



Hydrogen
Group

Annual Report 2018

Hydrogen Group PLC
www.hydrogengroup.com



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Hydrogen at a glance

We're creating a world where
more people love their work.

Key highlights

NFI 2018

£30.5m

2017 £22.8m

Underlying PBT 2018

£3.0m

2017 £0.8m

Net Cash 2018

£4.9m

2017 net debt £0.4m

EPS 2018

£8.0p

2017 3.2p

We exist to empower people to fulfil their potential.

We build teams, we power businesses and we help them all to change the world.

Disruption is everywhere, changing jobs, redefining industries, and technology is taking us there further and faster than ever before, but it's making us feel less connected.

We're using technology to shape the future of work and to bring us closer together. Closer to each other, closer to our customers and closer to our mission of creating customer intimacy.

We see beyond the need just to find or fill a role, but instead to fulfil working lives, helping our people, our companies and their customers to achieve their potential.

It means we're all able to get closer to achieving our goals. For us customer intimacy isn't just an idea, it's our vision to become leaders in fast growth disrupted markets by creating a world where more people love their work.

Sectors we cover



Technology



Business Transformation



Energy



Life Sciences



Legal



HR



Finance



Sales & Marketing

345+ Staff globally

12 Offices



Chairman's Report



Stephen Puckett
Chairman

I am delighted to be able to report a strong performance in 2018. With the integration of Argyll Scott Holdings Limited ("Argyll Scott") complete, and all of the key objectives of the acquisition successfully achieved, the Group has increased its Net Fee Income ("NFI") on both a reported and a proforma basis, and its market share, in each of the EMEA, APAC and US regions.

This growth and the associated operational gearing, together with cost savings arising from both the integration and the implementation of efficiency driving initiatives across the business, have increased conversion rates and transformed the Group's profitability.

Furthermore, we have developed an operating model, which has been implemented across the Group, that, together with this positive trading momentum, enables us to look forward confidently to further sustainable long-term profit growth.



Performance

In 2018, the Group increased its NFI (or Gross Profit) by 34% to £30.5m (2017: £22.8m). Although this was partly driven by the full year impact of Argyll Scott, underlying NFI growth was also strong, increasing by 14% on a proforma basis.

Although this growth has been broad based, the Group's performance in the US has been particularly impressive. Two

new offices were opened in Austin and San Diego and US NFI increased by 110%, and by 118% on a constant currency basis, during the year.

The Board considers that the Group's underlying profit before exceptional items and tax is the best way to judge its trading performance as it excludes non-trading items and non-repeatable gains and losses. Underlying profit before exceptional items

and tax increased by £2.2m, or 264%, to £3.0m (2017: £0.8m). Key adjustments include net exceptional expenses of £nil (2017: £2.0m), foreign exchange losses of £0.1m (2017: £nil), non-controlling profit of £0.2m (2017: £nil), share based costs of £0.1m (2017: £0.2m) and amortisation of acquired intangibles from Argyll Scott of £0.1m (2017: £0.1m). Underlying EPS was 8.0p (2017: 3.2p). The statutory profit for the year was £2.5m (2017: loss of £1.3m).

Conversion rates have improved significantly during the year. The underlying profit before tax margin (calculated as underlying profit before exceptional items and tax divided by net fee income) increased to 9.7% (2017: 3.6%). Pleasingly, margins improved progressively through the year. The underlying profit before tax margin in H2 was 11.6%.

Cash generation during the year was strong, driven both by profit growth and improved cash conversion resulting from a focus on working capital management. As a result, net cash at 31 December 2018 was £4.9m (31 December 2017 net debt of £0.4m).

During the year, the Group acquired a further 4.9% of



Tempting Ventures Limited (“Tempting Ventures”), increasing its holding to 49.9%. Tempting Ventures has traded well, delivering a profit in its first full year of operation despite adding several new investments to its portfolio. While the impact on the Group's results is not yet significant, it is well positioned for further profitable growth which will contribute to the Group's earnings growth moving forward.

