

Harvey Nash Group plc

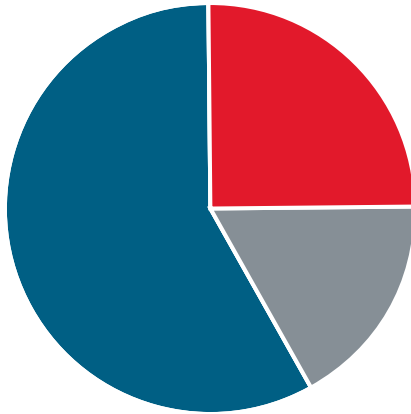


Interim Report July 2005

Highlights

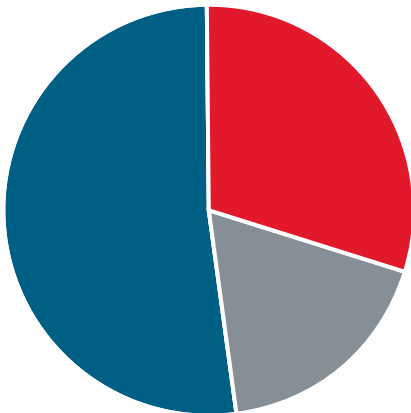
Geographical Net Fee Income

2004



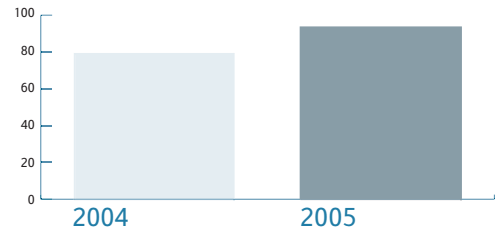
■ United Kingdom
■ Rest of Europe
■ United States

2005

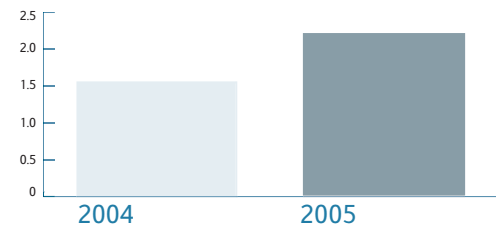


■ United Kingdom
■ Rest of Europe
■ United States

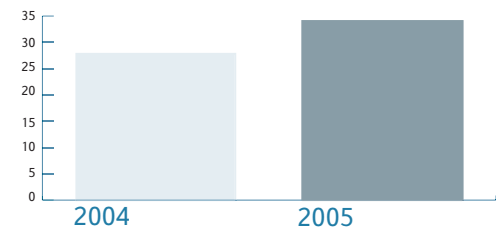
Turnover



Operating Profit



Net Assets



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Chairman's Statement

Ian Kirkpatrick

I am delighted to report that the strong performance recorded in the first quarter continued into the second. Net fee income in the UK and the US has increased and we are particularly pleased with the strength of the growth of our continental European businesses.

We are seeing robust demand for IT professionals across all our markets even though we continue to operate in a competitive environment. Our three-year plan, the parameters of which we set out in detail in the 2005 Annual Report, is designed to leverage this opportunity and deliver better than average market growth through investment in headcount, infrastructure and our new outsourcing services. Although still in the early stages of the investment programme, we are encouraged by the returns so far, with two outsourcing contract wins and the new offices on track.

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 adjusted earnings per share for the six months ended 31 July 2005 and the results for 2004 have been restated in accordance with IFRS. The impact on opening balances as a result of the application of the different standards is shown in Note 10.

The Group's turnover for the six months ended 31 July 2005 increased by 17% to £92.7m (2004: £78.9m). Net fee income increased by 12% to £20.9m (2004: £18.6m) and operating profit increased by 44% to £2.24m (2004: £1.55m). Operating margin, as a percentage of net fee income, increased to 11% (2004: 8%). Profit before tax increased 47% to £1.73m (2004: £1.18m) and earnings per share increased 50% to 2.59p (2004: 1.73p).

Net cash generated from operating activities was £1.9m (2004: outflow £3.3m) with debtor days similar to last year, not

withstanding the significantly higher trading levels. After capital expenditure of £0.5m (2004: £0.3m) and interest paid of £0.5m (2004: £0.4m), net debt was reduced by 7% to £8.2m (2004: £8.8m). The Group repaid £3.0m of the revolving credit facility on 30 April 2005, with the final tranche of £3.1m payable on 30 April 2006.

The underlying tax charge, which includes deferred and current taxation of £0.5m, has been reduced to £0.1m (2004: £0.1m) by the reversal of prior year over-provisions. The underlying tax charge, excluding these adjustments, is an effective tax rate of 28.7% (2004: 12%) on profit before taxation. The cash effect of tax was an inflow of £0.3m (2004: outflow £0.7m).

Dividend

The Board is not recommending the payment of an interim dividend (2004: nil) but it is the Board's intention to consider reinstatement of the dividend next year.

Operational Review

United Kingdom

Our strategy in the UK has been to focus on higher margin revenue mainly in the IT sector. An example of this is our offshore outsourcing business which we have successfully developed, building on our strong relationships in the UK.

