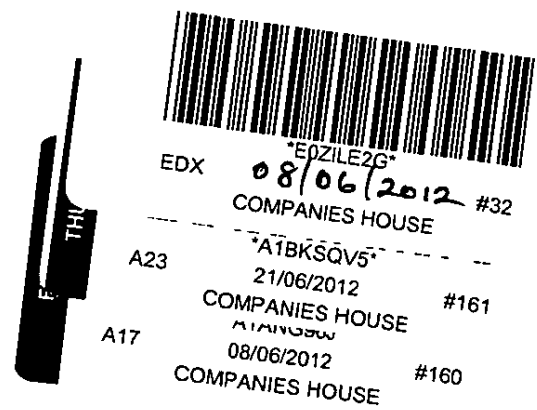


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Harvey Nash Group plc

Annual Report 2012





## **Directors, Secretary and Advisers**

### **Ian Kirkpatrick**

#### **Non-Executive Chairman**

Ian Kirkpatrick, aged 67, 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 has been a non-executive director or chairman of a number of private, publicly-quoted and public sector organisations. Ian is Chairman of Prime Estates Limited and is also a Non-Executive Director of Baronsmead VCT 4 Plc. He was appointed Chairman of Harvey Nash Group plc (Harvey Nash) in January 1997.

### **Albert Ellis**

#### **Chief Executive Officer**

Albert Ellis, aged 48, is Chief Executive Officer and was appointed to the Board in February 2000, as Group Finance Director. He was appointed as Chief Executive Officer in June 2005. He was previously a Finance Director with Hays Plc.

### **Richard Ashcroft**

#### **Group Finance Director**

Richard Ashcroft, aged 54, is Group Finance Director. He was appointed in October 2005, having previously spent 20 years in senior financial positions in a number of UK public companies, including Michael Page International Plc.

### **Simon Wassall**

#### **European Managing Director**

Simon Wassall, aged 49, was appointed to the Board in October 2005. He has been with the Group since 1994 and is responsible for the UK and European IT recruitment operations.

### **Margot Katz**

#### **Group Director of Talent**

Margot Katz, aged 60, is Group Director of Talent and was appointed to the Board on 1 May 2011. She has previous Board experience, including as the head of professional development for a leading Human Resources consultancy.

### **Tom Crawford**

#### **Non-Executive Director**

Tom Crawford, aged 61, is a Non-Executive Director and was appointed in February 2002. He was previously Joint Managing Director and founder of the business.

### **Ian Davies**

#### **Non-Executive Director**

Ian Davies, aged 57, is a Non-Executive Director and was appointed in September 2010. Ian, who was also appointed Chairman of the Audit Committee, is a former audit partner and has publicly listed Board experience. He is currently deputy Chairman of BMT Group Limited and a member of the Council at the Institute of Chartered Accountants.

### **Julie Baddeley**

#### **Non-Executive Director**

Julie Baddeley, aged 61, is a Non-Executive Director and was appointed in September 2011. Julie is also Chairman of the Remuneration Committee. She is currently a non-executive director of Chrysalis VCT plc and Greggs plc, and Chairman of Sustain Limited, a leading environmental consultancy.

**Directors**

Ian Kirkpatrick  
Albert Ellis  
Richard Ashcroft  
Simon Wassall  
Margot Katz  
Tom Crawford  
Ian Davies  
Julie Baddeley

**Secretary**

Richard Ashcroft

**Registered Office**

13 Bruton Street  
London W1J 6QA

**Registered Number**

03320790

**Stockbrokers**

Numis Securities Limited  
Cheapside House  
138 Cheapside  
London EC2V 6LH

**Solicitors**

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10 Snow Hill  
London EC1A 2AL

**Registrars**

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Aspect House  
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**Financial Advisers**

DC Advisory Partners  
60 Threadneedle Street  
London EC2R 8HP

**Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
No 1 Embankment Place  
London WC2N 6RH

**Principal Bankers**

Royal Bank of Scotland plc  
36 St Andrew Square  
Edinburgh EH2 2YB

## CHAIRMAN'S STATEMENT

I am delighted to report another excellent set of results, with organic led growth in revenues and profits across the Group, which exceeded expectations

Whilst the economic recovery continued during the first half of the year, macro-economic indicators began to turn down in the third quarter and business confidence declined in the UK and Europe as a result. In particular, demand from the financial services sector has been relatively subdued throughout most of the year

However, the Group's revenues grew 26% exceeding all previous peaks as a result of significant market share gains made during the downturn due to the success of the Group's strategy of expanding and diversifying the business, in particular focussing on high growth technology and the robust economies of northern Europe

### Financial Results

Revenue for the year ended 31 January 2012 increased by 26% to £533.0m (2011 £422.3m). Gross profit was 15% higher at £78.5m (2011 £68.5m) with operating profit up 41% at £9.0m (2011 £6.4m). Profit before tax of £8.5m was up 35% on the prior year (2011 £6.3m). Basic earnings per share were up 36% to 7.97p (2011 5.85p)

Operating cash inflow was 35% higher at £11.3m (2011 £8.4m) before funding the growth in working capital. As expected, with the significant increase in trading, the additional working capital requirement for the year ended 31 January 2012 was £6.7m, despite the reduction in debtor days. Although the Group has no long term debt, short term working capital funding of circa £40m is available on a rolling twelve month basis for its growing contracting services

Net cash at the year end was £5.2m (2011 £8.3m) due to the growth in working capital and net tangible assets increased by 22.5%

### Dividend

The Board is recommending an increased final dividend of 1.635 pence per share, 10% up on the prior year (2011 1.48p). If approved at the forthcoming Annual General Meeting, the final dividend, which would take total dividend payouts for the year to 2.66 pence per share (2011 2.42p), will be paid on 13 July 2012 to shareholders on the register as at 22 June 2012. This would take the year's total dividend to 2.66 pence per share (2011 2.42p), and marks the fifth successive annual increase

### Strategy

Total shareholder returns\* over the five years ending on the balance sheet date, 31 January 2012, compared to a comprehensive list of comparator companies revealed the Group yielded returns which were within the top quartile

This has been achieved through successfully implementing a strategy of increasing market share predominantly through organic growth, but complimented by earnings enhancing bolt on acquisitions. This is executed by implementing a unique portfolio of services in attractive growth markets in geographies across the world in high value service sectors

The Group's strategy is to expand and diversify the business through offering this broad portfolio of services in diverse client sectors too. The Group's key assets - its market leading brands, broad portfolio of services and highly experienced management team, have been crucial in maintaining and developing existing client relationships, winning additional mandates and retaining key employees. Our professional values involve placing clients at the centre of our strategy. This has resulted in an increase in the Group's client base

The Group's managed outsourcing service, including its valuable offshoring component, gives it competitive advantage and a measure of stability in times of economic uncertainty when demand for recruitment is naturally lower. This benefited the Group during the downturn and then enabled it to take significant market share as the recovery took hold, as it was able to offer recruitment services to these clients as well as managed outsourcing

The Group continues to focus on growing its market share across all its disciplines and expanding its portfolio of services geographically including Vietnam, and now in China and Australia

Tight control of costs and achieving cost efficiencies has always been at the heart of our strategy. The Group's prudent approach to expansion has served it well over the last five years. Continuing this strategy, in June 2012 we will be relocating our largest office in London and achieving significant economies of scale through flexible working practices by reducing our rental footprint and also taking advantage of the subdued rental market

\* The Total Shareholder Return is calculated by adding the dividends in the period to the capital gain/loss in the period and dividing this by the share price at the start of the period

As tighter credit markets squeeze smaller recruitment companies and limit their ability to fund working capital growth, the management team is mindful of opportunities for earnings enhancing bolt-on acquisitions, and will explore these as they arise, to augment its organic growth

### **Employees**

On behalf of the Board, I would like to thank all of the Group's employees and associates who have worked hard to exceed expectations during challenging market conditions. In particular, these excellent results could not have been achieved, without the skill and commitment of our consultants and management. The Board appreciates their loyalty and hard work

### **Board**

During the period we were pleased to make two further board appointments and also announced the retirement of Gus Moore from the Board as a Non-executive director at the Company's Annual General Meeting on the 30 June 2011

The appointment of Margot Katz, as an Executive Director responsible for Group Talent, to the Board took effect from the 1<sup>st</sup> May 2011. This was followed by the appointment with effect from 1<sup>st</sup> September 2011, of Julie Baddeley, a Non-executive director who chairs the remuneration committee and was recently appointed the Senior Independent Non Executive Director on 4 April 2012

Having overseen the appointment of two independent Non Executive Directors in the last two years and in order to allow sufficient time for an external search, I have indicated to the Board my intention to retire following the Annual General Meeting in 2013. Given the recent changes to the Board I believe this timeframe will allow an orderly transition and give the Nomination Committee time to properly consider its options for a replacement Chairman

### **Current trading and Outlook**

Results for the year ended 31 January 2012 exceeded expectations largely as a result of the Group's broad portfolio of services and significant market share gains

However, in our trading update of the 17 February 2012, expectations for the current year ending 31 January 2013 were revised when we said the ongoing economic uncertainty in the Euro zone meant that our clients continue to exercise caution in relation to hiring permanent staff and that this had impacted demand for executive recruitment in the UK, the Nordics and mainland Europe

As our clients begin to focus increasingly on the Asia Pacific region, we will invest £0.75m in new offices in 2012 in Asia Pacific to meet growing demand in the region and to supplement our existing offices in Vietnam

Whilst the softening of permanent recruitment demand experienced in the fourth quarter has resulted in lower run rates into the first quarter of the current year, this now appears to have stabilised. The outlook for freelance contracting remains encouraging with little evidence of a slowdown. As a result, the Board is pleased to report that first quarter trading is on track to deliver in line with current expectations



**Ian Kirkpatrick**  
Chairman

## **OPERATIONAL REVIEW**

### **United Kingdom and Ireland**

Revenue in the UK and Ireland increased 36% to £178.4m (2011 £131.5m) with gross profit up 8% to £30.7m (2011 £28.3m). Included in these results are revenues of £7.6m (2011 £6.1m) attributable to clients based in Asia. Operating profit was up 19% at £3.2m compared to £2.7m the previous year. These results are excellent given the challenging UK and Ireland market and the weak results reported from across the recruitment sector.

These are very encouraging results, given the challenging market in the UK and Ireland and the well-reported weakness across the recruitment sector as a whole. Once again the Group's market leading brand and focus on faster growing, new technology, niche markets have resulted in significant market share gains which have driven the increase in revenue. The UK business continues to capitalise on its strategic advantages, which were recognised in 2011 by the Orange Business Awards when Harvey Nash was made a finalist in the Mid Cap Company of the Year category.

Demand continues to be strong in the digital and media markets due to the increasing requirements for mobile application development (smartphone and tablet) and social media integration. There is continuing growth in this area as clients increase their investment in online retailing and marketing of their products and services. This market has therefore suffered from an acute skills shortage in many areas and the Group is well placed to meet demand.

In 2010 the Group consolidated its Financial Services practice in a new office in the City of London. Strategically, the Group sees continued opportunities in this sector. The industry landscape continues to change with fluctuating levels of demand and the impact of regulatory change being felt. These trends have enabled the Group to gain market share by leveraging its broad portfolio of services to meet fluctuations in demand. Permanent recruitment appears to be on the verge of growing again as institutions seek to reduce their reliance on temporary workers, thereby retaining talent, skills and intellectual property.

Our UK regional offices performed with revenues up over 20% in aggregate driven by expansion in the Midlands and the North West. Scotland reported the highest increase at 30% despite the weak overall UK economy. In Ireland, the Group continued to achieve profitable growth driven by demand from global corporations based in Dublin.

We reported in our Interim Results Statement in September 2011, that the senior executive market in particular had been affected by the weakening of the economy and the subsequent decline in business confidence in the corporate sector. Having reported a decline in the final quarter we are pleased to see slightly more confidence returning to the market, run rates are stabilising mainly due to improving demand from the Health and Education markets. Our specialist expertise and our market leadership particularly in healthcare, has continued to open up fresh opportunities in the first quarter of the current year, not only in the UK but also overseas.

Our market leading CIO (Chief Information Officer) search practice saw a significant increase in the number and value of FTSE 250 mandates this year, and we continue to gain share in a relatively weak market. Leadership of the technology and digital marketing function of an organisation is increasingly falling to the CIO, particularly in larger global organisations. During the year, over one thousand IT leaders attended Harvey Nash thought leadership events and our flagship CIO Survey, one of the largest and most comprehensive of its kind in the world, was launched in eleven countries across four continents.

Revenue from offshoring was flat throughout the year and some investment in additional headcount also led to a reduction from their peak in the prior year. However, growth in onshore managed services was strong with large organisations seeking to reduce their supplier base and achieve margin reductions. The Group's market share improved throughout the year particularly in London with increased revenues up 19%.

Tight cost control has always been at the heart of our strategy. The Group's prudent approach to expansion has served it well over the last five years. In June 2012 we will be relocating our London office to achieve significant economies of scale and take advantage of the subdued rental market in the City. The relocation will result in circa £0.8m non-recurring costs in the first half year ended 31 July 2012 with some savings flowing through into the final quarter of the year and savings over a ten year period expected to be in the region of £1.0m per annum beginning the next financial year. Capital expenditure in the first half, expected to be approximately £1.5m, will be fully funded through leasehold incentives secured over the initial term of the agreement.

### **Mainland Europe**

Revenue in Europe increased 24% to £317.8m (2011 £256.4m) and gross profit increased 23% to £38.3m (2011 £31.1m). Operating profit was 59% higher at £5.1m compared to £3.2m in the previous year.

Given the uncertainty and volatility in European markets and the delayed recovery in countries such as the Netherlands, we are pleased with this performance. Our strategy has been expansion in the stronger Northern European region, including the

Nordics, Benelux and Germany, combined with driving project growth from existing and new clients in our wireless outsourcing locations in Nuremberg and Stuttgart. During the year demand for permanent staff was strongest in the Nordic region with overall revenues increasing by 37% and professional recruitment in Sweden rising by 64%. The uncertainty in the Euro zone pushed up demand for temporary or contract staff and numbers of freelance and employed technology specialists rose 21% when compared to 31 January 2011. The demand for flexible labour does not appear to be slowing.

In Switzerland the economy has been severely affected by the rapid appreciation of the Swiss Franc. This has impacted existing clients, particularly those in the dominant Financial Services sector who, in many cases, have implemented recruitment freezes across the board in response to the economic contraction. The business had been providing managed services to key financial services clients for the last two years and the result was an increase in revenues and market share despite the weakness in the overall recruitment market. With substantial upfront investment completed in 2010, the return on this investment flowed through during 2011 and results from Switzerland have improved when compared to the prior year.

The slow macroeconomic recovery in the Netherlands has been widely reported. Actions to reduce the cost base and improve efficiency using technology and offshoring were successfully implemented as well as investment made in additional sales headcount. These actions resulted in a 10% lower contribution despite an overall 5% increase in revenues. Accordingly the business has been steadily improving on a sequential basis, particularly during the last quarter of the year.

