03320791

# Harvey Nash Group plc

Annual Report 2003

**Die Harvey Nash Gruppe** ist eine Multi-Service-orientierte Personalberatung. Weltweit arbeiten 413 Mitarbeitern in 24 Niederlassungen in den USA, Europa und Asien. Die Harvey Nash Gruppe bietet ein einzigartiges Portfolio an Dienstleistungen, die sowohl den taktischen als auch den strategischen Anforderungen unserer Kunden bei der Personal-Beschaffung entsprechen. Mit dieser umfassenden Vorgehensweise wollen wir wahre Partnerschaften aufbauen, die es unseren Kunden ermöglichen, ihr wertvollstes Kapital, „ihre Mitarbeiter", anzuwerben, weiterzuentwickeln und zu binden.

**Notre Groupe Harvey Nash** est un cabinet de conseil en recrutement international avec plus de 413 salariés dans le monde et 24 implantations aux USA, en Europe et en Asie Pacifique. Notre Groupe bénéficie d'un savoir faire lui permettant de couvrir l'ensemble des besoins stratégiques et opérationnels de nos clients dans ce domaine. Grâce à notre approche globale, nous pouvons mettre en œuvre de solides partenariats avec nos clients constitués de grandes entreprises internationales, afin de contribuer efficacement aux recrutements et au développement des ressources humaines, constituant aujourd'hui leur plus grand capital.

**De Harvey Nash groep** is een internationaal opererende multi-service recruitment organisatie die met 413 medewerkers in 24 kantoren is vertegenwoordigd in Europa, de US, Azië en Australië. De groep heeft een unieke service portfolio, ontworpen om te voorzien in zowel tactische als strategische behoeften van onze klanten. Door deze wijde aanpak bouwen wij aan een echte partnerrelatie om organisaties te ondersteunen bij het aantrekken, ontwikkelen en behouden van hun meest waardevolle bezitting "hun medewerkers".

## Contents

**Harvey Nash Group** is a global multi-service recruitment organisation with 413 staff worldwide and 24 offices covering the USA, Europe and Asia Pacific. The Group has a unique portfolio of services, which are designed to solve both the tactical and strategic resourcing needs of our clients.

Through this broad approach we are seeking to establish true partnerships to help organisations attract, develop and retain their most valuable asset "their people".

## Highlights

- Adjusted profit before tax for the year ahead of expectations £0.1m (2002: £0.8m)
- Adjusted profit before tax of £0.5m achieved in H2 2003 (H1: Loss £0.4m)
- Gross margin maintained at 21%
- Net debt reduced by 74% to £5.6m (2002: £21.5m)
- Cash generated of £5.7m from trading activities in 2003 (2002: £12.8m)
- Restructuring savings realised of £16.5m per annum
- US subsidiary returns to profit in the second half of the year

| | 31 Jan 2003 | 31 Jan 2002 |
|---|---|---|
| Turnover | **£156.7m** | £235.7m |
| Adjusted operating profit | **£1.2m** | £2.8m |
| Unadjusted operating loss | **£6.4m** | £8.3m |
| Cash flow from operating activities | **£5.7m** | £12.8m |

Adjusted means, adjusted for goodwill of £2.0m (2002: £1.4m) and exceptional items of £5.6m (2002: £9.7m) and this meaning shall apply throughout pages 1 to 10.

# Harvey Nash – Group at a glance

## Clients are increasingly demanding access to a wider range of services from their professional recruitment partners. Our portfolio of services is recognised as one of the most developed both in terms of the breadth and balance of services we can offer our global clients.

## Consulting Services

### International Executive Search and Selection
Harvey Nash is one of Europe's leading Executive Search and Selection firms providing senior level executives and H.R. Corporate Intelligence services to a broad range of sectors including Technology, Media, Telecommunications, FMCG retail, Healthcare and Financial Services.

### Human Resources Consulting
We provide a broad range of H.R. consulting services, from traditional benefits consulting through to leadership coaching and development, to support our clients in the attraction, retention and development of key personnel.

### On-line Services
Firstpersonglobal.com, an award winning on-line career portal dedicated to senior executives in technology. Harvey Nash has created a unique community of senior executive talent enabling us to target qualified candidates with a detailed knowledge of their aspirations and skills.

### Interim Management
Through Impact Executives, our market leading interim management business, we provide senior executives and highly skilled interim managers to a broad range of global clients to resolve their short term resourcing issues.

**Turnover by**
Geographical area 2003

- **54%** United Kingdom
- **40%** Rest of Europe
- **6%** US & Asia Pacific

**Turnover by**
Geographical area 2002

- **59%** United Kingdom
- **35%** Rest of Europe
- **6%** US & Asia Pacific

## Resourcing Services

### IT Contract Services
IT Contract services provides IT resourcing solutions to augment in-house resources or specialist skills either through the provision of senior level freelance or retained IT professionals.

### IT Recruitment Services
This service is the provision of senior IT professionals which is offered on a permanent basis from IT Directors, CIOs to Project Managers and high level technical specialists to our global clients in the UK, Continental Europe the US and Asia Pacific.

### Project Management Services
We are able to offer our clients a comprehensive portfolio of end-to-end services, including outsourced field services, specialised training, consultative services and workforce augmentation.

### Offshore Software Development Services
From our base in Asia we provide offshore development and IT infrastructure migration services to our global clients on a project basis. We are now working for clients in the Telecommunications, Financial Services and Healthcare sectors.

**Turnover by**
Market sector 2003

- **90%** Resourcing Services
- **10%** Consulting Services

**Turnover by**
Market sector 2002

- **87%** Resourcing Services
- **13%** Consulting Services

# Chairman's Statement
## Ian Kirkpatrick

"Through everyone's hard work and positive attitude we have been able to increase our market share in many of the countries in which we operate."

### Review of the Year

I am delighted that the Group has reported an adjusted operating profit for the year. In particular, adjusted profit before tax of £0.5m was achieved in the second half of the year (2002: £0.0m). For the first six months of the year the Group reported an operating loss of £0.4m before goodwill amortisation and before an exceptional restructuring charge of £5.2m, mainly relating to the reorganisation of the Group's property and reduction in headcount. As markets deteriorated and business confidence fell further, these actions put the Group in a strong position to respond to the competitive pressures by aggressively marketing its unique portfolio of services, strong brand and its global delivery capability.

The strategic review in 2001 focused on four key areas: market positioning, operations and management, fixed overheads and restructuring the Group's debt. I am pleased to report that considerable progress has been made to date on all four fronts.

Our market positioning and brand in the IT sector has been significantly enhanced with the successful introduction and development of our Software Development business; "Harvey Nash IT" is now Europe's leading provider of IT Resourcing services. This represents a step forward strategically as the Group differentiates its services and provides real added value to its clients.

The restructuring of the Group's operations and management resulted in a reduction in offices since 31 January 2002, from 32 to 24 and a fall in headcount from 750 to 413 at the year end. Substantial reductions in property liabilities were achieved. In total, savings £16.5m per annum have been realised in the year.

The Group has continued to generate positive cash flow during the year. Net borrowings have fallen by over 74% to £5.6m at 31 January 2002 (2002: £21.5m) as a result of the Placing and Open Offer in March 2002, lower investment in working capital and lower levels of trading.

Management actions have been, and will continue to be, guided by the principle of proactively maintaining the Group's operating cost base in line with its revenues and continued focus on positive cash flow.

The Group is underpinning its improved performance with investment in its services, brand and people. This will be achieved through further development of our IT initiatives (CMS and Assignment Tracker), brand enhancing "thought leadership" programmes and the training and development of the Group's staff and management.

### Overview

For the year ended 31 January 2003 turnover was £156.7m (2002: £235.7m). Adjusted operating profits were £1.2m (2002: £2.8m) before interest paid of £1.1m (2002: £2.1m), an exceptional charge of £5.6m (2002: £10.7m) and goodwill amortisation of £2.0m (2002: £1.4m) resulting in an overall loss before tax of £7.5m (2002: £11.4m).

The adjusted loss per share of 0.92p compares with earnings per share of 1.75p last year and the Board is not recommending the payment of a dividend (2002: £nil).

During the year 22,632,181 new ordinary shares were issued in relation to the Placing and Open Offer and 3,212,003 new ordinary shares were issued in satisfaction of the final consideration relating to the acquisitions of Broadbay Networks Inc and European Experts NV. There are no further deferred consideration liabilities outstanding at the year end.

**Staff and Management**

I would like to thank all employees for their contribution to the Group's achievements this year. As a result of the hard work and perseverance in both front and back office the financial performance of the Group was ahead of expectations. In spite of the difficult trading environment, profits increased in many of the Group's subsidiaries in the second half mainly as a result of actions taken by local management teams.

In addition, the Board has been strengthened by the appointment of Ian Basser in November 2002 as Operational Director with responsibility for the UK and Asia. Ian has brought with him substantial international recruitment experience having previously worked extensively in Asia and North America.

**Current Trading and Prospects**

Currently we see no improvement in the markets in which we operate and in line with our peers, we have seen further deterioration over the last twelve months in the UK and particularly in Europe. Although the US economy remains fragile we have stabilised our revenues in the second half of last year. Since the start of the current financial year demand in the UK and Europe has weakend and visibility across all these markets is limited. Markets in Asia Pacific have also weakened and therefore break-even in our Hong Kong and Sydney offices is likely to be delayed.

Looking forward we will manage the cost base of the Group in line with revenues, and will continue to prudently invest in the Harvey Nash brand and unique portfolio of services to ensure that we increase market share and have a sound platform for future growth as market conditions improve.

**Ian Kirkpatrick**
Chairman

# Chief Executive's Operational Review
## David Higgins

"Our continued investment in the Harvey Nash brand and portfolio of services will ensure that the business is well placed to increase its market share and has a sound platform for growth in the future."

### Resourcing Services
Despite difficult market conditions, Resourcing Services once again demonstrated its quality and relative resilience with turnover of £141.7m (2002: £205.7m) and adjusted operating profits of £4.2m (2002: £5.7m).

Through an aggressive cost reduction programme in the UK and the US this division improved its adjusted profits from £1.6m in the first half to £2.6m in the second half of the year, an excellent result in the current trading environment.

