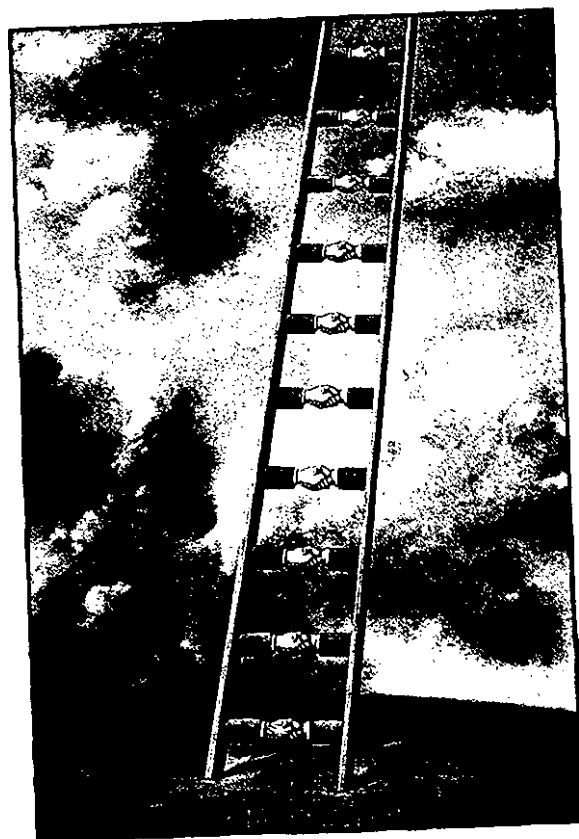


HARVEY NASH

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Annual Report 1998



“By working closely with clients,
and building strong, mutually
rewarding relationships, we are
creating a sound foundation for
substantial long-term growth.”



Harvey Nash Group plc

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Harvey Nash ist eine führende europäische EDV-Personal-Unternehmensberatung, die EDV-Spezialisten in Festanstellung und auf freiberuflicher Basis innerhalb Europas vermittelt. Die Gruppe teilt sich in 3 Geschäftsbereiche auf: Executive Search & Selection, IT Contract Services und IT File Search.

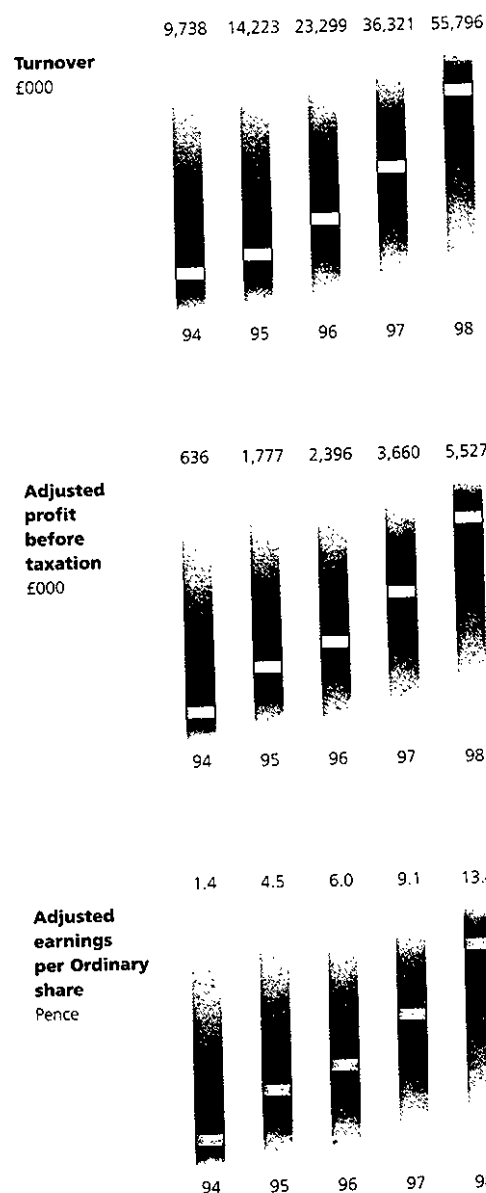
Die Harvey Nash Gruppe hat es sich zum Ziel gesetzt, ihre Position in Europa durch professionelle Personalbeschaffungslösungen zur vollsten Zufriedenheit aller ihrer Kunden und Kandidaten weiter auszubauen.

Harvey Nash is een vooraanstaande recruitering en services groep die zich gespecialiseerd heeft in het leveren van IT professionals in Europa, voor zowel permanente posities als op basis van detachering. De Groep werkt vanuit drie business units, namelijk Executive Search en Selection, IT Detachering en IT File Search.

De doelstelling van Harvey Nash is om zich binnen Europa te ontwikkelen als marktleider op het gebied van Europese Recruitment Services door middel van het bieden van professionele oplossingen op het gebied van recruitering, zowel naar de opdrachtgevers als naar de kandidaten.

Harvey Nash is a leading recruitment services group specialising in providing Information Technology professionals for permanent and contract positions within Europe. The Group operates through three divisions; Executive Search & Selection, IT Contract Services and IT File Search.

Harvey Nash is dedicated to expanding its services to become a leading European recruitment services business by delivering professional recruitment solutions to the satisfaction of all its clients and candidates.



CHAIRMAN'S STATEMENT

I am delighted to be able to report excellent results for the Harvey Nash Group with strong organic growth in both turnover and operating profit in the year ended 31 January 1998. The IT industry is expanding rapidly against a backdrop of good growth in the UK economy and the beginnings of recovery in continental Europe. This has created a growing shortage of the most sought-after IT skills. The key challenge is to attract sufficient candidates and contractors with the requisite skills and experience to meet client demand.

SUMMARY OF RESULTS

The Group increased turnover by 53.6% to £55.8m (1997: £36.3m) and operating profit before exceptional items by 42.1% to £5.4m (1997: £3.9m). At constant exchange rates, for the year ended 31 January 1998, operating profit before flotation costs would have increased by 46.3%. All three divisions experienced robust levels of demand and achieved strong growth.

The Group has benefited from a small gain on disposal and net interest receivable so that profit before taxation and flotation costs increased by 51.0% to £5.5m (1997: £3.7m). Earnings per share, excluding the effects of flotation costs, have increased by 47.5% to 13.36p (1997: 9.06p). The statutory earnings per share for the Group was 11.54p.

DIVIDEND

The Board has recommended payment of a final dividend of 3.1p per share which, taken with the interim dividend of 1.55p, represents a 16% increase over the notional dividend of 4.0p indicated in the Company's prospectus at the time of flotation. The dividend will be payable on 27 May 1998

to shareholders on the register at 1 May 1998.

The Group's policy is to maintain dividend growth consistent with growth in earnings.

ACQUISITIONS

Since the year end, the Group has completed the purchase of Interim Management in Information Technology Limited, Churchill Fry Limited and Telecommunications Executive Management Limited (collectively "IMIT") for a total initial consideration of £1.7m and further deferred consideration of £3.3m subject to certain profit targets being achieved. IMIT is one of the leading providers of interim management specialising in the IT and telecommunications sectors. It complements the Executive Search and Selection service of the Group.

The Board has adopted a conservative approach to acquisitions but is interested in acquiring companies that have synergy with its existing businesses providing certain key criteria are satisfied. Particular emphasis is placed on good management, revenue and profit growth potential and return on investment. We would wish potential acquisitions to have a culture compatible with our established operations as well as offering opportunities to accelerate or broaden our market penetration.

PEOPLE

I would like to thank all Harvey Nash Group employees for their commitment, effort and loyalty over the past year which has been a period of tremendous change and development. A large number of new people have been welcomed into the Group since our listing on the London Stock Exchange, with the headcount increasing from 144 at the time of flotation, to 207 in April 1998.

In particular we have recruited heavily for our newer areas of business, notably Switzerland, The Netherlands, IT File Search and our specialist technology contracts businesses, and we are anticipating increasing productivity from these areas.

The skills, abilities and energy of all our employees are major assets and have been vital to the continuing success of the Group. We invest in training for all employees and provide incentives closely linked to individuals' short and long term performance. The Group believes it is very important that all employees are motivated to develop business and pursue new target markets. Therefore we have developed a number of share ownership schemes that allow our staff to participate in the Group's long-term success and, with the approval of shareholders, the Board intends implementing these schemes.

PROSPECTS

Early indications of performance for the current year are encouraging across all three divisions. The IT market is expected to remain buoyant for the foreseeable future and this should lead to further volume and price growth.

Organic development will continue to provide the main engine of growth. With our strong brand, high quality staff and excellent service levels, the Board views the future with optimism.



Ian Kirkpatrick
Chairman



“The future is full of potential. With the energy, ability and commitment of our staff we will pursue the opportunities for growth and expansion with enthusiasm.”

Ian Kirkpatrick
Chairman

EXECUTIVE SEARCH AND SELECTION

The Executive Search and Selection Division identifies and recruits IT professionals for technical, middle management and executive level positions on a permanent basis, as well as middle and senior management positions in the retail, FMCG, healthcare and finance markets. Operating from offices in London, Birmingham and Amsterdam, the Division services mainly large and medium-sized international companies in most business sectors. Such clients have extensive IT requirements and are becoming heavily dependent on their systems to gain competitive advantage.

The Executive Search and Selection Division increased its turnover by 49.5% to £12.0m (1997: £8.0m) and operating profit by 32.0% to £2.4m (1997: £1.8m). The results have been influenced by significant investment in people and new services within all parts of the Division.

The most significant development was the opening of our office in Amsterdam in October 1997. As expected, this office made a loss of £133,000 in its first four months of trading. Without this loss the Division's operating profit would have increased by 39%.

Harvey Nash is the leading provider of Search and Selection recruitment services to the IT market place and this part of the Division has increased revenues by 33% compared to last year. The Division's specialist healthcare, finance, retail and FMCG business areas have grown revenues by 117% and now represent 28% of the Division's turnover (1997: 19%).



An increasing number of search assignments at Chief Executive level has been one of the key factors in raising the profile of the Harvey Nash brand name with our clients

The Division continues to be the leading advertiser in the IT trade press and was the second largest advertiser for management positions in the Sunday Times in 1997. This along with an increasing number of search assignments at Chief Executive level have been key factors in raising the profile of the Harvey Nash brand name with our clients.