In Belgium the Group capitalised on the strong demand for flexible labour across its client base and numbers working on client sites increased by 33% at 31 January 2012 compared to a year ago. Permanent recruitment was lower than the previous year but higher revenues from its managed services and freelance professionals pushed contribution up 43%. Our leading position in the Belgian market and key portfolio of services strength, has provided a strong platform for growth. In the first quarter of the current year we opened a new second office in Ghent and expect to continue to expand our headcount and operations into the first half.

In the Nordics, revenue growth was strongest in the mid-market professional sector with gross profit rising 64%. Harvey Nash Alumni is the engine of growth with its strong networks and Boardroom relationships, key to growing the professional recruitment business by focusing on middle management and specialist search. The successful introduction of an interim management service has also been achieved during the year. Whilst Nordic companies have been affected by the global economic situation, local markets are relatively robust. Harvey Nash Alumni is now the clear market leader in Sweden having further increased its overall market share during the downturn.

Our acquisition in Norway, Bjerke & Luther AS, reported an encouraging rise of 24% in revenues. The acquisition plan remains on track with further integration actions successfully completed during the year. The Group owns 50.1% of the share capital and has an option at its sole discretion to acquire the remaining share capital of which the final tranche of deferred consideration is capped at 30.5m NOK (£3.0m). Satellite operations in Denmark and Poland reported a strong recovery and in Finland revenues were up 34%. The recovery in France was reflected in increased revenues of 57%, albeit from a low base, reducing the prior year loss to broadly breakeven.

As has also been widely reported, the German economy was one of the strongest in Europe in the prior year and continued into the year ended 31 January 2012. The Group's operations in Germany represented 40% of the Group's European results, the largest single contribution outside of the UK. Recruitment growth was strong with gross profit up 33%. Demand for project based technology engineers employed by the Group was highest with freelance recruitment also good, driving the number of specialists on assignment up 23% year on year. Information and communication technology, manufacturing and export growth are driving client expansion and skills shortages are widespread.

Results from the Group's outsourcing locations in Nuremberg and Stuttgart exceeded expectations despite budgets which were lower than the previous year reflecting the legacy nature of the work done by the team in Stuttgart. New clients such as Texas Instruments and Deutsche Telekom are driving growth in rapidly evolving Small Cell Wireless Technology as well as the roll out of IP based landline networks.

We are pleased with the result of our strategic focus, both geographically in the Nordics and also successfully leveraging the demand for flexible labour at a time of uncertainty in the Euro zone combined with strong export led demand from the German economy. This continued demand for freelance labour is providing stability whilst demand for permanent staff is lower compared to the prior year.

## **United States**

Revenue in the USA was up 7% at £36.7m (2011: £34.4m) and gross profit up 4% to £9.5m (2011: £9.1m). Operating profit was up 17% to £0.7m (2011: £0.6m).



The US recruitment market has been very challenging over the last two years. The Group's focus on offshoring and outsourcing has resulted in profitable growth when many US based recruitment companies have been reporting losses. This was reflected in much lower demand for permanent IT staff. However, in the final quarter of the year business sentiment began to improve and jobs and employment is once again increasing.

Outsourcing and offshoring grew strongly, increasing revenues by 56% year on year, a major factor contributing to the resilience of the Group's US business. Our managed services delivered from New York also increased revenues and contribution. Revenues and profits have doubled in Colorado and Illinois as recovery finally took hold in these markets. The West Coast was slightly lower overall due to much higher comparatives and relatively strong demand throughout the recession particularly in Seattle, Washington. The East Coast offices, New York and New Jersey reported more modest growth as much of the client base is mainly in the financial services sector.

As the US economy seems to be following the classic recovery pattern whereby flexible and temporary labour demand leads the market for permanent technology appointments, we therefore expect improvement in demand for permanent staff to be the key feature of the coming year. Demand continues to grow and we are prudently increasing headcount to take advantage of the expected growth.

### Summary

Once again we are delighted with an excellent result across all of our businesses, with organic led growth in revenues and profits increasing in all the major economies and geographies in which we operate. The first quarter has got off to a positive start when compared to budget and we believe that we are very well placed to make further progress as and when business sentiment improves.



**Albert Ellis**  
**Chief Executive Officer**

## **FINANCIAL REVIEW**

### **Profit & Loss**

Revenue and gross profit grew in each principal geographical region with strong organic growth in the Nordics and Germany in particular. Permanent revenue increased in the year by 23%, contracting revenue by 17%, outsourcing revenue by 4% and revenue from Managed Services by 41%. It was this change in the mix towards lower margin Managed Services, which caused the overall gross margin to fall to 14.7% (2011 16.2%). The margins on contracting (14%) and outsourcing (30%) were stable. The growth in Managed Services revenue was strongest in the United Kingdom (114%), but it also grew in Mainland Europe (by 27%). Growth in permanent revenue was highest in the Nordics (37%), followed by the rest of mainland Europe (30%) and the United States (25%). It grew in mainland Europe (excluding the Nordics) owing mainly to strong growth in Germany and Switzerland. In the UK, permanent revenue grew by 9%.

Continued tight control of costs and further improvements in productivity resulted in a 41% increase in operating profit to £9.0m (2011 £6.4m). Net interest payable rose to £0.4m (2011 £0.2m) as a result of increased working capital caused by growth. Profit before tax rose by 35% to £8.5m (2011 £6.3m).

### **Taxation**

The tax charge for the year was £2.6m (2011 £1.9m) giving an overall effective rate of tax of 30.3% (2011 30.5%). This included an adjustment in respect of prior years of £0.1m (2011 £0.1m) and a deferred tax charge of £1.1m (2011 £0.4m) of which £0.6m related to a deferred tax liability on accrued revenue in respect of outsourcing contracts in Germany. The balance related to other timing differences plus the utilisation of brought forward losses. The overall effective rate of tax is a function of the mix of profits between the various countries in which the Group operates, with higher rates in the United States, Germany and Belgium being offset by lower rates in Ireland and Vietnam in particular.

### **Non controlling interest**

The non controlling interest in the year represents the minority share of profit after tax of Bjerke & Luther AS and TechDiscovery LLC. Dividends to non controlling interests of £0.2m (2011 £0.2m) are payable in the second quarter.

### **Earnings per Share**

Basic earnings per share rose by 36% to 7.97p (2011 5.85p), while diluted earnings per share rose also rose by 36% to 7.86p (2011 5.80p).

### **Key Performance Indicators**

Productivity as measured by gross profit per employee rose during the year by 1.3% while adjusted operating profit per employee rose by 22.5%. The ratio of fee earners to non fee earners increased to 68% from 67%.

Average debtor days fell by 6.4%. Had debtor days remained the same at year end as prior year, then trade debtors would have been higher by £3.1m.

### **Balance Sheet**

Net assets rose in the year by 4% to £63.5m (2011 £61.3m), while net tangible assets rose by 22.5% to £15.5m (2011 £12.6m). The net book value of tangible fixed assets at 31 January 2012 was £3.5m (2011 £4.0m). Additions during the year of £2.0m included expenditure of £0.7m on hardware and software incurred by Nash Technologies in Germany, rechargeable to clients. Other than the client-related capital expenditure in the German outsourcing business, expenditure was £1.0m, of which £0.6m was on computer equipment, £0.4m was on leasehold improvements, office equipment, furniture and fixtures. The deferred income tax asset fell by £0.5m to £2.0m mainly as a result of the utilisation of brought forward losses.

The carrying value of intangible assets at 31 January 2012 was £48.1m (2011 £48.7m) of which £1.0m related to the Alumni brand, £0.5m related to the Bjerke & Luther brand and the balance was goodwill. The reduction in goodwill was entirely as a result of exchange movements.

Net trade receivables rose to £78.2m (2011 £69.5m) as a result of higher revenue. Prepayments and accrued income rose by £6.7m owing mainly to an increase of £3.5m in accrued income in the Netherlands and £2.2m in accrued revenue in outsourcing contracts in Germany. Debtor days fell to 42.9 days (2011 44.6 days). Trade payables rose to £48.2m (2011 £44.4m) as a result of increased trading, while accruals and deferred income rose to £32.0m (2011 £23.0m) as a result of accruals relating to Managed Services, principally in the Netherlands but also in the United Kingdom and Belgium. Provisions for liabilities and charges of £0.4m relate to property leases expiring in 2012, 2013, and 2014.

## Cash Flow

There was a strong operating cash inflow in the year before changes in working capital of £11.3m (2011 £8.4m). Changes in working capital consumed £6.7m (2011 £1.6m inflow). Income tax paid was £2.8m and this included £1.0m of tax prepayments in Germany following the agreement of prior year tax computations by the tax authorities. Capital expenditure totalled £2.0m of which £1.0m related to client IT projects in the German outsourcing business. The balance of £1.0m related to investment in new offices in Manchester and Birmingham and catch up investment in IT equipment around the world following a reduction in investment during the downturn. Net interest paid was £0.4m and dividend payments totalled £2.1m (including £0.2m paid to non controlling interests). This resulted, after a foreign exchange loss of £0.3m, in a decrease in net cash during the year of £3.1m to £5.2m (2011 £8.3m). To aid transparency, net cash has been split into gross cash of £18.6m (2011 £15.6m) and gross borrowings of £13.4m (2011 £7.3m).

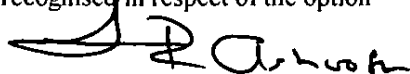
## Banking Facilities

The Group continues to enjoy substantial headroom in relation to its banking facilities. At the balance sheet date these comprised invoice discounting and overdraft facilities for working capital in the UK of £22.0m and invoice discounting facilities in Europe of €18m and the United States of \$6.0m. The invoice discounting facilities are available on a rolling annual basis. The Group has no term debt.

## Acquisitions

As previously reported, on 29 April 2010 the Group acquired a 50.1% stake in Bjerke & Luther AS an executive search and selection company in Norway. The consideration comprised cash of Norwegian Kroner 18.5m (approximately £2.0m). In addition Harvey Nash has been granted a call option to acquire the additional 49.9% of the shares in Bjerke & Luther from the sellers which may be exercised between 1 February 2013 and 2 April 2013. The consideration for the acquisition of the additional shares shall be calculated on the same basis as the consideration for the initial shares, subject to a minimum aggregate consideration of NOK 11.5m (approximately £1.3 million) and a maximum of NOK 30.5m (approximately £3.4 million).

The value of the call option has been considered and at the balance sheet date, based on valuations in the Norwegian market, is deemed to reflect the fair value of the final consideration due should the remaining 49.9% be acquired and as such no asset has been recognised in respect of the option.



**Richard Ashcroft**  
**Group Finance Director**

## Directors' Report

for the year ended 31 January 2012

The Directors present their annual report and the audited consolidated financial statements of the Group and Company for the year ended 31 January 2012

### Principal Activities

The Group's principal activity during the year was the provision of professional recruitment and outsourcing services. The Group has a number of overseas subsidiaries and branches in Europe, USA and Vietnam. The parent company is incorporated and domiciled in the United Kingdom.

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

### Key Performance Indicators

The Board considers the following performance indicators to be key in monitoring the Group's performance:

- Adjusted operating profit per employee \* £14,203 (2011 £11,590)
- Gross profit per employee £124,239 (2011 £122,626)
- Average debtor days 42.3 (2011 45.2)
- Fee earner percentage \*\* 68% (2011 67%)

\* Operating profit before non recurring items

\*\* Fee-earners as a percentage of total sales and administration employees

A further analysis of the key performance indicators is given in the Financial Review on page 8.

### Risk Management

The Board reviews the key risks facing the business regularly. Outlined below are the main risks that could potentially impact the Group's operating and financial performance:

- Economic Environment

The performance of the Group is aligned to the underlying growth of the economies of the countries in which it operates. The group has a number of policies in place to mitigate macro economic risks. These include a broad portfolio of services appropriate to different stages of the economic cycle and a focus on annuity revenue streams which provide greater visibility of revenue. The Group has strengthened its balance sheet by increasing its net cash position.

- Key Clients

The risk of loss of a key client is lessened by the Group not being overly reliant on any one client. The Group also ensures that there are regular reviews of relationships with all clients.

- Talent

The loss of senior management or key personnel could adversely affect the Group's results. This is mitigated by an ongoing talent management programme, sponsored by the Group's Executive Council and Group Director of Talent.

- Technology

The Group relies on technology systems to provide services to clients and candidates. These systems are dependent on a number of suppliers that provide the technology infrastructure and disaster recovery solutions. The Group mitigates technology risks by conducting regular reviews of technology both externally with third party providers of IT services and internally.

- Regulatory Environment

The recruitment industry is governed by an increasing level of compliance, which varies from country to country and market to market. The Group mitigates this risk by taking external professional advice where appropriate and maintaining robust internal controls and processes to ensure compliance with respect to legal and contractual obligations.

- Foreign Exchange

The Group has significant operations outside the UK and is therefore exposed to movements in exchange rates. The Group's policy is to minimise foreign currency risk. Harvey Nash manages its exposure on equity investments in overseas subsidiaries through foreign currency borrowings. The currency risk of holding assets and liabilities in

foreign currencies across the Group is managed by partially matching foreign currency assets with foreign currency liabilities

### **Results and dividends**

The Group's profit before tax for the year was £8.5m (2011 £6.3m). A final dividend of 1.635 pence per share has been declared on 30 April 2012 amounting to £1.2m (2011 1.48p per share amounting to £1.1m) subject to shareholder approval at the AGM on 28 June 2012. If approved this would take total dividend payouts for the year to 2.66 pence per share (2011 2.42p).

### **Share Capital**

There was no movement in shares in issue during the year. The number of ordinary shares at 31 January 2012 was 73,450,393 (2011 73,450,393) with a nominal value of £3,672,520 (2011 £3,672,520).

### **Directors and their Interests**

The Directors who held office at the date of this report are shown on page 2. The Company's Articles of Association require directors to retire from office every three years, while non-executive directors who have served for over nine years must stand for re-election every year. Ian Kirkpatrick and Tom Crawford have served for longer than nine years and therefore offer themselves for re-election.

Gus Moore retired during the year on 30 June 2011. Julie Baddeley has been appointed since the conclusion of the last Annual General Meeting, so is required by the Company's Articles of Association to retire and put herself forward for election.

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.

### **Corporate Responsibility**

The Board believes that we have a responsibility to play a constructive part within the community at large, and that social, environmental and ethical matters are not only part of the investment mix in order to create a long term sustainable business but simply the right thing to do. Aware of the importance of Corporate Responsibility to our employees, especially the new generation of Talent, the Group's key message over the last five years, has been in that being a member of the Harvey Nash team also means being a valued contributor to society. Our employees are enthusiastic about people and are always ready to support programmes that benefit the community.

The Board encourages employees to make their own personal choices, personal political affiliation, participation in the democratic process and financial support for worthy charities and community projects by employees is actively promoted. The Group does not take responsibility to do this on employees' behalf. The Group is not aligned to a particular political party and neither does it make political donations or material charitable grants. However, detailed policies and activity is available for each country as appropriate. A few examples of recent activity and the Group's general policies are described below.

