

Harvey Nash Group plc

("Harvey Nash" or "the Group")

Harvey Nash, the global professional recruitment and outsourcing services group, announces preliminary results for the year ended 31 January 2006, ahead of expectations, with a particularly strong performance in the second half.

Financial Highlights (Reported under IFRS)

	2006	2005	Change
Turnover	£202.3m	£163.4m	↑ 24%
Net Fee Income *	£42.9m	£38.1m	↑ 13%
Operating Profit	£5.1m	£4.1m	↑ 26%
Profit Before Tax	£4.0m	£3.2m	↑ 26%
Earnings Per Share	5.6p	3.9p	↑ 43%
Cash Flow from Operating Activities	£4.9m	(£2.8m)	

**Net Fee Income = Gross Profit (and this will apply throughout the statement)*

Operational Highlights

- Strong organic growth in turnover and profit
- Excellent growth in Europe with profits up 61%
- Higher margins and increased profits in the UK and US
- Continued demand for IT and Accounting professionals across all regions
- Business confidence driving growth in Executive Search and Interim Management
- Two major contracts secured through investment in outsourcing and offshore services

Commenting on the results, the Chief Executive Officer, Albert Ellis, said:

"We are delighted with the Group's financial performance for the year and in particular the second half, which exceeded our expectations. In the UK our unique portfolio of services has continued to deliver improved margins and profit growth. The US business has benefited from strong market conditions and from the investment made earlier in the year. In Europe, our well established operations have benefited from the economic recovery which has resulted in significant increases in revenues and profits."

ENQUIRIES:

Harvey Nash

Albert Ellis, Chief Executive Officer

Richard Ashcroft, Group Finance Director

Tel: 020 7333 2635

College Hill

Mark Garraway/Matthew Gregorowski

Tel: 020 7457 2020

A presentation of the results will take place at 09:30 this morning at the offices of College Hill, 78 Cannon Street, London, EC4N 6HH

Notes to Editors:

Harvey Nash, a global professional recruitment consultancy and IT outsourcing service provider, is committed to delivering the very best talent and IT solutions to a broad base of clients.

Its 3,000 staff and associates, operating from 28 offices covering the USA, Europe and Asia, pursue the highest levels of integrity, professionalism and quality in providing its unique portfolio of services: executive search, interim management, IT and finance recruitment and IT outsourcing.

For more information please visit www.harveynash.com

CHAIRMAN'S STATEMENT

I am pleased to report that the strong performance reported for the six months to 31 July 2005 continued through the second half, exceeding our expectations. The results are impressive, with increases in profit reported across all geographic regions and strong cash generation.

We continue to see robust demand for all of the Group's services. Our three year plan, the details of which we set out in the 2005 Annual Report, is designed to leverage this opportunity and deliver better than average growth through investment in headcount, infrastructure and our new outsourcing services. The returns from this investment programme, particularly in the US, have helped drive better than expected operating profits during the second half.

Financial Results

These results are the first set to be prepared under International Financial Reporting Standards (IFRS). The application of IFRS had no significant impact on the Group's results for the year ended 31 January 2006 and the results for 2005 have been restated in accordance with IFRS.

The Group's turnover for the year ended 31 January 2006 increased by 24% to £202.3m (2005: £163.4m). Net fee income was £42.9m (£38.1m). Profit before tax increased 26% to £4.0m (2005: £3.2m) and earnings per share increased 43% to 5.6p (2005: 3.9p). Net cash generated during the year was £2.4m (2005: outflow £4.0m) after adjusting for foreign exchange differences. The Group's borrowings reduced to £6.4m (2005: £8.8m) at the year end. The Group has renewed its banking facilities, converting the one year revolving credit facility into a term loan over three years.

Dividend

The Board is not recommending the payment of a dividend (2005: nil) but, as stated in October last year, the Board is considering a capital re-organisation with the aim of placing the company in a position to pay dividends in the future.

