HARVEY NASH

Harvey Nash Group plc

Interim Report July 2003

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Chairman's Statement

Ian Kirkpatrick

I am pleased to report an improved adjusted operating profit for the first six months of 2003 compared to the comparable period last year. Notwithstanding the difficult trading conditions continuing in our core markets in the first quarter and reported on by many of our peers, the Group has made significant progress in turning around both its US operations and returning its UK Consulting division to profit. Operating profit for the six months ended 31 July 2003 is ahead of expectations due to better than anticipated second quarter revenues.

However, in response to continued difficult trading conditions in continental Europe and Asia Pacific, including the effects of SARS, the Group has reduced its fixed cost infrastructure through headcount reduction and consolidating the number of offices.

Turnover for the six months ended 31 July 2003 was £64.3m (2002: £83.5m) and gross profit was £13.3m (2002: £18.2m). Operating profit was £0.6m (2002: £0.2m), before an exceptional item of £3.5m (2002: £5.2m) amortisation of goodwill of £1.0m (2002: £1.0m). The adjusted profit before tax was £0.1m (2002: loss £0.4m). The unadjusted loss before tax has been reduced from £6.6m last year to £4.4m this year.

Due to normal seasonal fluctuations in working capital and a £0.7m payment relating to Swiss withholding tax, the majority of which is expected to be recovered in the second half, net debt has increased since 31 January 2003 to £8.7m but is lower than the same time last year. Capital expenditure has been substantially reduced and costs incurred were mainly due to the roll out of our Contractor Management System.

On 30 April 2003 the Group completed the first repayment of £2.0m under the terms of its Revolving Credit Facility and on 26 September 2003 brought forward its second payment of £4.0m due on the 30 April 2004. The effect of this is to reduce the interest margin.

As in previous years, we have continued our strategy of maintaining operating costs in line with revenues and ensuring that our trading cash flows are positive.

United Kingdom

Turnover of the UK operations was £34.3m (2002: £44.2m), and adjusted operating profit was £0.4m (2002: loss £0.4m). Turnover from Resourcing was £29.1m, 23% lower than the first half of 2002, however there was a 6% increase in quarter two revenues compared to quarter one

Chairman's Statement

Ian Kirkpatrick (cont)

due to increased activity levels in the IT contracting market. Turnover from Consulting was £5.2m (2002: £6.6m) but again turnover in the second quarter was 6% higher than in the previous quarter.

Continental Europe

Turnover of the continental European operations was £26.8m (2002: £34.5m), and operating profit was £0.2m (2002: £1.1m). Northern Europe continues to experience difficult market conditions particularly in Germany where GDP growth remains slow. Therefore, we have restructured our German operation to reflect the current trading conditions by consolidating the number of offices and reducing headcount. As a result of the actions taken the profitability of the German business has improved.

United States

Turnover of the US operations was £2.9m (2002: £4.4m), and adjusted operating profit was £0.1m (2002: loss £0.3m). This was an excellent performance and the turnaround is gaining momentum in an improving market. As a result, the Group has begun to invest in further fee earning capacity and has established a Consulting business operating from the Denver office. In line with the Group's diversification strategy, the business has invested in its Financial Services practice with the result that over 30% of revenues are now generated from this team. Further savings have been achieved through relocating the back office functions to the UK.

Asia Pacific

Turnover of the Asia Pacific operations was £0.3m (2002: £0.4m), and the operating loss was £0.2m (2002: £0.2m). With the outbreak of SARS and the lack of critical mass in the region, the Group will concentrate its investment and focus within the US and European markets in which it has an established brand, the benefits of scale and a track record. Accordingly Hong Kong has been restructured and Sydney has been closed with a related exceptional cost of £0.2m.

As a result, Ian Basser, Director responsible for the Group's Operations in Asia Pacific and the UK, who recently relocated back to Australia, has stepped down from the Board. He will continue to be employed by the Group and be active in developing the UK business and providing key operational support.