#### **(a) Environmental policy**

The Group's operations, being services, are inherently less damaging to the environment than other business sectors. However, the Board recognises that the business must minimise its impact on the environment and utilises recommendations from the Carbon Trust to reduce the carbon footprint of the organisation. The Group's environmental policy statement commits our company to

- Re-cycling - reducing the overall amount of waste being sent to landfill by separating out materials for recycling,
- Water - making use of mains water supply for personal consumption through on site water filtration and purification,
- Efficiency - optimising the operation of building cooling and heating systems,
- Energy - introducing low energy lighting wherever appropriate and feasible,
- Technology hardware and software - software which automatically shuts down computers to reduce power consumption and heat output,
- The introduction of 'eco-fonts' - these use less ink on printed matter, with only a marginal impact upon quality,
- Travelling - promoting the use of public transport and increased use of video conferencing and online webinars to reduce the impact of business travel upon the environment,
- Procurement - processes are in place to ensure that the procurement of goods, services and material capital items such as property include a review and rating of the carbon impact of these acquisitions seeking wherever possible to reduce the Group's footprint.

### **Charitable, political and work in the community**

A number of senior Director's in the business are involved with projects and work in the community

#### **Harvey Nash employees on not-for-profit advisory boards:**

Albert Ellis, CEO, is part of an External Advisory Panel of City University London's Centre for Information Leadership - a group of IT industry luminaries who steer the Centre's education and research direction

Magnus Tegborg, Sweden, Managing Director of Harvey Nash's Nordic business, is a Director on the City of Stockholm Board, which is responsible for the city's public utilities, tourism, culture and the arts

Nick Marsh, Managing Director Executive Search Board member of Byte Night the IT industry's annual sleep out in support of Action for Children

Sherree Young, Head of Practice Oil & Gas is NED / Trustee at Kids' City, a London based charity providing childcare and out of school activities to children

#### **Charitable activity:**

In Germany, employees participated in a company run of Nuremberg as well as a 24 hour shared cycle ride on a static bike, both activities contributing to several charitable organisations There were also activities to support the Olga Hospital which helps sick children and their parents

In the UK a number of offices raised over £2,000 for the prostate cancer charity, Movember

In Birmingham there were a number of activities supporting the Birmingham Children's Hospital, including the Dragon Boat Race (raising £2,500) and giving personal time to help decorate the ward

In Leeds employees worked with a local school providing careers advice and guidance to sixth formers

People across a number of our UK offices took a leading role in supporting Byte Night the IT industry's annual sleep out in support of Action for Children

Harvey Nash's CEO raised over £1,000 through cycling from London to Paris

In Sweden, support was given to the Swedish Childhood Cancer Foundation through a number of activities -- from sponsored bike rides to direct donations -- raising over £4,500 In addition, there was support Hand in Hand, a charity which aims to eliminate poverty through helping individuals to help themselves Employees helped the Children's Rights in Society (BRIS) to recruit a Secretary General on a cost neutral basis

In Vietnam, there was a wide range of activities targeted at supporting children in need and the poor including providing one hundred gifts to a children's hospital in Ho Ch Minh City, contributing to medical fees for seven children suffering from cancer, donating 350 gifts and 15 scholarships to children in under developed regions of Vietnam

In Switzerland, personal donations were made to the disabled children's charity Stiftung Wunderlampe

#### **(c) Employee engagement**

Engagement is built partly on respect for the organisation and its leaders, partly on knowing what's going on, partly on the ability to influence and achieve, and partly on opportunities for people to grow and develop The Group has plans to meet expectations in all these areas (particularly in the areas of Leadership and Development) and progress is measured in an annual Employee Engagement Survey The Group's commitment to its employees means that it takes actions to achieve a common awareness of all employees in relation to the financial and economic factors that affect the performance of the company Employees are also systematically provided with information on matters of concern to them and are consulted on a regular basis to ensure that their views can be taken into account when making decisions that are likely to affect their interests The Group is a strong meritocracy, where talent and contribution come first An attractive culture and strong, commercial corporate values are at the heart of what we do Integrity, transparency, fairness, passion and excellence in delivery to our clients are just some examples of the professional attributes to which we all aspire We always aim to work in the longer term interests of our clients and candidates and we know this, in turn will work in the longer term interests of our shareholders

The Group underlines this commitment with our membership of the Recruitment and Employment Confederation which requires the Group to observe the highest principles of ethics, equity, integrity, professional conduct and fair practice



#### **(d) Equal opportunity and diversity**

The Harvey Nash Group fully supports the aims of the UK Equalities Act 2010. We believe equality and diversity is necessary for

- individuals everyone has the right to be treated fairly and the opportunity to fulfil their potential
- the economy a competitive economy and successful organisations draw on all available talent
- society a more equal society offers more stability in the long term which is attractive to business

Network 4 Net-Worth was established in the USA, this is a young professionals networking organization that aims to build lasting professional and personal relationships through group networking and personal development sessions. The key focus is on Generation Y with an emphasis on the promotion of diverse talent pools.

Inspire is the fastest growing senior professional network within the executive recruitment sector, and was established by senior business women from Harvey Nash's executive search division with funding from the Group. Inspire is a unique forum for senior business women to meet and exchange ideas and experiences with their peers with a mission to promote female Board and Executive participation. Membership has grown to over 1,000 board level members in London, New York and Sweden. Through events, forums, white papers and influence, Inspire plays a major role in promoting gender balance in the board room and within the company. This is achieved through an active extension of the pool of talent in which shortlists are put together.

Harvey Nash Scotland's participation in the "Girl Geek" dinner network is also aimed at supporting the community of business women in the technology and creative sectors.

In the UK, Harvey Nash actively engages with the government of the day and other businesses through its CBI membership and headline sponsorship of the flagship CBI conference. Each year the conference brings together the government, the opposition parties and business in one place to debate the pressing issues facing the nation. The CBI works with the UK government, international legislators and policy-makers to help UK businesses compete effectively.

Harvey Nash regularly chairs and hosts trade delegations to Vietnam. The Group also recognises the valuable contribution made by the government of Vietnam in enabling increased investment and trade between Europe and Asia and is actively involved at ministerial level, not only lobbying on behalf of business but also engaging with the Vietnamese leadership on the strategic challenges and opportunities facing South East Asia.

Harvey Nash not only ensures that employment decisions are made consistent with equal opportunities legislation in each country, but, the Group actively encourages a diversity consciousness among its management, staff and clients. One of our key principles is that the Group's senior management is made up of nationals in the country in which they operate, who understand the market and are naturally integrated in the local business culture.

Due consideration is also given to the recruitment, promotion, training and working environment of all staff including those with disabilities.

#### **(e) Health & Safety**

It is the policy of the Group to take all reasonable and practicable steps to safeguard the health, safety and welfare of its employees, visitors and other persons who may be affected by its activities.

The Group

- assesses the risk to health and safety,
- implements safe systems at work,
- provides information, instruction and training,
- regularly reviews its policies

#### **(f) Supplier payment policy**

It is the policy of the Group to agree appropriate terms and conditions for transactions with suppliers (from standard terms to individually negotiated contracts) and that payment should be made in accordance with those agreed terms subject to compliance with the agreed contractual supplier service levels.

The Group endeavours to pay sub-contractors providing technology services within 25 days (2011 25 days) of receipt of their invoice. This contrasts with the Group's trade debtors who settled their invoices within 42 days (2011 45 days). Other trade creditor days of the Group for the year ended 31 January 2012 were 58 days (2011 64 days) based on the ratio of Group trade creditors at the year end to the amounts invoiced during the year by trade creditors. The company has no trading activity.



### Substantial Shareholdings

On 25 April 2012, the Company had been notified that there were holdings of 3% or more in the ordinary share capital of the Company as follows

	Number of shares	% of total
Standard Life Investments	6,922,506	9.42
BlackRock	6,870,859	9.35
Board Directors	5,420,057	7.38
Mr D Treacher	5,048,826	6.87
Mr D Higgins	4,490,005	6.11
Unicorn Asset Management	4,399,523	5.99
Universities Superannuation Scheme	4,192,210	5.71
Ignis Asset Management	3,000,443	4.08
Henderson Global Investors	2,910,968	3.96
JPMorgan Asset Management	2,884,200	3.93
River and Mercantile Asset Management	2,691,827	3.66
Barclays Stockbrokers	2,391,565	3.44

### Directors' and Officers' Liability Insurance

The Company maintains liability insurance for the Directors and officers of the Company and its subsidiaries

### Employee Share Schemes

The Directors consider that the opportunity to own shares in the Group is a vital part of motivating and retaining employees. Details of the share schemes are included on page 23.

### Pensions

The Group operates three defined contribution pension schemes in the UK: the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, the Group Personal Pension Plan and a stakeholder scheme. There are other pension schemes overseas.

### Authority to purchase own shares

The Directors on behalf of the Company have authority to purchase up to 10% of the Company's issued share capital.

### Political and Charitable Donations

The Group made no political donations during the year (2011: £nil). The Group made no charitable donations during the year (2011: £7,000).

As outlined in the Corporate Responsibility section above, personal political affiliation, participation in the democratic process and financial support for worthy charities and community projects by employees is actively promoted.

On behalf of the Board



**Richard Ashcroft**  
Company Secretary  
27 April 2012

## **Corporate Governance**

### **for the year ended 31 January 2012**

The Group supports the Principles of Good Governance and Code of Best Practice as set out in The UK Corporate Governance Code (2010). The Board has considered the implications of the Code on the Group's governance and will comply with those provisions considered appropriate for the size of the Group, these are explained below.

#### **Application of Principles of Good Governance**

##### **Board of Directors**

At the start of the financial year there were three Executive and four Non-Executive Directors. Margot Katz was appointed as an Executive director on 1 May 2011, Gus Moore retired as a Non-Executive Director on 30 June 2011 and Julie Baddeley was appointed as an independent Non-Executive Director on 1 September 2011. At the end of the financial year there were four Executive and four Non-Executive Directors. A list of Director biographies together with their roles is given on page 1. Following the retirement of Gus Moore, Julie Baddeley was appointed as Senior Independent Director. She chairs the Remuneration Committee and is a member of the Audit and Nomination Committees. Tom Crawford is not considered independent owing to the fact that he is a significant shareholder. The Group has an Independent Chairman (Ian Kirkpatrick) who chairs the Nomination Committee and is a member of the Audit and Remuneration Committees. Ian Davies, who is also considered independent, chairs the Audit Committee and is a member of the Remuneration and Nomination Committees. The Board members with executive responsibility were the Chief Executive Officer, Group Finance Director, European Managing Director and Group Talent Director.

The Board meets at least 10 times per annum and has a fixed schedule for reviewing the Group's operating performance. In addition other meetings are arranged as required to deal with specific issues or transactions. The Board also has a schedule of matters and responsibilities specifically reserved to itself, the main items of which include:

- approval of the published financial results and other statements,
- appointments to the Board and other Board Committees;
- approval of the annual Group Strategic Plan and Budget,
- approval for acquisitions, mergers and disposals,
- approval for new businesses which require start up capital,
- approval of capital expenditure and leasehold agreements over certain thresholds,
- approval of material contracts over certain thresholds and those not in the ordinary course of business, and
- approval of treasury policy and significant financing arrangements.

During the year attendance at the pre-arranged meetings was 100% for Board members apart from Gus Moore, Ian Kirkpatrick, Tom Crawford and Margot Katz who each missed one meeting. There were 12 Board meetings in the 12 months to 31 January 2012.

The Executive Directors are responsible for the overall operational and financial management of the Group within the framework set out by the Board. The Executive Council sits below the Group Board and executes the day to day running of operations. The Executive Council is made up of senior operational management, including the executive directors. Outside the formal schedule of matters reserved for the Board, the Chairman and Non-Executive Directors make themselves available for consultation with the Executive team as often as necessary.

Procedural compliance is monitored by the Senior independent Non-Executive Director and the Group Finance Director (who is also the Company Secretary) and Directors' appointment and removal is a matter for the Board as a whole. Independent professional advice and training are available to all the Directors. The Senior Non-Executive Director is available for consultation with shareholders, through the Company Secretary. The Executive Directors have met with the Company's major shareholders and other potential investors on a regular basis and have reported to the Board on those meetings.

On joining the Board, a new Director receives appropriate induction including meeting with other Directors and senior management, visiting the Group's key operations and meeting the Group's principal advisers.

The Board has a policy of providing reasonable funding for independent professional advice for all Directors in furtherance of their duties as Directors of the Company.

In relation to non-reserved matters the Board is assisted by a number of committees with delegated authority.

The board discusses and reviews its performance and membership regularly, both individually and as a whole, and continues to consider that it is operating effectively. In the year, a formal survey was conducted to allow the board to provide confidential feedback on its performance.

### **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 Davies (Chairman), Ian Kirkpatrick, Gus Moore (until his retirement) and Julie Baddeley. The Audit Committee met three times in the year to 31 January 2012 with full attendance by its members at the time.

The Board considers that the membership of the Committee as a whole has sufficient recent and relevant financial experience to discharge its function. The Committee has a formal agenda, timetable and terms of reference.

During the course of the year ended 31 January 2012 the Committee has

- reviewed the financial statements and the financial reporting judgements contained within those statements for the Group and any formal announcements relating to the Group's financial performance,
- reviewed the Group's internal control system and risk controls,
- reviewed various reports and recommendations from the Group's internal audit function,
- made a recommendation to the Board in relation to the appointment, terms of engagement and remuneration of the external auditors whilst monitoring their independence and objectivity,
- reported to the Board any matters, which it considered needs action or improvements together with recommended actions,
- made itself available to hear any concerns from staff, in confidence, and
- reviewed the effectiveness of the audit process.

The Committee's full terms of reference are available from the Company Secretary on request.

The Audit Committee applies a policy which governs the provision of audit and non-audit services provided by the auditors and, in summary, requires significant non-audit services other than tax and other compliance services to be subjected to a competitive tendering process.

The Committee is authorised to engage the services of external advisers, as it deems necessary and at the company's expense in order to carry out its function.

### **Remuneration Committee**

The Remuneration Committee meets at least twice a year. The members of the Committee are Ian Kirkpatrick, Gus Moore (until his retirement), Julie Baddeley and Ian Davies. The Chairman of the Remuneration Committee was Ian Kirkpatrick until the appointment of Julie Baddeley who took over the Chairman role on 1 September 2011. The Committee's full terms of reference are available from the Company Secretary on request. The Remuneration Committee met twice in the year to 31 January 2012 with full attendance by its members at the time.

The Remuneration Committee determines and approves the broad policy and specific remuneration and long term incentive arrangements of the Company's Executive Directors and certain of the senior management. The Chief Executive Officer may be invited to attend and speak at meetings of the Committee, but does not participate in any matter which impacts upon his own remuneration arrangements.

