Parity Group plc **Interim Report** 2006

Interim Report

Copies of the Interim Report have been sent to shareholders and are available from the Company Secretary at the registered office:

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Financial summary

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year ended 31.12.05 (audited — see note 1) £'000
Revenue from continuing operations	**73,018**	67,252	135,256
Operating profit (loss) from continuing operations before exceptional items and goodwill impairment	**244**	(1,132)	(1,531)
Operating (loss) from continuing operations	**(356)**	(1,132)	(6,321)
(Loss) before taxation from continuing operations	**(1,317)**	(2,002)	(8,256)
Profit/(loss) for the period	**557**	(1,842)	(9,222)
Net debt	**(4,812)**	(15,473)	(19,052)
Equity shareholders' funds (deficit)	**11,099**	2,960	(4,090)

	Pence	Pence	Pence
Loss per ordinary share from continuing operations			
— Basic	**(6.95)**	(25.71)	(108.04)
— Diluted	**(6.95)**	(25.71)	(108.04)
Earnings (loss) per ordinary share			
— Basic	**3.13**	(25.91)	(129.73)
— Diluted	**3.13**	(25.91)	(129.73)

Chairman's statement

Introduction

The first half of 2006 has provided strong evidence that the steps taken in 2005 are starting to bear fruit. The company has made substantial progress towards our stated objectives and the business is in a materially stronger financial position.

Group trading was in line with, or slightly ahead of, expectations in each of the business lines. The Resources business demonstrated strong growth, substantially above market rates whilst at the same time improving margins. The Training business exhibited a significant turnaround with improved margins on, as expected, modestly lower turnover. The Solutions business achieved a positive operating profit and also saw an acceleration in new orders which will translate into revenue and margin growth in H2.

Overall, the Group achieved 9% revenue growth, an indication that our renewed business development focus is having the desired impact in the market and that customers remain committed to Parity both as a partner and as a provider.

The fact that all three of our lines of business delivered positive operating profit performance underlines the improving financial and operating performance in H1 2006.

Group operating profit from continuing operations before exceptional items and goodwill impairment was £244,000 as compared to a loss of £1,132,000 in H1 2005, and a loss of £399,000 in H2 2005. The Group's headline post-tax profit of £557,000 (H1 2005: loss of £1,842,000) was achieved as a result of substantial gains on disposal offset by associated restructuring charges.

Business focus and strategy

We have continued to execute the strategy outlined over the past fifteen months, maintaining a clear focus on the UK and Irish markets.

From an operational perspective we are aiming to reach median or above margins in each business unit whilst ensuring that we develop increased flexibility in our cost structure. We also continue to focus on the disposal of excess facilities, where we continue to make progress.

In both Resources and Solutions, our focus remains on securing profitable business while continuing to invest in our sales capability — all of which is designed to secure continued revenue growth and margin improvement.

Key wins in H1 included winning frameworks with Catalist and the NHS alongside many smaller wins across a number of clients in Resources; a £1.0m project in Training for a large insurance company to assist in a major business change programme; and in Solutions, a systems integration project valued at an initial £1.5m with Northern Ireland Electric, a £3–6m applications management and development contract with BAT, and a people development programme for Invest Northern Ireland valued at £3m over 3 years.

As well as this major focus on business development, management remains heavily focused on managing our cash resources, despite demands of the growing Resources business.

Management team and Board of Directors

Changes to the leadership team are now substantially complete. In February 2006 Alwyn Welch was recruited as the Group's new Chief Executive, and he is already making a positive difference in all areas of the business. During the period, we made two internal appointments, Joe Kelly became Group Finance Director and David Conkleton was appointed Managing Director of Solutions.

In June, the Board was further strengthened by the appointment of Nigel Tose as a Non-Executive Director and Chairman of the Audit Committee.

Balance sheet strengthened

In April the Group successfully completed a share placing and open offer, raising £14.6 million net (£16 million gross) with good support from our existing shareholders and a number of new institutions joining the share register. Upon completion of the fundraising the Group successfully secured new banking facilities on significantly better terms than previously, providing a facility appropriate in both type and scale to support the needs of the business as it recovers and grows.