Exceptional Items

In the first six months of 2003 the Group has incurred exceptional costs of £3.5m as a result of the restructuring in Europe and Asia Pacific, referred to above, and a further property provision as the Group's excess London space is sublet or assigned.

Dividends

The Board is not recommending the payment of an interim dividend (2002: nil).

Cash Flow

The Group started the year with net borrowings of £5.6m. In the first half the Group experienced an outflow of £1.5m (2002: inflow of £1.7m) from operations. After interest and tax payments of £1.2m (2002: £1.8m), (of which £0.6m represents refundable withholding tax), and net capital expenditure of £0.2m (2002: £0.7m) the Group ended the period with net debt of £8.7m. During the period the Group reduced its long term bank loan by £3.6m through increased use of its invoice discounting facility.

Current trading and future prospects

Revenues have stabilised in most of our businesses over the last 6 months and in the second quarter we have experienced increased client demand in our UK and US operations. On the assumption that market conditions will remain competitive but stable, we are cautiously optimistic about the outlook for the rest of the year.

Whilst trading conditions in continental Europe remain challenging, we will continue to manage the operating cost base of the business in line with revenues.

Looking forward we will continue prudently investing in the Harvey Nash brand and unique portfolio of services, to ensure that we increase market share and have a sound platform for future growth as market conditions continue to improve.

Ian Kirkpatrick
Chairman

16 April 2003

Consolidated Profit and Loss Account

for the six months to 31 July 2003

	Notes	Results before amortisation of goodwill and exceptional items unaudited 6 months to 31 July 2003 £'000
Turnover	2	**64,317**
Cost of sales		**(51,051)**
Gross profit		**13,266**
Administrative expenses		
excluding goodwill amortisation	3	**(12,702)**
goodwill amortisation		**–**
		(12,702)
Group operating profit/(loss)	2	**564**
Interest receivable		**1**
Interest payable		**(482)**
Profit/(loss) on ordinary activities before taxation		**83**
Taxation on profit on ordinary activities	4	**–**
Profit/(loss) on ordinary activities after taxation		**83**
Dividends		**–**
Retained profit/(loss) for the period		**83**
Basic loss per share	8	
Adjusted earnings/(loss) per share	8	

Amortisation of goodwill and exceptional items unaudited 6 months to 31 July 2003 £'000	**Results after amortisation of goodwill and exceptional items unaudited 6 months to 31 July 2003 £'000**	Unaudited 6 months to 31 July 2002 £'000	Year ended 31 January 2003 £'000
–	**64,317**	83,489	156,692
–	**(51,051)**	(65,262)	(123,348)
–	**13,266**	18,227	33,344
(3,500)	**(16,202)**	(23,222)	(37,777)
(1,031)	**(1,031)**	(973)	(1,972)
(4,531)	**(17,233)**	(24,195)	(39,749)
(4,531)	**(3,967)**	(5,968)	(6,405)
–	**1**	34	61
–	**(482)**	(642)	(1,146)
(4,531)	**(4,448)**	(6,576)	(7,490)
–	**–**	–	–
(4,531)	**(4,448)**	(6,576)	(7,490)
–	**–**	–	–
(4,531)	**(4,448)**	(6,576)	(7,490)
	(8.04)p	(14.16)p	(14.91)p
	0.15p	(2.17)p	(0.92)p

Consolidated Balance Sheet

as at 31 July 2003

	Unaudited 31 July 2003 £'000	Unaudited 31 July 2002 £'000	31 January 2003 £'000
Fixed assets			
Intangible fixed assets	**28,826**	29,840	29,250
Tangible fixed assets	**1,800**	3,157	2,227
Investments	**400**	400	400
	31,026	33,397	31,877
Current assets			
Debtors	**23,444**	25,948	22,222
Cash at bank	**79**	3,040	6,512
	23,523	28,988	28,734
Creditors due within one year	**(19,599)**	(18,742)	(17,532)
Net current assets	**3,924**	10,246	11,202
Total assets less current liabilities	**34,950**	43,643	43,079
Creditors due after more than one year	**(6,918)**	(12,379)	(11,874)
Provision for liabilities and charges	**(2,440)**	(1,918)	(1,546)
Net assets	**25,592**	29,346	29,659
Equity capital and reserves			
Called up share capital	**2,806**	2,670	2,801
Share premium account	**16,368**	16,484	16,445
Other reserves	**10,898**	10,343	10,898
Profit and loss account	**(4,480)**	(151)	(485)
Equity shareholders' funds	**25,592**	29,346	29,659

