

**HARVEY
NASH**

Harvey Nash Group plc
Annual Report 2005

Contents

1	Highlights	22	Independent Auditors' Report to the Members of Harvey Nash Group plc
2	At a Glance	24	Consolidated Profit and Loss Account
4	Chairman's Statement	25	Consolidated and Company Balance Sheets
6	Chief Executive's Statement	26	Consolidated Cash Flow Statement
8	Financial Review	27	Statement of Total Recognised Gains and Losses
10	Directors, Secretary and Advisers	27	Reconciliation of Movements in Shareholders' Funds
12	Directors' Report	28	Notes to the Financial Statements
14	Corporate Governance		
17	Remuneration Report		
21	Directors' Responsibilities in Relation to the Financial Statements		

Die Harvey Nash Gruppe ist ein global agierendes Unternehmen, welches seine Dienstleistungen mit 400 Mitarbeitern an 30 Standorten in Europa, USA und Asien anbietet.

Die Gruppe hat ein einzigartiges Portfolio von Personaldienstleistungen, welches Unternehmen in den Segmenten IT und Engineering mit professionellen Lösungen auf der Basis von Werk- und Dienstverträgen, Personalvermittlung und Offshore Development unterstützt. Unsere Executive Search und Interim-Management Division unterstützt unsere Kunden in der erfolgsentscheidenden Rekrutierung von Top Management Positionen.

Unser Ziel ist es, der führende Personaldienstleister von Top Unternehmen zu werden. Wir arbeiten dafür konstant, um die Erwartungen unserer Kunden mit herausragendem Service, Innovation, Flexibilität und uneingeschränkter Entschlossenheit zu übertreffen.

Harvey Nash is een vooraanstaand leverancier van recruitment en outsourcing oplossingen met wereldwijd meer dan 400 medewerkers en 30 kantoren verspreid over Engeland, Europa, de Verenigde Staten en Azië.

De groep beschikt over een uniek portfolio met recruitment en outsourcing services, ontwikkeld om corporate IT activiteiten en organisaties te ondersteunen door professionele oplossingen te bieden op permanente of tijdelijke basis of door middel van offshore development. Onze Executive Search en Interim Management Services ondersteunen onze klanten wereldwijd door het aantrekken van Senior Management talent, essentieel voor een succesvolle toekomst.

Wij willen een professionele wervingspartner voor blue chip organisaties zijn. Dit bereiken wij door de verwachtingen van onze klanten op het gebied van service, innovatie en flexibiliteit te overtreffen en door ons vastberaden voornemen om uit te blinken in alles wat we doen.

Le Groupe Harvey Nash est l'une des premières entreprises internationales de conseil en recrutement, avec 400 personnes dans le monde et 30 implantations couvrant le Royaume Uni, l'Europe, les Etats-Unis et l'Asie Pacifique.

Le Groupe propose une gamme unique de conseil en recrutement, de prestations de sous-traitance et d'externalisation de développement de logiciels aux organisations informatiques.

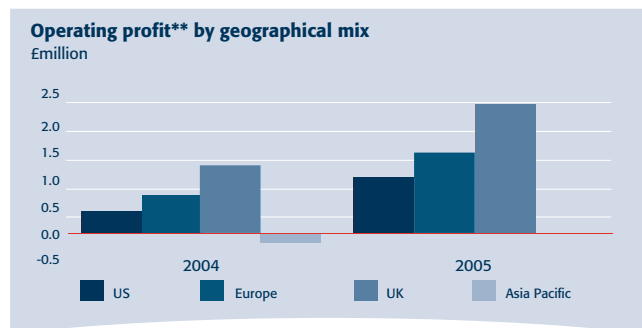
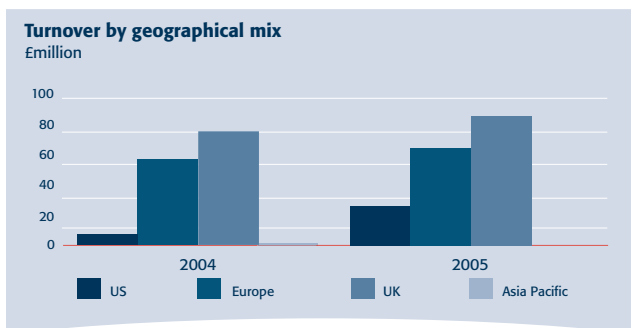
Nos activités de recrutement de cadres dirigeants et d'intérim management contribuent au succès de nos clients, à l'échelle du globe, grâce à la recherche de talents de haut niveau, facteur clé de leur réussite.

Notre objectif est d'être partenaire stratégique privilégié des entreprises de tout premier ordre, grâce à la très haute qualité de nos prestations, à notre capacité d'innovation, à notre flexibilité et à notre détermination sans faille à réussir tout ce que nous entreprenons.

Highlights

	31 January 2005	31 January 2004
Turnover	£163.4m	£130.9m
Adjusted operating profit*	£4.5m	£2.0m
Operating profit/(loss)	£2.1m	(£3.7m)
Adjusted profit before tax*	£3.6m	£1.1m
Profit/(loss) before tax	£1.2m	(£4.5m)

- Turnover up 25% to £163.4m
- Operating profit* up 127% to £4.5m
- UK profit growth** up 90% to £2.2m
- European profits more than doubled to £1.4m**
- US profits growth up 154% to £0.9m**
- Acquisition of Chicago based business in December 2004
- New Jersey office opened October 2004



* Adjusted for goodwill amortisation of £2.2m (2004: £2.1m) and exceptional items of £0.2m (2004: £3.5m) and this meaning shall apply to pages 1 to 9.

** Adjusted for share of goodwill amortisation and exceptional items of £0.2m and this meaning shall apply to pages 1 to 9.

At a Glance

Harvey Nash is a leading provider of specialist recruitment and outsourcing solutions, with over 400 staff worldwide and 30 offices covering the United Kingdom, Europe, the United States and Asia.

The Group has a unique portfolio of recruitment and outsourcing services, designed to support corporate IT functions and organisations, by providing professional solutions on a permanent, contract and offshore development basis. Our Executive Search and Interim Management services support our global clients through attracting senior management talent, critical to their future success.

Our goal is to become the professional recruitment partner of choice to key blue chip organisations. We will achieve this by exceeding clients' expectations by providing outstanding service, innovation, flexibility and an uncompromising determination to achieve excellence in everything we undertake.

IT Recruitment

Our market leading IT recruitment business provides clients with highly skilled IT specialists for senior contract and permanent roles, assisting both global companies and smaller niche organisations in attracting and retaining the very best IT talent.

Global Interim Management

Through our market leading Interim Management business 'Impact Executives', we provide highly specialist interim executives across a broad range of disciplines to our global clients to resolve their short-term resourcing and project needs.

Outsourcing Services

We provide application development, third party software maintenance and outsourced software managed services to blue chip clients across all sectors. Using our CMM level 5 accredited software development centre in Asia, we deliver a unique mix of onshore and offshore services to our clients.

HR Consulting

We have a range of Human Resource services which include Competitor Analysis, Salary Benchmarking, Competency Testing and Training as well as supporting our clients in the attraction, retention and development of key personnel.

International Executive Search

With our global office network, we are able to support our clients' international expansion and their search to attract outstanding executives. This business is sector focused, Technology, Financial Services, Healthcare, Retail, Consumer, Commerce and Industry, and Public Sector.

Project Management Services

We are able to offer our clients a comprehensive portfolio of end-to-end services, including outsourced field services, specialist training, consultancy services and workforce augmentation.

Our Global Offices



USA

- Connecticut
- Chicago
- Denver
- New York
- San Francisco
- Seattle

UK

- Birmingham
- Leeds
- London

Europe

- Brussels
- Dusseldorf
- Frankfurt
- Hamburg
- Munich

- Paris
- Stuttgart
- Utrecht
- Zurich

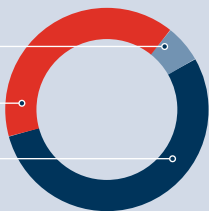
Asia

- Beijing*
- Hanoi
- Hong Kong*
- Shenzhen*
- Guangzhou*

* affiliated office

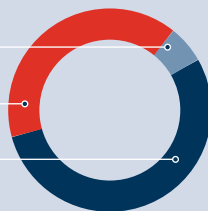
Turnover by geographical area
2004

- 6% US and Asia Pacific
- 40% Rest of Europe
- 54% United Kingdom



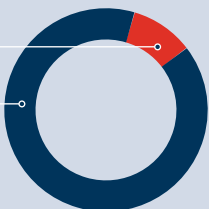
Turnover by geographical area
2004

- 6% US and Asia Pacific
- 40% Rest of Europe
- 54% United Kingdom



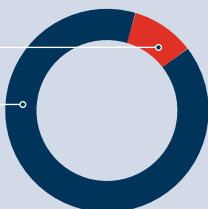
Turnover by market sector
2004

- 10% Consulting Services
- 90% Resourcing Services



Turnover by market sector
2004

- 10% Consulting Services
- 90% Resourcing Services



Chairman's Statement

Ian Kirkpatrick Chairman

The outlook remains encouraging in our principal markets around the world.

Financial Highlights

Turnover for the year was up 25% to £163.4m (2004: £130.9m) which yielded an increase in gross profit of 20% to £32.0m (2004: £26.7m). Operating profit* more than doubled to £4.5m (2004: £2.0m). Profit before tax rose to £1.2m (2004: loss of £4.5m), a turnaround of £5.7m.

Market Conditions

Since August 2003 we have indicated that demand and activity levels were beginning to improve, however, it was in the year ended 31 January 2005 that we saw these increased activity levels translate into actual revenue and profit growth across all of our markets. In the UK, the market for permanent IT professionals was very strong in the first half of the year. In Continental Europe despite continued challenges facing the Eurozone economies we were delighted to be able to increase revenue and double profits. The US continued its strong growth and it is particularly satisfying that the profits for the year now exceed those achieved in 2001.

The IT Sector recovered strongly during 2004 with higher levels of requirements and in some areas increases in margins and pay rates. The recovery in the IT sector occurred mainly in the first half as a result of a release of pent up demand and new projects coming on stream. The contracts business, which picked up mainly in the second half of last year, achieved significant growth and

there is some evidence that the margin decline experienced over the last five years may have bottomed out.

The Consulting business was affected in the second half by a fall in business confidence in the UK due to slowing consumer demand, rising oil prices and uncertainty in interest rates and therefore its results were below our expectations for the final quarter. The division quickly reduced headcount to realign costs with revenues.

Strategic Plan

Over the next three years, our markets are expected to remain competitive and growth rates, whilst stable, will be moderate. The Group's three year plan is designed to achieve better than average market growth through investment in headcount, infrastructure and our new outsourcing services which will generate long term visible revenues. This investment is currently forecast to be £1.0m over the next 12 months.

In the UK, growth will be driven by increased geographical penetration through opening self funding regional satellite offices. In Europe, investment will mainly be focused on increasing headcount in existing locations and organic expansion into new territories. In the US, the Group will seek to increase fee-earning capacity aggressively with new office openings and expansion of new services throughout the existing network.



Ian Kirkpatrick
Chairman

The Group has already begun further investment in its outsourcing services in the UK and in the US. The Group will consolidate its position as a leading provider of senior IT management and technical professionals, with substantial capabilities for outsourcing, both onshore and offshore. Our unique portfolio of services and increased fee-earning capacity will maximise growth in revenues and profits over the next three years although in the short term the investment required will inevitably hold back our progress.

