HYDROGEN GROUP PLC

Reports and accounts for the financial year ended 31 December 2017

Registered in England and Wales, Company No. 5563206

HYDROGEN GROUP PLC

Annual Reports and Accounts 2017

Contents

Chairman's Report

CHAIRMAN'S STATEMENT

A year of significant change that lays a foundation for future profitable growth

2017 was a transformational year for the Group principally due to the acquisition of Argyll Scott Holdings Limited ("Argyll Scott") on 2 June 2017 and its subsequent integration into the Group.

I am pleased to report that the rationale behind the acquisition has proved sound and significant progress has been achieved against the objectives set out in the circular to shareholders. The combined management team is working well together and delivering on our plans.

One of the key objectives of the acquisition was to diversify away from the UK and in the second half of the year over 50% of Group Net Fee Income ('NFI') was derived from overseas markets.

Performance

The Group in 2017 increased its NFI (or Gross Profit) by 29% to £22.8m (2016: £17.7m) including seven months trading from Argyll Scott. Underlying NFI within the existing Hydrogen businesses (excluding Argyll Scott) declined by £0.5m predominately due to a disappointing performance from the EMEA Life Sciences practice which saw a decline in NFI of £1.2m. A restructure of the EMEA Life Sciences team was completed at the back end of 2017 and trading in 2018 has improved as a result.

I am pleased to report that following on from our H1 performance, profit before exceptional items and taxation for H2 has increased by £0.5m in comparison to H1. The Group's performance has continued to improve in H1 2018.

At the time of the acquisition of Argyll Scott, cost synergies along with economies of scales were identified and actions have been implemented to reduce operational overheads. The Group has invested in the development of a new global CRM and IT platform which resulted in the impairment of previously capitalised software costs of £0.6m. These costs together with other one-off costs associated with the acquisition and integration of Argyll Scott have been treated as an exceptional charge in 2017 of £2.0m (2016: nil) as set out in note 4. The Board expects a payback of less than two years on these exceptional costs.

The Board considers that the underlying profit before tax of the business is the best way to judge its trading performance as it excludes one off non-repeatable gains and losses. Key adjustments include exceptional costs of £2.0m (2016: nil) and foreign exchange gains in 2016 of £1.2m which are nil in 2017. Excluding these items, the underlying profit before tax was £0.8m (2016: £0.8m). The statutory loss for the year was £1.3m (2016: profit £1.5m).

Organic growth in our UK contract book together with the opportunities for both revenue growth and cost synergies created by the acquisition of Argyll Scott places the Group in a position to deliver profit growth in 2018.

In 2017 the Group acquired a 45% minority interest in CBFG Limited (which trades as Tempting Ventures), a start-up investment business that provides funding and advisory services to early stage recruitment businesses to help them scale and create value. Its founders have strong track records in this field and their model complements both Hydrogen and Argyll Scott's entrepreneurial roots. Tempting Ventures is operating ahead of its business plan with a small loss of £0.1m in 2017 and a profit anticipated in 2018.

Strategy

Hydrogen Group was built on building market leading specialist teams with a focus on building our teams through a journey from incubator through fast growth to market leader where we have a much greater profit conversion. Building market leading teams is supported by our minority interest share scheme which allows managers and leaders of the teams to take a stake in their niche businesses which is realised in the form of Hydrogen Group shares over time dependent on performance. The minority interest scheme was rolled out during the year following shareholder approval at the AGM in June 2017. I am pleased with the way this has been received within the business and it has already begun to impact the attraction, retention, motivation and development of key staff. We have also launched across the Group a revamped learning and development program to ensure the relevant personal development of all staff.

The Group aims to improve profit conversion by developing more of its ultra-niche teams through to market leading businesses leveraging off our global platform. The Group is committed to a multi brand strategy with each business having a strong brand and proposition. Significant progress has been made moving to one global IT platform which should provide both significant cost savings and improved usability. Our digital marketing capability was significantly enhanced during the year with Hydrogen being named as the 21st most socially engaged staffing consultancy in the world by LinkedIn. Our digital marketing trials have demonstrated the value that can be added to the business and we will be rolling these out across the Group in 2018. There has been increasing focus on cross fertilisation of clients across our specialisations and brands which has improved the strength and depth of our client relationships. The combination of our market leading knowledge and our immersion into tight markets, unlocks the relationships that make a difference to both clients and candidates.

Our focus now is taking advantage of the opportunities available to the Group through to 2020, aiming to grow NFI by at least 10% per annum and driving up profit conversion (underlying profit before tax divided by NFI) to over 15%.

People

I would like to welcome our colleagues from Argyll Scott and Tempting Ventures to the Hydrogen Group. I would also like to thank all our staff for their hard work in 2017 as we completed the integration process which gives the Group a much stronger base to move forward. I am pleased with the progress the combined management team has made and our strength and depth of talent has been significantly enhanced during the year.

Dividend

The Board is confident in the prospects of the Group and believes that the Group should grow profitably and generate cash during 2018. Consequently, the Board proposes to resume payment of a dividend and will pay an initial annual dividend of 0.8p for 2017 (2016: nil). If approved by the shareholders at the Annual General Meeting on 25 May 2018, the dividend (approx. £0.3m) will be paid on 6 July 2018 to shareholders on the register at the close of business on 1 June 2018. The Board plans to return to paying a regular and progressive dividend going forward and will review future dividends in light of the performance of the business.

The Board

As previously announced, Colin Adams resigned from the Board as Group Chief Financial Officer with effect from 4 April 2017 and I would like to thank Colin for his support and guidance over his tenure with the Group.

On completion of the Argyll Scott acquisition, John Hunter joined the Board as Managing Director and has taken responsibility for the Group's Finance and IT functions in addition to his other operational responsibilities. As a trained chartered accountant, John comes with a strong financial background and over 17 years' recruitment industry experience.

Outlook

Trading in 2018 has started well and is significantly ahead of 2017. The actions taken in 2017 are improving profitability which increases our confidence that we will achieve profit growth this year.

The Group's plan for the year ahead is to continue focusing on growing and developing its niche businesses into market leading businesses by investing in high performing individuals and our global, technology and marketing platform.

Stephen Puckett
Chairman

9 April 2018

Strategic Report

BUSINESS REVIEW

We are pleased to report that the structural and operational changes resulting from the acquisition of Argyll Scott have significantly enhanced the prospects of the Group.

The key financial highlights in 2017 were:

- revenue increased to £125.9m (2016: £116.2m);
- NFI increased by 29% from £17.7m to £22.8m, primarily due to the acquisition of Argyll Scott;
- underlying profit* in the year remained unchanged from 2016 at £0.8m; and
- exceptional items of £2.0m arose predominantly from the integration of Argyll Scott into the Group.

* *Adjusted for foreign exchange gains, amortisation of acquired brand and database, share based payments and exceptional items.*

Although globally Group NFI growth was strong, performance was adversely impacted by a decline in our EMEA Life Sciences practice (NFI dropped by 31% from £3.9m to £2.7m) due to a number of staff issues. Additionally, our Singapore operations were impacted by the integration of the local operations of Argyll Scott and Hydrogen affecting the overall performance in APAC. Across the Group six office moves were completed during the year as a result of the integration. The Group has benefited from greater geographical and client diversification and these benefits have accelerated in 2018.

During the year, there have been strong performances in a number of our business practices including Technology Transformation which saw growth in global NFI of 31% to £3.1m as we took advantage of the growth in new technology rollouts by clients. Business Transformation also continued to perform strongly with NFI of £5.6m driven by a number of significant new client wins.

EMEA (including USA)

NFI increased by £1.3m during the year principally as a result of the inclusion of seven months' trade of the UK and Middle East based operations of Argyll Scott, and of increased trading in our US business. Trading in many of our core markets remains buoyant; however, the disappointing performance from Life Sciences weakened the Groups overall EMEA performance.

Operating profit before exceptional items remained flat at £1.4m. The Group continues to roll out new disciplines with a goal to drive increased productivity and as a result improved conversion rates.

APAC

The most notable change during the year was the growth in the APAC region where the bulk of Argyll Scott's operations are based. NFI grew to £7.1m (2016: £3.3m). Operating profit before exceptional items increased to £0.4m from £0.3m in 2016 and the Board believes that the business is well positioned to grow profitably in 2018.

As Argyll Scott is predominantly a permanent business in APAC, a key focus in the region continues to be the development and expansion of the predominantly Hydrogen branded contract operations into Argyll Scott's client base and office infrastructure.

Permanent and Contract

We place candidates in permanent roles and provide contract solutions. Permanent placements play to our experience in satisfying the demand for rare niche skills. Contract solutions provides more predictable revenue stream.

The proportion of the Group's NFI from permanent placements grew from 35% to 51% (£6.1m to £11.5m), mainly as a result of Argyll Scott's predominately permanent business base. Contract NFI has declined slightly by 4% to £11.2m mainly due to the challenges in the EMEA Life Sciences practice where contract NFI dropped by 57% to £1.3m. Globally we commenced 2017 with 977 live contractors and grew that during the year to 1,157 contractors including 88 acquired with Argyll Scott. This growth in the contractor book during the year has created a strong platform to further grow contractor NFI during 2018.

Strategic Report

Clients and Candidates

We have built strong and effective relationships with our clients based around our longstanding track record of delivery and powering their businesses forward. We would like to thank all our clients for their support over the last year and look forward to powering your businesses in the future.

We have a very strong candidate database and proven methodology for building candidate relationships in our core practices. We work with highly talented candidates and contractors and would like to thank them for trusting us to empower their careers.

People

Hydrogen Group is very much a people business and we have continued to invest in our staff to increase our productivity and productive headcount. I would like to welcome all our colleagues from Argyll Scott to the Group who have greatly enhanced the breadth and depth of our internal talent pool. We have a very clear promotion pathway which we have supported by rolling out a new learning and development program for everybody in the Group. We have a performance management system and transparent reward at every level of the business to support an objective and high performance working culture which was recognised by being named as ‘One to watch’ by the Sunday Times Best Companies to work for survey.

The minority interest scheme has been rolled out to the first qualifiers and launched across the Group. The scheme supported by our track record of developing our staff has greatly enhanced our ability to attract and motivate talented people.

As a diverse global organisation, we are in a position to support our clients to ensure they get the best people irrespective of background, gender, religion or sexual orientation and have delivered a number of initiatives to highlight positive role models and the benefits of a diverse workforce.

Technology

One of the key opportunities identified at the time of the acquisition of Argyll Scott was the scope for improvement in the combined Group’s technology platform whilst reducing the cost per user.

During the year, after an extensive review, it was decided to outsource our IT infrastructure to a specialist provider which puts the business on one platform with 24/7/365 global support. This project is being rolled out in Q2 2018 and the cost savings should be realised from H2 2018.

We have also commenced the roll out a new client relationship management system (CRM) across the Group. The new CRM, based on salesforce.com was rolled out in Argyll Scott APAC during 2017 and is being rolled out across the rest of the Group during 2018. This platform provides the opportunity to further enhance and automate our processes.

These projects resulted in exceptional charges of £0.8m during the year, as set out in note 4 to the accounts.

Marketing

The Hydrogen Group continues to focus on building market leading ultra-niche businesses to drive its business forward. This is the original model that built Hydrogen and with the power of digital marketing presents a huge opportunity to the business. We signed an agreement with LinkedIn which gives all the consultants in the Group access to the premium licence and as we roll out our new CRM will enable cross system awareness. Hydrogen Group has strong brands that are highly recognisable within their niche markets, and we have the clients, candidates, staff and infrastructure to take advantage of these opportunities.

HYDROGEN GROUP PLC
Strategic Report

FINANCIAL REVIEW

Revenue

Group revenue for 2017 totalled £125.1m (2016: £116.2m). This growth was primarily due to the inclusion of seven months' revenue from Argyll Scott.

Key performance measures

We measure our progress against our strategic objectives using the following key performance indicators:

Profit conversion

Profit conversion is the underlying profit before tax (PBT adjusted for foreign exchange gains, amortisation of acquired brand and database, share based payments and exceptional items) divided by total NFI. This is key for the business to assess the level of underlying profitability.

In 2017, profit conversion in the Group reduced to 4% (2016: 5%) and remains behind the Group's target of 15%. Following on from the acquisition of Argyll Scott and the benefits identified in the Chairman's Report, the Board believes that this target is achievable.

Productivity per head

Productivity per head represents total NFI divided by the average number of employees. This is important to the business to monitor the levels of activity in the business and identify fee earners who are not at full productivity.

In 2017, productivity per head decreased to £79,000 (2016: £83,000). This was predominantly due to a lower productivity per head at Argyll Scott which has a greater exposure to higher growth developing markets that tend to have lower unit fees (and associated costs) than more mature markets.

NFI split between the UK and the rest of the world

This is the NFI from the UK and the rest of the world expressed as a percentage of total NFI indicating the diversification of the business.

NFI from the rest of the world has increased by £3.5m to £11.0m and represents 48% of the NFI for the year (2016: 43%) principally driven by the acquisition of Argyll Scott, which predominately operates outside the UK.

Net fee income (NFI – equivalent to gross profit)

Overall, there was an increase in Group NFI of 29% to £22.8m (2016: £17.7m). The major driver for this increase in NFI was the acquisition of Argyll Scott.

Permanent NFI grew in the year by 71% to £11.5m with the majority of Argyll Scott's NFI coming from the permanent APAC market. Contract NFI declined to £11.2m (2016: £11.6m) principally as a result of the challenges in the EMEA Life Sciences practice.

The devaluation of sterling increased the value of reported NFI from overseas by 5.5% (£0.6m) during the year.

Operating segments

Our current management structure and reporting focuses on performance of our two core markets: EMEA (including USA) and APAC. The segmental analysis disclosed in note 1 reflects this. The operating model of the business is to build market leading niche businesses. Each operating segment is made up of specialist businesses that focus on a niche market defined by location, sector, role type and type of service. Each business is defined by its size as being one of an incubator, fast growth or market leading business.

NFI from the EMEA operating segment totalled £15.7m (2016: £14.4m) and contributed 69% (2015: 81%) of total NFI. NFI from the APAC operating segment totalled £7.1m (2016: £3.3m) and contributed 31% of total NFI (2016: 19%).

Exceptional costs

Exceptional administration costs totalled £2.0m (2016: Nil) and principally relate to the integration of property and IT platforms following the acquisition of Argyll Scott. More details can be found on note 4.

Headcount

Total headcount at 31 December 2017 was 46% higher than the prior year, at 313 (2016: 215). Average total headcount for the year was 287, a 34% increase on the previous year (2016: 214).

Finance cost/income

Group finance cost for the year was £0.1m compared to net finance income in 2016 of £1.0m. In 2016 there was a £1.0m gain based on fluctuations in foreign exchange rates and trading movements within the loan balances to the Group's foreign subsidiaries. During 2017, the Group restructured its loan facilities within the Group and reclassified the majority of the balances as non-current to limit the risk of large fluctuations in the reported profit and loss from foreign exchange and to allow the better representation of the Group's underlying performance. As a result, any gains or losses on these non-current loans due to foreign exchange are included within other comprehensive income. Finance costs in the year have remained stable at £0.1m (2016: £0.1m).

Profit and loss before taxation

Reported loss before taxation (LBT) for the year was £1.4m (2016: £1.7m profit).

The Board's preferred measure of trading performance of the business removing one off adjustments is flat with underlying profit before tax (PBT) of £0.8m (2016: £0.8m).

Underlying PBT is calculated as follows:

	2017 £'000	2016 £'000
(LBT)/PBT	**(1,447)**	1,667
Exceptional items (note 4)	**1,963**	-
Amortisation of acquired intangibles (note 10)	**52**	-
Share based payments (note 18)	**199**	331
Foreign exchange losses/(gains)	**44**	(1,220)
	811	778

Taxation

There was a £0.1m tax credit for the year (2016: charge of £0.1m), giving an effective credit tax rate of 7% (2016: charge of 8%).

At 31 December 2017 the Group had unutilised tax losses of £7.8m (2016: £3.7m), which grew primarily from acquired tax losses within Argyll Scott, available for offset against future profits. The Group has potential deferred tax assets of £1.6m which have not been recognised.

Dividend

The Board is proposing resuming dividends with an annual dividend of 0.8p for 2017 (2016: nil). This will be put before shareholders for approval at the Annual General Meeting on 25 May 2018.

Loss per share

The basic loss per share was 4.4p (2016: profit of 6.8p). Diluted loss per share was 4.4p (2016: profit of 6.5p).

An adjusted basic earnings per share has been calculated, excluding exceptional items of 2.6p (2016: 6.8p). Adjusted diluted earnings per share of 2.4p (2016: 6.5p).

Strategic Report

Balance Sheet

Net assets at 31 December 2017 increased by £1.2m to £20.2m (2016: £19.0m).

Goodwill increased in the year to £12.2m (2016: £10.1m) following the acquisition of Argyll Scott. There were no impairments to the carrying value of goodwill in 2017 (2016: nil).

Current trade and other receivables increased by 33% to £23.8m (2016: £17.9m). The largest single component is trade receivables which at year end had risen by £4.3m to £13.3m (2016: £9.7m) principally due to the acquisition of Argyll Scott which accounted for £2.5m of the balance. Additionally, several large clients paid significant balances in January rather than in December and as a consequence day's sales outstanding at 31 December 2017 increased to 40 days (2016: 30 days).

The increase of £4.2m in trade and other payables is mainly a result of two factors. Increased sales taxes payable across the Group due to a growth in turnover, and the recognition of a redemption liability in relation to the expected future earn out payments associated to the purchase of certain minority interest holdings in some subsidiaries of Argyll Scott, the arrangements for which were in place at the time of the acquisition. More details are set out in note 28. Accruals principally comprise amounts owed to contract staff which grew in line with the growth in contractors during the year.

Short term bank deposits remain positive at £2.8m (2016: £3.1m).

Reserves

As a result of the Group's trading performance in the year and the impact of the acquisition of Argyll Scott, total equity has increased by £1.2m to £20.2m (2016: £19.0m).

Treasury management and currency risk

Approximately 75% of the Group's revenue in 2017 (2016: 77%) was denominated in Sterling. The Group aims to match cost and revenue in the same currency to provide a natural hedge in its major markets which it achieved with the exception of the Euro.