### UK
In the UK the business was restructured to align more closely all of the different services under one brand and management team. This enabled "Harvey Nash IT" to leverage its unique portfolio of services and increase its market share. Weaker demand for contractors, together with margin pressure and rate deflation contributed to a decline in turnover from £113.9m to £72.9m during the year. The inclusion of Resource management revenues of £15.7m in the prior year's turnover has exacerbated the decline. This service has now been discontinued. However, the impact on profits has been reduced due to management actions to realign the cost base, which resulted in the business reporting an adjusted profit for the year of £1.1m (2002: £1.8m). The benefits of the cost savings flowed through in the second half of the year with adjusted profits of £0.8m being achieved compared to £0.3m for the first six months.

Through leveraging our added value IT initiatives such as our Contractor Management System we have been able to win new clients and increase our permanent revenues by 25%.

### Europe
Our European Resourcing business experienced a 22% decline in turnover from £78.2m to £60.8m during the year. This division produced the best result in the Group, adjusted profit of £3.4m (2002: £5.9m). Weaker than expected demand affected all offices in Europe particularly in Zurich and Frankfurt where the client base is concentrated in the Financial Services sector. Although the number of Harvey Nash Consultants working on client sites did not decline to the same extent in our Benelux businesses, the financial results in Holland and Belgium were negatively impacted by the number of employed consultants on the "bench" throughout the year. Actions have been taken to limit the potential risk in the year ahead.

Our strategy in Europe is to develop the UK model of Group services, value added IT initiatives and marketing to help gain market share in each of the countries. Also, we are actively focusing on developing the Group's major accounts on a pan-European basis. Our software development service was created to augment the Group's portfolio, enabling Harvey Nash to act as a strategic partner to solve clients' resourcing and software development issues.

### US

Following the downturn in the US economy particularly in the TMT sector, and our restructuring, turnover declined from £13.2m for the year ended 31 January 2002 to £7.9m in the year under review. Management actions to reduce the fixed overhead to more appropriate levels resulted in the turnaround of our US subsidiary from a loss of £2.0m in the year ended 31 January 2002 to a small adjusted operating profit in the second half of the year ended 31 January 2003. This business has successfully diversified into financial recruitment taking advantage of the increased demand for financial professionals following changes in the regulatory environment. Our strategy going forward is to invest in key strategic hires in order to position the business to take advantage of any market recovery.

### Consulting Services

Consulting Services has been affected by low levels of business confidence, particularly in Germany where the Executive Search market has been severely affected by the economic and political uncertainty. This division has undergone extensive restructuring throughout the year in terms of headcount reduction and the integration of offices into our Resourcing business.

Turnover declined by 50% to £15.0m (2002: £30.0m) and adjusted operating losses remained at the same level as last year at £3.0m (2002: loss £3.0m). The Group's strategy is to leverage the Group's services and brand by maintaining critical mass in the UK and a presence in each country in Europe, to enable us to deliver a pan-European service to our international clients. In the UK our market leading Executive Search and Selection business has diversified its exposure to the TMT sector by developing Healthcare, Finance and Public Sector clients. Although the loss was reduced in Europe as a result of management actions, the loss in Asia was slightly higher than expected at £0.6m for the year (2002: loss £0.5m).

# Chief Executive's Operational Review
continued

### UK
Revenues in the UK were down 53% year on year to £11.4m (2002: £24.0m) and adjusted losses increased to £1.5m (2002: £1.0m). Revenues have stabilised in the final quarter of the year despite business confidence declining further. We have continued to broaden our sector focus and in particular have been successful in developing the Public Sector. In the year, 57% of the Division's revenues derived from non-TMT sectors (2002: 50%).

### Europe
The Group is represented in France, Belgium, Holland and Germany. Adjusted losses have been reduced from £1.5m in 2002 to £1.0m in the year under review. As a result of poor economic conditions we have downsized all the businesses and integrated them into our Resourcing offices. Our strategy going forward is to broaden the sector focus and invest when markets improve.

### Asia Pacific
Our start-up offices in Sydney and Hong Kong have increased revenues to £0.8m for the year (2002: £0.5m) in spite of tough market conditions. The loss for the year is £0.6m (2002: loss £0.5m), mainly due to investing to attain critical mass in very difficult markets. In the current year these offices are unlikely to break-even this year and their performance will be closely monitored.

**David Higgins**
Chief Executive

# Financial Review
## Albert Ellis

### Profit and Loss Account
In a difficult trading environment turnover from continuing operations was £156.7m for the year ended 31 January 2003 (2002: £235.7m). This represents a fall of 33.5% of which 6.7% relates to the closure of our Resource Management division in the previous year.

The gross margins were broadly maintained at 21.3% (2002: 21.9%) despite downward pressure on pricing. The proportion of turnover relating to the Resourcing Division was 90.4% (2002: 87.3%). Turnover from the Consulting Division fell 50% to £15.0m (2002: £30.0m), reflecting falling demand for this service throughout the year under review.

The cost base of the Group for the year was £32.2m (2002: £48.7m) excluding exceptional charges and goodwill amortisation. The Group's cost base in the second half of the year was £14.2m compared to £18.0m in the first half, showing the benefits of the restructuring. Cost savings of £16.5m in total were realised during the year.

£2.0m (2002: £1.4m) of goodwill was amortised during the year. The comparative charge for the previous year was affected by a one-off credit of £0.3m.

Group operating profits for the year were £1.2m (2002: £2.8m) from which interest payable of £1.1m (2002: £2.1m), goodwill amortisation of £2.0m (2002: £1.4m) and exceptional items of £5.6m (2002: £10.7m) have been deducted, resulting in a loss before taxation of £7.5m (2002: loss £11.3m).

### Exceptional Items
The Group incurred exceptional costs of £5.6m (2002: £10.7m) mainly in relation to restructuring the Group's property portfolio and costs associated with the headcount reduction. In Europe, the Executive Search business was further restructured in the second half at an additional cost of £0.3m.

### Interest
Net interest payable in the year reduced from £2.1m to £1.1m due to the reduction of debt and the benefit from lower underlying interest rates.

**"We have managed to broadly maintain our gross margins at 21% during a period when pricing and margins were under pressure."**

# **Financial Review**
continued

### Taxation
There is a nil tax charge in the year (2002: £0.4m). A deferred tax asset of £0.9m has been recognised (2002: £0.9m) which represents unrelieved tax losses of £0.6m in Europe and short term timing differences of £0.3m.

### Balance Sheet and Cash Flow
Fixed assets have reduced from £5.2m last year to £2.2m this year as a result of the write-down in relation to property restructuring and lower levels of capital expenditure of £0.7m (2002: £2.1m).

Tight control of working capital ensured a positive cash flow from trading activities of £5.7m (2002: £12.8m). Debtors have reduced to £22.2m (2002: £30.0m) as a result of a 5% reduction year on year in average days sales in debtors and lower trading. Creditor days have increased to 45 days (2002: 38 days).

Net debt reduced significantly from £21.5m last year to £5.6m this year. The improvement in the Group's financial position was achieved through a combination of active cash management and the application of the net proceeds from the Placing and Open Offer.

The provision for liabilities and charges of £1.5m (2002: £nil) relates to an estimate of the Group's future property lease obligations, mainly in the UK.

Taxation of £1.0m, mainly in relation to the year ended 31 January 2001, was paid during the year.

The overall cash inflow during the year was £4.6m compared to an outflow of £1.2m in the prior year.

**Albert Ellis**
Group Finance Director

# Directors, Secretary and Advisors

**Directors**
Ian Kirkpatrick, BSc, MBA
David Charles Higgins, BSc
Albert George Hector Ellis, BACC, CA (SA)
Ian Basser
Gus Peter Moore
Thomas Francis Alexander Crawford
David Hedley Treacher, BSc

**Secretary**
Albert George Hector Ellis, BACC, CA (SA)

**Registered Office**
13 Bruton Street
London W1J 6QA

**Registered Number**
00320790

**Stockbrokers**
Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

**Solicitors**
Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

**Registrars**
Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA

**Financial Advisors**
Close Brothers Corporate Finance
10 Crown Place
London EC2A 4FT

**Auditors**
PricewaterhouseCoopers LLP
Chartered Accountants
No 1 Embankment Place
London WC2N 6NN

**Principal Bankers**
National Westminster Bank
PO Box 4RY
250 Regent Street
London W1A 4RY

# Board of Directors

**Ian Kirkpatrick Non-Executive Chairman**
Ian Kirkpatrick, aged 58, 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 Baronsmead VCT plc and a number of other companies. He was appointed Chairman of Harvey Nash in January 1997.

**David Higgins Chief Executive**
David Higgins, aged 44, is Chief Executive, appointed in February 2000 and founder of the business. He was previously Joint Managing Director with responsibility for the Executive Search & Selection Division.

**Albert Ellis Group Finance Director**
Albert Ellis, aged 39, is Group Finance Director, appointed in February 2000. He joined the Group in July 1998 as UK Finance Director. He was previously a divisional Finance Director with Hays Plc.

**Ian Basser Operational Director**
Ian Basser, aged 40, joined the company in March 2001. Previously spent 12 years with a major international recruitment group establishing businesses in Australia, Asia and the USA.

**Tom Crawford Non-Executive Deputy Chairman**
Tom Crawford, aged 52, is non-executive Deputy Chairman and founder of the business. He was previously Joint Managing Director with responsibility for Group Operations and the IT File Search Division.

**David Treacher Non-Executive Director**
David Treacher, aged 40, is a non-executive Director and founder of the business. He was previously Joint Managing Director with responsibility for the IT Contract Services Division.

***Gus Moore Non-Executive Director***
Gus Moore, aged 65, is a non-executive Director. He was appointed in April 1999. He was previously on the Board of Hong Kong Telecom and Managing Director of Hong Kong Telecom CSL. He is currently non-executive director of a number of companies.

# Directors' Report
for the year ended 31 January 2003

The Directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 January 2003.

**Principal Activities**
The Group's principal activity during the year was the provision of recruitment services, in particular providing information technology professionals for permanent and contract positions worldwide.

A review of the business and future developments is set out in the Chairman's Statement, Chief Executive's Statement, Operating Review and Financial Review.

