

# HARVEY NASH GROUP PLC

("Harvey Nash" or "the Group")

## Interim Results for the six months ended 31 July 2006

**Harvey Nash, the global professional recruitment services and outsourcing company, with over 3200 staff and associates in 26 offices, announces another strong performance in the first half year.**

### Financial Results

	2006	2005	Change
Revenue	<b>£121.2m</b>	£92.7m	↑ 31%
Net fee income *	<b>£23.1m</b>	£20.9m	↑ 11%
Profit before tax	<b>£2.6m</b>	£1.7m	↑ 53%
Profit on disposal of investment	<b>£0.4m</b>	-	-
Profit before tax (excluding disposal)	<b>£2.2m</b>	£1.7m	↑ 27%
Cash from operating activities	<b>£2.5m</b>	£1.7m	↑ 52%

\* *Net fee income = gross profit (and this will apply throughout the statement)*

### Operational Highlights

- Excellent organic revenue growth of 31%
- Increase in profit before tax of 53%
- Operating profit increased across all geographic regions
- Increased profit margin on net fee income
- Strong cash generation, up 52% on prior year
- Further gains for Public Sector division
- New offices in the USA and Europe all profitable
- Substantial new contract wins for Offshore Software Development & Outsourcing division
- Capital re-organisation completed to allow re-instatement of dividends

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

**"Harvey Nash continues to deliver strong organic growth in all of its core markets and our investment in people and new offices will provide further momentum going forward.**

**Building on the success of these results, the Group has identified a number of possible bolt on acquisition opportunities in new and existing fast growing geographical areas which will give us access to additional growth markets and complement our existing services."**

### ENQUIRIES:

#### Harvey Nash

Albert Ellis, Chief Executive

Richard Ashcroft, Group Finance Director

#### College Hill

Mark Garraway

Matthew Gregorowski

**Tel: 020 7333 2635**

**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**

## **CHAIRMAN'S STATEMENT**

The Group is reporting another excellent set of results for the six months ended 31 July 2006 and I am delighted by the financial performance which builds on strong comparables in the previous year.

Robust demand for senior executives and technology specialists across all our markets continues to drive growth. The Group's geographical spread is a key strength, with 64% of the Group's revenues generated outside the UK. Business confidence and the growth agenda have ensured that demand for senior executives, particularly in the ICT sector, continues unabated. Demand has also continued for technology specialists who develop new IT projects; a result of increasing corporate earnings and technology related capital expenditure catch up.

The Offshore Software Development & Outsourcing division also achieved further progress with extensions to major contracts and new contract wins, underpinning the Group's strategy to pursue long term visible annuity revenues and profits. In line with this objective the Group's total contract based net fee income in this division has increased to 63% of the overall fee income up from 59% in the comparable period last year.

### **Financial Results**

The Group's turnover for the six months ended 31 July 2006 increased by 31% to £121.2m (2005: £92.7m). Net fee income increased by 11% to £23.1m (2005: £20.9m). Operating profit, excluding the profit of £0.4m on disposal of the investment in St Georges Harvey Nash Ltd, increased by 20% to £2.7m (2005: £2.2m). Profit before tax rose by 53% to £2.6m (2005: £1.7m).

The tax charge for the period was £0.9m (2005: £0.1m). This included a prior year adjustment of £0.1m and a deferred tax charge of £0.2m. The underlying effective tax rate was 32.4% (2005: 28.7%). This has affected basic earnings per share, which rose by 5% to 2.71p (2005: 2.59p).

Cash generated from operating activities was £2.5m (2005: £1.7m). After taxes paid of £0.7m mainly relating to the prior year (2005: received £0.2m), capital expenditure of £0.3m (2005: £0.5m) and interest paid of £0.5m (2005: £0.5m), net borrowings were reduced by 26% to £4.7m (January 2006: £6.4m).

### **Dividends**

The Group continued to generate excellent free cash flow during the period. The priorities for the free cash are to fund the Group's ongoing development and to re-instate a progressive dividend policy. The Group completed a capital re-organisation in July 2006 to allow the payment of dividends following the year ended 31 January 2007.

