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Parity Group PLC
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Parity Group PLC
Half Yearly Financial Report for the six months ended 30 June 2012

Parity Group plc ("Parity", the "Company" or the "Group"), the UK IT services company, announces its interim results for the six months ended 30 June 2012.

HEADLINES

- Group revenues up 5% to £42.86 million (2011: £40.80 million); up 8.9% on second half revenues of 2011 (£39.35 million).
- Acquisition of 3D specialist Inition in May 2012 for £2.25 million with a further conditional earn-out of up to £1 million marks the first step in the Group's strategy to move into the digital media market.
- Group profit, before tax and transaction costs, recovered to £0.32 million (2011: £0.37 million loss)
- Group loss before tax was £0.24 million (2011: £0.37 million loss)
- Cash at period end was £3.12 million (2011: £6.68 million)
- Net debt at period end was £3.94m (2011: £1.12 million)

Philip Swinstead, Chairman of Parity, said:

"It is encouraging in this difficult climate to see the Group's revenue increasing significantly for the first time in five years and a return to underlying profitability.

New strategies and improved offerings in Resources and the fast-growing pipeline in Talent Management are starting to show through in the results. The System's market remains challenging, but we look forward to the fruits of its business intelligence initiative and its integration into our digital media strategy.

We continue to invest in new senior management and professional advice this year to enable the acquisition activity needed for our digital media initiative. As a consequence we were pleased to announce our first such move in May when we acquired Inition, the Shoreditch-based 3D solutions specialist.

We maintain our concentration on improving shareholder value, and will continue to progress our digital media strategy in a careful, considered manner suitable for the current economic climate."

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Parity Group PLC

Half Yearly Financial Report for the six months ended 30 June 2012

Interim Results

The Board is encouraged by the growth in revenues, adjusted EBITDA and divisional contribution, reported today. The Group maintained tight cash control, and invested £0.36 million (2011: £0.20 million) in the growth areas outlined to shareholders in the Placing Prospectus in May 2011.

Results

Following the stabilisation of the Group last year, revenues in the period under review grew 5% to £42.86 million (2011 H1: £40.80 million); being 8.9% higher than in the second half of last year (2011 H2: £39.35 million).

The Group recorded an increase in adjusted EBITDA[1] for the period to £ 0.42 million (2011: £0.15 million) and for the first time in several years a profit, before tax and transaction costs, of £0.32 million (2011: £0.37 million loss).

Group losses before tax, after fully charging investment, non-recurring and transaction costs in the period, were £0.24 million (2011: £0.37 million loss).

Combined divisional contribution[2] for the six months to 30 June 2012 increased to £3.02 million (2011: £2.82 million).

On 29th May the Group made the first step in its strategic move into the digital media market with the acquisition of Inition - the 3D solutions specialist for £1.5 million in cash, £0.75 million in new Parity equity to be held for at least two years, and up to a further £1.0 million dependent on Inition's results over the next two years.

The cash position at 30th June 2012 was £3.12 million (2011: £6.68 million) with net debt at the period end of £3.94 million (2011: £1.1 million).

Non-recurring costs

Non-recurring costs in the period were £0.16 million including transaction costs and reorganisation costs, offset by a property provision release following the rental of the unused part of the Wimbledon office. There was also a further £0.16 million cost on a property lease of a previously discontinued business.

Transaction costs in the period were £0.57 million which included advisory fees for the purchase of Inition and for an aborted transaction.

Parity Resources

Revenues in the period were up 10.8% to £38.27 million (2011: £34.55 million). Divisional contribution was £2.16 million (2011: £1.75 million).

Growth in commercial sector contractor numbers has continued to compensate for the tight control in public sector spending experienced generally across our industry, with the average number of professionals contracted to clients during the period being 779 (2011: first half 684; second half 723).

We continue to pursue ways in which we can develop the business to respond to the changing nature of its market and in particular the inevitable pressure on margins in this climate. The on-going growth reflects the success of these initiatives, including a new Shoreditch sales office.

Parity Systems:

The Parity Systems division has seen much change in the last two years as it exited from the problematic fixed-price contracting arena and made significant cost savings to bring costs in line with on-going revenues. This enabled an improved divisional margin of 16.4% resulting in a divisional contribution £0.56 million in the period (2011: 16%, £0.80 million) on revenues now more stable at £3.42 million (2011: first half £5.00 million; second half £4.20 million).