Acquisitions

The US acquisitions of the Bluesuit Consulting group (Chicago and Florida) and Snowdogs LLC (Seattle) have been a financial success and we congratulate all concerned. Both acquisitions have performed ahead of the Board's expectations and their integration into the US business has been successfully completed.

Board and employees

On the 17 October 2005 we announced the appointment to the Board of Richard Ashcroft as Group Finance Director and Simon Wassall as European Managing Director.

On behalf of the Board, I would like to thank all of the Group's employees and associates, who have helped deliver this outstanding financial result. This year would not have been such a success without the ongoing commitment and dedication of our people.

Outlook

Demand for our services remains robust in all of our markets. With our European business continuing to perform strongly and with further expected progress in our UK and US businesses, the Board is confident of continued growth in the coming year.

Ian Kirkpatrick
Chairman

Operational Review

United Kingdom

Profits increased by 10% to £2.4m (2005: £2.2m) on turnover broadly flat at £79.2m (2005: £79.7m). Net fee income was up 3% to £21.4m (2005: £20.7m). Our strategy in the UK is to focus on higher margin opportunities and so, as previously reported, the Group exited a low margin, high volume managed services contract which had associated revenues of £7m in the year to 31 January 2005. Therefore, a "like for like" comparison of turnover reflected an increase of 9%. With below trend economic growth recorded in the UK last year, this was an excellent performance.

The market was buoyant for permanent IT positions as budgets were released and new projects created skill shortages in key areas. We also identified and benefited from more activity in the CIO search market, with increasing levels of pay and candidate confidence improving. Demand for IT professionals also began to increase during the year and improved client confidence in the final quarter resulted in a higher level of renewals than in previous years.

Demand for executive search and interim management has remained resilient particularly in the Technology sector and confidence improved across the board over the last quarter with a strong pipeline going into the new year. As we stated in April 2005, headcount was re-aligned at the beginning of 2005 to reflect macro economic trends and this resulted in profit growth when compared to the previous year.

One of the Group's key differentiators in the UK is its Offshore and Outsourcing Services division. Net fee income rose 37% on the previous year as demand for these services continues to increase. The Group has made significant investment in this area to take advantage of the growing global trend to outsourcing offshore. During the year the Group secured a major three-year contract (£2.7m) with one of the UK's leading finance software groups to build an offshore development centre for their software product business.

Continental Europe

Our European businesses delivered an outstanding result with revenues up 61% to £95.7m (2005: £59.5m), net fee income up 25% to £13.2m (2005: £10.6m) and operating profit up 61% to £1.8m (2005: £1.1m).

Demand for IT professionals has continued to improve in Europe in line with the general economic recovery in the Eurozone. As business confidence has improved revenue from permanent placements has also increased, up 65% on the previous year.

Growth has been strong across the board. In Switzerland overall turnover was up 33% with net revenue from permanent placements up 122%. Strong demand from the financial services sector fuelled growth in the number of IT professionals on assignment. A new office was opened in Geneva during the fourth quarter to take advantage of the opportunities in this attractive market, where an increasing number of multinationals are relocating their European headquarters.

Belgium enjoyed one of the highest improvements in contribution (348%) as gross margins were increased through pro-active management, limiting bench downtime and focusing on permanent placements. The number of IT professionals on assignment also increased as improved business confidence ensured high renewal rates over the last quarter.

In France, the Group has invested in the expansion of its service offerings on an organic basis in response to the improving outlook for employment. Specialist IT recruitment services were introduced at the beginning of 2005 and we are pleased with the progress so far.

In the Netherlands, we have continued to grow the base of strategic partnerships where we provide specific consulting services in relation to workforce risk management with a number of the world's largest technology and financial services groups. As part of our portfolio approach, we provide additional payroll services. As a result, the business was able to secure higher margin IT assignments and in some cases Executive Search work. Although this mix of services reduces our gross margins in the Netherlands, the result has substantially increased profits with little effect on working capital. In line with the trend across Europe, revenue from permanent placements increased by 50%.