Employees

The Board expresses its thanks to all the Group's staff for their continued commitment and loyalty throughout the year. In particular, we believe that their professionalism, pace and urgency to deliver, have been the most important factors in the successful recovery of the Group and they deserve full recognition.

Board of Directors

To support the Group's three year strategic plan the Board is pleased to announce the following changes. David Higgins, Chief Executive Officer will become Executive Deputy Chairman. Albert Ellis, Group Finance Director will be promoted to Chief Executive Officer. The Board will look to appoint a new Group Finance Director and in the interim, Albert Ellis will continue to perform the role until a replacement is appointed. David Treacher retires at the Annual General

Meeting and the Board would like to thank him for his valuable contribution and wish him well for the future.

Outlook

In the UK, the demand for IT professionals remains strong with the Resourcing division continuing its growth. However, the lower levels of business confidence have impacted our Consulting division. Whilst still profitable, Consulting's revenues are likely to be lower in the current year than last year.

In Continental Europe the growth rates in the first quarter are positive and activity levels remain high. With higher margins and improved productivity, this should translate into strong profit growth.

In the US, the Group is investing significantly in fee earners, infrastructure and outsourcing in order to achieve differentiation, critical mass and enhanced national coverage.

Whilst our progress in the current year will be held back by the investment we are making in our business and the lower level of revenues within the Consulting division, the overall outlook remains encouraging in our principal markets around the world.

“Our unique portfolio of services and increased fee-earning capacity will maximise growth in revenues and profits over the next three years.”

Chief Executive's Statement

David Higgins Chief Executive

We have delivered a strong financial performance growing revenues and operating profits and demonstrating the strength and quality of the underlying business.

The Group's unique portfolio of services and strong brand have positioned us well to take advantage of the improved market conditions. As a result, we have delivered a strong financial performance, growing revenues by 25% to £163.4m and operating profits* up 127% to £4.5m, demonstrating the strength and quality of its underlying businesses.

The operating profit margin* of the Group increased to 2.7% from 1.5% last year as the Group realised the benefits of increased volume from higher margin markets.

United Kingdom

Turnover in the UK was up 13.7% to £79.7m (2004: £70.1m) with net operating profit** up 90% to £2.2m (2004: £1.1m).

In the first half year, demand for permanent IT professionals increased as a result of more projects coming on line. Once the volume of projects improved, demand picked up for flexible IT consultants, positively affecting the Group's IT contracting business, which strengthened in the second half.

In the offshore software development business, investment began to pay off as the forward order book started rising again following the end of a large project in Continental Europe in August last year. In addition, the sales and marketing investment which will drive this business forward in the coming year, was initiated in the final quarter.

The Executive Search business experienced strong demand in the first half year and the number of interim managers on assignment was steady. However, as business confidence weakened towards the end of the year, clients delayed key senior hiring decisions and turnover fell back in the second half.

Continental Europe

Turnover was up 13% to £59.5m (2004: £52.9m) and operating profit* increased by 117% to £1.4m (2004: £0.6m).

We indicated in April 2004 that activity levels in Europe were picking up and revenues were expected to increase even though the larger European economies had not yet returned to robust growth. This can be seen in the 25% improvement in second half revenues compared with the first half. Profits in the second half rose by 54% when compared with the first half, reflecting the focus on higher margin services.

In particular, the Benelux countries experienced increasing numbers of requirements as the market improved in the second half of the year. In the Netherlands, the Group adds value to clients through its Managed Services, designed to provide recruitment process outsourcing solutions to large organisations such as Siemens. Demand is strong for this service and profits in the second half were boosted considerably as volumes improved.



David Higgins
Chief Executive

“The Group’s success is based on differentiation and added value services.”

In France, demand for our Consulting services remained weak and the business made a small loss for the year. In the current year the Group is implementing its plan to increase its focus on the IT market and broadening the range of services offered. Currently the expectation is that the business as a whole will be profitable by January 2006.

Germany returned to healthy growth in the year ended 31 January 2005 as the business focussed on providing higher margin value added services such as systems management outsourcing (to IBM mainframe clients) and specialist candidates through its SAP competency centre.

Finally, Switzerland has successfully leveraged the Group’s portfolio of services to capitalise on the increasing demand for permanent IT professionals in the banking and insurance sector.

United States

The US was the strongest market for our services in the world last year. The Group increased its revenues there by 223% to £24.1m (2004: £7.4m) and its operating profit** by 154% to £0.9m (£0.4m). This growth is partly due to the full benefit of acquisitions made during the previous year.

The Group opened an office in New Jersey in October 2004. This is a key commercial centre where many Fortune 500 companies have relocated their back office operations post September 11th. The start up investment cost, included in the US

operating profit, was £0.1m. In line with the Group’s strategy of differentiation through added value services, a key part of the service offered here is “outsourcing”, mainly focused on infrastructure and help desk operations. This office is now gaining traction in its markets and is expected to breakeven by January 2006. Winning any one of a number of outsourcing proposals which are currently under consideration at prospective clients, will shorten the budgeted time to profitability.

In December 2004, the Group acquired the business and certain assets of Bluesuit Consulting, a small niche IT Services business in the Chicago area. This completes the first stage of our strategic plan to establish a presence in all the major cities in the US.

Having grown revenues and profits so aggressively over the last year, the Group is now further strengthening its management team with professional back office and systems infrastructure which will enable the US business to grow to the next level. Capacity has been created to provide a sound platform to increase profits in the medium term although the investment will weigh heavily on results in the short term. In addition, the investment required to establish an IT outsourcing service is estimated to be in the region of £0.2m in the coming year. This will increase the opportunity for the Group to continue its strategy of focusing on added value services in higher margin markets.

Group Overview

The Group’s success is based on differentiation and added value services. Investment in our IT outsourcing and offshore services will be increased this year as clients are looking to their trusted partners to take more control of their IT resources. Harvey Nash is particularly well placed with its unique portfolio of services and strong brand to take advantage of these growth opportunities.

Financial Review

Albert Ellis Group Finance Director

Strong cash flows funded expansion of the business and enabled the Group to make a further reduction in the long-term debt.

Profit and Loss Account

Turnover increased 25% to £163.4m for the year ended 31 January 2005 (2004: £130.9m) mainly as a result of improved trading and the US acquisitions. Gross profit margin of 19.6% was slightly below the previous year (2004: 20.4%) reflecting the increase in direct sales commissions associated with the growth in turnover. Excluding this the gross margin remained stable at 23.3% (2004: 23.3%). The proportion of turnover relating to the Resourcing Division was 92% (2004: 90%) compared to 8% (2004: 10%) from Consulting.

The total fully inclusive cost base of the Group for the year was marginally lower than last year at £30.0m (2004: £30.4m) reflecting the £3.3m reduction in exceptional charges offset by increased investment in headcount and office infrastructure of £2.9m.

Group operating profit for the year was £2.1m (2004: loss of £3.7m) from which interest payable of £0.9m (2004: £0.9m) was deducted, resulting in a turnaround from a loss before taxation of £4.5m for the year ended 31 January 2004 to a profit before taxation in the year under review of £1.2m.

Exceptional Items

In the year the Group incurred net exceptional items of £0.2m (2004: £3.5m) as a result of the integration of the US acquisitions, costs of due diligence performed on an aborted potential acquisition, offset by the release of a provision for UK property costs (£0.4m) no longer required. There is no change to the total charge at the year end.

Taxation

A tax charge of £0.8m for the year has arisen (2004: £0.3m). £0.4m relates to current year taxes in the UK and Europe and £0.5m to prior year taxes with an increase of £0.04m in the deferred tax asset. The deferred tax asset of £1.2m (2004: £1.2m) represents unrelieved tax losses of £1.1m and short-term timing differences of £0.1m.

Earnings per Share

Basic earnings per share of 0.55p compares to a loss per share in 2004 of 8.75p. The adjusted earnings per share is 4.26p compared to a loss in 2004 of 0.74p.

Balance Sheet

Intangible assets increased by an additional £2.1m, mainly in relation to the acquisition of the business of Bluesuit Consulting Inc in Chicago. During the year goodwill of £2.2m was written off in the profit and loss account and variances due to foreign exchange movements amounted to a net £0.1m

At 31 January 2005, fixed assets were £1.4m (2004: £1.4m) which reflected matching capital expenditure and depreciation written off in the year.

Debtors have increased to £32.1m (2004: £23.7m) mainly as a result of increased trading particularly in the final quarter of the year, however debtor days slipped by 13% compared to 31 January 2004 mainly in the UK where payments due from three large clients were received after the year end.



Albert Ellis
Chief Financial Officer

Creditors falling due within one year have also increased in line with trading, however, a reduction in the banking revolving credit facility of £3.0m is included for the first time as a short term liability, transferred from creditors falling due after more than one year at 31 January 2004.

The provision for liabilities and charges of £0.3m (2004: £1.6m) relates to an estimate of the Group's future property lease obligations in Europe.

Cash Flow

Trading cash flow of £5.3m was generated from operations before the effects of movements in working capital. Cash outflow from operating activities was £1.4m (2004: £1.9m) after deducting £6.6m invested in working capital.

Interest paid was £0.9m (2004: £0.9m) and taxation paid of £1.4m (2004: £0.5m) mainly relates to adjustments in the UK and payments for prior period Swiss corporation tax (including £0.5m withholding tax), of which 85% has been recovered after the year end.

Capital expenditure of £0.8m compares to £0.4m last year and represents investment in updating the Group's IT systems and the continued investment in its Contractor Management System.

The net cash effect of acquisitions and disposals during the year was £nil (2004: £1.5m outflow).

The Group had £0.1m cash inflow from financing, being the exercise of share options of £0.2m offset by £0.1m applied to finance leases (2004: net cash outflow of £3.8m).

In summary, the Group's net debt position increased from £4.8m to £8.8m as a result of the working capital investment of £6.6m, reduced by free cash flow of £2.3m and favourable foreign exchange differences of £0.3m.

Banking Facilities

The Group has renewed its banking facilities totalling £22.0m which comprise working capital of £15.0m, an overdraft of £4.2m and a residual £3.1m of revolving credit which is repayable on 30 April 2006.

Acquisitions

In November 2004 the Group issued 870,717 ordinary shares in connection with the Group's deferred consideration for the acquisition of Snowdogs LLC, the Group's Seattle based business. The earnout target was exceeded and accordingly the second tranche of deferred consideration was settled. There was no cash element. The final tranche is due after 31 January 2006.

On 17 December 2004 the Group entered into an agreement to acquire the business and certain assets of Bluesuit Consulting Inc, an IT business based in Chicago for a maximum consideration of \$4.7m. The initial consideration of \$1.2m (£0.6m) was settled by way of a fresh issue of 743,716 ordinary shares. The deferred consideration will be satisfied by the issue of shares with an aggregate value of up to a maximum of \$3.5m, based on the business achieving certain targets over the three years ending 16 December 2007.

International Financial Reporting Standards (IFRS)

The 2005 financial year end will be the last reporting period prior to the introduction of IFRS. The Group will report its interim results for the 2006 year end in accordance with IFRS, together with the restatement of 2005 on a comparable basis.