### **Balance Sheet**

Total receivables increased by 35% to £47.4m (2005: £35.2m) as a result of strong trading. Tight control of working capital resulted in a 6% improvement in debtor days notwithstanding the 31% increase in turnover.

The revolving credit facility was converted into a 3 year term loan repayable in equal instalments of £1.0m commencing in January 2007.

Applying unutilised tax losses brought forward, this resulted in a movement of £0.3m on the net deferred tax asset.

During the period deferred consideration of £1.3m was settled by way of a share issue in relation to the acquisition of the businesses in Seattle, Chicago and Florida.

### **Operational Review**

United Kingdom

Turnover in the UK increased by 14% to £44.2m (2005: £38.7m) and operating profit increased to £1.3m, before the disposal of investment (2005: £1.2m). In line with the Group's strategy, there was continued focus on high margin added value services.

The Executive Consulting Division has broadened its platform by establishing a Board level practice. This further builds the Group's strength at the senior level and includes specialists focusing on CEO, CFO and CIO roles. Expanding across the UK, the Group has opened an office in Scotland in September to provide further regional coverage to benefit from the growing UK economy. The public sector is undergoing change at every level and our

Executive Consulting Division has been at the forefront of delivery of senior private sector talent and skills, both on a permanent and interim basis.

Our IT Division continued its progress with offshore revenue up 29% and an increasing number of IT specialists and freelance professionals being placed permanently with clients or on short term projects. The booming Financial Services sector continues to show strong growth along with the Oil sector. Technology, New Media and Telecommunication convergence is another key factor driving growth, particularly with recent merger activity and the acceleration to digitise television and internet based services.

#### Continental Europe

Turnover in mainland Europe increased by 53% to £63.0m (2005: £41.3m), and operating profit increased by 44% to £1.0m (2005: £0.7m).

Growth was strong across all our core geographic markets and trading continues to reflect positive business confidence. Investment in headcount and the expansion of low cost satellite offices such as Geneva, have ensured gains in market share, resulting in excellent increases in operating profit.

The Benelux region, up 82%, has seen the strongest growth in Europe. The Netherlands has won substantial new assignments from clients to outsource their flexible workforce risk management and Belgium has increased volumes and margins as well as the client base. In France, we are building on the economic recovery with increased fee earning capacity planned in the second half. Switzerland and the larger German business increased by 17%, mainly due to the success of the new office in Geneva and skills shortages in niche areas such as SAP. During the period, Harvey Nash entered into a partnership with SAP AG in Germany, providing highly skilled SAP professionals both for core software development and international implementation projects and working for a number of multi-national clients such as IBM, BearingPoint and CapGemini.

#### United States

Turnover in the USA increased by 10% to £14.1m (2005: £12.8m), and operating profit increased by 20% to £0.4m (2005: £0.3m).

Ongoing yield management of lower margin contracts and an increase in the growth of Executive Consulting has resulted in further improvement in the gross margin from 29% to 30%. The New Jersey office continues to gain market share and Chicago experienced the strongest growth in the region. Two new offices in Boston and Phoenix were opened to further expand our services in new growing markets and are profitable. The outsourcing division increased its client base with an extension at Sunguard and a new contract win at Smith & Nephew. We expect to secure further new outsourcing business in the second half and the pipeline for offshore software development is also strong.

#### **Outlook**

Building on our successful acquisition and organic led growth strategy in the US, we are identifying earnings enhancing bolt on acquisition opportunities in new and existing fast growing geographical areas, leveraging our broad portfolio of services to add further value to the Group.

Following the excellent performance in the first half of 2006, current trading remains robust. Our European businesses continue to perform strongly and our UK and US businesses are also seeing improved profitability. We therefore remain confident of delivering results for the full year in line with the Board's expectations.