Consolidated Cash Flow Statement

six months from 1 February to 31 July 2003

	Notes	**Unaudited 6 months 31 July 2003 £'000**	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Net cash (outflow)/inflow from operating activities	5	**(1,499)**	1,664	5,721
Returns on investments and servicing of finance				
Interest received		**1**	34	62
Interest paid		**(470)**	(620)	(1,106)
Interest element of finance lease repayments		**(13)**	(22)	(38)
Net cash outflow from returns on investments and servicing of finance		**(482)**	(608)	(1,082)
Tax paid		**(755)**	(1,162)	(1,013)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		**(189)**	(491)	(670)
Purchase of own shares		**–**	(221)	(221)
Net cash outflow from capital expenditure and financial investments		**(189)**	(712)	(891)
Acquisitions and disposals				
Purchase of subsidiary undertakings		**–**	–	(166)
Net cash outflow from acquisitions		**–**	–	(166)
Equity dividends paid		**–**	–	–
Cashflow before financing		**(2,925)**	(818)	2,569
Financing				
Issue of share capital		**–**	1,132	1,132
Issue of share premium		**–**	11,587	13,126
Payment of expenses on issue of equity shares		**(113)**	–	(1,580)
Movement in borrowings		**(3,583)**	(10,447)	(10,447)
Capital element of finance lease repayments		**(112)**	(103)	(210)
Net cash (outflow)/inflow from financing		**(3,808)**	2,169	2,021
(Decrease)/increase in cash in the period	6	**(6,733)**	1,351	4,590

Statement of Total Recognised Gains and Losses

six months from 1 February to 31 July 2003

	Unaudited 31 July 2003 £'000	Unaudited 31 July 2002 £'000	Year ended 31 January 2003 £'000
Loss for the financial period	**(4,448)**	(6,576)	(7,490)
Currency translation differences on foreign currency net investments offset in reserves	**453**	567	1,147
Total recognised losses for the period	**(3,995)**	(6,009)	(6,343)

Reconciliation of Movements in Shareholders' Funds

for the six months from 1 February to 31 July 2003

	Unaudited 6 months to 31 July 2003 £'000	Unaudited 6 months to 31 July 2002 £'000	Year ended 31 January 2003 £'000
Loss for the financial period	**(4,448)**	(6,576)	(7,490)
Currency translation differences on foreign currency net investments	**453**	567	1,147
Issue of share capital	**5**	1,161	1,292
Movement in shares to be issued	**–**	(884)	(884)
Share premium	**(77)**	11,587	11,548
Other reserves	**–**	805	1,360
Net movement in shareholders' funds	**(4,067)**	6,660	6,973
Opening equity shareholders' funds	**29,659**	22,686	22,686
Closing equity shareholders' funds	**25,592**	29,346	29,659

Notes to the Financial Statements

six months from 1 February to 31 July 2003

1 Basis of Preparation

The unaudited financial information set out in this report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The accounts have been prepared applying the accounting policies described on pages 30-32 of the 2003 Report and Accounts and should be read in conjunction with the Report and Accounts.

The balance sheet as at 31 January 2003 and the profit and loss account and cashflow statement for the year then ended are an abridged version of the published accounts which have been reported on without qualification by the auditors and have been delivered to the Registrar of Companies.