The Group entered into a £0.5m Euro forward contract in the year to manage the foreign exchange risk. This was settled before the year end and no foreign currency contracts were open as at 31 December 2017.

Cash flow and cash position

Net debt at 31 December 2017 was £0.4m (2016 - net cash of £2.0m). The balance was adversely impacted by a timing difference at the year end when a number of key clients delayed payment of £1.2m until the first week of January. Additionally, the Group made cash investments and loans totalling £0.4m to CBFG, and the cash cost of exceptional items associated with the acquisition and integration of Argyll Scott amounted to £0.7m.

Gross borrowings increased during the year by £2.0m to £3.1m.

The Group has an Invoice Discounting Facility of £18.0m with HSBC with a commitment to May 2019. After this date the facility shall continue until terminated by either party giving to the other not less than three months' written notice.

The Group also has an additional Invoice Discounting Facility of £1.0m with Barclays with a commitment to January 2019.

The average facility available during the year stood at £5.9m. Average utilisation in the year was noted at 56% (£3.3m). The average available funds (including cash) for the Group grew by £1.1m to £5.8m.

Foreign Exchange Risk

The depreciation of Sterling during the year had a positive impact on the translation of the earnings of the Group's overseas subsidiaries. The extent of the depreciation of Sterling is detailed below:

Major currencies	Depreciation in Sterling over the 2017 financial year (average rates)	2017 NFI in local currency as a proportion of Group NFI
Singapore Dollar	5%	12%
Hong Kong Dollar	4%	9%
Euro	7%	7%
United States of America Dollar	5%	6%
Malaysian Ringgit	1%	3%
Australian Dollar	8%	3%
Thai Bhat	9%	3%
United Arab Emirates Dirham	5%	3%
Swiss Franc	5%	2%

The Group is currently not hedged against this translation exposure.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events, which are inherently uncertain.

The Group has two revenue streams, permanent and contract solutions. The cash flow characteristics of the two streams interact in a complementary fashion. The permanent business, which has minimal working capital requirement, is cash generative during the growth phase, and with tight cost control, near to cash neutral in a downturn. By contrast, the contract business has a large working capital requirement, and requires significant cash investment during a period of growth but is cash generative in the first periods of a downturn.

The Group has prepared financial forecasts for the period ending 30 June 2019 and the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating in the foreseeable future. On these grounds the Board has continued to adopt the going concern basis for the preparation of the financial statements.

RESOURCES AND RELATIONSHIPS

Systems

The investment in resilient, cloud-based IT systems has enabled Hydrogen to become a global recruiter, with databases of information that can be made available to all employees, no matter where they are in the world. As noted above, the Group is currently investing in a new global CRM which will allow if to operate a single database that will be accessed by all staff globally.

Clients and Candidates

By building market leading niche businesses, the Group builds real depth in relationships that are built and maintained over long periods of time. Our long-term client and candidate relationships are testament to our ability to deliver outstanding results for them empowering their careers and powering their businesses.

Employees

The Board recognises the importance of engaging employees and supporting them through performance management initiatives. There continues to be regular meetings and updates at all levels of the business, from daily and weekly team sessions and monthly regional sales meetings through to quarterly business wide update on the Group's progress against its global objectives. Worldwide training courses are currently being deployed across the Group to develop our staff into the future leaders of the business and to ensure that they have the relevant skills and experience to grow the business profitably.

The Hydrogen Group Code of Conduct

The latest Code of Conduct is available on the Group's website for all employees and potential employees, candidates, clients, suppliers and business partners. The Code sets out expectations of business behaviour, including Hydrogen's policies on anti-corruption, equal opportunities and diversity, health and safety, modern slavery and use of the internet and social media.

Health and Safety

The Health and Safety policy applies to all offices in the Group, with specific operational responsibility delegated to managers at each location to ensure compliance with relevant local laws and regulations. There have been no major incidents this year.

A crisis response system is in place to reinforce the support given to contractors working on client projects, sometimes in difficult or unstable parts of the world. We are working with AIG, a specialist crisis management assistance company which has wide experience of dealing with emergency situations. All contractors are issued with a 24/7 crisis response number at the start of their contract with Hydrogen, as well as having ongoing support from the contractor care team. There is a clear procedure for responding quickly to situations where a contractor or employee may be in danger. There were no emergency situations of this kind in 2017.

Environment

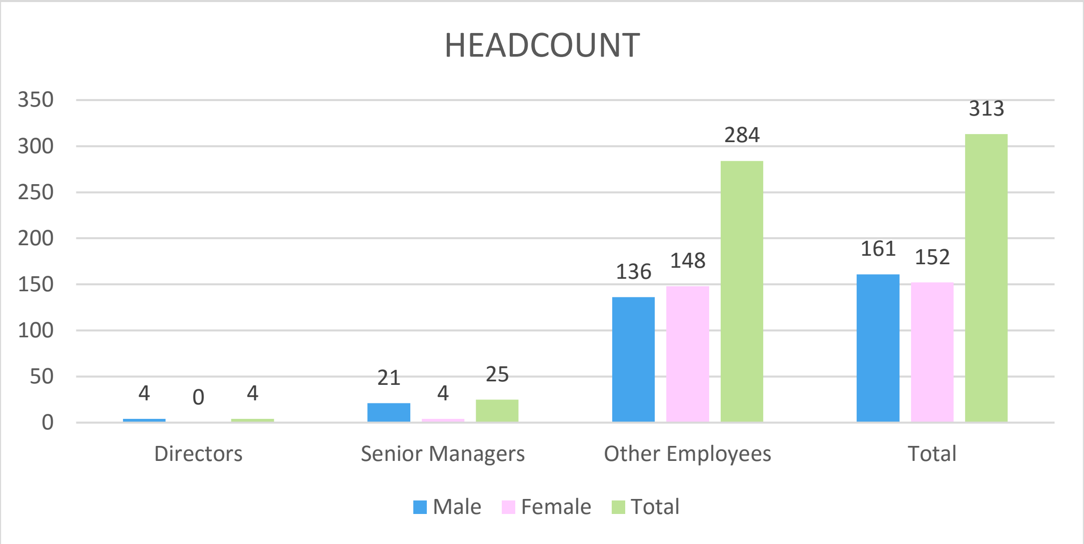
We operate from modern, offices with energy efficient power and lighting systems. We do not use combustible fuels and our electricity costs are low. As a large UK employer, Hydrogen complies with the Government's new regulations on energy use assessment and will be participating in the Energy Savings Opportunity Scheme in respect of its headquarters in London. The Board believes that further disclosure is not material for shareholders.

Equal opportunities and diversity

The Group is committed to the principle of hiring based purely on individual merit, both for its own staff and for clients. Job boards and social media are used to try to attract talent from a wide range of sources and we select our staff and offer career development and promotion opportunities on a non-discriminatory basis. This includes giving equal consideration to applications for employment and onward career development at Hydrogen from people who may have a disability. In the event of an employee becoming disabled, we will make practical changes and make every effort to enable them to continue to work for us.

The focus on individual skills and capability flows through to the records we keep of applicants and employees. We hold only such information as is needed to determine a person's suitability for their role, to ensure compliance with employment law and, in respect of candidates, to meet clients' requirements for each particular role. The Group does not intend to monitor the diversity of employees in more detail but will concentrate on capturing skills, to enable us to find the best person for any role we offer.

At the end of 2017, people employed within the Hydrogen Group, including active non-UK subsidiaries, were split as follows:



Principal risks and uncertainties facing the Group

Hydrogen Group's business model and strategy are designed to increase placements and profitability without increasing risk beyond an acceptable limit. The profile of risks fluctuates from time to time and the actions being taken to manage and control risks are intended to mitigate the effects on the business but cannot eliminate risks absolutely.

A summary of the principal risks which would affect Hydrogen Group's ability to continue in business appears in the following table. Any significant changes in the potential level of risk since the end of 2017 are noted in the commentary.

Type of risk	Potential impact on business	Mitigation
Macro-economic climate	Activity levels are strongly affected by changes in economic confidence. Giving the uncertainties still faced around Brexit this has the potential to have an impact on the future trading of the Group.	The Group operates multiple practices, providing both permanent and contract solutions. Exposure to industries with differing economic cycles and geographic diversification is intended to mitigate against specific sector or regional downturn. Hydrogen Group has continued to diversify its business operations from its traditional UK practices with the acquisition of Argyll Scott where the majority of the trade is situated overseas.
Client Concentration	A large concentration of business with a few clients could be detrimental to the Group if the contract ended.	The Group has a wide spread of clients with a proven track record in winning and developing new clients. It's largest client in 2017 represented approximately 9% of Group with terms agreed until 31 December 2018.
Competition	Hydrogen operates in a number of highly competitive markets. The risk to Hydrogen is competition for quality clients and candidates. The highly competitive nature of the sector could create downward pricing pressure.	In permanent recruitment the Group operates in tightly defined niches, where candidates are hard to find, and often passive. Building a quality candidate pool provides best levels of talent solutions to clients and minimises downward pressure on pricing. Propositions for all Practices and teams are continually being refined to remain competitive in the environment and to adapt to changes in the market. The contract solutions business requires a high degree of compliance and often long-term relationships with clients to consistently deliver and provides more visibility of future earnings.

Staff	Hydrogen staff are highly attractive to the competition and staff turnover could impact the business performance.	Hydrogen Group has a highly developed internal communication program, world class training with clear promotion criteria all staff our empowered to own their performance and career development. Finally, the Group offers market leading reward opportunities for high performance aligned to shareholders' interest through its Minority Interest share scheme.
Talent	The Group needs both to be able to source talent that is willing to move to a new permanent position or work on client's sites as part of a contract solution.	Hydrogen Group works with talent in carefully selected markets where it seeks to build a market leading positions. By having a deep understanding of a market and building a brand in that market the Group is able to attract and build long term relationships with the talent pool.
Data security and access	IT system failure or loss of confidential data. Companies that fail to keep personal data safe risk long-lasting reputational damage that can impact on the future success of the business.	IT systems are cloud based with leading suppliers. There is ongoing staff training on data protection combined with an in-house legal and compliance function to ensure correct processes are followed.
Financial Control	Financial loss could result from procedures to maintain financial control across the business not being adequate.	A formal system of delegated authorities over payments is in place. The Group finance function is managed centrally, with regular reporting to sales leaders. Material areas of financial control are audited annually.
Foreign Exchange	Fluctuations in exchange rates up to the date of settlement of invoices can have an adverse impact on reported NFI and lead to foreign exchange gains/losses impacting reported profit.	Revenue and costs are currency matched wherever practicable. Credit periods are minimised, and transactions are carried out in local currency where possible. Foreign exchange policy and opportunities for risk mitigation are reviewed by the Board and the Audit Committee. The Group entered into a forward contract in 2017 to help mitigate currency exposure to the Euro.
Liquidity	Insufficient working capital or a significant increase in debt would impact the Group's ability to do business.	The Group completes a daily report on its cash position and monitors the trend and available headroom. Facilities are reviewed regularly to maintain sufficient liquidity.
Strategy	Group proposition and vision fails to deliver improved performance and the business fails to consistently grow profitably.	The business has a very clear operating model focused on delivering the strategy. The key drivers for the strategy are building market leading niche businesses, developing, and retaining key staff and building the platform of the business. The Board regularly reviews performance and execution of the business against its strategy.
Market	The market is a rapidly changing and evolving affected by technological, social, and political factors.	The business operates a very agile model through its niche marketing model which should allow it to respond quickly to changes in market conditions. The Group has invested in a technology platform that should allow it to benefit from technological change by automating parts of the process and take advantage of its scale compared to in-house teams or smaller businesses.

There is a clear framework of authorities within the business, up to and including a schedule of matters which can be agreed only by the Board. Hydrogen does not have any contractual arrangements with any single significant individual or company which are essential to the continuation of the business.

Strategic Report

The Board has not delegated its responsibility for financial risk management, including the management of treasury activities. Further information on interest rate, credit, liquidity and foreign currency risks is given in note 26 to the financial statements.

The Strategic Report was approved by the Board of Hydrogen Group plc on 9 April 2018 and signed on its behalf by:

Ian Temple

Chief Executive Officer

The Board

Stephen Puckett, Chairman

Member of the Board since 2012
Chartered Accountant
Significant knowledge of the global recruitment industry with over 12 years' experience as Group Finance Director of Page Group plc
Also a NED of: ITE Group plc and Redcentric plc

Ian Temple, Chief Executive

Member of the Board since 2005
Co-founder of Hydrogen and experienced recruiter with over 25 years' recruitment experience
Chartered Accountant

John Hunter, Managing Director

Member of the Board since June 2017
CEO of Argyll Scott Holdings before acquisition with some 17 years' recruitment experience
Chartered Accountant

Richard Green, Senior Independent Director

Member of the Board since 22 March 2016
Chartered Accountant
Chair of the Remuneration Committee and Audit Committee and a member of the Nomination Committee
Experienced NED in both public and private companies
Previously Managing Partner and subsequently Chairman of August Equity LLP
Director of Northern Venture Trust PLC, BGH Capital Offshore I GP Ltd, Qannas Investments Ltd and the non-executive Chairman of Technology Venture Partners LLP.

Directors during the year to 31 December 2017

Colin Adams, Executive, Chief Financial Officer (resigned with effect from 4 April 2017)

Corporate Governance Report

For the year ended 31 December 2017

Statement on Corporate Governance

The Directors consider it important that appropriately high standards of corporate governance are maintained. They have therefore put in place governance structures and provide information which would be expected for companies listed on AIM of the London Stock Exchange. However, the Group and Company is not required to comply with the UK Corporate Governance Code (the "Code") so this report does not describe compliance with or departures from the Code.

The Group's corporate governance framework follows the principles of the 2013 QCA Corporate Governance Code for Small and Mid-Size Quoted Companies (the "QCA Code"). The QCA Code recommends that smaller companies apply its twelve principles in the way best suited to their size and market capitalisation. Hydrogen has chosen to adopt best practice in terms of Board composition, the structure and operation of Board Committees, linkage between remuneration, strategy and risk, regular communication with investors and is proposing an annual evaluation of effectiveness. More limited disclosures of non-financial information take account of the fact that Hydrogen Group remains outside of the scope of the Code and those disclosures are not material to the business of the Group.

The strongest focus has therefore been given to the areas of governance intended to give assurance to shareholders that decisions are taken for the benefit of the Group and Company. These areas include having independent challenge from Non-Executive Directors, clear Terms of Reference for both the Board and its Committees and ensuring that senior remuneration is proportionate and directly linked to the success of the Group and Company.

The Board believes the overall governance framework is strong and suitable for Hydrogen's size.

The report which follows explains the governance arrangements in more detail and include reports from the specialist Audit and Remuneration Committees, which are presented by the Directors who chaired the respective Committees during 2017.

Recent changes to the AIM Rules mean that, from 28 September 2018, all AIM-listed companies will have to adopt a recognised code of corporate governance and will need to include details of the code they have followed, how they have complied with it and reasons for any non-compliance on their websites. There is some flexibility over the code that can be followed but it must be one that is appropriate for a company admitted to a public market. The QCA Code, which is already followed in principle by the Group on a voluntary basis, will continue to be adopted after this rule change.

Stephen Puckett **Chairman**	**Ian Temple** **Chief Executive**
9 April 2018	**9 April 2018**

Board Composition

The Board of Directors at the beginning of 2017 comprised Stephen Puckett (Chairman and Non-Executive Director), Ian Temple (CEO), Colin Adams (CFO) and Richard Green (Non-Executive Director).

Following the changes announced during the year, the current members of the Board are Stephen Puckett (Chairman and Non-Executive Director), Ian Temple (CEO), John Hunter (MD) and Richard Green (Senior Independent Director). Their biographies appear on page 14.

Colin Adams resigned as Chief Financial Officer with effect from the 4 April 2017.

John Hunter was appointed as Managing Director with effect from 2 June 2017.

In 2017, the skills and experience considered in the composition of the Hydrogen Board were:

- Detailed knowledge of the permanent recruitment and contract solutions industry
- Financial acumen
- Board experience in listed companies and/or people businesses with international operations
- A strong understanding of the expectations of the Group's key stakeholders – investors, clients, candidates and regulatory agencies
- For non-executive Director positions, professional qualifications or experience relevant to the working of the Audit, Remuneration and Nomination Committees
- Credibility with employees, clients, advisers and the City community

Board Independence

Stephen Puckett, Chairman, is independent. He acts independently of management and is free from any substantial business relationship that could materially interfere with the exercise of their judgement.

The Company Secretary maintains a register of outside interests and any potential conflicts of interest are reported to the Board.

The Non-Executive Directors can meet without the presence of the Executive Directors after Board or Committee meetings or otherwise, as needed.

Senior Independent Director

The Senior Independent Director is the main point of contact for shareholders if there are any concerns that cannot be addressed through the Chairman or Executive Directors.

The Senior Independent Director is also available to anyone working for Hydrogen who wishes to raise a concern under the whistleblowing procedure. Hydrogen Group operates a positive commitment and open approach to whistleblowing. Employees can contact the Senior Independent Director at any time and anonymously if they wish, via the Group's nominated Treasury official.

Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are followed, that the Company complies with company law and the AIM Rules and that the Board receives the information it needs to fulfil its duties effectively.

All Directors have access to the Company Secretary and their appointment (or termination of appointment) is a matter for decision by the full Board.

The Board in 2017

The Board of Hydrogen Group plc is responsible for the overall conduct of the Group's business. The Board's key purpose is to ensure the Group's prosperity by collectively directing the Group's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders.

The strategy of diversification has proved to be successful in transforming the Group's client list and reducing the risk of concentration on UK professional services recruitment and is now focussing on securing sustainable profitable growth. Further details of the strategic goals for 2018 are provided in the Strategic Report on page 4.

The Board believes the actions taken in the year to strategically align Argyll Scott with the existing Hydrogen business have repositioned the Group and better aligned operating costs with expected levels of net fee income ("NFI") going forward. The Board is collectively responsible to the Group's shareholders for the success of the business.

Given these factors above, the Board is confident it has satisfied the Group Code's requirements for its effective operation.

