HYDROGEN GROUP PLC

Reports and accounts for the financial year ended 31 December 2016

Registered in England and Wales, Company No. 5563206

HYDROGEN GROUP PLC
Annual Reports and Accounts 2016

Contents

Chairman's Report

CHAIRMAN'S STATEMENT

2016 Performance

The business had a decline in NFI of 8.8%, at £17.7m (2015: £19.4m as restated) caused largely by the decline in NFI from the Energy sector of £1.6m. This sector has been in decline since the oil price dropped but is now showing signs of stabilisation. The referendum decision for the UK to withdraw from the EU also affected the volume of transactions in the UK business during the year. However, the group benefited from the consequent decline in the value of sterling with 43% of NFI earned in overseas currency.

We changed accounting policy for permanent recruitment during the year in order to better reflect the commercial economics of permanent placements, improve our short-term forecasting of income and increase the emphasis on time to bill and collect. As set out in Note 27 this change in accounting policy resulted in a £0.8m increase in the 2015 NFI. If the accounting policy was not changed the 2016 NFI would have been £0.2m higher. We are pleased to report that our decision to continue to invest in our international offices during 2015 has resulted in them returning to profit in 2016. Despite continued challenging conditions in the Energy sector and the uncertainty surrounding Brexit, the business has stabilised and has returned to profitability with a profit before exceptional items and taxation for the year of £1.7m (2015: profit £0.1m as restated). The Group's Business Transformation and Life Science practices performed strongly together with a reduction in overheads, which took the Group to an adjusted profit before tax in 2016 of £0.8m (2015: £0.2m as restated) after adjusting for £1.0m foreign exchange gains on intercompany loans, £0.2 on trading foreign exchange gains and a share-based payment cost of £0.3m.

There were no reported exceptional items in the year (2015: £5.5m). A continued key focus for management during 2016 was cash generation and the business had another strong cash performance ending the year with year-end net cash of £2.0m (2015: £2.6m) despite the growth of working capital needed to grow the contractor book.

Strategy

The business was built on building market leading specialist teams and in 2016 we re-established the focus organically building our team journey from incubator through fast growth to market leader. The ultra-niche model is even more relevant today than when the business started 20 years ago with the ability to utilise digital marketing to build and maintain relationships. We have a wealth of high value information with over 2.6 million contacts which we are unlocking for our consultants to the benefit of our candidates and clients. We have invested in key platforms that we believe will unlock this value and increase our consultant productivity. We looked carefully at why people worked with us and ultimately it came down to empowering the careers of our candidates and staff and powering our clients and own businesses.

Having stabilised and returned to profitability in 2016, the Group aim's to further develop its market leading ultra-niche teams through taking advantage of the Group's global platform. 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 and guarantees we work with the best clients and candidates available.

Dividend

While the Groups operating profit before exceptional items increased to £0.8m the Group experienced a net outflow of cash during the period to support the growth of the contract business. The Board considers that the first use of cash should be to support the investment and growth of the business and as a result the Board does not propose paying a dividend in respect of 2016 (2015: Nil).

The Board

As previously announced Colin Adams gave notice of his intention to step down from the Board and his role as company secretary with effect from today. I would like to thank Colin for his efforts during the turnaround of the business and wish him success in his future endeavours.

The Group has a strong Group Financial Controller and the three remaining directors are all Chartered Accountants. In the Board's opinion there is sufficient financial expertise within the Group and on the Board and accordingly it will not seek an immediate replacement CFO.

Chairman's Report

Outlook

Hydrogen's plan for the year ahead is to focus on growing and developing its niche businesses on their journeys from incubator, to fast growth through to market leading businesses. This will be achieved by backing high performing individuals and by taking advantage of our global digital marketing platform. Whilst mindful of the uncertainty in the UK, the Group is well placed to continue to invest in both our international and UK businesses and to explore new investment opportunities.

Stephen Puckett
Chairman

3 April 2017

Strategic Report

BUSINESS REVIEW

We are pleased to report that having set out a turnaround plan for the business in 2015 we continued to make progress during 2016 despite the dual challenge of continued decline in Energy and the UK's vote to exit the EU. The consequent depreciation of the pound against international currencies has flattered our results but nevertheless adjusted profits increased by 300% to £0.8m (2015: £0.2m as restated). During the year, we have seen some strong performances in some of our business sectors such as Life Sciences with growth in NFI of 28% along with Business Transformation which has grown by 13%. The proportion of the Group's NFI from contract placements grew from 54% to 65% (£10.5m to £11.6m) driven by our growth in contract business in APAC and a strong performance in EMEA. The permanent recruitment market in the UK was severely affected across the summer months by the Brexit vote but the year finished strongly with the market starting to return to normal. The Energy business also declined by £1.6m (EMEA £1.5m and APAC £0.1m) as a result of the reduction in the oil price. With the price of oil now trading around the $50 a barrel mark we are seeing the first signs of stabilisation. We have continued to invest in our people and the Group is now well positioned to continue offering high quality services to all our clients and stakeholders.

The key factors and highlights affecting the business in 2016 were as follows:

- The continued suppressed oil price affecting the Energy practice (NFI dropped by 48% from £3.1m to £1.6m)
- The referendum result for the UK to leave the EU
- Growth in contractor NFI (gross profit) by £1.1m (11%)
- The reduction in the value of the pound increasing profits by £1.2m
- Increases in profits from APAC to £0.3m (2015: loss of £0.5m restated)

Having reviewed the market drivers and our business model we have refocused on building market leading ultra-niche teams. This is the original model that built Hydrogen and with the power of digital marketing presents a huge opportunity to the business. Hydrogen has a strong brand name that is highly recognisable within the international marketplace and we have the clients, candidates, staff and infrastructure to take advantage of these opportunities.

EMEA (including USA)

NFI has declined by £1.3m during the year largely as a result of the decline in the Energy sector (decline of £1.5m) and the result of the UK referendum to withdraw from the EU which affected permanent recruitment during the year.

Operating profit has fallen by 23% in the year to £1.5m (2015: £2.0m) as a result of the decline in the Energy business.

APAC

It has been a positive year within the APAC market which has returned to profitability with the actions taken during a challenging 2015 and focus on improving profitability leading to operating profit in the year of £0.3m compared to a loss of £0.5m in 2015.

During 2016 we continued to focus on our contract business in APAC which grew 110% to £1.4m NFI during the year representing 42% of NFI for the region (2015: 18%) giving greater visibility of earnings.

Permanent and Contract

We place candidates in both permanent and contract roles. Permanent placements play to our experience in finding rare skills and satisfying the demand for niche, specialist skills. Contract provides more predictable revenue. Permanent placements generate one off revenue which historically we have recognised when the candidate accepts the client's offer. As a result of increasing candidate compliance, increasing notice periods and complexity of Visa and candidate onboarding requirements we have decided to change our revenue recognition policy. The revenue from permanent placements is now recognised when the candidate starts employment with a client. The implications of this change in policy is that the short term revenue forecasts are more accurate, there is less estimation of back out provisions and there is greater operational focus on timeliness and accuracy of invoicing. The new policy provides improved visibility of year-on-year earnings and better reflects the timing of the satisfaction of the Group's performance. The impact of the change in policy is to restate and increase 2015 revenue and operating profit by approximately £0.8m. If the policy were not changed, 2016 revenue and operating profits would have been approximately £0.2m higher.

Strategic Report

Contract represented 65% of total NFI in 2016 (2015: 54% as restated) as we grew our contract revenue and permanent NFI declined due to the Oil Price drop and change in accounting policy.

Clients and Candidates

We have built strong and effective relationships with all 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.

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.

Our people

I would like to thank all our staff for their efforts and the high level of ownership they have shown to deliver an improved performance in challenging circumstances during 2016.

Strategic Report

FINANCIAL REVIEW

Revenue

Group revenue to 31 December 2016 totalled £116.2m (2015: £123.6m as restated).

Key performance measures

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

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 2016, productivity per head reduced to £83,000 (2015: £86,000). This was due to the continued investment in staff towards the end of the year which in turn should grow the business in the future.

NFI split between the UK and the rest of the world

This is the total NFI expressed as a % over the UK and the rest of the world. This is valuable as it gives an indication of how the business has diversified its operations away from the historic UK marketplace.

NFI within the overseas market place has continued to increase and now accounts for 43% of the total NFI generated by the Group (2015: 37%). This is a result of our continued investment in international operations.

Net fee income (NFI – Gross profit)

Overall, there was a reduction in Group NFI of 8.8% to £17.7m (2015: £19.4m as restated). The major driver for this fall was the loss of NFI from the Energy Practice which declined by 46% (£1.5m within the EMEA segment and £0.1m within the APAC segment) to £1.9m NFI.

Contract NFI grew in the year by 11% to £11.6m with particular success in growing contractor numbers in APAC. Permanent NFI was held back by the result of the UK referendum of exiting the EU.

The devaluation of sterling increased the value of reported NFI from overseas by 11% (£0.4m) during the year if on a constant currency basis.

Operating segments

There has been a change to how we report the segmental analysis, previously these segments were Professional Support Services and Technical and Scientific. As part of the restructure and for clearer reporting purposes, current management reporting focuses on performance of our EMEA (including USA) and APAC businesses. The new segmental analysis disclosed in Note 1 reflects this. Within these operating segments are the individual practices; Technology, Finance, Energy, Legal, Life Sciences and Business Transformation.

NFI from the EMEA (including USA) operating segment totalled £14.4m (2015: £15.7m as restated), and contributed 81% (2015: 81% as restated) of total NFI. NFI from the APAC operating segment totalled £3.3m (2015: £3.7m as restated). The decrease from 2015 is due to the continued decline in the Energy sector across all global regions.

Exceptional Costs

The Group had no reported exceptional items in 2016, having recorded an exceptional charge of £5.5m in 2015. The majority of the exceptional charge was due to goodwill impairment (£3.5m), fixed asset impairment (£1.0m) with the remainder associated with one-off costs of restructuring.

Headcount

Total headcount at 31 December 2016 was 8% higher than the prior year, at 215 (2015: 199). Average total headcount for the year was 214, 6% down on the previous year (2015: 227).

Net Finance income/ costs

A foreign exchange gain of £1m (2015: nil) recognised on the translation of the long term intercompany loan balances with the Group's foreign operations has been included in net finance income.