**Results and Dividends**
The Group's loss before tax for the year was £7.5m (2002: £11.3m). No dividends have been declared in the year.

**Share Capital**
On 19 March 2002 the Company issued 22,632,181 new ordinary shares, with a value of £14.2m in relation to the purchase and open offer agreement.

On 17 May 2002 the Company issued 974,881 new ordinary shares, with a value of €0.9m (£0.6m) in relation to settlement of the final deferred consideration relating to the purchase of Broadbay Networks Inc.

On 11 November 2002 the Company issued 2,237,122 new ordinary shares, with a value of €0.9m (£0.6m) in relation to settlement of the final deferred consideration relating to the purchase of European Experts NV.

The share issues increased the number of shares in issue to 56,023,176 ordinary shares with a nominal value of £2,801,159.

**Directors and their Interests**
The Directors who held office during the year and at the date of this report are shown on page 12. Ian Basser was appointed to the Board on 14 November 2002. In accordance with the Company's Articles of Association, Ian Kirkpatrick, Albert Ellis and Ian Basser retire by rotation and, being eligible, offer themselves for re-appointment. All Executive Directors 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 the Remuneration Report.

# **Directors' Report** continued
for the year ended 31 January 2003

### 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, announcements, intranet, 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 22 days (2002: 14 days) of receipt of their invoice. Other trade creditor days of the Group for the year ended 31 January 2003, were 45 days (2002: 38 days), based on the ratio of Group trade creditors at the year end to the amounts invoiced during the year by trade creditors. The Company has no trading activity.

### Substantial Shareholdings
On 10 April 2003 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:

| | No. of shares | % of total |
|---|---|---|
| Unicorn | 15,643,618 | 28.01 |
| Fidelity | 4,614,290 | 8.24 |
| M & G | 2,871,361 | 5.13 |

### 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 on pages 21 and 22.

# **Directors' Report** continued
for the year ended 31 January 2003

**Pensions**
The Group operates three defined contribution pension schemes, the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, the Group Personal Pension Plan and a stakeholder scheme.

**Political and Charitable Donations**
The Group made no political or charitable donations during the year.

**Re-appointment of Auditors**
Following conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 1 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the next annual general meeting.

On behalf of the Board

**Albert Ellis** Company Secretary

10 April 2003

# Corporate Governance
for the year ended 31 January 2003

The Group fully supports the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

## Application of Principles of Good Governance

### Directors
At 10 April 2003 the Board of Directors comprised three Executive and four Non-Executive Directors. The Board meets monthly, receives a defined supply of information 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.

### 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 financial control procedures and compliance with accounting standards. The members of the Committee are Ian Kirkpatrick (Chairman), Gus Moore and David Treacher, all 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 Gus Moore, both of whom are independent Non-Executive Directors.

The Remuneration Committee has responsibility for approving service contracts for all Executive Directors, granting 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 Report is included on pages 18 to 22.

### Nomination Committee
The Nomination Committee meets on an ad-hoc basis to review candidates and make recommendations for Board member appointments. The members of the Committee are Ian Kirkpatrick (Chairman), Gus Moore and David Higgins.

### Directors' Remuneration
Details of Directors' remuneration and the procedures for developing policy on executive remuneration and for fixing the remuneration of the Board are contained in the Remuneration Report set out on pages 18 to 22.

### Relations with Shareholders
The Company maintains regular dialogue with its institutional shareholders and City analysts by conducting formal presentations, being readily available for discussion and providing information as required. All shareholders are welcome to attend the AGM and private investors are given the opportunity to ask questions.

### Accountability and Audit
The Board has made every effort to ensure that this report represents a balanced understandable assessment of the Company's position and prospects.

The means by which the Board maintains a sound system of internal financial control are set out below.

### Internal Control
The Directors have overall responsibility for ensuring that the Group maintains a system of internal 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 control and accordingly even the most effective system can only provide reasonable, and not absolute, assurance against misstatement or loss.

# **Corporate Governance** continued
for the year ended 31 January 2003

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Board and accords with the Turnbull guidance.

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 internal 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, supported by an internal audit function.

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

**Compliance with Code Provisions**
The Company has complied throughout the year with Section 1 of the Code of Best Practice except as follows:

Code Provision A2.1
The Board does not consider it necessary to appoint a senior independent Non-Executive member of the Board in addition to the Company's existing independent Non-Executive Chairman.

Code Provision A3.2
The Company has four Non-Executive Directors, two of whom, David Treacher and Tom Crawford, are considered non-independent.

**Going Concern**
After having made appropriate enquiries including a review of the 2003/2004 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.

**Albert Ellis** Company Secretary

10 April 2003

# Remuneration Report
for the year ended 31 January 2003

## Remuneration Policy
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 that they are fair and competitive and reflect the responsibilities, experience and market value of each Director. The Remuneration Committee seeks to ensure that they are supportive of the Group's business objectives and the creation of shareholder value and takes advice from external sources in order to determine and develop its policies. The Group expects to review this policy on an on-going basis. A balanced view is taken rather than a targeted composition of Directors' remuneration split between non-performance related and performance related.

The remuneration package of each Director is determined by the Remuneration Committee, taking into account the performance of the individual and information from independent sources for similar jobs in comparable companies.

The Executive Director remuneration packages consist of:
- basic salary
- performance-linked bonus
- pension contribution
- share options
- company car or allowance
- private healthcare insurance

The performance-linked bonus is payable depending on the level of Group profit targets for the year. If the maximum bonus became payable it would represent 50% of the Executive's basic salary.

Fees payable to the Non-Executive Directors are determined by the Board at the beginning of each financial year having given due consideration to market practice.

## Directors' Service Contracts
It is the policy of the Group that no Director has a notice period in excess of 12 months.

The details of the services contracts of those who served as Directors during the year are:

| | Contract date | Unexpired term | Notice period | Contractual termination payments |
|---|---|---|---|---|
| **Executive** | | | | |
| David Higgins | 01.02.01 | Continuous | 12 months | Unexpired notice period |
| Albert Ellis | 01.02.01 | Continuous | 12 months | Unexpired notice period |
| Ian Basser | 10.04.02 | Continuous | 12 months | Unexpired notice period |
| **Non-Executive** | | | | |
| Ian Kirkpatrick | 07.08.01 | Continuous | 6 months | Unexpired notice period |
| Tom Crawford | 07.08.01 | Continuous | 6 months | Unexpired notice period |
| Gus Moore | 07.08.01 | Continuous | 6 months | Unexpired notice period |
| David Treacher | 07.08.01 | Continuous | 6 months | Unexpired notice period |

There are no other Company liabilities associated with terminating a Director's contract other than those noted above.

## Members of the Remuneration Committee
The members of the Remuneration Committee during the year were:
Ian Kirkpatrick
Gus Moore
Both members are independent Non-Executive Directors. Ian Kirkpatrick chairs the Committee.

During the year the following parties provided advice that materially assisted the Remuneration Committee:
Mercers
Ernst & Young LLP

The remuneration committee appointed both advisors. Mercers provided advice on share options schemes and Ernst & Young LLP provided advice on personal tax issues.

# **Remuneration Report** continued
for the year ended 31 January 2003

## Performance Graph

*February 1998 = 100*
Source: Datastream

Over the last five years Harvey Nash Group plc out performed the FT All Share index in the period between the third quarter of 1999 and second quarter of 2001. The total shareholder loss in the five-year period is 91.8% compared to the index loss of 35.8%.

In the opinion of the Directors the FT All Share index is the most appropriate index against which the total shareholder return of Harvey Nash Group plc should be measured considering the variation in market capitalisation of the Group over the period.

## Directors' Remuneration

| | Salary & fees £ | Benefits in kind £ | Annual bonus £ | 31 Jan 2003 Total £ | 31 Jan 2002 Total £ |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| David Higgins | 220,000 | 12,554 | – | 232,554 | 217,500 |
| Albert Ellis | 180,000 | 12,815 | – | 192,815 | 187,500 |
| Ian Basser | 41,667 | 20,686 | – | 62,353 | – |
| Ian Furniss | – | – | – | – | 225,044 |
| **Non-Executive** | | | | | |
| Ian Kirkpatrick | 46,000 | – | – | 46,000 | 44,850 |
| Tom Crawford | 20,000 | – | – | 20,000 | 15,000 |
| Gus Moore | 20,000 | – | – | 20,000 | 19,500 |
| David Treacher | 20,000 | – | – | 20,000 | 15,000 |
| | 547,667 | 46,055 | – | 593,722 | 724,394 |

Benefits in kind include car allowance and medical insurance. For Ian Basser the benefits in kind include relocation costs.

Ian Basser was appointed to the Board on 14 November 2002 and the table above reflects his remuneration from this date.

# **Remuneration Report** continued
for the year ended 31 January 2003

### Annual Bonus
The Executive Directors receive performance payments based on specific Group profit targets for the year. No bonus was awarded for the year ended 31 January 2003.

### Interests in Share Options
Details of options held by Directors are set out below:

| | Date of grant | Earliest exercise date | Expiry date | Share price on grant date (p) | Exercise price (p) | No at 31 Jan 2002 | Granted in year | Exercised in year | Lapsed in year | No at 31 Jan 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| **David Higgins** | | | | | | | | | | |
| | 12.7.02 | 12.7.05 | 12.07.12 | 54.0 | 55 | – | 250,000 | – | – | 250,000 |
| **Albert Ellis** | | | | | | | | | | |
| | 31.7.98 | 31.7.01 | 31.7.08 | 350 | 338 | 29,622 | – | – | 29,622 | – |
| | 27.7.00 | 27.7.03 | 27.7.10 | 740 | 710 | 80,309 | – | – | 80,309 | – |
| | 19.10.01 | 19.10.04 | 19.10.11 | 111 | 112 | 205,886 | – | – | 205,886 | – |
| **Ian Basser** | | | | | | | | | | |
| | 14.6.01 | 14.6.04 | 14.6.08 | 214 | nil | 25,735 | – | – | – | 25,735 |
| | 19.10.01 | 19.10.04 | 19.10.11 | 205 | 112 | 205,886 | – | – | 205,886 | – |
| | 25.10.02 | 25.10.05 | 25.10.12 | 34 | 24 | – | 300,000 | – | – | 300,000 |

No other Directors have been granted share options in the shares of the Group or other Group entities. The terms and conditions of the share options were varied during the year in accordance with the resolution presented at the AGM. The remaining options were granted as part of the Harvey Nash 2000 Executive Share Option Scheme. The performance criteria associated with this scheme are given below.