Board meetings and Committees of the Board

The Board expects to meet at least eight times a year. In 2017, including full Board conference calls, the Board met eleven times. In addition, authority was delegated to sub-committees on an ad hoc basis to deal with statutory matters such as final approval of the interim and final accounts statements and the Notice of AGM. These short sub-committee meetings are not included in the table of attendance below.

The Board has established three specialist committees (the Audit Committee, the Remuneration Committee and the Nomination Committee), in accordance with best practice recommendations. Each Committee has a majority of Non-Executive Directors and operates with defined terms of reference which are reviewed annually and are available on the Group's website: http://www.hydrogengroup.com. Directors who are not members of a particular Committee may attend by invitation of the Committee Chairman. The matters addressed by each Committee are reported on in brief at each subsequent Board meeting so that the full Board is aware of any issues arising.

Attendance by each Director at full meetings of the Board and Board Committees of which they were a formal member during 2017 is summarised in the table below.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Stephen Puckett (Non-Executive Chairman)	11/11	4/4	5/5	3/3
Ian Temple	11/11	N/A	N/A	N/A
Colin Adams*	0/2	N/A	N/A	N/A
Richard Green (Non-Executive)	11/11	4/4	5/5	3/3
John Hunter^	5/5	N/A	N/A	N/A

* *up to date of resignation from the Board*

^From date of appointment to the Board

Executive Board

Maximising the opportunities open to the Group on a day to day basis is the responsibility of the Executive Board. It acts as a separate group, under delegated authority from the Board and represents the highest level of operational management in the business. The limits of its authority are set by Terms of Reference approved by the Board.

The Executive Board is composed of the Chief Executive Officer (Statutory Director), Managing Director (Statutory Director) and both the EMEA and APAC Chief Operating Officers.

Audit Committee

The Audit Committee's primary responsibilities are to review the financial statements and any changes in accounting policy; to have assurance that there are suitable internal controls and risk management systems in place; to consider the appointment of the external auditors and their independence; and to review audit effectiveness.

The Audit Committee is made up of independent Non-Executive Directors, Richard Green, the Committee Chairman and Stephen Puckett.

The Audit Committee's report on its work during the year appears on pages 18-20.

Risk management and internal control

The Board has not delegated responsibility for risk management and internal control. In line with its focus on improving profitability, the Board supported management action to reduce ongoing costs that were identified post the acquisition of Argyll Scott and has continued to monitor the risks arising from the changes made. A principal risk continues to be the requirement to recruit, retain and develop a high level of skills within the Group's businesses, in order to take advantage of opportunities where there is clear client demand and productivity is already above target levels.

The Group is also affected by external economic and market factors such as the EU referendum decision. A table of the principal risks which could impact the Group's operations is set out on pages 11-12.

Internal Controls

The Group's system of internal control is designed to safeguard the Group's assets and to ensure the reliability of information used within the business and for publication.

The system of controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

Examples of control procedures within the business include:

- Executive Board and PLC Board reviews of performance against annual budget at each meeting
- Monthly and quarterly meetings of the Executive Board to address operational issues
- New management information systems rolled out to enable managers to monitor live performance
- Productivity per head targets to be achieved before hiring additional headcount
- All bank accounts and balance sheet accounts reconciled monthly
- Line manager and Director approval of all purchase invoices within set authority limits
- Dual bank signatories for all payments, again within pre-determined authority limits
- All expenses reclaimed by employees require authorisation from the relevant business unit Director
- Independent verification of deals by a separate Quality Assurance team before revenue is recognised in financial statements
- Restriction of user access to IT and CRM systems

The Group's independent auditor, BDO LLP, does not perform a comprehensive review of internal control procedures but reports to the Audit Committee on any significant deficiencies during the course of the annual audit, which covers key subsidiaries within the Group as well as the consolidated financial reporting.

Remuneration Committee

The Remuneration Committee reviews the remuneration packages for members of the Executive Board and for the Chairman, so that the Chairman does not preside over decisions about his own remuneration.

During 2017, the Chairman of the Remuneration Committee was Richard Green. The other member was Stephen Puckett. The full Board has been kept up to date with changes in headcount and remuneration during the year.

Further information about the Remuneration Committee is available on the Group's website: http://www.hydrogengroup.com/en/2015-03-23-12-38-58/governance/remuneration-committee.

The Directors' Remuneration Report can be found on pages 21-26.

Nomination Committee

The Nomination Committee is responsible for establishing the process for any appointment of new Directors, for making recommendations on Board composition and balance and for Board succession planning. During 2017, Stephen Puckett chaired the Committee, and Richard Green was also a member of the Committee.

Board effectiveness

The Board considers that it has shown its commitment to leading and controlling the Group by the actions taken during 2017 and into 2018. There is a statement of senior responsibilities approved by the Board, clear delegation of authorities to Committees and the Executive Board and a formal Schedule of Matters reserved for Board decision is in operation. The Schedule of Matters reserved for Board decision and Terms of Reference for all Board Committees and for the Executive Board may be downloaded from the Group's website: www.hydrogengroup.com

Performance evaluation

Following the changes of the composition of the Board, no formal evaluation took place in 2017. A formal evaluation of Board effectiveness will be undertaken in 2018.

Annual re-election of Directors

The Board intends that all Directors should seek re-election by shareholders at each AGM. The names and details of Directors who will seek election or re-election at the AGM will be confirmed in the Notice of AGM, expected to be published in April.

Dialogue with shareholders

The Directors hold a material interest in the Group which aligns their interests to shareholders.

The split of shareholdings at the date of this report was approximately as follows:

Type of shareholder	% of total issued share capital
Directors	19.18
Employee Benefit Trust	3.48
Institutional investors	34.31
Brokers, individuals & other	43.03
TOTAL	**100.0**

The Board seeks to build on a mutual understanding of objectives between the Group and its shareholders by communicating regularly during the year and providing information on the Group website. Investors can attend the AGM and ask questions to make their own assessment of the Group's position and prospects. The Audit Committee's work this year was directly linked to the Group's focus on rebasing the Group's cost base and ensuring robust cut-off procedures for revenues and costs.

Meetings of the Audit Committee in 2017

The membership of the Committee and its Committee's Terms of Reference are set out on the Group's website: http://www.hydrogengroup.com/en/2015-03-23-12-38-58/governance/audit-committee.

Time was allowed at the end of each meeting for discussion without any executives being present, to allow the external auditor to raise any issues of concern.

The following matters were discussed throughout 2017:

- The reappointment of BDO as statutory auditors for Hydrogen.
- The appointment of BDO as statutory auditors for Argyll Scott.
- The financial impact of the exceptional items noted during the year.
- Approval of the financial statements for the year ended 31 December 2016.
- A review of 30 June 2017 interim accounts.
- Evaluation of the current internal controls and risk management systems in place.

Risk and internal control

The Board has not delegated responsibility for the overall task of managing risk and control. A table explaining the major risks and steps taken to mitigate them is included within the Strategic Report.

The Audit Committee reviews internal controls and risk management procedures in the context of any issues which arise during the external audit process, or if concerns are raised by a member of the Board or by an employee under the “whistleblowing” procedures. Included in the review is consideration of the need for an internal audit function.

The Board has discussed the need for a full internal audit function and will keep the matter under review. The Audit Committee can, and does, ask for particular control areas to be reviewed – whether by management, the compliance and quality assurance team, by independent accountants or by the external auditors as part of the annual audit.

External audit

The Committee has primary responsibility for the relationship between the Company and its external auditor. During the year, the Committee resolved to reappoint BDO as the Group’s statutory auditor.

Representatives from BDO are invited to attend Committee meetings and the Chairman of the Committee meets less formally with the lead audit partner, as needed. The independence of the auditor is kept under review and is reported on twice a year, as part of the Audit Findings Report presented to the Committee by the auditor.

To safeguard the objectivity and independence of the external auditor, the Committee monitors the external auditor’s proposed scope of work and the value of fees paid, to ensure that independence is not compromised. This prevents the auditor being able to provide certain services such as internal audits.

In the year to 31 December 2017, audit fees for the Group totalled £145k (2016: £88k), compared with non-audit fees, including advice on the interim review of £128k (2016: £40k). The Committee can confirm that BDO continues to be independent.

Whistle-blowing and anti-corruption measures

There were no “whistleblowing” (public interest) disclosures during the year. A revised Code of Conduct issued in June 2017 (available on the Group website), includes an updated anti-corruption policy, and training has been rolled out from the Executive Board downwards.

This report was approved by the Audit Committee and the Board on 9 April 2018 and was signed on its behalf by:

Richard Green
Chairman of the Audit Committee

Statement of policy on Directors' remuneration

Hydrogen Group plc's remuneration policy is

i) to provide a remuneration package to attract, retain and motivate Directors and senior managers with the appropriate leadership skills and experience to realise the Group's strategic objectives;

ii) to pay fairly; and

iii) to reward performance in a way which seeks to align the interests of management with those of shareholders.

The Role of the Remuneration Committee

The membership of the Committee and its Terms of Reference are made public on the Group's website: http://www.hydrogengroup.com/en/2015-03-23-12-38-58/governance/remuneration-committee. The Terms of Reference were adopted in December 2013 and were reviewed and updated in 2015.

The Remuneration Committee's work in 2017 fell within five main headings:

- Evaluating performance of key individuals for the year ended 2017
- Setting remuneration for the Chairman, CEO and MD
- Implementation of a share option scheme and the granting of options;
- Implementation of a Minority Interests scheme and the granting of options; and
- Reviewing and implementing Bonus Schemes for Senior and Executive Management

Contracts

Ian Temple's contract reflects his continuing employment status, with 12 months' notice of termination required from either party. Restrictive covenants apply for 9 months following termination.

The contract for John Hunter as Managing Director provides for 6 months' notice to be given. Restrictive covenants apply for 6 months following termination.

On termination, any compensation payments due to a Director would be calculated in accordance with normal legal principles and take into account bonuses accrued up to the final date of employment and payable by reference to the terms and performance conditions of the remuneration scheme already agreed for that year. There are no additional compensation payments and any departing Director would be expected to abide by the common law duty to mitigate losses.

Share based incentives

The Group set up a 2017 leadership option scheme as it was considered essential to retain and motivate key employees going forward. Granting options to key employees was a way of promoting both staff retention and motivation. During the year 1,985,000 shares were granted under options with a four-year vesting period. During the year, 330,000 options were forfeited. A further 248,250 shares are expected to forfeit in 2018 based on performance conditions not met.

The Committee continues to aim to keep the interests of senior employees and shareholders aligned and to maintain a high proportion of variable performance-related pay within executive remuneration packages.

Linking reward to business strategy

Remuneration remains the biggest single cost to the business.

The management team, led by Ian Temple as CEO, continue to base remuneration structures that reward profitable growth and drive the right behaviours in the Group.

The impact of changes in overall remuneration arrangements will continue to be matters for full Board discussion and approval.

Information and Advice

The Committee did not undertake formal benchmarking of Directors’ remuneration in 2017. The Group does not have retention agreements with any external remuneration consultants and no consultants were used by the Committee this year. The Committee does not consult with employees on remuneration policy for Directors.

Executive Directors’ Remuneration

The remuneration package for executive Directors is made up of:

1) base salary;
2) benefits, including a company car allowance, a contribution towards a Group-sponsored defined contribution pension arrangement, or personal pension which meets the requirements for auto-enrolment, private medical insurance and life cover;
3) a discretionary bonus; and
4) long term, share-based incentives which are subject to performance conditions linked to the financial performance of the Group over a number of years.

Base salaries in 2017

Ian Temple (CEO) received an inflationary increase in the year by 2%. Stephen Puckett (Chairman) received the same salary as 2016. John Hunter (MD) agreed a new package in June 2017 at the time of his appointment to the Board.

Discretionary bonus

Given the financial performance of the Group during the year, no bonuses were payable to a Director.

Pension

The Group contributes to a third party defined contribution pension scheme for senior managers and Directors.

The Group makes no recommendations on individual investment decisions and there is no guarantee of the final pension amount which may result from those investments.

Outside appointments

The Board’s general policy is that Executive Directors may accept Non-Executive Director roles with other companies, so long as there is no conflict of interest and their effectiveness is not impaired. Any proposed new appointment must be approved by the Board. In such cases, the Executive would be permitted to retain any external Director fees. Neither of the Executive Directors currently hold any external directorships, although John Hunter is engaged in a non-executive capacity as a Board advisor to the Redgrave Group.

Non-Executive Directors’ Remuneration and Terms of Service

Non-Executive Directors serve under the terms of a Letter of Appointment. The standard form letter expects Directors to serve for a period of one or two terms of three years, which may be extended for a further three years by mutual consent. The Letter sets out the time commitment and duties expected of each individual. A copy of a standard form of Letter is available on the Group’s website at www.hydrogengroup.com.

The Group’s policy is to pay Non-Executive Directors at a rate which is competitive with similar companies and reflects their experience and time commitment. Additional fees are paid for Chairmanship of the Audit and Remuneration Committees.

As Non-Executive Directors are not employees, they do not receive benefits or pension contributions and they are not entitled to participate in any of the Group’s short term bonus or long term incentive plans.

Directors’ insurance and indemnity

Directors’ and officers’ liability insurance is provided at the cost of the Group for all Directors and officers. Article 174 of the Articles of Association provides for the Company to indemnify Directors against losses and liabilities properly incurred in the execution of their duties.

Link between Directors' Remuneration and Group Strategy

The following table sets out the key elements of the Group's remuneration policy for executive Directors and the linkage between Directors' remuneration and the Group's renewed strategic focus on sustainable profit.

	Objective and link to strategy	**Key features**	**Comments and performance criteria and assessment**
Service contracts	Contracts provide clarity for both parties and protect both the individual and the Group's interests.	Executive Directors' contracts specify a 12-month notice period for I Temple and 6 months' notice period for J Hunter and contain restrictive covenants to protect the Group's interests.	C Adams completed his 6-month contractual notice period on 4 April 2017. J Hunter was appointed to the Board on the same notice period during the year.
Base salary	Level of base salary recognises individual responsibilities, leadership and significant contribution to the business.	Contractual obligation - reviewed annually by the Remuneration Committee.	Annual salary review takes account of the current and forecast financial performance of the Group, individual performance and published remuneration information for similar companies.
Benefits	Benefits are competitive and promote continued service. The costs of providing benefits are reviewed regularly.	Contractual benefits include a company car allowance, life assurance and private health insurance.	Benefits are also available to managers below Board level, depending on seniority.
Pension contribution	Encourages provision for the future in a cost-efficient way which meets auto-enrolment requirements and does not increase risk to the Group.	Contribution of up to 5% of salary into an externally provided defined contribution pension arrangement.	Matching contribution is also available to managers below Board level. No difference in operation for Directors.
Annual bonus	Most employees participate in some form of short term incentive scheme. The schemes aim to focus attention on short term actions which will drive improved performance.	Awarded at the discretion of the Remuneration Committee subject to achievement of performance conditions. Staff bonuses are paid according to performance against targets.	The Remuneration Committee decided that no annual bonus was to be awarded based on the 2017 trading results to the board. Staff bonuses depended on individual and company performance during the year.
Share options	The Company uses EMI and Unapproved share option schemes to retain and reward senior employees and Directors. In 2017, EMI options were granted to senior leaders to help with the strategic decision to retain key employees.	Awards are made by the Remuneration Committee on behalf of the Board. The level of awards made was within dilution limits. The 2017 EMI options require all employees to be in active employment and minimum growth in EPS each year of 30% before any shares can be vested.	Vesting of awards depends on compound annual growth in Group EPS and PBT over the performance period and achievement of a relevant Key Performance Indicator ("KPI") for each individual. 330,000 shares have been forfeited in the year in relation to the 2017 EMI scheme. A further 248,250 shares are expected to forfeit in 2018 based on performance conditions not met.

Shareholding Policy	The policy is intended to align the interests of Executive Directors and Executive Board members with those of external shareholders.	The Remuneration Committee will take into account the value of each individual's personal holding of Hydrogen Group shares when making any future share-based awards.	Executive Board members will be expected to hold shares equivalent in value to 50% of their base salary in order to qualify for any future grant of share options.

Directors' interests in shares

Directors' beneficial interests in the shares of the Company at 31 December 2017 were as follows:

	Ordinary shares of 1p each held at 31 Dec 2017	**Percentage of issued share capital at 31 Dec 2017**	Ordinary shares of 1p each held at 31 Dec 2016	Percentage of issued share capital at 31 Dec 2016
Ian Temple	**4,048,726**	**12.11%**	4,048,726	16.95%
Stephen Puckett	**550,000**	**1.65%**	450,000	1.88%
John Hunter	**1,646,872**	**4.93%**	-	0%
Richard Green	**166,666**	**0.50%**	166,666	0.70%

Share option schemes

As part of the ongoing incentivisation and retention programme a new EMI Share Option Scheme was set up in 2017 for senior leaders and key individuals within the Group (refer below and note 18).

Details of share options granted to Directors of the Company and outstanding at the year-end are set out in the table below:

2017

	Year of issue	**Options outstanding 1 January**	**Granted during the year**	**Exercised during the year**	**Forfeit during the year**	**Options Outstanding 31 December**	**Earliest exercise date**	**Latest exercise date**	**Exercise price per option £**
2017 EMI Options									
I. Temple	2009	12,000	-	-	-	12,000	31/03/13	20/10/19	0.01
	2017	-	500,000	-	-	500,000	02/06/21	02/06/27	0.34
J. Hunter	2017	-	500,000	-	-	500,000	02/06/21	02/06/27	0.34
		12,000	**1,000,000**	**-**	**-**	**1,012,000**			

2016

	Year of issue	Options outstanding 1 January	Granted during the year	Exercised during the year	Forfeit during the year	Options Outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option £
2016 EMI Options									
T. Smeaton	2006	124,200	-	-	(124,200)	-	29/09/06	29/09/16	0.81
	2009	6,709	-	(6,709)	-	-	31/03/13	20/10/19	0.01
I. Temple	2009	12,000	-	-	-	12,000	31/03/13	20/10/19	0.01
C. Adams	2015	330,000	-	-	(330,000)	-	31/05/17	31/05/25	0.01
		472,909	**-**	**(6,709)**	**(454,200)**	**12,000**			
Unapproved Options									
T. Smeaton	2006	5,291	-	(5,291)	-	-	31/03/13	29/09/16	0.01
	2011	138,000	-	-	(138,000)	-	31/03/17	21/02/21	0.01
	2012	138,000	-	-	(138,000)	-	31/03/17	05/06/23	0.01
	2013	24,000	-	-	(24,000)	-	31/03/17	05/06/23	0.01
		305,291	**-**	**(5,291)**	**(300,000)**	**-**			
		778,200	**-**	**(12,000)**	**(754,200)**	**12,000**			

Performance criteria

The performance criteria for executive Directors' share options are as follows:

Options issued in 2009:

Options vested in 2013 dependent on the profitability of Hydrogen Group plc in the period 2011 to 2012. The performance criteria were met on 53% of the options; the remaining 47% lapsed. I. Temple's options are due to expire in 2019 with the remainder of shares having forfeited over the years.