This gain arises as a result of fluctuations in foreign exchange rates and capital movements within the loan balances to the Group's foreign subsidiaries. While the loan balances eliminate on consolidation, the foreign exchange movements have been recognised in the Statement of Comprehensive Income given the trading nature of the loans.

Finance costs in the year have remained stable at £0.1m (2015: £0.1m).

Profit before taxation

Profit before taxation ("PBT") for the year was £1.7m (2015: £0.1m as restated before exceptional items).

An adjusted PBT of £0.8m (2015: £0.2m as restated) has been calculated to exclude share-based costs of £0.3m (2015: £0.2m) and foreign exchange related gains of £1.2m (2015: £0.1m).

Taxation

There was a £0.1m tax charge for the year (2015: £Nil), giving an effective tax rate of 8% (2015: 0%).

At 31 December 2016 the Group had unutilised tax losses of £3.7m (2015: £3.9m) available for offset against future profits. No deferred tax assets have been recognised due to the recent restructuring of the business and that it remains uncertain whether the overseas operations will be consistently profitable in the future.

Dividend

The Board does not propose paying a dividend in respect of 2016 (2015: Nil).

Earnings per share

Basic earnings per share was 6.8p (2015: restated loss of 24.1p). Diluted earnings per share was 6.5p (2015: restated loss of 24.1p).

An adjusted basic earnings per share has been calculated, excluding exceptional items of 6.8p (2015: restated profit of 0.5p). Adjusted diluted earnings per share of 6.5p (2015: restated profit of 0.5p).

Balance Sheet

Net assets at 31 December 2016 increased by £1.7m to £19.0m (2015: £17.3m as restated).

There were no impairments to the carrying value of goodwill in 2016 (2015: £3.5m) and the value remained at £10.1m.

Current trade and other receivables increased by 25% to £17.9m (2015: £14.3m as restated). The main reason for this was the increased trade receivables balance at year end which has risen by £3.3m to £9.7m (2015: £6.4m). The main contributor to this increase was the growth in contract NFI and the number of contractors working for the Group. The trade debtor balance at the year-end was also higher than anticipated as several major customers delayed remittances; these were all received in early 2017. As a consequence of these delays, days sales outstanding at the end of 2016 increased to 30 days (2015: 19 days as restated).

The increase of £1.2m in trade and other payables in the current year is mainly as a result of timing differences of payments to trade payables at the year end. Accruals principally comprise amounts owed to contract staff which grew in line with the growth in contactors.

Short term bank deposits remain positive at £3.1m (2015: £3.0m) and we have a strong net cash position of £2.0m (2015: £2.6m).

Reserves

As a result of the Group's positive trading performance in the year and the impact of foreign exchange movements, total equity has increased in the year by £1.7m to £19.0m (2015: £17.3m as restated).

Treasury management and currency risk

Approximately 77% of the Group's revenue in 2016 (2015: 80% as restated) was denominated in Sterling. For contract revenue, the Group aims to pay and bill in the same currency to provide a natural hedge for the majority of its revenues. The Group has not utilised foreign currency options during the year to manage the foreign exchange risk on its non-Sterling fees.

Cash flow and cash position

The Group started 2016 with net cash of £2.6m. There was an outflow of £1.2m from operating activities (2015: inflow £10.1m as restated) which is mainly in relation to the increased trade receivables balance noted above.

The cash impact of exceptional items was an outflow of £Nil (2015: £1.2m).

There were no dividend payments during the year.

At 31st December 2016, the Group had net cash of £2.0m (2015 net cash: £2.6m).

Bank facilities

The Group has an Invoice Discounting Facility of £18.0m, which was renewed in February 2015 with a commitment to April 2018. After this date the facility shall continue until ended by either party giving to the other not less than three months' written notice. The average facility available during the year stood at £5.3m. Average utilisation in the year was noted at 51% (£2.7m).

Foreign Exchange Risk

There was a foreign exchange gain of £1.2m made up of £1.0m foreign operation loan balances and £0.2m trading in the current year (2015: gain of £0.1m).

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

Currency	Depreciation in Sterling over the 2016 financial year (Average rates)
Australian Dollar	10%
Euro	11%
Hong Kong Dollar	11%
Malaysian Ringgit	6%
Norwegian Kroner	7%
Singapore Dollar	11%
Swiss Franc	9%
United Arab Emirates Dirham	11%
United Stated of America Dollar	11%

The Group are 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 recruitment. 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 which is what we experienced in 2015.

The Group has prepared financial forecasts for the period ending 30 June 2018 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 a central database of information available to all employees, no matter where they are in the world.

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

As the business returned to profitable growth in most areas during 2016 we selectively added new heads in areas of greatest opportunity for continued expansion.

The Board recognises the importance of engaging employees and supporting them through performance management initiatives. There continue 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 a quarterly update on how we are doing against our objectives.

The Hydrogen Group Code of Conduct

The latest Code of Conduct was launched in the autumn of 2014 and was updated during the year 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 red24, a specialist crisis management assistance company which has wide experience of dealing with emergency situations. All contractors are issued with a red24 Crisis number at the start of their contract with Hydrogen, as well as having ongoing support from the in-house 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 2016.

Environment

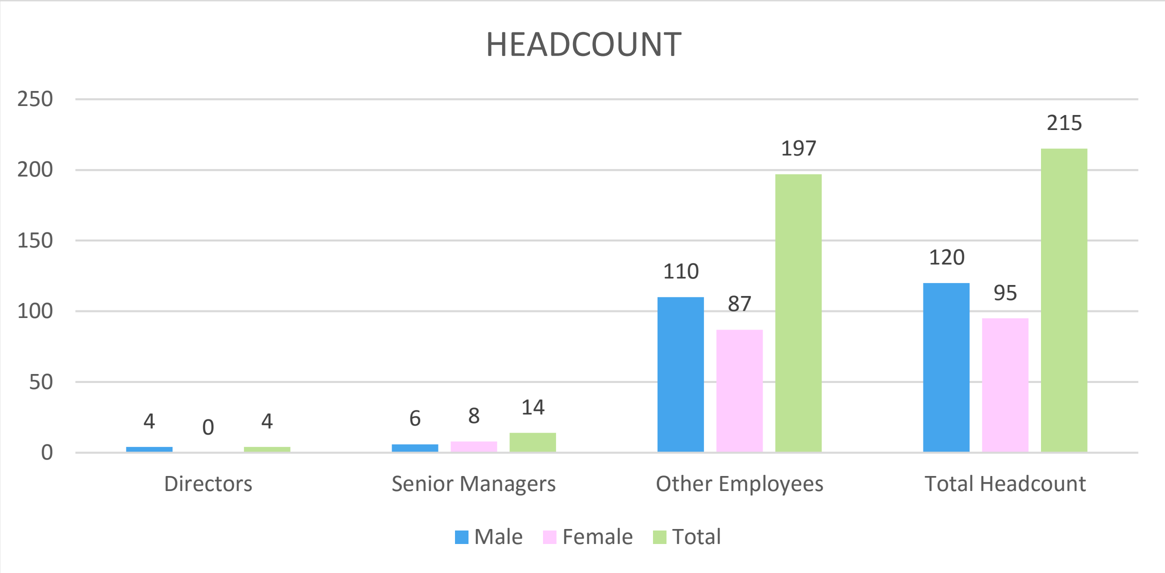
We operate from modern, offices with energy efficient power and lighting systems. We do not use combustible fuels and our electricity costs are low. As a large UK employer, Hydrogen will comply with the Government's new regulations on energy use assessment and will be participating in the Energy Savings Opportunity Scheme in respect of the headquarters office 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 2016, people employed within the Hydrogen Group, including active non-UK subsidiaries, were split as follows:



Principal risks and uncertainties facing the Group

Hydrogen'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's ability to continue in business appears in the following table. Any significant changes in the potential level of risk since the end of 2016 are noted in the commentary.

Type of risk	Potential impact on business	Mitigation
Macro-economic climate	Recruitment activity levels are strongly affected by changes in economic confidence. Giving the uncertainties still faced around Brexit this has the potential to have a real impact on the future trading of Hydrogen.	The Group operates multiple practices, filling both permanent and contract roles. Exposure to industries with differing economic cycles and geographic diversification is intended to mitigate against specific sector or regional downturn. 2015 saw a significant downturn in the Energy sector which impacted on the business and has continued to impact 2016 but to a lesser extent. Strong growth in the Life Science and Business Transformation sectors along with Hydrogen's other practices has offset this risk.
Client Concentration	One customer in Professional Support Services represents approximately 16% of the Group's net fee income for 2016.	Hydrogen has a signed agreement with the major customer to 31 December 2017 and will look to renegotiate these terms in the near future. It is part of Hydrogen's strategy to increase business with its existing customer base and build business with new customers across all its practices.
Competition	The recruitment industry in which Hydrogen operates is highly competitive. There is a low barrier to entry which means that many new businesses are started in this sector each year. The risk to Hydrogen is competition for quality clients and candidates. The highly competitive nature of the sector creates a downward pricing pressure.	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 market.

Strategic Report

Staff	Talent is not managed sufficiently within the Group so there is a perceived lack of career opportunity within the Group which increases staff turnover.	Hydrogen has gone through a major restructure in the past couple of years and a strong emphasis has been on ensuring that we have the right people on board in the right areas of the business. Training and development is provided to our people to develop them to their maximum potential. Competitive remuneration packages and incentive schemes are in place and are continually reviewed.
Client Risk	Inability to win volume contract business.	Investment in digital platform and increased focus on new client wins. Increased emphasis on building a diverse client portfolio to take reliance away from any one customer.
Candidates	The Group needs both to be able to source high quality candidates who are willing to move to a new position and to develop and maintain global relationships with clients across a range of geographies and sectors.	Hydrogen recruits for mid to senior positions in carefully selected markets where it is difficult for clients to recruit directly. It identifies passive candidates through dedicated digital research teams. Up to date information is maintained on current candidates through regular contact by consultants.
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 tier 1 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 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.	For contract placements, revenue and costs are currency matched. 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 currently do not hedge against foreign currency exposure however we are looking into our options for the future.
Liquidity	Insufficient working capital or a significant increase in debt would impact the Group's ability to do business.	Permanent and contract businesses have different working capital requirements. Credit terms and cash collections are managed carefully and cash balances and cashflow forecasts are reviewed monthly. The Group currently has sufficient credit facilities in place.
Strategy	2018 proposition and vision fails to deliver improved performance and business performance remains at break even.	All employees have been provided training to ensure that the new vision is successfully implemented throughout the business. Monthly sales meetings are conducted to communicate the current affairs of the business to the employees.
Market	Over reliance on profitability from any geographic market or market sector.	57% of NFI generated from UK offices although 43% is non UK. Asia is back in growth mode offsetting Energy decline. USA is in incubator mode and Australia is building its contractor base. The continued downturn in the O&G market partially offsets growth in other markets.