Directors, Secretary and Advisers

Ian Kirkpatrick, BSc, MBA

Non-Executive Chairman

Ian Kirkpatrick, aged 60, is Non-Executive Chairman. Following a career in consultancy, stockbroking and commerce, he joined Bank of Scotland and became a director in the banking division of British Linen Bank Limited, its subsidiary. He is currently Non-Executive Director of Baronsmead VCT plc and a number of other companies. He was appointed Chairman of Harvey Nash in January 1997.

David Higgins, BSc

Chief Executive

David Higgins, aged 46, is Chief Executive and founder of the business and was appointed in February 2000. He was previously Joint Managing Director with responsibility for the Executive Search & Selection Division.

Albert Ellis, BACC, CA (SA)

Group Finance Director

Albert Ellis, aged 41, is Group Finance Director, appointed in February 2000. He joined the Group in July 1998 as UK Finance Director. He was previously a divisional Finance Director with Hays Plc.

Tom Crawford

Non-Executive Deputy Chairman

Tom Crawford, aged 54, is Non-Executive Deputy Chairman and founder of the business. He was previously Joint Managing Director with responsibility for Group Operations and the IT File Search Division.

David Treacher, BSc

Non-Executive Director

David Treacher, aged 42, is a Non-Executive Director and founder of the business. He was previously Joint Managing Director with responsibility for the IT Contract Services Division.

Gus Moore

Non-Executive Director

Gus Moore, aged 67, is a Non-Executive Director. He was appointed in April 1999. He was previously on the Board of Hong Kong Telecom and Managing Director of Hong Kong Telecom CSL. He is currently Non-Executive Director of a number of companies.

Directors

Ian Kirkpatrick, BSc, MBA
David Charles Higgins, BSc
Albert George Hector Ellis, BACC, CA (SA)
Peter Augustine Moore
Thomas Francis Alexander Crawford
David Hedley Treacher, BSc

Secretary

Albert George Hector Ellis, BACC, CA (SA)

Registered Office

13 Bruton Street
London W1J 6QA

Registered Number

3320790

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

Solicitors

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Registrars

Lloyds Bank Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Financial Advisers

Close Brothers Corporate Finance
10 Crown Place
London EC2A 4FT

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
No 1 Embankment Place
London WC2N 6RH

Principal Bankers

Royal Bank of Scotland
36 St Andrew Square
Edinburgh EH2 2YB

Directors' Report

for the year ended 31 January 2005

The Directors present their Annual Report and the audited financial statements of the Group and Company for the year ended 31 January 2005.

Principal Activities

The Group's principal activity during the year was the provision of professional recruitment and outsourcing services, in particular providing information technology professionals for permanent and contract positions worldwide. The Group has a branch in Vietnam.

A review of the business and future developments is set out in the Chairman's Statement, Chief Executive's Operational Review and Financial Review.

Results and Dividends

The Group's profit before tax for the year was £1.2m (2004: loss £4.5m). No dividends have been declared in the year.

Share Capital

On 28 February 2004 the Company issued 80,883 new ordinary shares, with a nominal value of £4,044 in relation to the employee share option scheme.

On 2 March 2004 the Company issued 385,166 new ordinary shares, with a nominal value of £19,258 as settlement of deferred consideration relating to the acquisition of Snowdogs LLC.

On 17 March 2004 the Company issued 105,500 new ordinary shares, with a nominal value of £5,275 in relation to the share bonus scheme.

On 1 April 2004 the Company issued 60,294 new ordinary shares, with a nominal value of £3,015 in relation to the employee share option scheme.

On 14 July 2004 the Company issued 480,000 new ordinary shares, with a nominal value of £24,000 in relation to the employee share option scheme.

On 15 October 2004 the Company issued 171,495 new ordinary shares, with a nominal value of £8,575 in relation the share bonus scheme.

On 17 November 2004 the Company issued 55,883 new ordinary shares, with a nominal value of £2,794 in relation to the employee share option scheme.

On 26 November 2004 the Company issued 870,717 new ordinary shares, with a nominal value of £43,536 as settlement of deferred consideration relating to the acquisition of Snowdogs LLC.

On 1 December 2004 the Company issued 46,177 new ordinary shares, with a nominal value of £2,309 in relation to the employee share option scheme.

On 24 December 2004 the Company issued 743,716 new ordinary shares, with a nominal value of £37,186 in relation to the acquisition of the business and assets of Bluesuit Consulting Inc.

During the year the number of shares in issue increased to 62,682,678 ordinary shares with a nominal value of £3,134,134.

Directors and Their Interests

The Directors who held office during the year and at the date of this report are shown on page 10. In accordance with the Company's Articles of Association, David Higgins and Gus Moore retire by rotation and, being eligible, offer themselves for reappointment. All Executive Directors have service contracts with the Company terminable by either party giving to the other not less than 12 months' notice.

The beneficial interests, in both shares and share options, of the Directors and their families are disclosed in greater detail in the Remuneration Report. There have been no changes to these interests since the year end.

Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Directors' Report continued

for the year ended 31 January 2005

Employee Involvement

Consultation with employees is of considerable importance to the Group. The views of employees are taken into account when decisions are made which are likely to affect their interests and all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees is made through conferences, announcements, intranet, briefing groups and the distribution of the Annual Report.

Equal Opportunities

The Group is committed to the principle of Equal Opportunities both as an employer and as a recruitment services provider. All decisions relating to employment practices are objective, free from bias and based upon work criteria and individual merit.

Creditor Payment Policy

The Group's creditors are paid in accordance with terms agreed with them prior to the supply of goods or services. The Group pays all contractors providing IT services within 25 days (2004: 25 days) of receipt of their invoice. Other trade creditor days of the Group for the year ended 31 January 2005 were 55 days (2004: 55 days), based on the ratio of Group trade creditors at the year end to the amounts invoiced during the year by trade creditors. The Company has no trading activity.

Substantial Shareholdings

On 22 April 2005 the Company had been notified that, in addition to holdings in which the Directors are beneficially interested, there were holdings of 3% or more in the ordinary share capital of the Company as follows:

	No. of shares	Per cent of total
Unicorn Asset Management	17,580,558	28.0%
Aegon Asset Management	4,858,196	7.8%
USS Ltd	2,424,786	3.9%
M & G Investment Management Ltd	2,371,032	3.8%

Directors' and Officers' Liability Insurance

Insurance has been taken out by the Company (as permitted by Section 310(3) of the Companies Act 1985) for its Directors and officers against liabilities in relation to the Company.

Employee Share Schemes

The Directors consider that the opportunity to own shares in the Group is a vital part of motivating and retaining employees. Details of the share schemes are included on page 20.

Pensions

The Group operates three defined contribution pension schemes, the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, the Group Personal Pension Plan and a stakeholder scheme.

Political and Charitable Donations

The Group made no political or charitable donations during the year (2004: £nil).

Reappointment of Auditors

In accordance with Sections 384 and 385 of the Companies Act 1985, a resolution will be put before the shareholders at the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors for the ensuing year and to authorise the Directors to fix their remuneration.

On behalf of the Board

Albert Ellis

Company Secretary

22 April 2005

Corporate Governance

for the year ended 31 January 2005

The Group fully supports the Principles of Good Governance and Code of Best Practice as set out in the FRC Combined Code issued in July 2003. The Board has considered the implications of the new revised Combined Code on the Group's governance and will comply with those provisions considered appropriate for the size of the Group.

Application of Principles of Good Governance

Board of Directors

At 22 April 2005 the Board of Directors comprised two Executive and four Non-Executive Directors. The two Non-Executive founders, David Treacher and Thomas Crawford are considered independent. The Group has an independent Chairman and Senior Independent Non-Executive Director who are both members of the Audit, Remuneration and Nomination Committees. The Executive Board members are the Chief Executive Officer and the Chief Financial Officer. In addition, the Chief Executive Officer is a member of the Nominations Committee.

The Board meets at least 10 times per annum and has a fixed schedule for reviewing the Group's operating performance. In addition such other meetings as are required are arranged to deal with specific issues or transactions. The Board also has a schedule of matters and responsibilities specifically reserved to itself the main items of which include:

- approval of the published financial results and other statements;
- appointments to the Board and other Board Committees;
- approval of the annual Group Strategic Plan and Budget;
- approval for acquisitions, mergers and disposals;
- approval for new businesses which require start up capital;
- approval of capital expenditure and leasehold agreements over certain thresholds;
- approval of material contracts over certain thresholds; and
- approval of treasury policy and significant financing arrangements.

During the year attendance at the pre-arranged meetings was 100% for the Chairman and Executive Board members and circa 95% for the Non-Executives.

The Executive Directors are responsible for the day to day operational and financial management of the Group within the framework set out by the Board. Outside the formal schedule of matters reserved for the Board, the Chairman and Non-Executive Directors make themselves available for consultation with the Executive team as often as necessary.

Procedural compliance is monitored by the Chairman and the the Chief Financial Officer (who is also the Company Secretary) and Directors' appointment and removal is a matter for the Board as a whole. Independent professional advice and training is available to all the Directors. The Senior Non-Executive Director is available for consultation with shareholders, through the Company Secretary, and the Executive Directors have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings.

On joining the Board, a new Director receives appropriate induction including meeting with other Directors and senior management, visiting the Group's key operations and meeting the Groups' principal advisors.

The Board has a policy of reasonable funding for independent professional advice for all Directors in furtherance of their duties as Directors of the Company.

In relation to non-reserved matters the Board is assisted by a number of committees with delegated authority.

Audit Committee

The Audit Committee meets at least twice a year with the Group's senior financial management and external auditors to review the interim and annual financial statements, the accounting policies of the Group, its internal financial control procedures and compliance with accounting standards. The members of the Committee are Ian Kirkpatrick (Chairman) and Gus Moore, both of whom are independent Non-Executive Directors.

The Board considers that the membership of the Committee as a whole has sufficient recent and relevant financial experience to discharge its function. The Committee has a formal agenda, timetable and terms of reference.

Corporate Governance continued

for the year ended 31 January 2005

During the course of the period under review the Committee has:

- reviewed the financial statements and the financial reporting judgements contained within those statements for the Group and any formal announcements relating to the Group's financial performance;
- reviewed the Group's internal control system and risk controls;
- reviewed various reports and recommendations from the Group's internal audit function;
- made a recommendation to the Board in relation to the appointment, terms of engagement and remuneration of the external auditors whilst monitoring their independence and objectivity;
- reported to the Board any matters, which it considered needs action or improvements together with recommended actions;
- made itself available to hear any concerns from staff, in confidence; and
- reviewed the effectiveness of the audit process.

The Committee's full terms of reference are available from the Company Secretary on request.

The Audit Committee applies a policy which governs the provision of audit and non-audit services provided by the auditors and, in summary, requires significant non-audit services other than tax and other compliance services to be subjected to a competitive tendering process.

The Committee is authorised to engage the services of external advisors, as it deems necessary, at the company's expense in order to carry out its function.

The Committee met three times during the year with full attendance by its members.

Remuneration Committee

The Remuneration Committee meets at least twice a year. The members of the Committee are Ian Kirkpatrick (Chairman) and Gus Moore, both of whom are independent Non-Executive Directors. The Committee's full terms of reference are available from the Company Secretary on request.