The division continues to focus on existing and past clients with whom we have a good track record, as well as maintaining a tight control on costs.

In the period Parity's TechLab initiative in Northern Ireland remained on track, announcing a sponsorship agreement with InvestNI for emerging technology product developments, which will be based in Belfast where Parity has moved in to new modern offices in the Titanic centre.

Parity Talent Management:

Revenues in the period were £0.94 million (2011: £1.25 million). The second half of last year proved challenging due primarily to delays in Government spending and this effect continued into the early part of this year. However the Northern Ireland Government have started to spend again and together with the first major GB win in the Education Sector for Sheffield Hallam University and a number of other recent wins, revenues are now growing again on a month by month basis. As a consequence of new contract wins and continuing focus on costs, divisional contribution margins have improved to 26.9% (2011: 21.2%).

The division is now expanding its range of services across the UK; in particular training graduates to get them into long-term permanent roles. The Group won 14 new clients won in the period and has an increasing pipeline of opportunities in a market where there is a recognised national requirement.

Acquisition

The Group announced on 29th May 2012 that it had acquired Inition Limited, a leading-edge 3D technology consultant, systems integrator and equipment provider with particular skills in 3D printing, stereoscopic 3D video production and cutting edge, interactive 3D and augmented reality (AR) projects based in Shoreditch, London. The acquisition enhanced Parity's emerging technology capabilities and was the first step in implementing the Group's stated strategy to move into the expanding digital media market.

Inition's founder management remain in operational control of the business.

The Group acquired Inition for an initial consideration of £2.25 million, satisfied as to £1.5 million in cash on completion and £0.75 million by the issue of 3,031,527 new ordinary shares in Parity Group plc. An additional cash consideration of up to £1 million may become payable depending on the on-going performance of Inition up to 31st March 2014.

The acquisition made a profit contribution in this period in the few weeks following acquisition and is expected to be earnings enhancing in the Group's financial year to 31st December 2012.

Current Trading & Future Prospects

With the financial stability provided by the successful Placing last year, and the balancing of costs and revenues to return the Group to profitability, the new management team at Group and divisional level can now concentrate on planning and enacting its growth strategies, whilst further improving efficiency.

The human resources side of the business (Resources and Talent Management) is now in good shape with solid growth prospects, even in this difficult climate. Margins remain tight as expected; but we are encouraged by current growth and the market reaction to our new initiatives.

Significant growth is not expected in Parity Systems in the near term; until its business intelligence initiatives start to bear fruit. Parity Techlab will be looking to invest in relevant technologies to enhance Systems leadership edge, in addition to its planned emerging technology initiatives.

Inition has performed well since joining the Group with good growth prospects in the emerging 3D solutions field.

The Inition acquisition was the first move into the exciting area of digital media and the Board looks forward to further such moves. The Group is looking to create a new style of leading-edge creative technology business, servicing the future needs of advertising, digital agencies and brands.

Across both the human resources and technology solutions businesses the Board remains highly focused on increasing shareholder value through growth and performance improvement, together with a carefully considered acquisition policy in the digital media field. Current trading is in line with the Board's expectations.

PRINCIPAL RISKS AND UNCERTAINTIES

Pursuant to the requirements of the Disclosure and Transparency Rules the Group provides the following information on its principal risks and uncertainties. The Group considers strategic, operational and financial risks and identifies actions to mitigate those risks. These risk profiles are updated at least annually. The principal risks and uncertainties detailed within the Group's 2011 Annual Report remain applicable for the final six months of this financial year. The Group's 2011 Annual Report is available from the Parity website: www.parity.net

1 In assessing the performance of the business, the directors use a non-GAAP measure "Adjusted EBITDA" being the statutory measure from continuing operations, prior to non-recurring items and share based compensation. Non-recurring items are detailed in note 4. Adjusted EBITDA is reconciled to operating loss in note 3.