Strategy

Hydrogen Group's strategy is to build market leading specialist teams in high growth markets with a focus on developing each through a journey from incubator through fast growth to market leader where they have much greater profit conversion. Globally, the STEM (Science, Technology, Engineering & Mathematics) and Professional Services markets

in which we operate are being increasingly disrupted by a combination of technological, cultural, and political change. Our model allows us to efficiently identify and appraise the niche skill sets for which this disruption will drive increased demand for, and conversely those where it will destroy demand, allowing us to deploy our resources accordingly to drive growth.

The integration of Argyll Scott has enabled the development of a new operating model that has been deployed across the Group, which, by focusing on the key drivers of our Proposition, People, Platform and Performance is further facilitating the development of scaleable market leading teams that will drive both NFI growth and additional improvements to conversion rates.

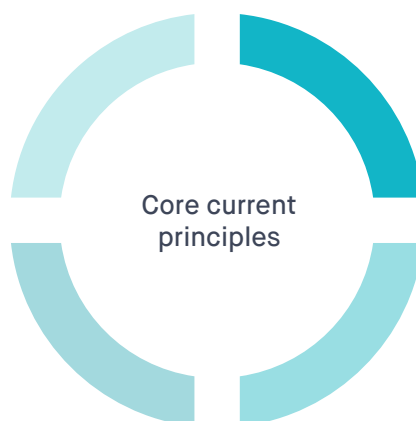
In 2016 we set objectives that by 2020 the Group would, inter alia: be growing NFI by 10% per annum, have grown underlying EPS to 6.8p, and increased underlying profit before tax conversion rates to over 10%. I am delighted to report that these objectives were substantively achieved during 2018.

With both a strong balance sheet and a robust and scaleable operating model in place, the Board believes that these goals may best be achieved by supplementing continued sustainable organic growth with selective acquisitions that meet our strict criteria relating to financial, operational, strategic and cultural fit. As such, the Board is actively reviewing acquisition opportunities that it believes may meet these criteria.

New operating model | Propositions, People, Platform and Performance

Proposition
By being closer to **niche disrupted markets** we will take advantage of job creation

Performance
Deeper understanding of data informs decisions and **ensures we achieve our goals**



People
Adopting a growth mindset, we develop our people so they can **over-deliver and reap the rewards**

Platform
Powering our business with technology to drive productivity and build closer **customer relationships**

People

I would like to welcome all our colleagues that joined the Hydrogen Group during 2018. I also thank all our staff for their hard work during the year as we continued to grow the business. I am pleased with the progress the management team has made and our strength and depth of talent has been further enhanced during the year. I am also delighted at the continued growth in of our minority interest share scheme, demonstrating our ability to attract, retain, motivate and develop key staff.

Dividend

The Board is confident in the prospects of the Group and believes that the Group should grow profitably and continue to generate cash during 2019. During the year, the Board resumed payment of a dividend and paid an annual dividend of 0.8p in respect of 2017 (2016: nil). An interim dividend was declared and paid in October for 2018 of 0.5p. In line with its policy of paying a progressive and sustainable dividend, the Board now proposes a final dividend for 2018 of 1.0p, giving a payment for the year of 1.5p representing an increase of 88% for the year. Subject to approval at the AGM, on 23 May

2019, the dividend will be paid on 31 May 2019 to all shareholders on the register on 03 May 2019.

The Board

The Board has continued to operate to high standards of corporate governance appropriate to Hydrogen Group's size and market capitalisation. The Board itself has had a stable year, with no changes in membership. In line with best practice, all Directors will stand for re-election by shareholders at the AGM.

A review of Board effectiveness was completed during the year to assess its overall performance. No significant concerns were noted. The review identified three key objectives for the Board moving forward:

- To ensure that the business continues to deliver growth in revenue and profit to enhance shareholder value;
- To further develop the next level of leaders in the Group; and
- To continue the drive to expand the Group through acquisitions.

Outlook

Trading to date during 2019 has been in line with the Board's expectations. The Board is mindful of the challenges and

uncertainties presented by both the UK's planned exit from the European Union, however, we are confident that we will achieve continued growth this year.

The Group's plan for the year ahead is to continue focusing on growing and developing its niche teams into market leading businesses by investing in high performing individuals and our global operating model, while continuing to explore acquisition opportunities that both meet our selection criteria and have the potential to accelerate our growth plans.