Options issued in 2017:

I. Temple and J. Hunter were both awarded EMI shares in relation to the leadership scheme in the year. Both sets of options require the Directors to have continued employment with Hydrogen and minimum growth in EPS of 30% each year before any options can vest. EPS targets range from 30% to 50% growth year on year with the number of options applicable to vest based on a sliding scale basis. Both sets of options are due to expire in 2027.

Other key individuals are excluded from the above and have been included in note 18.

Emoluments

The aggregate emoluments of the Directors for the year were as follows:

	Salary and fees £'000	Benefits £'000	Bonuses £'000	**Total £'000**	Pension £'000	**Total £'000**
2017						
Executive Directors:						
Ian Temple	220	17	-	**237**	10	**247**
Colin Adams†	47	2	-	**49**	2	**51**
John Hunter	97	8	-	**105**	-	**105**
Non-Executive Directors:						
Stephen Puckett	80	-	-	**80**	-	**80**
Richard Green	35	-	-	**35**	-	**35**
Aggregate emoluments	**479**	**27**	**-**	**506**	**12**	**518**

	Salary and fees £'000	Benefits £'000	Bonuses £'000	**Total £'000**	Pension £'000	**Total £'000**
2016						
Executive Directors:						
Ian Temple	215	15	15	**245**	11	**256**
Colin Adams	160	10	-	**170**	8	**178**
Non-Executive Directors:						
Stephen Puckett	80	-	-	**80**	-	**80**
Anne Baldock†	9	-	-	**9**	-	**9**
Richard Green	27	-	-	**27**	-	**27**
Aggregate emoluments	**491**	**25**	**15**	**531**	**19**	**550**

† *Up to date of resignation*

On acquisition of Argyll Scott, John Hunter had a loan outstanding from Argyll Scott International of £40,000. This loan was subsequently transferred to Hydrogen Group plc and a repayment of £12,000 has been paid in the year. The loan outstanding to John Hunter at year end is £28,000.

Shareholder resolution at the AGM

Shareholders will be given the opportunity to vote on the Directors' Remuneration Report at the AGM. The Company's Remuneration Policy will not be put to a vote as this is not yet needed under the AIM Rules.

The Directors' Remuneration Report was approved by the Remuneration Committee and by the Board on 9 April 2018 and was signed on its behalf by:

R Green
Chairman, Remuneration Committee

Directors' Report

For the year ended 31 December 2017

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2017. Hydrogen Group Plc is a public listed company, incorporated and domiciled in England, and its shares are quoted on AIM of the London Stock Exchange.

Substantial shareholders

At 2 January 2018, the Group was aware of, or had been notified under the Disclosure and Transparency Rules, of the following substantial interests (over 5% shareholding):

Shareholder	Interest in issued share capital
Milton Asset Management Ltd.	16.5%
Ian Richard Temple	12.1%
Brain Hamill	8.8%
Christopher Cole	7.4%
Timothy Smeaton	6.4%
Shane Sibraa	5.7%

The factors important for shareholders to understand the development, performance and position of the Company's business are set out in the Strategic Report. The following table shows where other information required by the Companies Act 2006 to be shown in the Directors' report can be found in this document:

Names of Directors	Biographies of current Directors appear on page 14; the names of Directors during the year are listed in the Corporate Governance Report on page 16.
Directors' interests and indemnity provisions	Directors' Remuneration Report, page 22.
Results and dividends	Financial Review, pages 6-8.
Going concern confirmation	Financial Review, page 9.
Subsidiaries	Notes to the parent company accounts, pages 70-78.
Capital structure	Note 19 to the accounts, page 59.
Expected future developments	Chairman's Report, page 3.
Use of financial instruments	Note 26 to the Accounts, page 64-66.
Information on employees, environment and community activities	Strategic Report, pages 10-13.

Authority to purchase own shares

The Directors were given authority at last year's AGM to purchase through the market up to 10% of the Company's issued share capital, subject to restrictions on price as recommended by investor institutions. No shares were purchased during the year. A request for renewal of the authority is included in the resolutions for this year's AGM. The Company has no current intention to use this authority.

There were no transactions in 2017 between the Company and the Employee Benefit Trust.

Auditors

BDO LLP offer themselves for re-appointment in accordance with Section 489 of the Companies Act.

A resolution to re-appoint BDO LLP as auditors' will be proposed at the forthcoming AGM.

Statement as to disclosure of information to auditors

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. The Directors have confirmed that they have taken appropriate steps to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

By order of the Board

Stephen Puckett
Chairman

Hydrogen Group plc
Registered office: 30-40 Eastcheap
London EC3M 1HD
Registered in England and Wales, no: 5563206

9 April 2018

Statement of Directors' Responsibilities

For the year ended 31 December 2017

The Directors are responsible for preparing the annual 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 elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework". 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 Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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 they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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 Group and Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report to the members of Hydrogen Group plc

For the year ended 31 December 2017

Opinion

We have audited the financial statements of Hydrogen Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	How we addressed the matter in our audit
Revenue recognition The group generates revenue from the provision of recruitment consultancy services, which consists of revenue from contractors and permanent placements. The accounting policy in respect of revenue recognition is described on pages 40-41 to the financial statements. We consider there to be a significant audit risk arising from errors in revenue recognition. The risk of material misstatement in relation to revenue recognition concerns the recognition around the year end, particularly in relation to contractor placements. Revenue is recognised for contractor placements when the service has been provided. There is significant judgement involved at the period end as to the amount of accrued cost for these contractors that the group are liable to and therefore the amount of corresponding revenue that should be recognised. In view of the judgements involved and the significance of this matter to the determination of group revenue at the year-end, we consider this to be an area giving rise to significant risk of material misstatement in the financial statements.	We have critically assessed the appropriateness of the revenue recognition policies and considered whether they comply with accounting standards. For contractor and permanent placements, we selected a sample of key contracts for testing. We assessed whether the revenue recognised was in line with contractual terms, the group's revenue recognition policy and the relevant accounting standards. In particular, we performed the following procedures in relation to contractor revenue: • We tested estimates at the period end relating to accrued contractor costs and the corresponding income. We did this by agreeing these estimates to supporting evidence and by comparison between the accrued costs and income to that actually posted in January and February 2018. • We selected entries over a set threshold either side of the year end and agreed to supporting documentation to ensure that the cost and associated revenue was recognised in the correct period based on when the service was provided. • We selected revenue recognised through the year from reports outside of the accounting system, to verify that transactions were correctly valued, and the revenue recognised in the year was complete. Based on the work performed we consider that revenue recognised for permanent and temporary placements has been recognised appropriately in accordance with the Group's revenue recognition criteria and IFRS.

Key audit matters (continued)

Matter	How we addressed the matter in our audit
Argyll Scott Acquisition The group acquired the entire issued share capital of Argyll Scott (Holdings) Limited for a consideration of £3.2m. The accounting policy and disclosures in relation to the acquisition is described on page 67 in note 28 to the financial statements. Identifiable assets and liabilities acquired are required, under accounting standards, to be measured at their acquisition-date fair values. There is significant judgment and estimation involved in determining the values ascribed to assets and liabilities particularly in relation to the intangible assets and Goodwill acquired. Given the judgment involved in determining the fair value of assets acquired and liabilities assumed and the significance of the transaction to the Group, this is considered an area of significant risk of material misstatement.	We reviewed the accounting treatment of the acquisition and considered whether it is properly accounted for in accordance with accounting standards. We read the share purchase agreements and business purchase agreements relating to the acquisition of Argyll Scott, confirming the correct accounting treatment has been applied and appropriate disclosures have been made. In addition, we substantiated the fair value of the net assets acquired and, by inference, the value of the Goodwill generated as part of the purchase agreement. In relation to the valuation of intangible assets acquired (specifically the brand and database assets), we have assessed the valuation assumptions, such as discount rates, tax rates and royalty rates through recalculation, challenging Management's rationale for the selection of the specific assumptions and in light of external evidence. We have also consulted internal BDO valuation specialists to support our review of the inputs and assumptions used by Management in their determination of the value of the identifiable assets, together with a review of the mechanics of the calculations performed, in order to confirm that the valuation is reasonable and in accordance with accounting standards. Based on our work we did not identify any indications that the values assigned to the intangible assets and Goodwill generated from the Acquisition of Argyll Scott were inappropriate.

Our application of materiality

We set certain thresholds for materiality to enable us to identify those balances and amounts in the financial statements which may have a greater impact on decision-making by the users of the accounts. A materiality threshold also enables us to assess the significance of identified misstatements both individually and in aggregate.

Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Our determination of materiality decreased from £581,000 for the year ending 31 December 2016 to £450,000 for the year ending 31 December 2017. Our basis for materiality changed from 0.5% of turnover to 2% of the group's gross profit (net fee income). The move to gross profit reflects the increased focus on this metric by stakeholder and it is considered to be the most significant determinant of the group's financial performance.

Performance materiality and component materiality

We applied both a measure of performance materiality and component materiality to our group audit, to ensure that our audit appropriately guarded against the risk that errors, when aggregated both within a component and across difference components, may be material to the financial statements. Performance materiality was set at £315,000 (2016: £348,600) which represents 70% (2016 60%) of the above materiality levels.

The performance materiality thresholds applied in the component audits ranged from £3,000 for Hydrogen UK Limited to £405,000 for Hydrogen Group Plc.

Reporting threshold

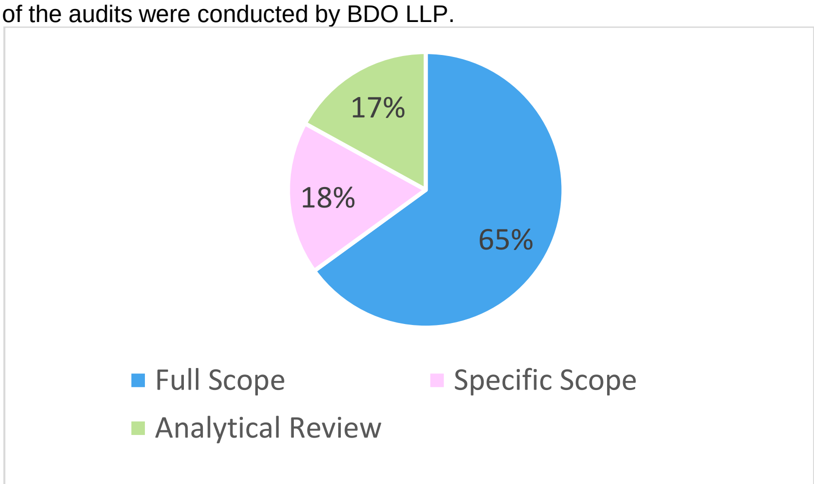
We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £9,000 (2016: £12,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In order to gain appropriate audit coverage of the areas where we identified a risk of material misstatement and of each individually significant reporting component, full scope audits were conducted for Hydrogen Group Plc, Hydrogen International Limited, Hydrogen UK Limited, Argyll Scott International, Argyll Scott Technology Limited and Argyll Scott (Holdings) Limited. On consideration of the risk relating to revenue recognition, we performed specific scope procedures over four additional entities.

At the parent level, we tested the consolidation process and carried out analytical procedures on the financial information of the remaining components not subject to audit. The chart below sets out the audit approach, showing the percentage of Group net fee income covered by full scope, specific scope and analytical review procedures. All of the audits were conducted by BDO LLP.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the members of Hydrogen Group plc

For the year ended 31 December 2017

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the chairman's report, strategic report, corporate governance report, audit committee report, directors' remuneration report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the chairman's report, strategic report, corporate governance report, audit committee report, directors' remuneration report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 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.

Responsibilities of directors

As explained more fully in the statement of director' responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Anthony Perkins (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
9 April 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

HYDROGEN GROUP PLC

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	**2017 £'000**	2016 £'000
Revenue	1	**125,853**	116,246
Cost of sales		**(103,060)**	(98,508)
Gross profit	1	**22,793**	17,738
Other administrative expenses		**(22,605)**	(17,541)
Exceptional administrative expenses	4	**(1,963)**	-
Administrative expenses		**(24,568)**	(17,541)
Other income	1	**539**	553
Operating profit before exceptional items	1	**727**	750
Exceptional items		**(1,963)**	-
Operating (loss)/profit		**(1,236)**	750
Share of loss in associate		**(100)**	-
Finance costs	2	**(123)**	(63)
Finance income	3	**12**	980
(Loss)/profit before taxation	5	**(1,447)**	1,667
Income tax (credit)/expense	7	**107**	(135)
(Loss)/profit for the year		**(1,340)**	1,532
Other comprehensive gains and losses:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**141**	(539)
Exchange differences on intercompany loans		**(391)**	347
Other comprehensive losses for the year, net of tax		**(250)**	(192)
Total comprehensive (loss)/gains for the year		**(1,590)**	1,340
Profit attributable to:			
Equity holders of the parent		**(1,232)**	1,532
Non-controlling interest		**(108)**	-
Total comprehensive income attributable to:			
Equity holders of the parent		**(1,482)**	1,340
Non-controlling interest		**(108)**	-
(Loss)/profit per share:			
Basic (loss)/profit per share (pence)	21	**(4.4p)**	**6.8p**
Diluted (loss)/profit per share (pence)	21	**(4.4p)**	**6.5p**

The above results relate to continuing operations.

HYDROGEN GROUP PLC

Consolidated statement of financial position

As at 31 December 2017

Company no: 05563206	Note	**2017 £'000**	2016 £'000
Non-current assets			
Goodwill	8	**12,214**	10,141
Investment in associate	9	**50**	-
Other intangible assets	10	**789**	792
Property, plant and equipment	11	**882**	858
Deferred tax assets	12	**181**	104
Other financial assets	13	**312**	99
		14,428	11,994
Current assets			
Trade and other receivables	13	**23,765**	17,852
Current tax receivable		**290**	232
Cash and cash equivalents	14	**2,770**	3,106
		26,825	21,190
Total assets		**41,253**	33,184
Current liabilities			
Trade and other payables	15	**(15,647)**	(12,493)
Redemption liability		**(69)**	-
Borrowings	16	**(3,132)**	(1,087)
Provisions	17	**(602)**	-
		(19,450)	(13,580)
Non-current liabilities			
Redemption liability		**(951)**	-
Deferred tax liabilities	12	**(136)**	(280)
Provisions	17	**(503)**	(309)
		(1,590)	(589)
Total liabilities		**(21,040)**	(14,169)
Net assets		**20,213**	19,015
Equity			
Share capital	19	**334**	239
Share premium	22	**3,520**	3,520
Merger reserve	22	**19,240**	16,100
Own shares held	20	**(1,338)**	(1,338)
Share option reserve	22	**1,735**	2,544
Translation reserve	22	**(599)**	(788)
Forward purchase reserve	22	**(1,020)**	-
(Deficit)/ Retained earnings	22	**(1,871)**	(1,262)
		20,001	19,015
Non-controlling interest	22	**212**	-
Total equity		**20,213**	19,015

The financial statements on pages 35 to 67 were approved by the Board of Directors and authorised for issue on 9 April 2018 and were signed on its behalf by:

Ian Temple
Chief Executive

HYDROGEN GROUP PLC

Consolidated statement of changes in equity

As at 31 December 2017

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Trans-lation reserve £'000	Forward purchase reserve £'000	(Deficit)/ Retained earnings £'000	Owners £'000	NCI £'000	Total equity £'000
At 1 January 2016	239	3,520	16,100	(1,338)	2,213	(596)	-	(2,794)	17,344	-	17,344
Share option charge	-	-	-	-	331	-	-	-	331	-	331
Transactions with owners	-	-	-	-	331	-	-	-	331	-	331
Profit for the year	-	-	-	-	-	-	-	1,532	1,532	-	1,532
Other comprehensive income:											
Exchange differences on intercompany loans	-	-	-	-	-	347	-	-	347	-	347
Foreign currency translation loss	-	-	-	-	-	(539)	-	-	(539)	-	(539)
Total comprehensive profit for the year	-	-	-	-	-	(192)	-	1,532	1,340	-	1,340
At 31 December 2016	**239**	**3,520**	**16,100**	**(1,338)**	**2,544**	**(788)**	**-**	**(1,262)**	**19,015**	**-**	**19,015**
Acquisition of Argyll Scott	**90**	**-**	**3,140**	**-**	**-**	**-**	**-**	**-**	**3,230**	**320**	**3,550**
New shares issued	**5**	**-**	**-**	**-**	**54**	**-**	**-**	**-**	**59**	**-**	**59**
Share option charge	**-**	**-**	**-**	**-**	**199**	**-**	**-**	**-**	**199**	**-**	**199**
Transactions with owners	**95**	**-**	**3,140**	**-**	**253**	**-**	**-**	**-**	**3,488**	**320**	**3,808**
Reduction to share option reserve	**-**	**-**	**-**	**-**	**(1,062)**	**-**	**-**	**1,062**	**-**	**-**	**-**
Translation transfer	**-**	**-**	**-**	**-**	**-**	**439**	**-**	**(439)**	**-**	**-**	**-**
Redemption liability	**-**	**-**	**-**	**-**	**-**	**-**	**(1,020)**	**-**	**(1,020)**	**-**	**(1,020)**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,232)**	**(1,232)**	**(108)**	**(1,340)**
Other comprehensive income:											
Exchange differences on intercompany loans	**-**	**-**	**-**	**-**	**-**	**(391)**	**-**	**-**	**(391)**	**-**	**(391)**
Foreign currency translation loss	**-**	**-**	**-**	**-**	**-**	**141**	**-**	**-**	**141**	**-**	**141**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**(1,062)**	**189**	**(1,020)**	**(609)**	**(2,502)**	**(108)**	**(2,610)**
At 31 December 2017	**334**	**3,520**	**19,240**	**(1,338)**	**1,735**	**(599)**	**(1,020)**	**(1,871)**	**20,001**	**212**	**20,213**

HYDROGEN GROUP PLC

Consolidated statement of cash flows

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash used in operating activities	24a	**(2,501)**	(1,244)
Investing activities			
Investment in associate	9	**(150)**	-
Purchase of property, plant and equipment	11	**(46)**	(285)
Purchase of software assets	10	**(255)**	(216)
Net cash used in investing activities		**(451)**	(501)
Financing activities			
Increase in borrowings	18	**2,045**	633
Equity dividends paid	6	**-**	-
Net cash generated from financing activities		**2,045**	633
Net decrease in cash and cash equivalents		**(907)**	(1,112)
Cash and cash equivalents at beginning of year	14	**3,106**	3,034
Exchange gain on cash and cash equivalents		**571**	1,184
Cash and cash equivalents at end of year	14	**2,770**	3,106

Nature of operations

The principal activity of Hydrogen Group plc ("the Company") and its subsidiaries' (together known as "the Group") is the provision of services for mid to senior level professional staff. The Group consists of two operating segments, EMEA (including USA) and APAC, offering both permanent and contract services for large and medium sized organisations. The Group offers services in Professional Support Services (including legal, finance, technology and business transformation) and in Technical and Scientific market sectors (Energy and Life Sciences). The Group operates across the world from a network of offices in Australia, Dubai, Hong Kong, Malaysia, Singapore, Thailand, UK and the USA, plus a number of internationally focused teams based in the UK.