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

Consolidated condensed income statement

For the six months ended 30 June 2012

	Notes	**Six months to 30.06.12 (Unaudited)** Before non-recurring items £'000	**Six months to 30.06.12 (Unaudited)** Non-recurring items (note 4) £'000	**Six months to 30.06.12 (Unaudited)** After non-recurring items £'000	Six months to 30.06.11 (Unaudited) Before non-recurring items £'000	Six months to 30.06.11 (Unaudited) Non-recurring items (note 4) £'000	Six months to 30.06.11 (Unaudited) After non-recurring items £'000	Year to 31.12.11 (Audited) Before non-recurring items £'000	Year to 31.12.11 (Audited) Non-recurring items (note 4) £'000	Year to 31.12.11 (Audited) After non-recurring items £'000
Continuing operations										
Revenue		**42,862**	**-**	**42,862**	40,796	-	40,796	80,142	-	80,142
Employee benefit costs		**(4,099)**	**-**	**(4,099)**	(4,088)	-	(4,088)	(7,989)	-	(7,989)
Depreciation & amortisation		**(254)**	**-**	**(254)**	(277)	-	(277)	(537)	-	(537)
All other operating expenses		**(38,412)**	**(157)**	**(38,569)**	(36,653)	52	(36,601)	(71,974)	(1,437)	(73,411)
Total operating expenses		**(42,765)**	**(157)**	**(42,922)**	(41,018)	52	(40,966)	(80,500)	(1,437)	(81,937)
Operating (loss) / profit		**97**	**(157)**	**(60)**	(222)	52	(170)	(358)	(1,437)	(1,795)
Finance income	4	**336**	**-**	**336**	387	-	387	770	-	770
Finance costs	5	**(520)**	**-**	**(520)**	(584)	-	(584)	(1,124)	-	(1,124)
(Loss)/profit before tax		**(87)**	**(157)**	**(244)**	(419)	52	(367)	(712)	(1,437)	(2,149)
Tax (charge) / credit	6	**(247)**	**164**	**(83)**	(55)	-	(55)	(208)	116	(92)
(Loss) / profit for the year from continuing operations		**(334)**	**7**	**(327)**	(474)	52	(422)	(920)	(1.321)	(2,241)
Discontinued operations										
(Loss) for the year from discontinued operations	7	**(4)**	**(160)**	**(164)**	(21)	(7)	(28)	(22)	(36)	(58)
Loss for the year attributable to equity shareholders		**(338)**	**(153)**	**(491)**	(495)	45	(450)	(942)	(1,357)	(2,299)

Basic and diluted loss per share	8	**(0.71p)**	(1.04p)	(4.09p)
Basic and diluted loss per share from continuing operations	8	**(0.47p)**	(0.98p)	(3.99p)

Consolidated condensed statement of comprehensive income

For the six months ended 30 June 2012

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Loss for the period	**(491)**	(450)	(2,299)
Other comprehensive expense:			
Exchange differences on translation of foreign operations	**(62)**	(114)	24
Actuarial (loss)/gain on defined benefit pension schemes	**(1,011)**	(162)	81
Deferred taxation on actuarial gains on pension scheme taken directly to equity	**(7)**	44	(22)
Other comprehensive (expense) / income for the period, net of tax	**(1,080)**	(232)	83
Total comprehensive expense for the period	**(1,571)**	(682)	(2,216)

Consolidated condensed statement of changes in equity

For the six months ended 30 June 2012

	Share capital £'000	*Deferred Shares £'000*	*Share premium reserve £'000*	*Other reserves £'000*	*Retained earnings £'000*	*Total £'000*
At 1 January 2012	1,375	14,319	25,944	44,160	(80,079)	5,719
Loss for the period	-	-	-	-	(491)	(491)
Other comprehensive expense for the period net of tax	-	-	-	-	(1,080)	(1,080)
Issue of new ordinary shares	61	-	689	-	-	750
Share options - value of employee services	-	-	-	-	69	69
At 30 June 2012	**1,436**	**14,319**	**26,633**	**44,160**	**(81,581)**	**4,967**