Stephen Puckett
Chairman

2 April 2019



Strategic Report

For the year ended 31 December 2018



Business Review

We are pleased to report that we continued to make strong progress during 2018.

The key financial highlights in 2018 were:

£135.7m

Revenue

Revenue increased to £135.7m (2017: £125.9m)

£30.5m

NFI

NFI increased by 34% from £22.8m to £30.5m

54%

NFI earned outside the UK

NFI earned outside the UK increased to 54% of total NFI from 48%

£3.0m

Underlying profit

Underlying profit* in the year increased by £2.2m to £3.0m (2017: £0.8m)

£6.1m

Strong cash generation

Cash generated from operations of £6.1m (2017: outflow of £2.5m)

£4.9m

Net cash

Net cash as at 31 December 2018 of £4.9m (31 December 2017: net debt of £0.4m)

The integration of Argyll Scott Holdings Limited ("Argyll Scott"), which was acquired in June 2017, was successfully completed during the year.

The integration has enabled the development of a new operating model which has helped to drive the business forward during the year and we believe will provide the basis for sustainable growth moving forward.

* Altered for non-controlling interest, foreign exchange gains, amortisation of acquired brand and database, share based payments and exceptional items.

Proposition



20

Teams
promoted

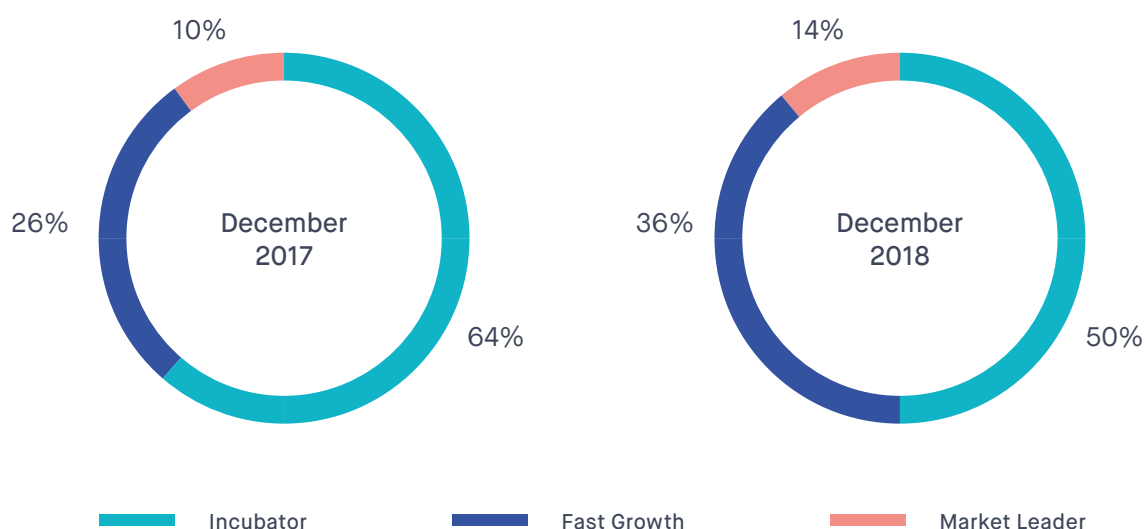
By being closer to niche disrupted markets we will take advantage of job creation and focus on what our clients and candidates need.

The Group is committed to a multi brand strategy and to investing in developing strong operating brands with robust client and candidate propositions. Our operating brands are sub-divided into approximately 70 specialist niche teams each focused on a single skill set and discipline in its local market, enabling our consultants to provide genuine insight to their clients and candidates. Using objective criteria, each niche is categorised as being

either an incubator, a fast growth, or a market leading business; and each is driven, through a consistent targeting and reporting model, to grow to be a market leader in its niche where both profit conversion and the sustainability of earnings are strongest.

During the year we closed eleven low growth incubator teams and entered eight new niche markets with greater growth prospects. In total 20 teams were either promoted from incubator to fast growth or from fast growth to market leader, improving the balance of the portfolio.

Specialist niche team promotions | 2017 vs. 2018



People

Adopting a growth mindset, we develop our people so they can over-deliver and reap the rewards.