The results for the first six months reflect the successful implementation of this strategy with an increase in gross margin to 28% (2004: 26%). The effect of increased permanent and outsourcing revenues have helped boost profits by 21% to £1.2m (2004: £1.0m).

In line with our strategy the Group exited a low margin, high volume managed services contract in 2004. An amount of £3.3m included in last year's turnover (net fee income of £0.2m) related to this contract. As a result, overall turnover

was £38.7m (2004: £40.9m) and net fee income was £10.9m (2004: £10.8m).

Demand for executive search and interim management has remained resilient from the TMT sector. However, as we stated in April 2005, headcount was re-aligned to reflect lower levels of demand in other sectors.

We are confident that our unique approach and broad portfolio of services will enable us to leverage our senior relationships and deliver a strong performance going forward. An example of this is the recent win of a major three-year contract (£2.7m) with a large software company to build an offshore software development centre for their product business.

Continental Europe

Our European businesses produced an outstanding result with revenues up 56% to £41.3m (2004: £26.5m), net fee income up 34% to £6.2m (2004: £4.6m) and operating profit up 502% to £0.7m (2004: £0.1m).

Demand for IT professionals has improved in Europe over the last 12 months and this has resulted in higher permanent and temporary revenues. In addition, our new outsourcing services have grown at a faster than expected rate.

Growth has been strong across the board, particularly in the Netherlands and Switzerland. In Zurich our business grew by 60% with strong demand from the financial services sector and an increased level of permanent revenues. We plan to open a new office in Geneva during the fourth quarter to take advantage of the growth in this market.

In Paris, where we recorded a reduced loss, we introduced additional IT specialist recruitment services at the beginning of the year. We are pleased with the progress that this new service has made and we expect revenues to improve in the second half of the year.

In the Netherlands Harvey Nash has established strategic partnerships with a number of the world's largest technology and financial services groups. We provide specific consulting services in relation to workforce risk management. As part of our portfolio approach, we also provided additional payroll services at the request of these clients during the period. As a result, this mix of services reduced gross margins in the Netherlands, but increased profits. The cash flow effect was neutral.

In Germany, where turnover increased 18%, the Group has five offices and operates the full portfolio of services. As part of its investment programme, the Group has increased headcount by 28% to take advantage of its leading market position and the opportunities that Europe's largest economy offers.

United States

Turnover in our US business was £12.8m (2004: £11.8m), an increase of 9%. Net fee income improved 19% to £3.8m (2004: £3.2m), once again reflecting increased margins and quality of revenue. Operating profit was £0.3m (2004: £0.4m). We are now seeing early returns on our investment in the New Jersey office and our outsourcing services.

Market conditions in the US are favourable and our objective in the short term is to continue to grow organically our headcount and services. We are pleased with the progress that has been made in integrating and re-branding our new offices.

The New Jersey office is performing in line with budget and we expect sustained contribution to the Group's profits by the first quarter next year. Our outsourcing division has won its first significant contract, worth \$1m over a three year period, and has a strong pipeline going forward.

Board

I am delighted to announce the appointment to the Board of Richard Ashcroft as Group Finance Director and Simon Wassall as European Managing Director.

Following qualification at PricewaterhouseCoopers, Richard has spent twenty years in senior financial positions in a number of UK public companies, mostly in the professional services sector, including Michael Page International PLC. The Board will benefit from his wide-ranging experience and proven financial track record.

Simon has been with the Group for over ten years, most recently as European Managing Director. Simon is responsible for all operations in our IT recruitment business across Europe and he brings to the Board extensive knowledge of both the industry and of Harvey Nash's operations.

Outlook

Demand for IT professionals remains robust in all of our markets and we are confident of further progress in the second half.

With our European businesses continuing to perform strongly and our UK and US businesses seeing improved profitability, we remain on course to deliver results for the full year in line with the Board's expectations.

Ian Kirkpatrick

Chairman

17 October 2005

Allied-Domecq

IT Recruitment

“Allied-Domecq has successfully executed the transformation of IT to the satisfaction of all major stakeholders. IT is no longer a highly fragmented, disparate organisation. It has become a business focused global function, fully aligned with corporate strategy. Harvey Nash has been the key business partner in driving this corporate change”

Brian Jones, global CIO, Allied-Domecq plc

Moving forward

Allied-Domecq is a dynamic marketing-led FTSE100 brands company operating globally in the businesses of Spirits & Wine and Quick Service Restaurants, with 12,000 employees in 50 countries. Key brands include Beefeater, Malibu, Tia Maria, Champagne Perrier Jouet and Dunkin' Donuts.

In 2002, the company embarked on a major programme to transform what had been a fragmented and disparate IT operation into a single business-focused global function. It needed to recruit over 20 senior IT staff across Europe who would be pivotal to the success of the transformation. Following a formal tendering process it appointed Harvey Nash as its exclusive supplier.