Cash flow and net debt

The net cash outflow from continuing operating activities was £1,201,000 during the period (H1 05: outflow of £1,875,000). This included a cash outflow for exceptional costs recorded in prior years of £1,371,000 (H1 05: outflow of £1,583,000 for exceptional items). Net debt as at 30 June 2006 was £4.8 million, a decrease of £14.2 million from 31 December 2005.

Tax

The tax credit on continuing operations for the period was £81,000 (H1 05: £174,000) on a Group loss on continuing operations before tax of £1,317,000 (H1 05: £2,002,000). The tax credit represents an effective tax rate of 6.2% compared to the UK statutory rate of 30% due to the fact that a deferred tax asset has not been recognised in respect of certain tax losses, largely relating to central costs, and also due to temporary timing differences.

Disposals and exceptional item

In January, the Group successfully completed the disposal of the major elements of its continental European business to GFT, and in May disposed of the remaining Benelux business. These disposals were in line with our strategy of streamlining the business to focus on the UK and Ireland.

All legacy costs associated with the disposed business have been provided for in H1 2006. It is Group strategy that all remaining legal entities associated with these businesses be closed as soon as practicable. As a result of these disposals a one-off net gain on disposal of £2.0m was booked in the period.

A further exceptional charge of £600,000 was made for one empty property in the UK, where it has become clear that the provisions made in previous years would be insufficient given the current commercial property market in that locality.

Dividend

No interim dividend is payable in respect of the year ending 31 December 2006 (2005: final dividend £nil; interim dividend £nil).

Market conditions and outlook

The overall outlook for the markets Parity serves remains modestly positive.

The market and outlook for our Resources business remains good, especially for more senior roles in which Parity specialises, although we continue to see price pressure in the commercial sector, despite some skill shortages. Based on continuing demand in the skills areas on which we are focused, we expect to see continued revenue growth in H2, and with an increased focus on margin improvement which should start to show benefits in 2007.

The Training market remains very price sensitive, but the decline in overall market size seen in previous periods appears to have halted. We do not expect to see major changes in the performance of the Training business. Our focus remains on earnings rather than top line growth and work continues to improve both the product mix and its associated profit margin as well as our sales channels, in order to deliver modest improvements in future periods allied to a more predictable business.

The Solutions market, whilst remaining competitive, is healthy overall and even strong in some segments such as parts of Public Sector, but with some skills shortages increasing costs. Our Solutions order book built to date this year is expected to lead to above market growth rates in the second half and into 2007. Furthermore we are expecting gradual margin improvement as utilisation levels reach our target in H2.

Management remains focused on continuing the improvement in the Group's operational and financial performance. The results for H2 will further benefit from lower interest charges for the entire period, as a result of the fundraising. Based on higher operating profit and lower interest, we aim to deliver positive PBT in H2.

Many of the key indicators of the business have improved substantially from a year ago but we must and will remain focused on continuing the progress we have achieved to date and on creating value for our shareholders.

Divisional performance — continuing operations

	Six months to 30.06.06 (unaudited) Revenue £'000	Six months to 30.06.06 (unaudited) Profit (loss) before taxation £'000	Six months to 30.06.05 (unaudited) Revenue £'000	Six months to 30.06.05 (unaudited) Profit (loss) before taxation £'000	Year to 31.12.05 (audited — see note 1) Revenue £'000	Year to 31.12.05 (audited — see note 1) Profit (loss) before taxation £'000
Business Solutions	**10,058**	**73**	12,147	35	22,587	21
Training	**9,223**	**94**	10,437	(695)	20,044	(1,161)
Resources	**53,737**	**1,401**	44,668	589	92,625	2,011
Operating profit (loss) before central costs, exceptional items and goodwill impairment		**1,568**		(71)		871
Central costs		**(1,324)**		(1,061)		(2,402)
Operating profit (loss) before exceptional items and goodwill impairment		**244**		(1,132)		(1,531)
Net finance costs		**(961)**		(870)		(1,935)
Impairment of goodwill		**—**		—		(2,500)
Loss before tax and exceptional items		**(717)**		(2,002)		(5,966)
Exceptional costs		**(600)**		—		(2,290)
	73,018	**(1,317)**	67,252	(2,002)	135,256	(8,256)