The options were granted at nil cost to the Directors. The exercise price of the options granted represents the average mid-market closing price of the five days prior to the grant. The market price of the Group shares at the end of the financial year was 29p. The range of market prices during the year was between 12p and 140p.

### Interest in shares
The interest of the Directors in the shares of the Company were:

| | 31 Jan 2003 Ordinary shares | 31 Jan 2002 Ordinary shares |
|---|---|---|
| David Higgins | 9,032,378 | 4,793,157 |
| Albert Ellis | – | – |
| Ian Basser | – | – |
| Ian Kirkpatrick | 5,250 | 3,000 |
| Tom Crawford | 4,619,684 | 4,095,875 |
| Gus Moore | 22,000 | – |
| David Treacher | 5,379,992 | 4,776,818 |

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 2003, the interest was in a total* of 1,448,025 ordinary shares. Included in the interests of David Higgins are 2,801,216 shares held in the David Higgins 2002 Discretionary Trust (see page 21).

# **Remuneration Report** continued
for the year ended 31 January 2003

### David Higgins 2002 Discretionary Trust
During the Placing and Open offer David Higgins acquired 2,801,216 ordinary shares and placed them in the David Higgins 2002 Discretionary Trust.

On 16 December 2002, as a private arrangement, the David Higgins 2002 Discretionary Trust granted options to Albert Ellis and Ian Basser over 700,000 and 1,200,000 Harvey Nash Group plc shares respectively. Under the Trust deed these options can be exercised immediately. The Trust is independent of the Company Schemes and granting of options remains at the sole discretion of David Higgins and therefore the Trust is outside the scope and influence of the Remuneration and Audit Committees.

These options can be exercised at any time prior to 16 December 2012 for an aggregate exercise price of £1.00. Any income tax or national insurance contributions arising on the exercise of these options will be payable by the option holder. There is no performance criteria associated with the exercise of these options. Any unallocated shares as a result of lapsed options remain with the Trust.

### Directors' Pension Entitlement
The Group made the following pension contributions during the year to money-purchase schemes nominated by the Executive Director:

| | 31 Jan 2003 £ | 31 Jan 2002 £ |
|---|---|---|
| David Higgins | 22,000 | 20,000 |
| Albert Ellis | 18,000 | 18,000 |
| Ian Basser | 3,784 | – |
| | 43,784 | 38,000 |

### Share Option Schemes
At 31 January 2003, the following options to subscribe for ordinary shares have been granted to certain employees (including Directors) under the terms of the Share Option Schemes:

### The Harvey Nash Group plc Share Options Scheme 1997
The Harvey Nash Group plc Share Options Scheme holds 198,717 ordinary shares. These shares were gifted to the trust by TFA Crawford, DC Higgins and DH Treacher to the Harvey Nash Group plc Employment Benefit Trust Limited and are shown at nil value in the Group financial statements as they were gifted for nil consideration. Since the scheme was established in 1997 it is an exempt scheme to which membership is conditional upon continued employment.

| Number of ordinary shares subject to option | Date granted | Consideration | Exercisable from | Exercisable until | Exercisable price (p) |
|---|---|---|---|---|---|
| 133,973 | 25.3.97 | Nil | 25.3.00* | 25.3.04 | Nil |
| 25,735 | 7.12.00 | Nil | 1.4.04* | 7.12.07 | Nil |
| 25,735 | 14.6.01 | Nil | 14.6.04* | 14.6.08 | Nil |
| 185,443 | | | | | |

*Exercise on or after such date limited to 25% of grant, with a further 25% exercisable on or after each six month period for the next 18 months.

# **Remuneration Report** continued
for the year ended 31 January 2003

### The Harvey Nash Group plc Performance Related Share Schemes
The Performance Related Schemes are administered by the Board under the supervision of the Remuneration Committee. The schemes are open to all full time employees except those who have had a material interest in the Group within the previous 12 months. 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. The schemes' exercise price is determined by the Board but will not be less than the average share price for the five days immediately preceding the grant of options. The Harvey Nash Group plc Performance Related Share Plan is an Inland Revenue Approved Scheme, however, the Board is able to grant unapproved options under the scheme. For schemes from July 2000 the Group has obtained agreement from the employee that he or she will settle the employer's national insurance charge in respect of any gain arising on eventual exercise. All options are granted for nil consideration.

| Date of grant | Exercisable from | Exercisable to | Exercise price | Options at 1 February 2002 | Exercised | Lapsed | Options at 31 January 2003 |
|---|---|---|---|---|---|---|---|
| 8.4.97 | 8.4.00 | 8.4.07 | £1.783 | 25,244 | – | – | 25,244 |
| 8.4.97 | 8.4.00 | 8.4.04 | £1.700 | 5,610 | – | – | 5,610 |
| 19.5.98 | 19.5.01 | 19.5.08 | £4.104 | 104,471 | – | 11,901 | 92,570 |
| 31.7.98 | 31.7.01 | 31.7.08 | £3.376 | 29,622 | – | 29,622 | – |
| 28.5.99 | 28.5.02 | 28.5.09 | £2.900 | 79,029 | – | 75,941 | 3,088 |
| 28.5.99 | 28.5.02 | 28.5.06 | £2.900 | 52,378 | – | 47,231 | 5,147 |
| 3.11.99 | 3.11.02 | 3.11.09 | £4.153 | 15,581 | – | 15,581 | – |
| 27.7.00 | 27.7.03 | 27.7.10 | £7.096 | 760,407 | – | 751,342 | 9,065 |
| 8.8.00 | 8.8.03 | 8.8.10 | £7.354 | 101,006 | – | 98,600 | 2,406 |
| 8.12.00 | 8.12.03 | 8.12.10 | £7.796 | 68,836 | – | 68,836 | – |
| 19.10.01 | 19.10.04 | 19.10.11 | £1.117 | 823,544 | – | 617,658 | 205,886 |
| 31.1.02 | 31.1.05 | 31.1.12 | £1.064 | 51,471 | – | 51,471 | – |
| 1.3.02 | 1.3.05 | 1.3.12 | £0.590 | 1,940,456 | – | 303,680 | 1,636,776 |
| 12.7.02 | 12.7.05 | 12.7.12 | £0.546 | 250,000 | – | – | 250,000 |
| 25.10.02 | 25.10.05 | 25.10.12 | £0.243 | 2,296,000 | – | 90,000 | 2,206,000 |

### The Harvey Nash Group plc Sharesave Scheme
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 plan has now matured.

On 10 June 1999 options over 142,202 ordinary shares were granted to 70 employees under a second Sharesave Scheme at a price of £2.55, 80% of the then market price. Options over 39,042 shares are still held under the three year plan and options over 18,528 shares are still held under the five year plan.

On 6 November 2000 options over 211,774 ordinary shares were granted to 250 employees under a third Sharesave Scheme at a price of £6.45, 80% of the then market price. Options over 1,731 shares are still held under the three year plan.

On 13 May 2002 options over 332,529 ordinary shares were granted to 124 employees under a fourth Sharesave Scheme at a price of 86p. Options over 244,172 shares are still held under the three year plan.

The Sharesave Scheme is an Inland Revenue Approved Scheme. Furthermore, there is no UITF17 charge to the Company on grant of shares as the scheme is specifically exempted under the abstract.

### Auditable Information
The information in the Remuneration Report subject to audit is that included in the sections on Directors' remuneration, share options and pensions.

On behalf of the Board

**Ian Kirkpatrick** Chairman

10 April 2003

# Directors' Responsibilities in Relation to the Financial Statements

for the year ended 31 January 2003

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance of the Group's website, however, information published on the internet is accessible in many different countries where legislation governing the preparation and dissemination of financial statements may differ from that applicable in the United Kingdom. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors do not accept responsibility for changes that may have occurred to the financial statements since they were initially presented on the website.

# Independent Auditors' Report to the Members of Harvey Nash Group plc

for the year ended 31 January 2003

### Independent Auditors' Report to the Members of Harvey Nash Group plc

We have audited the financial statements which comprise the Profit and Loss account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

### Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Financial Highlights, the Chairman's statement, the Chief Executive's Statement, the Operating Review, the Finance Director's Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

### Basis of Audit 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 and the auditable part of the Directors' Remuneration Report. 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 Company'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 and the auditable part of the Directors' Remuneration Report 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.

# Independent Auditors' Report to the Members of Harvey Nash Group plc continued

for the year ended 31 January 2003

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 January 2003 and of the loss and cash flows of the Group for the year then ended.
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors
London

10 April 2003

# Consolidated Profit and Loss Account
for the year ended 31 January 2003

| | Notes | Results before amortisation of goodwill and exceptional items 2003 £'000 | Amortisation of goodwill and exceptional items 2003 £'000 | Results after amortisation of goodwill and exceptional items 2003 £'000 | 2002 £'000 |
|---|---|---|---|---|---|
| **Turnover** | 2 & 3 | **156,692** | **–** | **156,692** | 235,720 |
| Cost of sales | | **(123,348)** | **–** | **(123,348)** | (184,211) |
| **Gross profit** | | **33,344** | **–** | **33,344** | 51,509 |
| Administrative expenses | | | | | |
| excluding goodwill amortisation | 13 | **(32,190)** | **(5,587)** | **(37,777)** | (58,412) |
| goodwill amortisation | | **–** | **(1,972)** | **(1,972)** | (1,386) |
| | | **(32,190)** | **(7,559)** | **(39,749)** | (59,798) |
| **Group operating profit/(loss)** | 3 | **1,154** | **(7,559)** | **(6,405)** | (8,289) |
| Amounts written off investments | | **–** | **–** | **–** | (1,026) |
| Interest receivable | 6 | **61** | **–** | **61** | 70 |
| Interest payable | 6 | **(1,146)** | **–** | **(1,146)** | (2,101) |
| **Profit/(loss) on ordinary activities before taxation** | | **69** | **(7,559)** | **(7,490)** | (11,346) |
| Taxation on profit on ordinary activities | 7 | **–** | **–** | **–** | – |
| **Profit/(loss) on ordinary activities after taxation** | | **69** | **(7,559)** | **(7,490)** | (11,346) |
| Equity minority interest | | **–** | **–** | **–** | (76) |
| **Profit/(loss) for the financial year** | | **69** | **(7,559)** | **(7,490)** | (11,422) |
| Dividends | | **–** | **–** | **–** | – |
| **Retained profit/(loss) for the financial year** | | **69** | **(7,559)** | **(7,490)** | (11,422) |
| **Basic loss per share** | 9 | | | **(14.91)p** | (39.38)p |
| **Adjusted earnings per share** | 9 | | | **(0.92)p** | 1.75p |

