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Harvey Nash

Harvey Nash Group plc Annual Report 1999



“Our focus on organic growth and European development of existing businesses has delivered another excellent financial performance.”



1	Corporate Statement
2	Chairman's Statement
4	Operating Review
10	Financial Review
12	Board of Directors
13	Directors, Secretary and Advisers
14	Directors' Report
17	Corporate Governance
19	Remuneration Report
23	Directors' Responsibilities in Relation to the Financial Statements
24	Auditors' Report
25	Consolidated Profit and Loss Account
26	Consolidated and Company Balance Sheets
27	Consolidated Cash Flow Statement
28	Statement of Total Recognised Gains and Losses

Harvey Nash est l'un des acteurs majeurs du Conseil en Recrutement, dédié aux technologies de l'Information, en Europe. Le Groupe vous propose une offre de services, organisée en 3 divisions. Recrutement par approche directe et par annonces, Interim informatique, Recrutement par base de données.

Harvey Nash a pour stratégie d'étendre son activité afin de se positionner en leader européen du Conseil en Recrutement, en proposant des solutions très qualitatives et performantes, répondant aux exigences de satisfaction de tous ses clients et candidats.

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

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

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

For more information please visit our website www.harveynash.com or www.harveynash.com/europe

FINANCIAL HIGHLIGHTS

For the year ended 31 January 1999

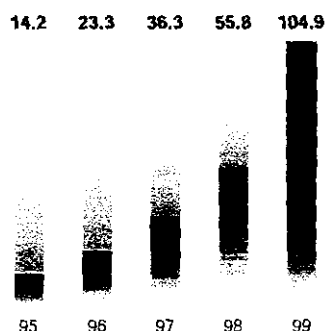
	1999	1998	% increase
Turnover	£104.9m	£55.8m	88%
Operating profit*	£9.5m	£5.4m	74%
Earnings per share*	22.66p	14.07p	61%
Dividends per share	5.40p	4.65p	16%

* adjusted for amortisation of goodwill and flotation costs

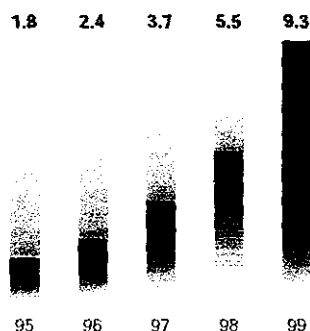
Harvey Nash is a leading recruitment services group specialising in providing Information Technology professionals for permanent and contract positions within Europe. The Group operates through three Divisions; IT Contract Services, Executive Search & Selection and IT File Search.

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

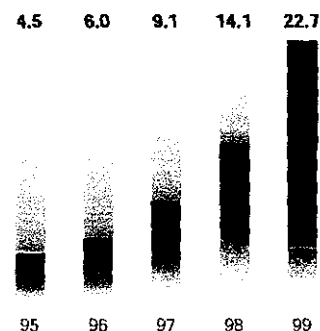
TURNOVER
£m



**PROFIT BEFORE TAXATION
(ADJUSTED)**
£m



**EARNINGS PER SHARE
(ADJUSTED)**
Pence



The year ended 31st January 1999 has been another successful year for The Harvey Nash Group. Our strategy of expansion into Europe through opening new offices and strategic acquisition has broadened the Group's services, client base and exposure to different markets. At the same time our focus on organic growth and development of our existing businesses has delivered an excellent financial result during a year when market conditions have moderated.

SUMMARY OF RESULTS

The Group increased turnover by 88% to £104.9m (1998: £55.8m) and operating profit adjusted for amortisation of goodwill and flotation costs, by 74% to £9.5m (1998: £5.4m). Excluding the impact of acquisitions the Group has achieved underlying organic growth of 69% in turnover and 52% in operating profit.

The unadjusted profit before taxation was £8.9m (1998: £5.2m) which represents an increase of 70%. Earnings per share adjusted for goodwill amortisation and flotation costs was 22.66p (1998: 14.07p) an increase of 61%. The earnings per share for the Group was up 58% to 20.89p (1998: 13.23p).

During the period under review we have made significant progress in achieving our objective of increasing profits from mainland Europe. In the year ended 31st January 1999 mainland Europe accounted for 23% of adjusted profits compared to 11% in the previous year.

DIVIDEND

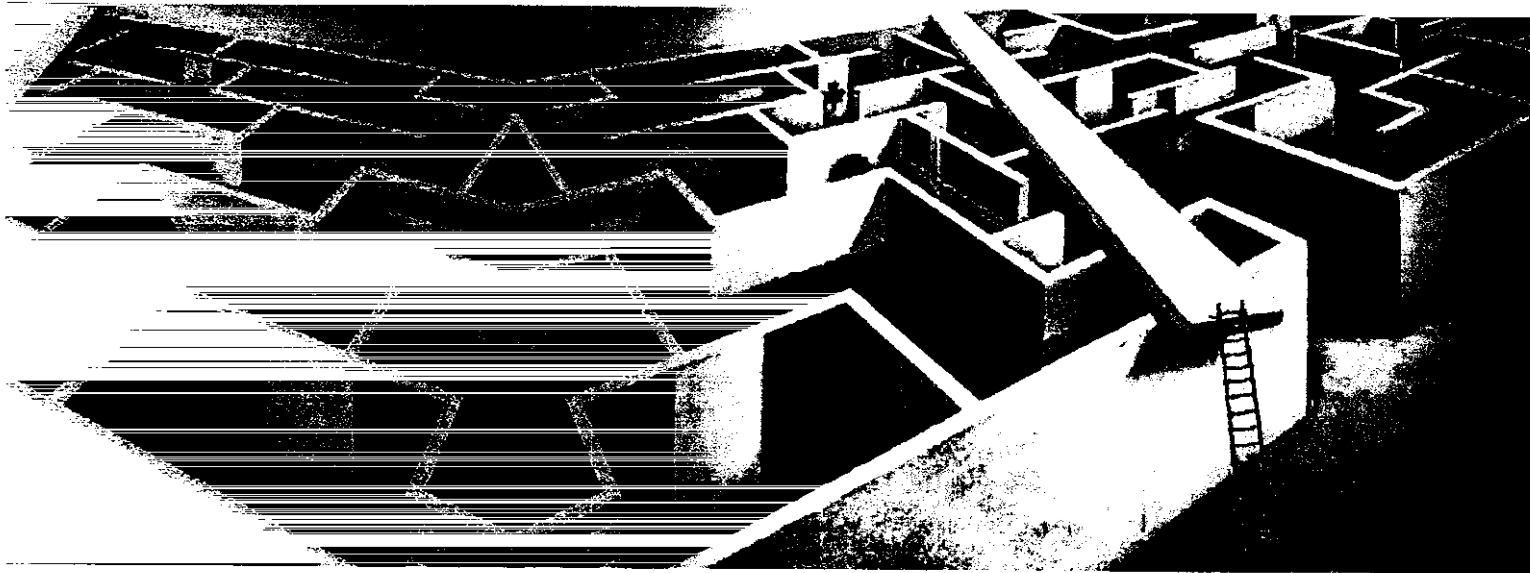
The Board has recommended payment of a final dividend of 3.6p per share which, taken with the interim dividend of 1.8p, represents a 16% increase over last year's dividend of 4.65p per share. The dividend will be payable on 26th May 1999 to shareholders on the register at 30th April 1999. The Group's policy is to maintain dividend growth at a steady rate taking account of working capital requirements and growth in earnings.

ACQUISITIONS

The Group has made three acquisitions in the year, one in the UK and two in mainland Europe.

The acquisition of IMIT, one of the leading UK providers of interim managers specialising in the IT and Telecommunications sectors, was reported in my statement last year. I am pleased to say that this business has been successfully integrated into the Group, is trading well and contributing to the Group's range of client services.

Following IMIT our focus has been on European acquisitions to complement our successful German and Swiss IT contracts operations and to build a pan-European service capability. In June 1998 we acquired European Experts, an IT Contract Services business based in Belgium and in September 1998 we acquired The Inston Group, also an IT Contract Services business, based in The Netherlands. Both companies have been integrated into the Group and continue to trade successfully.



“Our strategy of expansion into Europe through opening new offices and acquisition has broadened the Group’s services, client base and exposure to different markets.”

IAN KIRKPATRICK
Chairman

PEOPLE

Once again, I would like to thank all of the Group’s employees for their continued effort and enthusiasm which has been the main contributor to our success.

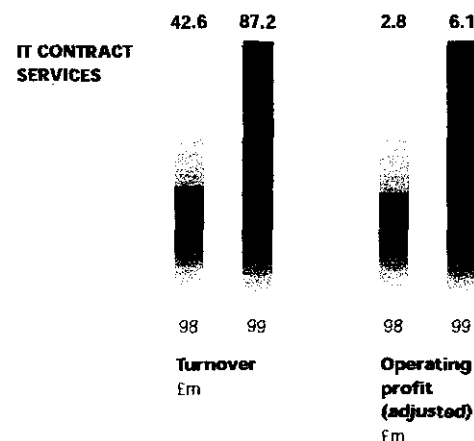
Many new staff have been welcomed into the organisation either to help develop our existing businesses or through acquisition. The Group now employs 325 staff compared to 207 in April last year.