Allied-Domecq needed to make a number of appointments as a result of this major restructure, including Business Relationship Managers, responsible for building and maintaining close relationships with key stakeholders and ensuring the alignment of technology and business strategies; Commercial Systems Managers, responsible for formulating a roadmap for the implementation of a Commercial Systems Strategy; a Programme Management Officer Standards & Compliance Managers, Technical Architects and Business Analysts.

Harvey Nash managed the recruitment campaign at both a European and Global level – many of the decision makers were based in Canada, Mexico and the US due to the truly virtual nature of the team. Candidates were made aware of the opportunities via The Sunday Times. Harvey Nash carried out headhunting and networking to source candidates, and conducted core competency interviewing for all the roles, supplemented where appropriate by psychometric testing to ensure the right cultural fit between potential recruits and the company.

A key challenge was to manage candidates' uncertainty because of the threat of a takeover from rival Pernod Ricard. (This has since been finalised and an integration strategy between the businesses is currently being progressed). James Hallahan, director, and his Executive IT delivery team were able to reassure candidates of the board's commitment to the IT transformation programme, and of the passion and vision of chief information officer Brian Jones and his team to continue to deliver real business value and efficiency through Information Technology.

The new recruits helped drive through the transformation, which created what the president of Allied-Domecq's North American region recently called “the most commercial IT function I have ever had the privilege to work with.”

- Allied-Domecq needed to recruit 20 senior IT professionals across Europe to help it drive through a major IT transformation programme
- Harvey Nash, acting as exclusive supplier, fulfilled the brief, which included managing candidates' uncertainty over a takeover threat
- The new recruits helped create a commercial IT function that delivered benefits including improved service at lower cost, representing a 28% P&L saving



Information Builders

Executive Search

“ Communications have been first rate and we have always felt confident that Harvey Nash was on top of things. They are very dynamic and very professional people ”

Anat Yaron, director of Human Capital Management, Information Builders

Building a global presence

Information Builders is a US firm that provides enterprise software for large businesses. Three years ago it sought help from Harvey Nash to recruit a number of senior executives and sales people in order to boost its presence in Europe. “We needed a recruitment consultancy on board who had a thorough knowledge of the European market and who could do a thorough professional search in order to target the right people,” says Anat Yaron, director of Human Capital Management.

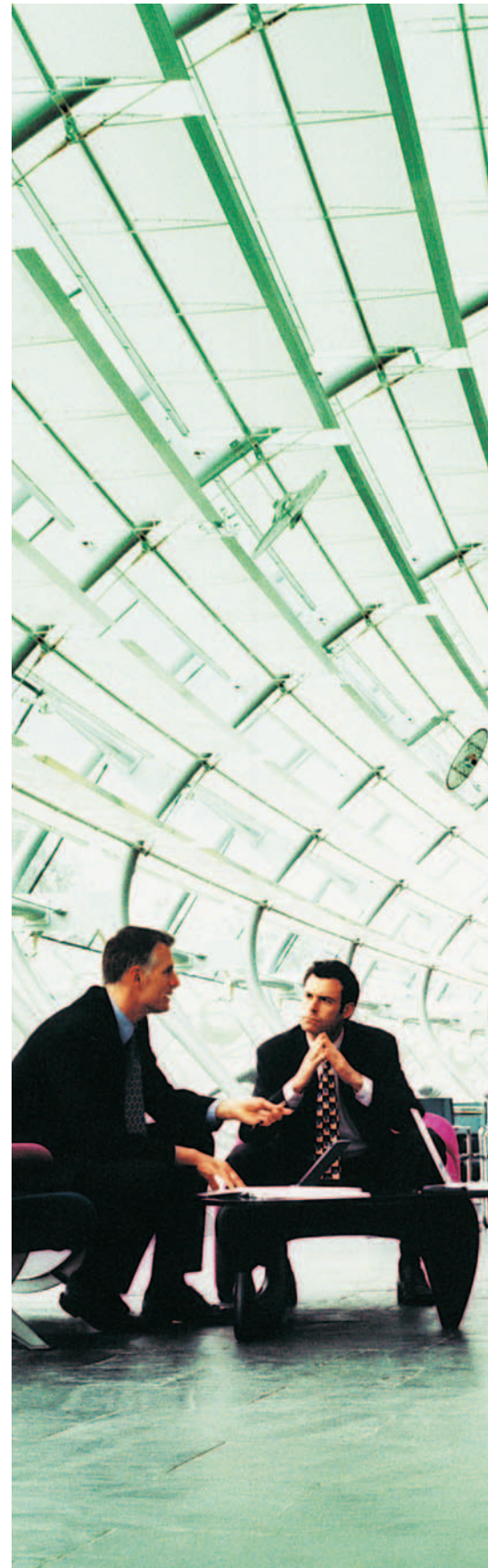
Kirti Lad, principal consultant in Harvey Nash’s London office, co-ordinated the pan-European search. The assignment began with a sales recruitment exercise in the UK before extending to cover very senior roles across Europe and Asia-Pacific, including regional sales directors, professional service directors, alliance directors, and culminating in the appointment of the new vice president EMEA.