Geographical performance — continuing operations

	Six months to 30.06.06 (unaudited) Revenue £'000	Six months to 30.06.06 (unaudited) Operating profit before central costs and exceptional items £'000	Six months to 30.06.05 (unaudited) Revenue £'000	Six months to 30.06.05 (unaudited) Operating profit (loss) before central costs and exceptional items £'000	Year to 31.12.05 (audited — see note 1) Revenue £'000	Year to 31.12.05 (audited — see note 1) Operating profit (loss) before central costs and exceptional items £'000
United Kingdom	**72,743**	**1,568**	66,880	(72)	134,501	881
Ireland	**275**	**—**	372	1	755	(10)
	73,018	**1,568**	67,252	(71)	135,256	871

Consolidated income statement (unaudited)
for the six months ended 30 June 2006

	Notes	**Six months to 30.06.06 (unaudited) £'000**	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Continuing operations				
Revenue	2	**73,018**	67,252	135,256
Employee benefit costs		**(10,975)**	(11,436)	(23,305)
Depreciation		**(303)**	(386)	(751)
All other operating expenses		**(61,496)**	(56,562)	(112,731)
Total operating expenses before exceptional items and impairment of goodwill		**(72,774)**	(68,384)	(136,787)
Operating profit (loss) before exceptional items and impairment of goodwill	2	**244**	(1,132)	(1,531)
Exceptional operating expenses	3	**(600)**	—	(2,290)
Impairment of goodwill		**—**	—	(2,500)
Total operating expenses		**(73,374)**	(68,384)	(141,577)
Operating loss		**(356)**	(1,132)	(6,321)
Finance income	4	**—**	—	5
Finance costs	5	**(961)**	(870)	(1,940)
Loss before tax		**(1,317)**	(2,002)	(8,256)
Tax	6	**81**	174	576
Loss for the period from continuing operations		**(1,236)**	(1,828)	(7,680)
Discontinued operations				
Profit (loss) for the period from discontinued operations	7	**1,793**	(14)	(1,542)
Profit (loss) for the period attributable to equity shareholders	12	**557**	(1,842)	(9,222)
Earnings (loss) per share expressed in pence per share				
Basic and diluted	8	**3.13**	(25.91)	(129.73)
Earning (loss) per share from continuing operations				
Basic and diluted	8	**(6.95)**	(25.71)	(108.04)

Consolidated balance sheet (unaudited)

as at 30 June 2006

	Notes	**As at 30.06.06 (unaudited) £'000**	As at 30.06.05 (unaudited) £'000	As at 31.12.05 (audited — see note 1) £'000
Non-current assets				
Goodwill		**7,116**	9,616	7,116
Property, plant and equipment		**697**	1,538	988
Available for sale financial assets		**30**	30	30
Deferred tax assets		**5,160**	5,640	4,954
		13,003	16,824	13,088
Current assets				
Inventories		**1,146**	1,459	1,323
Trade and other receivables		**34,572**	42,004	35,539
Current tax assets		**—**	15	24
Cash and cash equivalents	10	**1,785**	1,935	749
		37,503	45,413	37,635
Assets classified as held for sale and included in disposal groups		**—**	—	8,746
Total assets		**50,506**	62,237	59,469
Current liabilities				
Financial liabilities	10	**(2,086)**	(3,878)	(18,039)
Trade and other payables		**(24,092)**	(33,138)	(29,550)
Current tax liabilities		**(252)**	—	(216)
Provisions		**(1,743)**	(1,215)	(1,718)
		(28,173)	(38,231)	(49,523)
Non-current liabilities				
Financial liabilities	10	**(4,511)**	(13,530)	(19)
Provisions		**(2,103)**	(2,508)	(2,129)
Retirement benefit liability	14	**(4,620)**	(5,008)	(4,657)
		(11,234)	(21,046)	(6,805)
Liabilities classified as held for sale and included in disposal groups		**—**	—	(7,231)
Total liabilities		**(39,407)**	(59,277)	(63,559)
Net assets (liabilities)		**11,099**	2,960	(4,090)
Shareholders' equity (deficit)				
Called up share capital	12, 13	**15,075**	14,434	14,434
Share premium account	12	**20,055**	6,062	6,062
Other reserves	12	**44,160**	44,160	44,160
Retained earnings	12	**(68,191)**	(61,696)	(68,746)
Total shareholders' equity (deficit)		**11,099**	2,960	(4,090)