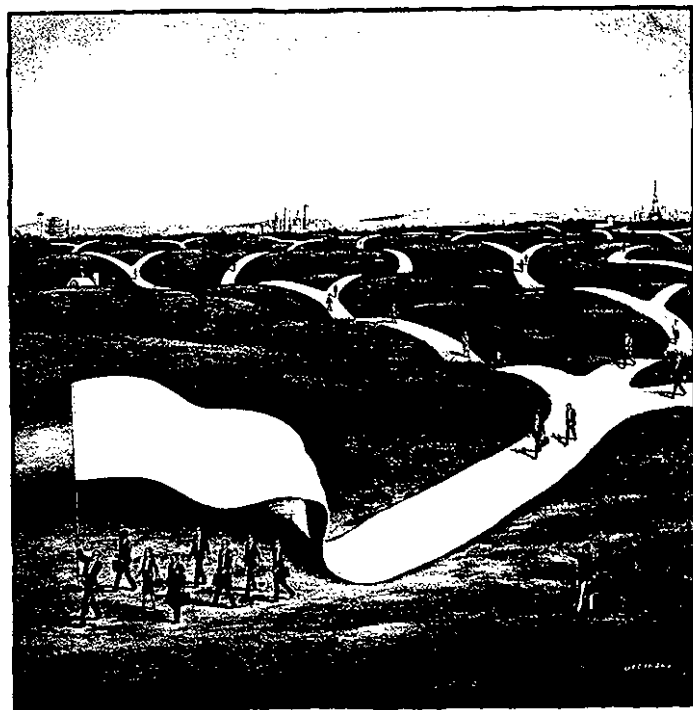
As part of its strategy to maintain market leadership, the Division has continued to develop a wider range of service offerings to resolve clients' recruitment issues, including research and Internet searching techniques, open evenings and salary benchmarking.

We are also pleased to report continuing high levels of repeat business which is the direct result of our approach to account management and high quality service.

The Internet has continued to grow as an important communication medium between the Group and potential candidates. Accordingly, we are particularly pleased by the increased prominence gained by TAPS (Internet Appointments Limited), which was recently voted "the leading IT recruitment Internet site" by Internet Magazine. For the year, the Group's share of profit from TAPS was £20,000 (1997: £25,000 loss). In December 1997 the shareholders of Internet Appointments decided to bring an additional partner into the joint venture to further develop TAPS into the financial recruitment market place.

The Group's recent acquisition of Interim Management in Information Technology Limited enables the Executive Search and Selection Division to offer a broader range of recruitment services to its existing client base.

Looking ahead, the Executive Search and Selection Division operates in sectors where there is scope for substantial expansion of our market share. Moreover, the Division intends to exploit the opportunity to market our services across Europe. Our Amsterdam office has traded profitably from the beginning of the current financial year and we expect to open additional offices in continental Europe.



"Our ability to react to market opportunities and focus resources precisely where they are most needed has led to significant growth."

David Higgins
Joint Managing Director

IT CONTRACT SERVICES

The Division selects and places freelance IT professionals to work on a contract basis for a large number of predominantly international companies and operates from offices in London, Birmingham, Stuttgart and Zurich. As the majority of IT contracts have a finite length with fixed deadlines, contractors are usually placed for periods of between three and nine months, although projects may be longer with extensions to original contracts.

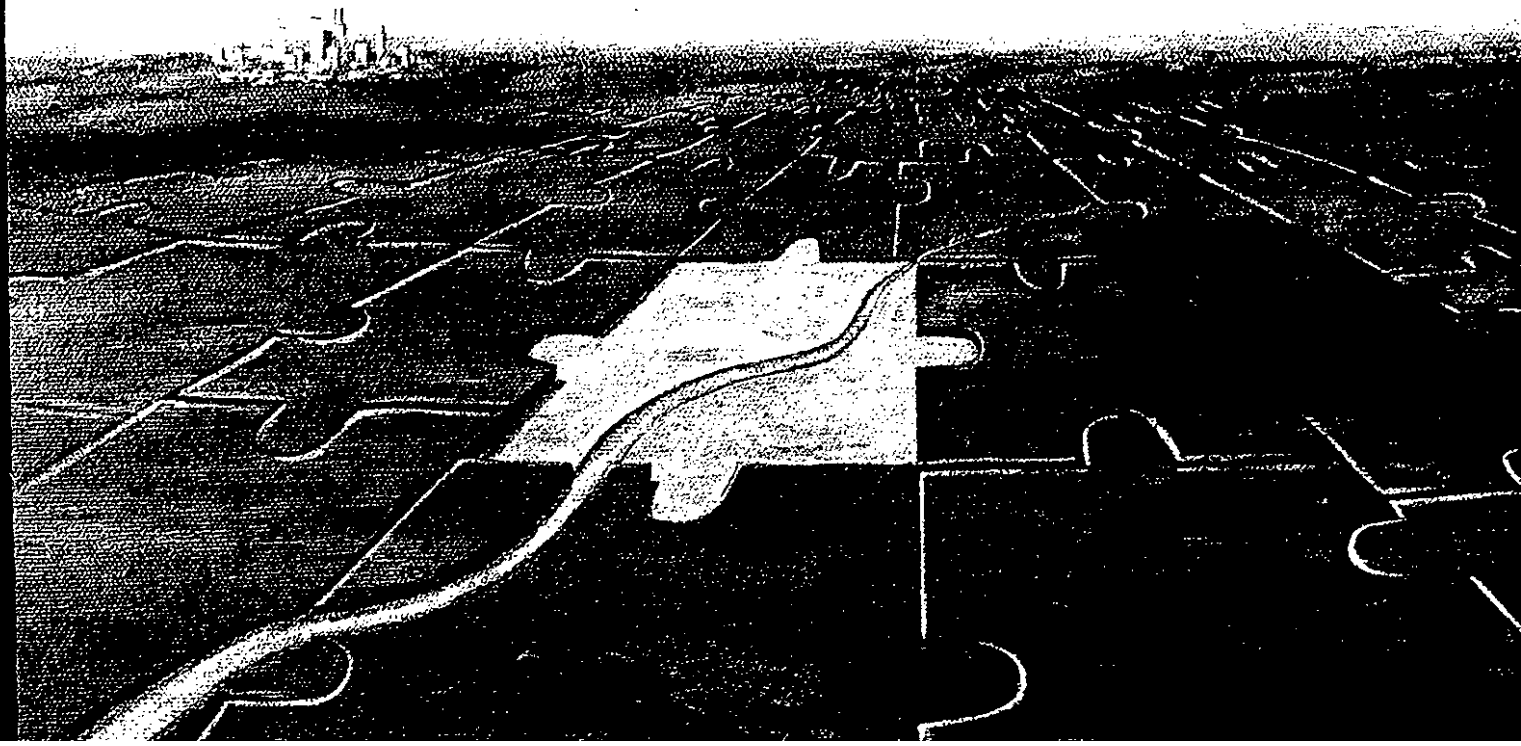
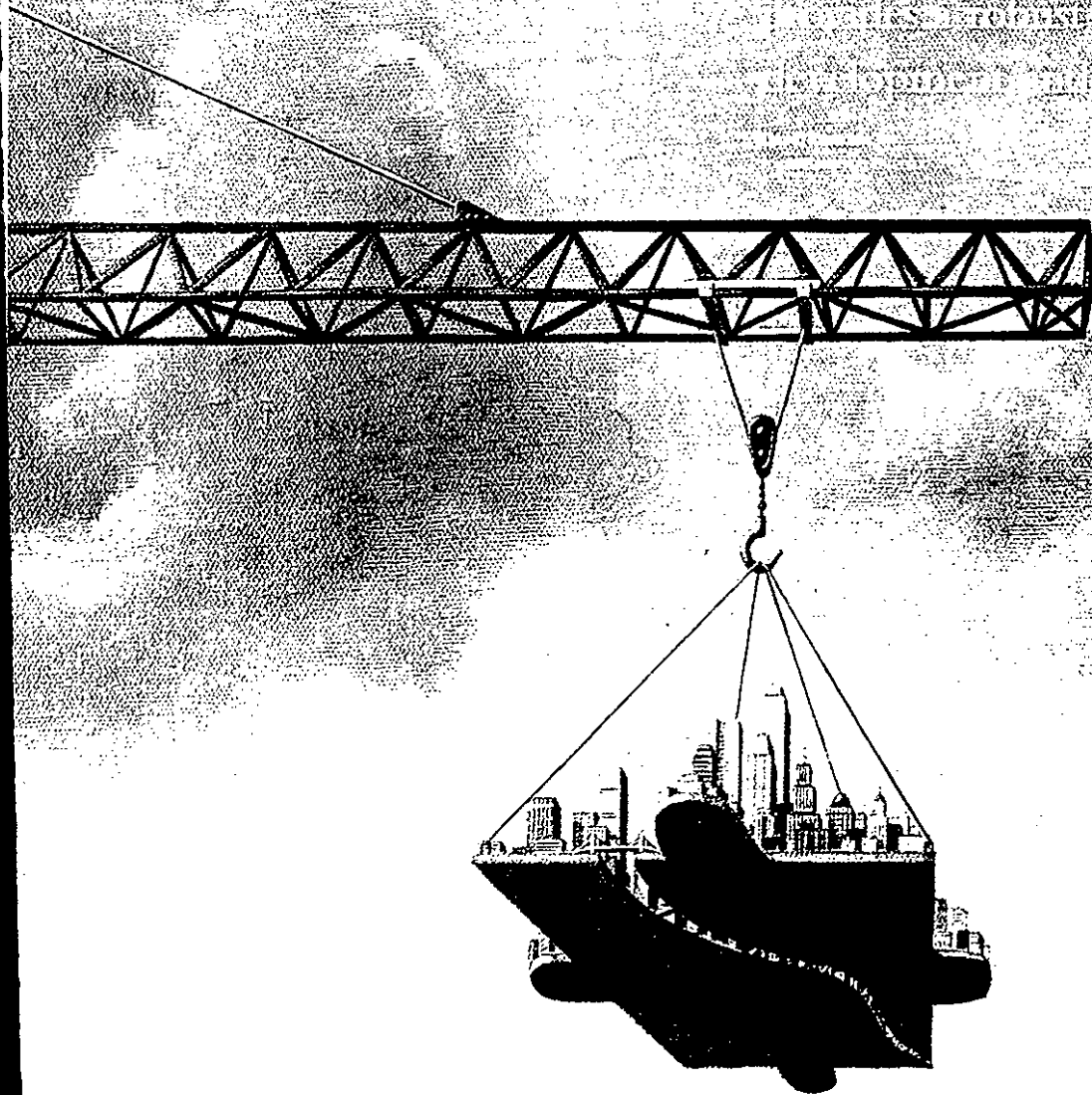
The IT Contracts Services Division increased its rate of growth throughout the period and finished the year strongly. Turnover has increased by 52.7% to £42.6m (1997: £27.9m) and operating profit has increased by 43.4% to £2.8m (1997: £1.9m). The results of its European operations were affected by the increasing value of sterling. Operating profit would have increased by 51.8% at constant exchange rates for the year ended 31 January 1998.