PROSPECTS

Market conditions in the UK were very strong at the beginning of last year but weakened in the Autumn, in line with the general economic uncertainty at that time. There have been signs of stronger demand in the last month, however we expect companies to take a cautious view of IT investment in 1999 particularly as the millennium approaches.

We believe that the Harvey Nash Group is well positioned for continued growth in the forthcoming year, given our focus on growth niche markets, broad geographic base, the benefits of a full year from acquisitions and new offices. We also remain confident about the longer term future as growth prospects for the IT market place remain very positive, influenced by the development of new technologies and companies’ drive for competitive advantage.

Ian Kirkpatrick
Chairman



IT CONTRACT SERVICES

The IT Contract Services Division provides an increasingly wide range of IT contractor related recruitment services, predominantly to international companies operating across Europe. The Division has expanded from 2 to 7 offices over the last year increasing its coverage of mainland Europe.

The Division increased its turnover by 105% to £87.2m (1998: £42.6m) and operating profit by 120% to £6.1m (1998: £2.8m). The results include the benefit of three acquisitions made during the period under review, IMIT acquired in February 1998, European Experts in June 1998 and Inston in September 1998. Excluding the contribution from these businesses, organic profit growth was an excellent 75%.

Market conditions for IT Contract Services in the UK have weakened since October 1998. The business' recent success in winning new preferred supplier agreements caused a more gradual slowdown in activity levels than might have been expected. However, since the year end, there has been a small improvement in conditions and the Division is currently trading at its highest ever level of contractors. In Europe there has been a much less noticeable reduction in demand due to economic uncertainty and our businesses and their markets are relatively undeveloped. Contractor pay rates were increasing at about 15% in the first half of the year but have begun to rise more slowly in recent months.

The year under review has seen significant growth in all businesses within the IT Contract Services Division. In the UK the strategy of focusing on vertical markets based on specific technical skills separately from servicing clients who require a large volume of contract resource, continued to bear fruit.

In Europe our existing German and Swiss operations have performed exceptionally well during the year and we opened two further offices in Munich and Dusseldorf. We are confident of continued growth from this still relatively undeveloped market. Our Swiss office is now well established and contributing a healthy profit from which further growth can be achieved.

Two acquisitions have been made in Europe to gain access to new markets. On 12th June 1998 Harvey Nash acquired 90% of the share capital of European Experts NV, an IT Contracts business based in Brussels, for an initial consideration of £6.5m with further consideration up to £2.1m payable for the remaining 10% of the share capital, dependent upon the results achieved after 3 years. This business has continued to trade well within the Group and is investing in new staff to provide the platform for future growth.

On 25th September 1998 the Group acquired 100% of the share capital of Inston Investments BV for a total consideration of £3.3m. Inston is an IT Contracts business based in The Netherlands and has added to Harvey Nash's pan-European service capability. This business has been integrated into the Group and further organic growth remains an important goal for the forthcoming year.

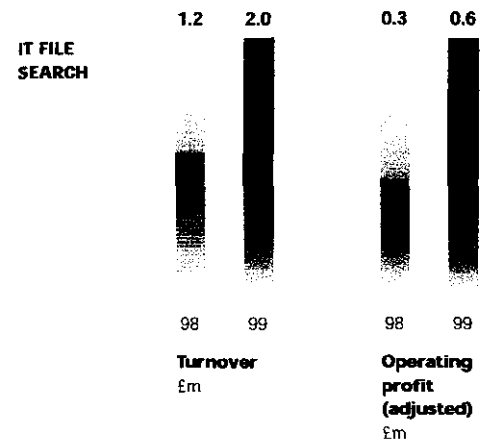
“Given the opportunity to further develop our range of services in the UK and achieve greater market penetration in Europe, the prospects for the Division are good.”

DAVID TREACHER
Joint Managing Director



Significant growth has been achieved by focusing on vertical markets based on specific technical skills.





The Group made another strategic acquisition in the UK on 12th February 1998 of Interim Management in Information Technology Limited ("IMIT") for an initial consideration of £1.7m and maximum total consideration of £5m. IMIT is one of the largest providers of Interim Managers to the IT and Telecommunications markets and has significant market synergies with both the IT Contract Services Division and Executive Search & Selection. This business has grown its turnover and profit significantly since acquisition. With further investment and development this business can become a more significant contributor to the Group in terms of its own profitability and cross marketing of services.

Given the opportunity to further develop our range of services in the UK and achieve greater market penetration in Europe, the prospects for the Division are good. However we remain cautious about the UK market place for the next financial year when activity levels are likely to be depressed by the 'wait and see' attitude of business to the year 2000 problem before introduction of further major IT projects.

IT FILE SEARCH

This Division operates under the brand name Mortimer Spinks and provides permanent IT recruitment services using a database of candidates. Mortimer Spinks has also developed IT Contract services due to the synergy with its permanent business. The revenue and profit from this part of the business are reported within IT Contract Services.

The File Search Division continued to grow rapidly increasing turnover by 70% to £2.0m (1998:£1.2m) and operating profit by 100% to £0.6m (1998:£0.3m). This has been achieved through the strength and diversity of client relationships together with speed of response to client requirements and has ensured continuing growth. Demand for this Division's services has continued to grow during current market conditions as many clients are taking the opportunity to recruit good quality permanent staff.

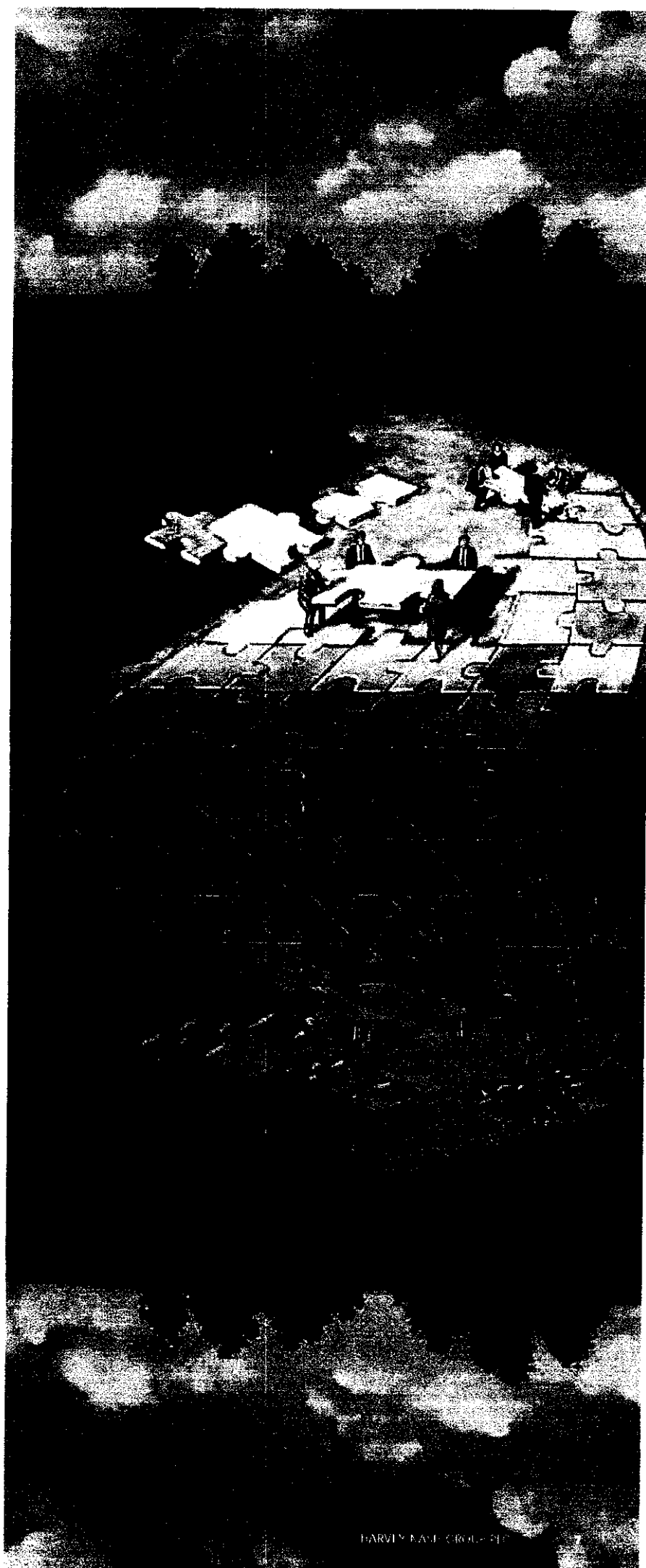
In January 1998 Mortimer Spinks opened its second office in Birmingham. This office is now contributing consistent profits and therefore it is appropriate for the business to consider further geographical expansion to provide future growth.

“Mortimer Spinks,
benefitting from
the strength and
diversity of its client
relationships, has
generated outstanding
growth.”

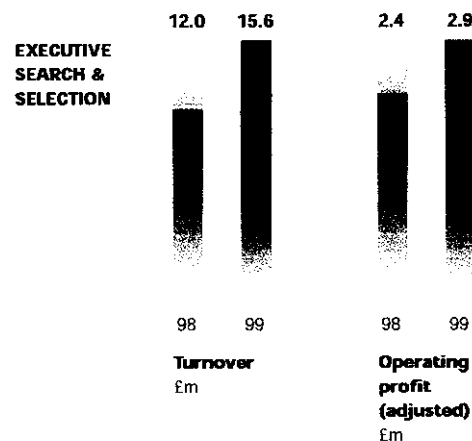
TOM CRAWFORD
Joint Managing Director



Clients are using the economic
slowdown as an opportunity to
recruit permanent staff.