Consolidated statement of recognised income and expense (unaudited)

for the six months ended 30 June 2006

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Exchange differences on translation of foreign operations	**8**	40	178
Actuarial losses on defined benefit pension schemes	—	(436)	(263)
Deferred taxation on items taken directly to equity	—	131	79
Net income (expense) recognised directly in equity	**8**	(265)	(6)
Profit (loss) for the period	**557**	(1,842)	(9,222)
Total recognised income (expense) for the period	**565**	(2,107)	(9,228)

Consolidated cash flow statement (unaudited)

for the six months ended 30 June 2006

	Notes	**Six months to 30.06.06 (unaudited) £'000**	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Cash flows from operating activities				
Cash used in operations	11	**(4,256)**	(1,831)	(4,460)
Interest received		**—**	—	23
Interest paid		**(615)**	(582)	(1,417)
Tax received		**—**	536	585
Net cash used in operations		**(4,871)**	(1,877)	(5,269)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(74)**	(76)	(327)
Proceeds from disposal of property, plant and equipment		**—**	18	155
Proceeds from sale of subsidiary undertakings		**4,649**	—	—
Net cash from (used in) investing activities		**4,575**	(58)	(172)
Cash flows from financing activities				
Net cash from issue of ordinary shares		**14,634**	—	—
Repayment of loan notes		**—**	(6)	(6)
Net cash relating to borrowings		**(16,250)**	1,637	4,947
Payment of capital element of finance leases		**(9)**	(10)	(20)
Equity dividends paid		**—**	—	—
Net cash (used in) from financing activities		**(1,625)**	1,621	4,921
Net decrease in cash and cash equivalents		**(1,921)**	(314)	(520)
Cash and cash equivalents at beginning of the period		**1,738**	2,175	2,175
Net foreign exchange difference		**(98)**	74	83
Cash and cash equivalents at end of the period	10	**(281)**	1,935	1,738
Cash and cash equivalents consist of:				
— Cash		**1,785**	1,935	749
— Overdrafts		**(2,066)**	—	—
— Cash and cash equivalents held in assets classified as held for sale and included in disposal groups		**—**	—	989
	10	**(281)**	1,935	1,738

For the purposes of the cash flow statement, cash and cash equivalents are net of overdrafts. These overdrafts are excluded from the definition of cash and cash equivalents in the balance sheet.

Notes to the interim results (unaudited)

1 Basis of preparation

The financial information comprises the unaudited results for the six months to 30 June 2006 and 30 June 2005 and the results for the twelve months ended 31 December 2005. The results for the twelve months ended 31 December 2005 included in this report do not constitute statutory accounts for the purpose of sections 237 and 240 of the Companies Act 1985. A copy of the statutory accounts for the twelve months ended 31 December 2005, on which an unqualified report has been made by the auditors, prior to the restatement for the matter below and which did not contain a statement under section 237 (2)–(3) of the Companies Act 1985, has been delivered to the Registrar of Companies.

Figures for the six months to 30 June 2005 contained in the consolidated income statement and related notes have been restated to present the US, German, French, Belgian, Dutch and Swiss operations within discontinued operations. Figures for the year to 31 December 2005 contained in the consolidated income statement and related notes have been restated to present the Belgian, Dutch and Swiss operations within discontinued operations.