	Share capital £'000	*Deferred Shares £'000*	*Share premium reserve £'000*	*Other reserves £'000*	*Retained earnings £'000*	*Total £'000*
At 1 January 2011	760	14,319	20,134	44,160	(78,040)	1,333
Loss for the period	-	-	-	-	(450)	(450)
Other comprehensive expense for the period net of tax	-	-	-	-	(232)	(232)
Issue of new ordinary shares	615	-	5,852	-	-	6,467
Share options - value of employee services	-	-	-	-	94	94
At 30 June 2011	1,375	14,319	25,986	44,160	(78,628)	7,212

Consolidated condensed statement of financial position

As at 30 June 2012

	Note	***As at 30.06.12 (unaudited) £'000***	*As at 30.06.11 (unaudited) £'000*	*As at 31.12.11 (audited) £'000*
Non-current assets				
Goodwill		**7,763**	4,594	4,594
Intangible assets - software		**830**	1,077	953
Property, plant and equipment		**611**	727	593
Deferred tax assets		**1,294**	1,487	1,384
		10,498	7,885	7,524
Current assets				
Work in progress		**60**	194	116
Trade and other receivables		**14,120**	14,667	12,539
Cash and cash equivalents		**3,121**	6,678	5,241
		17,301	21,539	17,896
Total assets		**27,799**	29,424	25,420
Current liabilities				
Financial liabilities		**(7,065)**	(7,797)	(6,504)
Trade and other payables		**(10,953)**	(10,161)	(8,783)
Provisions		**(718)**	(895)	(881)
		(18,736)	(18,853)	(16,168)
Non-current liabilities				
Trade and other payables		**(500)**	-	-
Provisions		**(592)**	(711)	(1,066)
Retirement benefit liability	12	**(3,004)**	(2,648)	(2,467)
		(4,096)	(3,359)	(3,533)
Total liabilities		**(22,832)**	(22,212)	(19,701)
Net assets		**4,967**	7,212	5,719
Shareholders' equity				
Called up share capital		**15,755**	15,694	15,694
Share premium account		**26,633**	25,986	25,944
Other reserves		**44,160**	44,160	44,160
Retained earnings		**(81,581)**	(78,628)	(80,079)
Total shareholders' equity		**4,967**	7,212	5,719

Consolidated condensed statement of cash flows

For the six months ended 30 June 2012

	Notes	***Six months to 30.06.12 (unaudited) £'000***	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Cash flows from operating activities				
Loss for year:		**(491)**	(450)	(2,299)
Adjustments for:				
Finance income		**(336)**	(387)	(770)
Finance costs		**520**	584	1,124
Share-based payment expense		**69**	94	177
Income tax charge		**83**	58	95
Amortisation of intangible fixed assets		**124**	125	249
Depreciation of property plant and equipment		**130**	152	288
Change in fair value of available-for-sale investment		**-**	7	7
		99	183	(1,129)
Decrease in work in progress		**77**	44	121
(Increase)/decrease in trade and other receivables		**(1,323)**	141	2,260
Increase/(decrease) in trade and other payables		**741**	(1,343)	(2,570)
Decrease in provisions		**(638)**	(477)	(139)
Payments to retirement benefit plan		**(545)**	-	-
Cash (used in) operations		**(1,589)**	(1,452)	(1,457)
Income taxes paid		**-**	(3)	(3)
Net cash flow from operating activities		**(1,589)**	(1,455)	(1,460)
Investing activities				
Acquisitions (net of cash received)		**(938)**	-	-
Purchase of property, plant and equipment		**(41)**	(9)	(11)
Proceeds from disposal of available-for-sale investment		**-**	123	123
Net cash generated (used in) / from investing activities		**(979)**	114	112
Financing activities				
Net cash from issue of ordinary shares		**-**	6,467	6,425
Net movement on invoice financing		**561**	1,443	150
Interest paid		**(113)**	(136)	(231)
Net cash generated from financing activities		**448**	7,774	6,344
Net (decrease) / increase in cash and cash equivalents		**(2,120)**	6,433	4,996
Cash and cash equivalents at the beginning of the year		**5,241**	245	245
Cash and cash equivalents at the end of the year		**3,121**	6,678	5,241

Notes to the interim results

1 Basis of preparation

The condensed financial statements comprise the unaudited results for the six months to 30 June 2012 and 30 June 2011 and the audited results for the twelve months ended 31 December 2011. The financial information for the year ended 31 December 2011 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for 2011 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2011 was unqualified, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The condensed financial statements for the period ended 30 June 2012 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The information in these condensed financial statements does not include all the information and disclosures made in the annual financial statements.