In Germany, overall turnover increased 14% and revenue from permanent placements increased by 98%. Although there has been some margin erosion with client purchasing becoming more structured, the number of IT professionals on assignment has grown significantly. Skills shortages in SAP and Software Engineering have driven up margins and rates. Last year saw the successful introduction of our Outsourcing service, partnering with IBM on small to medium sized projects. With five offices and higher levels of fee generating headcount, the Group has an excellent platform to take advantage of the positive lead economic indicators in Europe's largest economy.

United States

Turnover in our US business was £27.4m (2005: £24.4m), an increase of 14%. Net fee income improved 17% to £8.3m (2005: £7.1m), reflecting the strength of the US market and increased margins. Operating profit was £0.8m (2005: £0.7m), up 17% reflecting the benefits of the investment made earlier in the year.

Market conditions in the US continue to be favourable with candidate and skill shortages positively impacting margins. The buoyant market is creating increased demand for IT professionals as well as accounting and finance staff. Our new Executive Search business is profitable and further growth is anticipated as key hires are brought on board.

The West coast offices reported the highest growth rates in the US, as the Technology sector made a strong recovery based on increased capital spending. Denver revenues were held back as a result of reduced spending by Sun Microsystems, however the Chicago market was strong and our acquisition has achieved budget in its first year. The additional investment in our fast growing New Jersey office has significantly boosted the Group's presence in this important market.

During the year our US outsourcing division won its first significant contract, and has a strong pipeline going forward.

The Group is in a unique position in terms of its broad geographic spread and the depth and breadth of its service offering, to take full advantage of the improving economic outlook.

Albert Ellis
Chief Executive Officer

Financial Review

Tight management of the Group's cost base and working capital ensured operating profit and cash flow grew strongly during the year.

International Financial Reporting Standards (IFRS)

As previously stated in the Chairman's report the results for 2006 have been prepared under IFRS. The results for 2005 have been restated on a comparable basis.

Profit and Loss Account

Turnover increased 24% to £202.3m for the year ended 31 January 2006 (2005: £163.4m) Gross profit margin was 21.2% (2005: 23.3%). The cost base for the year was £37.8m, resulting in an improved operating profit margin as a percentage of net fee income of 11.9% (2005: 10.7%). Profit before tax increased 26% to £4.0m (2005: £3.2m).

Taxation

The tax charge for the year was £0.5m (2005: £0.8m). This included a credit in respect of prior years of £0.6m and a deferred tax charge of £0.4m. The overall effective tax rate was 13.2% (2005: 25.9%).

Earnings per Share

Basic earnings per share rose by 43% to 5.59p (2005: 3.90p). Fully diluted earnings per share rose by 40% to 5.05p (2005: 3.62p).

Balance Sheet

Tangible fixed assets rose by £0.3m during the year, as capital expenditure was incurred to keep pace with growth in the business. Intangible assets rose by 1% during the year mainly as a result of exchange rate movements. Debtors increased to £43.0m (2005: £30.8m), reflecting the strong trading compared to the previous year and debtor days fell just over 10%. Creditors increased to £33.7m (2005: £22.5m), also reflecting the strong trading.

Cash Flow

Trading cash flow of £6.1m (2005: £5.2m) was generated from operations before the effects of movements in working capital. Working capital absorbed £1.2m, leaving a net £4.9m generated from operating activities. Capital expenditure in the year of £1.1m compares to £0.8m the previous year and mainly comprises investment in the Group's new offices and maintenance of its IT systems. Interest charged of £1.1m, resulted in a net cash inflow of £2.4m, reducing the net debt to £6.4m (2005:£8.8m).

Banking Facilities

The Group's banking facilities now total circa £21.0m, comprising working capital of £12.0m in the UK and €3.5m in Germany, an overdraft of £4.2m and a residual £3.0m term loan re-negotiated in April 2006, with three repayments of £1.0m each, beginning on 31 January 2007.