**Ian Kirkpatrick**  
**Chairman**  
**10 October 2006**

## Condensed Unaudited Consolidated Interim Income Statement

	Notes	<b>6 months ended 31 July 2006 £'000</b>	6 months ended 31 July 2005 £'000	12 months ended 31 January 2006 £'000
<b>Revenue</b>	3	<b>121,246</b>	92,705	202,294
Cost of sales		<b>(98,158)</b>	(71,826)	(159,390)
<b>Gross profit</b>		<b>23,088</b>	20,879	42,904
Administrative expenses		<b>(19,960)</b>	(18,643)	(37,803)
<b>Operating profit</b>	3	<b>3,128</b>	2,236	5,101
Add back:				
Profit on disposal of Investment *		<b>(449)</b>	-	-
Operating profit before material one-off items		<b>2,679</b>	2,236	5,101
Finance costs		<b>(479)</b>	(504)	(1,098)
<b>Profit before tax</b>		<b>2,649</b>	1,732	4,003
Taxation	4	<b>(911)</b>	(120)	(527)
<b>Profit for the period</b>		<b>1,738</b>	1,612	3,476
Basic earnings per share	5	<b>2.71p</b>	2.59p	5.59p
Diluted earnings per share	5	<b>2.58p</b>	2.30p	5.05p

\* Profit on disposal of Investment represents cash consideration for the sale of the 10% shareholding in the Hong Kong company St Georges Harvey Nash Limited.

## Condensed Unaudited Consolidated Interim Balance Sheet

	Notes	6 months ended 31 July 2006 £'000	6 months ended 31 July 2005 £'000 * As restated	12 months ended 31 January 2006 £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		1,611	1,569	1,744
Intangible assets		28,146	28,553	28,463
Deferred income tax assets		1,027	1,147	1,190
		<b>30,784</b>	31,269	31,397
<b>Current assets</b>				
Trade and other receivables		47,375	35,180	43,032
		<b>47,375</b>	35,180	43,032
<b>Total assets</b>		<b>78,159</b>	66,449	74,429
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		(37,897)	(26,319)	(34,219)
Current income tax liabilities		(573)	(373)	(459)
Financial liabilities – borrowings	6	(2,748)	(8,214)	(6,392)
		<b>(41,218)</b>	(34,906)	(41,070)
<b>Non-current liabilities</b>				
Financial liabilities – borrowings	6	(1,952)	-	-
Deferred income tax liabilities		(221)	(68)	(233)
Provisions and other liabilities		(10)	(54)	(14)
		<b>(2,183)</b>	(122)	(247)
<b>Total liabilities</b>		<b>(43,401)</b>	(35,028)	(41,317)
<b>Net assets</b>		<b>34,758</b>	31,421	33,112
<b>Capital and reserves attributable to equity shareholders</b>				
Share capital		3,267	3,134	3,137
Share premium		4,110	19,054	19,064
Shares to be issued		1,205	2,555	2,532
Fair value and other reserves		14,323	13,152	13,152
Own shares held		(656)	(656)	(656)
Cumulative translation reserve		(173)	324	93
Retained earnings		12,682	(6,142)	(4,210)
<b>Total equity</b>		<b>34,758</b>	31,421	33,112

\* As restated, see note 2.

## Condensed Unaudited Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Shares to be issued	Fair value and other reserves	Own shares held	Cumulative translation reserve	Retained earnings	Total equity
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Balance at 1 February 2005</b>	<b>3,134</b>	<b>19,054</b>	<b>2,386</b>	<b>13,152</b>	<b>(1,081)</b>	<b>163</b>	<b>(7,234)</b>	<b>29,574</b>
Employee share option and bonus plan	-	-	-	-	425	-	(520)	<b>(95)</b>
Profit for the period	-	-	-	-	-	-	1,612	<b>1,612</b>
Currency translation adjustments	-	-	169	-	-	161	-	<b>330</b>
<b>Balance at 31 July 2005</b>	<b>3,134</b>	<b>19,054</b>	<b>2,555</b>	<b>13,152</b>	<b>(656)</b>	<b>324</b>	<b>(6,142)</b>	<b>31,421</b>
Employee share option and bonus plan	3	10	-	-	-	-	68	<b>81</b>
Profit for the period	-	-	-	-	-	-	1,864	<b>1,864</b>
Currency translation adjustments	-	-	(23)	-	-	(231)	-	<b>(254)</b>
<b>Balance at 31 January 2006</b>	<b>3,137</b>	<b>19,064</b>	<b>2,532</b>	<b>13,152</b>	<b>(656)</b>	<b>93</b>	<b>(4,210)</b>	<b>33,112</b>
Employee share option and bonus plan (including tax effect of £4,000)	19	109	-	-	-	-	91	<b>219</b>
Capital Restructuring *	-	(15,063)	-	-	-	-	15,063	-
Payment of deferred consideration	111	-	(1,282)	1,171	-	-	-	-
Profit for the period	-	-	-	-	-	-	1,738	<b>1,738</b>
Currency translation adjustments	-	-	(45)	-	-	(266)	-	<b>(311)</b>
<b>Balance at 31 July 2006</b>	<b>3,267</b>	<b>4,110</b>	<b>1,205</b>	<b>14,323</b>	<b>(656)</b>	<b>(173)</b>	<b>12,682</b>	<b>34,758</b>