HARVEY KALF CROU-RE



EXECUTIVE SEARCH AND SELECTION

The Executive Search & Selection Division provides senior level recruitment services to a broad range of market sectors including IT Services, Telecommunications, FMCG, Healthcare and Financial Services. Having opened an office in Paris in October 1998 the Division now operates from four offices across Europe.

The Division increased its turnover by 30% to £15.6m (1998:£12.0m) and operating profit by 23% to £2.9m (1998:£2.4m). The results are pleasing considering the influence of weaker UK market conditions in the second half of the year and investment in our European Offices.

Market conditions in the UK were strong during the first half of the year under review. General economic confidence and a hunger for new technology, in particular networking and internet related services, continued to drive IT market growth at around 15% per annum. However, the Autumn of 1998 saw a slowdown in activity as both the City and Business assumed a very cautious view of the UK economy. The remainder of the financial year saw some clients retrenching and, others freezing their recruitment activity.

In contrast to the UK, our two European offices have experienced a stronger market for IT Services and, given the early stage of their development, have increased strongly their level of trading activity.

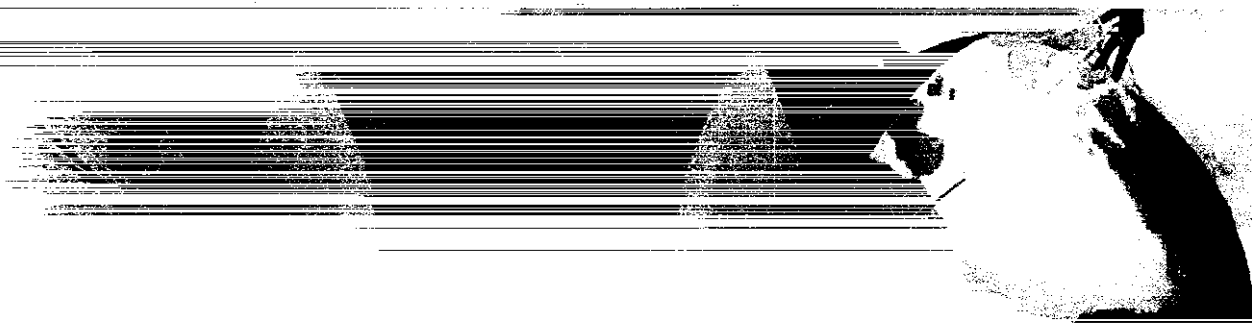
Despite the increasingly difficult market conditions the Division's UK business has performed well and maintained its market leading position. In addition to its position as the leading advertiser in the IT trade press it has become the

largest advertiser for executive and management positions in The Sunday Times, further enhancing Harvey Nash's brand profile.

The Division has always been both responsive to the market place and client's needs. During the first half of the year, when demand was high and candidates in short supply, the development of a wider range of recruitment services ensured the successful completion of the majority of assignments. During the second half of the year the Division has focused its business development efforts on such fast growing sectors as Telecommunications and E-Commerce.

The greatest opportunity for growth lies in the continued development of a European network of offices. Our Amsterdam office has contributed a small but pleasing profit in its first full year of trading, as well as expanded to a size where it now has the capacity to be a leading player in the Dutch market place. Our Paris office was opened in October 1998 and, as it is in the early stages of investment and development, contributed a small loss to the Division's results, which is in line with expectations.

The prospects for the Executive Search & Selection Division lie in two areas. Firstly, in the exploitation of those areas of the UK IT market place where technology is developing fast and client demand remains strong. Secondly, in Europe, where we have two established offices with strong growth potential and where we expect to open additional offices in the near future. Given some caution about prospects for the UK economy in general and our investment in European growth, we anticipate more modest levels of profit growth in the next financial year.



“As we develop closer relationships with our international clients, our ability to support them across Europe will be key to our success.”

DAVID HIGGINS
Joint Managing Director

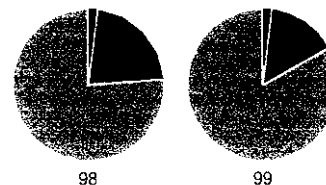


As demand has changed the Division has shifted its business development efforts to focus on newer sectors like Telecomms and E-Commerce.

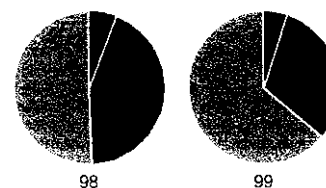


BUSINESS MIX

TURNOVER divisional analysis



PROFITS (ADJUSTED) divisional analysis



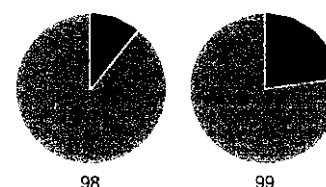
ORGANIC GROWTH & ACQUISITIONS

PROFITS (ADJUSTED)



EUROPE

PROFITS (ADJUSTED) geographic analysis



“Our focus on controlling working capital has delivered a healthy net cashflow of £6.3m, 69% of operating profit.”

IAN FURNISS
Group Finance Director

The year ended 31st January 1999 has been another successful year of growth and development for Harvey Nash.

FIVE YEAR VIEW

Over the last five years turnover has increased at a compound rate of 65%; Profit before taxation (adjusted) has increased at a compound rate of 50%; Earnings per share (adjusted) have increased at a compound rate of 50%.

BUSINESS MIX

There has been a change in the mix of turnover and profits within the Group due to strong organic growth from the IT Contract Services Division and three acquisitions in this area.

The IT Contract Services Division now represents 83% (1998:76%) of Group turnover and 63% (1998:51%) of Group profit, Executive Search & Selection 15% (1998:22%) of turnover and 31% (1998:44%) of profit and IT File Search 2% (1998:2%) of turnover and 6% (1998:5%) of profits.

ORGANIC GROWTH & ACQUISITIONS

The Group achieved total growth in operating profit adjusted for amortisation of goodwill and flotation costs of 74%, of which 52% was achieved by organic growth and a further 22% growth was achieved from acquisitions made during the year.

EUROPE

During the period under review we have made significant progress in achieving our objective of increasing profits from mainland Europe. In the year ended 31st January 1999 mainland Europe accounted for 23% of adjusted profits compared to 11% in the previous year.

PROFITS

The Group achieved a statutory operating profit of £9m an increase of 76% on last year's £5.1m. Excluding this year's amortisation of goodwill of £0.5m and last year's flotation costs of £0.3m, the Group made an adjusted operating profit of £9.6m, an increase of 76% on last year's £5.4m.

Profit before taxation and adjusted for amortisation and flotation costs was £9.3m an increase of 69% on last year's £5.5m. The Group incurred a net interest charge of £0.1m in 1999 compared to a net interest receipt of £0.1m in 1998.

EARNINGS PER SHARE

Earnings per share, adjusted for goodwill amortisation and flotation costs have increased by 61% to 22.66p (1998: 14.07p). Earnings per share were 20.89p (1998: 13.23p)

TAXATION

The effective rate of tax for the Group is 34.6%, based upon profit before tax excluding amortisation of goodwill,

compared to 33.5% in 1998. This higher than expected rate is mainly due to increased profits from mainland Europe and some unrelieved losses due to the start up situation of two European offices. Subject to further growth in the proportion of profit outside of the UK this tax rate should be lower next year as tax losses are utilised.

DIVIDEND

The Group paid an interim dividend of 1.8p per share amounting to £483,000 and a final dividend of 3.6p per share amounting to £965,000 is proposed. After these payments have been taken into account the retained statutory profit for the year transferred to reserves was £4.1m (1998: £1.9m).

BALANCE SHEET AND CASH FLOW

The Group's balance sheet has been prepared in accordance with FRS10 and goodwill arising on acquisition has been capitalised. The Directors have considered each acquisition separately and have attributed a 20 year life to each one. Goodwill has been amortised through the profit and loss account accordingly.

The total cost of acquisitions made during the year was £15.5m, including £1.3m fair value of net assets acquired and, therefore, goodwill amounted to £14.2m. This goodwill has been retranslated to £14.6m, reflecting the 31st January 1999 rate of exchange and after deducting £0.5m amortisation, the net amount of £14.1m has been included as an intangible asset in the balance sheet. The Group has financed these acquisitions from internal cash resources, the establishment of a £9m revolving credit facility and the issue of 312,028 shares at a value of £1.3m.

Debtors have increased significantly to £22.0m (1998: £11.8m), but this is in line with the increase in turnover and short term creditors have increased by a similar amount. The effect of the increased working capital requirement and, more significantly, the cost of acquisitions, has turned the Group's positive net cash position of £3.5m at 31st January 1998 into a net debt position of £6.4m. Assuming this level of debt was to continue throughout the forthcoming year, interest is covered 20 times by historic operating profit.

Our focus on controlling working capital has delivered a healthy net cashflow of £6.3m, 69% of operating profit. This has been achieved during a period of significant growth in IT Contract Services revenue.

During the year the Group has completed significant investment in its IT infrastructure and this accounted for the majority of the £1.1m capital expenditure (1998: £0.5m). Therefore, capital expenditure is expected to be lower in the current year.