The Remuneration Committee determines and approves the broad policy and specific remuneration and long term incentive arrangements of the Company's Executive Directors and certain of the senior management. The Committee's full terms of reference are available from the Company Secretary on request. The Group Chief Executive Officer may be invited to attend and speak at meetings of the Committee, but does not participate in any matter which impacts upon his own remuneration arrangements.

The remuneration of the Non-Executive Directors including the Chairman is set by the Executive Directors.

The Directors' Remuneration Report on pages 17 to 20 includes details of remuneration policy, practices and the remuneration of the Directors.

The Remuneration Committee met four times in the year with full attendance by its members.

Nomination Committee

The Company has established a Nominations Committee, which provides a transparent process and procedure for the appointment of new Directors to the Board. The members of the Committee are Ian Kirkpatrick (Chairman), Gus Moore (Senior Independent Non-Executive) and David Higgins (Chief Executive Officer). The Committee's terms of reference, which are available from the Company Secretary on request include:

- responsibility for identifying and nominating candidates for appointment to the Board;
- evaluating the balance of skills, knowledge and experience required on the Board; and
- succession planning.

The Nomination Committee did not meet during the year.

Directors' Remuneration

Details of Directors' remuneration and the procedures for developing policy on executive remuneration and for fixing the remuneration of the Board are contained in the Remuneration Report set out on pages 17 to 20.

Relations with Shareholders

The Board maintains regular dialogue with its institutional shareholders and City analysts by conducting formal presentations, being readily available for discussion and providing information as required. Shareholder attendance and participation at the AGM is welcomed.

Corporate Governance continued

for the year ended 31 January 2005

Accountability and Audit

The Board has made every effort to ensure that this report represents a balanced understandable assessment of the Group's position and prospects.

The means by which the Board maintains a sound system of internal financial control is set out below.

Internal Control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal controls, for monitoring their effectiveness to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that it has been in place for the year under review and up to the date of approval of the annual report and financial statements, that it is regularly reviewed by the Board and accords with the Turnbull guidance.

The Board identifies and appraises risks, and maintains control and direction over appropriate strategic, financial, and organisational structure matters with formally defined lines of responsibility and delegation of authority. There are established procedures for planning and capital expenditure, for information and reporting systems, and for monitoring the Group's businesses and their performance. The Board has delegated to executive management the implementation of the systems of internal financial control within an established framework that applies throughout the Group and is responsible for reviewing the Group's whistleblowing procedures.

The Directors believe the following to be the key procedures established to provide internal financial control:

- The operation of authorisation procedures.
- Clearly delegated responsibilities.
- Close involvement of senior management in day to day activities.
- Setting of detailed annual budgets with detailed reporting of variance analysis on a monthly basis.
- The operation of an Audit Committee, supported by an internal audit function.

The Directors have reviewed the systems of internal financial control in operation during the year.

Compliance with Code Provisions

The Company has complied throughout the year with Section 1 of the Code of Best Practice except as follows:

Code Provision A3.2

The Company has four Non-Executive Directors, two of whom, David Treacher and Tom Crawford, are considered non-independent due to their respective significant shareholdings.

The Board has appointed Gus Moore as the senior independent Non-Executive Director in addition to the Company's existing independent Non-Executive Chairman.

Code provision A6.1

The Company has not complied with provision A.6.1 as the Board did not put in place during the year under review a formal process to consider its performance either as a Group or individually, nor have the Chairman and Non-Executive Directors met together to specifically assess the performance of the Chairman. The Board intends to consider appropriate measures, which may include external support, to ensure that an evaluation of its performance is put in place in the next financial year.

Going Concern

After having made appropriate enquiries including a review of the 2005/06 Group budget, medium term plans and available banking facilities compared to funding requirements, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Albert Ellis

Company Secretary
22 April 2005

Remuneration Report

for the year ended 31 January 2005

This Report, which has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the Combined Code ('the Regulations'), outlines the membership and workings of the Remuneration Committee ('the Committee') and provides an explanation of the various elements of the Company's remuneration policy together with details of Directors' remuneration in respect of the year ended 31 January 2005. In accordance with the Regulations, a resolution to approve this Report will be proposed at the forthcoming Annual General Meeting.

The Regulations require the auditors to report to shareholders on the information contained in the descriptions 'Directors' Remuneration', 'Interest in Share Options', 'Directors' Pension Entitlement' and the share option scheme sections in this Report ('the auditable parts') and to state whether, in their opinion, these parts of the Report have been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

Remuneration Policy

Executive remuneration packages are designed to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages. These packages are reviewed each year to ensure that they are fair and competitive and reflect the responsibilities and experience of each Director. The Remuneration Committee seeks to ensure that they are supportive of the Group's business objectives and the creation of shareholder value and takes advice from external sources in order to determine and develop its policies. The Group expects to review this policy on an ongoing basis. A balanced view is taken of remuneration split between non-performance related and performance related elements.

The remuneration package of each Director is determined by the Remuneration Committee, taking into account the performance of the individual and information from independent sources for similar jobs in comparable companies.

The Executive Director remuneration packages consist of:

- Basic salary.
- Performance-linked bonus.
- Share options.
- Company car allowance.
- Pension contribution.
- Private healthcare insurance.

The performance-linked bonus is payable depending on the level of Group profit for the year compared to budget. If the maximum bonus became payable it would represent no more than 50% of the Executive's basic salary.

Fees payable to the Non-Executive Directors are determined by the Board at the beginning of each financial year having given due consideration to market practice.

Directors' Service Contracts

In line with Group policy Directors' contracts contain notice periods which do not exceed 12 months.

The details of the service contracts of those who served as Directors during the year are:

	Contract date	Unexpired term	Notice period	Contractual termination payments
Executive				
David Higgins	01.02.01	Continuous	12 months	Unexpired notice period
Albert Ellis	01.02.01	Continuous	12 months	Unexpired notice period
Non-Executive				
Ian Kirkpatrick	07.08.01	Continuous	6 months	Unexpired notice period
Tom Crawford	07.08.01	Continuous	6 months	Unexpired notice period
Gus Moore	07.08.01	Continuous	6 months	Unexpired notice period
David Treacher	07.08.01	Continuous	6 months	Unexpired notice period

Remuneration Report continued

for the year ended 31 January 2005

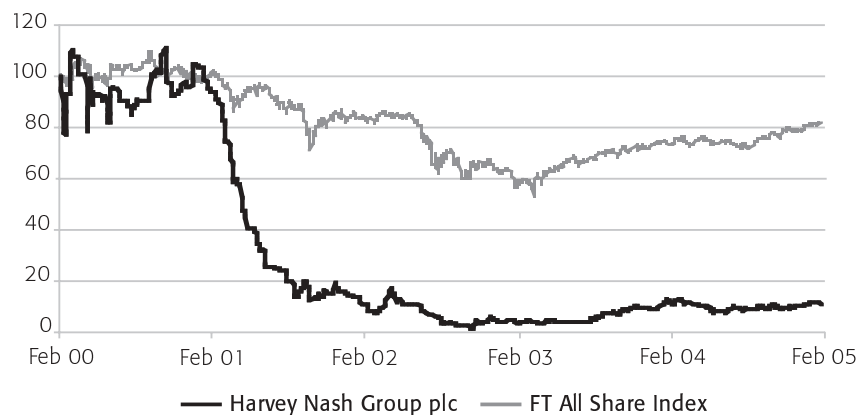
Members of the Remuneration Committee

The members of the remuneration committee during the year were:

Ian Kirkpatrick
Gus Moore

Both members are independent Non-Executive Directors. Ian Kirkpatrick chairs the committee.

Performance Graph



February 2000: 100

Source: DataStream

In the opinion of the Directors the FT All Share Index is the most appropriate index against which the total shareholder return of Harvey Nash Group plc should be measured considering the variation in market capitalisation of the Group over the period.

The total shareholder loss in the five-year period is 88% compared to the index loss of 17%.

Directors' Remuneration (auditable)

	Salary and fees £	Benefits in kind £	Annual bonus £	2005 Total £	2004 Total £
Executive					
David Higgins	231,000	18,465	115,500	364,965	302,737
Albert Ellis	189,000	19,901	94,500	303,401	250,205
Ian Basser (resigned 16 October 2003)	—	—	—	—	145,896
Non-Executive					
Ian Kirkpatrick	50,600	—	—	50,600	46,000
Tom Crawford	22,000	—	—	22,000	20,000
Gus Moore	22,000	—	—	22,000	20,000
David Treacher	22,000	—	—	22,000	20,000
	536,600	38,366	210,000	784,966	804,838

Benefits in kind include car allowance, medical insurance and a limited contribution to the cost of personal tax advice.

Remuneration Report continued

for the year ended 31 January 2005

Annual Bonus (auditable)

Albert Ellis and David Higgins receive performance payments based on the level of Group profit for the year compared to budget.

Interests in Share Options (auditable)

Details of options held by Directors in the Harvey Nash Group plc performance related Share Scheme are set out below:

	Date of grant	Earliest exercise date	Expiry date	Share price on grant date (p)	Exercise price (p)	No at 31 January 2004	Granted in year	Exercised in year	Lapsed in year	No at 31 January 2005
David Higgins	11.4.03	11.4.06	11.4.13	35.0	30.7	180,000	–	–	–	180,000
	01.4.04	01.4.07	01.4.14	89.0	89.0	–	180,000	–	–	180,000
Albert Ellis	11.4.03	11.4.06	11.4.13	35.0	30.7	180,000	–	–	–	180,000
	01.4.04	01.4.07	01.4.14	89.0	89.0	–	180,000	–	–	180,000

No other Directors have been granted share options in the shares of the Group or other Group entities. None of the terms and conditions of the share options were varied during the year. The remaining options were granted as part of the Harvey Nash 2000 Executive Share Option Scheme. The performance criteria associated with this Scheme are given below.

The options were granted at the prevailing market price, calculated as the average of the previous five days mid closing price, at the time of the grant in accordance with the rules of the Scheme. There was nil cost to the Directors at the date of grant. The market price of the Group shares at the end of the financial year was 91.5p. The range of market prices during the year was between 63.5p and 106p.

Interest in Shares

The interest of the Directors in the shares of the Company were:

	31 January 2005 Ordinary shares	31 January 2004 Ordinary shares
David Higgins	7,982,378	8,982,378
Albert Ellis	–	–
Ian Kirkpatrick	5,250	5,250
Tom Crawford	4,576,827	4,576,827
Gus Moore	22,000	22,000
David Treacher	5,329,992	5,329,992

Included in the above, pursuant to the provisions of the Companies Act 1985, DH Treacher, DC Higgins and TFA Crawford, are deemed to be interested in their capacity as trustees, in the ordinary shares of the Company held by Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes and the Harvey Nash Directors' Retirement and Death Benefit Scheme. As at the date of this report and 31 January 2005, the interest was in a total of 1,488,025 ordinary shares.

David Higgins Incentive Trust

Following the placing and open offer in March 2002, 2,801,216 ordinary shares were placed in the David Higgins 2002 Discretionary Trust for the purpose of establishing an additional means of incentivising certain key employees of the Group, using funds provided by David Higgins. During the year 1 million shares were transferred from the Trust to Ian Bassar (ex-Director) who exercised his option at a price of £1. Options of the remaining 200,000 shares originally granted to Ian Bassar lapsed. David Higgins remains a beneficiary of this trust and these shares are included in his total interest above of 7,982,378.