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 25 to the financial statements.

The Strategic Report was approved by the Board of Hydrogen Group plc on 3 April 2017 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 11 years' experience as Group Finance Director of Michael Page International plc (now 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 20 years' recruitment experience
Chartered Accountant

Colin Adams, Company Secretary

Member of the Board since May 2015
Chartered Accountant
Quoted Company CFO for nearly 20 years

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, Qannas Investments Ltd and the non-executive Chairman of Technology Venture Partners LLP.

Directors during the year to 31 December 2016

Anne Baldock, Non-Executive, Senior Independent Director (resigned with effect from 22 March 2016)

Corporate Governance Report

For the year ended 31 December 2016

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 the Alternative Investment Market 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.

Hydrogen’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 an annual evaluation of effectiveness. More limited disclosures of non-financial information take account of the fact that Hydrogen remains outside of the scope of the Code and those disclosures are not material to the business of the Group.

Hydrogen has a concentrated share register of investors who generally have a good understanding of Hydrogen’s business.

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 2016.

Stephen Puckett **Chairman**	**Ian Temple** **Chief Executive**
3 April 2017	**3 April 2017**

Board Composition

The Board of Directors at the beginning of 2016 comprised Stephen Puckett (Chairman and Non-Executive Director), Ian Temple (CEO), Colin Adams (CFO) and Anne Baldock (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), Colin Adams (CFO) and Non-Executive Richard Green. Their biographies appear on page 13.

Anne Baldock resigned as a Non- Executive Director with effect from the 22 March 2016.

Richard Green was appointed as a Non- Executive Director with effect from 22 March 2016.

Colin Adams notified the Board of his intention to stand down from the Board on publication of the annual results on 4 April 2017.

In 2016, the skills and experience considered in the composition of the Hydrogen Board were:

- Detailed knowledge of the recruitment 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

Anne Baldock was the Senior Independent Director until 22 March 2016, when Richard Green succeeded her. 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 Company Secretary.

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 2016

The Board of Hydrogen Group plc are responsible for the overall conduct of the Group's business. The board of directors' 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 profitability. Further details of the strategic goals for 2017 are provided in the Strategic Report on page 4.

The Board believes the actions taken in 2015 and 2016 have rebased the Group and therefore better aligning 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. In the year there has been no further impairment to goodwill or other fixed assets and no further exceptional items recognised. There has been improvement in the APAC market, along with the increase in profitabilty overall in the Group. 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 six times a year. In 2016, including full Board conference calls, the Board met eight 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 2016 is summarised in the table below.

Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Stephen Puckett (Non-Executive Chairman)	8/8	3/3	3/3	1/1
Ian Temple	8/8	N/A	N/A	N/A
Colin Adams	6/8	N/A	N/A	N/A
Anne Baldock*	3/3	1/1	1/1	1/1
Richard Green (Non- Executive) ^	5/5	2/2	2/2	0/0

* *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), Chief Financial Officer (Statuary director), Chief Operating Officer Sales and Chief Operating Officer Operations.

Audit Committee Report

For the year ended 31 December 2016

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. Richard Green was appointed to the Audit Committee with effect from 22 March 2016 while Anne Baldock resigned with effect the same day.

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 18-19.

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 but has continued to monitor the risks arising from the changes made. A principal risk, which has continued into 2016, arises from the need to recruit, retain and develop a high level of skills within the restructured sales teams, 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 continued fall in global oil prices, and the EU referendum decision. A table of the principal risks which could impact the Group's operations is set out on pages 10-11.

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 authorization 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 newly appointed 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 2016, the Chairman of the Remuneration Committee was Anne Baldock up until her resignation on 22 March 2016 and then Richard Green took charge. 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 20-26.

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 2016, Stephen Puckett chaired the Committee, with Anne Baldrock and Richard Green as the other members. Richard Green assumed membership from the 22 March 2016 on Anne Baldock's resignation.

Board effectiveness

The Board considers that it has shown its commitment to leading and controlling the Group by the actions taken during 2016 and into 2017. 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

There was a noted change of the PLC Board members in 2015 and 2016. Given this restructure, no formal evaluation took place in 2016. A formal evaluation of Board effectiveness will be undertaken in 2017.

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

Many of those who continue to hold shares in Hydrogen are, or have been, employed within the business. The original founders of the business still hold considerable share interests and retain a strong interest in Hydrogen's success and reputation in the market.

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

Type of shareholder	% of total issued share capital
Directors	19.95
Employees/employee trusts	4.86
Other Hydrogen founders	33.02
Institutional investors	32.94
Retail brokers & individuals	7.91
Other (broker holdings, stock lending etc.)	1.32
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 are encouraged to 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 2016

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 2016:

- The most significant matter discussed during the year was the change in external auditors from Grant Thornton UK LLP to BDO LLP. More information regarding this matter is disclosed below.

- The accounting policies were reviewed and the decision made to change the Group's accounting policy with respect to the recognition and measurement of revenue.
- Approval of the financial statements for the year ended 31 December 2015.
- A review of 30 June 2016 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 appoint a new statutory auditor, with the resignation of Grant Thornton UK LLP.

Grant Thornton resigned as the Group's auditors on 4 November 2016, BDO LLP have been appointed as the Group's new auditors. 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.

The Committee monitors the external auditor's proposed scope of work and the value of fees paid, to ensure that independence is not compromised. In the year to 31 December 2016, audit fees for the Group totalled £88k (2015: £96k), compared with non-audit fees, including advice on the Interim Review of £40k (2015: £57k).

Whistle-blowing and anti-corruption measures

There were no "whistleblowing" (public interest) disclosures during the year. A revised Code of Conduct issued in September 2014 and updated during the year (available on the Group website), includes an updated anti-corruption policy, and new training has been rolled out from the Executive Board downwards.

This report was approved by the Audit Committee and the Board on 3 April 2017 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 2016 fell within four main headings:

- Evaluating performance of key individuals for the year ended 2016
- Setting remuneration for the Chairman and CEO
- Implementation of a share option 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 for Mr. Temple.

The contract for Colin Adams as Chief Financial Officer provides for 6 months' notice to be given. Restrictive covenants apply for 6 months following termination for Mr. Adams. Notice of his resignation was given in October 2016 with effect on 4 April 2017.

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

With the Group restructure in the prior year, it was considered essential to retain and motivate employees going forward. Granting options to key employees was a way of improving staff retention and improving motivation. During the year 125,000 shares were granted under options with a two-year vesting period. These options are part of a wider ranging review of remuneration and incentive scheme which is ongoing into 2017.

The Committee remains keen 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 business restructuring focused on improving performance and notable savings were delivered not only from headcount reduction but also incidental costs such as commissions, benefits and travel costs. In the second half of the year the management team, led by Ian Temple as CEO, began a detailed review of remuneration structures to make sure that they reward profitable growth and drive the right behaviours. 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 2016. 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 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 2016

Ian Temple (CEO), Colin Adams (CFO) and Stephen Puckett (Chairman) all received the same salaries in the year since their agreed packages in March 2015.

Discretionary bonus

As the Group's financial performance has significantly improved in 2016, a total bonus of £15k was payable to a director in 2017.

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.

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 appointment of Richard Green was made on this basis, taking effect on 22 March 2016.

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 C Adams and contain restrictive covenants to protect the Group's interests.	During the current year, C Adams handed in his resignation and is currently serving out his 6 month notice period. C Adams will no longer work for the Group with effect from 4 April 2017.
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. Base salaries were not increased in 2016.
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	Every employee participates 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.	The Remuneration Committee has awarded a bonus to Ian temple of £15k for 2016.
Share options	The Company historically used EMI and Unapproved share option schemes to retain and reward employees and directors. 2013 LTIP options have been awarded only to Executive Board members who have direct influence over Group performance.	Awards are made by the Remuneration Committee on behalf of the Board. The level of awards made was within dilution limits. Awards were planned to vest in two tranches, split equally to avoid a cliff edge effect.	Vesting of awards depends on compound annual growth in Group NFI and PBT over the performance period and achievement of a relevant Key Performance Indicator ("KPI") for each individual. Based on the performance criteria noted within the share schemes, options have started to vest in 2015 and 2016.

Share options (continued)	Performance criteria for the exercise of these awards were directly aligned with the 2016 strategic goals but profit remains the key driver. In 2015, EMI options were granted to senior leaders to help with the strategic decision to retain key employees.	The rules of the 2013 LTIP permit the Committee to clawback amounts from participants in certain limited circumstances. The 2015 EMI options state a minimum of two years continued service before they can be vested.	As a result of the schemes in place the number of shares in the hands of working staff should significantly increase during 2017 and 2018. 2015 EMI options rewarded to C Adams have lapsed following his notice of resignation.
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 2016 were as follows:

	Ordinary shares of 1p each held at 31 Dec 2016	**Percentage of issued share capital at 31 Dec 2016**	Ordinary shares of 1p each held at 31 Dec 2015	Percentage of issued share capital at 31 Dec 2015
Ian Temple	**4,048,726**	**16.95%**	4,048,726	16.95%
Stephen Puckett	**450,000**	**1.88%**	50,000	0.21%
Colin Adams	**100,000**	**0.42%**	-	0%
Richard Green	**166,666**	**0.70%**	-	0%

Share option schemes

As part of the ongoing incentivisation and retention programme a new EMI Share Option Scheme was set up in 2015 for senior leaders and key individuals within the Group (refer below and note 17).

In 2013 the Group introduced a long-term incentive plan (2013 LTIP) for senior leaders within the Group. The original participants included the two executive directors of the Company at the time, Tim Smeaton and John Glover. The majority of these options were forfeited in the 2015 and 2016 financial years with Ian Temple's options currently exercisable (refer below and note 17).