\* On 26 July 2006 the High Court of Justice approved the cancellation of a proportion of the Harvey Nash Group plc share premium account.

## Condensed Unaudited Consolidated Interim Cash Flow Statement

	Notes	Unaudited 6 months ended 31 July 2006 £'000	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
<b>Profit before taxation</b>		<b>2,649</b>	1,732	4,003
Adjustments for:				
- depreciation		<b>414</b>	377	797
- interest income		<b>(40)</b>	(12)	(19)
- interest expense		<b>519</b>	516	1,117
- profit on sale of investment		<b>(449)</b>	-	-
- share based employee settlement and share option charge		<b>87</b>	126	185
<b>Operating cash flows before changes in working capital</b>		<b>3,180</b>	2,739	6,083
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)				
- increase in trade and other receivables		<b>(4,246)</b>	(4,444)	(12,477)
- increase in trade and other payables		<b>3,573</b>	3,583	11,479
- net movements in provisions for liabilities and charges		<b>4</b>	(227)	(266)
<b>Cash flows from operating activities</b>		<b>2,511</b>	1,651	4,819
Income tax received/ (paid)		<b>(650)</b>	238	55
<b>Net cash generated from operating activities</b>		<b>1,861</b>	1,889	4,874
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		<b>(294)</b>	(516)	(1,109)
Proceeds from sale of investment		<b>449</b>	-	-
<b>Net cash generated/(absorbed) from investing activities</b>		<b>155</b>	(516)	(1,109)
<b>Cash flows from financing activities</b>				
Repayment of borrowings		-	(3,045)	(3,308)
Proceeds from issue of ordinary shares		<b>128</b>	-	13
Net interest paid		<b>(479)</b>	(504)	(1,098)
<b>Net cash used in financing activities</b>		<b>(351)</b>	(3,549)	(4,393)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>1,665</b>	(2,176)	(628)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>(3,371)</b>	(2,694)	(2,694)
Exchange loss on cash and cash equivalents		<b>(42)</b>	(38)	(49)
<b>Cash and cash equivalents at the end of the period</b>	6	<b>(1,748)</b>	(4,908)	(3,371)

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

### 1. Corporate 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.

This condensed consolidated interim financial information for the six months ended 31 July 2006 was approved for issue on 9 October 2006.

### 2. Accounting Policies

#### Basis of preparation

This condensed consolidated interim financial information for the six months ended 31 July 2006 has been prepared in accordance with IAS 34, 'Interim financial reporting' and the disclosure requirements of the Listing Rules. It does not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 January 2006.

The balance sheet at 31 July 2005 has been restated to reflect finalised IFRS adjustments made at the transition date, 31 January 2004. For further details see the consolidated financial statements of the Group for the year ended 31 January 2006.

#### Nature of financial information

The interim financial information does not constitute statutory financial statements as defined under Section 240 of the Companies Act 1985. The financial information for the year ended 31 January 2006 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

#### Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 January 2006.