The remuneration of the Non-Executive Directors including the Chairman is set by the Executive Directors.

The Directors' Remuneration Report on pages 19 to 23 includes details of remuneration policy, practices and the remuneration of the Directors.

### **Nomination Committee**

The Company has a Nomination Committee, which provides a transparent process and procedure for the appointment of new Directors to the Board. The members of the Committee are Ian Kirkpatrick (Chairman), Gus Moore (until his retirement), Julie Baddeley, Ian Davies and Albert Ellis. The Nomination Committee met once in the year ended January 2012 with full attendance by its members at the time. Ian Kirkpatrick has indicated his intention to retire following the Annual General Meeting in 2013. This timeframe will allow the Nomination Committee time to consider its options for a replacement rigorously and will provide an orderly transition given the recent number of changes to the Board.

The Committee's terms of reference, which are available from the Company Secretary on request include

- responsibility for identifying and nominating candidates for appointment to the Board,
- evaluating the balance of skills, knowledge and experience required on the Board, and
- succession planning

### **Relations with Shareholders**

The Board maintains regular dialogue with its institutional shareholders and City analysts by conducting formal presentations, being readily available for discussion and providing information as required. Shareholder attendance and participation at the AGM is welcomed. Amendments to the Company's articles require shareholder approval at the AGM.

### **Accountability and Audit**

The Board made every effort to ensure that this report represents a balanced understandable assessment of the Group's position and prospects.

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

### **Internal Control**

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

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 business and its 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, and is responsible for reviewing the Group's whistle blowing procedures.

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 with detailed reporting of variance analysis on a monthly basis
- The operation of an Audit Committee, supported by an internal audit function

During the year, the internal audit function was reviewed by the audit committee. Whilst there were no significant concerns raised, all actions required as a result of the findings were discussed and agreed as part of an Audit Committee meeting.

The Directors have reviewed the systems of internal financial control in operation during the year and up to the date of approval of the Annual Report and no significant concerns were raised. The process is regularly reviewed. This process accords with the 2005 Turnbull Guidance.

### **Compliance with the UK Corporate Governance Code (2010) Provisions**

The Company has complied throughout the year with Section 1 of the Code of Best practice except as follows:

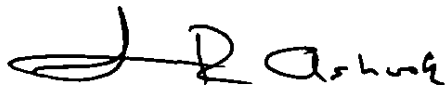
#### **Code Provision A3.1 (Board balance and independence), C3.1 (Audit Committee) and B2.1 (Remuneration Committee)**

Provision A3.1 and provision C3.1 of the UK Corporate Governance Code indicate circumstances where a director may not be independent. These include having served on the Board for more than nine years from the date of first election, and at any point when holding the position of Chairman. Ian Kirkpatrick, whom the Board considers independent, and Tom Crawford are required to put themselves forward for re-election every year.

The Board appointed Gus Moore and subsequently Julie Baddeley as the senior independent Non-Executive Director in addition to the Company's existing independent Non-Executive Chairman. In addition, Ian Kirkpatrick has indicated his intention to retire following the Annual General Meeting in 2013.

**Going Concern**

After having made appropriate enquiries including a review of the 2012/13 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 financial statements.



**Richard Ashcroft**  
Company Secretary  
27 April 2012

## Remuneration Report

### for the year ended 31 January 2012

This Report, which has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations"), outlines the membership and workings of the Remuneration Committee ("the Committee") and provides an explanation of the various elements of the Company's remuneration policy together with details of Directors' remuneration in respect of the year ended 31 January 2012. In accordance with the Regulations, a resolution to approve this Report will be proposed at the forthcoming Annual General Meeting.

The Regulations require the Auditors to report to shareholders on the information contained in the 'Directors' Remuneration', 'Interest in Share Options', 'Directors' Pension Entitlement' and the 'Share Option Scheme' sections in this Report ("the auditable parts") and to state whether, in their opinion, these parts of the Report have been properly prepared in accordance with the Companies Act 2006.

### Remuneration Policy

Remuneration policy has been developed with regard to the wider debate on executive remuneration and the Board has always been committed to aligning overall compensation with the long term interests of shareholders balanced by a variable component which focuses on current performance.

Total shareholder returns (TSR) over the five years ending on the balance sheet date, 31 January 2012, compared with a broad selection of listed comparator companies, revealed the Group yielded returns which were within the top quartile. This has been confirmed by the Group's auditors.

During the three years ended 31 January 2011 Executive Directors voluntarily accepted pay freezes and fixed remuneration was frozen throughout this time. Despite the Group remaining profitable throughout the downturn, no bonuses were awarded during the year ended 31 January 2010. During the year ended 31 January 2010 executive Directors suspended their personal pension payments to acquire shares in the Group, in lieu, after suffering personal tax at the full marginal rate. No share options have been awarded to Directors during the years ended 31 January 2011 and 2012.

In the years ended 31 January 2011 and 2012 the Group exceeded market expectations and demanding profit targets, whilst ensuring that the Group generated sufficient trading cash flow to support a 10% increase in the dividend in each of those years. An adjustment to basic salary was implemented with effect from 1 February 2011. No increase to basic salary or any other allowances is proposed for the year ended 31 January 2013, however company pension contributions for directors will increase from 10% to 12.5% with effect from 1 May 2012 to help reduce a widening gap when compared to market rates.

Executive remuneration packages are designed to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages. These packages are reviewed each year to ensure that they are competitive and to engage the Executive Board in relation to personal performance and future expectations. The Remuneration Committee aligns the business objectives and the creation of long term shareholder value, and takes advice from external sources in order to determine and develop its policies. The Group reviews this policy on an on-going basis.

The Executive Director remuneration packages consist of

- basic salary
- performance-linked bonus
- share bonuses and options
- company car allowance
- pension contribution
- private healthcare insurance

The performance-linked bonus is payable depending on the level of Group profit for the year compared to budget up to a maximum of 60% of basic salary in cash, plus a further 40% of basic salary in equity, which is subject to a formal no-disposal three year lock up agreement with the Executive.

Fees payable to the Non-Executive Directors are determined by the Board at the beginning of each financial year. During the years ended 31 January 2011 and 2012, two externally sourced Non Executive Directors have been appointed to the Board. During the downturn Non Executive pay was also subject to the same pay freeze which was voluntarily proposed by executives and had fallen far behind market rates. This was adjusted in a two stage process, firstly in the prior year and then again in the current year to bring Non Executive pay in line with the median for the sector with the result that it is now more competitive.

## Directors' Service Contracts

In line with Group policy, Directors' contracts contain notice periods which do not exceed 12 months

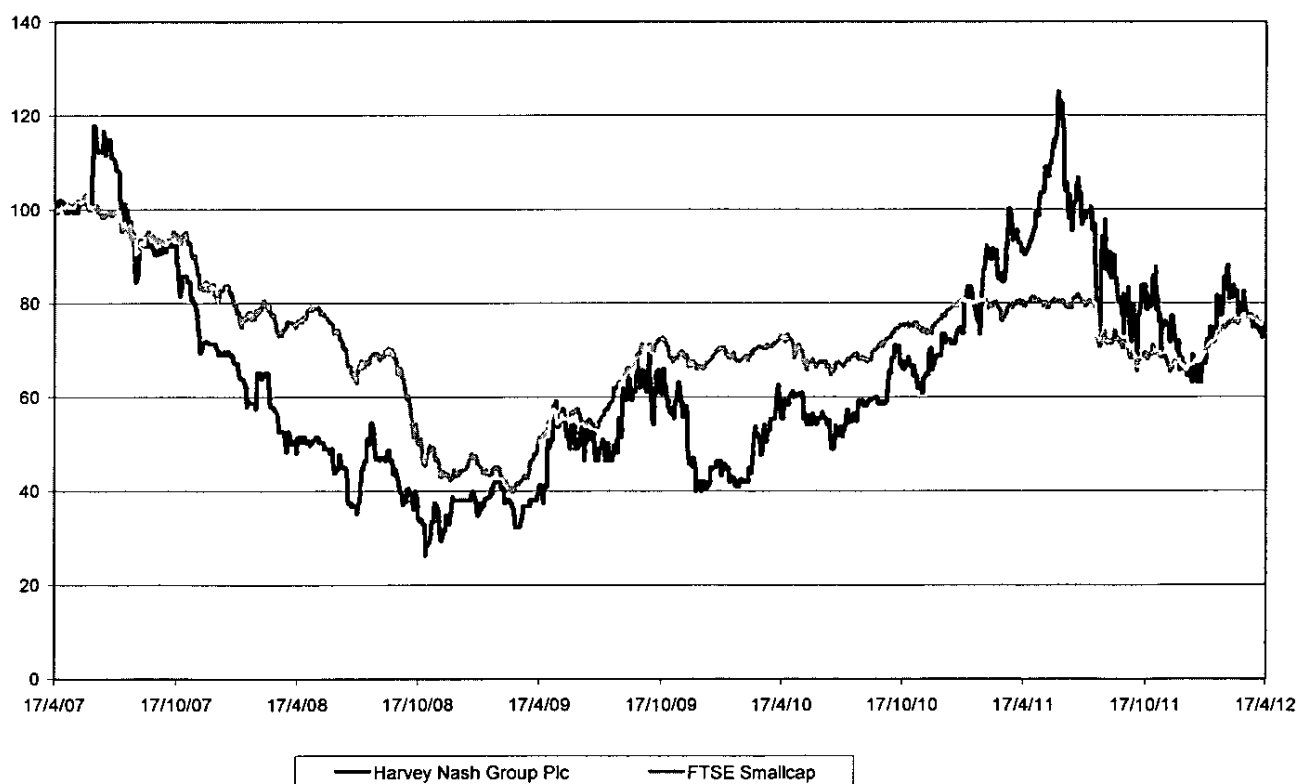
The details of the service contracts of directors who held office during the year

	Contract date	Unexpired term	Notice period	Contractual termination payments
<b>Executive</b>				
Albert Ellis	01 02 01	Continuous	12 months	Unexpired notice period
Richard Ashcroft	14 11 05	Continuous	12 months	Unexpired notice period
Simon Wassall	17 10 05	Continuous	12 months	Unexpired notice period
Margot Katz	30 06 11	Continuous	12 months	Unexpired notice period
<b>Non-Executive</b>				
Ian Kirkpatrick	07 08 01	Continuous	6 months	Unexpired notice period
Tom Crawford	07 08 01	Continuous	6 months	Unexpired notice period
Gus Moore (retired 30 June 11)	07 08 01	Continuous	6 months	Unexpired notice period
Ian Davies	30 09 10	Continuous	6 months	Unexpired notice period
Julie Baddeley	30 06 11	Continuous	6 months	Unexpired notice period

## Members of the Remuneration Committee

The members of the remuneration committee during the year were Ian Kirkpatrick, Gus Moore (until his retirement), Julie Baddeley and Ian Davies. The Chairman of the Remuneration Committee was Ian Kirkpatrick until the appointment of Julie Baddeley who took over the Chairman role on 1 September 2011.

## Performance Graph



April 2007 100

Source – Datastream

The company is included in the FTSE Smallcap Index and therefore, in the opinion of the Directors, this is the index against which the total shareholder return of Harvey Nash Group plc should be measured considering the variation in market capitalisation of the Group over the five year period ending 31 January 2012. The Group has outperformed the index on a Total Shareholder Return basis by a margin 10.45 % \*

\* The Total Shareholder Return is calculated by adding the dividends in the period to the capital gain/loss in the period and dividing this by the share price at the start of the period (assuming dividends re-invested)

# **Directors' Remuneration (audited)**

	Salary & fees £	Benefits in kind £	Annual bonus in cash £	Annual bonus in Harvey Nash shares £	31 Jan 2012 Total £	31 Jan 2011 Total £
<b>Executive</b>						
Albert Ellis	350,000	24,204	210,000	140,000	724,204	472,321
Richard Ashcroft	175,000	16,683	105,000	70,000	366,683	249,433
Simon Wassall	235,000	21,493	141,000	94,000	491,493	348,194
Margot Katz	75,000	-	30,000	-	105,000	0
<b>Non-Executive</b>						
Ian Kirkpatrick	69,325	-	-	-	69,325	61,600
Tom Crawford	34,417	-	-	-	34,417	26,400
Gus Moore	12,083	-	-	-	12,083	26,400
Ian Davies	39,708	-	-	-	39,708	8,900
Julie Baddeley	19,583	-	-	-	19,583	-
	<b>1,010,116</b>	<b>62,380</b>	<b>486,000</b>	<b>304,000</b>	<b>1,862,496</b>	<b>1,193,248</b>

Benefits in kind include car allowance, private healthcare and a limited contribution to the cost of personal tax advice

The executive directors receive performance payments based on the absolute level of increased Group profit for the year, set against demanding budget targets and in relation to external market conditions at the time

## **Pension contributions**

	31 Jan 2012 Total £	31 Jan 2011 Total £
Albert Ellis	35,000	29,150
Richard Ashcroft	17,500	15,120
Simon Wassall	23,500	21,200
	<b>76,000</b>	<b>65,470</b>



**Interests in Share Options (audited)**

Details of options held by Directors in the Harvey Nash Group plc performance related Share Scheme are set out below

	Date of Grant	Earliest exercise date	Expiry date	Share price on grant date (p)	Exercise price (p)	Number at 1 Feb 2011	Granted in year	Exercised in year	Lapsed In year	Number at 31 Jan 2012
<b>Albert Ellis</b>	11 04 03	11 04 06	11 04 13	35	30 7	180,000	-	-	-	180,000
	01 04 04	01 04 07	01 04 14	89	89	180,000	-	-	-	180,000
	25 05 06	25 05 09	25 05 16	60 5	60 4	150,000	-	-	-	150,000
	27 05 08	27 05 11	27 05 18	38	39	250,000	-	-	-	250,000
<b>Simon Wassall</b>	01 03 02	01 03 05	01 03 12	63 5	58 96	102,943	-	-	-	102,943
	25 10 02	25 10 05	25 10 12	34	24 3	50,000	-	-	-	50,000
	11 04 03	11 04 06	11 04 13	35	30 7	50,000	-	-	-	50,000
	17 10 05	17 10 08	17 10 15	56 5	55	100,000	-	-	-	100,000
	25 05 06	25 05 09	25 05 16	60 5	60 4	150,000	-	-	-	150,000
	27 05 08	27 05 11	27 05 18	38	39	150,000	-	-	-	150,000
<b>Richard Ashcroft</b>	25 05 06	25 05 09	25 05 16	60 5	60 4	150,000	-	-	-	150,000
	27 05 08	27 05 11	27 05 18	38	39	100,000	-	-	-	100,000

No other Directors have been granted share options in the shares of the Group or other Group entities. None of the terms and conditions of the share options were varied during the year. The options granted under the Performance Related Scheme are subject to continued employment and performance criteria relating to earnings per share growth. Harvey Nash's compounded annual growth in earnings per share over the performance period must exceed the compounded annual growth in the Retail Prices Index by a minimum of 3%. This performance criterion was chosen to incentivise the maximisation of shareholders' return. If unforeseen circumstances cause the Remuneration Committee to consider that the performance criteria have become unfair or impractical in the circumstances, they may, at their discretion amend the performance criteria.