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

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	0.805
	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**			

2015

	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 £
2015 EMI Options									
T. Smeaton	2006	124,200	-	-	-	124,200	29/09/06	29/09/16	0.805
	2009	6,709	-	-	-	6,607	31/03/13	20/10/19	0.01
J. Glover	2007	26,404	-	-	(26,404)	-	01/09/10	12/07/17	0.01
	2009	28,808	-	-	(28,808)	-	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
		198,121	330,000	-	(55,212)	472,909			
Unapproved Options									
J. Glover	2007	4,312	-	-	(4,312)	-	01/09/10	12/07/17	0.01
	2009	9,192	-	-	(9,192)	-	31/03/13	20/10/19	0.01
	2011	38,000	-	-	(38,000)	-	31/03/12	21/02/21	0.01
	2012	38,000	-	-	(38,000)	-	31/03/12	03/04/22	0.01
	2013	174,000	-	-	(174,000)	-	31/03/17	05/06/23	0.01
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
I. Temple	2012	38,000	-	-	(38,000)	-	31/03/15	03/04/22	0.01
		606,795	-	-	(301,504)	305,291			
		804,916	330,000	-	(356,716)	778,200			

*Performance conditions and earliest vesting date extended to align with options issued in 2013

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

Options issued in 2006:
These options vested in full on admission of Hydrogen Group plc to the AIM market in 2006. These shares had a contractual life of 10 years and therefore all remaining shares not yet exercised or forfeited at the end of this term, expired in the current year.

Options issued in 2007:
Options vested in three tranches in the period 2008-2011 dependent on the profitability of Hydrogen Group plc in each of these three years. The performance criteria were met on 60% of the options, the remaining 40% lapsed.

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. T. Smeaton exercised his options in January 2016, I. Temple's options are due to expire in 2019 with the remainder of shares having forfeited over the years.

Options issued in 2011, 2012 and 2013 to T. Smeaton and J. Glover had their vesting date and performance criteria extended during 2013. The earliest vesting date was extended to March 2017, dependent on performance conditions for the financial year 2016, consistent with options issued in 2013 under the Hydrogen Executive Long Term Incentive Plan. T. Smeaton's shares were forfeited in the current year; John Glover's were forfeited in 2015.

Options issued in 2012:
Options issued to I. Temple in 2012 were dependent on the achievement of performance criteria linked to growth in Group NFI and profitability up to 2014. As the targets were not met, these options did not vest in 2015.

Options issued in 2015:
Options issued in 2015 to C. Adams were dependent on the continued employment with the Group for two years. These were forfeited in the current year on announcement of resignation.

Other key individuals are excluded from the above and have been included in Note 17.

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**
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*

	Salary and fees £'000	Benefits £'000	Bonuses £'000	Total £'000	Pension £'000	Total £'000
2015						
Executive Directors:						
Ian Temple	210	6	-	216	11	227
Colin Adams	109	2	-	111	5	116
Tim Smeaton	56	1	-	57	3	60
John Glover†&	63	-	-	63	2	65
Non-Executive Directors:						
Stephen Puckett	73	-	-	73	-	73
Anne Baldock*	27	-	-	27	-	27
Martyn Phillips†	26	-	-	26	-	26
Aggregate emoluments	**564**	**9**	**-**	**573**	**21**	**594**

**Committee Chair*

& *Includes severance pay of £21,667*

† *Up to date of resignation*

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 3 April 2017 and was signed on its behalf by:

R Green
Chairman, Remuneration Committee

Directors' Report

For the year ended 31 December 2016

The directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2016. Hydrogen Group Plc is a public listed company, incorporated and domiciled in England, and its shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange.

Substantial shareholders

At 29 March 2017, 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
Ian Richard Temple	16.9%
Milton Asset Management Ltd.	15.5%
Christopher William Cole	10.3%
Timothy P. Smeaton	9.92%
Charles Marshall	6.47%
Church House Investments Ltd.	6.06%
Daniel Church	5.45%
Hargreaves Lansdown Stockbrokers Ltd.	5.20%

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 13; the names of directors during the year are listed in the Corporate Governance Report on page 15.
Directors' interests and indemnity provisions	Directors' Remuneration Report, page 20.
Results and dividends	Financial Review, pages 6-8.
Going concern confirmation	Financial Review, page 8.
Subsidiaries	Notes to the parent company accounts, pages 68-76.
Capital structure	Note 18 to the accounts, page 56.
Expected future developments	Chairman's Report, page 3.
Use of financial instruments	Note 25 to the Accounts, page 61-63.
Information on employees, environment and community activities	Strategic Report, pages 9-12.

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 2016 between the Company and the Employee Benefit Trust.

Auditors

On the 4 November 2016, Grant Thornton UK LLP resigned as the Group auditors. Subsequently, in accordance with Section 489 of the Companies Act, BDO LLP was appointed as the Group's auditors.

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

3 April 2017

Statement of Directors' Responsibilities

For the year ended 31 December 2016

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 the Alternative Investment Market.

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 2016

We have audited the financial statements of Hydrogen Group Plc for the year ended 31 December 2016 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 the related notes. The financial reporting framework that has been applied in the preparation of the group 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 preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's profit 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's 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.

Opinion 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 strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and 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.

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

For the year ended 31 December 2016

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

Anthony Perkins (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London

Date:

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

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	**2016** **£'000**	2015 *As restated* £'000
Revenue	1	**116,246**	123,610
Cost of sales		**(98,508)**	(104,200)
Gross profit	1	**17,738**	19,410
Other administrative expenses		**(17,541)**	(19,437)
Exceptional administrative expenses	4	**-**	(5,493)
Administrative expenses		**(17,541)**	(24,930)
Other income	1	**553**	219
Operating profit before exceptional items	1	**750**	192
Exceptional items		**-**	(5,493)
Operating profit/(loss)		**750**	(5,301)
Finance costs	2	**(63)**	(80)
Finance income	3	**980**	5
Profit/(loss) before taxation	5	**1,667**	(5,376)
Income tax expense	7	**(135)**	-
Profit/(loss) for the year	20	**1,532**	(5,376)
Other comprehensive gains and losses:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(539)**	(137)
Exchange differences on intercompany loans		**347**	-
Other comprehensive losses for the year, net of tax		**(192)**	(137)
Total comprehensive gain/(loss) for the year		**1,340**	(5,513)
Attributable to:			
Equity holders of the parent		**1,340**	(5,513)
Profit/ (Loss) per share:			
Basic profit/ (loss) per share (pence)	20	**6.8p**	**(24.1p)**
Diluted profit/ (loss) per share (pence)	20	**6.5p**	**(24.1p)**

The above results relate to continuing operations.

HYDROGEN GROUP PLC

Consolidated statement of financial position

As at 31 December 2016

Company no: 05563206	Note	2016 £'000	2015 *As restated* £'000	2014 *As restated* £'000
Non-current assets				
Goodwill	8	**10,141**	10,141	13,658
Other intangible assets	9	**792**	778	1,212
Property, plant and equipment	10	**858**	687	1,536
Deferred tax assets	11	**104**	138	52
Other financial assets	12	**99**	108	278
		11,994	11,852	16,736
Current assets				
Trade and other receivables	12	**17,852**	14,341	28,982
Current tax receivable		**232**	-	-
Cash and cash equivalents	13	**3,106**	3,034	5,975
		21,190	17,375	34,957
Total assets		**33,184**	29,227	51,693
Current liabilities				
Trade and other payables	14	**(12,493)**	(11,258)	(15,124)
Borrowings	15	**(1,087)**	(454)	(12,704)
Current tax liabilities		**-**	(5)	(80)
Provisions	16	**-**	-	(308)
		(13,580)	(11,717)	(28,216)
Non-current liabilities				
Deferred tax liabilities	11	**(280)**	(98)	(34)
Provisions	16	**(309)**	(68)	(60)
		(589)	(166)	(94)
Total liabilities		**(14,169)**	(11,883)	(28,310)
Net assets		**19,015**	17,344	23,383
Equity				
Share capital	18	**239**	239	239
Share premium	21	**3,520**	3,520	3,520
Merger reserve	21	**16,100**	16,100	16,100
Own shares held	19	**(1,338)**	(1,338)	(1,338)
Share option reserve	21	**2,544**	2,213	2,041
Translation reserve	21	**(788)**	(596)	(459)
(Deficit)/ Retained earnings	21	**(1,262)**	(2,794)	3,280
Total equity		**19,015**	17,344	23,383

The financial statements on pages 32 to 64 were approved by the Board of Directors and authorised for issue on 3 April 2017 and were signed on its behalf by:

Ian Temple
Chief Executive

HYDROGEN GROUP PLC

Consolidated statement of changes in equity

As at 31 December 2016

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Trans-lation reserve £'000	(Deficit)/ Retained earnings £'000	Total equity £'000
At 1 January 2015 *(As previously reported)*	239	3,520	16,100	(1,338)	2,041	(196)	4,857	25,223
Prior year adjustment *(Note 27)*	-	-	-	-	-	(263)	(1,577)	(1,840)
At 1 January 2015 *(As restated)*	239	3,520	16,100	(1,338)	2,041	(459)	3,280	23,383
Dividends	-	-	-	-	-	-	(698)	(698)
Share option charge	-	-	-	-	172	-	-	172
Transactions with owners	-	-	-	-	172	-	(698)	(526)
Loss for the year	-	-	-	-	-	-	(5,376)	(5,376)
Other comprehensive loss:								
Foreign currency translation loss	-	-	-	-	-	(137)	-	(137)
Total comprehensive loss for the year	-	-	-	-	-	(137)	(5,376)	(5,513)
At 31 December 2015 *(As restated)*	**239**	**3,520**	**16,100**	**(1,338)**	**2,213**	**(596)**	**(2,794)**	**17,344**
Share option charge	**-**	**-**	**-**	**-**	**331**	**-**	**-**	**331**
Transactions with owners	**-**	**-**	**-**	**-**	**331**	**-**	**-**	**331**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1,532**	**1,532**
Other comprehensive income:								
Exchange differences on intercompany loans	**-**	**-**	**-**	**-**	**-**	**347**	**-**	**347**
Foreign currency translation loss	**-**	**-**	**-**	**-**	**-**	**(539)**	**-**	**(539)**
Total comprehensive profit for the year	**-**	**-**	**-**	**-**	**-**	**(192)**	**1,532**	**1,340**
At 31 December 2016	**239**	**3,520**	**16,100**	**(1,338)**	**2,544**	**(788)**	**(1,262)**	**19,015**