BOARD OF DIRECTORS

Ian Kirkpatrick, aged 54, is non-executive Chairman. Following a career in consultancy, stockbroking and commerce, he joined Bank of Scotland and became a director in the banking division of British Linen Bank Limited, its subsidiary. He is currently non-executive director of a number of companies. He was appointed Chairman of Harvey Nash in January 1997.



Tom Crawford, aged 48, is Joint Managing Director and founder of the business, with responsibility for Group operations and the IT File Search Division.



David Higgins, aged 40, is Joint Managing Director and founder of the business, with responsibility for the Executive Search and Selection Division.



David Treacher, aged 36, is Joint Managing Director and founder of the business, with responsibility for the IT Contract Services Division.



Ian Furniss, aged 37, is Group Finance Director. Appointed in February 1997. He was previously Finance Director of Hays Personnel Services.



Brian Berg, aged 51, is a non-executive Director. He is currently managing partner of Berg Kaprow Lewis, Chartered Accountants. He was appointed a non-executive Director of Harvey Nash in February 1997.

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS	Ian Kirkpatrick, BSc, MBA Thomas Francis Alexander Crawford David Charles Higgins, BSc David Hedley Treacher, BSc Ian William Furniss, BSc, ACA Brian Berg, BSc, FCA	Non-Executive Chairman Joint Managing Director Joint Managing Director Joint Managing Director Group Finance Director Non-Executive Director
SECRETARY	Ian William Furniss, BSc, ACA	
REGISTERED OFFICE	13 Bruton Street, London W1X 7AH	
REGISTERED NUMBER	9920790	
FINANCIAL ADVISERS	Hawkpoint Partners Limited 4 Great St Helens London EC3A 6HA	
STOCKBROKERS	Cazenove & Co 12 Tokenhouse Yard London EC2R 7AN	
AUDITORS	PricewaterhouseCoopers Chartered Accountants No 1 Embankment Place London WC2N 6NN	
SOLICITORS	Travers Smith Braithwaite 10 Snow Hill London EC1A 2AL	
PRINCIPAL BANKERS	National Westminster Bank Plc PO Box 4RY 250 Regent Street London W1A 4RY	
REGISTRARS	Lloyds Bank Registrars The Causeway Worthing West Sussex BN99 6DA	

DIRECTORS' REPORT

Year ended 31 January 1999

The Directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 January 1999.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND DIVIDENDS

The Group's profit before tax for the financial period was £8.9m. An interim dividend of 1.8p per ordinary share was paid on 23 November 1998. A final dividend of 3.6p per ordinary share amounting to £1.0m is proposed and, if approved, will be paid on 26 May 1999. Following the payment of the final dividend, the retained profit for the period of £4.1m will be transferred to reserves.

SHARE CAPITAL

The Company was formed on 13 February 1997 and became the Group holding company for Harvey Nash plc and related Companies on 12 March 1997, at which point the entire share capital of Harvey Nash plc was transferred to Harvey Nash Group plc for no consideration. On 3 April 1997 the Company's shares were admitted to the Official List of the London Stock Exchange.

On 13 February 1998 the Company issued 134,797 new ordinary shares in relation to the purchase of Interim Management in Information Technology Limited and related companies and these shares were admitted to the Stock Exchange Official List. On 16 June 1998 the Company issued 177,231 new ordinary shares in relation to the purchase of European Experts NV and these shares were admitted to the Stock Exchange Official List.

These two issues have increased the number of shares in issue to 28,188,624 ordinary shares with a nominal value of £1,409,431.20.

DIRECTORS AND THEIR INTERESTS

The Directors who held office during the period

and at the date of this report are shown on page 13.

In accordance with the Company's Articles of Association, Ian Furniss and David Higgins retire by rotation and, being eligible, offer themselves for reappointment. 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. Their beneficial interests in the ordinary share capital of the Company during the financial period were as follows:

	31 January 1999	31 January 1998
I Kirkpatrick	3,000	3,000
TFA Crawford	4,953,018	4,953,018
DC Higgins	5,850,300	5,850,300
DH Treacher	5,679,050	5,679,050
IW Furniss	5,714	5,714
B Berg	5,714	5,714

There has been no change to Directors' interests between 31 January 1999 and the date of this report.

DISABLED PERSONS

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

EMPLOYEE INVOLVEMENT

Consultation with employees is of considerable importance to the Group. The views of employees are taken into account when decisions are made which are likely to affect their interests and all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees is made through conferences, announcements and 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 7 days (1998: 7 days) of receipt of their invoice. Other trade creditor days of the Group for the period ended 31 January 1999 were 25 days (1998: 22 days), based on the ratio of other trade creditors at the period end to the amounts invoiced during the period by other trade creditors.

SUBSTANTIAL SHAREHOLDINGS

On 8 April 1999 the Company had been notified that, in addition to holdings in which the Directors are beneficially interested, there were holdings of 3% or more in the ordinary share capital of the Company as follows:

	Number of shares	% of Total
Norwich Union	1,420,000	5.0%
Harvey Nash Group EBT Limited	1,382,857	4.9%
Cleveley Investments Limited	1,487,500	5.3%
Cavendish Limited	1,787,500	6.3%
Turtle Holdings Limited	1,787,500	6.3%

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

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

EMPLOYEE SHARE SCHEMES

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

PENSIONS

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

POLITICAL AND CHARITABLE DONATIONS

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

YEAR 2000

The Group has carried out a survey of all its computer systems to assess the impact of the year 2000 issue. The vast majority of the Group's hardware are PC's that have been purchased within the last two years and suppliers have confirmed that this hardware is year 2000 compliant. All software is supplied by market leading vendors and upgrades have been or will be supplied to ensure year 2000 compliance. Critical systems will be tested for compliance as appropriate throughout the remainder of the year. All costs to date have been incurred within the normal IT upgrade budget. We do not anticipate any material incremental costs as a result of the Group becoming year 2000 compliant.

THE EURO

The Group operates in three countries where the Euro has been introduced from 1st January 1999, and our UK business supplies those European countries. The Group's accounting systems are capable of accounting for Euros and banking arrangements are in place to cope with both the Euro and local currencies.

DIRECTORS' REPORT

Year ended 31 January 1999 (continued)

APPOINTMENT OF AUDITORS

Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors of the company in favour of the new firm, PricewaterhouseCoopers and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Special notice has been received in accordance with sections 379 and 388(3) Companies Act 1985 of a resolution that PricewaterhouseCoopers be appointed as auditors of the Company and this will be proposed at the Annual General Meeting.

On behalf of the Board

Ian Furniss

Company Secretary

16 April 1999

The Company 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 16 April 1999 the Board of Directors comprised four Executive and two 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) and Brian Berg, both of whom are Non-Executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee meets at least twice a year. The members of the Committee are Ian Kirkpatrick (Chairman) and Brian Berg, both of whom are Non-Executive Directors. The Committee has been established with written terms of reference approved by the Board.

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

The Remuneration Report is included on pages 19 to 22.

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.

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 FINANCIAL CONTROL

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

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

The Directors believe the following to be the key procedures established to provide 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.

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

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 recognise a senior Non-Executive member of the Board in addition to the Company's existing independent Non-Executive Chairman.

Code Provision A3

The Company has had two Non-Executive Directors, Ian Kirkpatrick and Brian Berg, throughout the year and in the period to 16 April 1999. In view of his previous role as the Company's auditor, Brian Berg is not considered to be an independent director. It is the Board's intention to appoint an independent third Non-Executive Director in the near future.

Code Provision A5.1

The Board has given careful consideration to the establishment of a nomination committee but does not consider this appropriate given the current size of the Board.

Code Provision D2.2

The Board has decided not to establish an internal audit function at this time but is conscious of the need for objective review of its internal control systems. The Board has conducted a review as set out above.

GOING CONCERN

After having made appropriate enquiries including a review of the 1999/2000 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.

Ian Furniss

Company Secretary

16 April 1999

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

The Company has complied throughout the period ended 31 January 1999 with the provisions of Section 1 of the new Combined Code published by the Committee on Corporate Governance in June 1998, appended to the Listing Rules of the Stock Exchange.

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

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

Salary

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

Annual bonus

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

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

Share options

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

Pensions

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

Contracts of service

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

REMUNERATION REPORT

(continued)

DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 JANUARY 1999

	⁽¹⁾ Salary £	Pension £	Bonus £	Fees £	Total £
DH Treacher	113,500	10,450	52,250	–	176,200
DC Higgins	113,500	10,450	52,250	–	176,200
TFA Crawford	113,500	10,450	52,250	–	176,200
IW Furniss	108,000	9,900	49,500	–	167,400
B Berg	–	–	–	15,000	15,000
I Kirkpatrick	–	–	–	35,000	35,000
	448,500	41,250	206,250	50,000	746,000

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

DIRECTORS' REMUNERATION PROFORMA PRIOR YEAR FOR THE YEAR ENDED 31 JANUARY 1998

	⁽¹⁾ Salary £	Pension £	Bonus £	Fees £	Total £
DH Treacher	104,000	9,500	47,500	–	161,000
DC Higgins	104,000	9,500	47,500	–	161,000
TFA Crawford	104,000	9,500	47,500	–	161,000
IW Furniss	99,000	9,000	45,000	–	153,000
B Berg	–	–	–	15,000	15,000
I Kirkpatrick	–	–	–	45,000	45,000
	411,000	37,500	187,500	60,000	696,000

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

DIRECTORS' INTERESTS

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

	Ordinary Shares	At 31 January 1999 Options			Exercise Price £
		HNOS	PRS	SS	
DH Treacher	5,679,050	—	—	12,321	1.40
DC Higgins	5,850,300	—	—	12,321	1.40
TFA Crawford	4,953,018	—	—	12,321	1.40
IW Furniss	5,714	285,714	—	—	Nil
	—	—	16,348	—	—
	—	—	40,000	—	4.225
	—	—	23,668	12,321	1.40
B Berg	5,714	—	—	—	—
I Kirkpatrick	3,000	—	—	—	—

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

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 1999, the interest was in a total of 1,448,025 ordinary shares.

