<i>31 December 2002 £'000 (audited)</i>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES BEFORE EXCEPTIONAL ITEMS	(105)	396	3,874
EXCEPTIONAL ITEMS	(2,032)	(877)	(3,075)
NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES	(2,137)	(481)	799
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received	5	76	126
Interest paid	(546)	(426)	(867)
NET CASH OUTFLOW FROM RETURN ON INVESTMENTS AND SERVICING OF FINANCE	(541)	(350)	(741)
TAXATION (PAID)/RECEIVED	(61)	390	508
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets	(366)	(168)	(649)
Sale of tangible fixed assets	19	22	531
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(347)	(146)	(118)
EQUITY DIVIDENDS PAID	-	-	(2,676)
NET CASH OUTFLOW BEFORE FINANCING	(3,086)	(587)	(2,228)
FINANCING			
Issue of Ordinary shares	-	29	29
Repayment of loan notes	(7)	(3,986)	(3,986)
Increase in borrowings	2,500	-	3,000
NET CASH INFLOW/(OUTFLOW) FROM FINANCING	2,493	(3,957)	(957)
DECREASE IN CASH IN THE PERIOD	(593)	(4,544)	(3,185)

Reconciliation of Net Cash Flow to Movement in Net Debt

<i>Reconciliation of net cash flow to movements in net debt</i>	<i>£'000</i>
Decrease in cash in the period	(593)
Increase in borrowings under variable rate credit facilities	(2,493)
Exchange movements	120
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Movement in net debt in the period	(2,966)
Net debt at 1 January 2003	(14,995)
	<hr/>
Net debt at 30 June 2003	(17,961)
	<hr/> <hr/>

Analysis of Net Debt

	<i>At 1 January 2003 £'000</i>	<i>Cash flow £'000</i>	<i>Exchange movements £'000</i>	<i>At 30 June 2003 £'000</i>
Cash at bank and in hand	3,608	(1,071)	17	2,554
Overdrafts	(3,575)	478	103	(2,994)
	<hr/>			
	33	(593)	120	(440)
	<hr/>			
Variable rate credit facilities	(15,000)	(2,500)	-	(17,500)
Variable rate loan notes	(28)	7	-	(21)
	<hr/>			
Net debt	(14,995)	(3,086)	120	(17,961)
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Reconciliation of Operating (Loss)/Profit to Net Cash Flow

	<i>Continuing operations 6 months ended 30 June 2003 £'000</i>	<i>Discontinued Operations 6 months ended 30 June 2003 £'000</i>	<i>6 months ended 30 June 2003 £'000</i>	<i>6 months ended 30 June 2002 £'000</i>	<i>Year ended 31 December 2002 £'000</i>
Operating loss before exceptional items	(1,254)	(1,598)	(2,852)	(518)	(2,797)
Depreciation of tangible fixed assets	963	60	1,023	1,190	2,366
Amortisation of intangible fixed assets	315	-	315	692	1,385
Loss/(profit) on disposal of tangible fixed assets	260	-	260	(9)	108
Decrease in working capital	840	1,023	1,863	133	2,495
(Decrease)/increase in provisions	(714)	-	(714)	(1,092)	317
Net cash inflow/(outflow) from operating activities before exceptional items	410	(515)	(105)	396	3,874

Reconciliation of Movements in Shareholders' Funds

	<i>6 months ended 30 June 2003 £'000 (unaudited)</i>	<i>6 months ended 30 June 2002 £'000 (unaudited)</i>	<i>Year ended 31 December 2002 £'000 (audited)</i>
Loss on ordinary activities after taxation	(13,886)	(953)	(24,210)
Dividends	-	(303)	(393)
Retained losses	(13,886)	(1,256)	(24,603)
Other recognised earnings/(losses)	292	(65)	(394)
Shares issued to QUEST	-	29	29
Reversal of goodwill previously written off directly to reserves	8,706	-	-
Net decrease in shareholders' funds	(4,888)	(1,292)	(24,968)
Shareholders' funds at start of period	11,608	36,576	36,576
Shareholders' funds at end of period	6,720	35,284	11,608

Notes to the Accounts

1. The information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.
2. The financial information above and the notes thereto, for the six months ended 30 June 2003 has not been audited but has been reviewed by PricewaterhouseCoopers LLP and their report is set out below. The financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 December 2002, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

The Board has announced today that it intends to raise £10.1m (gross) through a rights issue in order to strengthen the balance sheet, facilitate the extension of its restructuring programme to further reduce overheads, provide working capital to accommodate increased levels of activity in the business and to fund limited capital investment. Based on support received from certain of the Group's shareholders (representing approximately 48% of the Company's ordinary share capital) to date, the Board believes that it will be successful in raising this money. In the absence of these additional funds the Board would, in the short term, be unable to undertake certain of the programmes outlined in "Further Potential Restructuring and Other Exceptional Costs" above whilst remaining within its existing banking facilities, the terms of which have been subject to renegotiation with the Group's bankers. On the assumption that the rights issue will be successful, or that other actions could be taken to reduce borrowings, the Board believes that the adoption of the going concern basis is appropriate in the preparation of the Interim Results.

If the adoption of the going concern basis were not to be appropriate, adjustments would be required to reclassify fixed assets as current assets, to adjust assets to their recoverable values and to provide for any further liabilities that may arise.

3. As indicated at the AGM in June 2003, the results of Parity Solutions BV for the period up to 13 June have been reported as discontinued operations. The operating loss for the period of £3.2m comprises an adjustment for the £1.6m overstatement of revenues in 2002 and a trading loss of £1.6m. The loss on the termination of this business was £8.9m including £8.7m of goodwill which had been written off directly to other reserves at the time of acquisition.
4. The tax charge for the period has been calculated based on the forecast Group effective tax rate, before goodwill amortisation, for the year as a whole.
5. The calculation of the loss per Ordinary share is based on a loss after taxation and goodwill amortisation of £13,886,000 (30 June 2002: £953,000 loss, 31 December 2002: £24,210,000 loss). The calculation of loss per share before goodwill amortisation and exceptional items is based on a loss after taxation of £1,442,000 (30 June 2002: £261,000 loss, 31 December 2002: £2,451,000 loss).

Supplementary basic and diluted EPS have been calculated to exclude the effect of goodwill amortisation and exceptional items. The adjusted numbers have been provided in order that the effects of goodwill amortisation and exceptional items on reported earnings can be fully appreciated.

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

	<i>6 months 2003 average number</i>	<i>6 months 2002 average number</i>	<i>Year 2002 average number</i>
i) Basic weighted average number of shares			
Shares in issue	153,969,570	153,887,214	153,928,731
Adjustment for shares held by ESOP	(2,756,238)	(2,756,238)	(2,756,238)
	<hr/>	<hr/>	<hr/>
	151,213,332	151,130,976	151,172,493
	<hr/>	<hr/>	<hr/>
ii) Dilutive weighted average number of shares			
Shares in issue	153,969,570	153,887,214	153,928,731
Adjustment for options and for shares held by ESOP	(2,756,238)	(2,756,238)	(2,756,238)
Adjustment of share options	-	28,452	-
	<hr/>	<hr/>	<hr/>
	151,213,332	151,159,428	151,172,493
	<hr/>	<hr/>	<hr/>

Independent Review Report to Parity Group plc

Introduction

We have been instructed by the Company to review the financial information which comprises the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of movements in shareholders' funds and the related notes to the accounts. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

PricewaterhouseCoopers LLP
Chartered Accountants
London
25 September 2003