HYDROGEN GROUP PLC
Consolidated statement of cash flows
For the year ended 31 December 2016

	Note	2016 £'000	2015 *As restated* £'000
Net cash (used in)/generated from operating activities	23a	**(1,244)**	10,069
Investing activities			
Proceeds from disposal of property, plant and equipment		**-**	23
Purchase of property, plant and equipment	10	**(285)**	(1)
Purchase of software assets	9	**(216)**	(138)
Net cash used in investing activities		**(501)**	(116)
Financing activities			
Increase/(decrease) in borrowings	15	**633**	(12,250)
Equity dividends paid	6	**-**	(698)
Net cash generated from/ (used by) financing activities		**633**	(12,948)
Net (decrease) in cash and cash equivalents		**(1,112)**	(2,995)
Cash and cash equivalents at beginning of year	13	**3,034**	5,975
Exchange gain on cash and cash equivalents		**1,184**	54
Cash and cash equivalents at end of year	13	**3,106**	3,034

Nature of operations

The principal activity of Hydrogen Group plc ("the Company") and its subsidiaries' (together known as "the Group") is the provision of recruitment 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 specialist recruitment consultancy for large and medium sized organisations. The Group recruits for roles in Professional Support Services (including legal, finance, technology and business transformation placements) and in Technical and Scientific market sectors (Energy and Life Sciences). The Group has operated predominantly in the United Kingdom, but has international operations in Australia, Singapore, Malaysia, Dubai, Hong Kong, Norway, Netherlands, Switzerland, Germany, 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 the AIM Market. Registered company number is 05563206.

The consolidated financial statements of Hydrogen Group plc have been prepared 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 10-12. The Group has prepared financial forecasts for the period to 30 June 2018. 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 8).

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 2016 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 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 board continues to review future applicable IFRS to the Group. In particular, the board is reviewing the impact of IFRS 9, 15 and 16 in more detail as these standards have been identified as ones that will impact future results. In particular, the Group is currently assessing the impact of IFRS 16 as, given the number of operating leases the Group has entered into, (as detailed in note 24), 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 (ie 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 9, 15 or 16 until a detailed review has been completed, given the complexity of these standards.

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.

Judgement has been applied in the determination of the long-term element of the intercompany loan based on a pattern of prior year settlements. The foreign exchange movements associated with this permanent element of the loan, 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. During the current year, there has been a change to the way in which Group report the segmental analysis. Previously the operating segments were Professional Support Services and Technical and Scientific. As part of the restructure, current management reporting focuses on the performance of EMEA (including the USA) and APAC businesses, which the new segmental analysis reflects. Within these two operating segments are the individual practices: Technology, Finance, Energy, Legal, Life Sciences and Business Transformation.

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;

During the current year, the Directors reconsidered the Group's revenue accounting policy in respect of permanent recruitment which was previously recognised on the acceptance of the role by a candidate. A decision to change was made as this is more in line with how management operate the business and will provide more certainty over forecasting in the future.

This policy has been changed to recognise revenue on the start date which management believes better reflects the Group's satisfaction of all of its obligations under the contract. The effect of this change is disclosed in Note 27.

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 recognized 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.

Intangible assets (continued)

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 - 7 years.

Impairment of 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 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.

In relation to the prior year adjustments, the tax expense and related balance sheet accounts have been restated.

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 the 2015 and 2016 year, 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.

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 – 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.

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.

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.

If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. 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 are subsequently measured at amortised cost.

The Group's financial liabilities comprise trade payables, borrowings, bank overdrafts, an invoice discounting facility and other payable balances that arise from its operations. 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 13, 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 21.

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.

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 12

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 12

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 16

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 17

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.

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 discipline of the candidate being placed:
- EMEA including (USA); and
- APAC

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.

	2016				2015 *(As restated)*			
	EMEA (and USA) £'000	**APAC £'000**	**Group Cost £'000**	**Total £'000**	EMEA (and USA) £'000	APAC £'000	Group Cost £'000	Total £'000
Revenue	**104,428**	**11,818**	**-**	**116,246**	116,403	7,207	-	123,610
Gross profit (Net fee income)	**14,403**	**3,335**	**-**	**17,738**	15,712	3,698	-	19,410
Depreciation and Amortisation	**(310)**	**(8)**	**-**	**(318)**	(383)	(30)	-	(413)
Other income	**553**	**-**	**-**	**553**	219	-	-	219
Operating profit/ (loss) before exceptional items	**1,547**	**323**	**(1,120)**	**750**	2,014	(475)	(1,347)	192
Finance costs				**(63)**				(80)
Finance income				**980**				5
Profit before tax and exceptional items				**1,667**				117

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

The exceptional items in 2015 were not allocated between the segments given the bulk of this cost related to goodwill impairment of £3.5m, accounted for at the Group level. The remainder of the exceptional items included employee restructuring, property costs and tangible asset write downs in EMEA (including USA), with an insignificant portion allocated to APAC. Refer to Note 4 for a breakdown.

Revenue reported above represents revenue generated from external customers. There were no sales between segments in the year (2015: £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 central administration costs, finance costs and finance income.

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

There is one external customer that represented 31% (2015: 32%) of the entity's revenues, with revenue of £36.3m (2015: £39.4m), and approximately 16% (2015: 16%) of the Group's Net Fee Income ("NFI") which is included in the EMEA segment.

Segment reporting (continued)

(b) Revenue and gross profit by geography:

	Revenue		Gross profit	
	2016	2015	**2016**	2015
		As restated		*As restated*
	£'000	£'000	**£'000**	£'000
UK	**90,007**	99,506	**10,190**	12,325
Rest of world	**26,239**	24,104	**7,548**	7,085
	116,246	123,610	**17,738**	19,410

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	
	2016	2015	**2016**	2015
		As restated		*As restated*
	£'000	£'000	**£'000**	£'000
Permanent	**6,122**	8,924	**6,105**	8,889
Contract	**110,124**	114,686	**11,633**	10,521
	116,246	123,610	**17,738**	19,410

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

	2016	2015
	£'000	£'000
Interest on invoice discounting	**63**	57
Interest on bank overdrafts and loans	**-**	23
	63	80

3 Finance income

	2016	2015
	£'000	£'000
Bank interest receivable	**-**	5
Other interest and income receivable*	**980**	-
	980	5

*Foreign exchange 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 have arisen as a result of the comprehensive review of the Group's operations and actions taken to reduce the Group's administration costs:

	2016 £'000	2015 £'000
Goodwill impairment	**-**	3,517
Tangible asset write down and disposal	**-**	988
Employee restructuring costs	**-**	939
Property costs	**-**	223
Release of onerous lease provision	**-**	(212)
Advisor's costs	**-**	31
Other	**-**	7
Total	**-**	5,493

5 Profit/ (loss) before taxation

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

	2016 £'000	2015 *As restated* £'000
Amortisation of software assets (note 9)	**202**	218
Depreciation of property, plant and equipment (owned assets – note 10)	**116**	195
Staff costs (note 22)	**12,414**	13,403
Operating lease rentals on land and buildings	**752**	828
Foreign exchange gains	**(240)**	(53)
Gain on disposal of assets	**-**	(4)
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	**38**	40
- for the audit of the Company's subsidiaries pursuant to legislation	**50**	56
Total audit fees	**88**	96
Non-audit fees		
- Other services	**40**	17
- Tax services (compliance and general tax advice)	**-**	40
Total non-audit fees	**40**	57

6 Dividends

	2016 £'000	2015 £'000
Amounts recognised and distributed to shareholders in the year		
Final dividend for the year ended 31 December 2016 of Nil p per share (2015: 3.1p per share)	**-**	698
	-	**698**

6 Dividends (continued)

No interim dividend during the year was paid in respect of the year ended 31 December 2016 (2015: Nil p per share).

The final dividend in relation to 2014 was recommended on 3 March 2015, and was not recognised as a liability in the year ended 31 December 2014. This was distributed to the shareholders in the 2015 financial year.

The Board does not propose a final dividend for the year ended 31 December 2016 (2015: Nil p per share).

7 Tax

(a) Analysis of tax charge for the year:

The charge based on the profit for the year comprises:	**2016** **£'000**	2015 As restated £'000
Corporation tax:		
UK corporation tax on profits for the year	**139**	76
Adjustment to tax charge in respect of previous periods	**(217)**	(42)
	(78)	34
Foreign tax		
Current tax	**10**	4
Prior year tax	**-**	(19)
Total current tax	**(68)**	19
Deferred tax:		
Origination and reversal of temporary differences	**16**	(19)
Adjustment to tax charge in respect of previous periods	**190**	-
Effect of tax rate change	**(3)**	-
Total deferred tax	**203**	(19)
Tax charge on profit for the year	**135**	-

UK corporation tax is calculated at 20% (2015: 20.25%) 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:

Profit/(loss) before tax	**1,667**	(5,376)
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	**333**	(1,089)
Effects of:		
Goodwill impairment	**-**	712
Fixed asset differences	**9**	-
Expenses not deductible for tax purposes	**219**	188
Effect of difference in tax rates	**(11)**	(85)
Utilisation of tax losses and other deductions	**(379)**	-
Tax losses carried forward not recognised for deferred tax	**4**	465
Adjustment to tax charge in respect of prior periods	**30**	(42)
Prior year adjustment	**-**	(166)
Share-based payments	**(66)**	35
Other short term timing differences	**(4)**	1
Foreign tax suffered	**-**	(19)
Tax charge for the year	**135**	-

7 Tax (continued)

In relation to the prior year adjustment, the tax effect has been deemed immaterial to the statutory accounts and no change to prior year numbers has been recorded.

There has been no deferred tax charge relating to share options charged directly to equity (2015: £Nil) (see note 11).

In total, at the reporting date, the Group had tax losses of £3.7m (2015: £3.9m) available for offset against future profits. No deferred tax assets have been recognised due to the recent restructuring of the business as it remains uncertain whether the overseas operations will be consistently profitable in the future.

8 Goodwill

	2016 £'000	2015 £'000
Cost		
At 1 January and 31 December	**19,228**	19,228
Accumulated impairment losses		
At 1 January	**(9,087)**	(5,570)
Impairment charge for the year	**-**	(3,517)
At 31 December	**(9,087)**	(9,087)
Carrying amount at 31 December	**10,141**	10,141
Allocation of goodwill to cash generating units (CGU):		
EMEA (including USA) Professional Support Services	**10,141**	10,141

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 2016 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. Cashflows 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 2016.