We are committed to creating a genuine learning and development culture throughout the Group. Bespoke training programmes have been developed for each job function and grade, which are being delivered across the Group by the leadership and management teams. There is a clear promotion pathway for everybody in the Group. The Group has a performance management system and transparent reward at every level to support an objective and high-performance working culture, which was recognised as 'One to Watch' by the 2019 Sunday Times survey.

The Group launched its minority interest scheme in 2017 and we continued to roll it out during 2018. All managers of fast growth and market leading teams qualify to join the scheme. To date, 35 individuals have joined the scheme with a further 10 expected to join during 2019. The Board is pleased with the

way the scheme is impacting performance through the attraction, retention, motivation and development of key staff.

As reported in our interim statement, the Group made two significant additions to its global leadership team in the USA and Australia during the year. Both businesses grew strongly as a result.

We have continued to invest in our productive headcount to drive our revenue earning capacity forward. Total headcount has increased by 32 (10%) from 313 to 345. Twenty eight of the net increase were fee earners as the Group has exploited the efficiencies created by this new operational platform.

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



The minority interest scheme

A scheme designed to attract and motivate our talent

The scheme supported by our track record of developing our staff has greatly enhanced our ability to attract and motivate talented people.

Platform

Powering our business with technology to drive productivity and build closer customer relationships.

Throughout 2018 the Group migrated its teams progressively onto a single, new, global technology and CRM platform. The migration was completed in Q4 and is promoting greater communication and cross fertilisation of key client relationships throughout the Group and driving a consistent and effective “go to market” strategy.

Alongside the new CRM platform, we are continuing to develop a digital marketing programme that supports a multi brand specialist niche business strategy by allowing the development of key client and candidate relationships on a scalable, but bespoke, one to one basis.

Hydrogen Group was named the 16th most socially engaged staffing consultancy business in the world in 2018, out of a field of 38,000 by LinkedIn, the second

successive year it has made the Top 25. Well over 80% of our clients and candidates are registered users of LinkedIn, which has become a primary platform for building customer relationships. Using social engagement, we create and develop leads which our consultants use to facilitate sales conversions. The ranking is driven by engagement of the platform members with the Group.



16th

We are one of the Top 25 Most Socially Engaged Staffing Agencies on LinkedIn globally.

Performance

Deeper understanding of data informs decisions and ensures we achieve our goals.

In addition to the enhanced analysis and reporting available from our new CRM platform, we are investing in our Business Intelligence systems to combine financial and operating data to present appropriate, meaningful and focused management information to different decision maker groups across the business. We are also using innovative ways of comparing the relative performance of different managers to drive transparency, accountability and competition.

EMEA

NFI increased by £2.8m to £17.6m (2017: £14.8m) during the year principally as a result of the inclusion of a full year's trade of the UK and Middle East based operations of Argyll Scott. On a proforma basis, NFI grew by 7% or £1.2m. Although

the growth was broad based, demand was particularly strong in our UK Legal practice.

Operating profit before exceptional items doubled from £1.4m to £2.8m.

APAC

The APAC region grew strongly during the year. NFI grew by 55% (57% in constant currency terms) to £11.0m (2017: £7.1m). As the bulk of Argyll Scott's operations are located in the APAC region, the inclusion of a full year of its trade had a significant impact on reported NFI. However, on a pro-forma basis, NFI also grew strongly by 15% (and by 17% on a constant currency basis). This growth was broad based, however, the strong performances of our Thai and Australian businesses is noteworthy.

Operating profit before exceptional items increased by £0.9m to £1.3m (2017: £0.4m).

A key rationale for the acquisition was the opportunity to sell our developing Hydrogen branded contract recruitment services to Argyll Scott's established APAC client base. During 2018, contractors were placed on site at 19 existing Argyll Scott clients, validating this model.

USA

The Group achieved strong growth from a low base in the USA with NFI increasing by 110% (118% in constant currency terms) to £1.9m (2017: £0.9m) during the year. Growth accelerated through the year with 78% of NFI being earned in H2, providing a base for further strong growth during 2019.

The Group appointed a new leader in the US in May 2018, and as a result has invested heavily in its US operating capacity. Total US headcount grew from 10 to 24 during the year, and in addition to relocating its existing Houston office to larger premises, new offices were opened in Austin and San Diego. Since the year end, a fourth office has been opened in the region, in Charlotte.