Accounting policies

The condensed financial statements have been prepared in a manner consistent with the accounting policies set out in the group financial statements for the twelve months ended 31 December 2011 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 2012. 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.

None of the new standard amendments or interpretations that have become effective in the period has had a material effect on the Group.

2 Segmental information

Six months to 30 June 2012 (unaudited)

	Resources	Systems	TMS	Inition	Total
Revenue					
Total revenue	38,320	3,419	936	233	42,908
Inter-segment revenue	(46)	-	-	-	(46)
Revenue from external customers	38,274	3,419	936	233	42,862
Attributable costs	(36,117)	(2,857)	(684)	(187)	(39,845)
Segmental Contribution	**2,157**	**562**	**252**	**46**	**3,017**
Central costs					(2,242)
Adjusted EBITDA before investment costs					**775**
Investment costs*					(355)
Adjusted EBITDA					**420**
Depreciation and amortisation					(254)
Share based charges					(69)

Non-recurring items before transaction costs	411
Finance income	336
Finance costs	(520)
Profit before tax and transaction costs	**324**
Transaction costs**	(568)
Loss before tax (continuing activities)	**(244)**

Six months to 30 June 2011
(unaudited)

	Resources	Systems	TMS	Inition	Total
Revenue					
Total revenue	34,702	5,016	1,248	-	40,966
Inter-segment revenue	(157)	(13)	-	-	(170)
Revenue from external customers	34,545	5,003	1,248	-	40,796
Attributable costs	(32,792)	(4,200)	(984)	-	(37,976)
Segmental contribution	1,753	803	264	-	2,820

Central costs	(2,476)
Adjusted EBITDA before investment costs	344
Investment costs*	(195)
Adjusted EBITDA	149
Depreciation and amortisation	(277)
Share based charges	(94)
Non-recurring items before transaction costs	52
Finance income	387
Finance costs	(584)
Loss before tax and transaction costs	(367)
Transaction costs**	-
Loss before tax (continuing activities)	(367)

2 Segmental information *(continued)*

Year ended 31 December 2011
(audited)

	Resources	Systems	TMS	Inition	Total
Revenue					
Total revenue	68,959	9,222	2,271	-	80,452
Inter-segment revenue	(297)	(13)	-	-	(310)
Revenue from external customers	68,662	9,209	2,271	-	80,142
Attributable costs	(65,156)	(7,347)	(1,810)	-	(74,313)
Segmental contribution	3,506	1,862	461	-	5,829

Central costs	(4,785)
Adjusted EBITDA before investment costs	1,044

Investment costs*	(688)
Adjusted EBITDA	356
Depreciation and amortisation	(537)
Share based charges	(177)
Non-recurring items before transaction costs	(1,437)
Finance income	770
Finance costs	(1,124)
Loss before tax and transaction costs	(2,149)
Transaction costs**	-
Loss before tax (continuing activities)	(2,149)

* Investment costs refer to costs associated with new initiatives which were outlined in the Group's prospectus, issued in respect of the Firm Placing, and Placing and Open Offer of new ordinary shares (see note 11).

** Transaction costs refer to costs associated with the acquisition of Inition, and the legal and accountancy fees incurred during the period in relation to an aborted acquisition.

3 Reconciliation of operating loss to adjusted EBITDA

	Note	***Six months to 30.06.12 (unaudited) £'000***	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Operating loss from continuing operations		**(60)**	(170)	(1,795)
Non-recurring items	4	**157**	(52)	1,437
Share-based payment charges		**69**	94	177
Depreciation and amortisation		**254**	277	537
Adjusted EBITDA		**420**	149	356

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

4 Non-recurring items

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Continuing operations			
Transaction costs	**568**	-	-
Restructuring			
- Employee benefit costs	**89**	-	-
- Other operating costs	**-**	(70)	491
Surplus property	**(500)**	18	946
Total non-recurring items from continuing operations	**157**	(52)	1,437

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Discontinued operations			
Surplus property	**160**	7	36
Total non-recurring items from discontinued operations	**160**	7	36

The continuing operations non-recurring charge for 2012 includes transaction costs, restructuring costs and a credit relating to surplus property. Transaction costs refer to the professional fees incurred in relation the acquisition of Inition Limited, and an aborted acquisition. Restructuring costs refer to the employee costs incurred in relation to the re-organisation of Parity Systems. The credit for surplus properties relates to the sublet of an unoccupied area of the Wimbledon head office, for which the lease costs had been previously provided for, and reflects the contracted sub-let income to the end of the sub-lease.