In addition to the share options disclosed above, on 16 December 2002, the David Higgins Discretionary Trust granted options to Albert Ellis over 700,000 Harvey Nash shares. Under the Trust deed these options can be exercised immediately. This Trust is independent of the Company Schemes and granting of options remains at the sole discretion of the Trustees, David Higgins and Albert Ellis and therefore the Trust is outside the scope of the Remuneration and Audit Committees. These options can be exercised at any time prior to 16 December 2012 for an aggregate exercise price of £1. Any income tax or national insurance contributions arising on the exercise of these options will be payable by the option holder. There are no performance criteria associated with the exercise of these options.

Remuneration Report continued

for the year ended 31 January 2005

Directors' Pension Entitlement (auditable)

The Group made the following pension contributions during the year to defined contribution schemes nominated by the Executive Director:

	31 January 2005 £	31 January 2004 £
David Higgins	23,100	22,000
Albert Ellis	18,900	18,000
Ian Basser	–	12,750
	42,000	52,750

Share Option Schemes

At 31 January 2005, the following options to subscribe for ordinary shares have been granted to certain employees (including Directors) under the terms of the Share Option Schemes:

The Harvey Nash Group plc Share Options Scheme 1997 (auditable)

At 1 February 2004 the scheme held 51,470 ordinary shares. Options over these shares were exercised in the year.

The Harvey Nash Group plc Performance Related Share Schemes (auditable)

The Performance Related Schemes are administered by the Board under the supervision of the Remuneration Committee. The schemes are open to all full time employees except those who have had a material interest in the Group within the previous 12 months. The options granted under the Performance Related Scheme are subject to certain performance criteria, including earnings per share growth. The schemes' exercise price is determined by the Board but will not be less than the average share price for the five days immediately preceding the grant of options. The Harvey Nash Group plc Performance Related Share Plan is an Inland Revenue Approved Scheme, however, the Board is able to grant unapproved options under the Scheme. For schemes from July 2000 the Group has obtained agreement from the employee that he or she will settle the employer's national insurance charge in respect of any gain arising on eventual exercise. All options are granted for nil consideration.

Date of grant	Exercisable from	Exercisable to	Exercise price	Options at 1 February 2004	Granted	Lapsed	Exercised	Options at 31 January 2005
8.4.97	8.4.00	8.4.07	£1.783	5,610	–	–	–	5,610
19.5.98	19.5.01	19.5.08	£4.104	45,066	–	2,366	–	42,700
1.3.02	1.3.05	1.3.12	£0.590	1,330,158	–	33,089	113,237	1,183,832
25.10.02	25.10.05	25.10.12	£0.243	1,976,000	–	125,000	405,000	1,446,000
11.4.03	11.4.07	11.4.13	£0.307	1,165,000	–	–	205,000	960,000
19.11.03	19.11.07	19.11.13	£0.830	60,000	–	–	–	60,000
27.11.03	27.11.07	27.11.13	£0.770	75,000	–	–	–	75,000
1.4.04	1.4.07	1.4.14	£0.890	–	420,000	–	–	420,000
24.6.04	24.6.07	24.7.14	£0.700	–	125,000	10,000	–	115,000
2.8.04	2.8.07	2.8.14	£0.700	–	150,000	–	–	150,000
15.11.04	15.11.07	15.11.14	£0.796	–	150,000	–	–	150,000

The Harvey Nash Group plc Sharesave Scheme

On 13 May 2002 options over 332,529 ordinary shares were granted to 124 employees under a fourth Sharesave Scheme at a price of 86p. Options over 175,254 shares are still held under the three year plan.

The Sharesave Scheme is an Inland Revenue Approved Scheme. Furthermore, there is no UITF17 charge to the Company on grant of shares as the scheme is specifically exempted under the abstract.

On behalf of the Board

Ian Kirkpatrick
Chairman

22 April 2005

Directors' Responsibilities in Relation to the Financial Statements

for the year ended 31 January 2005

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that they have complied with the above requirements in preparing the financial statements.

The Directors are also responsible for the maintenance of the Group's website, however, information published on the Internet is accessible in many different countries where legislation governing the preparation and dissemination of financial statements may differ from that applicable in the United Kingdom. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors do not accept responsibility for changes that may have occurred to the financial statements since they were initially presented on the website.

Independent Auditors' Report to the Members of Harvey Nash Group plc

for the year ended 31 January 2005

Independent Auditors' Report to the Members of Harvey Nash Group plc

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Chief Executive's Operational Review, the Finance Director's Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Independent Auditors' Report to the Members of Harvey Nash Group plc *continued*

for the year ended 31 January 2005

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 January 2005 and of the profit and cash flows of the Group for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- Those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

22 April 2005

Consolidated Profit and Loss Account

for the year ended 31 January 2005

	Notes	Before amortisation of goodwill and exceptional items 2005 £'000	Amortisation of goodwill and exceptional items 2005 £'000	After amortisation of goodwill and exceptional items 2005 £'000	2004* £'000
Turnover - continuing operations	2 & 3	163,374	–	163,374	130,911
Cost of sales		(131,336)	–	(131,336)	(104,175)
Gross profit		32,038	–	32,038	26,736
Administrative expenses excluding goodwill amortisation	13	(27,584)	(200)	(27,784)	(28,265)
goodwill amortisation	10	–	(2,194)	(2,194)	(2,123)
		(27,584)	(2,394)	(29,978)	(30,388)
Group operating profit/(loss)	3 & 4	4,454	(2,394)	2,060	(3,652)
Interest payable	6	(896)	–	(896)	(884)
Profit/(loss) on ordinary activities before taxation		3,558	(2,394)	1,164	(4,536)
Taxation on profit/(loss) on ordinary activities	7	(833)	–	(833)	(331)
Profit/(loss) on ordinary activities after taxation		2,725	(2,394)	331	(4,867)
Profit/(loss) for the financial year	21	2,725	(2,394)	331	(4,867)
Basic profit/(loss) per share	9			0.55p	(8.75)p
Diluted profit per share	9			0.51p	–
Adjusted profit/(loss) per share	9			4.26p	(0.74)p

* The 2004 results include operating exceptional costs amounting to £3,494,000 and goodwill amortisation amounting to £2,123,000.

Consolidated and Company Balance Sheets

as at 31 January 2005

	Notes	Group 31 January 2005 £'000	Group 31 January 2004 (Restated – see note 1) £'000	Company 31 January 2005 £'000	Company 31 January 2004 £'000
Fixed assets					
Intangible fixed assets	10	30,845	30,759	–	–
Tangible fixed assets	11	1,415	1,413	–	–
Investments	12	–	–	46,917	46,917
		32,260	32,172	46,917	46,917
Current assets					
Debtors	14	32,052	23,662	8,243	10,801
Cash at bank		–	1,613	10	67
		32,052	25,275	8,253	10,868
Creditors due within one year					
	15	(28,442)	(20,420)	(56)	(588)
Net current assets		3,610	4,855	8,197	10,280
Total assets less current liabilities		35,870	37,027	55,114	57,197
Creditors due after more than one year	16	(3,112)	(6,333)	(6,198)	(10,917)
Provision for liabilities and charges	17	(280)	(1,641)	–	–
Net assets		32,478	29,053	48,916	46,280
Capital and reserves					
Share capital	20	3,134	2,984	3,134	2,984
Shares to be issued	21	2,386	1,648	2,386	1,648
Share premium account	21	19,054	18,023	19,054	18,023
Capital contribution	21	–	–	20,000	20,000
Other reserves	21	12,750	11,736	11,008	9,994
Own shares held	21	(1,081)	(1,081)	–	–
Profit and loss account	21	(3,765)	(4,257)	(6,666)	(6,369)
Equity shareholders' funds		32,478	29,053	48,916	46,280

The financial statements on pages 24 to 44 were approved by the Board on 22 April 2005 and signed on its behalf by:

Ian Kirkpatrick
Chairman

Albert Ellis
Chief Financial Officer

Consolidated Cash Flow Statement

for the year ended 31 January 2005

	Notes	2005 £'000	2004 £'000
Net cash (outflow)/inflow from operating activities	22	(1,350)	1,890
Returns on investments and servicing of finance			
Interest paid		(893)	(863)
Interest element of finance lease repayments		(3)	(21)
Net cash outflow from returns on investments and servicing of finance		(896)	(884)
Tax paid		(1,433)	(476)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(796)	(400)
Net cash outflow from capital expenditure		(796)	(400)
Acquisitions and disposals			
Cash acquired with acquisitions	26	278	133
Purchase of subsidiary undertakings (including amounts paid for loan account)		(329)	(1,610)
Cash from disposal of investment		51	–
Net cash outflow from acquisitions		–	(1,477)
Net cash outflow before financing		(4,475)	(1,347)
Financing			
Issue of share capital		228	103
Premium on issue of shares		–	1,619
Payment of expenses on issue of equity shares		–	(68)
Movement in borrowings		–	(5,176)
Capital element of finance lease repayments		(121)	(228)
Net cash inflow/(outflow) from financing		107	(3,750)
Decrease in cash in the year	23	(4,368)	(5,097)

Statement of Total Recognised Gains and Losses

for the year ended 31 January 2005

	2005 £'000	2004 £'000
Profit/(loss) for the financial year	331	(4,867)
Currency translation differences on foreign currency net investments offset in reserves	161	414
Total recognised gains/(losses) for the year	492	(4,453)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 January 2005

	2005 £'000	2004 (Restated - see note 1) £'000
Profit/(loss) for the financial year	331	(4,867)
Issue of share capital	150	183
Increase in shares to be issued	738	1,648
Share premium on issued shares less share issue costs	1,031	1,578
Movement in other reserves	1,014	838
Currency translation differences on foreign currency net investments offset in reserves	161	414
Net increase/(decrease) in equity shareholders' funds	3,425	(206)
Restated opening shareholders' funds (see note 1)	29,053	29,259
Closing equity shareholders' funds	32,478	29,053

The previously reported 31 January 2004 equity shareholders' funds balance has been reduced by £400,000 as a result of the adoption of UITF Abstract 38 in respect of own shares held (see note 1).

Notes to the Financial Statements

for the year ended 31 January 2005

1 Basis of Preparation

These financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. The 31 January 2004 net assets of the Group have been reduced by £0.4m, following the reclassification of own shares held that are now categorised within capital and reserves (previously included in fixed asset investments), in accordance with the adoption of UITF 38. In addition in accordance with UITF 38, a £0.7m adjustment was made to the accumulated profit and loss reserves arising on previous impairments of own shares held that had passed through the profit and loss account in prior periods.

2 Accounting Policies

(a) Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and all its subsidiary undertakings made up to the year end using acquisition accounting. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. Intra Group sales and profits are eliminated fully on consolidation. On the acquisition of a subsidiary all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account. Where deferred consideration on acquisitions is to be satisfied by the issue of Harvey Nash Group Plc shares, the directors estimate the contingent liability and establish a shares to be issued reserve.

(b) Turnover

The Group derives its turnover in the Resourcing business on a time and materials basis. It is recognised as services are rendered as validated by receipt of a client approved timesheet or equivalent. On fixed price development work revenue is recognised on the percentage completion basis, using pre-specified milestones or a client sign off to trigger invoices or the estimate of profit.