# Consolidated and Company Balance Sheets

as at 31 January 2003

| | Notes | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 | **Company 31 January 2003 £'000** | Company 31 January 2002 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible fixed assets | 10 | **29,250** | 30,631 | **–** | – |
| Tangible fixed assets | 11 | **2,227** | 5,191 | **–** | – |
| Investments | 12 | **400** | 178 | **46,917** | 51,622 |
| | | **31,877** | 36,000 | **46,917** | 51,622 |
| **Current assets** | | | | | |
| Debtors | 14 | **22,222** | 30,035 | **5,767** | 5,385 |
| Cash at bank | | **6,512** | 1,587 | **–** | 23 |
| | | **28,734** | 31,622 | **5,767** | 5,408 |
| **Creditors due within one year** | 15 | **(17,532)** | (28,686) | **(954)** | (821) |
| **Net current assets** | | **11,202** | 2,936 | **4,813** | 4,587 |
| **Total assets less current liabilities** | | **43,079** | 38,936 | **51,730** | 56,209 |
| **Creditors due after more than one year** | 16 | **(11,874)** | (16,250) | **(10,527)** | (21,694) |
| **Provision for liabilities and charges** | 17 | **(1,546)** | – | **(1,447)** | – |
| **Net assets** | | **29,659** | 22,686 | **39,756** | 34,515 |
| **Capital and reserves** | | | | | |
| Share capital | 20 | **2,801** | 1,509 | **2,801** | 1,509 |
| Shares to be issued | 21 | **–** | 884 | **–** | 884 |
| Share premium account | 21 | **16,445** | 4,897 | **16,445** | 4,897 |
| Capital contribution | 21 | **–** | – | **20,000** | 20,000 |
| Other reserves | 21 | **10,898** | 9,538 | **9,156** | 7,796 |
| Profit and loss account | 21 | **(485)** | 5,858 | **(8,646)** | (571) |
| **Equity shareholders' funds** | | **29,659** | 22,686 | **39,756** | 34,515 |

The financial statements on pages 26 to 47 were approved by the Board on 10 April 2003 and signed on its behalf by:

**Ian Kirkpatrick** Chairman

**Albert Ellis** Group Finance Director

# Consolidated Cash Flow Statement
for the year ended 31 January 2003

| | Notes | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 22 | **5,721** | 12,782 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **62** | 70 |
| Interest paid | | **(1,106)** | (2,085) |
| Interest element of finance lease repayments | | **(38)** | (16) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(1,082)** | (2,031) |
| **Tax paid** | | **(1,013)** | (3,583) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(670)** | (2,090) |
| Purchase of own shares | | **(221)** | – |
| **Net cash outflow from capital expenditure** | | **(891)** | (2,090) |
| **Acquisitions and disposals** | | | |
| Settlement of deferred consideration | 12 | **(166)** | (4,581) |
| Net overdraft acquired with subsidiary undertakings | | **–** | (21) |
| **Net cash outflow from acquisitions** | | **(166)** | (4,602) |
| **Equity dividends paid** | | **–** | (1,283) |
| **Financing** | | | |
| Issue of share capital | | **1,132** | – |
| Issue of share premium | | **13,126** | – |
| Payment of expenses on issue of equity shares | | **(1,580)** | – |
| Repayment of loan notes | | **–** | (1,999) |
| Repayment of acquired debt | | **–** | (360) |
| Movement in borrowings | | **(10,447)** | 1,376 |
| Proceeds from sale and finance leaseback | | **–** | 667 |
| Capital element of finance lease repayments | | **(210)** | (114) |
| **Net cash inflow/(outflow) from financing** | | **2,021** | (430) |
| **Increase/(decrease) in cash in the year** | 23 | **4,590** | (1,237) |

# Statement of Total Recognised Gains and Losses
for the year ended 31 January 2003

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Loss for the financial year | **(7,490)** | (11,422) |
| Currency translation differences on foreign currency net investments offset in reserves | **1,147** | (205) |
| **Total recognised losses for the year** | **(6,343)** | (11,627) |

# 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
for the year ended 31 January 2003

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Loss for the financial year | **(7,490)** | (11,422) |
| Issue of share capital | **1,292** | 31 |
| Reduction in shares to be issued | **(884)** | (8,578) |
| Share premium | **11,548** | 12 |
| Other reserves | **1,360** | 2,056 |
| Currency translation differences on foreign currency net investments offset in reserves | **1,147** | (205) |
| Net increase/(decrease) in equity shareholders' funds | **6,973** | (18,106) |
| Opening shareholders' funds | **22,686** | 40,792 |
| **Closing equity shareholders' funds** | **29,659** | 22,686 |

# Notes to the Financial Statements

for the year ended 31 January 2003

## 1 Basis of Preparation

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

## 2 Accounting Policies

### (a) Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and all its subsidiary undertakings made up to the year end using acquisition accounting. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. Intra Group sales and profits are eliminated fully on consolidation. On the acquisition of a subsidiary all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

### (b) Turnover

The Group derives its turnover in the Resourcing business on a time and materials basis. It is recognised as services are rendered as validated by receipt of a client approved timesheet or equivalent. Permanent placement fees in the consulting business are recognised on invoice, typically in three stages; placement, shortlist and retainer fee.

### (c) 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 |

### (d) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies in each company are translated at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are translated at the rate prevailing at the date of the transaction.

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

Exchange differences 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.

# Notes to the Financial Statements continued
for the year ended 31 January 2003

## 2 Accounting Policies (continued)

### (d) Foreign exchange (continued)
The principal exchange rates affecting the Group were:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **31 January** | **Average** | 31 January | Average |
| German Mark | – | – | 3.2107 | 3.1432 |
| Swiss Franc | – | – | 2.4193 | 2.4279 |
| Dutch Guilder | – | – | 3.6176 | 3.5539 |
| Belgian Franc | – | – | 66.2218 | 65.0552 |
| French Franc | – | – | 10.7682 | 10.5785 |
| US Dollar | **1.6471** | **1.5182** | 1.4133 | 1.4388 |
| Australian Dollar | **2.8055** | **2.7663** | 2.7892 | 2.8029 |
| Hong Kong Dollar | **12.8473** | **11.8413** | 11.0224 | 11.2219 |
| Euro | **1.5317** | **1.5828** | 1.6416 | 1.6097 |

### (e) 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. Profits made on sale and finance leaseback arrangements are deferred and credited to the profit and loss account over the shorter of the lease term and useful life of the asset.

Rentals payable under operating lease and contract hire agreements are taken to the profit and loss account on a straight line basis over the lease term. Reverse premiums and lease incentive benefits are recognised as a reduction in rental expense. The benefit is allocated on a straight line basis over the shorter of the lease term and the first rent review date at which it is expected that the prevailing market rental will be payable.

### (f) Pensions
Pension costs on defined contribution schemes are charged to the profit and loss account in the year in which they arise.

### (g) Goodwill
Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over a period up to 20 years.

Currently goodwill arising on acquisitions is amortised over 20 years with the exception of the Procomp NV acquisition in July 2000, which is being amortised over five years. Directors estimate for each individual acquisition the length of time over which the values of the underlying businesses acquired are expected to exceed the value of the identifiable net assets.

Impairments of goodwill are recognised as the difference between the carrying value of the intangible asset and the higher of net realisable value and value in use. Value in use is determined in accordance with FRS 11 by discounting future cash flows at a pre-tax government bond rate, with post five year forecast growth capped at the relevant country's long term average GDP real growth rate.

Goodwill previously eliminated against reserves has not been reinstated. The profit or loss on the disposal or termination of a business includes any goodwill previously eliminated against reserves.

### (h) Taxation
Current taxation is applied to taxable profits at the rates ruling in the relevant country. In accordance with Financial Reporting Standard 19 'Deferred Taxation', deferred taxation is provided in full for material timing differences except where recoverability of a deferred tax asset is considered to be remote in the foreseeable future. Deferred tax balances are not discounted unless the effects are considered to be material to the Group's results.

# Notes to the Financial Statements continued
for the year ended 31 January 2003

### (i) Investments and Share Schemes
Own shares held in the Employee Benefit Trust to satisfy potential obligations under share option schemes are carried at cost less provision for impairment, as part of fixed asset investments. Any differences between the market value of shares at the date of award and the anticipated proceeds from options granted are written off to the profit and loss account over the period to which the underlying options relate, in accordance with UITF17. In accordance with The Harvey Nash Group plc Performance Related Share Schemes, market value is calculated as being the average share price for the five days immediately preceding the grant of options.

Other investments held as fixed assets are shown at cost less provision for impairment.