Acquisitions

In February 2006 the group issued 1,449,453 ordinary shares in connection with the Group's deferred consideration for the acquisition of the business and certain assets of Bluesuit Consulting Inc, the Group's Chicago based business. The earnout target was achieved and accordingly the deferred consideration was settled. There was no cash element. The balance of the deferred consideration, totalling \$2.25m is payable in shares over the period ending 16 December 2007 dependent on the business achieving escalating targets.

The final tranche of deferred consideration of up to \$1.0m in relation to the acquisition of Snowdogs LLC was based on the results for the year ended 31 January 2006. This was satisfied in April 2006 by the issue of 833,061 shares following the successful achievement of the earnout.

Richard Ashcroft
Group Finance Director

Consolidated Income Statement
for the year ended 31 January 2006

	Notes	2006 £ '000	2005 £ '000
Revenue	3	202,294	163,374
Cost of sales		(159,390)	(125,269)
Gross profit		42,904	38,105
Administrative expenses		(37,803)	(34,040)
Operating profit		5,101	4,065
Finance costs		(1,098)	(896)
Profit before tax		4,003	3,169
Taxation	5	(527)	(820)
Profit for the year	7	3,476	2,349
<hr/>			
Basic earnings per share	4	5.59p	3.90p
Diluted earnings per share	4	5.05p	3.62p

Consolidated Statement of Recognised Income and Expense
for the year ended 31 January 2006

	2006 £ '000	2005 £ '000
Profit for the period	3,476	2,349
Foreign currency translation differences	(70)	163
Total recognised income and expense for the year	3,406	2,512

The above results are derived from continuing activities.

Consolidated Balance Sheet
for the year ended 31 January 2006

	Notes	2006 £ '000	2005 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment		1,744	1,415
Intangible assets		28,463	28,140
Deferred income tax assets		1,190	1,886
		31,397	31,441
Current assets			
Trade and other receivables		43,032	30,803
		43,032	30,803
Total assets		74,429	62,244
LIABILITIES			
Current liabilities			
Trade and other payables		(33,713)	(22,497)
Current income tax liabilities		(459)	(318)
Financial liabilities - borrowings	6	(6,392)	(5,694)
		(40,564)	(28,509)
Non-current liabilities			
Financial liabilities - borrowings		-	(3,112)
Deferred income tax liabilities		(233)	(263)
Provisions and other liabilities		(14)	(280)
		(247)	(3,655)
Total liabilities		(40,811)	(32,164)
Net assets		33,618	30,080
EQUITY			
Capital and reserves attributable to equity shareholders			
Share capital		3,137	3,134
Share premium		19,064	19,054
Shares to be issued		2,532	2,386
Fair value and other reserves		13,152	13,152
Own shares held		(656)	(1,081)
Cumulative translation reserve		93	163
Retained earnings		(3,704)	(6,728)
Total equity		33,618	30,080

Consolidated Cash Flow Statement

for the year ended 31 January 2006

	Notes	2006 £ '000	2005 £ '000
Profit before taxation		4,003	3,169
Adjustments for:			
- depreciation		797	795
- interest income		(19)	-
- interest expense		1,117	896
- proceeds of sale of investment		-	(51)
- loss on disposal of fixed assets		-	24
- share based employee settlement and share option charge		185	333
Operating cash flows before changes in working capital		6,083	5,166
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)			
- increase in trade and other receivables		(12,477)	(8,483)
- increase in trade and other payables		11,479	3,328
- net movements in provisions for liabilities and charges		(266)	(1,361)
Cash flows from operating activities		4,819	(1,350)
Income tax received/ (paid)		55	(1,433)
Net cash generated/ (absorbed) from operating activities		4,874	(2,783)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,109)	(796)
Cash acquired with acquisitions		-	278
Purchase of subsidiary undertakings		-	(329)
Proceeds from sale of investment		-	51
Net cash absorbed from investing activities		(1,109)	(796)
Cash flows from financing activities			
Repayment of borrowings		(3,308)	-
Proceeds from issue of ordinary shares		13	228
Principal payments under finance leases		-	(121)
Net interest paid		(1,098)	(896)
Net cash used in financing activities		(4,393)	(789)
Decrease in cash and cash equivalents		(628)	(4,368)
Cash and cash equivalents at the beginning of the year		(2,694)	1,613
Exchange (losses)/gains on cash and cash equivalents		(49)	61
Cash and cash equivalents at the end of the year	6	(3,371)	(2,694)

Notes to the Consolidated Financial Statements

1. General Information

Harvey Nash Group plc (the Company) and its subsidiaries (together "the Group") is a leading provider of specialist recruitment and outsourcing solutions. The Group has offices in the UK, Europe and the United States and a branch in Vietnam.