Permanent placement fees in the consulting business are recognised as services are provided, and typically in three stages; placement, shortlist and retainer fee.

(c) Depreciation

Depreciation is provided on a monthly basis to write off the cost of each asset over its estimated useful life according to the following rates:

Leasehold improvements	Over the term of the lease
Office equipment	20% straight line
Furniture, fixtures and equipment	20% straight line
Computer equipment	33 $\frac{1}{3}$ % straight line
Motor vehicles	25% reducing balance

(d) Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies in each company are translated at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated at the rate prevailing at the date of the transaction.

On consolidation, revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange for the period. Assets and liabilities denominated in foreign currencies are translated into sterling using rates of exchange ruling at the balance sheet date.

Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions are included in the consolidated profit and loss account.

The principal exchange rates to Sterling affecting the Group were:

	31 January 2005	Average	31 January 2004	Average
Swiss franc	2.2416	2.2728	2.2743	2.2002
US dollar	1.8861	1.8382	1.8202	1.6525
Australian dollar	2.4339	2.4983	2.3918	2.4823
Hong Kong dollar	14.7114	14.3211	14.1521	12.8595
Euro	1.4469	1.4739	1.4652	1.4395

Notes to the Financial Statements *continued*

for the year ended 31 January 2005

2 Accounting Policies *continued*

(e) Leasing and Hire Purchase

Assets acquired under finance leases and hire purchase contracts are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Finance charges and interest are taken to the profit and loss account in constant proportion to the remaining balance of capital repayments or net obligations outstanding. Profits made on sale and finance leaseback arrangements are deferred and credited to the profit and loss account over the shorter of the lease term and useful life of the asset.

Rentals payable under operating lease and contract hire agreements are taken to the profit and loss account on a straight line basis over the lease term. Reverse premiums and lease incentive benefits are recognised as a reduction in rental expense. The benefit is allocated on a straight line basis over the shorter of the lease term and the first rent review date at which it is expected that the prevailing market rental will be payable.

(f) Pensions

Pension costs on defined contribution schemes are charged to the profit and loss account in the year in which they arise.

(g) Goodwill

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over a period up to 20 years.

Currently, goodwill arising on acquisitions is amortised over 20 years with the exception of the Procomp NV acquisition in July 2000, which is now incorporated within Harvey Nash IT Consulting NV, which is being amortised over five years. Directors estimate for each individual acquisition the length of time over which the values of the underlying businesses acquired are expected to exceed the value of the identifiable net assets.

Impairments of goodwill are recognised as the difference between the carrying value of the intangible asset and the higher of net realisable value and value in use. Value in use is determined in accordance with FRS 11 by discounting future cash flows at a pre-tax government bond rate, with post five year forecast growth capped at the relevant country's long term average GDP real growth rate.

Goodwill previously eliminated against reserves has not been reinstated. The profit or loss on the disposal or termination of a business includes any goodwill previously eliminated against reserves.

(h) Taxation

Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation is provided in full for material timing differences except where recoverability of a deferred tax asset is considered to be unlikely in the foreseeable future. Deferred tax balances are not discounted unless the effects are considered to be material to the Group's results.

(i) Investments and Share Schemes

Own shares held in the Employee Benefit Trust to satisfy potential obligations under share option schemes are carried at cost and following the adoption of UITF38 are now categorised within capital and reserves. Any differences between the market value of shares at the date of award and the anticipated proceeds from options granted are written off to the profit and loss account over the period to which the underlying options relate, in accordance with UITF17. In accordance with The Harvey Nash Group plc Performance Related Share Schemes, market value is calculated as being the average share price for the five days immediately preceding the grant of options.

Other investments held as fixed assets are shown at cost less provision for impairment.

(j) Related Party Transactions

The Group has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose intra-group transactions.

Notes to the Financial Statements continued

for the year ended 31 January 2005

3 Segmental Reporting

	2005 £'000	2004 £'000
Turnover		
Geographical area by location of Group operations		
United Kingdom	79,712	70,093
Rest of Europe	59,545	52,915
United States	24,117	7,449
Asia Pacific	–	454
	163,374	130,911
Market sector		
Resourcing Services	149,923	118,088
Consulting Services	13,451	12,823
	163,374	130,911

The Directors consider that turnover by location of client operations is not materially different to turnover by location of Group operations.

	2005 £'000	2004 £'000
Total operating profit/(loss)		
Geographical area		
United Kingdom	1,169	(629)
Rest of Europe	245	(2,893)
United States	578	283
Asia Pacific	68	(413)
	2,060	(3,652)
Market sector		
Resourcing Services	2,362	(2,278)
Consulting Services	(302)	(1,374)
	2,060	(3,652)

	2005 £'000	2004 £'000
Total operating profit/(loss) before goodwill amortisation and exceptional items		
Geographical area		
United Kingdom	2,162	1,136
Rest of Europe	1,355	625
United States	937	369
Asia Pacific	–	(165)
	4,454	1,965
Market sector		
Resourcing Services	4,262	1,912
Consulting Services	192	53
	4,454	1,965

Notes to the Financial Statements continued

for the year ended 31 January 2005

3 Segmental Reporting continued

	2005 £'000	2004 (Restated – see note 1) £'000
Net assets		
Geographical area by location of client operations		
United Kingdom	35,327	30,747
Rest of Europe	1,505	2,381
United States	(3,471)	(2,168)
Asia Pacific	(883)	(1,907)
	32,478	29,053

Since many of the assets within the Harvey Nash Group are shared by the two market sectors, it is considered neither practicable nor meaningful to provide an analysis of the net assets/liabilities by market sector.

4 Group operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting) the following amounts:

	2005 £'000	2004 £'000
Depreciation of tangible fixed assets	795	1,322
Amortisation of goodwill	2,194	2,123
Auditors' remuneration		
– audit services parent company	12	12
– audit services other Group companies	193	148
– non-audit services – tax advice	17	–
– non-audit services – IFRS advice	10	–
Operating lease rentals		
– plant and equipment	410	685
– land and buildings	2,822	2,509
Exchange gain	(54)	(81)
Loss on disposal of tangible fixed assets	24	50
Proceeds of sale of investment previously written off	(51)	–

£118,000 of foreign exchange loss has been taken to reserves under the hedging offset provisions of SSAP 20.

In addition, amounts paid to the auditors of £15,000 have been capitalised within goodwill in relation to the acquisitions in the year.

5 Employees

Employee costs (including executive and Non-Executive Directors) were as follows:

	2005 £'000	2004 £'000
Wages and salaries	20,292	16,705
Social security costs	2,447	2,114
Pension costs	528	455
	23,267	19,274

Notes to the Financial Statements continued

for the year ended 31 January 2005

5 Employees continued

Average monthly staff numbers for the year were as follows:

	2005	2004
Directors	2	3
Sales	296	234
Administration	115	137
	413	374

6 Interest Payable

	2005 £'000	2004 £'000
Bank loans and overdrafts	893	863
Hire purchase interest	3	21
	896	884

7 Taxation on (Profit)/Loss on Ordinary Activities

	2005 £'000	2004 £'000
United Kingdom		
Corporation tax at 30% (2004: 30%) – net of double taxation relief	120	–
Adjustments in respect of prior years	153	501
Foreign tax		
Corporation taxes	301	76
Adjustment in respect of prior years	299	40
Total current tax	873	617
Deferred tax		
Origination and reversal of timing differences	267	48
Utilisation of tax losses	(307)	(334)
	(40)	(286)
Representing:		
United Kingdom	(75)	(105)
Foreign tax	35	(181)
Total deferred tax	(40)	(286)
Tax on profit/(loss) on ordinary activities	833	331

Notes to the Financial Statements continued

for the year ended 31 January 2005

7 Taxation on (Profit)/Loss on Ordinary Activities continued

The tax for the period is higher (2004: higher) than the Group's weighted average rate of corporation tax applied to the pre-tax profit/(loss). The differences are explained below:

	2005 £'000	2004 £'000
Profit/(loss) on ordinary activities before tax	1,164	(4,536)
Weighted average tax rate	41.6%	31.4%
Profit/(loss) on ordinary activities before tax multiplied by the Group weighted tax rate	484	(1,423)
Expenses not deductible	1,438	59
Short term timing differences	6	613
Double taxation relief	(545)	–
Utilisation of tax losses	(1,159)	–
Foreign tax	78	–
Tax losses carried forward	119	827
Adjustments in respect of prior years	452	541
Total current tax charge	873	617

	2005 £'000	2004 £'000
Analysis of deferred tax		
Short term timing difference	267	48
Tax losses carried forward	(307)	(334)
Deferred tax credit	(40)	(286)
Deferred tax asset brought forward	(1,209)	(923)
Deferred tax asset carried forward (see note 14)	(1,249)	(1,209)
Short term timing difference	(75)	(283)
Tax losses carried forward	(1,174)	(926)
Deferred tax asset carried forward	(1,249)	(1,209)

Factors That May Affect Future Tax Charges

Based on current capital investment plans, the Group does not expect material timing differences to arise in respect of capital allowances and depreciation.

The Group has recognised deferred tax assets where there are forecast taxable profits in the next 12 months from which the future reversal of the underlying timing differences can be deducted.

Unrecognised deferred tax assets in respect of tax losses amount to £1,230,000 (2004: £2,289,000). Future tax charges may be reduced as a result of tax losses for which a deferred tax asset is currently not recognised.

8 Loss Attributed to the Parent Company

The loss for the year ended 31 January 2005 in the financial statements of Harvey Nash Group plc, the Company, was £297,000 (2004: profit £2,277,000). As allowed by S230 Companies Act 1985, no profit and loss account is presented in respect of the parent company.

Notes to the Financial Statements continued

for the year ended 31 January 2005

9 Earnings Per Share

	2005	2004
Profit/(loss) attributable to shareholders (£'000)	331	(4,867)
Weighted average number of shares	60,213,476	55,600,842
Basic earnings/(loss) per ordinary share	0.55p	(8.75)p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Employee Benefit Trust which are treated as cancelled.

	2005	2004
Profit/(loss) attributable to shareholders (£'000)	331	—
Weighted average number of shares	60,213,476	—
Effect of dilutive securities	4,613,186	—
Adjusted weighted average number of shares	64,826,662	—
Diluted earnings per ordinary share	0.51p	—

The diluted earnings per share is only calculated when there is a profit attributable to shareholders; accordingly no calculation was made for 2004.

	2005	2004
Profit/(loss) attributable to shareholders (£'000)	331	(4,867)
Amortisation of goodwill (£'000)	2,194	2,123
Exceptional items (£'000)	200	3,494
Tax on exceptional items (£'000)	(162)	(1,163)
Adjusted loss attributable to shareholders (£'000)	2,563	(413)
Weighted average number of shares	60,213,476	55,600,842
Adjusted profit/(loss) per ordinary share	4.26p	(0.74)p

Adjusted profit/(loss) per share has been calculated before amortisation and exceptional items in order that their effect on reported earnings can be fully appreciated.

10 Intangible Fixed Assets

Goodwill	£'000
Cost	
At 1 February 2004	45,117
Additions (note 26)	2,143
Fair value adjustment	34
Exchange movements	122
At 31 January 2005	47,416
Aggregate amortisation	
At 1 February 2004	14,358
Charge for the year	2,194
Exchange movements	19
At 31 January 2005	16,571
Net book value	
At 31 January 2005	30,845
At 31 January 2004	30,759

A fair value adjustment has been made to goodwill in respect of unprovided bad debts acquired last year within the SBS Group Inc.