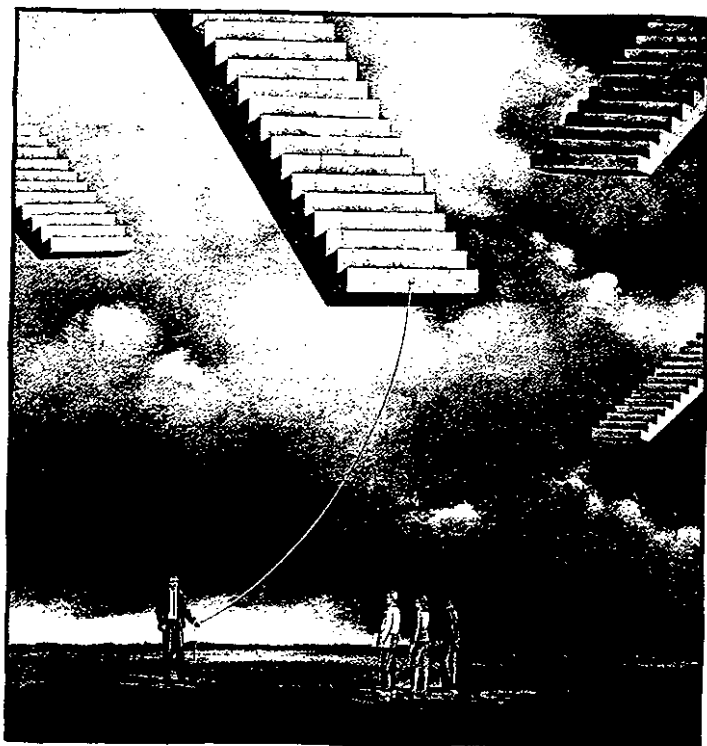
The market for IT contractors has continued to grow as clients turn to more flexible project-based resourcing. Rate increases for contractors have been running at about 15% in recent months and this has helped to attract more IT professionals into the contract market place. However, the shortage of skilled contractors is becoming noticeable in the light of steady demand growth.

The Division stepped up its growth in the second half of this year following the organisation of the Division into separate teams focused on specific technical skills. In addition, the Division now has teams dedicated to servicing clients who require a large volume of contract resource.



The IT Contract Services Division has benefited from Year 2000 demand, but the significant majority of its revenue is derived from clients using new technology products





“We aim to build up our reputation and our business by becoming even more adept at matching the interests of client and candidate and by offering both parties exceptional service.”

Tom Crawford
Joint Managing Director

Recent growth achieved by our German and Swiss offices is particularly pleasing considering that assignments in these two countries are less attractive to our UK contractors. Due to higher rates of salary inflation in the UK and currency movements, an assignment in continental Europe does not bring the same financial rewards as in the past. However, these offices are now placing more candidates sourced from local markets. Despite continued high levels of unemployment in Germany, an IT skills shortage is already apparent and this is sustaining local salary increases of between 5% and 10%.

The IT Contract Services Division has traditionally provided contractors to work on new technology based projects and clients. More recently the Division has benefited from Year 2000 demand but this still represents only 10% of contract revenue. There has been little direct demand as yet for contractors to undertake European Monetary Union projects while major companies assess their requirements for multi-currency handling capabilities. However, a leading retailer recently estimated that the expenditure needed will be significant, but the timing of such demand remains unpredictable.

The Division has always had an unusually broad spread of clients and low reliance on preferred supplier agreements. Its strategy for the future is to maintain strong rates of growth by pursuing large client accounts whilst protecting margins by focusing on specialist areas of technology and continental Europe where margins are higher.

IT FILE SEARCH

Operating under the trading name Mortimer Spinks, the IT File Search Division specialises in recruiting and placing candidates for permanent IT positions at salaries up to £30,000 using database techniques.

During the year ended 31 January 1998, the IT File Search Division increased its permanent recruitment revenues by 209% to £1.2m (1997: £0.4m) and operating profit by 203% to £300,000 (1997: £99,000).

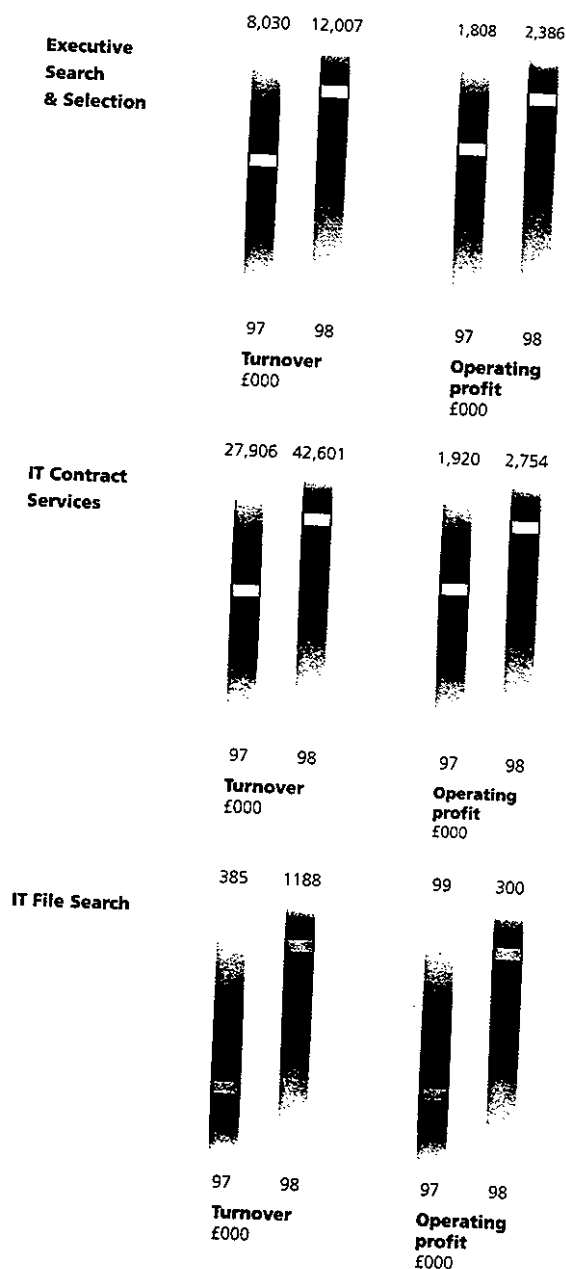
The market for IT file search recruitment was very strong throughout the year under review and the business has been able to develop client relationships based on its quality of service and speed of reaction. Candidates are in short supply and therefore the business has had to devise proactive solutions to resource and match candidates to clients' requirements. Over the last year the Division has developed a fast growing IT contracts business. The revenues from this business are included within IT Contracts.

The Division has continued to invest in new staff and in January 1998 opened its second office in Birmingham. Our IT file search recruitment activity has tended to be focused on London and the south east and there are significant opportunities for increasing revenue through geographical expansion. The IT File Search Division has demonstrated the ability to strongly and profitably grow its business; it has considerable scope to raise its profile and enlarge its market share.



The skills, abilities and energy of all our employees are major assets and have been vital to the continuing success of the Group

FINANCIAL REVIEW



The results as reported in the Chairman's Statement, Operating Review and this Financial Review reflect the full twelve month's performance for the Group, with appropriate comparatives.

However, the financial statements have been prepared recognising that Harvey Nash Group plc was established on 13 February 1997 and became the Group holding company when it acquired Harvey Nash plc, on 12 March 1997. Therefore the financial statements have been prepared for the period 13 February 1997 to 31 January 1998 and only include the trading of Harvey Nash plc from 12 March 1997. Proforma results have been prepared for the years ended 31 January 1998 and 31 January 1997, assuming that the Group was in existence in its current form throughout the two years.

PROFITS

The Group has experienced an increase in its rate of growth during the year. Operating profit of £3.0m in the second half of the year represented an increase of 51% on the same period last year compared with £2.4m achieved in the first six months, which was itself a 31% uplift.

The operating profit before exceptional items of £5.4m (1997: £3.8m) for the year was achieved entirely from continuing operations. Profit before taxation of £5.2m (1997: £3.7m) was achieved after taking account of £322,000 of flotation costs, and £87,000 interest receivable (1997: £167,000 interest payable). Since flotation the Group has benefited from a positive cash balance and become a net receiver of interest.

TAXATION

The effective rate of tax for the Group is 33.5% (39.9% in 1997) for both statutory and proforma periods. The UK tax rate has reduced to 32.5%

“Our objective is to grow as rapidly as is consistent with prudence. We are seeking new profit streams by broadening our geographic and technical base while retaining tight financial controls.”

Ian Furniss
Group Finance Director

but start up costs in The Netherlands and higher tax rates in Germany have contributed to the higher average rate.

DIVIDENDS

The Group paid an interim dividend of 1.55p per share amounting to £411,000 and a final dividend of 3.1p per share amounting to £821,000 is proposed. After these dividends have been taken into account the retained statutory profit for the period transferred to reserves was £1.9m.

EARNINGS PER SHARE

Earnings per share, adjusted for exceptional costs, have increased in line with profits by 47.5% to 13.36p (1997: 9.06p). Statutory earnings per share were 11.54p.

FOREIGN EXCHANGE

The Group is exposed to foreign exchange fluctuations affecting the value of its invoicing to overseas clients and the translation of the profits and assets of its foreign subsidiaries.

At constant exchange rates the Group's European turnover and operating profit would have been £11.8m and £739,000 respectively, which would have represented additional growth of 5.6% and 4.2% in Group turnover and operating profit respectively.