## 3 Segmental Reporting

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **Turnover** | | |
| **Geographical area by location of Group operations** | | |
| United Kingdom | **85,095** | 137,815 |
| Rest of Europe | **62,940** | 83,836 |
| United States | **7,900** | 13,211 |
| Asia Pacific | **757** | 858 |
| | **156,692** | 235,720 |
| **Market sector** | | |
| Resourcing Services | **141,684** | 205,686 |
| Consulting Services | **15,008** | 30,034 |
| | **156,692** | 235,720 |

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

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **Total operating profit/(loss)** | | |
| **Geographical area** | | |
| United Kingdom | **(3,640)** | (2,700) |
| Rest of Europe | **486** | 2,819 |
| United States | **(2,584)** | (7,809) |
| Asia Pacific | **(667)** | (599) |
| | **(6,405)** | (8,289) |
| **Market sector** | | |
| Resourcing Services | **(2,627)** | (3,697) |
| Consulting Services | **(3,778)** | (4,592) |
| | **(6,405)** | (8,289) |

# Notes to the Financial Statements continued

for the year ended 31 January 2003

## 3 Segmental Reporting (continued)

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **Total operating (loss)/profit before goodwill amortisation and exceptional items** | | |
| **Geographical area** | | |
| United Kingdom | **(344)** | 1,274 |
| Rest of Europe | **2,345** | 4,037 |
| United States | **(236)** | (1,991) |
| Asia Pacific | **(611)** | (535) |
| | **1,154** | 2,785 |
| **Market sector** | | |
| Resourcing Services | **4,197** | 5,736 |
| Consulting Services | **(3,043)** | (2,951) |
| | **1,154** | 2,785 |

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **Net assets** | | |
| **Geographical area by location of client operations** | | |
| United Kingdom | **30,159** | 17,519 |
| Rest of Europe | **5,478** | 8,428 |
| United States | **(4,425)** | (2,299) |
| Asia Pacific | **(1,553)** | (962) |
| | **29,659** | 22,686 |

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.

## 4 Loss on Ordinary Activity Before Taxation

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

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets | **2,147** | 2,092 |
| Amortisation of goodwill | **1,972** | 1,386 |
| Auditors' remuneration | | |
| – audit services parent company | **12** | 11 |
| – audit services other Group companies | **205** | 211 |
| – non-audit services | **10** | 13 |
| Operating lease rentals | | |
| – plant and equipment | **748** | 769 |
| – land and buildings | **2,254** | 3,299 |
| Exchange (gain)/loss | **(50)** | 543 |
| Loss on disposal of tangible fixed assets | **1,109** | – |

£574,000 of foreign exchange loss has been taken to reserves under the hedging offset provisions of SSAP 20.

In addition amounts paid to the auditors of £300,000 have been charged to the share premium account in respect of the Placing and Open offer.

# Notes to the Financial Statements continued
for the year ended 31 January 2003

## 5 Employees
Employee costs (including Directors) were as follows:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Wages and salaries | **20,069** | 31,312 |
| Social security costs | **2,501** | 3,759 |
| Pension costs | **613** | 701 |
| | **23,183** | 35,772 |

Average monthly staff numbers for the year were as follows:

| | No | No |
|---|---|---|
| Executive Directors | **2** | 2 |
| Sales | **289** | 445 |
| Administration | **168** | 230 |
| | **459** | 677 |

## 6 Interest Receivable/(Payable)

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **Bank interest receivable** | **61** | 70 |
| **Interest payable** | | |
| Bank loans and overdrafts | **(1,108)** | (2,085) |
| Hire purchase interest | **(38)** | (16) |
| | **(1,146)** | (2,101) |
| **Net interest payable** | **(1,085)** | (2,031) |

## 7 Taxation on Loss on Ordinary Activities

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| **United Kingdom** | | |
| Corporation tax at 30% (2002: 30%) | **(91)** | – |
| Adjustments in respect of prior years | **(400)** | (129) |
| **Foreign tax** | | |
| Corporation taxes | **469** | 738 |
| Adjustment in respect of prior years | **(7)** | (185) |
| **Total current tax** | **(29)** | 424 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **76** | 121 |
| Utilisation of tax losses | **(47)** | (545) |
| | **29** | (424) |
| Representing: | | |
| United Kingdom | **(49)** | – |
| Foreign tax | **78** | (424) |
| Total deferred tax | **29** | (424) |
| **Tax on profit on ordinary activities** | **–** | – |

# **Notes to the Financial Statements** continued

for the year ended 31 January 2003

### 7 Taxation on Loss on Ordinary Activities (continued)

The tax for the period is higher (2002: higher) than the Group's weighted average rate of corporation tax applied to the pre-tax losses. The differences are explained below:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(7,490)** | (11,346) |
| Weighted average tax rate | **32.5%** | 33.9% |
| **Loss on ordinary activities before tax multiplied by the Group weighted tax rate** | **(2,431)** | (3,846) |
| Expenses not deductible | **739** | 2,330 |
| Short term timing differences | **252** | (18) |
| Utilisation of tax losses | **(255)** | (128) |
| Tax losses carried forward | **2,073** | 2,400 |
| Adjustments in respect of prior years | **(407)** | (314) |
| **Total current tax charge** | **(29)** | 424 |

| **Analysis of deferred tax** | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Short term timing difference | **76** | 121 |
| Tax losses carried forward | **(47)** | (545) |
| Deferred tax (credit)/charge | **29** | (424) |
| Deferred tax asset brought forward | **(952)** | (528) |
| **Deferred tax asset carried forward (see note 14)** | **(923)** | (952) |
| Short term timing difference | **(331)** | (407) |
| Tax losses carried forward | **(592)** | (545) |
| **Deferred tax asset carried forward** | **(923)** | (952) |

#### Factors that may affect future tax charges

Based on current capital investment plans, the Group does not expect material timing differences to arise in respect of capital allowances and depreciation.

The Group has recognised deferred tax assets where there are forecast taxable profits from which the future reversal of the underlying timing differences can be deducted.

Unrecognised deferred tax assets in respect of tax losses amount to £2,196,000 (2002: £1,405,000). Should future profits be higher than those currently forecast, future tax charges will be reduced as a result of tax losses for which a deferred tax asset is currently not recognised.

### 8 Loss Attributed to the Parent Company

The loss after tax for the year ended 31 January 2003 in the financial statements of Harvey Nash Group plc, the Company, was £8,075,000 (2002: loss £625,550). As allowed by S230 Companies Act 1985, no profit and loss account is presented in respect of the parent company.

# Notes to the Financial Statements continued

for the year ended 31 January 2003

## 9 Earnings Per Share

| | 31 January 2003 £'000 | 31 January 2002 £'000 |
|---|---|---|
| Loss attributable to shareholders | **(7,490)** | (11,422) |
| Weighted average number of shares | **50,241,818** | 29,003,638 |
| **Basic loss per ordinary share** | **(14.91)p** | (39.38)p |

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Employee Benefit Trust (note 12), which are treated as cancelled.

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

| | 31 January 2003 £'000 | 31 January 2002 £'000 |
|---|---|---|
| Loss attributable to shareholders | **(7,490)** | (11,424) |
| Amortisation of goodwill | **1,972** | 1,386 |
| Exceptional items (see note 13) | **5,587** | 10,714 |
| Tax on exceptional items | **(532)** | (168) |
| Adjusted (loss)/profit attributable to shareholders | **(463)** | 508 |
| Weighted average number of shares | **50,241,818** | 29,003,638 |
| **Adjusted (loss)/earnings per ordinary share** | **(0.92)p** | 1.75p |

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

## 10 Intangible Fixed Assets

| Goodwill | 31 January 2003 £'000 |
|---|---|
| **Cost** | |
| At 1 February 2002 | 40,575 |
| Additions | 166 |
| Reversal of deferred consideration | (85) |
| Exchange movements | 678 |
| **At 31 January 2003** | **41,334** |
| **Aggregate amortisation** | |
| At 1 February 2002 | 9,944 |
| Charge for the year | 1,972 |
| Exchange movements | 168 |
| **At 31 January 2003** | **12,084** |
| **Net book value** | |
| **At 31 January 2003** | **29,250** |
| At 31 January 2002 | 30,631 |

# Notes to the Financial Statements continued

for the year ended 31 January 2003

### 11 Tangible Fixed Assets

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

| Group | Leasehold improvements £'000 | Office equipment £'000 | Furniture fixtures & equipment £'000 | Computer equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 February 2002 | 2,080 | 806 | 1,439 | 5,790 | 20 | 10,135 |
| Additions | 15 | 11 | 29 | 262 | 25 | 342 |
| Disposals | (732) | (114) | (241) | (917) | – | (2,004) |
| Exchange movements | (35) | 7 | 30 | (32) | – | (30) |
| **At 31 January 2003** | **1,328** | **710** | **1,257** | **5,103** | **45** | **8,443** |
| **Depreciation** | | | | | | |
| As at 1 February 2002 | 423 | 578 | 806 | 3,129 | 8 | 4,944 |
| Charge for the year | 549 | 118 | 210 | 1,261 | 9 | 2,147 |
| Disposals | (161) | (60) | (117) | (557) | – | (895) |
| Exchange movements | (2) | 7 | 15 | – | – | 20 |
| **At 31 January 2003** | **809** | **643** | **914** | **3,833** | **17** | **6,216** |
| **Net book value** | | | | | | |
| **At 31 January 2003** | **519** | **67** | **343** | **1,270** | **28** | **2,227** |
| At 31 January 2002 | 1,657 | 228 | 633 | 2,661 | 12 | 5,191 |

The Company held no fixed assets during the year.

**Assets held under finance leases and hire purchase contracts (included above)**

| | Computer equipment £'000 |
|---|---|
| **Cost** | |
| As at 1 February 2002 | 667 |
| Additions | – |
| Accumulated depreciation at 31 January 2003 | (297) |
| **Net book value at 31 January 2003** | **370** |
| Cost at 31 January 2002 | 667 |
| Accumulated depreciation at 31 January 2002 | (74) |
| Net book value at 31 January 2002 | 593 |

# Notes to the Financial Statements continued

for the year ended 31 January 2003

## 12 Investments

| | Group 31 January 2003 £'000 | Group 31 January 2002 £'000 | Company 31 January 2003 £'000 | Company 31 January 2002 £'000 |
|---|---|---|---|---|
| Investment in subsidiary undertakings | – | – | 46,917 | 51,622 |
| Investment in own shares | 400 | 178 | – | – |
| | 400 | 178 | 46,917 | 51,622 |

During the year £5m was written off the carrying value of the Company investment in Techpartners International Limited which reflects the write-down made in the Group accounts in the prior year.

### Broadbay Networks Inc.

On 17 May 2002 the Group settled the deferred consideration in relation to the purchase of Broadbay Networks Inc. The final consideration of $1.3m (£0.9m) was satisfied by issuing 974,881 ordinary shares.