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

	Growth rates		
EMEA (including USA) Professional Support Services	**2017 %**	**2018-2021 %**	**Discount rate%**
Net fee income growth rate on actuals	2.5%	2.5%	6.5%

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 2017 through to 2021. The revenue growth rates for 2017-2021 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 1% with no material impact (and no impairments) noted.

9 Other intangible assets

	Computer software £'000
Cost	
At 1 January 2015	1,983
Additions	138
Exchange differences	(20)
At 31 December 2015	2,101
Additions	**216**
At 31 December 2016	**2,317**
Amortisation and impairment	
At 1 January 2015	(771)
Charge for the year	(218)
Impairment	(355)
Exchange differences	21
At 31 December 2015	(1,323)
Charge for the year	**(202)**
At 31 December 2016	**(1,525)**
Net book value at 31 December 2016	**792**
Net book value at 31 December 2015	778
Net book value at 31 December 2014	1,212

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

Notes to the consolidated financial statements

As at 31 December 2016

10 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2015	819	41	1,708	2,568
Additions	1	-	-	1
Disposals	(6)	(41)	-	(47)
Exchange differences	(46)	-	(6)	(52)
At 31 December 2015	768	-	1,702	2,470
Additions	**69**	**-**	**216**	**285**
Exchange differences	**22**	**-**	**-**	**22**
At 31 December 2016	**859**	**-**	**1,918**	**2,777**
Accumulated depreciation and impairment				
At 1 January 2015	(631)	(24)	(377)	(1,032)
Charge for year	(123)	-	(72)	(195)
Impairment loss	-	-	(633)	(633)
Disposals	4	24	-	28
Exchange differences	44	-	5	49
At 31 December 2015	(706)	-	(1,077)	(1,783)
Charge for the year	**(66)**	**-**	**(50)**	**(116)**
Exchange differences	**(20)**	**-**	**-**	**(20)**
At 31 December 2016	**(792)**	**-**	**(1,127)**	**(1,919)**
Net book value at 31 December 2016	**67**	**-**	**791**	**858**
Net book value at 31 December 2015	62	-	625	687
Net book value at 31 December 2014	188	17	1,331	1,536

Depreciation on property, plant and equipment is charged to administration expenses in the Consolidated Statement of Comprehensive Income.

11 Deferred tax

Deferred tax asset	**Other £'000**	**Accelerated depreciation £'000**	**Share based payments £'000**	**Total £'000**
At 1 January 2015	15	(99)	136	52
Credited/ (Charged) to profit or loss	4	99	(17)	86
At 31 December 2015	19	-	119	138
Credited/(Charged) to profit or loss	**(10)**	**-**	**(24)**	**(34)**
At 31 December 2016	**9**	**-**	**95**	**104**

Deferred tax (liability)	**Accelerated capital allowances £'000**
At 1 January 2015 and 1 January 2016	(98)
Credited/(charged) to profit or loss	(182)
At 31 December 2015	**(280)**

No reversal of deferred tax is expected within the next twelve months (2015: Nil).

In total, at the reporting date, the Group had unutilised tax losses of £3.7m (2015 as restated: £3.9m) available for offset against future profits, for which no deferred tax assets had been recognised.

12 Trade and other receivables

Trade and other receivables are as follows:	**2016** **£'000**	2015 *As restated* £'000	2014 *As restated* £'000
Trade receivables	**9,687**	6,428	16,186
Allowance for doubtful debts	**(142)**	(319)	(109)
Accrued income	**7,532**	7,704	12,405
Prepayments	**561**	372	445
Other receivables:			
- due within 12 months	**214**	156	55
- due after more than 12 months	**99**	108	278
Total	**17,951**	14,449	29,260
Current	**17,852**	14,341	28,982
Non- current	**99**	108	278

As at 31 December 2016, the average credit period taken on sales of recruitment services was 30 days (2015 as restated: 19 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. An allowance of £142,000 (2015: £319,000) 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.

12 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 £2.1m (2015: £1.2m) 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)	**2016** **£'000**	2015 £'000
0-30 days	**210**	332
30-60 days	**498**	348
60-90 days	**453**	212
90+ days	**952**	271
31 December	**2,113**	1,163

Movement in allowance for doubtful debts:	**2016** **£'000**	2015 £'000
1 January	**(319)**	(109)
Impairment losses recognised on receivables	**(100)**	(274)
Previous impairment losses reversed	**277**	64
Amounts written off the trade receivables ledger as uncollectable	**-**	-
31 December	**(142)**	(319)

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 (2015: £Nil).

Ageing of impaired trade receivables:	**2016** **£'000**	2015 £'000
30-60 days	**-**	-
60-90 days	**-**	-
90+ days	**142**	319
31 December	**142**	319

As at 31 December trade receivables to a value of £4.6m were subject to an invoice financing facility (2015: £3.4m).

13 Cash and cash equivalents

Cash and cash equivalents are as follows:	**2016 £'000**	2015 £'000
Short-term bank deposits	**3,106**	3,034
	3,106	3,034

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.

14 Trade and other payables

Trade and other payables are as follows:	**2016 £'000**	2015 *As restated* £'000	2014 *As restated* £'000
Trade payables	**1,505**	613	310
Other taxes and social security costs	**701**	489	928
Other payables	**947**	1,121	804
Accruals	**9,340**	9,035	13,082
	12,493	11,258	15,124

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 35 days (2015: 32 days as restated), 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.

15 Borrowings

	2016 £'000	2015 £'000
Invoice discounting (repayable on demand)	**1,087**	454
	1,087	454

The Invoice discounting borrowing is at a floating interest rate. Interest on the invoice discounting facility is charged at 1.7% over UK Base Rate on actual amounts drawn down, and the margin is fixed to April 2018.

16 Provisions

	Leasehold dilapidations £'000	Onerous contracts £'000	Total £'000
At 1 January 2015	60	308	368
New provision	28	-	28
Unutilised provision released	-	(212)	(212)
Utilised	(20)	(96)	(116)
At 31 December 2015	68	-	68
New provision	**241**	**-**	**241**
At 31 December 2016	**309**	**-**	**309**
Current	**-**	**-**	**-**
Non-current	**309**	**-**	**309**

The dilapidations provisions relates to the Group's current leased offices in London and Singapore. This provision will unwind over the course of the leases agreements.

The onerous lease contracts relate to surplus accommodation within the Group's London HQ at 30 Eastcheap. In 2014, the Group made an exceptional charge for 18 months' costs, starting from 1 July 2014, 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 space was sub-let during 2015 and 2016 and the unutilised portion of the provision was released and is included within exceptional items in 2015 (see note 4).

17 Share-based payments

The Group have various Share Schemes in place - the 2006 to 2009 EMI Scheme, the 2013 Long-term Incentive Scheme, the 2015 and 2016 EMI and Unapproved Schemes, detailed separately below. All share-based payment arrangements are equity-settled.

During 2016, 12,000 shares were exercised under the LTIP scheme (2015: 10,619). There were 125,000 shares granted (2015: 2,540,000) under the EMI and Unapproved schemes.

The expense arising from the share-based option schemes during the year was £0.3m (2015: £0.2m), with a closing cumulative balance for equity based share schemes of £0.5m (2015: £0.2m).

EMI and Unapproved 2015 and 2016 Share Option Schemes

The fair values of the options granted have been calculated using the Black Scholes option pricing model, relevant details and the inputs into the model were as detailed below:

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

17 Share-based payments (continued)

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

	2016		2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of period	**2,035,000**	**1p**	-	1p
Granted during the period	**125,000**	**1p**	2,540,000	1p
Forfeited during the period	**(405,000)**	**1p**	(505,000)	1p
Exercised during the period	**-**	**1p**	-	1p
Expired during the period	**-**	**1p**	-	1p
Outstanding at end of year	**1,755,000**	**1p**	2,035,000	1p
Exercisable during 2017	**1,630,000**	**1p**	-	-
Exercisable during 2018	**125,000**	**1p**	-	-

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

	31 December 2016				31 December 2015			
	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**	**1,630,000**	**1p**	**8.5 years**	1p	2,035,000	1p	9.5 years
2016 issue	**1p**	**125,000**	**1p**	**9.5 years**	1p	-	1p	-
		1,755,000				2,035,000		

Other Share Option Scheme: 2006- 2013

The share options issued in 2006 vested in full on admission of the Hydrogen Group plc to the AIM market in the 2006 year. These shares had a contractual life of 10 years and therefore all remaining shares not yet exercised or forfeited, expired in the 2016 year.

There was a 2007-2009 EMI Share option issue to directors and other key individuals, of which 7,469 shares have vested but remain unexercised in the total below of 23,599 shares. The remainder of this balance relates to the LTIP options.

In 2013 the Group introduced a long-term incentive plan (2013 LTIP) for senior executives and Directors which have been disclosed in the Directors' Remuneration Report (the Hydrogen Executive Long Term Incentive Plan). The Scheme also includes other key individuals. The purpose of the 2013 LTIP was to align long term incentives for senior executives and Directors with Hydrogen's 2016 strategy and performance targets.

The number of outstanding options that will vest is dependent on the achievement of several key performance measures of the Group, primarily profit, measured at a regional and consolidated level, for the financial years 2016 and 2017.

Achievement of 'target' performance level is required for 100% vesting of options granted in 2013, measured for financial year 2016 and, if not achieved, again for financial year 2017. The earliest date options can vest, subject to achievement of 'target' performance for financial year 2016, is the date following announcement of the Group's audited results for the year ended 31 December 2016. The maximum number of options that can vest on this date is 50% of the 2013 grant, with any balance vesting one year later. If 'target' performance is not achieved until financial year 2017 then both vesting dates will be a year later. There were no awards under this scheme during 2016.