Accounting policies
This interim report has been prepared on the basis of the accounting policies set out in the Group financial statements for the twelve months ended 31 December 2005 and on the basis of the International Financial Reporting Standards (IFRS) as adopted for use in the EU that the Group expects to be applicable as at 31 December 2006. IFRS are subject to amendment and interpretation by the International Accounting Standards Board (IASB) and there is an ongoing process of review and endorsement by the European Commission.

2 Segmental analysis

The Group is organised into three primary business segments: Business Solutions, Training and Resources.

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Revenue — continuing operations			
Business Solutions	**10,058**	12,147	22,587
Training	**9,223**	10,437	20,044
Resources	**53,737**	44,668	92,625
	73,018	67,252	135,256
Revenue — discontinued operations			
Resources	**3,369**	21,538	41,383

	Operating result before exceptional items			*Exceptional items*			*Operating result after exceptional items*		
	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000	**Six months to 30.06.06 (unaudited) £'000**	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000	**Six months to 30.06.06 (unaudited) £'000**	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Continuing operations									
Business Solutions	**73**	35	21	—	—	(607)	**73**	35	(586)
Training	**94**	(695)	(1,161)	—	—	(1,007)	**94**	(695)	(2,168)
Resources	**1,401**	589	2,011	—	—	5	**1,401**	589	2,016
	1,568	(71)	871	—	—	(1,609)	**1,568**	(71)	(738)
Central costs	**(1,324)**	(1,061)	(2,402)	**(600)**	—	(681)	**(1,924)**	(1,061)	(3,083)
Impairment of goodwill	—	—	(2,500)	—	—	—	—	—	(2,500)
	244	(1,132)	(4,031)	**(600)**	—	(2,290)	**(356)**	(1,132)	(6,321)

3 Exceptional items

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Continuing operations			
Redundancy payments	**—**	—	(483)
Property restructuring	**(600)**	—	(573)
Network and IT support services exit costs	**—**	—	(1,234)
Total exceptional items from continuing operations	**(600)**	—	(2,290)

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Discontinued operations			
Redundancy payments	**—**	—	(60)
Property restructuring	**—**	—	(287)
Disposal of subsidiary undertakings	**2,046**	—	—
Other	**—**	—	(216)
Total exceptional items from discontinued operations	**2,046**	—	(563)

4 Finance income

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Bank interest receivable	**—**	—	5
Total finance income	**—**	—	5

5 Finance costs

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Bank interest payable	**595**	523	1,246
Post-retirement benefits	**346**	344	692
Other interest payable	**20**	3	2
Total finance costs	**961**	870	1,940

6 Tax

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Current tax	**(88)**	96	879
Deferred tax	**—**	(188)	193
Total tax (credit) charge	**(88)**	(92)	1,072

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Continuing operations	**(81)**	(174)	(576)
Discontinued operations	**(7)**	82	1,648
Total tax (credit) charge	**(88)**	(92)	1,072

The tax (credit) charge above includes a £180,000 tax credit for the six months ended 30 June 2006 (£nil for the six months ended 30 June 2005 and £616,000 credit for the year ended 31 December 2005) arising in respect of exceptional items.

7 Discontinued operations

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Pre-tax (loss) profit from discontinued operations	**(391)**	68	(82)
Gain on disposal of US subsidiary net tangible assets	**131**	—	188
Gain on disposal of European subsidiary net tangible assets	**2,046**	—	—
Taxation	**7**	(82)	(1,648)
Net profit (loss) on disposal	**2,184**	(82)	(1,460)
Total	**1,793**	(14)	(1,542)

8 Earnings (loss) per Ordinary share

The calculation of the earnings (loss) per Ordinary share is based on a profit after taxation of £557,000 (30 June 2005: £1,842,000 loss, 31 December 2005: £9,222,000 loss). The calculation of the loss per share from continuing operations (see the financial summary on page 2) is based on a loss after taxation of £1,236,000 (30 June 2005: £1,828,000 loss, 31 December 2005: £7,680,000 loss).

Supplementary basic and diluted earnings per share have been calculated to exclude the effect of discontinued operations. The adjusted numbers have been shown in the financial summary in order that the effects of discontinued operations on reported earnings can be fully appreciated.