Basis of preparation

Hydrogen Group plc is the Group's ultimate parent company. The Company is a limited liability company incorporated and domiciled in the United Kingdom. The registered office address and principal place of business is 30 Eastcheap, London, EC3M 1HD, England. Hydrogen Group plc's shares are listed on AIM. Registered company number is 05563206.

The consolidated financial statements of Hydrogen Group plc have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and also comply with IFRIC interpretations and Company Law applicable to companies reporting under IFRS. The Group's accounting policies, as set out below, have been consistently applied to all the periods presented.

The factors considered by the Directors in exercising their judgement of the Group's ability to continue to operate in the foreseeable future are set out in the Financial Review on pages 6-8 and in the table of principal risks on pages 11-12. The Group has prepared financial forecasts for the period to 30 June 2019 and the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating in the foreseeable future. Consequently, the Board has continued to adopt the going concern basis for the preparation of the financial statements (see page 9).

International Accounting Standards (IAS/IFRS) and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group:

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2017 are:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 40: Transfers of investment property
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 2: Share based payments: Classification and measurement (effective 1 January 2018)
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements

The Group adopted IFRS 9 and IFRS 15 from 1 January 2018. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. On review of the Group's financial instruments, the Board considers that this standard will have no material impact on the Group's financial statements. IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer and contract costs. Hydrogen recognises revenue from contractor placements as services are provided and from permanent placements on start date. This is in line with the principles set out in IFRS 15 and therefore the Board are confident that this will not have a material impact on the Group's financial statements.

The Board continues to review future applicable IFRSs to the Group. In particular, the Board is currently assessing the impact of IFRS 16 as, given the number of operating leases the Group has, (as detailed in note 25), this is likely to be material. In summary, IFRS 16 will require the Group to recognise a liability and right of use asset for the majority of its leases which are currently treated as operating. This will affect fixed assets, current and non-current liabilities and the measurement and disclosure of associated lease expenses (i.e. depreciation and interest expense compared to operating lease rentals currently). It is not practicable to provide a reasonable estimate of the effects of the adoption of IFRS 16 until a detailed review has been completed, given the complexity of this standard.

Basis of consolidation

The consolidated financial information incorporates information concerning Hydrogen Group plc and all of its subsidiary undertakings made up to 31 December each year. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. Inter-company transactions and balances on transactions between Group companies are eliminated on consolidation.

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs of acquisition are recognised as an expense when incurred. Goodwill arising on business combinations prior to 1 January 2006, the date of transition to IFRS, is stated at the previous UK GAAP carrying amount.

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Foreign currencies

The individual financial statements of each Group company are presented in 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.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss within the consolidated statement of comprehensive income.

On consolidation, the results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each year end presented are translated at the closing rate of that year end;

(ii) income and expenses for each statement of comprehensive income are translated at the average rates;

(iii) all resulting exchange differences are recognised in other comprehensive income;

(iv) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate;

(v) Foreign currency gains and losses are reported on a net basis.

The foreign exchange movements associated with permanent loans, whereby payment is not expected in the foreseeable future, is recognised in other comprehensive income. The foreign exchange movements associated with the deemed trading element of the intercompany loan, are recognised in the income statement.

Segment reporting

Operating segments have been identified based on internal reports that are regularly reviewed by the Chief Operating Decision Maker to allocate resources and assess performance. Current management reporting focuses on the performance of EMEA and APAC businesses. Argyll Scott is not considered a separable operating segment, so its financial performance is included within the EMEA and APAC businesses noted above. Within these two operating segments are the individual specialist niche businesses.

Revenue

Revenue, which excludes value added tax, comprises the fair value of the consideration received or receivable for services undertaken by the Group under its principal activity, which is the provision of recruitment consultancy services. This broadly consists of:

- revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the direct costs of their contracts, being recognised when the service has been provided;

Revenue (continued)

- revenue from permanent placements, representing fees received and receivable as a percentage of the candidate's remuneration package, being recognised when a candidate starts their new role.

Cost of sales

Cost of sales consists of charges from contractors and other direct costs.

Gross profit

Gross profit is calculated as revenue less cost of sales.

Finance costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Goodwill

Goodwill, comprising the difference between the fair value of consideration transferred and the fair value of the identifiable net assets acquired, is capitalised at cost and is subsequently measured at cost less any accumulated impairment losses. It is reviewed annually for impairment, and any impairment is recognised immediately in profit and loss and is not subsequently reversed. Determining whether 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.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provisions for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value on a straight-line basis over their estimated useful lives, as follows:

Computer and office equipment	33% straight line
Motor vehicles	25% straight line
Leasehold improvements	Remaining life of lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Intangible assets

Computer software

Costs incurred on the development and enhancement of computer systems in operation in the Group are only capitalised as intangible assets if the criteria laid out in IAS 38 'Intangible Assets' are met, as detailed below.

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised as such, if and only if, the entity can demonstrate all the following:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
b) Its intention to complete the intangible asset and use or sell it.
c) Its ability to use or sell the intangible asset.
d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
e) The availability of adequate technical, financial, and other resources, to complete the development and to use or sell the intangible asset.
f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised software costs, included with Computer Software, are amortised from the date that the system is commissioned over their expected useful life, which is currently estimated at 3 - 5 years.

Brand and Database

Acquired brand and database assets are stated at fair value and are written down over up to 7 years on a straight-line basis, which represents the useful life of the intangible.

Impairment of non-financial assets

At each year end, the Group reviews the carrying amounts of its other intangible and tangible assets to determine whether there is any evidence that those assets have suffered an impairment loss. 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 an asset's fair value less costs to sell and value in use. For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using rates and laws that have been enacted or substantively enacted by the reporting date.

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, except those arising from the initial recognition of goodwill.

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

Deferred income tax is measured at the tax rates that are expected to apply in the periods in which temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the reporting date. Deferred income tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred income tax is also dealt with in other comprehensive income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Leased assets and obligations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group does not currently have any finance leases. All of the Group's leases are operating leases and the annual rentals are charged to profit or loss on a straight-line basis over the lease term. The benefit of rent-free periods received for entering into an operating lease is spread evenly over the lease term.

Pensions

The Group operates a defined contribution pension scheme for UK based managers and senior employees. The Company matches employee contributions up to a maximum of 5% of annual basic salary. The pension costs charged to profit or loss represent the contributions payable by the Group during the year.

Share-based payments

During prior years, the Group offered share options to employees within its subsidiaries. In the subsidiaries' financial statements, the award is treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award in shares.

Share-based payments (continued)

The fair value of the employee services received in exchange for the grant of the share options is charged to the Group profit or loss over the vesting period of the share option, based on the number of options which are expected to become exercisable. In the Group accounts, a corresponding adjustment is made to the share option reserve. Fair value is measured by use of a Black Scholes or Binomial model – dependent on the terms of the options certificates issued. At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in profit or loss with a corresponding adjustment to equity.

The above 2015 EMI and Unapproved schemes were based on non-market, service related conditions, while the shares issued under the Long-term Incentive Program and the EMI 2007 issue were based on performance and market related conditions.

In 2017, the Group offered share options to employees in its parent entity. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in profit or loss with a corresponding adjustment to equity. Fair value is measured by use of a Monte Carlo model – dependent on the terms of the options certificates issued. At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in profit or loss with a corresponding adjustment to equity.

When the options are exercised, the proceeds received are credited to share capital and share premium, where appropriate, with a corresponding debit to cash. Where the conditions attached to share options are modified but without any change to the value of the award to the employee then the Group recognises the amount that would have been recognised for the award if it had remained in place on its original terms. Where the modification increases the value of the award to the employee then the increase is spread over the period from the date of the modification until the vesting date of the modified award.

Share Incentive Plan

Under the Hydrogen Group plc Share Incentive Plan (the SIP) shares are held in trust on behalf of employees for a minimum of three years.

The finance costs and administration costs relating to the SIP are charged to the profit or loss. Dividend income arising on own shares is excluded in arriving at profit before taxation and deducted from aggregate dividends paid and proposed. The shares are ignored for the purposes of calculating the Company's earnings per share.

Employee Benefit Trust

The Hydrogen Group plc Employee Benefit Trust (EBT) is funded by contributions from the Company. Under the terms of the EBT, shares are held in trust for the benefit of employees.

Administration costs and the assets and liabilities of the EBT are consolidated into the Hydrogen Group plc financial statements. Shares in the EBT are held at acquisition cost and deducted from shareholders' equity. Any assets held by the EBT cease to be recognised on the Group statement of financial position when the assets vest unconditionally to identified beneficiaries. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group profit or loss.

The trustees have waived their rights to dividends on the shares held by the EBT.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group's financial assets comprise cash and various other receivable balances that arise from its operations. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets are assessed for impairment at each balance sheet date, and are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss. If in a subsequent period the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents includes cash in hand and bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at fair value and are classified according to the substance of the contractual arrangements entered into. Financial liabilities (other than the redemption liability) are subsequently measured at amortised cost.

The Group's financial liabilities comprise trade payables, borrowings, bank overdrafts, an invoice discounting facility, a redemption liability, and other payable balances that arise from its operations. Other than the redemption liability, they are classified as 'financial liabilities measured at amortised cost'. Finance charges are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the balance outstanding to the extent they are not settled in the period in which they arise. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Dividends

A final dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividend distributions are recognised in the period in which they are approved and paid.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the year end and are discounted to present value where the effect is material. Where the Group has entered into contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it then a provision has been recognised based on the Directors' best estimate of future unavoidable costs.

Net cash

Net cash comprises cash and cash equivalents as defined in note 14, less long and short-term borrowings.

Invoice discounting

When trade receivables are discounted the gross amount receivable from customers is included as a current asset within trade receivables with the advances received from the financier included as borrowings within current liabilities.

Equity and reserves

A detailed description of all components of equity is given in note 22.

Exceptional items

Material and non-recurring items of income and expense are disclosed in the consolidated statement of total comprehensive income as 'exceptional items'. Examples of items which may give rise to disclosure as exceptional items include disposal of assets, costs of restructuring and reorganisation and asset impairment.

Redemption liability

Where a forward purchase is entered into over a non-controlling interest, the ownership risks and rewards of the relevant shares are analysed to determine whether the equity is attributable to the non-controlling interest or to the parent. Where the significant risks and rewards of ownership remain with the non-controlling interest the non-controlling interest continues to be recognised and is allocated its share of profits and losses and a financial liability is recognised in respect of the forward purchase at fair value through profit and loss. All subsequent changes to the fair value of the liability (other than the cash settlement) are recognised in profit or loss. Where the significant risks and rewards of ownership reside with the controlling interest, the financial liability recognised is offset against the non-controlling interest

Significant management judgement in applying accounting policies

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities, further details are given in the various notes related to the judgement areas listed below. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

In the process of applying the Group's accounting policies, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as below (although the Directors do not believe that any reasonably possible change to their assumptions could give rise to a material change in these assets and liabilities):

Goodwill impairment – Note 8

The Group determines whether goodwill is impaired on an annual basis or otherwise when changes in events or situations indicate that the carrying value may not be recoverable. The Group's determination of whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill is allocated. This requires key assumptions and judgement to be applied in the selection of a suitable discount rate in order to calculate the present value of cash flows, additionally the revenue growth rate which is based on internal forecasts, supported by external industry predictions in the industry.

Accrued income – Note 13

In making an accrual for time worked by contractors in December, management have had to estimate the time worked based on the number of working days in the month, and experience in previous years.

Bad debt provision – Note 13

In deciding the level of bad debt provision required management exercises judgement based on the age of the debt, knowledge of any known disputes surrounding the debt, the credit rating and Group's past trading experience of trading with the client.

Provisions – Note 17

Provisions are held for obligations relating to dilapidations and onerous contracts for surplus property. Significant management judgement has been involved in assessing the likely outcome of various events and future cash flows, and the provisions recognised represent management's best estimates of the current value of the obligations.

Share based payments – Note 18

The equity settled share-based payments charge is partly derived from estimates of factors such as lapse rates and where applicable, the achievement of performance criteria. The charge is further calculated from assumptions such as the future volatility of the Company's share price, expected dividend yields and risk- free interest rates.

Redemption Liability

The future earn out payments to the non-controlling interests within Argyll Scott requires management to estimate the future profits in the relevant entities and discount these back to present value. These forecasts are based on management's best estimates of internal profit conversion and inflationary increases in costs. Recognition of the forward purchase over a non-controlling interest is based on consideration of the ownership risks and rewards of the shares relating to the forward to determine whether the equity is attributable to the non-controlling interest or the parent.

1 Segment reporting

Segment operating profit is the profit earned by each operating segment excluding the allocation of central administration costs, and is the measure reported to the Group's Board, the Group's Chief Operating Decision Maker (CODM), for performance management and resource allocation purposes.

(a) Revenue, gross profit, and operating profit by discipline

For management purposes, the Group is organised into the following two operating segments based on the geography of the business unit:

- EMEA (covering Europe, Middle East, Africa and the USA); and
- APAC (covering Asia and Australia)

The operating segments noted reflect the information that is regularly reviewed by the Group's Chief Operating Decision Maker which is the Board of Hydrogen Group plc. Both operating segments have similar economic characteristics and share a majority of the aggregation criteria set out in IFRS 8:12.

	2017				2016			
	EMEA £'000	**APAC £'000**	**Group £'000**	**Total £'000**	EMEA £'000	APAC £'000	Group £'000	Total £'000
Revenue	**107,953**	**17,900**	**-**	**125,853**	104,428	11,818	-	116,246
Gross profit (Net fee income)	**15,727**	**7,066**	**-**	**22,793**	14,403	3,335	-	17,738
Depreciation and Amortisation	**(351)**	**(41)**	**(52)**	**(444)**	(310)	(8)	-	(318)
Other income	**539**	**-**	**-**	**539**	553	-	-	553
Operating profit/ (loss) before exceptional items	**1,428**	**371**	**(1,072)**	**727**	1,547	323	(1,120)	750
Exceptional items	**(1,408)**	**(230)**	**(325)**	**(1,963)**	-	-	-	-
Operating profit	**20**	**141**	**(1,397)**	**(1,236)**	1,547	323	(1,120)	750
Share of loss in associate				**(100)**				-
Finance costs				**(123)**				(63)
Finance income				**12**				980
(Loss)/profit before tax				**(1,447)**				1,667
Total Assets	**17,704**	**6,377**	**17,172**	**41,253**	17,038	1,262	14,884	33,184
Total Liabilities	**(16,102)**	**(1,919)**	**(3,019)**	**(21,040)**	(11,705)	(125)	(2,339)	(14,169)

Group costs represent central management costs that are not allocated to operating segments.

The majority of exceptional items included are in relation to acquisition costs for Argyll Scott. Refer to note 4 for a breakdown.

Revenue reported above is generated from external customers. There were no sales between segments in the year (2016: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described above. Segment profit represents the profit earned by each segment without allocation of Group administration costs, finance costs and finance income.

Other income relates to rentals receivable by the Group for the two floors subleased in London.

There is one external customer that represented 22% (2016: 31%) of the entity's revenues, with revenue of £27.5m (2016: £36.3m), and approximately 9% (2016: 16%) of the Group's Net Fee Income ("NFI") which is included in the EMEA segment.

1 Segment reporting (continued)

(b) Revenue and gross profit by geography:

	Revenue		Gross profit	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
UK	**94,984**	90,007	**11,795**	10,190
Rest of world	**30,869**	26,239	**10,998**	7,548
	125,853	116,246	**22,793**	17,738

The 'Rest of world' revenue and gross profit numbers disclosed above have been accumulated for geographies outside of the UK on the basis that no one geography is significant in its entirety, other than the UK.

(c) Revenue and gross profit by recruitment classification:

	Revenue		Gross profit	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Permanent	**11,626**	6,122	**11,549**	6,105
Contract	**114,227**	110,124	**11,244**	11,633
	125,853	116,246	**22,793**	17,738

The information reviewed by the Chief Operating Decision Maker, or otherwise regularly provided to the Chief Operating Decision Maker, does not include information on total assets and liabilities. The cost to develop this information would be excessive in comparison to the value that would be derived.

2 Finance costs

	2017 £'000	2016 £'000
Interest on invoice discounting	**123**	63
	123	63

3 Finance income

	2017 £'000	2016 £'000
Bank interest	**78**	-
Other interest*	**(66)**	980
	12	980

*Foreign exchange (losses)/gains recognised on the translation of intercompany financing balances

4 Exceptional administrative items

Exceptional items are costs that are separately disclosed due to their material and non-recurring nature. They arose as a result of the strategic decision to acquire the entire share capital of Argyll Scott and align the combined businesses going forward.