Kirti used Harvey Nash’s global network to execute on a local basis, working with Information Builders’ local managers in different countries. As well as providing knowledge about how the European marketplace works, how the competition is structured and the nuances of doing business in different European countries, Harvey Nash helped raise Information Builders’ European brand presence by association.

Over the past two and a half years Harvey Nash has recruited around 20 people for Information Builders, and the key challenge, which has been consistent, says Anat, has been to find “‘A-class’ players who would fit into our entrepreneurial culture.”

However, as the business has built critical mass in Europe hiring has grown easier: Information Builders’ profile is higher and the new management structure makes its growth potential more obvious. “All the hard work by Kirti and her team has taken us to the next level,” concludes Anat.

- US software firm Information Builders wanted to raise its profile and capability across Europe
- Harvey Nash used its global network to execute on a local basis, hiring 20 senior staff over the past two years as well as providing critical market intelligence
- Information Builders has now built critical mass and profile in Europe, providing a solid platform for growth



London Scottish Bank

Offshore Software Development

“Harvey Nash Offshore was capable of providing what we needed at a time when we were not in a position to undertake the work ourselves. It delivered a very professional service and product in a rapid, cost-effective manner, helping us plug a real gap in our capability”

Jeremy Rodwell, IT director, London Scottish Bank (LSB)



Establishing successful relationships

London Scottish Bank is a specialist financial services company, established more than one hundred years ago. Over 2000 staff provide a range of commercial and retail services though a nationwide network of over 100 branches and a state-of-the-art call centre.

When Jeremy Rodwell joined the bank as IT director two years ago, he introduced a new IT strategy which required some new technology. “We had some internal capability, but not enough to meet our requirements to develop new applications,” recalls Jeremy.

The bank was faced with two choices: rapidly hiring new people in order to build internal capability, or partnering with another organisation that would design and develop the systems on its behalf. Jeremy decided on the latter option. He selected Harvey Nash Offshore Software Services, which builds and manages application software, provides IT outsourcing services and resources IT projects, for its proven expertise and demonstrable capacity to develop applications rapidly and cost-effectively.

The first project Harvey Nash tackled for

LSB was to create a system for its broking division. The approach was replicated for a second division, a recently-acquired home-collected credit business. Where it is appropriate and cost effective to do so the bank will use Harvey Nash again in other divisions of the business.

“Pursuing the partnership route allowed me to concentrate on building our internal capability to the point that we could handle it ourselves,” says Jeremy. “Harvey Nash was there and ready and capable of providing what we needed at a time when we ourselves weren’t. It delivered a very professional service and product in a rapid, cost-effective manner, helping us plug a real gap in our capability.”

- A new IT strategy at London Scottish Bank required the development of new technology, but the bank lacked the in-house capability to do this
- It partnered with Harvey Nash Offshore Software Services, which designed and developed the systems on its behalf
- The consultancy helped plug a gap in the bank’s internal systems development capability, allowing the IT director to concentrate on building internal resource

Unaudited Consolidated Income Statement

	Notes	6 months ended 31 July 2005 £ '000	6 months ended 31 July 2004 £ '000	31 January 2005 £ '000
Revenue	6	92,705	78,907	163,374
Cost of sales		(71,826)	(60,318)	(125,269)
Gross profit		20,879	18,589	38,105
Administrative expenses		(18,643)	(17,040)	(34,040)
Operating profit	6	2,236	1,549	4,065
Finance costs – net		(504)	(368)	(896)
Profit before tax		1,732	1,181	3,169
Income tax expense	7	(120)	(147)	(820)
Profit for the period		1,612	1,034	2,349
<i>Analysed as:</i>				
EBITDAS		2,677	2,117	5,187
Share option charge		(64)	(51)	(127)
EBITDA		2,613	2,066	5,060
Depreciation of property, plant and equipment		(377)	(358)	(795)
Operating profit before exceptional items		2,236	1,708	4,265
Exceptional items		-	(159)	(200)
Operating profit after exceptional items		2,236	1,549	4,065
Basic earnings per share	8	2.59p	1.73p	3.90p
Diluted earnings per share	8	2.30p	1.61p	3.62p

Unaudited Consolidated Statement of Recognised Income and Expense

	6 months ended 31 July 2005 £ '000	6 months ended 31 July 2004 £ '000	31 January 2005 £ '000
Profit for the period	1,612	1,034	2,349
Foreign currency translation differences	161	(274)	163
Total recognised income and expense for the period	1,773	760	2,512