The options are granted at the prevailing market price, calculated as the average of the previous five days mid closing price, at the time of the grant in accordance with the rules of the scheme. There was nil cost to the directors at the date of grant. The market price of the Group shares at the end of the financial year was 58p. The range of market prices during the year was between 49p and 97p.

No Directors have received options since 27 May 2008.

**Interest in Shares**

The interest of the Directors in the shares of the company were

	31 Jan 12 Ordinary shares	31 Jan 11 Ordinary shares
Albert Ellis	475,853	473,634
Ian Kirkpatrick	5,250	5,250
Tom Crawford	4,736,467	4,586,467
Richard Ashcroft	116,911	114,692
Simon Wassall	78,049	75,830
Margot Katz	6,369	-
Ian Davies	-	-
Julie Baddeley	-	-

Included in the above, pursuant to the provisions of the Companies Act 2006, Tom Crawford is deemed to be interested in his capacity as a trustee 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 2012, the interest was in a total of 434,425 ordinary shares.

**Share Option Schemes (audited)**

At 31 January 2012, the following options to subscribe for ordinary shares have been granted to certain employees (including Directors) under the terms of the Share Option Schemes.


## The Harvey Nash Group plc Performance Related Share Schemes

The Performance Related Schemes are administered by the Board under the supervision of the Remuneration Committee. The schemes are open to all full time employees except those who have had a material interest in the Group within the previous 12 months. The options granted under the Performance Related Scheme are subject to certain performance criteria, including compounded earnings per share growth of 3% plus the retail price index. The performance criteria associated with this scheme were chosen to incentivise the maximisation of shareholders' return. If unforeseen circumstances cause the Remuneration Committee to consider that the performance criteria have become unfair or impractical in the circumstances, they may, at their discretion amend the performance criteria.

The schemes' exercise price is determined by the Board but will not be less than the average share price for the five days immediately preceding the grant of options. The Harvey Nash Group plc Performance Related Share Plan is an Inland Revenue Approved Scheme, but the Board is able to grant unapproved options under the scheme. For schemes from July 2000 the Group has obtained agreement from the employee that he or she will settle the employer's national insurance charge in respect of any gain arising on eventual exercise. All options are granted for nil consideration.

date of grant	Exercisable From	Exercisable To	Exercise price	Options at 01-Feb 2011	Granted	Forfeited	Exercised	Options exercisable at 31-Jan 2012
01 03 02	01 03 05	01 03 12	£0 59	463,232	-	-	123,528	339,704
25 10 02	25 10 05	25 10 12	£0 24	593,000	-	-	170,000	423,000
11 04 03	11 04 06	11 04 13	£0 31	375,000	-	-	30,000	345,000
27 11 03	27 11 06	27 11 13	£0 77	25,000	-	-	-	25,000
01 04 04	01 04 07	01 04 14	£0 89	180,000	-	-	-	180,000
24 06 04	24 06 07	24 06 14	£0 70	40,000	-	-	-	40,000
02 08 04	02 08 07	02 08 14	£0 70	50,000	-	-	25,000	25,000
15 11 04	15 11 07	15 11 14	£0 80	130,000	-	-	-	130,000
18 05 05	18 05 08	18 05 15	£0 55	150,000	-	-	25,000	125,000
17 10 05	17 10 08	17 10 15	£0 55	310,000	-	-	-	310,000
27 04 06	27 04 09	27 04 16	£0 68	110,000	-	-	-	110,000
25 05 06	25 05 09	25 05 16	£0 60	600,000	-	-	-	600,000
01 06 06	01 06 09	01 06 16	£0 60	100,000	-	-	-	100,000
25 06 07	25 06 10	25 06 17	£0 88	735,000	-	-	-	735,000
25 10 07	25 10 10	25 10 17	£0 66	50,000	-	-	-	50,000
27 05 08	27 05 11	27 05 18	£0 39	500,000	-	-	-	500,000
17 12 08	17 12 11	17 12 18	£0 30	47,500	-	-	-	47,500
<b>Total</b>				<b>4,458,732</b>	<b>-</b>	<b>-</b>	<b>373,528</b>	<b>4,085,204</b>

On behalf of the Board

  
**Ian Kirkpatrick**  
 Chairman  
 27 April 2012

**Statement of directors' responsibilities in respect of the Annual Report**  
for the year ended 31 January 2012

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and IFRSs issued by IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 1, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, and
- the Directors' Report on pages 10 - 14 and the Chairman's Statement, Operational Review and Financial Review contained on pages 3 - 9 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

In accordance with Section 418, in the case of each director in office at the date the directors' report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



**Richard Ashcroft**  
Company Secretary  
27 April 2012

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

We have audited the group financial statements of Harvey Nash Group Plc for the year ended 31st January 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Harvey Nash Group Plc Annual Report 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 January 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements, and
- the information given in the Corporate Governance Statement set out on pages 15 to 18 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review

- the directors' statement, set out on page 18, in relation to going concern,

- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

**Other matters**

(a) We have reported separately on the parent company financial statements of Harvey Nash Group plc for the year ended 31 January 2012 and on the information in the Directors' Remuneration Report that is described as having been audited

(b) The maintenance and integrity of the Harvey Nash Group Plc website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

(c) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



Nigel Reynolds  
Senior Statutory Auditor  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 April 2012

**Consolidated Income Statement**  
for the year ended 31 January 2012

	Notes	2012 £ '000	2011 £ '000
Revenue	5	532,952	422,300
Cost of sales		(454,433)	(353,752)
Gross profit	5	78,519	68,548
Total administrative expenses		(69,543)	(62,102)
Operating profit before non recurring items	5,7	8,976	6,479
Non recurring items		-	(33)
Operating profit	5,7	8,976	6,446
Finance income	6	25	204
Finance costs	6	(466)	(400)
Profit before tax		8,535	6,250
Income tax expense	8	(2,588)	(1,908)
Profit for the year		5,947	4,342
Attributable to			
Owners of the parent		5,815	4,253
Non controlling interest		132	89
		5,947	4,342

Earnings per share for profit attributable to Owners of the parent

- Basic earnings per share	9	7.97p	5.85p
- Diluted earnings per share	9	7.86p	5.80p

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 January 2012

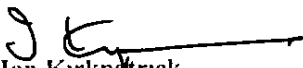
	2012 £ '000	2011 £ '000
Profit for the year	5,947	4,342
Foreign currency translation differences	(1,594)	2,003
Other comprehensive income for the year	(1,594)	2,003
Total comprehensive income for the year	4,353	6,345
Total comprehensive income attributable to		
Owners of the parent	4,221	6,256
Non controlling interest	132	89
	4,353	6,345

**Consolidated Balance Sheet**  
as at 31 January 2012

	Notes	2012 £ '000	2011 £ '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	3,545	3,950
Intangible assets	11	48,052	48,717
Deferred income tax assets	8	1,983	2,488
		<b>53,580</b>	<b>55,155</b>
<b>Current assets</b>			
Cash and cash equivalents		<b>18,550</b>	15,588
Trade and other receivables	12	<b>97,357</b>	83,670
		<b>115,907</b>	<b>99,258</b>
<b>Total assets</b>		<b>169,487</b>	<b>154,413</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Contingent consideration		(19)	(19)
Deferred income tax liabilities	8	(908)	(308)
Provision for liabilities and charges	29	(88)	(193)
		<b>(1,015)</b>	<b>(520)</b>
<b>Current liabilities</b>			
Trade and other payables	13	(91,113)	(83,239)
Current income tax liabilities	14	(178)	(1,861)
Borrowings	26	(13,366)	(7,310)
Provision for liabilities and charges	29	(287)	(135)
		<b>(104,944)</b>	<b>(92,545)</b>
<b>Total liabilities</b>		<b>(105,959)</b>	<b>(93,065)</b>
<b>Net assets</b>		<b>63,528</b>	<b>61,348</b>
<b>EQUITY</b>			
Capital and reserves attributable to equity shareholders			
Ordinary shares	17	3,673	3,673
Share premium	19	8,425	8,425
Shares to be issued		-	-
Fair value and other reserves		15,079	15,079
Own shares held		(424)	(304)
Cumulative translation reserve		6,197	7,791
Retained earnings	20	30,203	26,203
<b>Total shareholders' funds</b>		<b>63,153</b>	<b>60,867</b>
<b>Non controlling interest in equity</b>		<b>375</b>	<b>481</b>
<b>Total equity</b>		<b>63,528</b>	<b>61,348</b>

Parent Company Number 03320790

The Consolidated financial statements on pages 27 to 52 were approved by the Board on 27 April 2012 and signed on its behalf by

  
**Ian Kirkpatrick**  
Chairman

  
**Richard Ashcroft**  
Group Finance Director

**Consolidated Statement of Changes in Equity**  
for the year ended 31 January 2012

	Share capital	Share premium	Shares to be issued	Fair value and other reserves	Own shares held	Cumulative translation reserve	Retained earnings	Total	Non controlling interest in equity	Total equity
Note	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000		£ '000	£ '000
<b>Balance at</b>										
<b>1 February 2010</b>	<b>3,673</b>	<b>8,425</b>	<b>49</b>	<b>15,079</b>	<b>(412)</b>	<b>5,788</b>	<b>23,603</b>	<b>56,205</b>	<b>586</b>	<b>56,791</b>
Profit for the year	-	-	-	-	-	-	4,253	4,253	89	4,342
Currency translation adjustments	-	-	-	-	-	2,003	-	2,003	-	2,003
Total comprehensive income for the year	-	-	-	-	-	2,003	4,253	6,256	89	6,345
Acquisition of Non controlling interest	-	-	-	-	-	-	-	-	96	96
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(290)	(290)
Employee share option and bonus plan*	-	-	-	-	66	-	15	81	-	81
IFRS 2 Deferred Tax charge to equity	-	-	-	-	-	-	(14)	(14)	-	(14)
Settlement of deferred consideration	-	-	(49)	-	42	-	7	-	-	-
Dividends paid	-	-	-	-	-	-	(1,661)	(1,661)	-	(1,661)
<b>31 January 2011</b>	<b>3,673</b>	<b>8,425</b>	<b>-</b>	<b>15,079</b>	<b>(304)</b>	<b>7,791</b>	<b>26,203</b>	<b>60,867</b>	<b>481</b>	<b>61,348</b>
Profit for the year	-	-	-	-	-	-	5,815	5,815	132	5,947
Currency translation adjustments	-	-	-	-	-	(1,594)	-	(1,594)	-	(1,594)
Total comprehensive income and expense for the year	-	-	-	-	-	(1,594)	5,815	4,221	132	4,353
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(238)	(238)
Employee share option and bonus plan*	-	-	-	-	142	-	13	155	-	155
Own Shares purchased*	-	-	-	-	(262)	-	-	(262)	-	(262)
Dividends paid	-	-	-	-	-	-	(1,828)	(1,828)	-	(1,828)
<b>31 January 2012</b>	<b>3,673</b>	<b>8,425</b>	<b>-</b>	<b>15,079</b>	<b>(424)</b>	<b>6,197</b>	<b>30,203</b>	<b>63,153</b>	<b>375</b>	<b>63,529</b>

\* The movements in the Own shares held reserve relate to shares awarded from and purchased by the Employee Benefit Trust



**Consolidated Cash Flow Statement**  
for the year ended 31 January 2012

	Notes	2012 £ '000	2011 £ '000
<b>Profit before tax</b>		<b>8,535</b>	<b>6,250</b>
Adjustments for			
- depreciation	10	2,255	1,863
- amortisation	11	73	70
- loss on disposal of property, plant and equipment	7	30	15
- finance income	6	(25)	(204)
- finance costs	6	466	400
- share based employee settlement and share option charge	27	-	20
<b>Operating cash flows before changes in working capital</b>		<b>11,334</b>	<b>8,414</b>
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)			
- Increase in trade and other receivables		(12,496)	(8,707)
- Increase in trade and other payables		5,773	10,767
- Increase / (Decrease) in provisions	29	46	(455)
<b>Cash flows from operating activities</b>		<b>4,657</b>	<b>10,019</b>
Income tax paid		(2,847)	(964)
<b>Net cash generated from operating activities</b>		<b>1,810</b>	<b>9,055</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	10	(1,275)	(593)
Purchases of property, plant and equipment – rechargeable to clients	10	(721)	(1,916)
Cash acquired with acquisitions		-	575
Purchase of subsidiary undertakings		-	(2,043)
Interest received	6	25	204
<b>Net cash absorbed from investing activities</b>		<b>(1,971)</b>	<b>(3,773)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		147	12
Purchase of own shares		(262)	-
Dividends paid to group shareholders		(1,828)	(1,661)
Dividends paid to non-controlling interests		(238)	(290)
Interest paid	6	(466)	(400)
Increase in borrowings		6,056	297
<b>Net cash generated/(used) in financing activities</b>		<b>3,409</b>	<b>(2,042)</b>
<b>Increase in cash and cash equivalents</b>		<b>3,248</b>	<b>3,240</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>15,588</b>	<b>12,159</b>
Exchange (losses) /gains on cash and cash equivalents		(286)	189
<b>Cash and cash equivalents at the end of the year</b>		<b>18,550</b>	<b>15,588</b>

## Notes to the Consolidated Financial Statements

### 1. General Information

Harvey Nash Group plc ('the Company') and its subsidiaries (together 'the Group') is a leading provider of specialist recruitment and outsourcing solutions. The Group has offices in the UK, Europe, United States and Vietnam.

The Company is a public listed company incorporated in the UK. Its registered address is 13 Bruton Street, London W1J 6QA and its listing is on the London Stock Exchange.

### 2. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years across the group.

#### (a) Basis of preparation

The consolidated financial statements of Harvey Nash Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to Companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention on a going concern basis, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4. The main section of these financial statements presents the financial statements of the Group prepared under International Financial Reporting Standards (IFRS) adopted by the European Union. Pages 53 to 59 show the financial statements of the Company prepared under UK Generally Accepted Accounting Principles (UK GAAP).

#### (i) New and amended Standards, adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year that would be expected to have a material impact on the Group.

#### (ii) New Standards, amendments and interpretations issued but not effective for the financial year and not early adopted

The following standards and amendments to existing standards have been published and are effective for future accounting periods and the Group has not early adopted them:

IAS 19 'Employee Benefits'

IFRS 9 'Financial instruments'

IFRS 10 'Consolidated financial statements'

IFRS 12 'Disclosure of interests in other entities'

IFRS 13 'Fair Value measurement'

The Group is yet to assess the full impact of the above and intends to adopt them in the relevant future accounting periods in which they become mandatory, subject to endorsement by the EU where relevant.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### (b) Basis of consolidation

The Group financial statements consolidate the results of the Company and all of its subsidiary undertakings drawn up to 31 January each year and are based on consistent accounting policies.