Earnings (loss) per share on discontinued operations	**Six months to 30.06.06 (unaudited)**	Six months to 30.06.05 (unaudited)	Year to 31.12.05 (audited — see note 1)
Basic	**10.08p**	(0.20p)	(21.69p)
Diluted	**10.08p**	(0.20p)	(21.69p)

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

	Six months to 30.06.06 (unaudited) £'000	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Basic			
Weighted average number of fully paid Ordinary shares in issue during the period	**16,925,330**	5,773,833	5,773,833
Weighted average number held by ESOP trust	**(50,822)**	(55,124)	(55,124)
Adjustment for the effect of the issue of new shares under the exercise of rights (see note 13)	**906,200**	1,389,969	1,389,969
Adjusted weighted average number of fully paid Ordinary shares in issue during the period	**17,780,708**	7,108,678	7,108,678
Dilutive			
Weighted average number of fully paid Ordinary shares in issue during the period	**16,925,330**	5,773,833	5,773,833
Dilutive effect of potential ordinary shares	**—**	—	—
Weighted average number held by ESOP trust	**(50,822)**	(55,124)	(55,124)
Adjustment for the effect of the issue of new shares under the exercise of rights (see note 13)	**906,200**	1,389,969	1,389,969
Adjusted diluted weighted average number of fully paid Ordinary shares in issue during the period	**17,780,708**	7,108,678	7,108,678
Number of issued Ordinary shares at the end of the period	**37,812,260**	5,773,833	5,773,833

The weighted average number of Ordinary shares and the issued Ordinary shares for prior periods have been restated to reflect the impact of the capital reorganisation (see note 13).

8 Earnings (loss) per Ordinary share continued

Basic earnings (loss) per share is calculated by dividing the basic earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the ESOP Trust.

Diluted earnings (loss) per share is calculated on the same basis as the basic earnings (loss) per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all potentially dilutive ordinary shares. All options granted by the Group have exercise prices that are above the average price of the Company's ordinary shares for the six months to 30 June 2006. Since it is appropriate to assume that option holders would act rationally, no adjustment has been made to diluted EPS for share option with an exercise price in excess of the market price at the period end.

9 Consolidated reconciliation of net cash flow to movement in net debt

	Six months to 30.06.06 (unaudited — see note 1) £'000
Decrease in cash and overdrafts in the period	(1,921)
Decrease in cash and overdrafts in the period due to foreign exchange movements	(98)
Decrease in bank loans and other bank borrowings	16,250
Repayment of obligations under finance leases	9
Movement in net debt in the period	14,240
Net debt at 1 January 2006	(19,052)
Net debt at 30 June 2006	(4,812)

10 Analysis of net borrowings

	01.01.06 £'000	Cash flow £'000	Exchange movements £'000	**30.06.06 £'000**
Cash and cash equivalents				
Cash at bank and in hand	1,738	145	(98)	**1,785**
Overdrafts	—	(2,066)	—	**(2,066)**
	1,738	(1,921)	(98)	**(281)**
Borrowings				
Bank loans	(17,500)	13,000	—	**(4,500)**
Other bank borrowings	(2,676)	2,676	—	—
Invoice factoring facility	(574)	574	—	—
Obligations under finance leases	(40)	9	—	**(31)**
Net borrowings	(19,052)	14,338	(98)	**(4,812)**

Cash and cash equivalents includes cash held in assets classified as held for sale and included in disposal groups of £nil (1 January 2006: £989,000). Borrowings includes other bank borrowings and invoice factoring facilities of £nil (1 January: 2006 £2,157,000) and £nil (1 January: 2006 £574,000) respectively, held in liabilities classified as held for sale and included in disposal groups.