### Techpartners International Limited

On 31 August 2002 the Group entered into an agreement with three of the remaining participants of the Techpartners earnout agreement to extinguish the Group liability towards them.

### European Experts NV

On 11 November 2002 the Group settled the final deferred consideration in relation to the purchase of European Experts NV. The final consideration of €0.9m (£0.6m) was satisfied by issuing 2,237,122 ordinary shares.

### Investment in own shares

Investment in own shares of £400,343 (2002: £178,676) represents the cost of 738,420 of the Company's shares, acquired by Harvey Nash Employee Benefit Trust Limited to meet obligations under the Harvey Nash Option Scheme (HNOS). Details of the shares held by the Trust are shown in the table below:

| Date of purchase | Scheme | No of shares | Nominal value (£) | Cost price (£) | Total cost (£) | Net book value at 31 January 2003 (£) | Market value at 31 January 2003 (£) |
|---|---|---|---|---|---|---|---|
| 25.3.97 | HNOS[1] | 198,717 | 12,493 | Nil | Nil | Nil | 57,628 |
| 3.6.99 | – | 122,850 | 6,142 | 3.24 | 401,000 | 116,926 | 35,627 |
| 11.7.00 | – | 65,000 | 3,250 | 7.00 | 458,640 | 61,750 | 18,850 |
| 19.3.02 | – | 351,853 | 17,593 | 0.63 | 221,667 | 221,667 | 102,037 |
| | | 738,420 | 39,478 | | 1,081,307 | 400,343 | 214,142 |

[1] The shares under the HNOS were gifted to the Trust by Directors TFA Crawford, DC Higgins and DH Treacher.

# **Notes to the Financial Statements** continued

for the year ended 31 January 2003

### 12 Investments (continued)

### Subsidiary undertakings and branches

The details of the subsidiary companies and branches existing at 31 January 2003 are as follows:

| Name of company | Country of incorporation and operation | Principal activity |
|---|---|---|
| Broadbay Networks Inc | US | Recruitment consultancy |
| European Technology Partners Limited | England | Recruitment consultancy |
| Harvey Nash AG | Switzerland | Recruitment consultancy |
| Harvey Nash Australia Pty Ltd | Australia | Recruitment consultancy |
| Harvey Nash BV | The Netherlands | Recruitment consultancy |
| Harvey Nash Consulting AG | Switzerland | Recruitment consultancy |
| Harvey Nash GmbH | Germany | IT project services |
| Harvey Nash Group EBT Limited | England | Trustee of HNG Employee Benefit Trust 1997 |
| Harvey Nash Holdings Inc | US | Holding company |
| Harvey Nash (Hong Kong) Limited | Hong Kong | Recruitment consultancy |
| Harvey Nash IT Consulting NV (formerly European Experts NV) | Belgium | Recruitment consultancy |
| Harvey Nash Luxembourg | Luxembourg | Recruitment consultancy |
| Harvey Nash NV | Belgium | Holding company |
| Harvey Nash Offshore Development Centre | Branch | Recruitment consultancy |
| Harvey Nash plc | England | Recruitment consultancy |
| Harvey Nash Resource Management Limited | England | Resource management |
| Harvey Nash SA | France | Recruitment consultancy |
| Impact Executives Holdings Ltd | England | Recruitment consultancy |
| Impact Executives Holdings SA | Switzerland | Holding company |
| Impact Executives Hong Kong Ltd | Hong Kong | Recruitment consultancy |
| Impact Executives Ltd | England | Recruitment consultancy |
| Interim Management In Information Technology Limited | England | Recruitment consultancy |
| Mortimer Spinks Limited | England | Recruitment consultancy |
| Nash Direct AG | Switzerland | Recruitment consultancy |
| Nash Direct GmbH | Germany | Recruitment consultancy |
| Nash Direct Limited (formerly Ortus.net Ltd) | England | Recruitment consultancy |
| Nash Direct NV | Belgium | Recruitment consultancy |
| Techpartners International Inc | US | Recruitment consultancy |
| Techpartners International Ltd | England | Recruitment consultancy |
| Techpartners International Pty | Australia | Recruitment consultancy |
| Vertis Consulting Limited | England | Recruitment consultancy |

The Company or Harvey Nash plc owns directly or indirectly 100% of the ordinary share capital and voting rights of all companies.

# Notes to the Financial Statements continued
for the year ended 31 January 2003

## 13 Exceptional Items

| Analysis of exceptional items | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Operating exceptional items | **5,587** | 9,688 |
| *Non-operating exceptional items* | – | 1,026 |
| | **5,587** | 10,714 |

### Operating exceptional items
Operating exceptional items comprise the following costs:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Impairment of Techpartners International Inc. goodwill | – | 5,000 |
| Provision for client dispute | **(921)** | 1,504 |
| Restructuring costs | **1,887** | 3,184 |
| Provision for property leases | **4,621** | – |
| | **5,587** | 9,688 |

Details of the provision for property leases are given in note 17.

## 14 Debtors

| | Group 31 January 2003 £'000 | Group 31 January 2002 £'000 | Company 31 January 2003 £'000 | Company 31 January 2002 £'000 |
|---|---|---|---|---|
| Trade debtors | **17,994** | 25,176 | – | – |
| Amounts owed by subsidiary undertakings | – | – | **5,637** | 5,156 |
| Other debtors | **1,749** | 1,295 | **80** | 78 |
| Prepayments and accrued income | **2,479** | 3,564 | **50** | 151 |
| | **22,222** | 30,035 | **5,767** | 5,385 |

Within other debtors there are deferred tax assets of £923,000 (2002: £952,000). For details refer to note 7.

## 15 Creditors: Amounts Falling Due Within One Year

| | Group 31 January 2003 £'000 | Group 31 January 2002 £'000 | Company 31 January 2003 £'000 | Company 31 January 2002 £'000 |
|---|---|---|---|---|
| Bank loans – secured | – | 6,667 | – | – |
| Bank overdraft | – | – | **24** | – |
| Trade creditors | **9,750** | 10,417 | **104** | 139 |
| Corporation tax | **691** | 755 | – | – |
| Other taxes and social security | **296** | 1,992 | – | – |
| Accruals and deferred income | **5,289** | 7,462 | **826** | 682 |
| Deferred consideration | – | 707 | – | – |
| Other creditors | **1,277** | 476 | – | – |
| Obligations under finance leases and hire purchase contracts | **229** | 210 | – | – |
| | **17,532** | 28,686 | **954** | 821 |

# **Notes to the Financial Statements** continued
for the year ended 31 January 2003

## 16 Creditors: Amounts Falling Due After More Than One Year

| | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 | **Company 31 January 2003 £'000** | Company 31 January 2002 £'000 |
|---|---|---|---|---|
| Bank loans – secured | **11,753** | 15,900 | **–** | – |
| Amounts owed to subsidiary undertakings | **–** | – | **10,527** | 21,694 |
| Obligations under finance leases and hire purchase contracts | **121** | 350 | **–** | – |
| | **11,874** | 16,250 | **10,527** | 21,694 |

The bank loan is a multi currency revolving credit facility to a maximum limit of £16.3m. Interest was charged at 2.75% over LIBOR. The facility is secured by cross Group guarantees. There is a UK invoice discounting facility secured over the UK debtor book.

| | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 |
|---|---|---|
| Maturity dates of bank loans | | |
| Due within one year | **–** | 6,667 |
| Due within two to five years | **11,753** | 15,900 |
| | **11,753** | 22,567 |

## 17 Provision for Liabilities and Charges

The provision for liabilities and charges at 31 January 2003 comprises the provision for future lease rental obligations.

The movement in provision in the year is as follows:

| | **Group 31 January 2003 £'000** |
|---|---|
| Provision at 1 February 2002 | **–** |
| Charge for property provision (note 13) | |
| UK | **2,550** |
| Rest of Europe | **186** |
| United States | **1,885** |
| | **4,621** |
| Utilisation of provision | **(3,075)** |
| Provision at 31 January 2003 | **1,546** |

# Notes to the Financial Statements continued

for the year ended 31 January 2003

## 18 Obligations Under Hire Purchase Contracts and Finance Leases

| | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 |
|---|---|---|
| Repayable within one year | **248** | 249 |
| Repayable between one and five years | **127** | 373 |
| Total gross payments | **375** | 622 |
| Less finance charges and interest allocated to future periods | **(26)** | (62) |
| | **349** | 560 |
| Due within one year | **228** | 210 |
| Due after more than one year | **121** | 350 |
| | **349** | 560 |

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

## 19 Operating Lease Commitments

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

| | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 |
|---|---|---|
| **Land and buildings** | | |
| Leases expiring within one year | **132** | 111 |
| Leases expiring between one and five years | **1,099** | 1,208 |
| Leases expiring in more than five years | **1,083** | 1,835 |
| | **2,314** | 3,154 |
| **Other operating leases** | | |
| Leases expiring within one year | **166** | 148 |
| Leases expiring between one and five years | **460** | 590 |
| Leases expiring in more than five years | **–** | – |
| | **626** | 738 |

## 20 Share Capital

| | **Group 31 January 2003 £'000** | Group 31 January 2002 £'000 | **Company 31 January 2003 £'000** | Company 31 January 2002 £'000 |
|---|---|---|---|---|
| **Authorised** | | | | |
| 75,000,000 (2002: 40,000,000) ordinary shares of 5p each | **3,750** | 2,000 | **3,750** | 2,000 |
| **Allotted and fully paid** | | | | |
| 56,023,176 ordinary shares of 5p each (2002: 30,178,992) | **2,801** | 1,509 | **2,801** | 1,509 |

On 18 March 2002 the authorised share capital of the Company was increased from 40,000,000 ordinary shares of 5p each to 75,000,000 ordinary shares of 5p each. Details of the shares issued in the year are given in the Directors' Report.