Interests acquired in subsidiary undertakings are consolidated from the date control passes to the Group. Transactions and balances, including unrealised profits, between Group companies are eliminated.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent

liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest

The interest of Non controlling interests in the balance sheet is stated at the minority's proportion of the carrying values of the assets and liabilities recognised

### **(c) Revenue recognition**

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group

The Group derives its revenue in the contract services and interim businesses on a time and materials basis. It is recognised as services are rendered as validated by receipt of a client approved timesheet or equivalent. For fixed price development work, revenue is recognised on the percentage completion basis, using pre-specified milestones or a client sign off to trigger invoices and the estimate of profit. For contingency permanent placements, revenue is recognised and the client is invoiced on acceptance of the candidate.

Executive recruitment and assignment fees are recognised as services and are provided, typically in three stages, retainer, shortlist and placement fee.

Revenue anticipated, but not invoiced, at the balance sheet date, is accrued on the balance sheet within prepayments and accrued income. Revenue invoiced not earned at the balance sheet date is recorded as a liability within accruals and deferred income.

### **(d) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements – over the term of the lease  
Office equipment – 20% straight line  
Furniture, fixtures and equipment – 20% straight line  
Computer equipment – 33 33% straight line  
Motor vehicles – 25% reducing balance

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. The changes are included in the income statement.

Property, plant and equipment purchased to deliver outsourcing projects, which have been recharged to clients at cost, remain the legal property of Harvey Nash. They have therefore been capitalised within the balance sheet and depreciated at the rates listed above.

The recharge of the asset at cost to the client represents a disbursement associated with the project delivery and is recognised in line with the depreciation.

### **(e) Foreign exchange**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in sterling which is the Company's functional and presentational currency.

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

On consolidation, revenues, costs and cash flows of overseas undertakings are included in the Group income statement at average rates of exchange for the period. Assets and liabilities denominated in foreign currencies are translated into sterling using rates of exchange ruling at the balance sheet date and any differences arising are taken to reserves.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

**(f) Operating leases**

Rentals payable under operating lease and contract hire agreements are taken to the income statement on a straight line basis over the lease term. Reverse premiums and lease incentive benefits are recognised as a reduction in rental expense. The benefit is allocated on a straight line basis over the lease term.

**(g) Intangible assets**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Other acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition. Intangible assets are amortised to residual values over the useful economic life of the asset. The brand intangible assets recognised in the acquisitions of Alumn AB and Bjerke & Luther AS were valued using the relief from royalty method. The brand intangible assets are being amortised on a straight line basis over their useful economic lives which the directors consider to be 20 years.

**(h) Impairment of assets**

All assets are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of sale and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the original carrying value prior to any impairment charges. A reversal of an impairment charge is recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of impairment loss is treated as a revaluation reserve adjustment.

**(i) Trade and other receivables**

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

**(j) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less.

**(k) Share capital**

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deductible from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in equity attributable to the Company's equity holders.

**(l) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

**(m) Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

**(n) Employee benefits****Pension obligations**

Wherever possible the Group operates defined contribution pension schemes, under which the Group pays fixed contributions into separate entities. The Group has no legal or constructive obligation to pay further contributions. Pension costs are charged to the income statement in the year in which they arise. In Germany and Switzerland, legislation requires the operation of defined benefit pension which contain an element of defined benefit, which are fully insured and for which therefore there are no unrecorded liabilities.

**Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

**Bonus plan**

The Group recognises a liability and an expense for bonuses when contractually obliged.

**Share-based plans**

The Group's management awards certain employees share options on a discretionary basis. The options are subject to three-year vesting conditions and their fair value is recognised as an employee benefits expense with a corresponding increase in retained earnings over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised. For options exercised against own shares held, the shares are removed from the own shares held reserve. The Group has applied IFRS 2 'Share based payments' to all instruments granted after 7 November 2002 but not fully vested as at 1 January 2005 and has adopted the Black-Scholes model for the purposes of computing 'fair value'. Deferred tax is also provided based upon the expected future tax deductions relating to share based payment transactions and is recognised over the vesting period of the schemes concerned.

**(o) Provisions**

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated.

**(p) Borrowing costs**

Borrowing costs are written off as incurred or in the case of initial arrangement fees, may be spread over the term of the facility where appropriate. Invoice discounting fees are recognised as incurred.

**(q) Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

**(r) Financial assets**

The group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

**(s) Non-recurring items**

Non-recurring items are presented separately on the face of the Consolidated Income Statement due to their nature and size. The separate reporting of such items helps to provide a better indication of the Group's underlying business performance.

### 3. Financial Risk Management

#### Financing

The Group's principal financial instruments are invoice discounting, overdrafts, cash and short term deposits. The Group has other financial instruments such as trade receivables and, trade payables that arise directly from its operations. Acquisitions are financed through a mixture of operating cash flow and equity. Working capital finance for day-to-day requirements is provided through operating cash generation, invoice discount facilities and small short term overdraft facilities. Where applicable, funds are then made available for the financing of the Group's subsidiaries through intercompany loans.

#### Objectives, policies and strategies

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

#### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2011/12, the Group's strategy, which was unchanged from 2010/11, was to have adequate headroom and access to cash facilities to meet its requirements.

	2012	2011
Net debt £'000	-	-
Total equity £'000	63,529	61,348
Total capital £'000	63,529	61,348
Gearing ratio %	-	-

#### Interest rate risk management

The Group's policy is to minimise interest charges through cash pooling and active cash management.

#### Foreign exchange risk management

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

In the year to 31 January 2012, if sterling had strengthened by 10% against the US dollar with all other variables held constant, operating profit for the year would have been £53k (2011 £62k) lower mainly as a result of foreign exchange losses on translation of dollar-denominated assets and liabilities.

In the year to 31 January 2012, if sterling had strengthened by 5% against the euro with all other variables held constant, operating profit for the year would have been £248k (2011 £176k) lower mainly as a result of foreign exchange losses on translation of euro-denominated assets and liabilities.

#### Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

The table below shows the credit limit and balance with the Bank at the balance sheet date.

		2012	2012	2011	2011
		£ '000	£ '000	£ '000	£ '000
	Rating *	Credit Limit	Balance	Credit Limit	Balance
Bank overdraft – secured	A-1	2,000	103	2,000	1,387

\* Standard and Poor's rating

### **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and committed credit facilities

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facility, cash and invoice discounting) on the basis of expected cash flow

## **4. Critical Accounting Judgements and Estimates**

### **Impairment of goodwill**

Determining whether the goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value

### **Income tax**

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made

### **Share options**

Share options are granted on a discretionary basis and vest after three years service. The fair value of options granted during the year was determined using the Black-Scholes valuation model. The significant inputs into the model were share price at grant date, expected price, expected option life and risk free rate of 4.30%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices

### **Bad and Doubtful Debts**

Amounts owed to the Group have been reviewed and provision has been made for possible non-collection of bad or doubtful debts. This is done on a case by case basis across the Group taking into account differences between countries and service lines

### **Onerous Leases**

Where the Group has material obligations under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements

## **5. Segment Information**

IFRS 8 requires disclosure of information about the Group's operating segments. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. The chief operating decision maker has been identified as the Group Board

This has resulted in three reportable segments, UK and Ireland, Rest of Europe and United States. Asia Pacific is included in the UK and Ireland segment in line with the way the results are analysed by the Group Board

The directors do not consider revenue by origin to be materially different from revenue by destination. Also all revenue is external and not inter-segment

Services provided by each reportable segment are permanent recruitment, contracting and outsourcing

The Group Board analyses segmental information as follows

### **Revenue**

	2012 £ '000	2011 £ '000
United Kingdom & Ireland	178,437	131,540
Rest Of Europe	317,789	256,386
United States	36,726	34,374
Total	532,952	422,300

**Gross Profit**

	2012 £ '000	2011 £ '000
United Kingdom & Ireland	30,730	28,347
Rest Of Europe	38,307	31,077
United States	9,482	9,124
<b>Total</b>	<b>78,519</b>	<b>68,548</b>

**Operating Profit**

	2012 £ '000	2011 £ '000
United Kingdom & Ireland	3,207	2,684
Rest Of Europe	5,116	3,220
United States	653	575
Operating profit before non-recurring items	8,976	6,479
Non- recurring items	-	(33)
<b>Total</b>	<b>8,976</b>	<b>6,446</b>

**Depreciation and amortisation charge**

	2012 £ '000	2011 £ '000
United Kingdom & Ireland	235	497
Rest Of Europe	1,949	1,330
United States	71	106
<b>Total</b>	<b>2,255</b>	<b>1,933</b>

Within the Rest of Europe segment there is an amortisation charge of £73k (2011 £70k)

**6. Finance Income and Costs**

	2012 £ '000	2011 £ '000
Interest expense		
Interest payable on bank borrowings	(466)	(400)
Finance costs	(466)	(400)
Bank interest	25	100
Other interest	-	104
<b>Finance costs – net</b>	<b>(441)</b>	<b>(196)</b>

Other interest in the prior year related to interest received from HMRC for a tax refund



## 7. Operating Profit

The following items have been included in arriving at operating profit

	2012 £ '000	2011 £ '000
Employee benefits (note 22)	47,064	41,884
Depreciation of property, plant and equipment	2,255	1,863
Amortisation	73	70
Auditors' remuneration		
- fees payable to the company's auditor for the audit of parent company and consolidated accounts	21	18
- fees payable to the company's auditor for the audit of the company's subsidiaries pursuant to legislation	395	325
- fees payable to the company's auditor and associates for other services		
- services relating to taxation	44	87
- all other services	37	144
Operating lease rentals payable	6,881	7,037
Loss on disposal of fixed assets	30	15

## 8. Income tax expense

	2012 £ '000	2011 £ '000
Corporation tax on profits in the year – UK	32	-
Corporation tax on profits in the year – overseas	1,384	1,418
Adjustments in respect of prior years	67	137
<b>Total current tax</b>	<b>1,483</b>	<b>1,555</b>
Deferred tax	1,105	353
<b>Total tax charge</b>	<b>2,588</b>	<b>1,908</b>

The tax for the year is higher (2011 higher) than the standard UK corporation tax rate applied to the pre-tax profit

The differences are explained below for 2012 and 2011 using the UK standard rate of Corporation tax

	2012 £ '000	2011 £ '000
Profit before tax	8,535	6,250
Tax at standard rate of UK Corporation tax (2012 26% and 2011 28%)	2,219	1,750
Effects of		
Expenses not deductible for tax purposes	803	376
Income not taxable	(127)	(13)
Expenses deductible locally	(129)	(249)
Accelerated capital allowances	(84)	-
Short term timing differences	(186)	(25)
Utilisation of previously unrecognised tax losses	(22)	(89)
Tax losses for which no deferred tax asset is recognised	100	101
Deferred tax adjustment in respect of prior years	16	123
Adjustments to tax in respect of prior year	66	138
Profits taxed at overseas rates	(72)	(225)
Losses recognised at overseas rates	(25)	(11)
Other	29	32
<b>Total taxation</b>	<b>2,588</b>	<b>1,908</b>
<b>Current tax:</b>		
Tax on profit in the year	1,416	1,418
Adjustments in respect of prior years	67	137
<b>Total current tax</b>	<b>1,483</b>	<b>1,555</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	998	243
Adjustments in respect of prior years	107	124
Deferred tax to equity	-	(14)
<b>Total deferred tax charge</b>	<b>1,105</b>	<b>353</b>
<b>Total tax charge</b>	<b>2,588</b>	<b>1,908</b>

## Deferred tax

	2012 £ '000	2011 £ '000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	1,433	1,474
Deferred tax asset to be recovered within 12 months	550	1,014
	<b>1,983</b>	<b>2,488</b>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(154)	(267)
Deferred tax liability to be recovered within 12 months	(754)	(41)
	<b>(908)</b>	<b>(308)</b>
Net deferred tax asset	<b>1,075</b>	<b>2,180</b>

This is analysed below

Asset	Accelerated tax depreciation £ '000	Share-based payments £ '000	Tax losses £ '000	Accrued interest charges*	Other £ '000	Total £ '000
<b>1 February 2011</b>	<b>4</b>	<b>227</b>	<b>1,000</b>	<b>1,145</b>	<b>112</b>	<b>2,488</b>
Charged / (credited) to income statement and equity	(1)	(135)	(206)	(51)	(112)	(505)
<b>31 January 2012</b>	<b>3</b>	<b>92</b>	<b>794</b>	<b>1,094</b>	<b>-</b>	<b>1,983</b>

\* The deferred tax asset recognised for accrued interest charges relates to Group interest charges payable by the US business

Liability	Unremitted earnings £ '000	Accrued Revenue £ '000	Other £ '000	Total £ '000
<b>1 February 2011</b>	<b>(148)</b>	<b>-</b>	<b>(160)</b>	<b>(308)</b>
(Credited) to income statement and equity	(6)	(635)	41	(600)
<b>31 January 2012</b>	<b>(154)</b>	<b>(635)</b>	<b>(119)</b>	<b>(908)</b>

Due to the uncertainty of recoverability, deferred tax assets in respect of tax losses, depreciation in excess of accelerated capital allowance and deductible temporary differences of £1,925,711 (2011 £1,888,159) have not been recognised. Future tax charges may be reduced as a result of tax losses for which a deferred tax asset is currently not recognised.

In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate to 22% from 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

## 9. Earnings Per Share

	2012	2011
Profit attributable to shareholders £'000	<b>5,815</b>	<b>4,253</b>
Weighted average number of shares	<b>72,948,499</b>	<b>72,698,315</b>
Basic earnings per share	<b>7.97p</b>	<b>5.85p</b>

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two categories of potential ordinary shares: those share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the year, and deferred consideration shares to be issued.