The discontinued operations non-recurring charge relates to the additional anticipated dilapidation fees payable for an ex-Parity Training Limited office. The lease on this office expires in H2 2012.

In 2011, non-recurring charges included the early termination of the IT outsource contract for £0.44m, and a provision against the unoccupied area of the Wimbledon head office for £0.95m. The discontinued operations charge related to the unwinding of the provision discount, with a small top-up of the provision for an ex-Parity Training building.

5 Finance income

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Expected return on pension scheme assets	**336**	387	770

6 Finance costs

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Bank interest payable	**113**	136	231
Post retirement benefits	**407**	448	893
Total finance costs	**520**	584	1,124

Bank interest payable is in respect of the Group's invoice financing facilities.

7 Tax

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Current tax	**-**	3	3
Deferred tax	**83**	55	92
Total tax charge	**83**	58	95

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Continuing operations	**83**	55	92
Discontinued operations	**-**	3	3
Total tax charge	**83**	58	95

8 Discontinued operations

	Six months to 30.06.12 (unaudited) £'000	*Six months to 30.06.11 (unaudited) £'000*	*Year to 31.12.11 (audited) £'000*
Pre-tax loss from discontinued operations	**(4)**	(18)	(19)
Non-recurring costs	**(160)**	(7)	(36)
Taxation	**-**	(3)	(3)
Total	**(164)**	(28)	(58)

The pre-tax loss in 2012 relates to legacy overseas subsidiaries of the Group. The non-recurring charge in 2012 relates to the additional anticipated dilapidation fees payable for an ex Parity Training Limited office. The lease on this office expires in H2 2012. For 2011, the pre-tax losses comprise company secretarial and accounting fees incurred on behalf of the legacy overseas subsidiaries.

9 Earnings per share

The calculation of the earnings per share is based on a loss after taxation of £491,000 (30 June 2011: loss of £450,000, 31 December 2010: loss of £2,299,000). The calculation of the earnings per share from continuing operations is based on a loss after taxation of £327,000 (30 June 2011: loss of £422,000, 31 December 2011: loss of £2,241,000). The calculation of the loss per share from discontinued operations below is based on a loss after taxation of £164,000 (30 June 2011: loss of £28,000, 31 December 2011: loss of £58,000).

	Six months to 30.06.12 (unaudited)	*Six months to 30.06.11 (unaudited)*	*Year to 31.12.11 (audited)*
Basic and diluted loss per share on discontinued operations	**(0.06p)**	(0.06p)	(0.10p)

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

	Six months to 30.06.12 (unaudited) number	*Six months to 30.06.11 (unaudited) number*	*Year to 31.12.11 (audited) Number*
Basic			
Weighted average number of fully paid ordinary shares in issue during the period	**69,291,239**	43,236,278	56,155,108
Dilutive			
Weighted average number of fully paid ordinary shares in issue during the period	**69,291,239**	43,236,278	56,155,108
Dilutive effect of potential ordinary shares	**-**	-	-
Number of issued ordinary shares at the end of the period (see note 11)	**71,733,094**	68,741,567	68,741,567

Basic earnings 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.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all potentially dilutive ordinary shares. None of the potential ordinary shares are dilutive, as the Group made a loss on continuing activities during the year.

10 Acquisition

On 29 May 2012, Parity Digital Solutions Limited, a wholly owned subsidiary of the Group, acquired 100% of the issued share capital of Inition Limited. Inition is a UK based operator, specialising in 3D solutions.

The fair values of the assets and liabilities acquired are set out in the table below.