Prior to the flotation of the Group in April 1997, Ian Furniss received options over 285,714 shares, exercisable from 25 March 2000 onwards at nil cost. These shares as at 31 January 1999 had a market value of £864,285. Further details are included below.

Options to subscribe for ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the period ended 31 January 1999 are included in the table below:

	HNOS	Granted PRS	SS	HNOS	Lapsed PRS	SS	HNOS	Exercised PRS	SS	Price per option £	Date of exercise
IW Furniss	—	23,668	—	—	—	—	—	—	—	4.225	11/5/2001

The market price of an ordinary share at 31 January 1999 was 302.5p and the range during the year was 189p to 455p.

SHARE OPTION SCHEMES

The Harvey Nash Option Scheme

The Harvey Nash Option Scheme holds 1,382,857 ordinary shares. Options to acquire these shares were granted by the trustees of the Harvey Nash Group plc Employment Benefit Trust Limited ("EBT") 1997 to certain employees of the Company, including one Executive Director, IW Furniss, on 25 March 1997, prior to flotation. The trust holds 1,382,857 shares in the Company which were gifted to the trust by TFA Crawford, DC Higgins and DH Treacher. These options may be exercised at £nil between 25 March 2000 and 25 September 2001. Shares held by the EBT and options granted on these shares are shown at £nil value in the Group accounts since those shares were gifted for nil consideration by the Directors of Harvey Nash Group plc from shares held by the Directors. 1,382,857 shares are held by the EBT, at a nominal value (£0.05p per share) of £69,143.

REMUNERATION REPORT

(continued)

The Performance Related Scheme

The Performance Related Scheme is administered by the Board under the supervision of the Remuneration Committee. The scheme is open to all full time employees except those who have had a material interest in the Group within the previous twelve months. 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.

Date of grant	Approved options	Unapproved options	Exercise price	Lapsed	31 January 1999
8 April 1997	217,992	—	1.835	43,600	174,392
8 April 1997	—	187,778	1.75	—	187,778
11 May 1998	164,470	—	4.225	33,129	131,341
11 May 1998	—	97,037	4.225	10,651	86,386
31 July 1998	17,266	68,843	3.475	57,333	28,776
	399,728	353,658		144,713	608,673

The 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. No further options have been granted but options over 103,964 shares have been cancelled as the relevant employees left the Company.

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

The Harvey Nash Long Term Incentive Plan

The Harvey Nash Long Term Incentive Plan (LTIP) was established during the year following shareholder approval at the Annual General Meeting on 20 May 1998. Under the LTIP, options will be granted to 15 employees shortly after the announcement of the Group's results on 19 April 1999. Employees who are invited to participate in the Plan must normally agree at the beginning of the relevant financial year whether they wish to defer 0%, 15% or 25% of any annual bonus which may be paid in respect of that financial year, through the grant of a Deferred Award. The Company will then procure the grant of an Incentive Award over twice the number of shares acquired with the deferred annual bonus. The size of awards will be calculated by reference to the Company's average share price over the six months preceding the date of any award. The maximum value of an Incentive Award (calculated by reference to the value of shares as described above) which an executive may receive in any year may not exceed £75,000 (subject to adjustment to take into account earnings inflation). The Board may also make an Incentive Award which is not linked to investment by participants if it considers that the circumstances are sufficiently exceptional. Exercise of the options will be conditional on the Group achieving earnings per share growth of at least 3% per annum, in excess of inflation and options may be exercised over a five or seven year period. All applicable costs of potential awards relating to employee incentivisation for the year ended 31 January 1999 have been accrued at the year end.

On behalf of The Board.

Ian Kirkpatrick

16 April 1999

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

AUDITORS' REPORT

To the Shareholders of Harvey Nash Group plc

We have audited the financial statements on pages 25 to 46 which have been prepared under the historical cost convention and the accounting policies set out on pages 29 to 31 and information set out in the details on pages 19 to 22 within the Remuneration Report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including as described on page 23 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 17 to 18 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's and Group's affairs as at 31 January 1999 and of the profit and cash flow for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

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

16 April 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 January 1999

	Notes	1999 £'000	⁽¹⁾ Proforma 1998 £'000	⁽¹⁾ Statutory 1998 £'000
Turnover				
Continuing operations – acquisitions	2&3	94,303	55,796	51,138
Acquisitions		10,548	—	—
		104,851	55,796	51,138
Cost of sales		(81,538)	(41,920)	(38,427)
Gross Profit		23,313	13,876	12,711
Administrative expenses		(13,750)	(8,778)	(8,048)
Operating Profit before amortisation of capitalised goodwill, flotation costs and associate				
		9,563	5,420	4,985
Amortisation		(475)	—	—
Flotation costs		—	(322)	(322)
Associate		(84)	20	24
Operating Profit				
Continuing operations		8,338	5,098	4,663
Acquisitions		750	—	—
Share of operating (loss)/profit of associated undertaking		(84)	20	24
Total Operating Profit:				
Group and Share of Associates	3&4	9,004	5,118	4,687
Net interest (payable)/receivable and similar (charges)/income	6	(135)	87	97
Profit on ordinary activities before taxation		8,869	5,205	4,784
Taxation on profit on ordinary activities	7	(3,237)	(1,740)	(1,604)
Profit on ordinary activities after taxation		5,632	3,465	3,180
Equity minority interest		(48)	—	—
Profit for the financial period		5,584	3,465	3,180
Dividends	8	(1,448)	(1,232)	(1,232)
Retained profit for the financial year		4,136	2,233	1,948
Earnings per share	10	20.89p	13.23p	12.14p
Diluted earnings per share	10	19.29p	12.33p	11.32p
Adjusted earnings per share	10	22.66p	14.07p	12.98p

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

CONSOLIDATED AND COMPANY BALANCE SHEETS

as at 31 January 1999

	Notes	Group 31 January 1999 £'000	Group 31 January 1998 £'000	^(a) Company 31 January 1999 £'000	^(a) Company 31 January 1998 £'000
Fixed assets					
Intangible fixed assets	11	14,107	—	—	—
Tangible fixed assets	12	1,874	1,214	—	—
Investments	13	—	40	24,094	20,000
		15,981	1,254	24,094	20,000
Current assets					
Debtors	15	22,042	11,787	3,928	4,723
Cash at bank		1,645	4,029	—	—
		23,687	15,816	3,928	4,723
Creditors due within one year	16	(18,402)	(9,723)	(2,830)	(1,026)
Net current assets		5,285	6,093	1,098	3,697
Total assets less current liabilities		21,266	7,347	25,192	23,697
Creditors due after more than one year	17	(8,333)	(7)	—	—
		12,933	7,340	25,192	23,697
Capital and Reserves					
Share capital	20	1,409	1,394	1,409	1,394
Share premium account	21	3,494	2,257	3,494	2,257
Capital contribution	21	—	—	20,000	20,000
Other reserves	21	1,742	1,742	—	—
Profit and loss account	21	6,156	1,947	289	46
Equity shareholders' funds		12,801	7,340	25,192	23,697
Equity minority interests	23	132	—	—	—
		12,933	7,340	25,192	23,697

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

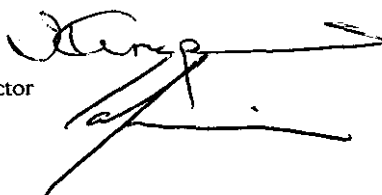
The financial statements on pages 25 to 46 were approved by the Board on 16 April 1999 and signed on its behalf by:

Ian Kirkpatrick

Chairman

Ian Furniss

Group Finance Director



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 January 1999

	Notes	1999 £'000	⁽¹⁾ Proforma 1998 £'000	⁽¹⁾ Statutory 1998 £'000
Net cash inflow/(outflow) from operating activities	24	6,315	4,307	4,128
Returns on investments and servicing of finance				
Interest received		71	128	128
Interest paid		(198)	(22)	(15)
Hire purchase interest		(8)	(19)	(16)
Net cash inflow/(outflow) from returns on investments and servicing of finance		(135)	87	97
Tax paid		(2,750)	(440)	(437)
Capital expenditure				
Purchase of tangible fixed assets		(1,114)	(537)	(493)
Sale of tangible fixed assets		26	108	108
Net cash outflow for capital expenditure		(1,088)	(429)	(385)
Acquisitions and disposals				
Purchase of subsidiary undertakings	22	(11,273)	(40)	(40)
Net cash/(overdrafts) acquired with subsidiary undertakings	22	811	(15)	(15)
Net proceeds from part sale of associated undertakings		—	42	42
Loan to associated undertaking		(57)	(37)	(37)
Net cash outflow from acquisitions and disposals		(10,519)	(50)	(50)
Equity dividends paid		(1,304)	(411)	(411)
Financing				
Net proceeds from issue of ordinary share capital		—	3,329	3,329
Long term borrowings		7,754	—	—
Repayment of pension fund loan		—	(2,027)	(2,027)
Repayment of short term borrowings		(510)	(300)	(200)
Capital element of finance lease repayments		(106)	(137)	(117)
Net cash inflow from financing		7,138	865	985
(Decrease)/increase in cash in the period	25	(2,343)	3,929	3,927