Unaudited Consolidated Balance Sheet

	Notes	31 July 2005 £ '000	31 July 2004 £ '000	31 January 2005 £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		1,569	1,302	1,415
Intangible assets		30,767	27,959	30,354
Deferred income tax assets	7	1,147	1,931	1,665
		33,483	31,192	33,434
Current assets				
Trade and other receivables		35,180	28,021	30,803
Cash and cash equivalents		-	-	-
		35,180	28,021	30,803
Total assets		68,663	59,213	64,237
LIABILITIES				
Current liabilities				
Trade and other payables		(25,813)	(21,618)	(22,497)
Current income tax liabilities		(373)	(830)	(318)
Borrowings	9	(8,214)	(8,840)	(5,694)
		(34,400)	(31,288)	(28,509)
Non-current liabilities				
Borrowings	9	-	-	(3,112)
Deferred income tax liabilities	7	(68)	(29)	(42)
Provisions and other liabilities		(54)	(142)	(280)
		(122)	(171)	(3,434)
Total liabilities		(34,522)	(31,459)	(31,943)
Net assets		34,141	27,754	32,294
EQUITY				
Capital and reserves attributable to equity holders				
Share capital		3,134	3,040	3,134
Share premium		19,054	18,308	19,054
Shares to be issued		2,555	1,239	2,386
Fair value and other reserves		13,158	12,513	13,314
Own shares held		(656)	(1,081)	(1,081)
Cumulative translation reserve		324	(274)	163
Retained earnings		(3,428)	(5,991)	(4,676)
Total equity		34,141	27,754	32,294

Unaudited Changes in Shareholders' Equity

	Share capital £ '000	Share premium £ '000	Shares to be issued £ '000	Fair value and other reserves £ '000	Own shares held £ '000	Cumulative translation reserve £ '000	Retained earnings £ '000	Total equity £ '000
Balance at								
1 February 2004 (as restated)	2,984	18,023	1,648	11,988	(1,081)	-	(7,025)	26,537
Currency translation adjustments	-	-	-	-	-	(274)	-	(274)
Employee share option and bonus plan	36	285	-	144	-	-	-	465
Payment of deferred consideration	20	-	(409)	381	-	-	-	(8)
Profit for the period	-	-	-	-	-	-	1,034	1,034
Balance at								
31 July 2004 (as restated)	3,040	18,308	1,239	12,513	(1,081)	(274)	(5,991)	27,754
Currency translation adjustments	-	-	-	-	-	437	-	437
Employee share option and bonus plan	13	166	-	168	-	-	-	347
Shares to be issued	-	-	1,800	-	-	-	-	1,800
Payment of acquisition and deferred consideration	81	580	(676)	633	-	-	-	618
Exchange gain	-	-	23	-	-	-	-	23
Profit for the period	-	-	-	-	-	-	1,315	1,315
Balance at								
31 January 2005 (as restated)	3,134	19,054	2,386	13,314	(1,081)	163	(4,676)	32,294
Currency translation adjustments	-	-	-	-	-	161	-	161
Employee share option and bonus plan	-	-	-	(156)	425	-	(364)	(95)
Exchange gain	-	-	169	-	-	-	-	169
Profit for the period	-	-	-	-	-	-	1,612	1,612
Balance at 31 July 2005	3,134	19,054	2,555	13,158	(656)	324	(3,428)	34,141

Unaudited Consolidated Cash Flow Statement

Notes	6 months ended 31 July 2005 £ '000	6 months ended 31 July 2004 £ '000	31 January 2005 £ '000
Profit before taxation	1,732	1,181	3,169
Adjustments for:			
- depreciation	377	358	795
- interest income	(12)	(5)	-
- interest expense	516	373	896
- proceeds of sale of investment	-	-	(51)
- loss on disposal of fixed assets	-	-	24
- share based employee settlement and share option charge	126	51	333
Operating cash flows before changes in working capital	2,739	1,959	5,166
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)			
- increase in trade and other receivables	(4,444)	(5,095)	(8,483)
- increase in trade and other payables	3,583	2,023	3,328
- net movements in provisions for liabilities and charges	(227)	(1,501)	(1,361)
Cash flows from operating activities	1,651	(2,614)	(1,350)
Income tax received/(paid)	238	(690)	(1,433)
Net cash generated/(absorbed) from operating activities	1,889	(3,304)	(2,783)
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	(516)	(317)	(796)
Cash acquired with acquisitions	-	-	278
Purchase of subsidiary undertakings	-	-	(329)
Proceeds from sale of investment	-	51	51
Interest received	12	5	-
Net cash absorbed from investing activities	(504)	(261)	(796)
Cash flows from financing activities			
Repayment of borrowings	(3,045)	-	-
Proceeds from issue of ordinary shares	-	-	228
Issue of share capital and premium	-	177	-
Principal payments under finance leases	-	(121)	(121)
Interest paid	(516)	(373)	(896)
Net cash used in financing activities	(3,561)	(317)	(789)
Decrease in cash and cash equivalents	(2,176)	(3,882)	(4,368)
Cash and cash equivalents at the beginning of the period	(2,694)	1,613	1,613
Exchange (losses)/gains on cash and cash equivalents	(38)	(224)	61
Cash and cash equivalents at the end of the period	9	(2,493)	(2,694)

Notes to the Unaudited Interim 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

(a) Basis of preparation

Harvey Nash Group Plc's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (GAAP) until 31 January 2005. GAAP differs in some areas from International Financial Reporting Standards (IFRS). In preparing the consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of July 2004 and January 2005 have been restated to reflect these adjustments, except as described in the accounting policies.