17 Share-based payments (continued)

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

Year of issue	Exercise price	Fair value per option at grant date
2016 award	-	-
2015 award	-	-
2014 award	1p	97p
2013 award	1p	99p – 116p
2012 award	1p	92p
2011 award	1p	132p
2009 award	1p	56p – 90p
2008 award	1p	203p
2007 award	1p	293p

The below details the shares outstanding at year end:

	2016		2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of period	**518,982**	**24p**	1,524,618	13p
Granted during the period	**-**	**-**	-	
Forfeited during the period	**(300,000)**	**1p**	(995,017)	8p
Exercised during the period	**(12,000)**	**1p**	(10,619)	1p
Expired during the period	**(183,383)**	**81p**	-	
Outstanding at end of year	**23,599**	**1p**	518,982	24p
Exercisable during the next financial year	**23,599**	**1p**	218,982	24p

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

	31 December 2016				**31 December 2015**			
	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
2006 award	**-**	**-**	**-**	**Expired**	73-81p	145,383	80.5p	0 years
2007 award*	**1p**	**7,849**	**1p**	**0.5 years**	1p	7,849	1p	1.5 years
2009 award	**1p**	**12,000**	**1p**	**2.5 years**	1p	62,000	1p	3.5 years
2011 award	**1p**	**3,750**	**1p**	**5.6 years**	1p	141,750	1p	6.6 years
2012 award	**1p**	**-**	**1p**	**6.3 years**	1p	138,000	1p	7.3 years
2013 award	**1p**	**-**	**1p**	**6.5 years**	1p	24,000	1p	7.5 years
		23,599				518,982		

*EMI Share scheme

Share Incentive Plan (SIP)

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

18 Share capital

The share capital at 31 December 2016 was as follows:

	2016		2015	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued and fully paid:				
At 1 January	**23,891,713**	**239**	23,881,094	239
Issuance of new shares for employee share schemes	**12,000**	**-**	10,619	-
31 December	**23,903,713**	**239**	23,891,713	239

During 2016, 12,000 options were exercised (2015: 10,619), as set out in note 17, all of which were satisfied by the issuance of new shares.

At 31 December 2016, 1,162,051 (2015: 1,162,051) shares were held in the EBT (see note 19).

At 31 December 2016, 211,414 (2015: 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 17. 12,000 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 20 May 2016, 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 £79,679, 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 £79,679, representing one third of the then current issued share capital of the Company;
- to allot equity securities for cash, without the application of pre-emption rights, up to a maximum nominal amount of £11,951, representing 5% of the then current issued share capital of the Company; and
- to purchase through the market up to 10% of the Company's issued share capital, at a minimum price (exclusive of expenses) of 1p per ordinary share, subject to restrictions on price as recommended by investor institutions.

Shareholders will be asked to renew and update these authorities at the AGM in 2017.

19 Own shares held

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

At 31 December 2016, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2016**	2015
Number of shares	**1,162,051**	1,162,051
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338
Market value	**418**	349

20 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	**2016** **£'000**	2015 *As restated* £'000
Earnings		
Profit/(loss) attributable to equity holders of the parent	**1,532**	(5,376)
Adjusted earnings		
Profit/ (loss) for the year	**1,532**	(5,376)
Add back: exceptional costs	**-**	5,493
	1,532	117
	2016	2015 *As restated*
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**22,529,360**	22,304,607
Dilutive effect of share plans (note 17) *	**1,212,308**	2,553,982
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**23,741,668**	24,858,589
Basic profit/ (loss) per share (pence)	**6.80p**	(24.10p)
Diluted profit/(loss) per share (pence)	**6.45p**	(24.10p)
Adjusted basic profit earnings per share (pence)	**6.80p**	0.52p
Adjusted diluted profit earnings per share (pence)	**6.45p**	0.47p

*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). The antidilutive effect of share plans in the 2015 year (in relation to dilutive loss per share) was 2,553,982 shares.

21 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 and Professionals Group Limited.

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.

(Deficit)/ Retained earnings

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

22 Employees

The average number of employees (including Directors) during the year and the total number of employees at 31 December 2016 was as follows:

	Average no. 2016	Average no. 2015	**31 December 2016**	31 December 2015
Client services	**154**	159	**155**	144
Administration	**56**	63	**56**	51
Management	**4**	5	**4**	4
	214	227	**215**	199

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

	2016 £'000	2015 £'000
Wages and salaries	**10,853**	11,731
Social security costs	**1,000**	1,198
Other pension costs	**230**	302
Share-based payments (see note 17)	**331**	172
	12,414	13,403

Directors' emoluments

	2016 £'000	2015 £'000
Emoluments for qualifying services	**434**	468
	434	468

Information on Directors' emoluments (page 25) and interests (page 23), 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:

	2016 £'000	2015 £'000
Emoluments for qualifying services	**256**	227
	256	227

Tim Smeaton exercised 12,000 share options during the year (2015: NIL).

Remuneration of key management

	2016 £'000	2015 £'000
Short term employee benefits (including social security costs)	**1,424**	1,732
Share-based payments	**100**	75
Post-employment benefits	**-**	22
	1,524	1,829

Notes to the consolidated financial statements

As at 31 December 2016

23 Notes to the cash flow statement

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

	2016 £'000	2015 *As restated* £'000
Profit before taxation and exceptional items	**1,667**	117
Adjusted for:		
Depreciation and amortisation	**318**	413
Increase/ (decrease) in provisions	**241**	(88)
FX unrealised gains	**(315)**	(197)
Gain on sale of property, plant and equipment	**-**	(4)
Share-based payments	**331**	172
Net finance (income)/costs	**(917)**	75
Operating cash flows before movements in working capital	**1,325**	488
(Increase)/decrease in receivables	**(3,502)**	14,811
Increase/ (decrease) in payables	**1,235**	(3,866)
Income tax expense	**(135)**	-
Cash (used in) /generated from operating activities	**(1,077)**	11,433
Income taxes paid	**(104)**	(89)
Finance costs	**(63)**	(80)
Finance income	**-**	5
Net cash (outflow)/ inflow from operating activities before exceptional items	**(1,244)**	11,269
Cash flows arising from exceptional costs	**-**	(1,200)
Net cash (outflow)/inflow from operating activities	**(1,244)**	10,069

b. Reconciliation of net cash flow to movement in net debt:

	2016 £'000	2015 £'000
Increase/ (decrease) in cash and cash equivalents in the year	**72**	(2,941)
(Increase)/ decrease in borrowings	**(633)**	12,250
(Increase)/ decrease in net debt during the year	**(561)**	9,309
Net cash/ (debt) at the start of the year	**2,580**	(6,729)
Net cash at the end of the year	**2,019**	2,580

Represented by:

Cash and cash equivalents (note 13)	**3,106**	3,034
Borrowings (note 15)	**(1,087)**	(454)

24 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:

	2016 £'000	2015 £'000
Within one year	**857**	1,163
Between one and five years	**3,148**	3,218
After five years	**5,116**	5,973
	9,121	10,354

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 prior year operating lease commitment was calculated to the break clause, in 2023. Given there is currently no indication the Group will break the lease, the current year commitment is based on the full term of the lease to 2028.

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:

	2016 £'000	2015 £'000
Within one year	**433**	433
Between one and five years	**584**	1,017
After five years	**-**	-
	1,017	1,450

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

25 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 21.

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 2016.

The gearing ratio at the year-end is as follows	**2016 £'000**	2015 *As restated* £'000	2014 *As restated* £'000
Debt (note 15)	**(1,087)**	(454)	(12,704)
Cash and cash equivalents (note 13)	**3,106**	3,034	5,975
Net cash/(debt)	**2,019**	2,580	(6,729)
Equity	**19,015**	17,344	23,383
Net cash/(debt) to equity ratio	**10.6%**	14.8%	(28.8%)

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.

25 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. There has been a significant change in accounting policy to revenue recognition in the year ended 31 December 2016, refer to Note 27.

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.

	2016 **£'000**	2015 *As restated* £'000	2014 *As restated* £'000
Financial assets			
Loans and receivables			
Trade receivables net of impairment provision	**9,545**	6,109	16,077
Other receivables	**313**	264	333
Accrued income	**7,532**	7,704	12,405
Cash and cash equivalents	**3,106**	3,034	5,975
	20,496	17,111	34,790
Financial liabilities at amortised cost			
Trade and other payables	**2,452**	1,734	1,115
Borrowings	**1,087**	454	12,704
	3,539	2,188	13,819

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 77% 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 Norwegian Krone, 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 trading loans based on the nature of the activity in the accounts. Judgement has been applied in the determination of the long-term element of the intercompany loan based on a pattern of prior year settlements. 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.

25 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 5% 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 committed to April 2018 and this is considered adequate to meet the Group's funding requirements.

Apart from its bank borrowings disclosed in note 15, the Group has no financial liabilities other than short-term trade payables and accruals disclosed in note 14, all due within one year of the year end.

26 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 22. As shareholders, the Directors who are shareholders also receive dividends from the Company:

No single party has ultimate control of the company.

	2016 **£'000**	2015 £'000
Dividends paid to Directors	**-**	127

27 Change in Accounting policy

During the year, the Group changed its accounting policy with respect to the recognition and measurement of revenue. Permanent recruitment revenue was previously recognised on the acceptance of the role by a candidate. This policy has been changed to recognise revenue on the start date of a candidate.

The impact of this change in accounting policy on the comparative figures previously reported is illustrated below on each line item of the Group financial statements that has been affected (note the tax impact of the below adjustments has not been taken into account due to the amounts being immaterial to the group results):

	As reported under the previous accounting policy		Adjustments		Restated under the new accounting policy	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Consolidated Statement of Comprehensive Income						
Revenue	122,765		845		123,610	
Gross Profit	18,565		845		19,410	
Other administrative expenses*	(19,412)		(25)		(19,437)	
Profit/ (Loss) before taxation	(6,196)		820		(5,376)	
Income tax expense	-		-		-	
Profit/ (loss) for the year	(6,196)		820		(5,376)	
Basic Earnings/(loss) per share	(27.52p)		3.7p		(23.88p)	
Diluted Earnings/ (loss) per share	(27.52p)		3.7p		(23.88p)	
Consolidated Statement of Financial Position						
Total Assets	30,517	53,825	(1,290)	(2,132)	29,227	51,693
Total payables	(12,152)	(28,602)	269	292	(11,883)	(28,310)
Total Equity**	18,365	25,223	(1,021)	(1,840)	17,344	23,383

*This excludes exceptional administrative expenses which were unaffected by the change in accounting policy.

** Included within the adjustment to equity as at 1 January 2015, is an amount of £263,000 in the translation reserve as a result of the revenue policy change. This arose from translating the foreign subsidiaries from their functional currencies in to the Group's presentational currency.