	2017 £'000	2016 £'000
Restructuring costs	**201**	-
Impairment of software (note 10)	**589**	-
IT integration (note 17)	**236**	-
Onerous leases (note 17)	**692**	-
Professional fees	**245**	-
Total	**1,963**	-

5 (Loss)/profit before taxation

(Loss)/profit before taxation for the year has been arrived at after charging/(crediting):

	2017 £'000	2016 £'000
Amortisation of intangible assets (note 10)	**294**	202
Depreciation of property, plant and equipment (owned assets – note 11)	**137**	116
Loss in associate	**100**	-
Staff costs (note 23)	**13,892**	12,414
Operating lease rentals on land and buildings	**1,029**	752
Foreign exchange gains/(losses)	**28**	(240)
The analysis of auditor's remuneration is as follows:		
Audit fees		
Fees payable to the Company's auditor: - for the audit of the Company and Group annual accounts	**40**	38
- for the audit of the Company's subsidiaries pursuant to legislation	**105**	50
Total audit fees	**145**	88
Non-audit fees		
- Other services	**123**	40
- Tax services (compliance and general tax advice)	**5**	-
Total non-audit fees	**128**	40

6 Dividends

No interim dividend during the year was paid in respect of the year ended 31 December 2017 (2016: nil p per share).

A final dividend of £0.8p has been proposed but not yet approved for the year ended 31 December 2017 (2016: nil p per share).

7 Tax

(a) Analysis of tax charge for the year:

The charge based on the profit for the year comprises:	**2017 £'000**	2016 £'000
Corporation tax:		
UK corporation tax on profits for the year	**39**	139
Adjustment to tax charge in respect of previous periods	**81**	(217)
	120	(78)
Foreign tax		
Current tax	**80**	10
Total current tax	**200**	(68)
Deferred tax:		
Origination and reversal of temporary differences	**(72)**	16
Adjustment to tax charge in respect of previous periods	**(235)**	190
Effect of tax rate change	**-**	(3)
Total deferred tax	**(307)**	203
Tax (credit)/charge on profit for the year	**(107)**	135

UK corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

(b) The charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

(Loss)/profit before tax	**(1,447)**	1,667
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	**(279)**	333
Effects of:		
Fixed asset differences	**30**	9
Expenses not deductible for tax purposes	**110**	219
Effect of difference in tax rates	**48**	(11)
Utilisation of tax losses and other deductions	**(91)**	(379)
Tax losses carried forward not recognised for deferred tax	**157**	4
R&D additional tax relief	**(17)**	-
Adjustment to tax charge in respect of prior periods	**(155)**	30
Share-based payments	**(20)**	(66)
Other short term timing differences	**110**	(4)
Tax (credit)/charge for the year	**(107)**	135

There has been no deferred tax charge relating to share options charged directly to equity (2016: nil) (see note 12).

In total, at the reporting date, the Group had increased unutilised tax losses due to the acquisition of Argyll Scott of £7.8m (2016: £3.7m) available for offset against future profits, for which no deferred tax assets had been recognised.

8 Goodwill

	2017 **£'000**	2016 £'000
Cost		
At 1 January	**19,228**	19,228
Additions	**2,073**	-
At 31 December	**21,301**	19,228
Accumulated impairment losses		
At 1 January	**(9,087)**	(9,087)
Impairment charge for the year	**-**	-
At 31 December	**(9,087)**	(9,087)
Carrying amount at 31 December	**12,214**	10,141
Allocation of goodwill to cash generating units (CGU):		
EMEA (including USA) Professional Support Services	**10,141**	10,141
Argyll Scott Group	**2,073**	-

Goodwill arising on business combinations is tested annually for impairment or more frequently if there are indications that the value of goodwill may have been impaired. Goodwill has been tested for impairment by comparing the carrying value with the recoverable amount.

The recoverable amount is determined on a value-in-use basis utilising the value of cash flow projections over five years with a terminal value added. Multiple scenarios were tested, firstly using the 2017 actuals (of which key assumptions are detailed below) and secondly using detailed budgets prepared as part of the Group's performance and control procedures. Subsequent years are based on further extrapolations using the key assumptions listed below. Cash flows are discounted by the cash generating unit's weighted average cost of capital. Management believes that no reasonably possible change to the key assumptions given below would cause the carrying value to materially exceed the recoverable amount. Management determines that there has been no further impairment in the carrying value of goodwill in 2017.

The key assumptions for revenue growth rates and discount rates used in the impairment review are stated below:

	Growth rates		
Net fee income growth rate on actuals	**2018 %**	**2019-2022 %**	**Discount rate%**
EMEA (including USA) Professional Support Services	2.5%	2.5%	5.0%
Argyll Scott Group	2.5%	2.5%	4.4%

For the purposes of the goodwill impairment review, the Board consider it prudent to assume a 2.5% revenue growth on pre-tax actuals for 2018 through to 2022. The revenue growth rates for 2018-2022 are the Group's own internal forecasts, supported by external industry reports predicting improving conditions in the industry, with demand for the industry's services anticipated to pick up. The discount rate used is an estimate of the Group's weighted average cost of capital, based on the risk adjusted average weighted cost of its debt and equity financing. The Group has sensitised both the discount rate and growth rate by 2.5% with no material impact (and no impairments) noted.

9 Investment in associate

The following table provides summarised information of the Group's investment in the associated undertaking:

	£'000
Investment acquired	150
Share of associate's loss	(100)
Total	**50**

Principle associate	Investment held by	Principal activity	Country of incorporation	% Equity interest
CBFG Limited	Hydrogen Group Plc	Advisory services	UK	45.0

CBFG Limited consolidated results as at 31 December 2017

Net Assets:	£0.1m
Revenue:	£2.6m
Loss before tax	£0.4m

10 Other intangible assets

	Computer software £'000	Database £'000	Brand £'000	Total £'000
Cost				
At 1 January 2016	2,101	-	-	2,101
Additions	216	-	-	216
At 31 December 2016	2,317	-	-	2,317
Additions	**255**	**-**	**-**	**255**
Assets acquired	**-**	**500**	**125**	**625**
Disposals	**(447)**	**-**	**-**	**(447)**
At 31 December 2017	**2,125**	**500**	**125**	**2,750**
Amortisation and impairment				
At 1 January 2016	(1,323)	-	-	(1,323)
Charge for the year	(202)	-	-	(202)
At 31 December 2016	(1,525)	-	-	(1,525)
Charge for the year	**(242)**	**(42)**	**(10)**	**(294)**
Disposals	**447**	**-**	**-**	**447**
Impairment	**(589)**	**-**	**-**	**(589)**
At 31 December 2017	**(1,909)**	**(42)**	**(10)**	**(1,961)**
Net book value at 31 December 2017	**216**	**458**	**115**	**789**
Net book value at 31 December 2016	792	-	-	792

Amortisation of intangible assets is charged to administration expenses in the Consolidated Statement of Comprehensive Income.

Database and Brand intangibles were acquired as part of the acquisition of Argyll Scott.

Impairment of £0.6m noted on software development that does not support the future economic value to the Group. This has been included within exceptional IT costs in note 4.

11 Property, plant and equipment

	Computer and office equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 January 2016	768	1,702	2,470
Additions	69	216	285
Exchange differences	22	-	22
At 31 December 2016	859	1,918	2,777
Additions	**31**	**15**	**46**
Assets Acquired	**59**	**26**	**85**
Disposals	**(281)**	**-**	**(281)**
At 31 December 2017	**668**	**1,959**	**2,627**
Accumulated depreciation and impairment			
At 1 January 2016	(706)	(1,077)	(1,783)
Charge for year	(66)	(50)	(116)
Exchange differences	(20)	-	(20)
At 31 December 2016	(792)	(1,127)	(1,919)
Charge for the year	**(58)**	**(79)**	**(137)**
Disposals	**281**	**-**	**281**
Exchange differences	**25**	**5**	**30**
At 31 December 2017	**(544)**	**(1,201)**	**(1,745)**
Net book value at 31 December 2017	**124**	**758**	**882**
Net book value at 31 December 2016	67	791	858

12 Deferred tax

Deferred tax asset	**Short term timing differences £'000**	**Accelerated depreciation £'000**	**Share based payments £'000**	**Total £'000**
At 1 January 2016	19	-	119	138
Charged to profit or loss	(10)	-	(24)	(34)
At 31 December 2016	9	-	95	104
Credited/(Charged) to profit or loss	**143**	**29**	**(95)**	**77**
At 31 December 2017	**152**	**29**	**-**	**181**

Deferred tax (liability)	**Accelerated capital allowances £'000**	**Intangible Assets £'000**	**Total £'000**
At 1 January 2017	(280)	-	(280)
Additions acquired	-	(125)	(125)
Credited to profit or loss	259	10	269
At 31 December 2017	**(21)**	**(115)**	**(136)**

No reversal of deferred tax is expected within the next twelve months (2016: nil).

In total, at the reporting date, the Group had increased unutilised tax losses due to the acquisition of Argyll Scott of £7.8m (2016: £3.7m) available for offset against future profits, for which no deferred tax assets had been recognised.

13 Trade and other receivables

Trade and other receivables are as follows:	**2017 £'000**	2016 £'000
Trade receivables	**14,003**	9,687
Allowance for doubtful debts	**(135)**	(142)
Accrued income	**8,329**	7,532
Prepayments	**792**	561
Other receivables:		
- due within 12 months	**776**	214
- due after more than 12 months	**312**	99
Total	**24,077**	17,951
Current	**23,765**	17,852
Non- current	**312**	99

As at 31 December 2017, the average credit period taken by clients was 40 days (2016: 30 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. An allowance of £135,000 (2016: £142,000) has been made for estimated irrecoverable amounts. Due to the short-term nature of trade and other receivables, the Directors consider that the carrying value approximates to their fair value.

13 Trade and other receivables (continued)

Accrued income principally comprises accruals for amounts to be billed for contract staff for time worked in December. Other receivables due after more than 12 months are predominantly rental deposits on leasehold properties.

The Group does not provide against receivables solely on the basis of the age of the debt, as experience has demonstrated that this is not a reliable indicator of recoverability. The Group provides fully against all receivables where it has positive evidence that the amount is not recoverable.

The Group uses an external credit scoring system to assess the creditworthiness of new customers. The Group supplies mainly FTSE 100 and other major companies and major professional partnerships.

Included in the Group's trade receivable balances are receivables with a carrying amount of £5.4m (2016: £2.1m) which are past due date at the reporting date for which the Group has not provided as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past 30 days but not impaired trade receivables: (Number of days overdue)	**2017** **£'000**	2016 £'000
0-30 days	**2,579**	210
30-60 days	**1,544**	498
60-90 days	**408**	453
90+ days	**899**	952
31 December	**5,430**	2,113

Movement in allowance for doubtful debts:	**2017** **£'000**	2016 £'000
1 January	**(142)**	(319)
Impairment losses recognised on receivables	**(139)**	(100)
Previous impairment losses reversed	**146**	277
31 December	**(135)**	(142)

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Directors believe that there is no further credit provision required.

There are no individually impaired trade receivables that have been placed in administration or liquidation included in the allowance for doubtful debts (2016: nil).

Ageing of impaired trade receivables:	**2017** **£'000**	2016 £'000
90+ days	**135**	142
31 December	**135**	142

As at 31 December trade receivables to a value of £6.8m were subject to an invoice financing facility (2016: £4.6m).

14 Cash and cash equivalents

Cash and cash equivalents are as follows:	**2017 £'000**	2016 £'000
Short-term bank deposits	**2,770**	3,106
	2,770	3,106

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, less bank overdrafts repayable on demand. The carrying amount of these assets approximates their fair value.

15 Trade and other payables

Trade and other payables are as follows:

	2017 £'000	2016 £'000
Trade payables	**2,490**	1,505
Other taxes and social security costs	**1,315**	701
Other payables	**1,496**	947
Accruals	**10,346**	9,340
	15,647	12,493

Accruals principally comprise accruals for amounts owed to contract staff for time worked in December, in addition to a rental accrual and a bonus and commission accrual.

The average credit period taken on trade purchases, excluding contract staff costs, by the Group is 38 days (2016: 35 days), based on the average daily amount invoiced by suppliers. Interest charged by suppliers is at various rates on payables not settled within terms. The Group has procedures to ensure that payables are paid to terms wherever possible. Due to the short-term nature of trade and other payables, the Directors consider that the carrying value approximates to their fair value.

16 Borrowings

	2017 £'000	2016 £'000
Invoice discounting (repayable on demand)	**3,132**	1,087
	3,132	1,087

The Group has two invoice discounting facilities in operation. The HSBC facility has a maximum drawdown of £18.0m with a year-end balance outstanding of £2.5m. Interest on the facility is charged at 1.7% over UK Base Rate on actual amounts drawn down, and the margin is fixed to May 2019.

The Barclays facility is for £1.0m with a year-end balance outstanding of £0.6m. Interest on the facility is charged at 2.3% over UK Base Rate on actual amounts drawn down, and the margin is fixed to January 2019.

17 Provisions

	Leasehold dilapidations £'000	Onerous Leaseholds £'000	System Integration £'000	Onerous contracts £'000	Total £'000
At 1 January 2016	68	-	-	-	68
New provision	241	-	-	-	241
At 31 December 2016	309	-	-	-	309
New provision	**138**	**692**	**217**	**62**	**1,109**
Utilised	**-**	**(313)**	**-**	**-**	**(313)**
At 31 December 2017	**447**	**379**	**217**	**62**	**1,105**
Current	**-**	**323**	**217**	**62**	**602**
Non-current	**447**	**56**	**-**	**-**	**503**

The dilapidations provisions relate to the Group's current leased offices in London and Singapore. This provision will unwind over the course of the leases agreements. Leaseholds in the Group range from 2-10 years.

The onerous lease contracts relate to surplus accommodation within the existing Argyll Scott offices in London and Singapore. Following discussions with advisors, the Group has taken an exceptional charge in London for 9 months' costs, starting from 1 June 2017, relating to this space to cover the marketing void and rent free incentive that is assumed would be required to sublet this space. No rent shortfall/surplus was assumed for the duration of any sub-lease eventually granted. The Group has also taken an exceptional charge in Singapore for 17 months' costs, starting from 1 November 2017 on the same basis as above.

System integration costs relate to the process of incorporating both Hydrogen and Argyll Scott onto the same IT and CRM platform enabling not only business synergies but providing business continuity and creating cost savings for the Group.

Onerous contracts relate to pre-agreed deals that are no longer viable for the Group following the merger with Argyll Scott.

18 Share-based payments

The Group have various Share Schemes in place – the 2007 and 2009 EMI Scheme, the 2013 Long-term Incentive Scheme, the 2015 and 2016 EMI and Unapproved Schemes, the 2017 EMI Leadership Scheme and the 2017 Minority Interest Scheme, detailed separately below. All share-based payment arrangements are either cash or equity-settled.

LTIP Scheme: During 2017, no shares were exercised (2016: 12,000). 7,849 shares were forfeited during the year (2016: nil).

Leadership Scheme: There were 1,985,000 shares granted under the 2017 EMI Leadership scheme. 330,000 shares were forfeited during the year. A further 248,250 shares are expected to forfeit in 2018 based on performance conditions not met.

Minority Interest Scheme: Hydrogen introduced a new Minority Interest Scheme in the year where leaders and managers were offered the opportunity to acquire a stake of their niche business units, at market value, which can subsequently be transferred into Hydrogen Group plc shares based on the valuation of the business unit at certain milestones. There were 750 shares issued within Hydrogen International Limited during the year which equated to approximately 198,768 Hydrogen Group plc shares once exercised.

The expense arising from the share-based option schemes during the year was £0.2m (2016: £0.3m), with a closing cumulative balance for equity based share schemes of £0.7m (2016: £0.5m).

18 Share-based payments (continued)

EMI and Unapproved 2015, 2016 and 2017 Share Option Schemes

The fair values of the options granted have been calculated using the Black Scholes and the Monte Carlo option pricing model. The Monte Carlo model is used to value share options that include market-based vesting conditions, while the Black Scholes model is used to value all other options. Expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The risk free rate is the rate of interest obtainable from Government securities over the expected life of the equity incentive. Relevant details and the inputs into the models were as detailed below:

Type of arrangement	**Enterprise Management Incentive Scheme**			**Unapproved Share Option Scheme**	**Leadership Scheme**
Date of grant	02-Jun-15	03-Dec-15	01-Jun-16	02-Jun-15	01-Jun-17
Number granted	1,455,000	455,000	125,000	630,000	1,985,000
Vesting conditions	Two years' service	Two years' service	Two years' service	Two years' service	Active employment EPS growth of at least 30%
Estimated Fair value	£0.5173	£0.2927	£0.2927	£0.5173	£0.0656
Fair value calculated by applying the Black Scholes or Monte Carlo option pricing model:					
Share price at grant date	£0.525	£0.30	£0.30	£0.525	£0.36
Exercise price	£0.01	£0.01	£0.01	£0.01	£0.34
Expected volatility	62%	62%	62%	62%	18%
Expected dividends	-	-	-	-	-
Contractual life	10 years	10 years	10 years	10 years	10 years
Risk Free Rate	2%	2%	2%	2%	0.5%

The outstanding shares and those exercisable at year end are disclosed below:

	2017		2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of period	**1,755,000**	**1p**	2,035,000	1p
Granted during the period	**1,985,000**	**34p**	125,000	1p
Forfeited during the period	**(530,000)**	**1p**	(405,000)	1p
Exercised during the period	**(450,000)**	**1p**	-	1p
Outstanding at end of year	**2,760,000**		1,755,000	
Exercisable during 2018	**1,105,000**	**1p**	1,755,000	1p
Exercisable after 2019	**1,655,000**	**34p**	-	-

The weighted average remaining useful life at the end of the year was as follows:

	31 December 2017				31 December 2016			
	Range of exercise price (p)	**Number of options**	**Weighted average exercise price (p)**	**Weighted average remaining life**	Range of exercise price (p)	Number of options	Weighted average exercise price (p)	Weighted average remaining life
2015 issue	**1p**	**980,000**	**1p**	**7.5 years**	1p	1,630,000	1p	8.5 years
2016 issue	**1p**	**125,000**	**1p**	**8.5 years**	1p	125,000	1p	9.5 years
2017 issue	**34p**	**1,655,000**	**34p**	**9.5 years**	-	-	-	-
		2,760,000				1,755,000		

18 Share-based payments (continued)

Other Share Option Scheme: 2007- 2011

There was a 2007-2009 EMI Share option issue to Directors and other key individuals, of which 7,849 shares have expired in the total below of 15,750 shares. The remainder of this balance relates to the LTIP options.