The interim 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. In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 January 2006 are still subject to change and to additional interpretation and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 January 2006.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Group's equity and its net income and cash flows are provided in note 10. During the year the Directors have reclassified certain costs previously treated as costs of sale to administrative costs as they consider this better reflects the nature of the business. The comparative accounting periods have been restated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the consolidated interim financial statements are disclosed in Note 4.

The comparative figures for the year ended 31 January 2005, prior to the adjustments required on transition to IFRS as described in notes 5 and 10, have been extracted from the Group's financial statements, a copy of which has been delivered to the Registrar of Companies. The auditors' report on those statements was unqualified and did not include a statement under Section 237(2) or (3) of the Companies Act 1985. The interim financial information does not constitute statutory financial statements as defined under Section 240 of the Companies Act 1985.

(b) Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and all its subsidiary undertakings made up to the year end using the purchase method. The results of subsidiaries acquired are included in the consolidated income statement from the date the power to exercise 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 income statement. Where deferred consideration on acquisitions is to be satisfied by Harvey Nash Group Plc shares, the directors estimate the contingent consideration and establish a shares to be issued reserve.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group considers the whole business to be the primary segment with the Group's secondary segment being geography.

(d) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

The Group derives its turnover in the contract services and interim businesses on a time and materials basis. It is recognised as services are rendered as validated by receipt of a client approved timesheet or equivalent. For fixed price development work, revenue is recognised on the percentage completion basis, using pre-specified milestones or a client sign off to trigger invoices and the estimate of profit. For contingency permanent placements, revenue is recognised and the client is invoiced on acceptance of the candidate.

Executive search and permanent placement fees are recognised as services are provided, typically in three stages; placement, shortlist and retainer fee.

(e) Property, plant and equipment

All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a monthly basis to write off the cost of each asset to its residual value 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

(f) Foreign exchange

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in sterling which is the Company's functional and presentational currency.

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 income statement 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 arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(g) Leasing and hire purchase

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised as tangible assets at the lower of the fair value of the leased property and the present value of the minimum lease payments, and depreciated over the shorter of the lease term and their useful lives. Finance charges and interest are taken to the income statement 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 income statement 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 income statement 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.

(h) Pensions

Pension costs on defined contribution schemes are charged to the income statement in the year in which they arise.

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of sale and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Trade receivables

Trade receivables are recognised initially at fair value. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deductible from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in equity attributable to the Company's equity holders.

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances are not discounted unless the effects are considered to be material to the Group's results.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(p) Employee benefits*Pension obligations*

The Group operates various pension plans all of which are defined contribution plans. The Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Bonus plan

The Group recognises a liability and an expense for bonuses when contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based plans

The Group's management awards certain employees bonuses in the form of share options on a discretionary basis. The options are subject to three-year vesting conditions and their fair value is recognised as an employee benefits expense with a corresponding increase in other reserve over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised. For options exercised against own shares held, the shares are removed from the own shares held reserve.

(q) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation

as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

(r) Interim measurement note

Current income tax

Current income tax expense is recognised in the interim financial statements based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

(s) Exceptional items

Exceptional items are items of a one-off nature that are significant in size and are separated out for additional disclosure purposes only.

3. Financial Risk Management

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 rates and currency positions as well as 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 through cash pooling and active cash management.

Foreign exchange 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.

Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

4. Critical Accounting Judgements and Estimates

Impairment of goodwill

Determining whether the goodwill is impaired required an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation required the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Share options

Share options are granted on a discretionary basis and vest after three years service. The fair value of options granted during the period was determined using the Black-Scholes valuation model and ranges between £0.13 and £0.29. The significant inputs into the model were share price at grant date, exercise price, expected option life of 36 months and risk free rate of 4.30%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices.

5. Transition to IFRS

Application of IFRS1

The Group's financial statements for the year ended 31 January 2006 will be the first annual statements that comply with IFRS. These interim statements have been prepared as described in note 2. The Group has applied IFRS 1 in preparing these interim 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 interim consolidated financial statements is 31 July 2005. The Group's IFRS adoption date is 1 February 2005.

In preparing these interim 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.

Impairment of investment

The impairment charge arose in the investment in Interim Management in Technology Limited "IMIT" where the future discounted cash flows from this business did not support the carrying investment value. This followed using a different cost of capital under IFRS compared to UK GAAP.

All investments are discounted using a weighted average cost of capital "WACC" which is based on a number of variables. IAS 38 requires the application of an industry WACC. The industry WACC is calculated using variables of similar companies to Harvey Nash. This has resulted in a higher discount factor being applied under IFRS. Previously under UK GAAP the group used an appropriate company specific rate as the discount factor.