The Company is a public listed company incorporated in the UK. Its registered address is 13 Bruton Street, London W1J 6QA and its primary listing is on the London Stock Exchange.

2. Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out in the 31 July 2005 interim report. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

Harvey Nash Group plc's consolidated financial statements were prepared in accordance with UK GAAP until 31 January 2005. UK GAAP differs in some areas from International Financial Reporting Standards (IFRS). In preparing the consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of January 2005 have been restated to reflect these adjustments, except as described in the accounting policies.

The financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 January 2006, or are expected to be endorsed and effective (or available for early adoption) at 31 January 2006, the Group's first annual reporting date at which it is required to use adopted IFRSs.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income and cash flows are provided in note 8. During the year the Directors have reclassified certain costs previously treated as costs of sales to administrative costs as they consider this better reflects the nature of the business. The comparative accounting period has been restated.

Application of IFRS 1

The Group's financial statements for the year ended 31 January 2006 are the first annual statements that comply with IFRS. The Group has applied IFRS 1 in preparing these consolidated financial statements.

The Group's transition date is 1 February 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31 January 2006. The Group's IFRS adoption date is 1 February 2005.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exemptions and certain of the optional exemptions from the full retrospective application of IFRS.

Exemptions from full retrospective application elected by the Group

(a) Business combination exemption

Harvey Nash has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 February 2004 transition date.

(b) Cumulative translation differences exemption

Harvey Nash has elected to set the previous accumulated translation balances to zero at 1 February 2004. This exemption has been applied to all subsidiaries in accordance with the available option under IFRS 1.

(c) Share-based payment transaction exemption

The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 February 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 February 2005.

3. Segment Information

The consolidated entity operates in one business segment being that of recruitment services and outsourcing services. As a result, no additional business segment information is required to be provided. The Group's secondary segment is geography. The segment results by geography are shown below including revenue by origin. The directors do not consider revenue by origin to be materially different to revenue by destination.

	Revenue		Segment assets		Capital expenditure	
	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000	2006 £ '000	2005 £ '000
United Kingdom	79,229	79,712	14,675	16,698	704	592
Rest Of Europe	95,690	59,545	10,851	9,815	320	56
United States	27,375	24,117	11,030	9,623	85	148
Asia Pacific	-	-	83	56	-	-
	202,294	163,374	36,639	36,192	1,109	796
Unallocated liabilities	-	-	(3,021)	(6,112)	-	-
Total	202,294	163,374	33,618	30,080	1,109	796

4. Earnings Per Share

	2006	2005
Profit attributable to shareholders £'000	3,476	2,349
Weighted average number of shares	62,224,342	60,213,476
Basic earnings per share	5.59p	3.90p

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 share trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two categories of potential ordinary shares: those share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the year, and deferred consideration shares to be issued.

	2006	2005
Profit attributable to shareholders £'000	3,476	2,349
Weighted average number of shares	62,224,342	60,213,476
Effect of dilutive securities	6,670,461	4,613,186
Adjusted weighted average number of shares	68,894,803	64,826,662
Diluted earnings per share	5.05p	3.62p

5. Taxation

	2006 £ '000	2005 £ '000
Corporation tax on profits in the year	664	421
Adjustments in respect of prior years	(577)	452
Total current tax	87	873
Deferred tax	440	(53)
Total tax charge	527	820