Notes to the Financial Statements continued

for the year ended 31 January 2005

11 Tangible Fixed Assets

The movement of tangible fixed assets for the year was as follows:

Group	Leasehold improvements £000	Office equipment £000	Furniture, fixtures and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost						
As at 1 February 2004	1,231	713	1,299	5,409	45	8,697
Additions	26	70	36	658	6	796
Acquisitions	–	–	10	–	–	10
Disposals	(31)	(156)	(253)	(305)	(31)	(776)
Exchange movements	2	7	5	(4)	–	10
At 31 January 2005	1,228	634	1,097	5,758	20	8,737
Depreciation						
As at 1 February 2004	797	703	1,133	4,631	20	7,284
Charge for the year	66	56	106	564	3	795
Disposals	(31)	(156)	(253)	(292)	(20)	(752)
Exchange movements	2	(3)	(1)	(3)	–	(5)
At 31 January 2005	834	600	985	4,900	3	7,322
Net book value						
At 31 January 2005	394	34	112	858	17	1,415
At 31 January 2004	434	10	166	778	25	1,413

The Company held no fixed assets during the year.

Assets held under finance leases and hire purchase contracts (included above)

	Computer equipment £000
Cost at 1 February 2004	667
Accumulated depreciation at 31 January 2005	(667)
Net book value at 31 January 2005	–
Cost at 31 January 2004	667
Accumulated depreciation at 31 January 2004	(519)
Net book value at 31 January 2004	148

12 Investments

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Investment in subsidiary undertakings	–	–	46,917	46,917

Notes to the Financial Statements *continued*

for the year ended 31 January 2005

12 Investments *continued*

Subsidiary Undertakings and Branches

The details of the principal subsidiary companies and branches as at 31 January 2005 were as follows:

Name of company	Country of incorporation and operation	Principal activity
Harvey Nash AG	Switzerland	Recruitment consultancy
Harvey Nash BV	The Netherlands	Recruitment consultancy
Harvey Nash GmbH	Germany	Recruitment consultancy
Harvey Nash IT Consulting NV	Belgium	Recruitment consultancy
Harvey Nash NV	Belgium	Recruitment consultancy
Harvey Nash Offshore Development Centre	Branch – Vietnam	Software development
Harvey Nash plc	England	Recruitment consultancy
Harvey Nash SA	France	Recruitment consultancy
Impact Executives Ltd	England	Recruitment consultancy
Mortimer Spinks Limited	England	Recruitment consultancy
Harvey Nash Inc	US	Recruitment consultancy
Snowdogs LLC	US	Recruitment consultancy
SBS Group Inc	US	Recruitment consultancy

The Company or Harvey Nash plc owns directly or indirectly 100% of the ordinary share capital and voting rights of all companies.

13 Exceptional Items

Operating exceptional items comprise the following costs:

	2005 £'000	2004 £'000
Costs of aborted acquisition	82	–
Restructuring costs	637	1,840
Provision for onerous property leases	(468)	1,654
Sale of investment	(51)	–
	200	3,494

Details of the provision for property leases are given in note 17.

Restructuring costs represent redundancy and related office closure costs in the UK and US. The sale of investment relates to the sale of an investment previously written down to nil value through a prior year exceptional charge.

14 Debtors

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Trade debtors	26,843	19,797	–	–
Amounts owed by subsidiary undertakings	–	–	8,232	10,484
Other debtors	1,748	1,455	–	2
Prepayments and accrued income	3,461	2,410	11	315
	32,052	23,662	8,243	10,801

Within other debtors there are deferred tax assets of £1,249,000 (2004: £1,209,000). For details refer to note 7.

Interest is charged on intercompany funding balances in accordance with formal loan agreements between the parties.

Notes to the Financial Statements continued

for the year ended 31 January 2005

15 Creditors: Amounts Falling Due Within One Year

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank overdraft – secured	2,694	–	–	–
Bank loan – secured	3,000	–	–	–
Trade creditors	11,821	10,533	21	154
Corporation tax	373	933	–	–
Other taxes and social security	2,362	1,603	–	–
Accruals and deferred income	7,689	6,828	35	434
Other creditors	503	402	–	–
Obligations under finance leases and hire purchase contracts	–	121	–	–
	28,442	20,420	56	588

16 Creditors: Amounts Falling Due After More Than One Year

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank loan – secured	3,112	6,333	–	–
Amounts owed to subsidiary undertakings	–	–	6,198	10,917
	3,112	6,333	6,198	10,917

The bank loan is a multi currency revolving credit facility to a maximum limit of £6.1m. £3.0m will be repaid on 30 April 2005 leaving £3.1m due on 30 April 2006. Interest is charged at a margin of 1.75% over LIBOR. The facility is secured by cross Group guarantees. There is a UK invoice discounting facility secured over the UK debtor book. In Germany, certain of the Harvey Nash GmbH debtors are subject to a debt factoring facility secured by a guarantee issued by Harvey Nash Group Plc.

	2005 £'000	2004 £'000
Maturity dates of bank loans		
Due within one year	3,000	–
Within two to five years	3,112	6,333
	6,112	6,333

17 Provision for Liabilities and Charges

The provision for liabilities and charges at 31 January 2005 comprises the provision for future lease rental obligations on onerous leases.

The movement in provision in the year is as follows:

	Group 2005 £'000
Provision at 1 February 2004	1,641
Release of provision	(856)
Utilisation of provision	(505)
Provision at 31 January 2005	280

Notes to the Financial Statements continued

for the year ended 31 January 2005

18 Obligations Under Hire Purchase Contracts and Finance Leases

	Group 2005 £'000	Group 2004 £'000
Repayable within one year	–	124
Repayable between one and five years	–	–
Total gross payments	–	124
Less finance charges and interest allocated to future periods	–	(3)
	–	121
Due within one year	–	121
Due after more than one year	–	–
	–	121

Harvey Nash Group plc, the Company, has no obligations under hire purchase contracts and finance leases.

19 Operating Lease Commitments

The Group has annual commitments under operating leases which expire as follows:

	Group 2005 £'000	Group 2004 £'000
Land and buildings		
Leases expiring within one year	506	319
Leases expiring between one and five years	561	921
Leases expiring in more than five years	1,597	1,466
	2,664	2,706
Other operating leases		
Leases expiring within one year	405	125
Leases expiring between one and five years	192	308
	597	433

20 Share Capital

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Authorised				
75,000,000 (2004: 75,000,000) ordinary shares of 5p each	3,750	3,750	3,750	3,750
Allotted and fully paid				
62,682,678 ordinary shares of 5p each (2004: 59,682,847)	3,134	2,984	3,134	2,984

Details of the shares issued in the year are given in the Directors' Report.

Notes to the Financial Statements continued

for the year ended 31 January 2005

21 Reserves

Group	Shares to be issued £'000	Share premium account £'000	Other reserves £'000	Own shares held £'000	Profit and loss account £'000
1 February 2004 as previously reported	1,648	18,023	11,736	–	(4,938)
Prior year adjustment – own shares previously in investments	–	–	–	(400)	–
Prior year adjustment – previous impairments of own shares	–	–	–	(681)	681
1 February 2004 as restated (see note 1)	1,648	18,023	11,736	(1,081)	(4,257)
Shares to be issued	1,800	–	–	–	–
Payment of deferred consideration	(1,076)	–	–	–	–
Premium on shares issued less share issue costs	–	1,031	1,014	–	–
Retained profit for the year	–	–	–	–	331
Exchange gain	14	–	–	–	161
31 January 2005	2,386	19,054	12,750	(1,081)	(3,765)

Company	Shares to be issued £'000	Share premium account £'000	Capital contribution £'000	Other reserves £'000	Profit and loss account £'000
1 February 2004	1,648	18,023	20,000	9,994	(6,369)
Shares to be issued	1,800	–	–	–	–
Payment of deferred consideration	(1,076)	–	–	–	–
Premium on shares issued less share issue costs	–	1,031	–	1,014	–
Retained loss for the year	–	–	–	–	(297)
Exchange gain	14	–	–	–	–
31 January 2005	2,386	19,054	20,000	11,008	(6,666)

Shares to be issued relates to the value of the deferred consideration shares estimated to be issued under the terms of the sale and purchase agreement for the acquisition of Snowdogs LLC and the assets of Bluesuit Consulting Inc.

The own shares held represent shares held by the Harvey Nash Employee Benefit Trust which holds 553,936 shares with an original cost of £1,081,000.

22 Reconciliation of Operating Profit/(Loss) to Net Cash (Outflow)/Inflow

	2005 £'000	2004 £'000
Group operating profit/(loss)	2,060	(3,652)
Depreciation	795	1,322
Amortisation	2,194	2,123
Loss on disposal of fixed assets	24	50
Proceeds on sale of investment previously written off	(51)	–
Share-based employee settlement	206	–
(Increase)/decrease in debtors	(8,483)	611
Increase/(decrease) in creditors	1,905	1,436
Net cash (outflow)/inflow from operating activities	(1,350)	1,890

Notes to the Financial Statements continued

for the year ended 31 January 2005

23 Reconciliation of Net Cash Flow to Movement in Net Debt

	2005 £'000	2004 £'000
Decrease in cash during the year	(4,368)	(5,097)
Decrease in debt and lease finance	121	5,404
	(4,247)	307
Foreign exchange movement	282	443
(Increase)/decrease in debt during the year	(3,965)	750
Net debt at beginning of year	(4,841)	(5,591)
Net debt at end of year	(8,806)	(4,841)
Net cash	–	1,613
Borrowings	(8,806)	(6,454)
	(8,806)	(4,841)

Analysis of Changes in Net Debt

	1 February 2004 £'000	Cash flow £'000	Non-cash movements £'000	Foreign exchange movements £'000	31 January 2005 £'000
Cash	1,613	(4,368)	–	61	(2,694)
	1,613	(4,368)		61	(2,694)
Debt due within one year	–	–	(3,000)	–	(3,000)
Debt due after one year	(6,333)	–	3,000	221	(3,112)
Finance leases	(121)	121		–	–
	(6,454)	121	–	221	(6,112)
Total	(4,841)	(4,247)	–	282	(8,806)

The non-cash movements reflect the changes in maturity of the debt.

24 Directors

	2005 £'000	2004 £'000
Total emoluments of the Directors		
Fees	117	106
Basic salaries, allowances and taxable benefits and car allowance	668	699
Aggregate emoluments	785	805
Pension contributions	42	53
Emoluments of Chairman	51	46
Emoluments of highest paid Director (including pension contributions)	388	325

Details of the remuneration of each Director, which form part of the audited financial statements, are set out in the Remuneration Report on pages 17 to 20.

Notes to the Financial Statements continued

for the year ended 31 January 2005

25 Pensions

Harvey Nash has in place three pension schemes; the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, a Group Personal Pension Plan provided by National Provident Institution and Legal and General, and a stakeholder scheme with Legal and General which had no participating members at the year end.

The Harvey Nash plc Directors' Retirement and Death Benefits Scheme (the 'Scheme') is a small self-administered scheme. It is an exempt-approved scheme under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. The assets of the Scheme are held separately from the Company by trustees. The current trustees are TFA Crawford, DC Higgins, DH Treacher and Scottish Equitable which is the pensioner trustee. The three individual trustees are the only members of the Scheme. The Company has the power to appoint individual trustees.