2 Analysis of Turnover and Operating Profit/(Loss) by Geographical Market and Activity

	Unaudited 6 months 31 July 2003 £'000	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Turnover			
Geographical area by location of group operations			
United Kingdom	**34,332**	44,157	85,095
Rest of Europe	**26,751**	34,530	62,940
United States	**2,885**	4,376	7,900
Asia Pacific	**349**	426	757
	64,317	83,489	156,692
Market sector			
Resourcing Services	**57,995**	74,668	141,684
Consulting Services	**6,322**	8,821	15,008
	64,317	83,489	156,692

It is considered that turnover by location of client operations is not materially different to turnover by location of Group operations.

Notes to the Financial Statements

six months from 1 February to 31 July 2003 (cont)

2 Analysis of Turnover and Operating Profit/(Loss) by Geographical Market and Activity (continued)

	Unaudited 6 months 31 July 2003 £'000	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Total operating profit/(loss) before goodwill amortisation and exceptional items			
Geographical area			
United Kingdom	**384**	(351)	(344)
Rest of Europe	**221**	1,125	2,345
United States	**139**	(305)	(236)
Asia Pacific	**(180)**	(236)	(611)
	564	233	1,154
Market sector			
Resourcing Services	**890**	1,626	4,197
Consulting Services	**(326)**	(1,393)	(3,043)
	564	233	1,154

Notes to the Financial Statements

six months from 1 February to 31 July 2003 (cont)

2 Analysis of Turnover and Operating Profit/(Loss) by Geographical Market and Activity (continued)

	Unaudited 6 months 31 July 2003 £'000	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Total operating profit/(loss)			
Geographical area			
United Kingdom	**(910)**	(3,048)	(3,640)
Rest of Europe	**(2,734)**	11	486
United States	**105**	(2,639)	(2,584)
Asia Pacific	**(428)**	(292)	(667)
	(3,967)	(5,968)	(6,405)
Market sector			
Resourcing Services	**(2,445)**	(3,661)	(2,627)
Consulting Services	**(1,522)**	(2,307)	(3,778)
	(3,967)	(5,968)	(6,405)

Notes to the Financial Statements

six months from 1 February to 31 July 2003 (cont)

3 Exceptional Items

Analysis of exceptional items	**Unaudited 6 months 31 July 2003 £'000**	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Settlement of client contract termination	–	(921)	(921)
Staff restructuring	**1,599**	1,528	1,887
Provision for property leases	**1,901**	4,621	4,621
	3,500	5,228	5,587

4 Taxation on Loss on Ordinary Activities

	Unaudited 6 months 31 July 2003 £'000	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Corporation tax on loss in the period	**–**	101	378
Adjustments in respect of prior assessments	**–**	–	(407)
Total current tax	**–**	101	(29)
Deferred tax	**–**	(101)	29
Total tax charge	**–**	–	–

The tax charge is based on an anticipated £nil tax charge for the year.

5 Reconciliation of Operating Loss to Net Cash Flow

	Unaudited 6 months 31 July 2003 £'000	Unaudited 6 months 31 July 2002 £'000	Year ended 31 January 2003 £'000
Group operating loss	**(3,967)**	(5,968)	(6,405)
Depreciation	**580**	879	2,147
Amortisation	**1,031**	973	1,972
Write-down of tangible fixed assets	**–**	1,154	1,109
(Increase)/decrease in debtors	**(80)**	5,544	9,292
Increase/(decrease) in creditors	**937**	(918)	(2,394)
Net cash (outflow)/inflow from operating activities	**(1,499)**	1,664	5,721

Notes to the Financial Statements

six months from 1 February to 31 July 2003 (cont)

6 Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited 31 July 2003 £'000	Unaudited 31 July 2002 £'000	Year ended 31 January 2003 £'000
(Decrease)/increase in cash during the period	(6,733)	1,351	4,590
Decrease in debt and lease finance	3,695	10,551	10,657
	(3,038)	11,902	15,247
Foreign exchange	(87)	300	702
(Increase)/decrease in net debt during the period	(3,125)	12,202	15,949
Net debt at beginning of period	(5,591)	(21,540)	(21,540)
Net debt at end of period	(8,716)	(9,338)	(5,591)
Net cash	79	3,040	6,512
Borrowings	(8,795)	(12,378)	(12,103)
	(8,716)	(9,338)	(5,591)