6. Analysis of Changes in Net Debt

	1 February 2005 £'000	Cash flow £'000	Non-cash movements £'000	Foreign exchange movements £'000	31 January 2006 £'000
Cash and cash equivalents	(2,694)	(628)	–	(49)	(3,371)
	(2,694)	(628)	–	(49)	(3,371)
Debt due within one year	(3,000)	3,308	(3,112)	(217)	(3,021)
Debt due after one year	(3,112)	–	3,112	–	–
	(6,112)	3,308	–	(217)	(3,021)
Total	(8,806)	2,680	–	(266)	(6,392)

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

7. Retained Earnings

	2006 £ '000	2005 £ '000
At 1 February	(6,728)	(9,239)
Employee share options and bonus plan	(452)	162
Profit for the year	3,476	2,349
At 31 January	(3,704)	(6,728)

8. Reconciliation of Net Asset and Profits UK GAAP to IFRS

Reconciliation of equity at 1 February 2004

	Notes	GAAP £ '000	Effects of transition to IFRS £ '000	IFRS £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		1,413	-	1,413
Goodwill	(a)	30,759	(4,899)	25,860
Deferred income tax assets	(b)	-	1,455	1,455
		32,172	(3,444)	28,728
Current assets				
Trade and other receivables	(c)	23,662	(1,209)	22,453
Cash and cash equivalents		1,613	-	1,613
		25,275	(1,209)	24,066
Total assets		57,447	(4,653)	52,794
LIABILITIES				
Current liabilities				
Trade and other payables	(d)	(19,487)	(60)	(19,547)
Current income tax liabilities		(933)	-	(933)
		(20,420)	(60)	(20,480)
Non-current liabilities				
Borrowings		(6,333)	-	(6,333)
Deferred income tax liabilities	(e)	-	(17)	(17)
Onerous lease provision		(1,641)	-	(1,641)
		(7,974)	(17)	(7,991)
Total liabilities		(28,394)	(77)	(28,471)
Net assets		29,053	(4,730)	24,323
EQUITY				
Capital and reserves attributable to equity holders				
Share capital		2,984	-	2,984
Share premium		18,023	-	18,023
Shares to be issued		1,648	-	1,648
Fair value and other reserves	(f)	11,736	252	11,988
Own shares held		(1,081)	-	(1,081)
Cumulative translation reserve		-	-	-
Retained earnings	(g)	(4,257)	(4,982)	(9,239)
Total equity		29,053	(4,730)	24,323

Explanations of the effect of the transition to IFRS at 1 February 2004

The following explains the material adjustments to the balance sheet and income statement.

	£ '000
(a) Goodwill	
Impairment of investment	<u>(4,899)</u>
Total impact – decrease in goodwill	(4,899)
(b) Deferred income tax asset	
Recognition of deferred tax asset under IFRS 2 (share based payment)	<u>1,455</u>
Total impact – increase in deferred income tax asset	1,455
(c) Trade and other receivables	
Reclassification of deferred tax asset under IFRS 2 (share based payment)	<u>(1,209)</u>
Total impact – decrease in trade and other receivables	(1,209)
(d) Trade and other payables	
Recognition of additional employee benefit costs	<u>(60)</u>
Total impact – increase in trade and other payables	(60)
(e) Deferred income tax liability	
Recognition of deferred tax liability under IFRS 2	<u>(17)</u>
Total impact – increase in deferred income tax liability	(17)
(f) Other reserves	
Recognition of share options issued after 7 November 2002 and not vested at 1 February 2005	37
Tax adjustment to reserves under IFRS 2	<u>215</u>
Total impact – increase in fair value and other reserves	252

(g) Retained earnings

All above adjustments were recorded against opening retained earnings at 1 February 2005. The total net impact is a decrease in retained earnings of £4,982,000.