HYDROGEN GROUP PLC

Parent company statement of financial position

As at 31 December 2016

	Note	**2016 £'000**	Restated 2015 £'000
Non-current assets			
Investments	7	**7,232**	6,933
Deferred tax asset	8	**1**	-
Amounts owed by subsidiary undertakings	10	**1,773**	6,983
		9,006	13,916
Current assets			
Trade and other receivables	9	**313**	430
Amounts owed by subsidiary undertakings	10	**5,422**	-
Current tax receivable		**133**	30
Cash at bank and in hand		**10**	178
		5,878	638
Total assets		**14,884**	14,554
Current liabilities			
Trade and other payables	11	**(527)**	(152)
		(527)	(152)
Non-current liabilities			
Deferred tax liabilities		**(54)**	(1)
Amounts owed to subsidiary undertakings		**(1,758)**	(1,884)
		(1,812)	(1,885)
Total liabilities		**(2,339)**	(2,037)
Net assets		**12,545**	12,517
Share capital	12	**239**	239
Own shares held	13	**(1,338)**	(1,338)
Share premium account		**3,520**	3,520
Share based payment reserve		**815**	484
Retained earnings		**9,309**	9,612
Equity shareholders' funds		**12,545**	12,517

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 2016 of £302,669 (2015: loss £2,804,000).

Parent company statement of financial position

As at 31 December 2016

The financial statements on pages 65 to 76 were approved by the Board of Directors and authorised for issue on 3 April 2017 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 2016

	Share capital £'000	Share premium £'000	Own shares held £'000	Share based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015 (as previously reported)	239	3,520	(1,338)	311	(373)	13,471	15,830
Prior year adjustment (Note 2)	-	-	-	-	373	(357)	16
Balance at 1 January 2015 (as restated)	239	3,520	(1,338)	311	-	13,114	15,846
Dividends paid	-	-	-	-	-	(698)	(698)
Share scheme contribution	-	-	-	173	-	-	173
Transactions with owners	-	-	-	173	-	(698)	(525)
Loss for the year	-	-	-	-	-	(2,804)	(2,804)
Total comprehensive loss for the year	-	-	-	-	-	(2,804)	(2,804)
Balance at 31 December 2015	**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)**
Other comprehensive losses:							
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(303)**	**(303)**
Balance at 31 December 2016	**239**	**3,520**	**(1,338)**	**815**	**-**	**9,309**	**12,545**

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 2016. 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.

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.

If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. 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 p40 and p 41 of the Group accounts.

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):

1 Significant accounting policies (continued)

Judgement and estimation:

Recoverability of intercompany receivables – Note 10

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

Share based payments – Note 6

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 7

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.

2 Prior year adjustments

Hive up

Following a review in the current period of the accounting treatment of the original investment in Hydrogen Academy Limited and the subsequent hive up of its trade and assets in 2011, the 2015 accounts have been restated. These amendments reflect the reduction in the original cost of the investment as the amount released by the vendor had been taken to the profit and loss as had a pre-acquisition dividend which should also have reduced the cost of investment in Hydrogen Academy Limited. A summary of the accounting impact on the opening investment and retained reserves is set out below:

	£'000
Reduction in Investments	(513)
Reduction in Creditors	53
Reduction in Retained Earnings	**(460)**

Translation Reserve

Following a review in the current period of the accounting treatment of the intercompany loans, the 2015 accounts have been restated to correctly reflect the foreign exchange movements recognised within the subsidiaries. The amendment resulted in an increase in the amounts owed by subsidiaries and the reversal of the current Translation Reserve balance.

A summary of the prior year's accounting impact is detailed below:

	£'000
Increase in Translation reserve	373
Increase in Amounts owed by subsidiary undertakings	373
Increase in Total Equity	**373**

In addition, an exchange loss of £143,000 was recognised in the translation reserve in 2015 but this was reversed as part of the restatement with a corresponding increase to amounts owed by subsidiaries.

2 Prior year adjustments (continued)

Group share-based schemes

Following a review of the accounting treatment of Group Share Schemes, the accounts have been restated to correctly reflect the accounting for share costs associated with the group schemes in place. The 'Investments in subsidiaries' have been increased by the 2015 share based charge, with a corresponding increase to the opening retained earnings balance in 2016. The amendment of the share based charge is to account for it as a capital contribution in the Company.

	£'000
Increase in Investment in Subsidiaries	173
Increase in Retained earnings	(173)
Decrease in Retained earnings	70
Decrease in deferred tax asset	(70)
Increase in Total Equity	**103**

3 Auditors

The auditor's remuneration for audit of the Company is £5,000 (2015: £10,000). 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.

4 Employees

Staff costs (including Directors' costs) are as follows:	**2016 £'000**	2015 £'000
Wages and salaries	**627**	577
Social security costs	**80**	74
Other pension costs	**17**	17
Total	**724**	668

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 (2015: 5).

5 Dividend

	2016 £'000	2015 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2016 of Nil p per share, (2015: Nil) (2014: 1.5p per share)	**-**	-
Final dividend for the year ended 31 December 2015 of Nil p per share, (2014: 3.1p per share)	**-**	698
	-	698

No interim dividend was paid in respect of the year ended 31 December 2016 (2015: Nil).

The Board does not propose a final dividend for the year ended 31 December 2016 (2015: Nil).

6 Share-based payments

The total expense arising from the share-based option schemes during the year was £0.3m (2015: £0.2m).

Breakdown of shares issued to the subsidiaries was as follows:

	2016 £'000	2015 £'000
Australia	5	3
Singapore	58	24
International	268	146
Total	**331**	173

7 Non-current investments

	2016 £'000	2015 £'000
Subsidiary undertakings at cost		
At 1 January (as previously reported)	**6,933**	7,273
Prior year adjustment (Note 2- Group share-based schemes)	**-**	173
Prior year adjustment (Note 2- Hive up)	**-**	(513)
	-	(340)
At 1 January (as restated)	**6,933**	6,933
Additions	**331**	-
Impairment	**(32)**	-
At 31 December	**7,232**	6,933

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 and Hydrogen Group LLC in USA.

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 Lumpar, 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 Ipark Professor Olav Hanssensvei 7A 4021 Stavanger, Norway	Recruitment	100%
Hydrogen Group Pte Limited	Singapore	333 North Bridge Road, KEA Building Singapore (188721)	Recruitment	100%
Hydrogen Group Limited	Dubai	Office 33, Gate Village, Building 10, PO Box 125115, Dubai UAE	Recruitment	100%
Hydrogen Group AG	Switzerland	Poststrasse 24, 6300 Zug, Switzerland.	Recruitment	100%
Hydrogen Group LLC	USA	19C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%

7 Non-current investments (continued)

Subsidiary	Country of incorporation	Registered office	Nature of activities	% ordinary share capital and voting rights
Hydrogen Group Staffing LLC*	USA	20C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%
Hydrogen Employee Share Company Limited	United Kingdom		Trustee of Share Incentive Plan	100%

*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.

8 Deferred tax

Deferred tax asset	Other £'000	Accelerated depreciation £'000	Share based payments £'000	Total £'000
At 1 January 2015	-	1	78	79
Charged/ (credited) to profit or loss	2	(1)	(8)	(7)
At 31 December 2015 *(As previously stated)*	2	-	70	72
Prior year adjustment (Note 2)	-	-	(70)	(70)
At 31December 2015 *(As restated)*	2	-	-	2
(Credited)/charged to profit or loss	**(1)**	-	**-**	**(1)**
At 31 December 2016	**1**	-	**-**	**1**

Deferred tax (liability)	Accelerated capital allowances £'000
At 31 December 2014	-
Charged to profit or loss	1
At 31 December 2015	1
Charged to profit or loss	**53**
At 31 December 2016	**54**

No reversal of deferred tax is expected within the next twelve months (2015: Nil).

In total, at the reporting date, the company had unutilised tax losses of £6,208 (2015: £6,574) available for offset against future profits, for which no deferred tax assets had been recognised.

9 Trade and other receivables

Trade and other receivables are as follows:	**2016 £'000**	2015 £'000
Other taxation and social security	**257**	247
Other debtors and prepayments	**56**	183
Current	**313**	430

10 Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are as follows:	**2016 £'000**	2015 £'000
Amounts owed by Group companies	**10,066**	10,731
Less: impairment provision	**(2,871)**	(3,748)
	7,195	6,983
Current	**5,422**	-
Non- current	**1,773**	6,983
	7,195	6,983

Interest is charged on the amounts owed to Group companies of 2.35% over UK base rate.

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.

11 Trade and other payables

Trade and other payables are as follows:	**2016 £'000**	2015 £'000
Trade payables	**302**	106
Accruals	**225**	-
Other payables	**-**	46
Current	**527**	152

12 Share capital

	2016		2015	
Ordinary shares of 1p each	**Number of shares**	**£'000**	Number of shares	£'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued and fully paid:				
At 1 January	**23,891,713**	**239**	23,881,094	239
Issuance of new shares for employee share schemes	**12,000**	**-**	10,619	-
31 December	**23,903,713**	**239**	23,891,713	239

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

13 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 2016, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2016**	2015
Number of shares	**1,162,051**	1,162,051
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338
Market value	**418**	349

14 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.

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 based payment 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.

15 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 (2015: £0.5m) at the balance sheet date.

16 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:

	2016 **£'000**	2015 £'000
Within one year	**787**	787
Between one and five years	**3,148**	3,148
After five years	**5,116**	5,903
	9,051	9,838

16 Operating lease commitments (continued)

Operating lease payments represent rentals payable by the Company 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 Company has a small amount of serviced office space, on annual agreements, excluded from the above.

The prior year operating lease commitment was calculated to the break clause, in 2023. Given there is currently no indication the Company will break the lease, the current year 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:

	2016 £'000	2015 £'000
Within one year	**433**	433
Between one and five years	**584**	1,017
After five years	**-**	-
	1,017	1,450

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

17 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:

	2016 £'000	2015 £'000
Dividends paid to Directors	**-**	127

HYDROGEN GROUP PLC

Directors and Advisors

For the year ended 31 December 2016

Directors

Stephen Puckett (Chairman)

Ian Temple (Chief Executive Officer)

Colin Adams (Chief Financial Officer)

Anne Baldock (Resigned 22 March 2016)

Richard Green (Appointed 22 March 2016)

Company Secretary

Colin Adams

30-40 Eastcheap, London, EC3M 1HD

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

Capita Asset Services, The Registry, 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