

**HARVEY NASH GROUP PLC**  
Preliminary full year results for the year ended 31 January 2005

**Harvey Nash announces adjusted profits rise of over 220%\***

Harvey Nash Group plc ("Harvey Nash"), the Global Professional Services Group, announces its preliminary results for the year ended 31 January 2005.

**Financial Results**

	<b>31 Jan 2005</b>	31 Jan 2004
Turnover	<b>£163.4m</b>	£130.9m
Adjusted Operating Profit*	<b>£4.5m</b>	£2.0m
Operating Profit/(loss)	<b>£2.1m</b>	(£3.7m)
Adjusted Profit before tax*	<b>£3.6m</b>	£1.1m
Profit/(loss) before tax	<b>£1.2m</b>	(£4.5m)

**Operational Highlights**

- Turnover up 25% to £163.4m (2004: £130.9m)
- Gross Margin maintained at 23% (2004: 23%)
- Operating profit\* up 127% to £4.5m (2004: £2.0m)
- Profit before tax\* up by over 220% to £3.6m (2004: £1.1m)
- UK profit growth\*\* up 90% to £2.2m (2004: £1.1m)
- European profits more than doubled to £1.4m\*\* (2004: £0.6m)
- US profits growth up 154% to £0.9m\*\* (2004: £0.4m)
- Acquisition of Chicago based business in December 2004
- New Jersey office opened October 2004
- Continued strategic investment in headcount, office infrastructure and services

\* Adjusted for goodwill amortisation of £2.2m (2004:£2.1m) and exceptional items of £0.2m (2004: £3.5m) and this meaning shall apply throughout the preliminary results statement

\*\* Adjusted for share of goodwill and exceptional items of £0.2m and this meaning shall apply throughout the preliminary results statement

David Higgins, Harvey Nash's Chief Executive Officer, commented:

"The Group has delivered a very strong financial performance, growing revenues by 25% and increasing adjusted profit before tax by over 220%. Our unique portfolio of services and strong brand have enabled the Group to take full advantage of the improved market conditions.

In the UK we have continued to gain market share through focusing on specialist and high value services as well as developing our regional network. In Europe we have more than doubled our profits and in the US, we have achieved strong profit growth with our seven offices giving the Group national coverage to support our growing client base."

David Higgins / Albert Ellis  
Tom Buchanan

Harvey Nash Group  
Brunswick

020 7333 0033  
020 7404 5959

A presentation of the results will take place at 9:30am at the Forum, London Stock Exchange, 10 Paternoster Square, London EC4M 7LS

**[www.harveynash.com](http://www.harveynash.com)**

## CHAIRMAN'S STATEMENT

I am pleased to report an excellent set of results for the Group in the year to 31 January 2005.

### Financial Highlights

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

### Market Conditions

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

The IT Sector recovered strongly during 2004 with higher levels of requirements and in some areas increases in margins and pay rates. The recovery in the IT sector occurred mainly in the first half as a result of a release of pent up demand and new projects coming on stream. The contracts business, which picked up mainly in the second half of last year, achieved significant growth and there is some evidence that the margin decline experienced over the last five years may have bottomed out.

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

### Strategic Plan

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

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

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

### Employees

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

## Board of Directors

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

## Outlook

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

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

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

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

Ian Kirkpatrick  
Chairman

## CHIEF EXECUTIVE'S STATEMENT

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

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

### United Kingdom

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

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

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

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

### Continental Europe

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

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

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

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

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

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

## United States

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

The Group opened an office in New Jersey in October 2004. This is a key commercial centre where many Fortune 500 companies have relocated their back office operations post September 11<sup>th</sup>. The start up investment cost, included in the US operating profit, was £0.1m. In line with the Group's strategy of differentiation through added value services, a key part of the service offered here is "outsourcing", mainly focused on infrastructure and help desk operations. This office is now gaining traction in its markets and is expected to breakeven by January 2006. Winning any one of a number of outsourcing proposals which are currently under consideration at prospective clients, will shorten the budgeted time to profitability.

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

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

## Group Overview

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

## FINANCIAL REVIEW

### Profit and Loss Account

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

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

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

### Exceptional Items

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

## Taxation

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

## Earnings per share

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

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

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

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

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

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

## Cash Flow

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

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

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

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

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

In summary, the Group's net debt position increased from £4.8m to £8.8m as a result of the working capital investment of £6.6m, reduced by free cash flow of £2.2m and favourable foreign exchange differences of £0.3m.

## Banking Facilities

The Group has renewed its banking facilities totalling £22m which comprise working capital of £15m, an overdraft of £4.2m and a residual £3.1m of revolving credit which is repayable on 30 April 2006.

## Acquisitions

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

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

## International financial reporting standards (IFRS)

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

Albert Ellis  
Chief Financial Officer

# Consolidated Profit and Loss Account

for the year ended 31 January 2005

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

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

# Consolidated Balance Sheet

as at 31 January 2005

	31 January 2005	31 January 2004 (Restated – see note 1)
	£000	£000
<b>Fixed assets</b>		
Intangible fixed assets	30,845	30,759
Tangible fixed assets	1,415	1,413
Investments	-	-
	<b>32,260</b>	32,172
<b>Current assets</b>		
Debtors	32,052	23,662
Cash at bank	-	1,613
	<b>32,052</b>	25,275
<b>Creditors due within one year</b>	<b>(28,442)</b>	(20,420)
<b>Net current assets</b>	<b>3,610</b>	4,855
<b>Total assets less current liabilities</b>	<b>35,870</b>	37,027
<b>Creditors due after more than one year</b>	<b>(3,112)</b>	(6,333)
<b>Provision for liabilities and charges</b>	<b>(280)</b>	(1,641)
<b>Net assets</b>	<b>32,478</b>	29,053
<b>Capital and reserves</b>		
Share capital	3,134	2,984
Shares to be issued	2,386	1,648
Share premium account	19,054	18,023
Other reserves	12,750	11,736
Own shares held	(1,081)	(1,081)
Profit and loss account	(3,765)	(4,257)
<b>Equity shareholders' funds</b>	<b>32,478</b>	29,053