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 January 1999

	1999 £'000	Statutory 1998 £'000
Profit for the financial year	5,584	3,180
Currency translation differences on foreign currency net investments	73	(1)
Total recognised gains for the period	5,657	3,179

HISTORICAL COST PROFITS AND LOSSES

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 January 1999

	1999 £'000	Statutory 1998 £'000
Profit for the financial period	5,584	3,180
Equity dividends	(1,448)	(1,232)
Issue of share capital	15	1,394
Share premium	1,237	2,257
Goodwill on acquisition	—	(18,258)
Capital Contributions	—	20,000
Currency translation differences on foreign currency net investments	73	(1)
Net increase in equity shareholders' funds	5,461	7,340
Opening shareholders' funds	7,340	—
Closing equity shareholders' funds	12,801	7,340

NOTES TO THE ACCOUNTS

Year ended 31 January 1999

1 BASIS OF PREPARATION

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

Harvey Nash Group plc has accounted for the profits and losses arising from Harvey Nash plc within these consolidated financial statements from the date of acquisition. The prior year statutory results relate to the period 13 February 1997 to 31 January 1998.

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

Following the implementation of FRS 14 "Earnings per share", the prior year earnings per share numbers have been restated.

2 ACCOUNTING POLICIES

(a) Basis of accounting

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

(b) Acquisitions

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

(c) Associated undertakings

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

(d) Turnover

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

(e) Depreciation

Depreciation is provided on a monthly basis to write off the cost of each asset over its estimated useful life according to the following rates:

Leasehold improvements	over the term of the lease
Office equipment	20% straight line
Furniture, fixtures and equipment	20% straight line
Computer equipment	33⅓% straight line
Motor vehicles	25% reducing balance

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

2 ACCOUNTING POLICIES (continued)

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

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

The principle exchange rates affecting the Group were:

	Statutory 1999		Proforma 1998		Statutory 1998	
	31 January	Average	31 January	Average	31 January	Average
German Mark	2.8293	2.9140	2.9888	2.8648	2.9888	2.8786
Swiss Franc	2.3317	2.4046	2.4127	2.3900	2.4127	2.3924
Dutch Guilder	3.1879	3.2784	3.3679	3.3014	3.3679	3.3014
Belgian Franc	58.3546	59.1300	—	—	—	—
French Franc	9.4889	9.4215	—	—	—	—

(g) Leasing and hire purchase

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

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

(h) Pensions

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

(i) Goodwill

From 1 February 1998 goodwill arising on each acquisition is capitalised and amortised on a straight line basis over a period up to 20 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 underlying assets.

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

(j) Taxation

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

(k) Employee Share Ownership plans

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

3 ANALYSIS OF TURNOVER AND OPERATING PROFIT BY GEOGRAPHICAL AREA AND MARKET SECTOR

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Turnover			
<i>Geographical area by location of client operations</i>			
United Kingdom	79,547	46,066	42,275
Rest of Europe	25,304	9,730	8,863
	104,851	55,796	51,138
<i>Geographical area by location of Group operations</i>			
United Kingdom	93,070	54,432	49,873
Rest of Europe	11,781	1,364	1,265
	104,851	55,796	51,138
<i>Market sector</i>			
^(a) IT Contract Services	87,241	42,601	38,993
Executive Search & Selection	15,587	12,007	11,008
IT File Search	2,023	1,188	1,137
	104,851	55,796	51,138

^(a) All turnover relating to acquisitions is included within IT contract services.

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

3 ANALYSIS OF TURNOVER AND OPERATING PROFIT BY GEOGRAPHICAL AREA AND MARKET SECTOR (continued)

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Operating profit			
<i>Geographical area by location of client operations</i>			
United Kingdom	7,165	4,843	4,478
Rest of Europe	1,923	577	511
Associate	(84)	20	20
Flotation costs	—	(322)	(322)
	9,004	5,118	4,687
<i>Market sector</i>			
⁽¹⁾ IT Contract Services	5,583	2,754	2,540
Executive Search & Selection	2,906	2,366	2,144
IT File Search	599	300	305
Associate	(84)	20	20
Flotation costs	—	(322)	(322)
	9,004	5,118	4,687
	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Operating profit (before amortisation of capitalised goodwill, flotation costs, and associate)			
<i>Geographical area by location of client operations</i>			
United Kingdom	7,347	4,843	4,478
Rest of Europe	2,216	577	511
	9,563	5,420	4,989
<i>Market sector</i>			
⁽¹⁾ IT Contract Services	6,058	2,754	2,540
Executive Search & Selection	2,906	2,366	2,144
IT File Search	599	300	305
	9,563	5,420	4,989

⁽¹⁾ All operating profit relating to acquisitions is included within IT contract services.

3 ANALYSIS OF TURNOVER AND OPERATING PROFIT BY GEOGRAPHICAL AREA AND MARKET SECTOR (continued)

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Net Assets			
<i>Geographical area by location of operations</i>			
United Kingdom	10,876	7,369	7,369
Rest of Europe	2,057	(29)	(29)
	12,933	7,340	7,340

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

4 OPERATING PROFIT

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

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Deprecation of tangible fixed assets	610	388	349
Amortisation of goodwill	475	—	—
(Profit) on disposal of tangible fixed assets	(9)	(25)	(25)
Auditors' remuneration			
– audit services parent company	10	10	10
– audit services other Group companies	85	40	40
– non-audit services ⁽¹⁾	46	10	10
– flotation costs ⁽²⁾	—	183	183
Operating lease rentals			
– plant and equipment	67	26	24
– land and buildings	304	272	243
Exchange (gains)/losses on trading	(138)	135	129

⁽¹⁾ £241,154 paid to PricewaterhouseCoopers in relation to the due diligence performed on acquisitions made in the year ended 31 January 1999 has been capitalised on the balance sheet.

⁽²⁾ In addition, £152,000 paid to Price Waterhouse in the year ended 31 January 1998 in relation to the flotation has been charged to the share premium account.

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

5 EMPLOYEES

Employee costs (including Directors) were as follows:

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Wages and salaries	13,001	7,784	7,125
Social security costs	1,432	1,168	1,100
Pension costs	198	79	71
	14,631	9,031	8,296

Average staff numbers for the period were as follows:

	No.	No.	No.
Directors	4	4	4
Sales	197	114	117
Administration	72	59	61
	273	177	182

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

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Bank interest receivable	71	128	128
Bank interest payable			
Bank overdrafts	—	(22)	(15)
Bank loans	(198)	—	—
Hire purchase interest	(8)	(19)	(16)
	(206)	(41)	(31)
Net interest (payable)/receivable and similar (charges)/income	(135)	87	97

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
United Kingdom corporation tax for			
current period at 31% (1998: 32.5%)	2,725	1,698	1,564
Adjustment in respect of prior year	(6)	3	—
Overseas tax	518	32	32
Associated undertaking	—	7	8
	3,237	1,740	1,604

No provision for deferred taxation is considered necessary. The amount of unprovided deferred tax in relation to non-crystallised capital allowances is an asset of £75,185 (1997: £40,939). There is a further unprovided deferred tax asset of £59,366 which relates to overseas tax losses.

8 DIVIDENDS

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Ordinary shares			
Interim dividend paid 1.80p per share (1997: 1.55p)	483	411	411
Final dividend proposed 3.60p per share (1997: 3.10p)	965	821	821
	1,448	1,232	1,232

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

9 PROFIT ATTRIBUTED TO THE PARENT COMPANY

The profit for the year ended 31 January 1999 in the financial statements of Harvey Nash Group plc, the Company, was £1,691,015 (1997 (statutory): £1,278,000). As allowed by S230 Companies Act 1985, no profit and loss account is presented in respect of the parent company.

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

10 EARNINGS PER SHARE

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Profit after tax	5,632	3,465	3,180
Minority share of profits	(48)	—	—
Profit attributable to shareholders	5,584	3,465	3,180
Weighted average number of shares	26,734,929	26,180,636	26,180,636
Basic earnings per ordinary share	20.89p	13.23p	12.14p
Profit attributable to shareholders	5,584	3,465	3,180
Weighted average number of shares	26,734,929	26,180,636	26,180,636
Effect of dilutive securities	2,213,954	1,913,207	1,913,207
Adjusted weighted average number of shares	28,948,883	28,093,843	28,093,843
Diluted earnings per ordinary share	19.29p	12.33p	11.32p

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. The dilutive securities represent share options granted to employees where the exercise price is less than the average price of the Company's Ordinary shares during the year, and deferred consideration shares due to be issued in the next 12 months.