	2012	2011
Profit attributable to shareholders £'000	5,815	4,253
Weighted average number of shares	72,948,499	72,698,315
Effect of dilutive securities	1,016,933	612,315
Adjusted weighted average number of shares	73,965,432	73,310,630
<b>Diluted earnings per share</b>	<b>7.86p</b>	<b>5.80p</b>

#### 10. Property, Plant and Equipment

	Leasehold improvements £ '000	Office equipment £ '000	Furniture, fixtures and equipment £ '000	Computer equipment £ '000	Motor vehicles £ '000	Total £ '000
<b>Cost</b>						
At 1 February 2011	2,155	758	1,570	11,911	36	16,430
Exchange adjustments	(81)	(7)	112	(183)	(6)	(165)
Additions at cost	224	102	117	832	-	1,275
Additions rechargeable to Clients*	-	-	-	721	-	721
Disposals	(6)	(1)	(26)	(192)	-	(225)
At 31 January 2012	2,292	852	1,773	13,089	30	18,036
<b>Accumulated depreciation</b>						
At 1 February 2011	1,657	679	1,364	8,760	20	12,480
Exchange adjustments	68	2	(104)	(21)	6	(49)
Charge for the year	111	28	300	1,814	2	2,255
Disposals	(6)	(1)	(4)	(184)	-	(195)
At 31 January 2012	1,830	708	1,556	10,369	28	14,491
<b>Net book amount</b>						
At 1 February 2011	498	79	206	3,151	16	3,950
At 31 January 2012	462	144	217	2,720	2	3,545

- Additions rechargeable to clients relate to Nash Technologies in Germany

	Leasehold improvements £ '000	Office equipment £ '000	Furniture, fixtures and equipment £ '000	Computer equipment £ '000	Motor vehicles £ '000	Total £ '000
<b>Cost</b>						
At 1 February 2010	1,955	726	1,476	9,814	35	14,006
Exchange adjustments	29	19	(6)	(96)	1	(53)
Additions at cost	182	39	20	352	-	593
Additions rechargeable to Clients*	-	-	-	1,916	-	1,916
Acquisitions**	-	-	91	2	-	93
Disposals	(11)	(26)	(11)	(77)	-	(125)
At 31 January 2011	2,155	758	1,570	11,911	36	16,430
<b>Accumulated depreciation</b>						
At 1 February 2010	1,411	642	1,261	7,452	17	10,783
Exchange adjustments	(34)	(13)	29	(46)	-	(64)
Charge for the year	287	68	74	1,431	3	1,863
Disposals	(7)	(18)	-	(77)	-	(102)
At 31 January 2011	1,657	679	1,364	8,760	20	12,480
<b>Net book amount</b>						
At 31 January 2011	498	79	206	3,151	16	3,950

\*\* Acquisitions relate to fixed assets acquired in Norway

The Group held no assets under finance leases or hire purchase contracts in the current or prior year

## 11. Intangible Assets

	Brands £ '000	Goodwill £ '000	Total £ '000
<b>Cost</b>			
At 1 February 2011	1,841	47,074	48,915
Exchange adjustments	(69)	(523)	(592)
At 31 January 2012	1,772	46,551	48,323
<b>Accumulated amortisation</b>			
At 1 February 2011	(198)	-	(198)
Charge for the year	(73)	-	(73)
At 31 January 2012	(271)	-	(271)
<b>Net book amount at 1 February 2011</b>	<b>1,643</b>	<b>47,074</b>	<b>48,717</b>
<b>Net book amount at 31 January 2012</b>	<b>1,501</b>	<b>46,551</b>	<b>48,052</b>

	Brands £ '000	Goodwill £ '000	Total £ '000
<b>Cost</b>			
At 1 February 2010	1,133	45,146	46,279
Exchange adjustments	161	609	770
Additions at cost	547	1,319	1,866
At 31 January 2011	1,841	47,074	48,915
<b>Accumulated amortisation</b>			
At 1 February 2010	(128)	-	(128)
Charge for the year	(70)	-	(70)
At 31 January 2011	(198)	-	(198)
<b>Net book amount at 31 January 2011</b>	<b>1,643</b>	<b>47,074</b>	<b>48,717</b>

The carrying amounts of the intangible assets by acquisition are as follows

	2012 £ '000	2011 £ '000
<b>Goodwill</b>		
Harvey Nash BV	2,668	2,748
Harvey Nash US	11,159	11,018
Techpartners Group	10,807	10,807
Harvey Nash IT Consulting NV	5,801	5,964
Impact Executives Limited	3,702	3,702
Alumni AB	5,981	6,274
Harvey Nash (Vietnam) Ltd	1,281	1,262
Harvey Nash (Ireland) Ltd	3,771	3,891
Fila & Myszel Associates Sp	98	108
Bjerke & Luther AS	1,283	1,300
	<b>46,551</b>	<b>47,074</b>
<b>Intangible assets</b>		
Alumni AB Brand	1,005	1,116
Bjerke & Luther AS Brand	496	527
<b>Total</b>	<b>48,052</b>	<b>48,717</b>

During the year the goodwill in respect of each of the cash generating units was tested for impairment in accordance with IAS36. All were assessed to have a value in use in excess of their respective carrying values, and hence no adjustments to goodwill were considered necessary.

The key assumptions in the value in use calculations were:

The model assumes a 7 year business cycle and then a terminal value. The first 3 years of the forecasts were based on post-tax cash flows derived from the management approved 3 year plan. For the following 4 years, the growth rates are based on management's best estimate and range from 5% to 10%. The terminal growth rate is based on the long term growth rate for each country and was on average 2.5%. Management believe the forecasts are achievable.

The discount rate used was based on the industry weighted average cost of capital for each country and was on average 10.0% (2011: 10.6%).

There is significant headroom in the testing for impairment for all the acquired subsidiaries apart from Bjerke & Luther AS in Poland which has headroom of £0.7m. A sensitivity analysis has been performed in assessing recoverable amounts of goodwill. This has been based on changes in key assumptions considered by management to be possible including a 10% decrease in the assumed growth rates and a 10% increase in the assumed weighted average cost of capital. The analysis reveals that no impairment would arise under each scenario.

## 12. Trade and Other Receivables

	2012 £ '000	2011 £ '000
<b>Amounts falling due within one year:</b>		
Trade receivables	78,451	70,088
Less: Provision for bad and doubtful debts	(289)	(559)
	<b>78,162</b>	<b>69,529</b>
Other receivables	1,543	3,164
Prepayments and accrued income	17,652	10,977
	<b>97,357</b>	<b>83,670</b>

As of 31 January 2012, trade receivables of £78.2m (2011: £69.5m) were fully recoverable.

Trade receivables that are less than three months past due are not considered impaired. As of 31 January 2012, trade receivables of £23.4m (2011: £22.8m) were over 30 days old but not impaired. This is consistent with normal commercial practices and prior years. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

<b>Months overdue</b>	<b>2012 £ '000</b>	<b>2011 £ '000</b>
1 – 2 months	16,808	15,575
2 – 3 months	4,768	4,380
Over 3 months	1,825	2,864
	<b>23,401</b>	<b>22,819</b>

As of 31 January 2012, trade receivables of £0.3m (2011: £0.6m) were impaired and provided for:

The individually impaired receivables mainly relate to customers which are in difficult economic situations. All the impaired receivables are more than 3 months overdue. The creation and release of provisions for impaired receivables have been included in 'administrative expenses' in the income statement. The other classes within trade and other receivables do not contain impaired assets.

Movements on the group provision for impairment of trade receivables are as follows:

	<b>2012 £ '000</b>	<b>2011 £ '000</b>
At 1 February	559	349
Provision for receivables impairment	261	345
Receivables written off during the year as uncollectible	(365)	(117)
Unused amounts reversed	(166)	(18)
At 31 January	<b>289</b>	<b>559</b>

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable listed above. The group does not hold any collateral as security.

The creation and release of provision for impaired receivables have been included in 'total administrative expenses' in the income statement.

The carrying amounts of the Group's receivables are denominated in the following currencies:

	<b>2012 £ '000</b>	<b>2011 £ '000</b>
Sterling	27,576	24,032
Euros	56,395	43,817
US dollar	6,614	5,609
Other currencies	6,772	10,212
	<b>97,357</b>	<b>83,670</b>

**13. Trade and Other Payables – current**

	2012 £ '000	2011 £ '000
Trade payables	48,175	44,360
Other tax and social security payable	8,976	12,405
Accruals and deferred income	31,972	23,022
Other payables	1,990	3,452
	<b>91,113</b>	<b>83,239</b>

**14. Current Tax Liabilities**

	2012 £ '000	2011 £ '000
Current tax liabilities	178	1,861

**15. Analysis of Changes in Net Funds**

	1 February 2011 £'000	Cash flow £'000	Foreign exchange movements £'000	31 January 2012 £'000
Net Funds	8,278	(2,808)	(286)	5,184

Net Funds comprise of cash and cash equivalents less invoice discounting and overdrafts utilised

**16. Operating Lease Commitments**

The Group has total future commitments under operating leases for each of the following periods

	2012 Property £ '000	2012 Vehicles, plant and equipment £ '000	2011 Property £ '000	2011 Vehicles, plant and equipment £ '000
<b>Commitments under non-cancellable operating leases:</b>				
Within one year	5,188	587	7,598	527
Later than one year and less than five years	7,385	767	7,735	511
After five years	770	-	706	-
	<b>13,343</b>	<b>1,354</b>	<b>16,039</b>	<b>1,038</b>

**17 Called Up Share Capital**

	2012 £ '000	2011 £ '000
<b>Authorised</b>		
110,000,000 (2011 110,000,000) ordinary shares of 5p each	5,500	5,500
<b>Allotted and fully paid</b>		
73,450,393 ordinary shares of 5p each (2011 73,450,393)	3,673	3,673

The Harvey Nash Employment Benefit Trust held 701,211 shares (2011 624,273 shares)



## 18. IFRS 2 Share Based Payments

The Executive Share Option Plan (ESOP) was introduced in January 2003. Under the ESOP the remuneration committee can grant options over shares in the company to employees of the Company. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. Awards under the ESOP are open to all full time employees except those who have had a material interest in the Group in the previous 12 months. Options granted under the ESOP will become exercisable on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding the compounded annual growth in the Retail Prices Index (RPI) by 3% per annum. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations.

No options were issued in the year ended 31 January 2012 or 31 January 2011.

A reconciliation of option movements over the year to 31 January 2012 is shown below.

	2012		2011	
	Number (‘000)	Weighted average exercise price (£)	Number (‘000)	Weighted average exercise price (£)
Outstanding at 1 February	4,459	0.56	4,780	0.55
Granted	-	-	-	-
Forfeit	-	-	(281)	0.41
Exercised	(374)	0.41	(40)	0.31
Outstanding at 31 January	4,085	0.58	4,459	0.56
Exercisable at 31 January	4,085	0.58	3,911	0.59

Details of the expiry date of options outstanding at the year end is given in the Remuneration Report on page 23.

The total charge for the year relating to employee share based payment plans was £nil (2011: £0.02m), all of which related to equity-settled share based payment transactions. After deferred tax the total charge was £nil (2011: £0.01m).

## 19. Share Premium Account

	2012 £ '000	2011 £ '000
At 1 February	8,425	8,425
At 31 January	8,425	8,425

## 20. Retained Earnings

	2012 £ '000	2011 £ '000
At 1 February	26,203	23,603
Profit for the year	5,815	4,253
Employee share options and bonus plan	13	15
Share based payments deferred tax charge to equity	-	(14)
Acquisitions in the year	-	7
Dividends paid	(1,828)	(1,661)
At 31 January	30,203	26,203

## 21 Fair value and other reserves

Fair value and other reserves include £1 7m relating to a capital redemption reserve created on flotation. The remainder represents share premium on share capital issued in relation to the purchase of certain acquisitions.

## 22. Employees and Directors

### Staff costs for the Group during the year

(including directors)	2012 £ '000	2011 £ '000
Wages and salaries	40,384	36,175
Social security costs	5,304	4,453
Other pension costs (note 23)	1,376	1,236
Share option charge and share based employee settlement	-	20
	47,064	41,884

2012	UK	Rest of World	Total
Average number of people employed in sales and administration (including executive directors)			
Directors	4	-	4
Sales	187	240	427
Administrative	114	87	201
	305	327	632

2011	UK	Rest of World	Total
Average number of people employed in sales and administration (including executive directors)			
Directors	3	-	3
Sales	165	207	372
Administrative	88	96	184
	256	303	559

Key management compensation	2012 £ '000	2011 £ '000
Short-term employee benefits	4,426	4,051
Post-employment benefits	294	268
	4,720	4,319

Key management is defined as key employees at divisional director level in the Group as well as both Executive and Non Executive Board members.

Details of the remuneration of each Director, which form part of the audited financial statements, are set out in the Remuneration Report on pages 19 to 23.

### 23. Pensions

Harvey Nash has in place three pension schemes in the UK, the Harvey Nash plc Directors' Retirement and Death Benefits Scheme, a Group Personal Pension Plan provided by Scottish Widows, and a stakeholder scheme with Scottish Widows which had no participating members at the year end

The Harvey Nash plc Directors' Retirement and Death Benefits Scheme (the 'Scheme') is a small self-administered scheme. It is an exempt-approved scheme under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. The assets of the Scheme are held separately from the Company by trustees. The current trustees are TFA Crawford, DC Higgins, DH Treacher and Scottish Equitable which is the pensioner trustee. The three individual trustees are the only members of the Scheme. The Company has the power to appoint individual trustees. The retirement scheme is provided on a defined contribution basis. The contributions in the year were £nil (2011 £nil)

The Group Personal Pension Plan (the 'Plan') is a defined contribution scheme provided by Scottish Widows. The Group's normal policy is to invite employees to join the Plan automatically on completion of three years' qualifying service, although senior employees may be invited to join earlier at the discretion of the Directors. The Group contributes 5% and the employee contributes 3% of the employee's basic earnings (excluding bonuses) to the Plan. The Group's total contribution to the Plan for the year to 31 January 2012 was £428,762 (2011 £413,591)

The Group operates separate schemes in all the overseas locations. The Group's total contribution to schemes in overseas locations for the year to 31 January 2012 was £947,248 (2011 £822,899)

### 24. Related party transactions

#### Banking Cross Guarantees

The following companies have given security to Harvey Nash Group plc, the Company

The Group guarantees have been entered into by the Companies listed below and relate to any payment due under the Banking agreement by any of the companies listed below

Name of company	Security	Security
Harvey Nash plc	Group Guarantee	Debenture
Harvey Nash Resource Management Limited	Group Guarantee	Debenture
Interim Management In Information Technology Limited	Group Guarantee	Debenture
Nash Direct Limited	Group Guarantee	Debenture
Vertis Consulting Limited	Group Guarantee	Debenture
Mortimer Spinks Limited	Group Guarantee	Debenture
Techpartners International Limited	Group Guarantee	Debenture
Harvey Nash Group EBT Limited	Group Guarantee	-
Impact Executives Holdings Limited	Group Guarantee	Debenture
Impact Executives Limited	Group Guarantee	Debenture
Broadbay Networks Inc	Group Guarantee	-

The relationship between Harvey Nash Group Plc and its principal subsidiaries is disclosed in note 25

## 25. Investments

### Principal Subsidiaries and Branches

The details of the principal subsidiary companies and branches owned directly or indirectly by the Company or Harvey Nash plc as at 31 January 2012 were as follows

Name of company	Country of incorporation and operation	Proportion of ordinary share capital and voting rights	Principal activity
Harvey Nash AG	Switzerland	100%	Recruitment consultancy
Harvey Nash BV	The Netherlands	100%	Recruitment consultancy
Harvey Nash GmbH	Germany	100%	Recruitment consultancy
Harvey Nash IT Consulting NV	Belgium	100%	Recruitment consultancy
Harvey Nash NV	Belgium	100%	Recruitment consultancy
Harvey Nash Offshore Development Centre	Branch - Vietnam	100%	Software development
Harvey Nash plc	England	100%	Recruitment consultancy
Harvey Nash SA	France	100%	Recruitment consultancy
Impact Executives Ltd	England	100%	Recruitment consultancy
Mortimer Spinks Limited	England	100%	Recruitment consultancy
Harvey Nash Inc	US	100%	Recruitment consultancy
Harvey Nash (Ireland) Ltd	Ireland	100%	Recruitment consultancy
Alumni AB	Sweden	100%	Recruitment consultancy
Harvey Nash (Vietnam) Ltd	Vietnam	100%	Software development
Harvey Nash Consulting (Scotland) Limited	Scotland	100%	Recruitment consultancy
TechDiscovery	US	56.6%	Software development
Fila & Myszel Associates Sp	Poland	75%	Recruitment consultancy
Bjerke & Luther AS	Norway	50.1%	Recruitment consultancy

All subsidiary companies are consolidated

The results for Fila & Myszel Associates Sp are not considered material to the Group so no non controlling interest has been recognised.