BALANCE SHEET

The Group's year end balance sheet has been strengthened by the flotation proceeds and by the profit performance and good cash generation. Net assets have increased to £7.3m and cash, net of borrowings, has increased to £3.5m.

Since the year end, the Group has completed the purchase of IMIT for a total initial consideration of £1.7m including cash of £1.2m. Further consideration of up to £3.3m will fall due if certain

targets are achieved. In common with all service businesses, any acquisitions will tend to result in the purchase of a high level of goodwill. The Group's policy in future will be to capitalise any goodwill arising and amortise it through the profit and loss account over a suitable period for each acquisition.

CASH FLOW

The Group's cash flow is significantly determined by its mix of revenues between Executive Search and Selection and IT Contract Services. For the year under review, the Group achieved a good balance of revenue. This, combined with careful management of its debtors and other trading assets, meant that the net cash inflow from operating activities of £4.3m represented 78% of operating profit for the year.

The Group's capital expenditure was £429,000 for the year (1997: £343,000). The Group expects to increase this amount in the forthcoming year as it intends to further develop and integrate its information technology to enhance the competitiveness of its services.

After the payment of £411,000 for dividends and £865,000 net receipts from financing activity the Group achieved an increase in cash of £3.9m for the year.



BOARD OF DIRECTORS

Ian Kirkpatrick, aged 53, is non-executive Chairman. Following a career in consultancy, stockbroking and commerce, he joined Bank of Scotland and became a director in the banking division of British Linen Bank Limited, its subsidiary. He is currently non-executive director of a number of companies. He was appointed Chairman of Harvey Nash in January 1997.



Tom Crawford, aged 47, is Joint Managing Director and founder of the business, with responsibility for Group operations and the IT File Search Division.



David Higgins, aged 39, is Joint Managing Director and founder of the business, with responsibility for the Executive Search and Selection Division.



David Treacher, aged 35, is Joint Managing Director and founder of the business, with responsibility for the IT Contract Services Division.



Ian Furniss, aged 36, is Group Finance Director. Appointed in February 1997. He was previously Finance Director of Hays Personnel Services.



Brian Berg, aged 50, is a non-executive Director. He qualified as a chartered accountant in 1972 and subsequently worked in a number of accountancy practices. He is currently managing partner of Berg Kaprow Lewis, Chartered Accountants. He was appointed a non-executive Director of Harvey Nash in February 1997.

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS

Ian Kirkpatrick, BSc, MBA
Thomas Francis Alexander Crawford
David Charles Higgins, BSc
David Hedley Treacher, BSc
Ian William Furniss, BSc, ACA
Brian Berg, BSc, FCA

Non-Executive Chairman
Joint Managing Director
Joint Managing Director
Joint Managing Director
Group Finance Director
Non-Executive Director

SECRETARY

Ian William Furniss, BSc, ACA

REGISTERED OFFICE

13 Bruton Street, London W1X 7AH

FINANCIAL ADVISERS

Hawkpoint Partners Limited
4 Great St Helens
London EC3A 6HA

STOCKBROKERS

Cazenove & Co
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London EC2R 7AN

AUDITORS

Price Waterhouse
Chartered Accountants
Southwark Towers
32 London Bridge Street
London SE1 9SY

SOLICITORS

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

PRINCIPAL BANKERS

National Westminster Bank Plc
PO Box 4RY
250 Regent Street
London W1A 4RY

REGISTRARS

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

DIRECTORS' REPORT

Period from 13 February 1997 to 31 January 1998

The Directors present their report and the audited financial statements of the Group and Company for the period from 13 February 1997 to 31 January 1998.

PRINCIPAL ACTIVITIES

The Group's principal activity during the period was the provision of recruitment services, in particular providing information technology professionals for permanent and contract positions within Europe.

A review of the Business and future developments is set out in the Chairman's statement, operating review and financial review.

RESULTS AND DIVIDENDS

The Group's profit before tax for the financial period was £4.8m. An interim dividend of 1.55p per ordinary share was paid on 28 November 1997. A final dividend of 3.1p per ordinary share amounting to £821,306 is proposed and, if approved, will be paid on 27 May 1998. Following the payment of the final dividend, the retained profit for the period of £1.9m will be transferred to reserves.

SHARE CAPITAL

The Company was formed on 13 February 1997 and became the Group holding company for Harvey Nash plc and related Companies on 12 March 1997, at which point the entire share capital of Harvey Nash plc was transferred to Harvey Nash Group plc for no consideration.

On 3 April 1997 the Company's shares were admitted to the Official List of the London Stock Exchange. Prior to that date there were a number of changes to the share capital of the Company in preparation for the admission. These changes were disclosed in the prospectus prepared prior to admission and are disclosed in note 19 to the financial statements.

On 13 February 1998 the Company issued 134,979 new ordinary shares in relation to the purchase of Interim Management in Information Technology Limited and related companies. These shares were admitted to the Stock Exchange Official List on 13 February 1998. This has increased the number of shares in issue to 28,011,575 ordinary shares with a nominal value of £1,400,578.75.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over ordinary shares for cash up to a maximum nominal amount of £70,029.

DIRECTORS AND THEIR INTERESTS

The Directors who held office during the period and at the date of this report are shown on page 13. In accordance with the Company's Articles of Association, Tom Crawford and David Treacher retire by rotation and, being eligible, offer themselves for reappointment. They each have service contracts with the Company terminable by either party giving to the other not less than 12 months' notice.

The beneficial interests, in both shares and share options, of the Directors and their families are disclosed in greater detail in note 24. Their beneficial interests in the ordinary share capital of the Company during the financial period were as follows:

	13 February 1997	31 January 1998
I Kirkpatrick	—	3,000
TFA Crawford	298,871	4,953,018
DC Higgins	350,912	5,850,300
DH Treacher	345,912	5,679,050
IW Furniss	—	5,714
B Berg	—	5,714

There has been no change to Directors' interests between 31 January 1998 and the date of this report.

DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

EMPLOYEE INVOLVEMENT

Consultation with employees is of considerable importance to the Group. The views of employees are taken into account when decisions are made which are likely to affect their interests and all employees are

aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees is made through conferences, newsletters, briefing groups and the distribution of the annual report.

EQUAL OPPORTUNITIES

The Group is committed to the principle of Equal Opportunities both as an employer and as a recruitment services provider. All decisions relating to employment practices are objective, free from bias and based upon work criteria and individual merit.

CREDITOR PAYMENT POLICY

The Group's creditors are paid in accordance with terms agreed with them prior to the supply of goods or services. The Group pays all contractors providing IT services within 7 days of receipt of their invoice. Trade creditor days of the Group for the period ended 31 January 1998 were 22 days, based on the ratio of Group trade creditors at the period end to the amounts invoiced during the period by trade creditors.

SUBSTANTIAL SHAREHOLDINGS

On 14 April 1998 the Company had been notified that, in addition to holdings in which the Directors are beneficially interested, there were holdings of 3% or more in the ordinary share capital of the Company as follows:

	Number of shares	% of Total
Gartmore Investment Limited	1,282,447	4.6%
Fidelity International Limited	1,143,976	4.1%
Prudential Portfolio Managers Limited	1,069,700	3.8%
The Harvey Nash Group EBT Limited	1,382,857	4.9%
Cleveley Investments Limited	1,487,500	5.3%
Cavendish Limited	1,787,500	6.4%
Turtle Holdings Limited	1,787,500	6.4%

TFA Crawford, DC Higgins and DH Treacher are beneficially interested in Cleveley Investments Limited, Cavendish Limited and Turtle Holdings Limited respectively. The holdings of these companies have been included in Directors' interests.

In addition, TFA Crawford, DC Higgins and DH Treacher in their capacity as trustees of the Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes and the Harvey Nash Directors' Retirement and Death Benefit Scheme are each deemed to be interested in 1,448,025 ordinary shares. Their respective beneficial entitlement to ordinary shares under such schemes have been included in Directors' Interests.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance has been taken out by the Company (as permitted by Section 310(3) of the Companies Act 1985) for its Directors and officers against liabilities in relation to the Company.

EMPLOYEE SHARE SCHEMES

The Directors consider that the opportunity to own shares in the Group is a vital part of motivating and retaining employees. Details of the share schemes are included in note 19.

PENSIONS

The Group operates two defined contribution pension schemes, the Harvey Nash Plc Directors Retirement and Death Benefits Scheme and a Group Personal Pension Plan.

POLITICAL AND CHARITABLE DONATIONS

The Group made no political or charitable donations during the period.

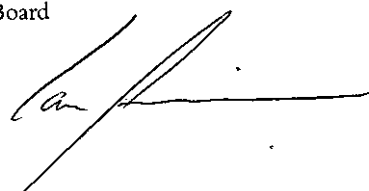
RE-APPOINTMENT OF AUDITORS

In accordance with Sections 384 and 385 of the Companies Act 1985, a resolution will be put before shareholders at the Annual General Meeting to re-appoint Price Waterhouse as auditors for the ensuing year and to authorise the Directors to fix their remuneration.

On behalf of the Board

Ian Furniss
Company Secretary

17 April 1998



The Company fully supports the code of Best Practice published in December 1992 by the Committee on the Financial Aspects of Corporate Governance (Cadbury Code). It complies with the code in all respects with the exception that, since flotation in April 1997, the Company has had only two Non-Executive Directors. However, the Board continues to seek a suitable third Non-Executive Director.

BOARD OF DIRECTORS

At 17 April 1998 the Board of Directors comprised four Executive and two Non-Executive Directors.

The Board meets monthly and has adopted a schedule of matters specifically reserved to itself for decision. In relation to non-reserved matters it is assisted by a number of committees with delegated authority.

In accordance with the Cadbury Code, the Board maintains the following committees:

AUDIT COMMITTEE

The Audit Committee meets at least twice a year with the Group's senior financial management and external auditors to review the interim and annual financial statements, the accounting policies of the Group, its internal control procedures and compliance with accounting standards. The members of the Committee are Ian Kirkpatrick (Chairman) and Brian Berg, both of whom are Non-Executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee meets at least twice a year. The members of the Committee are Ian Kirkpatrick (Chairman) and Brian Berg, both of whom are Non-Executive Directors.

The Remuneration Committee has responsibility for approving service contracts for all Executive Directors and the grant of options under share option schemes and setting appropriate performance criteria. It also determines remuneration including salaries, bonuses and all other benefits for the Executive Directors.