In 2009 and 2011 the Group introduced a long-term incentive plan (2011 LTIP) for senior management and Directors. The purpose of the LTIP's was to align long term incentives for senior management and Directors with Hydrogen's operational strategy and performance targets.

There were no awards under this scheme during 2017 (2016: nil).

Options issued post 2006 and the AIM listing were all granted at nominal value:

Year of issue	**Exercise price**	**Fair value per option at grant date**
2011 award	1p	132p
2009 award	1p	56p – 90p
2007 award	1p	293p

The below details the shares outstanding at year end:

	2017		2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of period	**23,599**	**1p**	518,982	1p
Forfeited during the period	**-**	**1p**	(300,000)	1p
Exercised during the period	**-**	**1p**	(12,000)	1p
Expired during the period	**(7,849)**	**1p**	(183,383)	1p
Outstanding at end of year	**15,750**		23,599	
Exercisable during the next financial year	**15,750**	**1p**	23,599	1p

The range of exercise prices for options outstanding at the end of the year was as follows:

	31 December 2017				**31 December 2016**			
	Range of exercise price (p)	**Number of options**	**Weighted average exercise price (p)**	**Weighted average remaining life**	Range of exercise price (p)	Number of options	Weighted average exercise price (p)	Weighted average remaining life
2007 award*	**1p**	**-**	**1p**	**Expired**	1p	7,849	1p	0.5 years
2009 award	**1p**	**12,000**	**1p**	**1.5 years**	1p	12,000	1p	2.5 years
2011 award	**1p**	**3,750**	**1p**	**4.6 years**	1p	3,750	1p	5.6 years
		15,750				23,599		

*EMI Share scheme

Share Incentive Plan (SIP)

211,414 shares were held in the Hydrogen Group SIP Plan at the year end.

19 Share capital

The share capital at 31 December 2017 was as follows:

	2017		2016	
Ordinary shares of 1p each	**Number of shares**	**£'000**	Number of shares	£'000
Issued and fully paid:				
At 1 January	**23,903,713**	**239**	23,891,713	239
Issuance of new shares	**9,522,110**	**95**	12,000	-
31 December	**33,425,823**	**334**	23,903,713	239

During 2017, 450,000 options were exercised (2016: 12,000), as set out in note 18, all of which were satisfied by the issuance of new shares.

At 31 December 2017, 1,162,051 (2016: 1,162,051) shares were held in the EBT (see note 20).

At 31 December 2017, 211,414 (2016: 211,414) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan trust for employees.

Capital structure

The Company has one class of ordinary shares which carry no right to fixed income, and which represent 100% of the total issued nominal value of all share capital. Each share carries the right to one vote at general meetings of the Company. No person has any special rights of control over the Company's share capital and all its issued shares are fully paid.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 18. 450,000 shares were issued during the year following exercises of options under the Company's share option plans. No votes are cast in respect of shares held in the Hydrogen Employee Share Trust or the Hydrogen Group Share Incentive Plan.

Pursuant to shareholder resolutions at the AGM of the Company held on 2 June 2017, the Company has the following authorities during the period up to the next AGM:

- to issue new/additional ordinary shares to existing shareholders through a rights issue up to a maximum nominal amount of £82,440; representing one third of the then current issued share capital of the Company;
- to issue new/additional ordinary shares to new shareholders up to a maximum nominal amount of £82,440, representing one third of the then current issued share capital of the Company;
- to recruit, retain and incentivise group senior management and selected key employees, the Company will establish the Leadership Share Scheme. Exercise of the options shall not exceed 25% total Group shares.
- In order to recruit, retain and incentivise the leaders and managers of the difference business units, the Company will establish the Minority Interest Share Scheme. Exercise of the options shall not exceed 25% total Group shares.

Shareholders will be asked to renew and update these authorities at the AGM in 2018.

20 Own shares held

During the year, there was no movement in the number of shares held by the EBT.

At 31 December 2017, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2017**	2016
Number of shares	**1,162,051**	1,162,051
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338

21 Earnings/ (loss) per share

Earnings/ (loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Group by the weighted average number of ordinary shares in issue.

Diluted earnings/ (loss) per share is calculated by adjusting the weighted average number of ordinary shares by existing share options and share incentive plans, assuming dilution through conversion of all existing options and shares held in share plans. The Employee Benefit Trust shares are ignored for the purposes of calculating the Group's earnings per share.

From continuing operations	**2017 £'000**	2016 £'000
Earnings		
(Loss)/profit attributable to equity holders of the parent	**(1,232)**	1,532
Adjusted earnings		
(Loss)/profit for the year	**(1,232)**	1,532
Add back: exceptional costs	**1,963**	-
	731	1,532

	2017	2016
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**28,176,049**	22,529,360
Dilutive effect of share plans (note 18) *	**2,597,754**	1,212,308
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**30,773,803**	23,741,668
Basic (loss)/profit per share (pence)	**(4.37p)**	6.80p
Diluted (loss)/profit per share (pence)	**(4.37p)**	6.45p
Adjusted basic profit earnings per share (pence)	**2.59p**	6.80p
Adjusted diluted profit earnings per share (pence)	**2.38p**	6.45p

*The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings or loss per share. (An antidilution is a reduction in the loss per share or an increase in the earnings per share).

22 Equity

Share capital

The balance of share capital represents the aggregate nominal value of all ordinary shares in issue.

Share premium

The balance on the share premium reserve represents the amounts received in excess of the nominal value of the ordinary shares.

Merger reserve

The balance on the merger reserve represents the fair value of the consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of Hydrogen International Limited, Professionals Group Limited and Argyll Scott Holdings.

Own shares held

The balance on the own shares reserve represents the cost of shares in Hydrogen Group plc purchased by the Employee Benefit Trust to meet the Group's future requirements under its share option schemes.

Share option reserve

This reserve represents the cumulative amounts charged to profit or loss in respect of employee share-based payment arrangements for employees, and includes amounts previously disclosed in 'other reserve'.

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations into the presentation currency of the group accounts.

Forward purchase reserve

The forward purchase reserve is in relation to the future earn out payments arising on the share repurchase of the Non-controlling interests in Argyll Scott.

(Deficit)/ Retained earnings

The balance held on this reserve is the accumulated retained profits of the Group.

Non-controlling interest

This balance represents the portion of equity ownership in a subsidiary not attributable to the parent company.

23 Employees

The average number of employees (including Directors) during the year and the total number of employees at 31 December 2017 was as follows:

	Average no. 2017	Average no. 2016	**31 December 2017**	31 December 2016
Client services	**222**	154	**250**	155
Administration	**61**	56	**59**	56
Management	**4**	4	**4**	4
	287	214	**313**	215

Staff costs (including Directors' costs) are as follows and have been included in Administration expenses in the Consolidated Statement of Comprehensive Income.

	2017 £'000	2016 £'000
Wages and salaries	**12,345**	10,853
Social security costs	**1,119**	1,000
Other pension costs	**229**	230
Share-based payments (see note 18)	**199**	331
	13,892	12,414

Directors' emoluments

	2017 £'000	2016 £'000
Emoluments for qualifying services	**403**	434
	403	434

Information on Directors' emoluments (page 25) and interests (page 24), which form part of these audited financial statements, is given in the Directors' Remuneration Report.

Emoluments disclosed above include the following amounts paid to the highest paid Director:

	2017 £'000	2016 £'000
Emoluments for qualifying services	**247**	256
	247	256

Remuneration of key management

	2017 £'000	2016 £'000
Short term employee benefits (including social security costs)	**1,253**	1,424
Share-based payments	**82**	100
	1,335	1,524

24 Notes to the cash flow statement

a. Reconciliation of profit before tax to net cash inflow from operating activities

	2017 £'000	2016 £'000
(Loss)/profit before taxation	**(1,447)**	1,667
Add back loss from associate	**100**	-
Add back exceptional items	**1,963**	-
Adjusted profit	**616**	1,667
Adjusted for:		
Depreciation and amortisation	**431**	318
Increase/ (decrease) in non-exceptional provisions	**(7)**	241
FX unrealised gains	**(6)**	(315)
Share-based payments	**199**	331
Net finance income	**111**	(917)
Operating cash flows before movements in working capital	**1,344**	1,325
Increase in receivables	**(6,126)**	(3,502)
Increase in payables	**3,154**	1,235
Income tax credit/(expense)	**107**	(135)
Cash used in operating activities	**(1,521)**	(1,077)
Income taxes paid	**(354)**	(104)
Finance costs	**(123)**	(63)
Finance income	**78**	-
Net cash outflow from operating activities before exceptional items	**(1,920)**	(1,244)
Cash flows arising from exceptional costs	**(581)**	-
Net cash outflow from operating activities	**(2,501)**	(1,244)

b. Reconciliation of borrowings:

	2017 £'000	2016 £'000
Borrowings at the start of the year	**(1,087)**	(454)
Increase in borrowings	**(2,045)**	(633)
Borrowings at the end of the year	**(3,132)**	(1,087)

25 Operating lease commitments

Operating lease commitments where the Group is lessee

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 **£'000**	2016 £'000
Within one year	**1,057**	857
Between one and five years	**3,489**	3,148
After five years	**4,329**	5,116
	8,875	9,121

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 13.1 years and rentals are fixed for an average of 4.7 years. The Group has a small amount of serviced office space, on annual agreements, excluded from the above.

The operating lease term commitment is based on the full term of the lease to 2028. All leases in the Group have break clauses to limit the potential liability.

Operating lease commitments where the Group is lessor

At the reporting date, the Group had outstanding commitments for future minimum lease receivables under non-cancellable operating leases, which fall due as follows:

	2017 **£'000**	2016 £'000
Within one year	**551**	433
Between one and five years	**864**	584
After five years	**-**	-
	1,415	1,017

The operating lease receivables represent rentals receivable by the Group for the two floors subleased in its office property based in London.

26 Financial risk management

Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as set out in note 22.

The Group monitors capital on the basis of the gearing ratio.

There have been no significant changes in capital structure implemented in the year ended 31 December 2017.

The gearing ratio at the year-end is as follows	**2017** **£'000**	2016 £'000
Debt (note 16)	**(3,132)**	(1,087)
Cash and cash equivalents (note 14)	**2,770**	3,106
Net (debt)/cash	**(362)**	2,019
Equity	**20,213**	19,015
Net (debt)/cash to equity ratio	**(1.8%)**	10.6%

Debt is defined as long and short-term borrowings.

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

26 Financial risk management (continued)

Externally imposed capital requirements

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of the financial statements.

Categories of financial instruments

The Group's financial instruments are summarised below. The purpose of these instruments is to finance the Group's operations, from which they arise. They are predominately short term in nature, and hence their carrying value approximates to their fair value.

	2017 £'000	2016 £'000
Financial assets		
Loans and receivables		
Trade receivables net of impairment provision	**13,868**	9,545
Other receivables	**1,088**	313
Accrued income	**8,329**	7,532
Cash and cash equivalents	**2,770**	3,106
	26,055	20,496
Financial liabilities at fair value		
Redemption liability	**1,020**	-
Financial liabilities at amortised cost		
Trade and other payables	**3,986**	2,452
Accruals	**10,346**	9,340
Borrowings	**3,132**	1,087
	18,484	12,879

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

Foreign currency risks

The Group publishes its consolidated financial statements in Sterling and approximately 76% of its revenues are in Sterling. For the contract business, the Group endeavours to pay and bill in the same currency to provide a natural hedge. The Group periodically uses currency options to manage any remaining exposure to foreign currency risk.

The functional currencies of the Group's main operating subsidiaries are Sterling, the Australian Dollar, the Hong Kong Dollar, the US Dollar, the Malaysian Ringgit, the Thai Bhat, the Singapore Dollar, the Swiss Franc, and the Euro. The Group's subsidiaries generally raise invoices and incur expenses in their local currencies with the exception of the Euro where we don't have significant Euro costs.

The Group is exposed to foreign currency translation differences in accounting for its investment in overseas operations. While the settlement of intercompany balances held with foreign operations is neither planned nor likely to occur in the foreseeable future, the majority of these loan balances are classified as non-trading loans based on the nature of the activity in the accounts. The exchange differences arising from the translation associated with the permanent, non-repayable element of the loan, is recognised in other comprehensive income. While the exchange differences arising from the translation associated with the trading element of the intercompany loan, is recognised in the profit and loss account.

26 Financial risk management (continued)

Interest rate risk

The Group's exposure to interest rate risk arises on its drawdown on its UK invoice discounting facility. Given the current low level of interest rates, and the high level of variability in the amount and duration of its drawdown, the Group does not actively manage its exposure to interest rate fluctuations.

Credit risk

The Group's principal financial assets are bank balances and cash, and trade and other receivables. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit losses.

The Group does not hold any security as collateral against these financial assets.

The Group's credit risk arises primarily on its trade receivables. The Group transacts with a large number of customers across a variety of industry sectors. On-going credit evaluation and management of exposures is undertaken, utilising external credit ratings. No customer represented more than 10% of the total balance of trade receivables. It is the Directors' opinion that no further provision for doubtful debts is required.

Liquidity risk

The Group manages its liquidity risk by maintaining adequate reserves, banking and borrowing facilities, by continuously monitoring forecast and actual cash flows on a regular basis and matching the maturity profiles of financial assets and liabilities to determine whether the Group has sufficient cash and credit facilities to meet future working capital requirements and to take advantage of business opportunities.

The Group has a £18m invoice discounting facility with HSBC committed to May 2019 and this is considered adequate to meet the Group's funding requirements. The Group also has a £1m invoice discounting facility with Barclays committed to January 2019.

Apart from its bank borrowings disclosed in note 16, the Group has no financial liabilities other than short-term trade payables and accruals disclosed in note 15, all due within one year of the year end.

27 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report on page 25. Total remuneration for members of key management, which includes the Directors, is given in note 23. As shareholders, the Directors who are shareholders also receive dividends from the Company. No dividend payments were made during the year.

No single party has ultimate control of the company.

On acquisition of Argyll Scott, John Hunter had a loan outstanding from Argyll Scott International of £40,000. This loan was subsequently transferred to Hydrogen Group plc and a repayment of £12,000 has been paid in the year. The loan outstanding to John Hunter at year end is £28,000.

During the year, Hydrogen Group plc acquired a 45% stake in CBFG Limited for £150,000. A further loan of £250,000 has been provided to the company which is repayable on demand and currently included within other receivables. Interest of 5% is charged annually on the balance.

28 Acquisition of Argyll Scott Holdings

On 2 June 2017, Hydrogen Group plc acquired the entire issued share capital of Argyll Scott Holdings for £3.2m, satisfied by the issuance of 9,034,110 ordinary shares in Hydrogen Group Plc. Argyll Scott recruits for contract, interim and permanent middle management positions across key business functions including accounting & finance, business transformation, marketing, sales and technology across both APAC and EMEA. It was founded in 2009 and has since grown to operate from offices in London, Dubai, Hong Kong, Malaysia, Singapore and Thailand. The acquisition has, in particular, expanded the Group's presence significantly in Asia, where many client cross fertilisation opportunities have been identified and are now being exploited. Furthermore, the Group has already realised significant cost synergies as a result of the acquisition which are expected to continue into 2018. It is therefore in the Director's opinion, that the consideration paid over is worth in excess of the net assets of the Argyll Scott Group and hence has given rise to the goodwill set out below.

Net assets acquired were as follows:	**£'000**
Property, plant and equipment (note 11)	85
Trade and other receivables	3,283
Cash and cash equivalents	476
Borrowings	(608)
Trade and other payables	(2,259)
	977
Intangible assets acquired (note 10)	625
Deferred tax liability acquired (note 12)	(125)
Non-controlling interest	(320)
Total assets acquired	1,157
Goodwill	2,073
Total consideration (satisfied by shares)	3,230

During the period, Argyll Scott contributed £10.7m worth of revenue and a statutory loss before tax of £0.5m. On a pro forma basis, total Group revenue for the year would equate to £133.8m with a statutory profit before tax of £0.4m.

As part of the acquisition for Argyll Scott, Hydrogen Group plc has entered into an agreement to buy back the remaining shareholding in the relevant subsidiaries so that all entities are 100% owned by the Group based on a multiple of profit after tax. As a result, a forward purchase reserve has been created which represents the unconditional amounts due to the non-controlling interests with a redemption liability included on the face of the Statement of Financial Position.

The conditions on the buy-back are as follows:

<table>
<tr><th>Entity</th><th>Shareholding buy-back</th><th>Repayment dates</th><th>Consideration</th><th>Dividend payable</th></tr>
<tr><td>Argyll Scott International Ltd</td><td>10%</td><td>30 April 2021</td><td>P/E Ratio (75% of Group PE with a floor of 5 and a cap of 7.5) multiplied by average PAT of 2019 and 2020 audited accounts.</td><td rowspan="2">Subject to permissible laws and sufficient distributable reserves, a dividend of no less than 50% of the statutory PAT in the relevant year will be paid.</td></tr>
<tr><td>Argyll Scott Technology Ltd
Argyll Scott International (Hong Kong) Ltd
Argyll Scott Hong Kong Ltd
Argyll Scott International (Singapore) Ltd
Argyll Scott Singapore Ltd
Argyll Scott Recruitment (Thailand) Ltd
Argyll Scott Malaysia Sdn Bhd</td><td>7.5%
7.5%
7.5%
7.5%</td><td>30 April 2018
30 April 2019
30 April 2020
30 April 2021</td><td>P/E Ratio (75% of Group PE with a floor of 5 and a cap of 7.5) multiplied by PAT of previous years audited accounts.</td></tr>
</table>

HYDROGEN GROUP PLC

Parent company statement of financial position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Investments in subsidiaries	6	**9,987**	7,232
Investments in associate	6	**50**	-
Deferred tax asset	7	**1**	1
Amounts owed by subsidiary undertakings	9	**4,240**	1,773
		14,278	9,006
Current assets			
Trade and other receivables	8	**406**	313
Amounts owed by subsidiary undertakings	9	**2,350**	5,422
Current tax receivable		**176**	133
Cash at bank and in hand		**1**	10
		2,933	5,878
Total assets		**17,211**	14,884
Current liabilities			
Trade and other payables	10	**(467)**	(527)
Redemption liability		**(69)**	-
		(536)	(527)
Non-current liabilities			
Redemption liability		**(951)**	-
Deferred tax liabilities	7	**-**	(54)
Amounts owed to subsidiary undertakings		**(1,532)**	(1,758)
		(2,483)	(1,812)
Total liabilities		**(3,019)**	(2,339)
Net assets		**14,192**	12,545
Share capital	11	**334**	239
Share premium account		**3,520**	3,520
Merger reserve		**3,140**	-
Own shares held	12	**(1,338)**	(1,338)
Share option reserve		**1,014**	815
Retained earnings		**7,522**	9,309
Equity shareholders' funds		**14,192**	12,545

As permitted by Section 408 of the Companies Act 2006 the profit and loss account for the Company is not presented as part of these financial statements. Hydrogen Group plc reported a loss for the financial year ended 31 December 2017 of £1,787,370 (2016: loss £302,669).