11 Reconciliation of operating loss after tax to net cash flow

Continuing operations	**Six months to 30.06.06 (unaudited) £'000**	Six months to 30.06.05 (unaudited) £'000	Year to 31.12.05 (audited — see note 1) £'000
Net loss for the period	**(1,236)**	(1,828)	(7,680)
Adjustments for:			
Tax	**(81)**	(174)	(576)
Depreciation	**303**	386	945
Equity settled share based payments	**(10)**	70	141
Impairment of goodwill	—	—	2,500
Loss (profit) on disposal of tangible fixed assets	**62**	(6)	18
Interest income	—	—	(5)
Interest expense	**961**	870	1,940
Changes in working capital			
Decrease in work in progress	**177**	205	341
Decrease (increase) in trade and other receivables	**806**	(967)	(3,178)
(Decrease) increase in trade and other payables	**(2,070)**	759	2,634
Decrease in provisions	**(1)**	(655)	(751)
Change in retirement benefit liability*	**(112)**	(535)	(1,123)
Cash used in continuing operations	**(1,201)**	(1,875)	(4,794)
Discontinued operations			
Net profit (loss) for the period	**1,793**	(14)	(1,542)
Adjustments for:			
Tax	**(7)**	82	1,648
Depreciation	—	69	94
Loss (profit) on disposal of tangible fixed assets	**26**	(1)	23
(Profit) on disposal of discontinued operations	**(2,046)**	—	—
Interest income	—	—	(18)
Interest expense	—	79	236
Changes in working capital			
Decrease (increase) in trade and other receivables	**764**	(634)	320
(Decrease) increase in trade and other payables	**(3,585)**	463	(660)
Increase in provisions	—	—	233
Cash (from) used in discontinued operations	**(3,055)**	44	334
Total net cash flow from operating activities	**(4,256)**	(1,831)	(4,460)

* Excludes finance cost which is shown in interest expense.

Cash generated from operations includes cash outflows relating to exceptional items recorded in prior years of £1,371,000 (30 June 2005: outflow of £1,583,000; 31 December 2005: outflow of £2,663,000).

12 Statement of changes in shareholders' equity (deficit)

	Share capital £'000	Deferred Shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2006	14,434	—	6,062	44,160	(68,746)	(4,090)
Net profit for the period	—	—	—	—	557	557
Capital restructure	(14,319)	14,319	—	—	—	—
Issue of new shares (see note 13)	641	—	13,993	—	—	14,634
Share options — value of employee services	—	—	—	—	(10)	(10)
Net gain recognised directly in equity	—	—	—	—	8	8
At 30 June 2006	**756**	**14,319**	**20,055**	**44,160**	**(68,191)**	**11,099**

13 Issue of new shares

On 30 March 2006 the Company published a prospectus in respect of the fully underwritten issue of a Firm Placing of 16,000,000 New Ordinary Shares and a Placing and Open Offer of 16,038,427 New Ordinary Shares to qualifying shareholders holding ordinary shares at the close of business on 29 March 2006. A capital reorganisation was also proposed to subdivide and redesignate each Ordinary share of 5p into one ordinary share of 2p and 124 deferred shares. Shareholder approval for the issue and capital reorganisation was sought and received at an extraordinary general meeting held on 24 April 2006.

In order to issue shares at below the pre-existing nominal price of 5p the Company completed a capital reorganisation on 28 April 2006 such that:

- Each issued ordinary share of 5p was redesignated into one ordinary share of 2p
- Every 50 shares were consolidated into one New ordinary share and 124 deferred shares.
- Every 2 unissued ordinary shares of 5p were redesignated into 5 New ordinary shares.

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

Net proceeds from this firm placing and placing and open offer amounted to £14,634,000.

14 Post-retirement benefits

The Group provides employee benefits under various arrangements, including through defined benefit and defined contribution pension plans, the details of which are disclosed in the 2005 Annual Report and Accounts. At the interim balance sheet date, the assets and liabilities of the principal defined benefit plans have been updated from the latest actuarial valuations and no material differences were identified.

Independent review report to Parity Group plc

for the six months ended 30 June 2006

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 on pages 6 to 18. 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.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

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 2006.

BDO STOY HAYWARD LLP

Chartered Accountants
8 Baker Street, London W1U 3LL
26 September 2006

Notes

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