The Remuneration Committee report is included on pages 18 to 19.

INTERNAL FINANCIAL CONTROL

The Directors have overall responsibility for ensuring that the Group maintains a system of internal financial controls and for monitoring their effectiveness to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Board identifies and appraises risks, and maintains control and direction over appropriate strategic, financial, and organisational structure matters with formally defined lines of responsibility and delegation of authority. There are established procedures for planning and capital expenditure, for information and reporting systems, and for monitoring the Group's businesses and their performance. The Board has delegated to executive management the implementation of the systems of internal financial control within an established framework that applies throughout the Group.

The Directors believe the following to be the key procedures established to provide financial control:

- the operation of authorisation procedures
- clearly delegated responsibilities
- close involvement of senior management in day to day activities
- setting of detailed annual budgets and reporting of monthly actual performance against them; and
- the operation of an Audit Committee.

The Directors have reviewed the systems of internal financial control in operation during the period.

GOING CONCERN

After having made appropriate enquiries including a review of the 1998/99 Group budget, medium term plans and available banking facilities compared to funding requirements, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Auditors' Report on Corporate Governance is set out on page 17.

REPORT ON CORPORATE GOVERNANCE MATTERS

To the Directors of Harvey Nash Group plc

In addition to our audit of the financial statements we have reviewed the Directors' statements on page 16 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

BASIS OF OPINION

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control governance procedures nor on the ability of the Group to continue in operational existence.

OPINION

In our opinion, the Directors' statements on internal

financial control on page 16 and on going concern on page 16, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, the Directors' statement on page 16 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).



*Chartered Accountants
and Registered Auditors*

17 April 1998

Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee is composed of two Non-Executive Directors, Ian Kirkpatrick and Brian Berg. The Committee is chaired by Ian Kirkpatrick. The Committee has been established with written terms of reference approved by the Board.

COMPLIANCE

The Company has complied throughout the period ended 31 January 1998 with Section A of the best practice provisions on Directors' remuneration annexed to the Listing Rules of the Stock Exchange with the exception that the Audit Committee has only two Non-Executive Directors.

In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of the best practice provisions regarding "Remuneration policy, service contracts and compensation". The Committee meets when required to consider all aspects of Executive Directors' remuneration.

Details of the remuneration of Executive and Non-Executive Directors for the statutory period can be found in note 24.

Details of the remuneration of Executive and Non-Executive Directors, for the proforma year and proforma prior year are given on page 19.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

Fees payable to the Non-Executive Directors are determined by the full Board at the beginning of each financial year having given due consideration to market practice. The Non-Executive Directors serve under letters of appointment and their appointment is terminable by either side giving not less than six month's written notice at any time.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

Executive remuneration packages are designed to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages. These packages are reviewed each year to ensure they are supportive of the Group's business objectives and the creation of shareholder value. The components of the Group's remuneration packages are as follows:

Salary

The basic salary of each Director is determined by the Remuneration Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

Annual bonus

The objectives for annual bonuses are set by the Remuneration Committee for each financial year. Superior performance is encouraged by providing challenging goals which must be achieved before the maximum bonus is payable. Directors' bonuses become payable in respect of each financial year based upon growth in earnings per share.

If the percentage growth in earnings per share is above ten per cent, then 2.5 per cent. of the fixed salary will be payable as a bonus for every further one per cent. growth in earnings per share above ten per cent., subject to a maximum bonus of 50 per cent. of the fixed salary. These bonuses are not pensionable.

Share options

The Board believes that share ownership by Executive Directors and key staff strengthens the shared interests between employees and shareholders. The Remuneration Committee has a policy of phasing grants under share option schemes rather than awarding them in one large block. The share option schemes are described in note 19 to the financial statements.

Pensions

The Group contributes 10% of each Executive Director's annual salary to a pension scheme nominated by the Executive Director.

Contracts of service

No Director has a notice period in excess of 12 months, which is consistent with Group policy.

DIRECTORS' REMUNERATION PROFORMA YEAR

	⁽¹⁾ Salary £	Pension £	Bonus £	Fees £	Total £
David Treacher	104,000	9,500	47,500	—	161,000
David Higgins	104,000	9,500	47,500	—	161,000
Tom Crawford	104,000	9,500	47,500	—	161,000
Ian Furniss	99,000	9,000	45,000	—	153,000
Brian Berg	—	—	—	15,000	15,000
Ian Kirkpatrick	—	—	—	45,000	45,000
	411,000	37,500	187,500	60,000	696,000

⁽¹⁾ Salary includes a car allowance of £9,000 for each Executive Director.

Prior to the flotation of the Group, Ian Furniss received options over 285,714 shares, exercisable from 25 March 2000 onwards at nil cost. These shares as at 31 January 1998 had a market value of £1,107,142. Further details are included in note 19 to the financial statements.

DIRECTORS' REMUNERATION PROFORMA PRIOR YEAR

	Salary £	Pension £	Bonus £	Fees £	Total £
David Treacher	63,320	464,450	254,540	309,029	1,091,339
David Higgins	63,320	464,450	254,540	309,029	1,091,339
Tom Crawford	63,320	398,100	218,820	264,882	945,122
Ian Furniss	—	—	—	—	—
Brian Berg	—	—	—	—	—
Ian Kirkpatrick	—	—	—	—	—
	189,960	1,327,000	727,900	882,940	3,127,800

The beneficial interests of the Directors in shares and share options are disclosed in note 24 of the accounts.

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The following statement which should be read in conjunction with the report of the Auditors set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and Auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for the financial period.

In preparing the financial statements the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that

all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the financial statements on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

To the Members of Harvey Nash Group plc

We have audited the financial statements for the period from 13 February 1997 to 31 January 1998 ("the period") on pages 21 to 44 which have been prepared under the historical cost convention and the accounting policies set out on pages 25 to 27.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain

all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 January 1998 and of the profit and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse

Chartered Accountants
and Registered Auditors

17 April 1998

Price Waterhouse

Southwark Towers
32 London Bridge Street
London SE1 9SY

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period from 13 February 1997 to 31 January 1998

		Statutory 13 February 1997– 31 January 1998 £'000	Non Statutory Proforma year to 31 January 1998 £'000	Proforma year to 31 January 1997 £'000
	Notes			
Turnover				
Continuing operations – acquisitions	2&3	51,138	55,796	36,321
Cost of sales		(38,427)	(41,920)	(26,380)
Gross Profit		12,711	13,876	9,941
Administrative expenses		(8,048)	(8,778)	(8,952)
Operating Profit before flotation costs/ Exceptional Directors' emoluments		4,985	5,420	3,852
Exceptional Directors' emoluments		—	—	(2,863)
Flotation costs		(322)	(322)	—
Operating Profit				
Continuing operations – acquisitions		4,663	5,098	989
Share of operating profit/(loss) of associated undertaking		24	20	(25)
Total Operating Profit:				
Group and Share of Associates	3&4	4,687	5,118	964
Net interest receivable/(payable) and similar income/(charges)	6	97	87	(167)
Profit on ordinary activities before taxation		4,784	5,205	797
Taxation on profit on ordinary activities	7	(1,604)	(1,740)	(318)
Profit on ordinary activities after taxation		3,180	3,465	479
Dividends	8	(1,232)	(1,232)	—
Retained profit for the financial year		1,948	2,233	479
Earnings per share	10	11.54p	12.57p	1.81p
Adjusted earnings per share	10	12.32p	13.36p	9.06p

⁽¹⁾ The basis of preparation is described in Note 1 to the financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

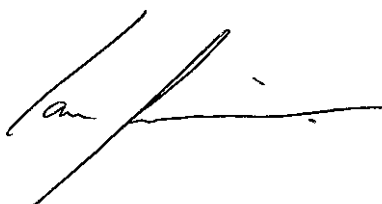
as at 31 January 1998

	Notes	Group 31 January 1998 £'000	⁽¹⁾ Company 31 January 1998 £'000
Fixed assets			
Tangible fixed assets	11	1,214	—
Investments	12	40	20,000
		1,254	20,000
Current assets			
Debtors	14	11,787	4,723
Cash at bank		4,029	—
		15,816	4,723
Creditors due within one year	15	(9,723)	(1,026)
Net current assets		6,093	3,697
Total assets less current liabilities		7,347	23,697
Creditors due after more than one year	16	(7)	—
		7,340	23,697
Capital and Reserves			
Share capital	19	1,394	1,394
Share premium account	20	2,257	2,257
Capital contribution	20	—	20,000
Other reserves	20	1,742	—
Profit and loss account	20	1,947	46
Equity shareholders' funds		7,340	23,697

⁽¹⁾ The basis of preparation is described in Note 1 to the financial statements.

The financial statements on pages 21 to 44 were approved by the Board on 17 April 1998 and signed on its behalf by:

Ian Kirkpatrick Chairman
Ian Furniss Finance Director



CONSOLIDATED CASH FLOW STATEMENT

Period from 13 February 1997 to 31 January 1998

		Statutory 31 January 1998 £'000	Non Statutory Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
	Note			
Net cash inflow/(outflow) from operating activities	22	4,128	4,307	(30)
Returns on investments and servicing of finance				
Interest received		128	128	3
Interest paid		(15)	(22)	(137)
Hire purchase interest		(16)	(19)	(33)
Net cash inflow/(outflow) from returns on investments and servicing of finance		97	87	(167)
Tax paid		(437)	(440)	(343)
Capital expenditure				
Purchase of tangible fixed assets		(493)	(537)	(351)
Sale of tangible fixed assets		108	108	8
Net cash outflow for capital expenditure		(385)	(429)	(343)
Acquisitions and disposals				
Purchase of subsidiary undertakings	21	(40)	(40)	(525)
Net overdrafts acquired with subsidiary undertakings	21	(15)	(15)	—
Purchase of associated undertakings		—	—	(66)
Net proceeds from part sale of associated undertakings		42	42	—
Loan to associated undertakings		(37)	(37)	—
Net cash outflow from acquisitions and disposals		(50)	(50)	(591)
Equity dividends paid		(411)	(411)	—
Financing				
Net proceeds from issue of ordinary share capital		3,329	3,329	—
Short term borrowings		—	—	500
Receipt of pension fund loan		—	—	2,027
Repayment of pension fund loan		(2,027)	(2,027)	—
Repayment of short term borrowings		(200)	(300)	(200)
Capital element of finance lease repayments		(117)	(137)	(187)
Net cash inflow from financing		985	865	2,140
Increase in cash in the period	23	3,927	3,929	666

⁽¹⁾ The basis of preparation is described in note 1 to the financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Period ended 31 January 1998

	Statutory 31 January 1998 £'000
Profit on ordinary activities after taxation	3,180
Currency translation differences on foreign currency net investments	(1)
Total recognised gains for the period	3,179

HISTORICAL COST PROFITS AND LOSSES

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Period ended 31 January 1998

	Statutory 31 January 1998 £'000
Profit for the financial period	3,180
Equity dividends	(1,232)
Issue of share capital	1,394
Share premium	2,257
Goodwill on acquisition	(18,258)
Capital Contributions	20,000
Currency translation differences on foreign currency net investments	(1)
Net increase in equity shareholders' funds	7,340
Opening shareholders' funds	—
Closing shareholders' funds	7,340

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998

1 BASIS OF PREPARATION

Harvey Nash Group plc was established on 13 February 1997 and became the Group holding company on 12 March 1997 when it acquired by gift 100% of the share capital of Harvey Nash plc.