The directors believe that the book value of investments is supported by their underlying net assets

## 26. Financial Instruments

The Group's financial instruments comprise cash, bank overdraft, invoice discounting and various items such as trade receivables, trade payables that arise directly from its operations. The fair value of financial assets and liabilities is approximately equal to their book values.

Additional disclosures are set out in the accounting policies relating to risk management. An explanation of the role that financial instruments have had during the year in the management of the Group's funding liquidity and foreign exchange is provided on page 32 of the Annual Report.

In accordance with IAS 39, "Financial instruments: Recognition and measurement", the Group has reviewed all contracts and confirmed that none contain embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no embedded derivatives at 31 January 2012.

The Group held no derivative financial instruments at 31 January 2012 (2011: none) requiring to be fair valued.

## Borrowing facilities

The Group had the following committed facilities available at 31 January in respect of an overdraft with a maximum facility of £2 0m at 31 January 2012 (2011 £2 0m)

The Group also has invoice discounting facilities for working capital in the UK of £20 0m, the Netherlands of €18 0m and the US of \$6 0m

The overdraft expires within one year and the invoice discounting facilities are available on a rolling 12 month basis

All conditions precedent to the overdraft and invoice discounting were met at 31 January 2012 and 31 January 2011

Undrawn borrowing facilities		Fixed rate	Floating rate	2012	2011
		'000	'000	Total	Total
				'000	'000
Overdraft	£	-	1,897	1,897	613
Invoice discounting facilities - UK	£	-	12,357	12,357	14,078
Invoice discounting facilities - Netherlands	€	-	12,576	12,576	18,000
Invoice discounting facilities - US	\$	-	4,231	4,231	-

Undrawn borrowing facilities		Fixed rate	Floating rate	2012	2011
		£'000	£'000	Total	Total
				£'000	£'000
Overdraft		-	1,897	1,897	613
Invoice discounting facilities - UK		-	12,357	12,357	14,078
Invoice discounting facilities - Netherlands		-	10,432	10,432	15,406
Invoice discounting facilities - US		-	2,681	2,681	-
Total		-	27,367	27,367	30,097

Drawn borrowing facilities		Fixed rate	Floating rate	2012	2011
		'000	'000	Total	Total
				'000	'000
Overdraft	£	-	103	103	1,387
Invoice discounting facilities - UK	£	-	7,643	7,643	5,923
Invoice discounting facilities - Netherlands	€	-	5,424	5,424	-
Invoice discounting facilities - US	\$	-	1,769	1,769	-

Drawn borrowing facilities		Fixed rate	Floating rate	2012	2011
		£'000	£'000	Total	Total
				£'000	£'000
Overdraft		-	103	103	1,387
Invoice discounting facilities - UK		-	7,643	7,643	5,923
Invoice discounting facilities - Netherlands		-	4,499	4,499	-
Invoice discounting facilities - US		-	1,121	1,121	-
Total		-	13,366	13,366	7,310

## 27 Share based payments

	2012	2011
	£ '000	£ '000
Share based payments	-	20
	-	20

## 28. Dividends

The dividends paid in the year end January 2012 were £1.8m (2011: £1.7m)

The proposed final dividend of £1.2m (1.635p per share) is subject to approval by shareholders at the Annual General Meeting on 28 June 2012 (2011: 1.48p per share amounting to £1.1m) and has not been included as a liability at 31 January 2012

	2012 £ '000
Final dividend for year end January 2011 of 1.48p per share	1,080
Interim dividend for year end January 2012 of 1.025p per share	748
	1,828
Proposed final dividend for year end January 2012 of 1.635p per share	1,195

	2011 £ '000
Final dividend for year end January 2010 of 1.35p per share	981
Interim dividend for year end January 2011 of 0.935p per share	680
	1,661

## 29. Provisions

Provisions relate to a dilapidations provision on a lease which expires in June 2012 and two onerous property leases which run to September 2013 and September 2014 respectively

	2012 £ '000
At 1 February	328
Charge in the year	200
Utilised in the year	(153)
At 31 January	375

£287k will fall due within one year and £88k will be payable after more than one year

## 30. Business Combinations

As previously reported, on 29 April 2010, the Group acquired 50.1% of the share capital of Bjerke & Luther AS, an Executive search and selection firm in Norway, for a consideration of £2.0m

Harvey Nash has been granted a call option to acquire the additional 49.9% of the shares in Bjerke & Luther AS from the sellers which may be exercised at the option of Harvey Nash between 1 February 2013 and 2 April 2013, based upon a multiple of the average profit before tax of Bjerke & Luther AS over a 3 year period until 31 January 2013. The value of the call option has been considered and at the balance sheet date, based on valuations in the Norwegian market, is deemed to reflect the fair value of the final consideration due should the remaining 49.9% be acquired and as such no asset has been recognised in respect of the option.

If Harvey Nash does not exercise the call option the sellers will have an option to acquire the initial shares from Harvey Nash for a consideration equal to the consideration paid by Harvey Nash plus outstanding dividends.

Details of the net assets acquired and the intangible asset on 29 April 2010 are as follows

	£'000
Cash consideration	2,043
Fair value of net identifiable assets acquired	(177)
<b>Intangible Asset</b>	<b>1,866</b>
	£'000
Goodwill	1,319
Brand asset	547
<b>Intangible Asset</b>	<b>1,866</b>

The assets and liabilities arising from the acquisition are as follows

	£'000
Tangible Fixed Assets	106
Brand Asset	547
Cash	575
Receivables	364
Payables	(691)
	901
Non-controlling interest	(177)
<b>Net identifiable assets acquired</b>	<b>724</b>

Outflow of cash to acquire business, net of cash acquired

	£'000
Cash consideration	2,043
Cash and cash equivalents in subsidiary acquired	(575)
<b>Cash outflow on acquisition</b>	<b>1,468</b>

**Financial statements for the Parent Company  
Harvey Nash Group plc, the Company  
Under UK GAAP**



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

We have audited the parent company financial statements of Harvey Nash Group Plc for the year ended 31 January 2012 which comprise Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Harvey Nash Group Plc Annual Report 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31st January 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

### **Other matter**

We have reported separately on the group financial statements of Harvey Nash Group plc for the year ended 31 January 2012.




Nigel Reynolds  
Senior Statutory Auditor  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 April 2012

**Company Balance Sheet**  
as at 31 January 2012

		<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
	Notes		
<b>Fixed assets</b>			
Investments	3	<b>52,264</b>	52,264
<b>Non current assets</b>			
Debtors	4	<b>12,501</b>	12,327
		<b>12,501</b>	12,327
<b>Creditors due within one year</b>	5	<b>(1,937)</b>	(3,139)
<b>Net current assets</b>		<b>10,564</b>	9,188
<b>Total assets less current liabilities</b>		<b>62,828</b>	61,452
<b>Creditors due after more than one year</b>	6	<b>(6,823)</b>	(5,626)
<b>Net assets</b>		<b>56,005</b>	55,826
<b>Capital and reserves</b>			
Share capital	7	<b>3,673</b>	3,673
Share premium account	8	<b>8,425</b>	8,425
Capital contribution	8	<b>20,000</b>	20,000
Other reserves	8	<b>13,814</b>	13,814
Profit and loss account	8	<b>10,092</b>	9,914
<b>Equity shareholders' funds</b>	9	<b>56,004</b>	55,826

The financial statements on pages 55 to 59 were approved by the Board on 27 April 2012 and signed on its behalf by

Company Number 03320790

  
**Ian Kirkpatrick**  
Chairman



**Richard Ashcroft**  
Group Finance Director

## **Notes to the Financial Statements**

### **1 Basis of Preparation**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

As allowed by S408 Companies Act 2006, no profit and loss account is presented in respect of the parent company.

The Company has taken advantage of the exemption available to parent companies under paragraph 3C of FRS 25 "Financial Instruments: Disclosure and Presentation" not to provide the information otherwise required by paragraphs 51 to 95 of the standard, as the Group's consolidated financial statements, in which the Company is included, provides equivalent disclosures under IFRS 7 "Financial Instruments: Disclosures".

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996), since it is included in the consolidated financial statements of Harvey Nash Group plc, which are publicly available.

### **2 Accounting Policies**

#### **(a) Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

#### **(b) Taxation**

Deferred taxation is provided in full for material timing differences except where recoverability of a deferred tax asset is considered to be remote in the foreseeable future. Deferred tax balances are not discounted unless the effects are considered to be material to the Company's results.

#### **(c) Investments**

Investments held as fixed assets are shown at cost less provision for impairment. Impairment reviews are conducted annually.

#### **(d) Related Party Transactions**

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS8, 'Related Party Disclosures', on the grounds that it is wholly owned subsidiary of a group headed by Harvey Nash Group plc, whose accounts are publicly available.

#### **(e) Dividend distributions**

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

### 3. Investments

<b>Fixed asset investments</b>	<b>2012</b>
	<b>£ '000</b>
<b>Shares in group undertakings</b>	
At 1 February 2011	52,264
<b>At 31 January 2012</b>	<b>52,264</b>
<b>At 31 January 2011</b>	<b>52,264</b>

The directors believe that the carrying value of the investments is supported by their underlying net assets. The carrying value of the investments was tested against discounted future cash flows during the year. The forecasts were based on pre-tax cash flows derived from approved budgets for the 2012-2013 financial year. Management believe the forecasts are reasonably achievable. Where the future cash flows could not support the carrying value an impairment was recognised.

#### Principal Subsidiaries and Associates

The details of the principal subsidiary companies and branches owned directly or indirectly by The Company or Harvey Nash plc as at 31 January 2012 were as follows:

<b>Name of company</b>	<b>Country of incorporation and operation</b>	<b>Proportion of ordinary share capital and voting rights</b>	<b>Principal activity</b>
Harvey Nash AG	Switzerland	100%	Recruitment consultancy
Harvey Nash BV	The Netherlands	100%	Recruitment consultancy
Harvey Nash GmbH	Germany	100%	Recruitment consultancy
Harvey Nash IT Consulting NV	Belgium	100%	Recruitment consultancy
Harvey Nash NV	Belgium	100%	Recruitment consultancy
Harvey Nash Offshore Development Centre	Branch - Vietnam	100%	Software development
Harvey Nash plc	England	100%	Recruitment consultancy
Harvey Nash SA	France	100%	Recruitment consultancy
Impact Executives Ltd	England	100%	Recruitment consultancy
Mortimer Spinks Limited	England	100%	Recruitment consultancy
Alumni AB	Sweden	100%	Recruitment consultancy
Harvey Nash (Vietnam) Ltd	Vietnam	100%	Software development
Harvey Nash (Ireland) Ltd	Ireland	100%	Recruitment consultancy
Harvey Nash Inc	US	100%	Recruitment consultancy
Harvey Nash Consulting (Scotland) Limited	Scotland	100%	Recruitment consultancy
Fila & Myszel Associates Sp	Poland	75%	Recruitment consultancy
Bjerke & Luther AS	Norway	50 1%	Recruitment consultancy

#### 4. Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	12,501	12,327

Interest is charged at market rate on intercompany funding balances in accordance with formal loan agreements between the parties

#### 5. Creditors: Amounts Falling Due Within One Year

	2012 £'000	2011 £'000
Bank overdraft	1,937	3,139

#### 6. Creditors: Amounts Falling Due After More Than One Year

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	6,804	5,607
Deferred consideration	19	19
	6,823	5,626

Interest is charged on intercompany funding balances in accordance with formal loan agreements between the parties

#### 7. Share Capital

	2012 £'000	2011 £'000
<b>Authorised</b>		
110,000,000 (2011 110,000,000) ordinary shares of 5p each	5,500	5,500
<b>Allotted and fully paid</b>		
73,450,393 ordinary shares of 5p each (2011 73,450,393)	3,673	3,673

#### 8. Reserves

	Share capital £ '000	Share premium £ '000	Capital Contribution £ '000	Other reserves £ '000	Profit and loss account £ '000	Total equity £ '000
<b>Balance at</b>						
As at 1 February 2011	3,673	8,425	20,000	13,814	9,914	55,826
Dividends paid	-	-	-	-	(1,828)	(1,828)
Dividends received	-	-	-	-	1,653	1,653
Profit for the year	-	-	-	-	178	178
Exchange movements	-	-	-	-	175	175
<b>31 January 2012</b>	<b>3,673</b>	<b>8,425</b>	<b>20,000</b>	<b>13,814</b>	<b>10,092</b>	<b>56,004</b>

The share premium reserve comprises share premium on the issued share capital

The capital contribution reserve was created on flotation

The other reserves represents share premium on share capital issued in relation to the purchase of certain acquisitions

#### 9. Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Profit for the year	178	252
Dividends received	1,653	-
Dividends paid	(1,828)	(1,661)
Exchange gain/ (loss)	175	6
Shares to be issued	-	(49)
Employee share option charge	-	20
Net increase in shareholders' funds	178	(1,432)
Opening shareholders' funds	55,826	57,258
Closing equity shareholders' funds	56,004	55,826

#### 10. Profit Attributed to the Parent Company

The profit for the year ended 31 January 2012 in the financial statements of Harvey Nash Group plc, the Company, was £1.8m (2011 £0.3m). As allowed by s408 Companies Act 2006, no profit and loss account is presented in respect of the parent company.

#### 11. Employees and Directors

Harvey Nash Group plc, the Company employed no staff in the year (2011 nil), other than directors.

Amounts paid by Harvey Nash Group plc, the Company in respect of Directors in the year was nil (2011 nil).

See the Remuneration Report in Harvey Nash Group plc accounts for full details of the Directors remuneration from the Group.

#### 12. Related party transactions

The following companies have given security to Harvey Nash Group plc, the Company

Name of company	Security	Security
Harvey Nash plc	Group Guarantee	Debenture
Harvey Nash Resource Management Limited	Group Guarantee	Debenture
Interim Management In Information Technology Limited	Group Guarantee	Debenture
Nash Direct Limited	Group Guarantee	Debenture
Vertis Consulting Limited	Group Guarantee	Debenture
Mortimer Spinks Limited	Group Guarantee	Debenture
Techpartners International Limited	Group Guarantee	Debenture
Harvey Nash Group EBT Limited	Group Guarantee	-
Impact Executives Holdings Limited	Group Guarantee	Debenture
Impact Executives Limited	Group Guarantee	Debenture
Broadbay Networks Inc	Group Guarantee	-