The financial statements on pages 68 to 78 were approved by the Board of Directors and authorised for issue on 9 April 2018 and were signed on its behalf by:

Ian Temple
CEO
Hydrogen Group plc
Registered office: 30-40 Eastcheap, London, EC3M 1HD
Registered in England and Wales no: 5563206

HYDROGEN GROUP PLC

Parent company statement of changes in equity

As at 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	239	3,520	-	(1,338)	484	9,612	12,517
Share scheme contribution	-	-	-	-	331	-	331
Transactions with owners	-	-	-	-	331	-	331
Loss for the year	-	-	-	-	-	(303)	(303)
Total comprehensive loss for the year	-	-	-	-	-	(303)	(303)
Balance at 31 December 2016	**239**	**3,520**	**-**	**(1,338)**	**815**	**9,309**	**12,545**
Acquisition of Argyll Scott	**90**	**-**	**3,140**	**-**	**-**	**-**	**3,230**
New shares issued	**5**	**-**	**-**	**-**	**-**	**-**	**5**
Share scheme contribution	**-**	**-**	**-**	**-**	**199**	**-**	**199**
Transactions with owners	**95**	**-**	**3,140**	**-**	**199**	**-**	**3,434**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(1,787)**	**(1,787)**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(1,787)**	**(1,787)**
Balance at 31 December 2017	**334**	**3,520**	**3,140**	**(1,338)**	**1,014**	**7,522**	**14,192**

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The principal accounting policies used in the preparation of the Company financial statements are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 45 and 46-52 of IFRS 2 Share based Payment:
b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67of IFRS 3 Business Combinations
c) the requirements of IFRS 7 Financial Instruments: Disclosures,
d) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
e) the requirement in paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture.
f) the requirements of paragraphs 10(d),10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*
g) the requirements of IAS 7 Statement of Cash Flows;
h) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
i) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*
j) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
k) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Investments

Fixed asset investments in subsidiaries are stated at cost less provision for impairment.

Deferred taxation

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

Deferred income tax is measured at the tax rates that are expected to apply in the periods in which temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the reporting date. Deferred income tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred income tax is also dealt with in other comprehensive income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Dividends

Dividend distribution to the Company’s shareholders is recognised as a liability in the Company’s financial statements in the period in which the Company’s shareholders approve the dividend. An interim dividend distribution is recognised in the period in which it is approved and paid.

1 Significant accounting policies (continued)

Foreign exchange

The Company has advanced intercompany loans to several subsidiaries. They have been deemed as trading loans by nature given the transactional activity over the current year. Based on this, these loans are not considered as part of the net investment in the foreign operations. These loans are denominated in the Group's functional currency, Sterling, and exchange gains or losses arising on their revaluation are recognised in profit and loss in the separate financial statements of the foreign subsidiaries.

Share-based payments

The Company has granted rights to its equity instruments to the employees of some of its subsidiaries.

In the Company financial statements, there is no share-based payment charge in the comprehensive statement of income, as no employees are providing services to the parent. Instead the Company which has an obligation to settle the transaction with the subsidiary's employees by providing its own equity instruments measure that obligation in accordance with the requirements applicable to equity-settled share-based payment transactions. As such it recognises a capital contribution by increasing the carrying value of its investment in the subsidiaries as well as a credit to its share based payment reserve.

Fair value is measured by use of a Monte Carlo model – dependant on the terms of the options certificates issued. At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in profit or loss with a corresponding adjustment to equity.

When the options are exercised the proceeds received are credited to share capital and share premium, where appropriate.

Employee Benefit Trust

The Hydrogen Group plc Employee Benefit Trust (EBT) is funded by contributions from the Company. Under the terms of the EBT, shares are held in trust for the benefit of employees. Shares in the EBT are held at acquisition cost and deducted from shareholders' equity. Any assets held by the EBT cease to be recognised on the Company statement of financial position when the assets vest unconditionally to identified beneficiaries. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group profit or loss.

The trustees have waived their rights to dividends on the shares held by the EBT.

Financial instruments

Financial liabilities and equity instruments are classified per the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to profit and loss. Measurement of financial assets and financial liabilities are detailed on p43 and p 44 of the Group accounts.

Redemption liability

Where a forward purchase is entered into over a non-controlling interest, the ownership risks and rewards of the relevant shares are analysed to determine whether the equity is attributable to the non-controlling interest or to the parent. Where the significant risks and rewards of ownership remain with the non-controlling interest the non-controlling interest continues to be recognised and is allocated its share of profits and losses and a financial liability is recognised in respect of the forward purchase at fair value through profit and loss. All subsequent changes to the fair value of the liability (other than the cash settlement) are recognised in profit or loss. Where the significant risks and rewards of ownership reside with the controlling interest, the financial liability recognised is offset against the non-controlling interest

1 Significant accounting policies (continued)

Significant management judgement in applying accounting policies

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances.

Actual results in the future could differ from such estimates. In the process of applying the Company's accounting policies, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below (although the Directors do not believe that any reasonably possible change to their assumptions could give rise to a material change in these assets and liabilities).

Judgement and estimation:

Share based payments – Note 5

The total amount to be expensed is determined by reference to the fair value of the options granted. In arriving at the charge for the period, assumptions are made on the number of options likely to be exercised, the current market value of the shares and the volatility of the market value of the shares. The fair value of equity settled share based payments also involves estimation of such factors as lapse rates and achievement of performance criteria.

Impairment of investments – Note 6

The Company determines whether investments are impaired on an annual basis or otherwise when changes in events or situations indicate that the carrying value may not be recoverable. This requires an estimation of the recoverable amount for each individual investment. The value-in-use requires the Company to make an estimate of the future cash flows from each investment and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Recoverability of intercompany receivables – Note 9

Determining the recoverability of intercompany receivables required management to exercise judgement based on the future trading performance of each subsidiary undertaking.

Redemption Liability

The future earn out payments to the non-controlling interests within Argyll Scott requires management to estimate the future profits in the relevant entities and discount these back to present value. These forecasts are based on management's best estimates of internal profit conversion and inflationary increases in costs. Recognition of the forward purchase over a non-controlling interest is based on consideration of the ownership risks and rewards of the shares relating to the forward to determine whether the equity is attributable to the non-controlling interest or the parent.

2 Auditors

The auditor's remuneration for audit of the Company is £5,000 (2016: £5,000). Fees payable to BDO LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

3 Employees

Staff costs (including Directors' costs) are as follows:	**2017 £'000**	2016 £'000
Wages and salaries	**481**	627
Social security costs	**63**	80
Other pension costs	**11**	17
Total	**555**	724

All employment costs are borne by Hydrogen International Limited and recharged to Hydrogen Group plc.

The average number of employees (including Directors of the Company) during the financial year was 5 (2016: 5).

4 Dividend

No interim dividend was paid in respect of the year ended 31 December 2017 (2016: nil). A final dividend of £0.8p has been proposed but not yet approved for the year ended 31 December 2017 (2016: nil p per share).

5 Share-based payments

The total expense arising from the share-based option schemes during the year was £0.2m (2016: £0.3m).

Breakdown of shares issued to the company and its subsidiaries was as follows:

	2017 £'000	2016 £'000
Australia	**2**	5
Singapore	**18**	58
International	**179**	268
Total	**199**	331

6 Non-current investments

	2017 £'000	2016 £'000
Subsidiary undertakings at cost		
At 1 January	**7,232**	6,933
Acquisition of Argyll Scott	**3,230**	-
Additions	**1,219**	331
Disposals	**(1,694)**	-
Impairment	**-**	(32)
At 31 December	**9,987**	7,232

Additions in the year mainly relate to the £1.0m earn out payments as part of the redemption liability. Disposals principally relate to the reduction in Hydrogen UK Limited of £1.1m.

Subsidiaries

The principal trading subsidiaries are Hydrogen International Limited in the UK, Hydrogen Group Pty Ltd in Australia, Hydrogen Group Pte Ltd in Singapore, Hydrogen Group Ltd in Hong Kong, Hydrogen Group LLC in USA, Argyll Scott Singapore Ltd in Singapore, Argyll Scott Hong Kong Ltd in Hong Kong and Argyll Scott Malaysia Sdn Bhd in Malaysia.

Subsidiary	**Country of incorporation**	**Registered office**	**Nature of activities**	**% ordinary share capital and voting rights**
Hydrogen UK Limited*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Hydrogen International Limited	United Kingdom		Recruitment	100%
Hydrogen Group Pty Limited	Australia	Level 10, 10-14 Spring Street, Sydney NSW 2000, Australia	Recruitment	100%
Hydrogen Group GmbH	Germany	Landshuter Allee 8-10 80637 München	Recruitment	100%
Hydrogen Group Limited	Hong Kong	Unit 801-2, 8/F., Tung Hip commercial building, 244-248 Des Voeux Road central, Sheung Wan, HK	Recruitment	100%
Hydrogen Group Sdn. Bhd	Malaysia	B4-3A-6 Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia	Recruitment	100%
Hydrogen Oil & Gas Sdn. Bhd*	Malaysia		Recruitment	40%
Hydrogen Agency Sdn Bhd*	Malaysia		Recruitment	40%
Hydrogen Group BV	Netherlands	Orteliuslaan 850, 3528 BB Utrecht	Recruitment	100%
Hydrogen Norge AS	Norway	Hydrogen Norge AS, Postboks 8034, 4068 Stavanger, Norway	Recruitment	100%
Hydrogen Group Pte Limited	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	100%
Hydrogen Group AG	Switzerland	Poststrasse 24, 6300 Zug, Switzerland.	Recruitment	100%

6 Non-current investments (continued)

Subsidiary	Country of incorporation	Registered office	Nature of activities	% ordinary share capital and voting rights
Hydrogen Group LLC	USA	19C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%
Hydrogen Group Staffing LLC*	USA	20C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%
Hydrogen Employee Share Company Limited	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Trustee of Share Incentive Plan	100%
Argyll Scott Holdings Ltd	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Argyll Scott International Ltd*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	90%
Argyll Scott Technology Ltd*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	70%
Argyll Scott International (Hong Kong) Ltd*	Hong Kong	8/F, Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong	Recruitment	70%
Argyll Scott Hong Kong Ltd*	Hong Kong	12 Floor, No. 8 Queen's Road Central, Hong Kong	Recruitment	70%
Argyll Scott International (Singapore) Ltd*	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	70%
Argyll Scott Singapore Ltd*	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	70%
Argyll Scott Recruitment (Thailand) Ltd*	Thailand	999/9, the office at central world, 17th floor, room ML1705, Rama I Road, Phathumwan, Bangkok	Recruitment	70%
Argyll Scott Malaysia Sdn Bhd*	Malaysia	B4-3A-6, Solaris Dutamas, No.1, Jalan Dutamas 1, Kuala Lumpur, Malysia	Recruitment	70%

*held indirectly

At year end, Hydrogen Group plc owned a 40% shareholding in both Hydrogen Oil & Gas Sdn. Bhd and Hydrogen Agency Sdn Bhd. The remaining shares are held on behalf of the company as required by local law. Hydrogen Group plc is entitled to 100% of the returns and net assets of both of these entities so there is no non-controlling interest to recognise in the consolidated financial statements.

Associate undertakings at cost

The following table provides summarised information of the Group's investment in the associated undertaking:

	£'000
Investment acquired	150
Share of associate's loss	(100)
Total	**50**

Principle associate	Investment held by	Principal activity	Country of incorporation	% Equity interest
CBFG Limited	Hydrogen Group Plc	Advisory services	UK	45.0

CBFG Limited consolidated results as at 31 December 2017

Net Assets:	£0.1m
Revenue:	£2.6m
Loss before tax	£0.4m

7 Deferred tax

Deferred tax asset	**Other £'000**
At 1 January 2016	2
Charged/ (credited) to profit or loss	(1)
At 31December 2016	1
(Credited)/charged to profit or loss	**-**
At 31 December 2017	**1**

Deferred tax (liability)	**Accelerated capital allowances £'000**
At 1 January 2016	1
Charged to profit or loss	53
At 31 December 2016	54
Charged to profit or loss	**(54)**
At 31 December 2017	**-**

No reversal of deferred tax is expected within the next twelve months (2016: nil).

In total, at the reporting date, the company had unutilised tax losses of £86,349 (2016: £6,208) available for offset against future profits, for which no deferred tax assets had been recognised.

8 Trade and other receivables

Trade and other receivables are as follows:	**2017 £'000**	2016 £'000
Trade receivables	**3**	-
Other taxation and social security	**74**	257
Other debtors and prepayments	**329**	56
Current	**406**	313

9 Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are as follows:	**2017 £'000**	2016 £'000
Amounts owed by Group companies	**10,181**	10,066
Less: impairment provision	**(3,591)**	(2,871)
	6,590	7,195
Current	**2,350**	5,422
Non- current	**4,240**	1,773
	6,590	7,195

Interest is charged on the amounts owed from Group companies of 2.35% over LIBOR.

During the current year, a review was performed on the intercompany loans. The above details the elements of the loans that have been split between their appropriate ageing categories, a provision has been made for the amounts deemed non-recoverable.

10 Trade and other payables

Trade and other payables are as follows:	**2017 £'000**	2016 £'000
Trade payables	**330**	302
Accruals	**137**	225
Total	**467**	527

11 Share capital

	2017		2016	
Ordinary shares of 1p each	**Number of shares**	**£'000**	Number of shares	£'000
Issued and fully paid:				
At 1 January	**23,903,713**	**239**	23,891,713	239
Issuance of new shares	**9,522,110**	**95**	12,000	-
31 December	**33,425,823**	**334**	23,903,713	239

The Company has one class of ordinary shares which carries no right to fixed income.

12 Own shares held

During the year, there were no movements in the number of shares held by the Employee Benefit Trust (EBT).

At 31 December 2017, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2017**	2016
Number of shares	**1,162,051**	1,162,051
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338

13 Reserves

Share capital

The balance of share capital represents the aggregate nominal value of all ordinary shares in issue.

Share premium

The balance on the share premium reserve represents the amounts received in excess of the nominal value of the ordinary shares.

Merger reserve

The balance on the merger reserve represents the fair value of the consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of Argyll Scott Holdings.

Own shares held

The balance on the own shares reserve represents the cost of shares in Hydrogen Group plc purchased by the Employee Benefit Trust to meet the Company's future requirements under its share option schemes.

Share option reserve

This reserve represents the cumulative amounts charged to profit or loss in respect of employee share-based payment arrangements for employees.

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations into the presentation currency of the group accounts.

(Deficit)/Retained earnings

The balance held on this reserve is the accumulated retained profits/(losses) of the Company.

14 Contingent liabilities

The Company has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £0.5m (2016: £0.5m) at the balance sheet date.

15 Operating lease commitments

Operating lease commitments where the Company is lessee

At the reporting date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	**787**	787
Between one and five years	**3,148**	3,148
After five years	**4,329**	5,116
	8,264	9,051

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 13.1 years and rentals are fixed for an average of 4.7 years. The Group has a small amount of serviced office space, on annual agreements, excluded from the above.

15 Operating lease commitments (continued)

The operating lease term commitment is based on the full term of the lease to 2028.

Operating lease commitments where the Company is lessor

At the reporting date, the Company had outstanding commitments for future minimum lease receivables under non-cancellable operating leases, which fall due as follows:

	2017 **£'000**	2016 £'000
Within one year	**551**	433
Between one and five years	**864**	584
After five years	**-**	-
	1,415	1,017

The operating lease receivables represent rentals receivable by the Company for the two floors subleased in its office property based in London.

16 Related parties

As permitted by FRS 101 the Company has not disclosed transactions with subsidiaries in its own accounts as these accounts are presented together with the consolidated group financial statements.

The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. As shareholders, the Directors who are shareholders also receive dividends from the Company. No dividend payments were made during the year.

On acquisition of Argyll Scott, John Hunter had a loan outstanding from Argyll Scott International of £40,000. This loan was subsequently transferred to Hydrogen Group plc and a repayment of £12,000 has been paid in the year. The loan outstanding to John Hunter at year end is £28,000.

Directors and Advisors

For the year ended 31 December 2017

Directors

Stephen Puckett (Chairman)

Richard Green (Senior Independent Director)

Ian Temple (Chief Executive Officer)

John Hunter (Managing Director)

Colin Adams (Resigned 4 April 2017)

Company Secretary

Ben Harber

6th Floor, 60 Gracechurch Street, London, EC3V 0HR

Company number

5563206

Registered office

30-40 Eastcheap, London, EC3M 1HD

Auditor

BDO LLP, Chartered Accountants, 55 Baker Street, London, W1U 7EU

Solicitor

Travers Smith, 10 Snow Hill London, EC1A 2AL

Banker

HSBC, 60 Queen Victoria Street, London, EC4N 4TR

Registrar

Link market Services (previously Capita Asset Services), 34 Beckenham Road, Beckenham Kent, BR3 4TU

Nominated adviser and broker

Shore Capital and Corporate Limited, Bond Street, House 14, Clifford Street London, W1S 4JU