6. Segment Information

The consolidated entity operates in one business segment being that of recruitment 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:

Analysis of Turnover

	Unaudited 6 months ended 31 July 2005 £ '000	Unaudited 6 months ended 31 July 2004 £ '000	Unaudited 31 January 2005 £ '000
United Kingdom	38,627	40,648	79,712
Rest of Europe	41,252	26,504	59,545
United States	12,826	11,755	24,117
Total	92,705	78,907	163,374

Analysis of Operating Profit

	Unaudited 6 months ended 31 July 2005 £ '000	Unaudited 6 months ended 31 July 2004 £ '000	Unaudited 31 January 2005 £ '000
United Kingdom	1,200	991	2,217
Rest of Europe	716	119	1,064
United States	320	439	716
Asia Pacific	-	-	68
Total	2,236	1,549	4,065

7. Income Tax

	Unaudited 6 months ended 31 July 2005 £ '000	Unaudited 6 months ended 31 July 2004 £ '000	Unaudited 31 January 2005 £ '000
Corporation tax on profits in the period	173	540	421
Adjustments in respect of prior years	(377)	4	452
Total current tax	(204)	544	873
Deferred tax	324	(397)	(53)
Total tax charge	120	147	820

Analysis of deferred tax

Short term timing differences	54	31	185
Share options	219	(71)	(146)
Tax losses carried forward	271	(423)	(223)
Deferred tax movement in the period	544	(463)	(184)
Net deferred tax asset brought forward	(1,623)	(1,439)	(1,439)
Net deferred tax asset carried forward	(1,079)	(1,902)	(1,623)
Deferred tax movement in the period	544	(463)	(184)
Share option element taken to equity	(220)	66	131
Deferred tax charge/(credit) for the period	324	(397)	(53)

Deferred tax comprises

Assets			
Short-term timing differences	(63)	(271)	(118)
Share options	(154)	(297)	(372)
Tax losses	(930)	(1,363)	(1,175)
Deferred tax assets	(1,147)	(1,931)	(1,665)
Liabilities			
Short-term timing differences	68	29	42
Deferred tax liabilities	68	29	42
Net deferred tax asset	(1,079)	(1,902)	(1,623)

8. Earnings Per Share

	Unaudited 6 months ended 31 July 2005	Unaudited 6 months ended 31 July 2004	Unaudited 31 January 2005
Profit attributable to shareholders £'000	1,612	1,034	2,349
Weighted average number of shares	62,150,562	59,637,292	60,213,476
Basic earnings per share	2.59p	1.73p	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 period, excluding those held in the Employee Benefit 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.

	Unaudited 6 months ended 31 July 2005	Unaudited 6 months ended 31 July 2004	Unaudited 31 January 2005
Profit attributable to shareholders £'000	1,612	1,034	2,349
Weighted average number of shares	62,150,562	59,637,292	60,213,476
Effect of dilutive securities	7,953,224	4,434,672	4,613,186
Adjusted weighted average number of shares	70,103,786	64,071,964	64,826,662
Diluted earnings per share	2.30p	1.61p	3.62p

9. Cash and Cash Equivalents

Cash and bank overdrafts include the following for the purposes of the cash flow statement.

	Unaudited 31 July 2005 £ '000	Unaudited 31 July 2004 £ '000	Unaudited 31 January 2005 £ '000
Cash and cash equivalents	3,450	1,942	2,628
Invoice discounting	(8,358)	(4,435)	(5,322)
Total cash and cash equivalents	(4,908)	(2,493)	(2,694)
Debt within one year	(3,306)	(6,347)	(3,000)
Debt after one year	-	-	(3,112)
Net debt	(8,214)	(8,840)	(8,806)

10. Adoption of 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	(2,685)	28,074
Deferred income tax assets	(b)	-	1,455	1,455
		32,172	(1,230)	30,942
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	(2,349)	55,098
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	(2,426)	26,537
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)	(2,768)	(7,025)
Total equity		29,053	(2,516)	26,537

10. Adoption of IFRS (cont.)

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 (see note 5)	<u>(2,685)</u>
Total impact – decrease in goodwill	(2,685)
(b) Deferred income tax asset	
Recognition of deferred tax asset under IFRS 2	<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	<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 2004. The total net impact is a decrease in retained earnings of £2,768k.

10. Adoption of IFRS (cont.)

Reconciliation of equity at 1 August 2004

	Notes	GAAP £ '000	Effects of transition to IFRS £ '000	IFRS £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		1,302	-	1,302
Goodwill	(a)	29,575	(1,616)	27,959
Deferred income tax assets	(b)	-	1,931	1,931
		30,877	315	31,192
Current assets				
Inventories				
Trade and other receivables	(c)	29,596	(1,575)	28,021
Cash and cash equivalents		-	-	-
		29,596	(1,575)	28,021
Total assets		60,473	(1,260)	59,213
LIABILITIES				
Current liabilities				
Trade and other payables	(d)	(21,428)	(190)	(21,618)
Current income tax liabilities	(e)	(858)	28	(830)
Borrowings		(8,840)	-	(8,840)
		(31,126)	(162)	(31,288)
Non-current liabilities				
Borrowings		-	-	-
Deferred income tax liabilities	(f)	-	(29)	(29)
Onerous lease provisions		(142)	-	(142)
		(142)	(29)	(171)
Total liabilities		(31,268)	(191)	(31,459)
Net assets		29,205	(1,451)	27,754
EQUITY				
Capital and reserves attributable to equity holders				
Share capital		3,040	-	3,040
Share premium		18,308	-	18,308
Shares to be issued		1,239	-	1,239
Fair value and other reserves	(g)	12,117	396	12,513
Own shares held		(1,081)	-	(1,081)
Cumulative translation reserve	(h)	-	(274)	(274)
Retained earnings	(i)	(4,418)	(1,573)	(5,991)
Total equity		29,205	(1,451)	27,754