Harvey Nash Group plc has accounted for the profits and losses arising from Harvey Nash plc within these consolidated financial statements from the date of acquisition.

Unless otherwise stated, references to 1998 within the notes to the financial statements are for the statutory period from 13 February 1997 to 31 January 1998 or, in the case of balance sheet notes, to the balance sheet at 31 January 1998.

The proforma results for Harvey Nash Group plc for the year ended 31 January 1998 are prepared using acquisition accounting standards but assuming that the Group was in existence in its current form at 1 February 1997.

The comparative proforma results for Harvey Nash Group plc for the year ended 31 January 1997 are prepared using acquisition accounting standards but assuming that the Group was in existence in its current form at 1 February 1996.

2 ACCOUNTING POLICIES

(a) Basis of accounting

These financial statements are prepared under the historical cost convention in accordance with applicable accounting standards.

(b) Acquisitions

The results of companies acquired are included in the consolidated results from the date of acquisition.

(c) Associated undertakings

Associated undertakings represent a company in which Harvey Nash Group plc has a participating interest which is held for the long-term and over whose operating and financial policies it exercises significant influence. The consolidated profit and loss account includes Harvey Nash Group plc's share of profits of the associate for the period. The consolidated balance sheet includes the value of the associated undertakings as the share of net assets.

(d) Turnover

Turnover represents the invoiced value of services provided during the period excluding VAT.

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

2 ACCOUNTING POLICIES (continued)

(e) Depreciation

Depreciation is provided on a monthly basis to write off the cost of each asset 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 1/3% straight line
Motor vehicles	25% reducing balance

(f) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies in each company are translated into sterling at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are translated into the Group's local currency at the rate prevailing at the date of the transaction.

On consolidation revenues, costs and cashflows of overseas undertakings are included in the Group profit and loss account at average rates of exchange for the period. The assets and liabilities denominated in foreign currencies are translated into sterling using rates of exchange ruling at the balance sheet date.

Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principle exchange rates affecting the Group were:

	Statutory 1998		Proforma 1998		Proforma 1997	
	31 January	Average	31 January	Average	31 January	Average
German Mark	2.9888	2.8786	2.9888	2.8648	2.6244	2.3510
Swiss Franc	2.4127	2.3924	2.4127	2.3900	2.2978	2.0086
Dutch Guilder	3.3679	3.3014	3.3679	3.3014	—	—

(g) Leasing and hire purchase

Assets acquired under finance leases and hire purchase contracts are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Finance charges and interest are taken to the profit and loss account in constant proportion to the remaining balance of capital repayments or net obligations outstanding.

Rentals payable under operating lease and contract hire agreements are taken to the profit and loss account on a straight line basis over the lease term.

(h) Pensions

Pension costs are accounted for as they arise in accordance with contracts of employment on the basis of defined contribution rates.

(i) Goodwill

Goodwill arising on acquisition is eliminated against reserves in the period that it arises. The profit and loss on the disposal or termination of a business includes any goodwill previously eliminated against reserves.

(j) Taxation

Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation, computed under the liability method, is provided in respect of timing differences, including revaluation surpluses, to the extent that it is probable that a liability will arise in the foreseeable future. Advance Corporation Tax on dividends paid is set off against United Kingdom current tax liabilities and deferred tax provisions to the extent that it is considered recoverable. Irrecoverable Advance Corporation Tax is written off as part of the tax charge for the period. Tax attributed to non-operating items represents the incremental effect of those items on the tax charge for the period.

(k) Employee Share Ownership plans

Where shares, or options over shares, are issued to employees via an employee share ownership plan at below market value, the economic cost to the Group is recognised as a charge to the profit and loss account at the time awards are made.

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

3 ANALYSIS OF TURNOVER AND OPERATING PROFIT BY GEOGRAPHICAL MARKET AND ACTIVITY

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Turnover			
<i>Geographical area by location of client and operations</i>			
United Kingdom	42,275	46,066	28,735
Rest of Europe	8,863	9,730	7,586
	51,138	55,796	36,321
<i>Geographical area by location of client of delivery</i>			
United Kingdom	49,873	54,432	35,962
Rest of Europe	1,265	1,364	359
	51,138	55,796	36,321
<i>Market sector</i>			
IT Contract Services	38,993	42,601	27,906
Executive Search & Selection	11,008	12,007	8,030
IT File Search	1,137	1,188	385
	51,138	55,796	36,321
Operating profit			
<i>Geographical area by location of client and operations</i>			
United Kingdom	4,498	4,863	3,210
Rest of Europe	511	577	617
Exceptional Directors' emoluments	—	—	(2,863)
Flotation costs	(322)	(322)	—
	4,687	5,118	964
<i>Market sector</i>			
IT Contract Services	2,540	2,754	1,920
Executive Search & Selection	2,164	2,386	1,808
IT File Search	305	300	99
Exceptional Directors' emoluments	—	—	(2,863)
Flotation costs	(322)	(322)	—
	4,687	5,118	964
Net Assets			
<i>Geographical area by location of operations</i>			
United Kingdom	7,369		
Rest of Europe	(29)		
	7,340		

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

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following amounts:

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Depreciation of tangible fixed assets	349	388	358
(Profit)/loss on disposal of tangible fixed assets	(25)	(25)	1
Auditors' remuneration			
– audit services parent company	10	10	20
– audit services other Group companies	40	40	10
– flotation costs ⁽¹⁾	183	183	—
– non-audit services	10	10	7
Operating lease rentals			
– plant and equipment	24	26	14
– land and buildings	243	272	299
Exchange losses on trading	129	135	226

⁽¹⁾ In addition, £152,000 of auditors' remuneration in relation to the flotation has been charged to the share premium account.

5 EMPLOYEES

Employee costs (including Directors) were as follows:

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Wages and salaries	7,125	7,784	5,500
Social security costs	1,100	1,168	687
Pension costs	71	79	2,204
	8,296	9,031	8,391

The significant change in pension cost has arisen as a result of the Directors, in the year ended 31 January 1997, electing to take a large proportion of their total remuneration in the form of pension contributions.

Average staff numbers for the period were as follows:

Directors	4	4	3
Sales	117	114	74
Administration	61	59	42
	182	177	119

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

6 INTEREST RECEIVABLE/(PAYABLE) AND SIMILAR INCOME/(CHARGES)

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Bank interest receivable	128	128	3
Bank interest payable			
Bank overdrafts	(15)	(22)	(51)
Other loans	—	—	(84)
Overdue tax	—	—	(2)
Hire purchase interest	(16)	(19)	(33)
	(31)	(41)	(170)
Net interest receivable/(payable) and similar income/(charges)	97	87	(167)

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
United Kingdom corporation tax for current period at 32.5% (proforma 1997: 33%)	1,564	1,698	314
Adjustment in respect of prior year	—	3	10
Overseas tax	32	32	2
Associated undertaking	8	7	(8)
	1,604	1,740	318

No provision for deferred taxation is considered necessary. The full amount of unprovided deferred tax is an asset of £40,939.

8 DIVIDENDS

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Ordinary shares			
Interim dividend paid 1.55p per share	411	411	—
Final dividend proposed 3.10p per share	821	821	—
	1,232	1,232	—

The Harvey Nash Employee Benefit Trust, which owns 1,382,857 shares, has agreed to waive its entitlement to dividends for the statutory period.

9 PROFIT ATTRIBUTED TO THE PARENT COMPANY

The profit for the financial period from 13 February 1997 to 31 January 1998 in the financial statements of Harvey Nash Group plc, the Company, was £1,278,000. As allowed by S230 Companies Act 1985, no profit and loss account is presented in respect of the parent company.

10 EARNINGS PER SHARE

	Statutory 13 February 1997– 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Profit after tax	3,180	3,465	479
Weighted average number of shares	27,563,493	27,563,493	26,448,025
Earnings per ordinary share	11.54	12.57	1.81
Profit after tax	3,180	3,465	479
Exceptional Directors' emoluments	—	—	2,863
Flotation costs	322	322	—
Tax effect eliminated at 32.5% (proforma 1997: 33%)	(105)	(105)	(945)
Adjusted profit after tax	3,397	3,682	2,397
Weighted average number of shares	27,563,493	27,563,493	26,448,025
Adjusted earnings per ordinary share	12.32	13.36	9.06

The earnings per share calculation for the statutory period and proforma year ended 31 January 1998 results use the actual weighted average number of shares since Harvey Nash Group plc was established on 13 February 1997. The prior year proforma results use the shares in issue immediately prior to the Placing of Harvey Nash Group plc.

Earnings per share before flotation costs in the statutory period and proforma year, and exceptional Directors' emoluments in the proforma prior year, has been calculated to show the impact of these items as they have a distorting effect on earnings.