7 Analysis of Changes in Net Debt

	1 February 2003 £'000	Non-cash movements £,000	Cash flow £'000	Foreign exchange £'000	**31 July 2003 £'000**
Cash	6,512	–	(6,733)	300	79
	6,512	–	(6,733)	300	79
Debt due within one year	–	(1,627)	–	–	(1,627)
Debt due after one year	(11,753)	1,627	3,583	(387)	(6,930)
Finance leases	(350)	–	112	–	(238)
	(12,103)	–	3,695	(387)	(8,795)
Total	**(5,591)**	**–**	**(3,038)**	**(87)**	**(8,716)**

Notes to the Financial Statements

six months from 1 February to 31 July 2003 (cont)

8 Earnings per Share

	Unaudited 6 months to 31 July 2003 £'000/shares	Unaudited 6 months to 31 July 2002 £'000/shares	Year ended 31 January 2003 £'000/shares
Loss attributable to shareholders	**(4,448)**	(6,576)	(7,490)
Weighted average number of shares	**55,335,344**	46,454,159	50,241,818
Basic loss per ordinary share	**(8.04)p**	(14.16)p	(14.91)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 period, excluding those held in the Employee Benefit Trust, which are treated as cancelled.

The Company has share options which are potential ordinary shares, however, the impact on the net loss of these potential ordinary shares is anti-dilutive and therefore, the diluted earnings per share is the same as the basic earnings per share.

Loss attributable to shareholders	**(4,448)**	(6,576)	(7,490)
Amortisation	**1,031**	973	1,972
Exceptional items	**3,500**	5,228	5,587
Tax on exceptional items	**–**	(631)	(532)
Adjusted profit/(loss) after tax	**83**	(1,006)	(463)
Weighted average number of shares	**55,335,344**	46,454,159	50,241,818
Adjusted earnings/(loss) per ordinary share	**0.15p**	(2.17)p	(0.92)p

Adjusted earnings/(loss) per share has been calculated before amortisation and exceptional items.

International Offices

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

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

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

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

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

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

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

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

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

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

Harvey Nash GmbH
Hilblestrasse 54
80636 Munich
Germany
Tel: 49 89 520 4620
Fax: 49 89 520 462-20

Harvey Nash GmbH
Gutleutstrasse 82
D-60329 Frankfurt
Germany
Tel: 49 69 26 48 47 0
Fax: 49 69 26 48 47 30

Harvey Nash GmbH
Immermannstrasse 51
D-40210 Düsseldorf
Germany
Tel: 49 211 17 93 92-0
Fax: 49 211 17 93 92-20

Harvey Nash GmbH
Messberg 4
d-20095 Hamburg
Germany
Tel: 49 40 822 25 18 0
Fax: 49 40 822 25 18 20

Luxembourg
Harvey Nash Luxembourg NV
Route des Trois Cantons, 9
L-8399 Steinfort-Windhof
Luxembourg
Tel: 352 26 306 51
Fax: 352 26 305 365

The Netherlands
Harvey Nash IT Services BV
Bisonspoor 365
3605 JX Maarssen
Netherlands
Tel: 31 346 581070
Fax: 31 346 581080

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

United States
Harvey Nash Inc
1123 Auraria Parkway
Suite 100
Denver
CO 80204
USA
Tel: 1 303 299 9090
Fax: 1 303 296 8855

Harvey Nash Inc
505 Montgomery
Suite 1025
San Francisco
CA 9411
USA
Tel: 1 415 874 3086
Fax:1 415 874 3203

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

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

Web address
www.harveynash.com

Notes

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Telephone **020 7729 9090** **www.emperor.uk.com**

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Harvey Nash Group plc

Harvey Nash Group plc
13 Bruton Street, London W1J 6QA   Telephone: 020 7333 0033
www.harveynash.com