The retirement scheme is provided on a defined contribution basis. The contributions in the year were £23,100 (2004: £22,000).

The Group Personal Pension Plan (the 'Plan') is a defined contribution scheme provided by National Provident Institution and Scottish Widows. The Group's normal policy is to invite employees to join the Plan automatically on completion of three years' qualifying service, although senior employees may be invited to join earlier at the discretion of the Directors. The Group contributes 5% and the employee contributes 3% of the employee's basic earnings (excluding bonuses) to the Plan. Group's total contribution to the Plan for the period to 31 January 2005 was £172,924 (2004: £191,774). Contributions in respect of Director Albert Ellis were £18,900 (2004: £18,000).

26 Acquisitions

Bluesuit Consulting Inc

On 17 December 2004, the Group acquired the business and certain assets of Bluesuit Consulting Inc, an IT recruitment business based in Chicago for an initial consideration of £0.6m (\$1.2m), satisfied by the issue of £0.6m (\$1.2m) of Harvey Nash Group plc shares. Deferred consideration of up to £1.8m (\$3.5m) is payable in shares in three instalments over the next two years subject to certain profit targets being achieved.

	Bluesuit Consulting Inc book and fair value £'000
Fixed assets	10
Debtors	97
Cash	278
Net assets acquired	385
Value of consideration and capitalised costs	
Cash	111
Shares	617
Deferred consideration	1,800
Total consideration	2,528
Goodwill	2,143

The period of amortisation of the goodwill for the acquisition is 20 years.

Notes to the Financial Statements continued

for the year ended 31 January 2005

26 Acquisitions continued

The profits for the acquired business up to the date of acquisition and for the prior year are as follows:

	Bluesuit Consulting Inc 1 January 2004 to 16 December 2004 £'000
Turnover	2,505
Operating profit	531
Profit/(loss) before taxation	531
Taxation	–
Profit/(loss) after taxation	531
Prior year result	
Profit after taxation	175

Bluesuit Consulting Inc. did not pay tax in the period as profits were paid as a dividend to the shareholders who bore the tax liability.

27 Financial Instruments

Treasury Management

Treasury policy and significant treasury transactions are approved by the Board.

Financing

The Group's principal financial instruments are bank loans, bank overdrafts, cash and short-term deposits. The Group has other financial instruments such as trade debtors and trade creditors that arise directly from its operations. Acquisitions are financed through a mixture of equity and medium-term borrowings. Working capital finance for day-to-day requirements is provided through operating cash generation, invoice discount facilities, debt factoring facilities and small short-term overdraft facilities. All of the Group's long-term borrowings are made centrally. Where applicable, funds are then made available for the financing of the Group's subsidiaries through intercompany loans.

Objectives, Policies and Strategies

The most significant treasury exposures faced by Harvey Nash are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. The Board has established clear parameters, including levels of authority, on the type and use of financial instruments to manage these exposures. Transactions are only undertaken if they relate to underlying exposures and cannot be viewed as speculative.

Interest Rate Risk Management

The Group's policy is to minimise interest charges. Harvey Nash uses interest rate caps to manage its interest rate exposure on its debt position.

Currency Risk Management

The Group's policy is to minimise foreign currency risk. Harvey Nash manages its exposure on equity investments in overseas subsidiaries through foreign currency borrowings. The currency risk of holding assets and liabilities in foreign currencies across the Group is managed by partially matching foreign currency assets with foreign currency liabilities.

As permitted by FRS 13 short-term debtors and creditors have been excluded from disclosure of financial liabilities and financial assets.

Currency and interest rate composition of financial assets and liabilities.

Notes to the Financial Statements continued

for the year ended 31 January 2005

27 Financial Instruments continued

Financial Assets

	Floating rate £000	Non interest bearing £000	Total £000
As at 31 January 2005			
Sterling	561	–	561
Euros	–	1,925	1,925
Swiss franc	–	1,994	1,994
US dollar	–	775	775
	561	4,694	5,255

	Floating rate £000	Non interest bearing £000	Total £000
As at 31 January 2004			
Sterling	315	–	315
Euros	–	1,199	1,199
Swiss franc	–	2,620	2,620
US dollar	–	621	621
Australian dollar	–	13	13
Hong Kong dollar	–	57	57
	315	4,510	4,825

Financial liabilities

	Floating rate £000	Non interest bearing £000	Total £000
As at 31 January 2005			
Sterling	5,693	–	5,693
Euros	966	–	966
US dollar	7,415	–	7,415
	14,074	–	14,074

	Floating rate £000	Non interest bearing £000	Total £000
As at 31 January 2004			
Sterling	1,258	–	1,258
Euros	951	–	951
Swiss franc	275	–	275
US dollar	7,065	–	7,065
	9,549	–	9,549

The floating rate financial liabilities comprise bank loans and overdrafts bearing interest rates based on local money market rates.

Notes to the Financial Statements continued

for the year ended 31 January 2005

27 Financial Instruments continued

Maturities of Financial Liabilities

Total borrowings are repayable as follows:

	2005 £'000	2004 £'000
Within one year	10,962	3,216
Due within two and five years	3,112	6,333
	14,074	9,549

Committed Undrawn Facilities

The maturities of the committed undrawn bank facilities available to the Group are as follows:

	2005 £'000	2004 £'000
Within one year	–	–
Between two and five years	–	600
	–	600

Fair Value

In the opinion of the Directors there is no material difference between the fair value of the Group's financial instruments and their carrying value.

Currency Risk

The currency exposure of the Group net monetary assets/(liabilities) is shown below. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved.

Functional currency of Group company	Net foreign currency monetary assets/(liabilities)					Total £'000
	US dollar £'000	Euro £'000	Swiss franc £'000	Australian dollar £'000	Hong Kong dollar £'000	
Sterling						
Cash	(1,303)	1,080	1,266	–	–	1,043
Trading and intercompany	344	(350)	146	63	94	297
Loans – intercompany	7,813	(1,014)	(1,189)	792	430	6,832
Loans – Bank	(6,112)	–	–	–	–	(6,112)
	742	(284)	223	855	524	2,060

28 Related Party Transactions

As a result of the acquisitions of Snowdogs LLC in 2003 and the business and certain assets of Bluesuit Consulting Inc, certain senior employees are entitled to receive deferred consideration payable in shares in Harvey Nash Group plc as a result of their prior year equity interest in the businesses. See note 26 for further details of the Bluesuit Consulting Inc acquisition in the year.

International Offices

United Kingdom

London

Harvey Nash Group plc
13 Bruton Street
London W1J 6QA
Tel: 44 20 7333 0033
Fax: 44 20 7333 0032

Impact Executives
13 Bruton Street
London W1J 6QA
Tel: 44 20 7314 2011
Fax: 44 20 7333 2020

Mortimer Spinks Ltd
13 Bruton Street
London W1J 6QA
Tel: 44 20 7170 6400
Fax: 44 20 7170 6401

Birmingham

Harvey Nash plc
4302 Waterside Centre
Birmingham Business Park
Birmingham B37 7YN
Tel: 44 121 717 1919
Fax: 44 121 719 1913

Mortimer Spinks Ltd
4302 Waterside Centre
Birmingham Business Park
Birmingham B37 7YN
Tel: 44 121 329 1400
Fax: 44 121 329 1414

Leeds

Harvey Nash plc
Marshall Mill
Marshall Street
Leeds LS11 9YJ
Tel: 44 113 202 8900
Fax: 44 113 245 3255

Mortimer Spinks Ltd
Marshall Mill
Marshall Street
Leeds LS11 9YJ
Tel: 44 113 202 8989
Fax: 44 113 202 8999

USA

Denver

Harvey Nash Inc.
1123 Auraria Parkway
Suite 100
Denver
CO 80204
Tel: 303 299 9090
Fax: 303 296 8855

San Francisco

Harvey Nash Inc.
455 Market Street
Suite 1190
San Francisco
CA 94105
Tel: 415 901 0910
Fax: 415 901 0920

Seattle

Harvey Nash Inc.
Intracorp Plaza
2505 Second Avenue
Suite 705
Seattle
WA 98121
Tel: 206 956 9200
Fax: 206 956 0474

Shelton

Harvey Nash Inc.
5th Floor, Suite 300
2 Corporate Drive
Shelton
CT 06484
Tel: 203 225 0544
Fax: 203 225 0560/0561

New Jersey

Harvey Nash Inc.
101 Eisenhower Parkway
Suite 300
Roseland
NJ 07068
Tel: 973 795 1234

New York

Harvey Nash Inc.
3 Park Avenue
33rd Floor
New York
NY 10016
Tel: 212 481 1317
Fax: 212 481 1319

Chicago

Harvey Nash Inc.
1700 Park Street
Suite 212
Naperville
IL 60563
Tel: +1 (630) 369 9300
Fax: +1 (630) 369 76

Europe

Dusseldorf

Harvey Nash GmbH
Immermannstrasse 51
D-40210 Düsseldorf
Germany
Tel: 49 211 17 93 920
Fax: 49 211 17 93 9220

Frankfurt

Harvey Nash GmbH
Regus Centre Eurohaus
Lyoner Strasse 26
D-60528 Frankfurt
Germany
Tel: 49 69 677 33 0
Fax: 49 69 677 33 200

Hamburg

Harvey Nash GmbH
Regus Centre Fleethof
Stadhausbrücke 1
20355 Hamburg
Germany
Tel: 49 40 376 44 400
Fax: 49 40 376 44 500

Munich

Harvey Nash GmbH
Regus München Schwabing
Elisabethstrasse 89-91
80797 Munich
Germany
Tel: 49 89 59 08 0
Fax: 49 89 59 08 1200

Stuttgart

Harvey Nash GmbH
Hoferstrasse 9
71636 Ludwigsburg
Germany
Tel: 49 7141 94500
Fax: 49 7141 945020

Brussels

Harvey Nash NV
Westpoint Parkway
t'Hofveld 6c
B-1702 Groot-Bijgaarden
Belgium
Tel: 32 2 463 1430
Fax: 32 2 463 3277

Paris

Harvey Nash SA
8 Avenue Kleber
75116 Paris
France
Tel: 33 1 406 76600
Fax: 33 1 406 76619

Utrecht

Harvey Nash BV
7th Floor Tower B
Corner Plaza
Planetenbaan 25
3606 Maarssen
The Netherlands
Tel: 31 346 581070
Fax: 31 346 581080

Zurich

Harvey Nash AG
Zeughausstrasse 51
Postfach
CH-8026 Zurich
Switzerland
Tel: 41 1 296 88 44
Fax: 41 1 296 88 55

Asia

Hong Kong*

Unit B, 9/F
Entertainment Building
30 Queens Road Central
Hong Kong
Tel: 852 2521 3366
Fax: 852 2810 7211

Hanoi

Harvey Nash plc
HITC Building
Xuan Thuy Road
Cau Giay District
Hanoi
Vietnam
Tel: 84 4 834 2050
Fax: 84 4 833 3834

* Affiliated offices

Web address

www.harveynash.com

**HARVEY
NASH**

Harvey Nash Group plc

13 Bruton Street, London W1J 6QA Telephone: 020 7333 0033

www.harveynash.com