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

11 TANGIBLE FIXED ASSETS

The movement of tangible fixed assets for the statutory period was as follows:

	Leasehold improvements £'000	Office equipment £'000	Furniture fixtures & equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost						
Acquired on 12 March 1997	411	228	130	178	211	1,158
Additions	41	45	95	283	29	493
Disposals	—	—	—	—	(94)	(94)
Exchange movements	(3)	—	(1)	—	(2)	(6)
At 31 January 1998	449	273	224	461	144	1,551
Depreciation						
Charge for the period	32	74	47	153	43	349
Disposals	—	—	—	—	(11)	(11)
Exchange movements	-	-	(1)	-	-	(1)
At 31 January 1998	32	74	46	153	32	337
Net book value						
At 31 January 1998	417	199	178	308	112	1,214

ASSETS HELD UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS (included above)

Acquired on 12 March 1997	—	—	65	43	70	178
Depreciation at 31 January 1998	—	—	(20)	(43)	(16)	(79)
Net book value at 31 January 1998	—	—	45	—	54	99

12 INVESTMENTS

	Group 31 January 1998 £'000	Company 31 January 1998 £'000
Investment in subsidiary undertakings	—	20,000
Investment in associated undertakings	40	—
	40	20,000

During the period, the Group also made loans totalling £37,500 to the associated undertaking.

Subsidiary undertakings

On 12 March 1997 the Company acquired all of the share capital of Harvey Nash plc for £nil consideration. The details of the subsidiary companies existing at 31 January 1998 are as follows:

Name of Company	Country of incorporation and operation	Principal activity
Harvey Nash Plc	England	Recruitment consultancy
Mortimer Spinks Limited	England	Recruitment consultancy
Vertis Consulting Limited	England	Recruitment consultancy
Harvey Nash GmbH	Germany	IT project services
Harvey Nash AG	Switzerland	Recruitment consultancy
Harvey Nash BV	The Netherlands	Recruitment consultancy
Harvey Nash Group EBT Limited	England	Trustee of HNG Employee Benefit Trust 1997

Each of the above subsidiaries is wholly owned by the Company or by Harvey Nash plc.

13 ASSOCIATES

At 31 January 1998 Harvey Nash owned a 23.23% share of Internet Appointments Limited, a joint venture company which supplies Internet products to the recruitment industry. The change in the investment during the year is as follows:

	Shareholding %	Value £'000
Share of net assets at 12 March 1997	25.00	26
Part disposal of shareholding on 22 December 1997	(1.77)	(2)
Share of net profits for period to 31 January 1998	—	16
Share of net assets at 31 January 1998	23.23	40

The calculation of the Group's share of profits is derived from the audited financial statements of Internet Appointments Limited for the year ended 31 August 1997 together with monthly management accounts prepared to 31 January 1998. Corporation tax has been estimated at 33%.

During the period, the Group purchased £147,000 worth of services from Internet Appointments Limited on an arms length basis.

The latest audited financial statements for Internet Appointments Limited were prepared to 31 August 1997. At that date the capital and reserves of the company were £65,659. The retained losses as at 31 January 1998 and 31 January 1997 were estimated from management accounts to be £17,211 and £100,000 respectively.

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

14 DEBTORS

	Group 31 January 1998 £'000	Company 31 January 1998 £'000
Trade debtors	10,689	—
Loan to associate	37	—
Amounts owed by subsidiary undertakings	—	4,415
ACT recoverable	308	308
Other debtors	50	—
Prepayments and accrued income	703	—
	11,787	4,723

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 January 1998 £'000	Company 31 January 1998 £'000
Bank overdraft	141	—
Unsecured interest free loan	264	—
Obligations under finance lease and hire purchase contracts	99	—
Trade creditors	2,779	—
Corporation tax	1,721	—
ACT payable	205	205
Other taxes and social security	1,213	—
Accruals and deferred income	2,469	—
Other creditors	11	—
Proposed dividend	821	821
	9,723	1,026

The bank overdraft is secured by a fixed and floating charge on the assets of the Group.

The interest free loan is from the landlord of the head office of Harvey Nash Group plc. The loan was to cover leasehold improvements and is repayable by July 1998.

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 31 January 1998 £'000	Company 31 January 1998 £'000
Obligations under finance leases and hire purchase contracts	7	—
	7	—

17 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	Group 31 January 1998 £'000
Repayable within one year	107
Repayable between one and five years	8
	<hr/>
Total gross payments	115
Less finance charges and interest allocated to future periods	(9)
	<hr/>
	106
	<hr/>
Due within one year	99
Due after more than one year	7
	<hr/>
	106

Harvey Nash Group plc, the Company, has no obligations under hire purchase contracts and finance leases.

18 OPERATING LEASE COMMITMENTS

The Group has annual commitments under operating leases which expire as follows:

	Group 31 January 1998 £'000
Land and buildings	
Leases expiring within one year	—
Leases expiring between one and five years	304
Leases expiring in more than five years	—
	<hr/>
	304
	<hr/>
Other operating leases	
Leases expiring within one year	—
Leases expiring between one and five years	67
Leases expiring in more than five years	—
	<hr/>
	67

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

19 SHARE CAPITAL

	Group 31 January 1998 £'000	Company 31 January 1998 £'000
Authorised		
40,000,000 ordinary shares of 5p each	2,000	2,000
Allotted and fully paid		
27,876,596 ordinary shares of 5p each	1,394	1,394

On 13 February 1997, a new company, Harvey Nash Group plc was established with authorised share capital of £100,000 divided into 5p ordinary shares, of which 1 million ordinary shares were issued for a cash consideration of £50,000 to TFA Crawford, DC Higgins and DH Treacher.

On 12 March 1997, the shareholders of Harvey Nash plc gifted the entire share capital of Harvey Nash plc to Harvey Nash Group plc.

On 12 March 1997, the Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes and the Harvey Nash plc Directors Retirement and Death Benefit Scheme acquired 57,921 new shares in Harvey Nash Group plc for a consideration of £2,027,235.

On 25 March 1997, there was a bonus issue of 24 ordinary shares for every 1 issued ordinary share.

On 4 April 1997, the group was floated on the London Stock Exchange, and issued 1,428,571 shares for a consideration of £2,499,999.

Harvey Nash has three share option schemes which were established in the period under review. The Harvey Nash Option Scheme, the Performance Related Scheme and the Sharesave Scheme.

The Harvey Nash Option Scheme holds 1,382,857 ordinary shares. Options to acquire these shares were granted by the trustees of the Harvey Nash Group plc Employment Benefit Trust Limited ("EBT") 1997 to certain employees of the Company, including one Executive Director, IW Furniss, on 25 March 1997, prior to flotation. The trust holds 1,382,857 shares in the Company which were gifted to the trust by TFA Crawford, DC Higgins and DH Treacher. These options may be exercised at £nil between 25 March 2000 and 25 September 2001. Shares held by the EBT and options granted on these shares are shown at £nil value in the Group accounts since those shares were gifted for nil consideration by the Directors of Harvey Nash Group plc from shares held by the Directors. Since the options issued under the Harvey Nash Option Scheme are covered by the shares held by the EBT, there is no dilutive effect on the earnings per share calculation. 1,382,857 shares are held by the EBT, at a nominal value (£0.05p per share) of £69,143.

The Performance Related Scheme is administered by the Board under the supervision of the Remuneration Committee. The scheme is open to all full time employees except those who have had a material interest in the Group within the previous twelve months. On 8 April 1997 Inland Revenue approved options over 217,992 shares were granted at an exercise price of £1.835, the then market price, and unapproved options over 187,778 shares were granted at an exercise price of £1.75 (the flotation price) as proposed in the prospectus. The options granted under the performance related scheme are not exercisable unless Harvey Nash's earnings per ordinary share has increased at an average rate of 10% per annum over any period of three consecutive years commencing on the date of grant of the options.

19 SHARE CAPITAL (continued)

On 2 April 1997 options over 319,534 ordinary shares were granted to 78 employees under the Sharesave Scheme at a price of £1.40, 80% of the then market price. The Remuneration Committee is pleased to be able to report a strong response to this scheme which is open to all employees.

The Performance Related Scheme and Sharesave Scheme are Inland Revenue Approved Schemes. The Board are able to grant unapproved options under the Performance Related Scheme.

20 RESERVES

Group	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
12 February 1997	—	—	—
Other reserve arising on acquisition of Harvey Nash plc	—	1,742	—
Premium on shares issued	3,183	-	-
Flotation costs	(926)	-	-
Retained profits for the year	-	-	1,948
Exchange loss	-	-	(1)
31 January 1998	2,257	1,742	1,947

Company	Share premium account £'000	Capital contribution £'000	Profit and loss account £'000
12 February 1997	—	—	—
Capital contribution from acquisition of Harvey Nash plc	—	20,000	—
Premium on shares issued	3,183	-	-
Flotation costs	(926)	-	-
Retained profits for the year	-	-	46
31 January 1998	2,257	20,000	46

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

21 SIGNIFICANT ACQUISITIONS

On 12 March 1997, the shareholders gifted the entire share capital of Harvey Nash plc to Harvey Nash Group plc for £nil consideration. This has been treated as an acquisition for the purpose of the Group accounts.

The other reserve arising on consolidation from the acquisition of Harvey Nash plc, on 12 March 1997, can be analysed as follows:

	Capital reserve £'000
Pre-acquisition reserves at 31 January 1997	
Pre-acquisition reserves from 1 February to 11 March 1997	1,387
Share capital at par	285
Capital redemption reserve	53
	17
	1,742
Book value and fair value of net assets acquired	
Fixed assets	
Investments	1,158
Debtors	34
Creditors	8,230
Loans and finance leases	(4,951)
Net overdrafts	(2,714)
	(15)
	1,742
Fair Value of Consideration	20,000
Goodwill	18,258

The Directors have considered the value of the assets acquired and have concluded that in all material respects the book value is the fair value of these assets and consequently no fair value adjustments have been made.

In determining the fair value of consideration above the Directors have considered the likely earnings potential of private businesses in this sector combined with appropriate price multiples.

Deferred consideration of £40,000 was paid in cash in the period, in respect of the acquisition of Mortimer Spinks by Harvey Nash plc.

The profit of the acquired group, Harvey Nash Plc is shown below, up to the date of acquisition and for the prior year.