# Consolidated Cash Flow Statement

for the year ended 31 January 2005

	Notes	2005 £'000	2004 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	5	<b>(1,350)</b>	1,890
<b>Returns on investments and servicing of finance</b>			
Interest paid		(893)	(863)
Interest element of finance lease repayments		(3)	(21)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(896)</b>	(884)
<b>Tax paid</b>		<b>(1,433)</b>	(476)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(796)	(400)
<b>Net cash outflow from capital expenditure</b>		<b>(796)</b>	(400)
<b>Acquisition and disposals</b>			
Cash acquired with acquisitions		278	133
Purchase of subsidiary undertakings (including amounts paid for loan account)		(329)	(1,610)
Cash from disposal of investment		51	-
<b>Net cash outflow from acquisition</b>		<b>-</b>	(1,477)
<b>Financing</b>			
Issue of share capital		228	103
Issue of share premium		-	1,619
Payment of expenses on issue of equity shares		-	(68)
Movement in borrowings		-	(5,176)
Capital element of finance lease repayments		(121)	(228)
<b>Net cash inflow/(outflow) from financing</b>		<b>107</b>	(3,750)
<b>Decrease in cash in the year</b>	6	<b>(4,368)</b>	(5,097)

## Statement of Total Recognised Gains and Losses

for the year ended 31 January 2005

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

## Reconciliation of Movements in Shareholders' Funds

for the year ended 31 January 2005

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

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

# Notes to the Financial Statements

for the year ended 31 January 2005

## 1 Basis of Preparation

These financial statements are prepared under the historical cost convention in accordance with applicable accounting standards. The 31 January 2004 net assets of the Group have been reduced by £0.4m, following the restatement of own shares held that are now categorised within capital and reserves, in accordance with the adoption of UITF 38. This resulted in a £0.7m restatement of accumulated profit and loss reserves arising on previous impairments of own shares held.

## 2 Segmental Reporting

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

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

	2005 £'000	2004 £'000
<b>Total operating profit/(loss)</b>		
<b>Geographical area</b>		
United Kingdom	1,169	(629)
Rest of Europe	245	(2,893)
United States	578	283
Asia Pacific	68	(413)
	<b>2,060</b>	(3,652)
<b>Market sector</b>		
Resourcing Services	2,362	(2,278)
Consulting Services	(302)	(1,374)
	<b>2,060</b>	(3,652)
	2005 £'000	2004 £'000
<b>Total operating profit/(loss) before goodwill amortisation and exceptional items</b>		
<b>Geographical area</b>		
United Kingdom	2,162	1,136
Rest of Europe	1,355	625
United States	937	369
Asia Pacific	-	(165)
	<b>4,454</b>	1,965
<b>Market sector</b>		
Resourcing Services	4,262	1,912
Consulting Services	192	53
	<b>4,454</b>	1,965

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

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

### 3 Earnings Per Share

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

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

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

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

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

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

#### 4 Exceptional Items

Operating exceptional items comprise the following costs:

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

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

#### 5 Reconciliation of Operating Profit/(loss) to Net Cash Outflow/(inflow)

	2005 £'000	2004 £'000
Group operating profit/(loss)	2,060	(3,652)
Depreciation	795	1,322
Amortisation	2,194	2,123
Loss on disposal of fixed assets	24	50
Share-based employee settlement	206	-
(Increase)/decrease in debtors	(8,534)	611
Increase/(decrease) in creditors	1,905	1,436
<b>Net cash inflow from operating activities</b>	<b>(1,350)</b>	<b>1,890</b>

#### 6 Reconciliation of Net Cash Flow to Movement in Net Debt

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

#### Analysis of Changes in Net Debt

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

## 7 Acquisitions

Bluesuit Consulting Inc

On 17 December 2004, the Group acquired the business and certain assets of Bluesuit Consulting Inc, an IT recruitment business based in Chicago for an initial consideration of £0.6m (\$1.2m), satisfied by the issue of £0.6m (\$1.2m) of Harvey Nash Group plc shares. Deferred consideration of up to £1.8m (\$3.5m) is payable in shares in 3 instalments over the next 2 years subject to certain profit targets being achieved.

	Bluesuit Consulting Inc Book and Fair Value £'000
Fixed assets	10
Debtors	97
Cash	278
<b>Net assets acquired</b>	<b>385</b>
<b>Value of consideration and capitalised costs</b>	
Cash	111
Shares	617
Deferred consideration	1,800
Total consideration	<b>2,528</b>
<b>Goodwill</b>	<b>2,143</b>

The period of amortisation for the acquisition is 20 years.

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

	Bluesuit Consulting Inc 1 January 2004 to 16 December 2004 £'000
Turnover	2,505
Operating profit	531
Profit before taxation	531
Taxation	-
Profit after taxation	531
<b>Prior year result</b>	
Profit after taxation	175

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