10. Adoption of IFRS (cont.)

Explanation of the effect of the transition to IFRS at 1 August 2004

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

	£ '000
(a) Goodwill	
Amortisation charge no longer made under IFRS	1,069
Impairment of investment (see note 5)	<u>(2,685)</u>
Total impact – decrease in goodwill	(1,616)
(b) Deferred income tax asset	
Recognition of deferred tax asset under IFRS 2	<u>1,931</u>
Total impact – increase in deferred income tax asset	1,931
(c) Trade and other receivables	
Reclassification of deferred tax asset under IFRS 2	<u>(1,575)</u>
Total impact – decrease in trade and receivables	1,575
(d) Trade and other payables	
Recognition of additional employee benefit costs	<u>(190)</u>
Total impact – increase in trade and other payables	190
(e) Current income tax	
Adjustment to current tax under IFRS 2	<u>(28)</u>
Total impact – decrease in current corporation tax	28
(f) Deferred income tax liability	
Recognition of deferred tax liability under IFRS 2	<u>29</u>
Total impact – increase in deferred income tax liability	29
(g) Other reserves	
Recognition of share options issued after 7 November 2002 and not vested at 1 February 2005	88
Tax adjustment to reserves under IFRS 2	<u>308</u>
Total impact – increase in fair value and other reserves	396
(h) Cumulative translation adjustment	
Adjustments assessed on the basis of translation during the period	<u>(274)</u>
Total impact – decrease in cumulative translation reserve	(274)
(i) Retained earnings	

All above adjustments were recorded against opening retained earnings at 1 August 2004. The total net impact is a decrease in retained earnings of £1,573k.

10. Adoption of IFRS (cont.)

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	(491)	30,354
Deferred income tax assets	(b)	-	1,665	1,665
		32,260	1,174	33,434
Current assets				
Trade and other receivables	(c)	32,052	(1,249)	30,803
Cash and cash equivalents		-	-	-
		32,052	(1,249)	30,803
Total assets		64,312	(75)	64,237
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)	-	(42)	(42)
Provisions		(280)	-	(280)
		(3,392)	(42)	(3,434)
Total liabilities		(31,834)	(109)	(31,943)
Net assets		32,478	(184)	32,294
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	564	13,314
Own shares held		(1,081)	-	(1,081)
Cumulative translation reserve	(h)	-	163	163
Retained earnings and other reserves	(i)	(3,765)	(911)	(4,676)
Total equity		32,478	(184)	32,294

10. Adoption of IFRS (cont.)

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 (see note 5)	<u>(2,685)</u>
Total impact – decrease in goodwill	(491)
(b) Deferred income tax asset	
Recognition of deferred tax asset under IFRS 2	<u>1,665</u>
Total impact – increase in deferred income tax asset	1,665
(c) Trade and other receivables	
Reclassification of deferred tax asset under IFRS 2	<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>(42)</u>
Total impact – increase in deferred income tax liability	(42)
(g) Other reserves	
Recognition of share options issued after 7 November 2002 and not vested at 1 February 2005	162
Tax adjustment to reserves under IFRS 2	<u>402</u>
Total impact – increase in fair value and other reserves	564
(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 2005. The total net impact is a decrease in retained earnings of £911k.

10. Adoption of IFRS(cont.)

Reconciliation of profit for the 6 months ended 31 July 2004

Income Statement	GAAP (as restated*) £ '000	(1) £ '000	(2) £ '000	(3) £ '000	(4) £ '000	IFRS £ '000
Revenue	78,907	-	-	-	-	78,907
Cost of sales	(60,318)	-	-	-	-	(60,318)
Gross profit	18,589	-	-	-	-	18,589
Administrative expenses:						
- excluding goodwill amortisation	(16,860)	-	(129)	(51)	-	(17,040)
- goodwill amortisation	(1,069)	1,069	-	-	-	-
Group operating profit	660	1,069	(129)	(51)	-	1,549
Interest receivable	5	-	-	-	-	5
Interest payable	(373)	-	-	-	-	(373)
Profit before tax	292	1,069	(129)	(51)	-	1,181
Tax	(179)	-	-	-	32	(147)
Profit after tax	113	1,069	(129)	(51)	32	1,034

(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 2).

10. Adoption of IFRS (cont.)

Reconciliation of profit for the year ended 31 January 2005

Income Statement	GAAP (as restated*) £ '000	(1) £ '000	(2) £ '000	(3) £ '000	(4) £ '000	IFRS £ '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 2).

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