Inition Limited

	Note	Book value £'000	Fair value adjustments £'000	Fair value £'000
Property, plant and equipment		107	-	**107**
Trade and other receivables		140	-	**140**
Stock and other assets		137	-	**137**
Cash and cash equivalents		562	-	**562**
Trade and other payables		(325)	-	**(325)**
Deferred income		(331)	-	**(331)**
Current tax liability		(8)	-	**(8)**
		282	-	**282**
Less cash repayable to vendors		(200)	-	**(200)**
Net assets acquired		82	-	**82**
Consideration paid:				
Cash paid				**1,500**
Shares issued	11			**750**
Contingent consideration				**1,000**
Total				**3,250**
Goodwill arising				**3,168**

The Sale and Purchase Agreement allowed for the repayment of surplus cash in excess of £250,000, up to a maximum surplus of £200,000. Since the acquired cash balance was £562,000, an amount of £200,000 became due to the vendors of Inition. This liability was outstanding as at 30 June 2012, and has been paid to the vendors in H2 2012.

The directors have assessed the potential intangible assets of Inition, and concluded that none exist. The directors have also assessed the fair value of the assets and liabilities acquired and concluded that they are not materially different from their book values.

Inition contributed revenue of £233,000, a contribution of £46,000 and a profit before tax of £41,000 to the Group results in the half year ended 30 June 2012. These results are included in the segmental analysis in Note 2.

If Inition's results had been consolidated from 1 January 2012, then it would have contributed revenue of £1,440,000 and a profit before tax of £160,000.

11 Issue of new shares

On 29th May 2012, the Group issued 3,031,527 New Ordinary Shares as partial consideration for the acquisition of Inition Limited (see note 10). The deemed cash value of the issue was £0.75m representing an issue price per ordinary share of 24.74 pence, being the average of closing mid-market share prices of the Group over the 30 previous trading days before completion.

On 11th May 2011 the Group published a prospectus in respect of a Firm Placing of 20,873,087 New Ordinary Shares and a Placing and Open Offer of 9,561,696 New Ordinary Shares at the Issue Price of 23 pence per New Ordinary Share. Qualifying shareholders were able to subscribe for Open Offer shares on the basis of one Open Offer Share for every four Existing Ordinary Shares held. Shareholder approval for the issue was sought and received at an extraordinary general meeting held on 27th May 2011

12 Post retirement benefits

The Group provides employee benefits under various arrangements, including through a defined benefit and defined contribution pension plans, the details of which are disclosed in the 2011 Annual Report and Accounts. At the interim balance sheet date the major assumptions used in assessing the defined benefit pension scheme liability have been reviewed and updated based on a roll-forward of the last formal actuarial valuation, which was carried out as at 5 April 2009.

The following changes in estimate have been applied to the IAS19 valuation as at 30 June 2012:

	30 June 2012 %	30 June 2011 %	31 December 2011 %
Rate of increase in pensions in payment	**3.6**	3.8	3.6
Discount rate	**4.3**	5.5	4.7
Retail price inflation	**2.7**	3.6	3.0
Consumer price inflation	**1.7**	3.1	2.0
Expected return on plan assets	**4.6**	5.5	4.6

13 Commitments and contingencies

The Group leases various buildings which operate within all the segments. The leases are non-cancellable operating agreements with varying terms and renewal rights. The Group also has various other non-cancellable operating lease commitments.

14 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed in this note.

During the period other related party transactions are as follows:

Related party relationship	**Type of transaction**	**Transaction Amount** ***Six months to 30.06.12 (unaudited) £000's***	Transaction Amount *Six months to 30.06.11 (unaudited) £000's*	Transaction Amount *Year to 31.12.11 (audited) £000's*
Directors	Purchase of Group shares	**-**	556	556

Statement of directors' responsibilities

The directors confirm, to the best of their knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union;

The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and gives a true and fair view of the assets, liabilities, financial position and loss for the period of the Group; and

The interim management report includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority, being a disclosure of related party transactions and changes therein since the previous annual report.

By order of the Board
Paul Davies
Chief Executive Officer
20th August 2012

Independent review report to the members Parity Group plc
for the six months ended 30 June 2012

Introduction
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the consolidated condensed income statement, the consolidated condensed statement of comprehensive income, the consolidated condensed statement of changes in equity, the consolidated condensed statement of financial position, the consolidated condensed statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

The annual financial statements of the company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

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

20th August 2012