# **Notes to the Financial Statements** continued

for the year ended 31 January 2003

## 21 Reserves

| Group | Shares to be issued £'000 | Share premium account £'000 | Other reserves £'000 | Profit and loss account £'000 |
|---|---|---|---|---|
| 1 February 2002 | 884 | 4,897 | 9,538 | 5,858 |
| Reversal of shares to be issued | (884) | – | – | – |
| Premium on shares issued | – | 13,128 | 1,360 | – |
| Fundraising costs | – | (1,580) | – | – |
| Retained loss for the year | – | – | – | (7,490) |
| Exchange gain | – | – | – | 1,147 |
| **31 January 2003** | **–** | **16,445** | **10,898** | **(485)** |

| Company | Shares to be issued £'000 | Share premium account £'000 | Capital contribution £'000 | Other reserves £'000 | Profit and loss account £'000 |
|---|---|---|---|---|---|
| 1 February 2002 | 884 | 4,897 | 20,000 | 7,796 | (571) |
| Reversal of shares to be issued | (884) | – | – | – | – |
| Premium on shares issued | – | 13,128 | – | 1,360 | – |
| Fundraising costs | – | (1,580) | – | – | – |
| Retained loss for the year | – | – | – | – | (8,075) |
| **31 January 2003** | **–** | **16,445** | **20,000** | **9,156** | **(8,646)** |

Shares to be issued related to the value of the deferred consideration shares that were estimated would be issued under the terms of the sale and purchase agreement for the acquisition of Broadbay Networks Inc. The reduction in shares to be issued in the year relates to the reversal of the Techpartners International deferred consideration.

## 22 Reconciliation of Operating Loss to Net Cash Inflow

| | **2003 £'000** | 2002 £'000 |
|---|---|---|
| Group operating loss | **(6,405)** | (8,289) |
| Depreciation | **2,147** | 2,092 |
| Amortisation | **1,972** | 1,386 |
| Loss on disposal of fixed assets | **1,109** | – |
| Impairment of intangible fixed assets | **–** | 5,000 |
| Decrease in debtors | **9,292** | 21,508 |
| Decrease in creditors | **(2,394)** | (8,915) |
| **Net cash inflow from operating activities** | **5,721** | 12,782 |

# Notes to the Financial Statements continued

for the year ended 31 January 2003

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

| | **31 January 2003 £'000** | 31 January 2002 £'000 |
|---|---|---|
| Increase/(decrease) in cash during the year | **4,590** | (1,237) |
| Decrease/(increase) in debt and lease finance | **10,657** | 56 |
| | **15,247** | (1,181) |
| Issue of loan notes | **–** | (241) |
| Foreign exchange movement | **702** | (48) |
| Decrease/(increase) in debt during the year | **15,949** | (1,470) |
| Net debt at beginning of year | **(21,540)** | (20,070) |
| **Net debt at end of year** | **(5,591)** | (21,540) |
| Net cash | **6,512** | 1,587 |
| Borrowings | **(12,103)** | (23,127) |
| | **(5,591)** | (21,540) |

### Analysis of Changes in Net Debt

| | 1 February 2002 £'000 | Cash flow £'000 | Foreign exchange movements £'000 | **31 January 2003 £'000** |
|---|---|---|---|---|
| Cash | 1,587 | 4,590 | 335 | **6,512** |
| | 1,587 | 4,590 | 335 | **6,512** |
| Debt due within one year | (6,667) | 6,667 | – | **–** |
| Debt due after one year | (15,900) | 3,780 | 367 | **(11,753)** |
| Finance leases | (560) | 210 | – | **(350)** |
| | (23,127) | 10,657 | 367 | **(12,103)** |
| **Total** | **(21,540)** | **15,247** | **702** | **(5,591)** |

## 24 Directors

| **Total emoluments of the Directors** | **2003 £'000** | 2002 £'000 |
|---|---|---|
| Fees | **106** | 94 |
| Basic salaries, allowances and taxable benefits and car allowance | **488** | 630 |
| Aggregate emoluments | **594** | 724 |
| Pension contributions | **44** | 38 |
| Compensation for loss of office | **–** | 30 |
| Emoluments of Chairman | **46** | 45 |
| Emoluments of highest paid Director (including pension contributions) | **255** | 259 |

Company policy on the remuneration of Directors and details of the remuneration of each Director, which form part of the audited financial statements, are set out in the Remuneration Report on pages 18 to 22.

# Notes to the Financial Statements continued

for the year ended 31 January 2003

## 25 Pensions

Harvey Nash has in place three pension schemes; the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, a Group Personal Pension Plan provided by National Provident Institution and Legal and General, and a stakeholder scheme with Legal and General which had no participating members at the year end.

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, DC Higgins, DH Treacher and Scottish Equitable which is the pensioner trustee. The three 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 year were £22,000 (2002: £20,550).

The Group Personal Pension Plan (the 'Plan') is a defined contribution scheme provided by National Provident Institution and Legal and General. The Group'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 Group contributes 5% and the employee contributes 3% of the employee's basic earnings (excluding bonuses) to the Plan. There is one member in respect of whom only the Company makes contributions. The Group's total contribution to the Plan for the period to 31 January 2003, was £259,421 (2002: £266,965). Contributions in respect of Director Albert Ellis were £18,000 and Director Ian Basser were £3,784 (2002: £17,550).

## 26 Related Party Transactions

At the end of the year there was a debtor of £76,000 (2002: £76,000) owed by Harvey Nash KG, a partnership of whom the partners are David Higgins, David Treacher and Tom Crawford. The costs are in respect of residual tax and other costs arising on the winding up of the partnership entity, which formerly conducted Harvey Nash's business in Germany.

## 27 Financial Instruments

### Treasury management

Treasury policy and significant treasury transactions are approved by the Board.

### Financing

The Group's principal financial instruments are bank loans, bank overdrafts, cash and short term deposits. The Group has other financial instruments such as trade debtors and trade creditors that arise directly from its operations. Acquisitions are financed through a mixture of equity and medium term borrowings. Working capital finance for day-to-day requirements is provided through operating cash generation, invoice discount facilities, and small short term overdraft facilities. All of the Group's long term loans are raised centrally and lent down to subsidiaries.

### Objectives, policies and strategies

The most significant treasury exposures faced by Harvey Nash are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. The Board has established clear parameters, including levels of authority, on the type and use of financial instruments to manage these exposures. Transactions are only undertaken if they relate to underlying exposures and cannot be viewed as speculative.

### Interest rate risk management

The Group's policy is to minimise interest charges. Harvey Nash uses interest rate caps to manage its interest rate exposure on its debt position.

### Currency risk management

The Group's policy is to minimise foreign currency risk. Harvey Nash manages its exposure on equity investments in overseas subsidiaries through foreign currency borrowings. The currency risk of holding assets and liabilities in foreign currencies across the Group is managed by partially matching foreign currency assets with foreign currency liabilities.

# **Notes to the Financial Statements** continued
for the year ended 31 January 2003

## 27 Financial Instruments (continued)
As permitted by FRS 13 short term debtors and creditors have been excluded from disclosure of financial liabilities and financial assets.

Currency and interest rate composition of financial assets and liabilities.

### Financial assets

| **As at 31 January 2003** | Floating rate £'000 | Non interest bearing £'000 | **Total £'000** |
|---|---|---|---|
| Sterling | 479 | – | **479** |
| Euros | – | 3,073 | **3,073** |
| Swiss Franc | – | 4,045 | **4,045** |
| US Dollar | – | 112 | **112** |
| Australian Dollar | – | 19 | **19** |
| Hong Kong Dollar | – | 42 | **42** |
| | 479 | 7,291 | **7,770** |

| **As at 31 January 2002** | Floating rate £'000 | Non interest bearing £'000 | Total £'000 |
|---|---|---|---|
| Sterling | 998 | – | 998 |
| Euros | – | 3,096 | 3,096 |
| Swiss Franc | – | 1,586 | 1,586 |
| US Dollar | – | 917 | 917 |
| Australian Dollar | – | 58 | 58 |
| | 998 | 5,657 | 6,655 |

### Financial liabilities

| **As at 31 January 2003** | Floating rate £'000 | Non interest bearing £'000 | **Total £'000** |
|---|---|---|---|
| Sterling | 3,952 | – | **3,952** |
| Euros | 2,900 | – | **2,900** |
| US Dollar | 5,040 | – | **5,040** |
| Australian Dollar | 535 | – | **535** |
| Hong Kong Dollar | 584 | – | **584** |
| | 13,011 | – | **13,011** |

| **As at 31 January 2002** | Floating rate £'000 | Non interest bearing £'000 | Total £'000 |
|---|---|---|---|
| Sterling | 14,181 | – | 14,181 |
| Euros | 9,335 | – | 9,335 |
| US Dollar | 3,549 | – | 3,549 |
| Australian Dollar | 91 | – | 91 |
| Hong Kong Dollar | 479 | – | 479 |
| | 27,635 | – | 27,635 |

The floating rate financial liabilities comprise bank loans and overdrafts bearing interest rates based on local money market rates.

# **Notes to the Financial Statements** continued
for the year ended 31 January 2003

## 27 Financial Instruments (continued)

### Maturities of financial liabilities
Total borrowings are repayable as follows:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Within one year | **1,258** | 11,735 |
| Due within two and five years | **11,753** | 15,900 |
| | **13,011** | 27,635 |

The maturities of other financial liabilities are as follows:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Within one year | **–** | 707 |
| Due within two and five years | **–** | – |
| | **–** | 707 |

### Committed undrawn facilities
The maturities of the committed undrawn bank facilities available to the Group are as follows:

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Within one year | **2,000** | – |
| Between two and five years | **2,580** | – |
| | **4,580** | – |

### Fair value
In the opinion of the Directors there is no material difference between the fair value of the Group's financial instruments and their carrying value.

### Currency risk
The currency exposure of the Group net monetary assets/(liabilities) is shown below. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved.

| | Net foreign currency monetary assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| **Functional currency of Group company** | **US Dollar £'000** | **Euro £'000** | **Swiss Franc £'000** | **Australian Dollar £'000** | **Hong Kong Dollar £'000** | **Total £'000** |
| Sterling | | | | | | |
| Cash | (181) | 1,862 | – | – | – | 1,681 |
| Trading and intercompany | 110 | 1,213 | 207 | 35 | 89 | 1,654 |
| Loans – intercompany | 5,650 | (1,414) | – | 559 | 779 | 5,574 |
| Loans – Bank | (4,857) | (2,881) | – | (535) | (584) | (8,857) |
| | 722 | (1,220) | 207 | 59 | 284 | 52 |

# Notes

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