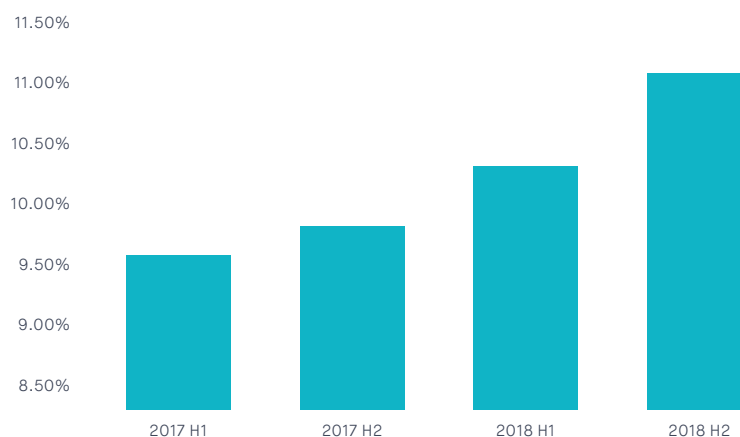
Despite this significant investment, operating profit before exceptional items also increased to £0.1m (2017: loss of £0.02m).

Permanent and Contract

Hydrogen Group places candidates in permanent roles and provides contract solutions. Permanent placements play to the Group's experience in satisfying demand for rare niche skills. Contract solutions provide clients with flexible resources usually to complete specific projects.

The Group's NFI that is derived from permanent placements grew by 55% to £17.8m (2017: £11.5m), while NFI derived from contract solutions increased by 13% to £12.7m (2017: £11.2m), driving a shift in the Group's permanent NFI to contract NFI mix to 58%

Contract margins



permanent : 42% contract (2017: 51% permanent : 49% contract).

The variance in the relative growth rates is largely a result of the full year inclusion of Argyll Scott, which is a business that provides, primarily, permanent recruitment services. Argyll Scott's operations are predominantly located in Asia and the Middle East where white collar contract recruitment is relatively immature. The development of contract recruitment services in these markets offers a clear growth opportunity for the Group. On a proforma basis, permanent NFI grew by 19% and contract NFI by 7%.

The trend of improving contract margins experienced in recent years has continued with the

Group achieving a contract margin of 10.8% in 2018 (2017: 9.8%).

Clients and Candidates

Hydrogen Group has built strong and effective relationships with its clients based around its longstanding track record of delivery in specialist markets. We would like to thank all our clients for their support over the last year.

The Group has a very strong candidate database and a proven methodology for building candidate relationships in our niche specialist teams. The Group works with highly talented candidates and contractors and would like to thank them for trusting us to empower their careers.

Brexit

The UK is the largest geographical market for the Group, representing some 46% of NFI during 2018. Therefore, we have continued to review the possible impact on the business should the UK leave the European Union.

Possible positive impact on the business:

- Continued UK talent shortages may increase the use of recruitment consultancies in the UK;
- The ability to use our international network to bring talent to the UK from outside the European Union due to new visa processes;
- Business transformation projects driven by change in arrangements and regulation creating demand for our specialist staff;
- Possible faster growth in the UK economy, increasing employment growth, as it builds trade with faster growing international markets than the EU; and
- Should Sterling devalue, our overseas reported revenue and profit increase.

Possible negative impact on the business:

- Delay of projects affecting the demand for resource until greater certainty of the future landscape;
- Possible slowdown in the UK economy, decreasing employment growth and therefore the demand for staff; and
- A strengthening of Sterling decreases our reported overseas revenue and profit.

Financial Review

Revenue – Group revenue for 2018 totalled £135.7m (2017: £125.9m).