Profit attributable to shareholders	5,584	3,465	3,180
Flotation costs	—	322	322
Tax effect eliminated at 31% (1998: 32.5%)	—	(105)	(105)
Amortisation	475	—	—
Adjusted profit after tax	6,059	3,682	3,397
Weighted average number of shares	26,734,929	26,180,636	26,180,636
Adjusted earnings per ordinary share	22.66p	14.07p	12.98p

Adjusted earnings per share has been calculated before amortisation of goodwill in the current year and before flotation costs in the 1998 statutory period and proforma year.

11 INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At 1 February 1998	—
Additions (note 22)	14,225
Exchange movements	357
At 31 January 1999	14,582
Aggregate amortisation	
At 1 February 1998	—
Charge for the year	475
At 31 January 1999	475
Net book amount at 31 January 1999	14,107

12 TANGIBLE FIXED ASSETS

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

	Leasehold improvements £'000	Office equipment £'000	Furniture fixtures & equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost						
As at 31st January 1998	449	273	224	461	144	1,551
Acquisitions	65	7	21	70	—	163
Additions	13	71	307	722	1	1,114
Disposals	—	—	—	(3)	(40)	(43)
Exchange movements	—	—	5	15	—	20
At 31 January 1999	527	351	557	1,265	105	2,805
Depreciation						
As at 31st January 1998	32	74	46	153	32	337
Charge for the period	12	86	152	333	27	610
Disposals	—	—	—	—	(26)	(26)
Exchange movements	—	—	2	8	—	10
At 31 January 1999	44	160	200	494	33	931
Net book value						
At 31 January 1999	483	191	357	771	72	1,874
At 31 January 1998	417	199	178	308	112	1,214

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

12 TANGIBLE FIXED ASSETS (continued)**ASSETS HELD UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS (included above)**

	Leasehold improvements £'000	Office equipment £'000	Furniture fixtures & equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost at 31 January 1999	—	—	37	28	41	106
Accumulated depreciation at 31 January 1999	—	—	22	11	25	58
Net book value at 31 January 1999	—	—	15	17	16	48
Cost at 31 January 1998	—	—	65	43	70	178
Accumulated depreciation at 31 January 1998	—	—	20	43	16	79
Net book value at 31 January 1998	—	—	45	—	54	99

13 INVESTMENTS

	Group 31 January 1999 £'000	Group 31 January 1998 £'000	Company 31 January 1999 £'000	Company 31 January 1998 £'000
Investment in subsidiary undertakings	—	—	20,000	20,000
Investment in associated undertakings	—	40	—	—
	—	40	20,000	20,000

The Group share of associate net liabilities is shown under creditors falling due after a year. The Group has loans receivable from the associate totalling £94,500 (1997: £37,500). The Directors have reviewed the financial projections for the associate for the following 2 years and consider the loan to be fully recoverable.

Subsidiary undertakings

The details of the subsidiary companies existing at 31 January 1999 are as follows:

Name of Company	Country of incorporation and operation	Principal activity
Harvey Nash Plc	England	Recruitment consultancy
Mortimer Spinks Limited	England	Recruitment consultancy
Vertis Consulting Limited	England	Recruitment consultancy
Harvey Nash AG	Switzerland	Recruitment consultancy
Harvey Nash BV	The Netherlands	Recruitment consultancy
Interim Management Information Technology Limited	England	Recruitment consultancy
Churchill Fry Limited	England	Recruitment consultancy
Telecommunications Executive Management Limited	England	Recruitment consultancy
Inston Services BV and subsidiaries	The Netherlands	Recruitment consultancy and holding company
European Experts NV	Belgium	Recruitment consultancy
Harvey Nash SA	France	Recruitment consultancy
Harvey Nash GmbH	Germany	IT project services
Harvey Nash Group EBT Limited	England	Trustee of HNG Employee Benefit Trust 1997
Harvey Nash NV	Belgium	Holding company

13 INVESTMENTS (continued)

The Company owns directly or indirectly 100% of the ordinary share capital and voting rights of all companies, except European Experts NV, where 90% of the ordinary share capital and voting rights are owned.

14 ASSOCIATES

At 31 January 1999 Harvey Nash owned a 23.23% share of Internet Appointments Limited, a company which supplies Internet products to the recruitment industry.

	Value £'000
Share of net assets at 1 February 1998	40
Share of associate's loss in the year	(84)
Share of net liabilities at 31 January 1999	(44)

The calculation of the Group's share of profits is derived from the audited financial statements of Internet Appointments Limited for the year ended 31 August 1998 together with monthly management accounts prepared to 31 January 1999.

During the period, the Group purchased £145,977 worth of services from Internet Appointments Limited on an arms length basis.

The latest audited financial statements for Internet Appointments Limited were prepared to 31 August 1998. At that date the capital and reserves of the company were £51,804 (1997: £65,659). The retained losses as at 31 January 1999 and 31 January 1998 were estimated from management accounts to be £378,515 and £17,211 respectively.

15 DEBTORS

	Group 31 January 1999 £'000	Group 31 January 1998 £'000	Company 31 January 1999 £'000	Company 31 January 1998 £'000
Trade debtors	19,992	10,689	—	—
Loan to associate	95	37	—	—
Amounts owed by subsidiary undertakings	—	—	3,929	4,415
ACT recoverable	—	308	—	308
Other debtors	149	50	—	—
Prepayments and accrued income	1,806	703	—	—
	22,042	11,787	3,929	4,723

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 January 1999 £'000	Group 31 January 1998 £'000	Company 31 January 1999 £'000	Company 31 January 1998 £'000
Bank overdraft	43	141	—	—
Bank loans – secured	1,000	—	—	—
Unsecured interest free loan	—	264	—	—
Obligations under finance lease and hire purchase contracts	28	99	—	—
Trade creditors	5,329	2,779	—	—
Corporation tax	2,474	1,721	65	—
ACT payable	—	205	—	205
Other taxes and social security	2,076	1,213	—	—
Deferred consideration	—	—	1,800	—
Accruals and deferred income	6,471	2,469	—	—
Other creditors	16	11	—	—
Proposed dividend	965	821	965	821
	18,402	9,723	2,830	1,026

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

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 31 January 1999 £'000	Group 31 January 1998 £'000	Company 31 January 1999 £'000	Company 31 January 1998 £'000
Bank loans – secured	7,000	—	—	—
Deferred consideration	1,266	—	—	—
Share of associate's net liabilities	44	—	—	—
Obligations under finance leases and hire purchase contracts	23	7	—	—
Bank loans – secured	7,000	—	—	—
	8,333	7	—	—

The bank loan is a revolving credit facility to a maximum limit of £8m, which can be drawn down in Dutch Guilders and Belgian Francs and bears interest charged at 1.125% over LIBOR. The loans are secured on the share capital of Inston Services BV and European Experts NV and are repayable in instalments to 31 January 2002.

18 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	Group 31 January 1999 £'000	Group 31 January 1998 £'000
Repayable within one year	32	107
Repayable between one and five years	26	8
Total gross payments	58	115
Less finance charges and interest allocated to future periods	(7)	(9)
	51	106
Due within one year	28	99
Due after more than one year	23	7
	51	106

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 1999 £'000	Group 31 January 1998 £'000
Land and buildings		
Leases expiring within one year	—	—
Leases expiring between one and five years	414	304
Leases expiring in more than five years	43	—
	457	304
Other operating leases		
Leases expiring within one year	48	—
Leases expiring between one and five years	362	67
Leases expiring in more than five years	—	—
	410	67

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

20 SHARE CAPITAL

	Group 31 January 1999 £'000	Group 31 January 1998 £'000	Company 31 January 1998 £'000	Company 31 January 1998 £'000
Authorised				
40,000,000 ordinary shares of 5p each	2,000	2,000	2,000	2,000
Allotted and fully paid				
28,188,624 ordinary shares of 5p each (1997: 27,876,596)	1,409	1,394	1,409	1,394

21 RESERVES

Group	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
1 February 1998	2,257	1,742	1,947
Premium on shares issued	1,237	—	—
Retained profits for the year	—	—	4,136
Exchange gain	—	—	73
31 January 1999	3,494	1,742	6,156
Company	Share premium account £'000	Capital contribution £'000	Profit and loss account £'000
1 February 1998	2,257	20,000	46
Premium on shares issued	1,237	—	—
Retained profits for the year	—	—	241
31 January 1999	3,494	20,000	289

22 ACQUISITIONS

IMIT

On 12 February 1998 the Group acquired 100% of the share capital of three companies (Interim Management Information Technology Ltd, Churchill Fry Ltd, Telecommunications Executive Management Ltd) constituting the IMIT Group for an initial consideration of £1.7m with £0.1m costs and a maximum total consideration of up to £5.0m dependent on the profits achieved by the business in the year to 31 March 1999.

IMIT provides interim management consultancy services to the IT and telecommunications markets. The initial consideration was satisfied by the payment of £1.2m in cash and by the issue of 134,797 new Harvey Nash Group Plc ordinary shares to the vendors. Deferred consideration of £0.5m in cash was paid on 31 December 1998 and for the purposes of calculating the value of the investment and the goodwill, assumed further deferred consideration of £1.8m will be payable in cash and shares, in equal proportions on 30 May 1999.

22 ACQUISITIONS (continued)

European Experts

On 12 June 1998 the Group acquired 90% of the share capital of European Experts NV, an IT contracts business based in Belgium. The total consideration of BFr396m (£6.5m) with BFr20m (£0.3m) costs was payable in two parts. The first part, paid at completion, was made up of 141,785 Harvey Nash shares and BFr282m in cash. The second part was paid on 31 August 1998 and was made up of BFr70m in cash and 35,446 Harvey Nash shares.