Reconciliation of equity at 1 February 2005

	Notes	GAAP £ '000	Effects of transition to IFRS £ '000	IFRS £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		1,415	-	1,415
Goodwill	(a)	30,845	(2,705)	28,140
Deferred income tax assets	(b)	-	1,886	1,886
		32,260	(819)	31,441
Current assets				
Trade and other receivables	(c)	32,052	(1,249)	30,803
		32,052	(1,249)	30,803
Total assets		64,312	(2,068)	62,244
LIABILITIES				
Current liabilities				
Trade and other payables	(d)	(22,375)	(122)	(22,497)
Current income tax liabilities	(e)	(373)	55	(318)
Borrowings		(5,694)	-	(5,694)
		(28,442)	(67)	(28,509)
Non-current liabilities				
Borrowings		(3,112)	-	(3,112)
Deferred income tax liabilities	(f)	-	(263)	(263)
Provisions		(280)	-	(280)
		(3,392)	(263)	(3,655)
Total liabilities		(31,834)	(330)	(32,164)
Net assets		32,478	(2,398)	30,080
EQUITY				
Capital and reserves attributable to equity holders				
Share capital		3,134	-	3,134
Share premium		19,054	-	19,054
Shares to be issued		2,386	-	2,386
Fair value and other reserves	(g)	12,750	402	13,152
Own shares held		(1,081)	-	(1,081)
Cumulative translation reserve	(h)	-	163	163
Retained earnings and other reserves	(i)	(3,765)	(2,963)	(6,728)
Total equity		32,478	(2,398)	30,080

Explanation of the effect of the transition to IFRS at 1 February 2005

The following explains the material adjustments to the balance sheet and income statement.

	£ '000
(a) Goodwill	
Amortisation charge no longer made under IFRS	2,194
Impairment of investment	<u>(4,899)</u>
Total impact – decrease in goodwill	(2,705)
(b) Deferred income tax asset	
Recognition of deferred tax asset under IFRS 2 (share based payment)	<u>1,886</u>
Total impact – increase in deferred income tax asset	1,886
(c) Trade and other receivables	
Reclassification of deferred tax asset under IFRS 2 (share based payment)	<u>(1,249)</u>
Total impact – decrease in trade and other receivables	(1,249)
(d) Trade and other payables	
Recognition of additional employee benefit costs	<u>(122)</u>
Total impact – increase in trade and other payables	(122)
(e) Current income tax	
Adjustment to current tax under IFRS 2	<u>55</u>
Total impact – decrease in current corporation tax	55
(f) Deferred income tax liability	
Recognition of deferred tax liability under IFRS 2	<u>(263)</u>
Total impact – increase in deferred income tax liability	(263)
(g) Other reserves	
Tax adjustment to reserves under IFRS 2	<u>402</u>
Total impact – increase in fair value and other reserves	402
(h) Cumulative translation adjustment	
Adjustments assessed on the basis of translation during the period	<u>163</u>
Total impact – increase in cumulative translation reserve	163
(i) Retained earnings	

All above adjustments were recorded against opening retained earnings at 1 February 2006. The total net impact is a decrease in retained earnings of £2,963,000.

Reconciliation of profit for the year ended 31 January 2005

	GAAP (as restated*)	(1)	(2)	(3)	(4)	IFRS
Income Statement	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Turnover	163,374	-	-	-	-	163,374
Cost of sales	(125,269)	-	-	-	-	(125,269)
Gross profit	38,105	-	-	-	-	38,105
Administrative expenses:						
- excluding goodwill amortisation	(33,851)	-	(62)	(127)	-	(34,040)
- goodwill amortisation	(2,194)	2,194	-	-	-	-
Group operating profit	2,060	2,194	(62)	(127)	-	4,065
Interest receivable	-	-	-	-	-	-
Interest payable	(896)	-	-	-	-	(896)
Profit before tax	1,164	2,194	(62)	(127)	-	3,169
Tax	(833)	-	-	-	13	(820)
Profit after tax	331	2,194	(62)	(127)	13	2,349

(1) Amortisation charge no longer made under IFRS

(2) Recognition of additional employee benefit costs

(3) Recognition of share options issued after 7 November 2002 and not vested at 1 February 2005.

(4) Tax adjustment to deferred tax under IFRS

* The above GAAP figures have been restated to reclassify certain costs previously treated as cost of sales to administration expenses (see note 2a).