21 SIGNIFICANT ACQUISITIONS (continued)

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR HARVEY NASH PLC

Period ended 11 March 1998

	1 February 1997– 11 March 1997 £'000	Year to 31 January 1997 £'000
Turnover		
Continuing operations – acquisition	4,658	36,321
Cost of sales	4,658 (3,493)	36,321 (26,380)
Gross Profit	1,165	9,941
Administrative expenses	(730)	(8,993)
Operating Profit	435	948
Share of (loss) of associate	(4)	(25)
Total Operating Profit:		
Group and Share of Associates	431	923
Interest payable and similar charges	(10)	(171)
Interest receivable and similar income	—	3
Profit on ordinary activities before taxation	421	755
Taxation on profit on ordinary activities	(136)	(316)
Profit on ordinary activities after tax	285	439
Statement of total recognised gains and losses		
Profit on ordinary activities after taxation	285	439
Currency translation differences on foreign currency net investments	—	(15)
Retained profit	285	424

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

22 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW

	Statutory 31 January 1998 £'000	Proforma 31 January 1998 £'000	Proforma 31 January 1997 £'000
Operating profit	4,687	5,118	964
Depreciation	349	388	358
(Profit)/loss on disposal of fixed assets	(25)	(25)	1
(Profit)/loss of associate	(24)	(20)	25
Profit on partial sale of associate	(40)	(40)	-
(Increase)/decrease in debtors	(3,333)	(3,613)	(1,562)
Increase/(decrease) in creditors	2,192	2,177	184
Flotation costs	322	322	-
Net cash inflow/(outflow) from operating activities	4,128	4,307	(30)

23 RECONCILIATION TO NET DEBT

	Statutory 31 January 1998 £'000
Increase in cash during the year	3,927
Decrease in debt and lease finance	2,344
	6,271
Loans and finance leases acquired with Subsidiary	(2,714)
Foreign exchange	(39)
Decrease in debt during the year	3,518
Net debt at 13 February 1997	—
Net debt at 31 January 1998	3,518
Net cash	3,888
Borrowings	(370)
	3,518

23 RECONCILIATION TO NET DEBT (continued)

	13 February 1997 £'000	Cash flow £'000	Acquisitions £'000	Non cash movements £'000	Foreign exchange £'000	31 January 1998 £'000
Cash	—	4,068	—	—	(39)	4,029
Overdraft	—	(141)	—	—	—	(141)
	—	3,927	—	—	(39)	3,888
Debt due within one year	—	2,227	(2,315)	(176)	—	(264)
Debt due after one year	—	—	(176)	176	—	—
Finance leases	—	117	(223)	—	—	(106)
	—	2,344	(2,714)	—	—	(370)
Total	—	6,271	(2,714)	—	(39)	3,518

24 DIRECTORS

	Statutory 13 February 1997 – 31 January 1998 £'000
Emoluments	
Fees	58
Basic salaries and benefits	398
Bonuses	181
Pension contributions	36
	673

Directors' remuneration for the Statutory period from 13 February 1997 to 31 January 1998 was:

	Salary £	Pension £	Bonus £	Fees £	Total £
DH Treacher	100,581	9,188	45,938	—	155,707
DC Higgins	100,581	9,188	45,938	—	155,707
TFA Crawford	100,581	9,188	45,938	—	155,707
IW Furniss	95,745	8,704	43,521	—	147,970
B Berg	—	—	—	14,507	14,507
I Kirkpatrick	—	—	—	43,849	43,849
	397,488	36,268	181,335	58,356	673,447

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

24 DIRECTORS (continued)

Directors' Interests

The Directors' interests in shares or stocks of the Company, including options to purchase ordinary shares under the terms of the Harvey Nash Option Scheme ("HNOS"), Performance Related Scheme ("PRS") and Sharesave Scheme ("SS") are given below:

	Ordinary Shares	At 12 February 1997 Options			Exercise Price £
		HNOS	PRS	SS	
DH Treacher	345,912	—	—	—	—
DC Higgins	350,912	—	—	—	—
TFA Crawford	298,871	—	—	—	—
IW Furniss	—	—	—	—	—
B Berg	—	—	—	—	—
I Kirkpatrick	—	—	—	—	—

	Ordinary Shares	At 4 April 1997 Options			Exercise Price £
		HNOS	PRS	SS	
DH Treacher	5,679,050	—	—	—	—
DC Higgins	5,850,300	—	—	—	—
TFA Crawford	4,953,018	—	—	—	—
IW Furniss	5,714	285,714	—	—	—
B Berg	5,714	—	—	—	Nil
I Kirkpatrick	3,000	—	—	—	—

	Ordinary Shares	At 31 January 1998 Options			Exercise Price £
		HNOS	PRS	SS	
DH Treacher	5,679,050	—	—	12,321	1.40
DC Higgins	5,850,300	—	—	12,321	1.40
TFA Crawford	4,953,018	—	—	12,321	1.40
IW Furniss	5,714	285,714	—	—	Nil
	—	—	16,348	—	1.84
	—	—	40,000	—	1.75
B Berg	—	—	—	12,321	1.40
I Kirkpatrick	5,714	—	—	—	—
	3,000	—	—	—	—

24 DIRECTORS (continued)

On 25 March 1997, a 24 for 1 rights issue was undertaken.

Included in the above, pursuant to the provisions of the Companies Act 1985, DH Treacher, DC Higgins and TFA Crawford are deemed to be interested, in their capacity as trustees, in the ordinary shares of the Company held by Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes and the Harvey Nash Directors Retirement and Death Benefit Scheme. As at the date of this report and 31 January 1998, the interest was in a total of 1,448,025 ordinary shares and as at 13 February 1997 it was in nil shares.

Options to subscribe for ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the period ended 31 January 1998 are included in the table below:

	HNOS	Granted PRS	SS	HNOS	Lapsed PRS	SS	HNOS	Exercised PRS	SS	Price per option £	Date of exercise
DH Treacher	—	—	12,321	—	—	—	—	—	—	1.40	1/6/2002
DC Higgins	—	—	12,321	—	—	—	—	—	—	1.40	1/6/2002
TFA Crawford	—	—	12,321	—	—	—	—	—	—	1.40	1/6/2002
IW Furniss	285,714	—	—	—	—	—	—	—	—	nil	25/3/2000 to 25/9/2001
	—	16,348	—	—	—	—	—	—	—	1.84	8/4/2000
	—	40,000	—	—	—	—	—	—	—	1.75	8/4/2000
	—	—	12,321	—	—	—	—	—	—	1.40	1/6/2002
B Berg	—	—	—	—	—	—	—	—	—	—	—
I Kirkpatrick	—	—	—	—	—	—	—	—	—	—	—

The market price of an ordinary share at 31 January 1998 was 387.5p and the range during the period since flotation was 175p to 387.5p.

Company policy on the remuneration of Directors is set out in the Report of the Remuneration Committee on pages 18 to 19.

25 PENSIONS

Harvey Nash has in place two pension schemes; the Harvey Nash plc Directors Retirement and Death Benefits Scheme and a Group Personal Pension Plan provided by National Provident Institution.

The Harvey Nash plc Directors Retirement and Death Benefits Scheme (the "Scheme") is a small self-administered scheme. It is an exempt-approved scheme under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. The assets of the Scheme are held separately from the Company by trustees. The current trustees are TFA Crawford, JP Harvey, DC Higgins, DH Treacher and Scottish Equitable which is the pensioner trustee. The four individual trustees are the only members of the Scheme. The Company has the power to appoint individual trustees.

The retirement scheme is provided on a defined contribution basis. The contributions in the period were £36,268.

The Group Personal Pension Plan (the "Plan") is a defined contribution scheme provided by National Provident Institution. The Company's normal policy is to invite employees to join the Plan automatically on completion of three years' qualifying service, although senior employees may be invited to join earlier at the discretion of the Directors. The Company and the employee each contribute three per cent. of the employee's basic earnings (excluding bonuses) to the Plan. There are two members in respect of whom only the Company makes contributions. As at January 1998, there were 27 members (Proforma Prior Year: 25) of the Plan. The Company's total contribution to the Plan for the period to 31 January 1998 was £23,570 (Proforma 1997 £14,260).

NOTES TO THE ACCOUNTS

Period from 13 February 1997 to 31 January 1998 (continued)

26 RELATED PARTY TRANSACTIONS

On 12 March 1997 the loan from the Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes to Harvey Nash Group plc of £1,327,300 and the loan from the Harvey Nash plc Directors Retirement and Death Benefit Scheme to Harvey Nash Group plc of £700,000 were repaid.

On 12 March 1997 the Harvey Nash plc Funded Unapproved Pension and Death Benefit Schemes and the Harvey Nash plc Directors Retirement and Death Benefit Scheme acquired 57,921 new ordinary shares of 5p in Harvey Nash Group plc for a consideration of £2,027,235.

On 25 March 1997 Harvey Nash & Co KG sold its fixed assets to Harvey Nash GmbH, one of the Group companies, for DM 100,000 which represents 115% of the book value of the assets at that date.

During the period to 31 January 1998 the Group paid £35,412 for audit and accountancy services to Berg Kaprow Lewis, a partnership of which Brian Berg (Non-Executive Director) is an equity partner.

During the period the Group made recruitment services sales to Datrontech Group plc of £44,000. Ian Kirkpatrick (Non-Executive Director) was the Non-Executive Chairman of Datrontech Group plc. This transaction was undertaken at arms length.

On 28 January 1988 the Group paid £79,340 to the partners of Harvey Nash & Co KG, a German limited partnership that previously operated with the Harvey Nash business but ceased trading on 31 January 1997. This payment was in respect of outstanding liabilities from Harvey Nash plc. The three partners were DH Treacher, DC Higgins and TFA Crawford.

During the year, Eagle Trustees Limited, which is a wholly owned subsidiary of Price Waterhouse Jersey, were the registered shareholders of 6,550,000 ordinary shares in the Company. Eagle Trustees Limited held the shares in their capacity as Trustees of a number of settlements, none of which conferred any beneficial rights or interests to any partner, or member of staff, of Price Waterhouse. Eagle Trustees Limited resigned as Trustees of the settlements on 30 January 1998.

27 POST BALANCE SHEET EVENTS

Harvey Nash acquired Interim Management in Information Technology Limited, Churchill Fry Limited and Telecommunications Executive Management Limited (together "IMIT") on 12 February 1998 for an initial consideration of £1.7 million and a maximum total consideration of up to £5.0 million.

The initial consideration of £1.7 million has been satisfied by the payment of approximately £1.2 million in cash and by the issue of 134,797 new Harvey Nash ordinary shares to the vendors. The vendors of IMIT have agreed to certain restrictions on the disposal of the new Harvey Nash ordinary shares issued to them.