The remaining 10% of the share capital of European Experts NV will be purchased on 30 June 2001 for a maximum consideration of BFr126m dependent on profits achieved by the business. In arriving at the goodwill on acquisition, 90% of the anticipated total consideration has been utilised. This amounts to BFr469.8m before costs.

Inston

On 25 September 1998 the Group acquired 100% of the share capital of the Inston Group (Inston Services BV and five subsidiaries) for a cash consideration of NLG10.5 (£3.3m) and costs of NLG0.7m (£0.2m). The Inston Group provides permanent and freelance IT professionals on a time and materials basis to clients located in the Netherlands.

Book value and fair value of net assets acquired:

	IMIT Group 12 February 1998 £'000	European Experts 12 June 1998 £'000	Inston Group BV 25 September 1998 £'000
Fixed assets	9	71	135
Debtors	560	924	1,305
Cash	98	656	57
Creditors	(335)	(924)	(959)
Loans and finance leases	(202)	—	(95)
	130	727	443
<i>Value of consideration and capitalised costs</i>			
Cash	1,627	6,150	3,496
Shares	528	724	—
Deferred consideration	1,800	1,200	—
	3,955	8,074	3,496
Goodwill	3,825	7,347	3,053
Period of amortisation	20 years	20 years	20 years

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

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

In arriving at the period of amortisation the Directors have estimated for each individual acquisition the length of time over which the value of the business acquired are expected to exceed the value of the underlying assets, taking into account market price and current and future anticipated trading.

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

22 ACQUISITIONS (continued)

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

	IMIT Group 1 April 1997– 11 February 1998 £'000	European Experts 1 July 1997– 11 June 1998 £'000	Inston Group BV 1 January 1998– 24 September 1998 £'000
Turnover	2,582	6,165	4,038
Operating profit	222	1,114	299
Profit before taxation	205	1,116	96
Taxation	—	2	34
Profit after taxation	205	1,114	62
	IMIT Group 31 March 1997 £'000	European Experts 30 June 1997 £'000	Inston Group BV 31 December 1997 £'000
Profit after tax	86	332	60

23 ANALYSIS OF MINORITY INTEREST

	Equity £'000
Balance at acquisition of European Experts on 12 June 1998	81
Minority interest in profit on ordinary activities after tax	48
Exchange movements	3
Balance at 31 January 1999	132

24 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Operating profit before associate	9,088	5,098	4,663
Depreciation	610	388	349
Amortisation	475	—	—
(Profit) on disposal of fixed assets	(9)	(25)	(25)
Profit on partial sale of associate	—	(40)	(40)
(Increase) in debtors	(7,472)	(3,613)	(3,333)
Increase in creditors	3,623	2,177	2,192
Flotation costs	—	322	322
Net cash inflow from operating activities	6,315	4,307	4,128

24 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW (continued)

From the date of acquisition to 31 January 1999, the acquisitions contributed £290,000 to the group's net operating cash flows, paid £775,000 in respect of taxation, utilised £429,000 for capital expenditure and repaid £246,000 of short term borrowings.

25 RECONCILIATION TO NET DEBT

	1999 £'000	Statutory 1998 £'000
(Decrease)/increase in cash during the year	(2,343)	3,927
(Increase)/decrease in debt and lease finance	(7,138)	2,344
	9,481	6,271
Loans and finance leases acquired	(297)	(2,714)
Foreign exchange	(189)	(39)
(Increase)/decrease in debt during the year	(9,967)	3,518
Net debt at beginning of period	3,518	—
Net debt at end of period	(6,449)	3,518
Net cash	1,602	3,888
Borrowings	(8,051)	(370)
	(6,449)	3,518

	1 February 1998 £'000	Cash flow £'000	Acquisitions £'000	Non cash movements £'000	Foreign exchange £'000	31 January 1999 £'000
Cash	4,029	(2,440)	—	—	57	1,646
Overdraft	(141)	97	—	—	—	(44)
	3,888	(2,343)	—	—	57	1,602
Debt due within one year	(264)	510	(246)	(1,000)	—	(1,000)
Debt due after one year	—	(7,754)	—	1,000	(246)	(7,000)
Finance leases	(106)	106	(51)	—	—	(51)
	(370)	(7,138)	(297)	—	(246)	(8,051)
Total	3,518	(9,481)	(297)	—	(189)	(6,449)

NOTES TO THE ACCOUNTS

Year ended 31 January 1999 (continued)

26 DIRECTORS

	1999 £'000	Proforma 1998 £'000	Statutory 1998 £'000
Total emoluments of the Directors			
Fees	50	60	58
Basic salaries, allowances and taxable benefits	449	411	398
Bonuses	206	188	181
Pension contributions	41	37	36
Total emoluments	746	696	673
 Emoluments of Chairman	 35	 45	 44
Emoluments of highest paid Director (including pension contributions)	176	161	156

Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Remuneration Report on pages 19 to 22.

27 PENSIONS

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

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

The retirement scheme is provided on a defined contribution basis. The contributions in the period were £41,250 (1997: £36,238).

The Group Personal Pension Plan (the "Plan") is a defined contribution scheme provided by National Provident Institution and Legal and General. The Company's normal policy is to invite employees to join the Plan automatically on completion of three years' qualifying service, although senior employees may be invited to join earlier at the discretion of the Directors. The Company contributes five per cent and the employee contributes three per cent. of the employee's basic earnings (excluding bonuses) to the Plan. There is one member in respect of whom only the Company makes contributions. As at January 1999, there were 43 members (Prior Year: 27) of the Plan. The Company's total contribution to the Plan for the period to 31 January 1999 was £58,705 (1997: £23,570).

28 RELATED PARTY TRANSACTIONS

During the period to 31 January 1999 the Group paid £7,700 (1998: £35,412) for accountancy services to Berg Kaprow Lewis, a partnership of which Brian Berg (Non-Executive Director) is an equity partner.

HARVEY NASH GROUP PLC PROXY FORM

1999 ANNUAL GENERAL MEETING

I/We, being (a) member of Harvey Nash Group plc, hereby appoint

or, failing him/her the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf, as indicated below, at the Annual General Meeting of the company to be held on Wednesday, 19 May 1999 and at any adjournment thereof.

ORDINARY BUSINESS

Ordinary Resolutions

	For	Against
1 To receive and adopt the 1999 Accounts	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a final dividend of 3.6p per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Ian Furniss as a director	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect David Higgins as a director	<input type="checkbox"/>	<input type="checkbox"/>
5 To appoint PricewaterhouseCoopers as auditors of the company	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 1999

Signature

Name and Address

(in block letters)

Notes

1. Please indicate with a 'X' in the appropriate space how you wish your votes to be cast. Unless otherwise instructed your proxy will vote or abstain as he/she thinks fit.
2. To be valid, this proxy card must be deposited at Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA, together with the power of attorney or other authority (if any) under which it is signed or the notarially certified copy of such power or authority, not later than 48 hours before the time fixed for the meeting.
3. In the case of a corporation, this proxy must be under the corporation's common seal or under the hand of a duly authorised officer, attorney or other person authorised to sign the same.
4. In the case of joint holders, the vote of the senior, according to the order of name on the Register of Members, who tenders a vote will be accepted to the exclusion of the votes of the other joint holders.
5. A proxy need not be a member of the company but must attend the meeting in person.
6. Any alteration to this form should be initialled.

FOLD 3

BUSINESS REPLY SERVICE
Licence No. BR 3006

1



FOLD 1

LLOYDS BANK REGISTRARS
THE CAUSEWAY
WORTHING
WEST SUSSEX
BN99 6DB

FOLD 2

FOLD 4

TUCK IN

HARVEY NASH GROUP PLC

NOTICE is hereby given that the Annual General Meeting of the Company will be held at Hawkpoint Partners Limited, 4 Great St Helens, London EC3A 6HA, on 19 May 1999 at 10.00am for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY BUSINESS

Ordinary Resolutions

1. To receive and adopt the financial statements of the Company for the year ended 31 January 1999 together with the reports of the Directors and Auditors.
2. To declare a final dividend of 3.6p per ordinary share.
3. To re-elect Ian Furniss who retires as a Director by rotation.
4. To re-elect David Higgins who retires as a Director by rotation.
5. To appoint PricewaterhouseCoopers as Auditors for the ensuing year and to authorise the Directors to determine their remuneration.

By Order of the Board

Ian William Furniss
Secretary

16 April 1999

Registered Office:
13 Bruton Street
London W1X 7AH

Notes

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A proxy form for use at the meeting is enclosed. For it to be effective, the proxy must be completed and lodged with Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA by 10.00am on 17 May 1999. By doing so, a member will not be precluded from attending and voting in person should the member wish to do so.

Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the Annual General Meeting is 6.00pm on 17 May 1999. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 6.00pm on the day preceding the date fixed for the adjourned meeting. Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend and vote at the meeting.

In accordance with the requirements of the Companies Act 1985, the register of Directors' interests in the Company's shares and copies of Directors' service contracts will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holidays excluded) up to and including 17 May 1999 and on the day of the meeting at 10.00am at the place of meeting for 15 minutes prior to and during the meeting.