### 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:

#### Analysis of Revenue

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
United Kingdom	<b>44,168</b>	38,627	79,229
Rest Of Europe	<b>62,982</b>	41,252	95,690
United States	<b>14,096</b>	12,826	27,375
Total	<b>121,246</b>	92,705	202,294

## Analysis of Operating Profit

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
United Kingdom	<b>1,710</b>	1,200	2,400
Rest Of Europe	<b>1,033</b>	716	1,800
United States	<b>385</b>	320	901
<b>Total</b>	<b>3,128</b>	2,236	5,101

Operating profit in the United Kingdom includes £449,000 representing cash consideration for the sale of the 10% shareholding in the Hong Kong company St Georges Harvey Nash Limited.

## 4. Taxation

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
<b>Current tax:</b>			
Tax on profit in the period	<b>701</b>	173	664
Adjustments in respect of prior periods	<b>54</b>	(377)	(577)
<b>Total current tax</b>	<b>755</b>	(204)	87
<b>Deferred tax:</b>			
Origination and reversal of timing differences	<b>152</b>	544	666
Deferred tax to equity	<b>4</b>	(220)	(226)
<b>Total deferred tax charge</b>	<b>156</b>	324	440
<b>Total tax charge (continuing operations)</b>	<b>911</b>	120	527

## 5. Earnings per Share

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
Profit attributable to shareholders	<b>1,738</b>	1,612	3,476
Weighted average number of shares	<b>64,082,419</b>	62,150,562	62,224,342
<b>Basic earnings per share</b>	<b>2.71p</b>	2.59p	5.59p

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.

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
Profit attributable to shareholders	<b>1,738</b>	1,612	3,476
Weighted average number of shares	<b>64,082,419</b>	62,150,562	62,224,342
Effect of dilutive securities	<b>3,310,263</b>	7,953,224	6,670,461
Adjusted weighted average number of shares	<b>67,392,682</b>	70,103,786	68,894,803
<b>Diluted earnings per share</b>	<b>2.58p</b>	2.30p	5.05p

## 6. Cash and Cash Equivalents

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

	<b>Unaudited 6 months ended 31 July 2006 £'000</b>	Unaudited 6 months ended 31 July 2005 £'000	Audited 12 months ended 31 January 2006 £'000
Cash and cash equivalents	<b>(1,748)</b>	(4,908)	(3,371)
Debt within one year	<b>(1,000)</b>	(3,306)	(3,021)
Debt after one year	<b>(1,952)</b>	-	-
<b>Net debt</b>	<b>(4,700)</b>	(8,214)	(6,392)

## **7. Analysis of Changes in Net Debt**

	1 February 2006 £'000	Unaudited Cash flow £'000	Unaudited Non cash movements £'000	Unaudited Foreign exchange movements £'000	<b>Unaudited 31 July 2006 £'000</b>
Cash and cash equivalents	(3,371)	1,665	-	(42)	<b>(1,748)</b>
	(3,371)	1,665	-	(42)	<b>(1,748)</b>
Debt due within one year	(3,021)	-	1,952	69	<b>(1,000)</b>
Debt due after one year	-	-	(1,952)	-	<b>(1,952)</b>
	(3,021)	-	-	69	<b>(2,952)</b>
<b>Total</b>	<b>(6,392)</b>	<b>1,665</b>	<b>-</b>	<b>27</b>	<b>(4,700)</b>

The non-cash movements reflect changes in the maturity of the debt following a debt restructuring in the period.

## **8. Related Party Transactions**

Certain senior employees were entitled to receive deferred consideration in respect of the acquisition of Snowdogs LLC in 2003 and the business and certain assets of Bluesuit Consulting Inc in 2005, in which they formerly held equity interests. During the period, the total number of shares issued to these employees amounted to 833,061 and 1,394,453 for Snowdogs and Bluesuit Consulting Inc respectively.

The total value of these shares on issue amounted to \$1m and \$1.25m for Snowdogs and Bluesuit Consulting Inc respectively.

## **9. Distribution of Interim Financial statements**

Copies of this statement are being dispatched to shareholders, and are available to members of the public on the Group's website at [www.harveynash.com](http://www.harveynash.com) or from the registered office at 13 Bruton Street, London, W1J 6QA.