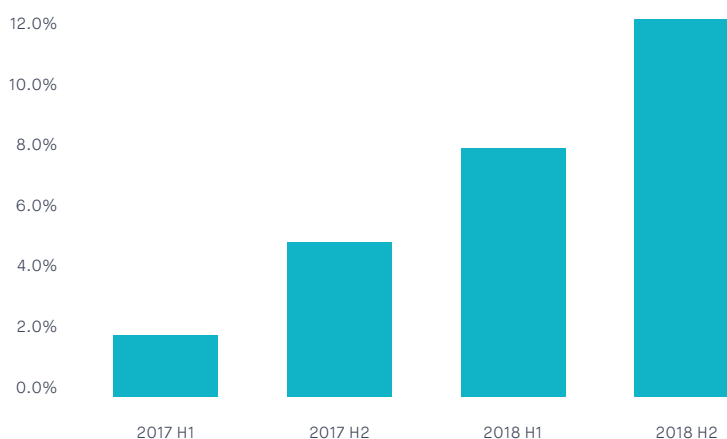
Key performance measures:

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

Profit conversion

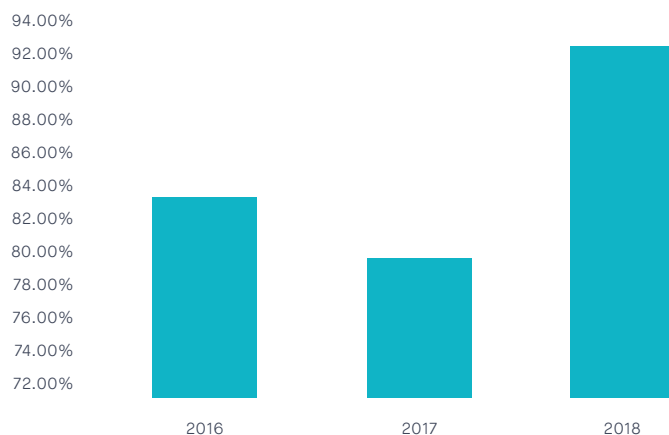
Profit conversion is the underlying profit before tax (PBT adjusted for foreign exchange gains, amortisation of acquired brand and database, share based payments, NCI profit or loss, non-trading items and exceptional items) divided by total NFI. This is key for the business to assess the level of underlying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

Profit conversion



In 2018, profit conversion in the Group increased to 9.7% (2017: 3.6%).

PPH



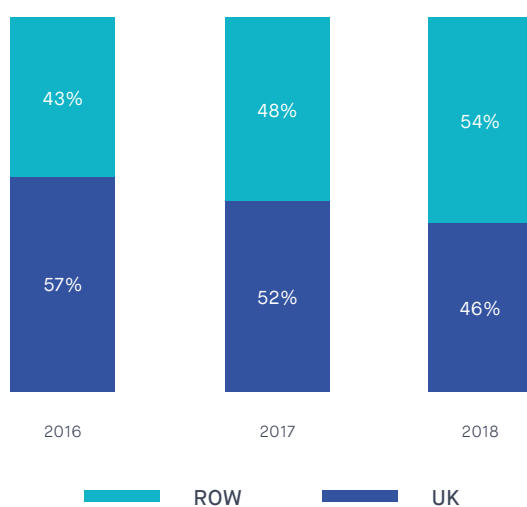
In 2018, productivity per head grew 15%, driven by the implementation of the Group's operating model, to £91,000 (2017: £79,000).

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.

Productivity per head fell in 2017, primarily due to the impact of Argyll Scott's operations in emerging markets in Asia where candidate salary levels and the Group's operating costs are lower.

NFI split UK vs. ROW



NFI split between the UK and the rest of the world

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

NFI from the rest of the world has increased by £5.6m to £16.6m and now represents 54% of the NFI for the year (2017: 48%).

Net fee income**(NFI – equivalent to gross profit)**

During 2018, Group NFI grew by 34% to £30.5m (2017: £22.8m).

The fluctuation of sterling decreased the value of reported NFI from overseas by 1% (£0.2m) during the year.

Operating segments

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

NFI from the EMEA operating segment totalled £17.6m (2017: £14.8m) and contributed 58% (2017: 65%) of total NFI. NFI from the US operating segment totalled £1.9m (2017: £0.9m) and contributed 6% (2017: 4%) of total NFI. NFI from the APAC operating segment totalled £11.0m (2017: £7.1m) and contributed 36% of total NFI (2017: 31%).

Exceptional costs

Net exceptional administration costs incurred in the year amounted to £nil and principally relate to two material offsetting factors. The first being a one-off rates rebate received, and the second being the provision for an onerous lease that was identified during the year. Further details are set out in note 4.

Finance cost/income

Group finance cost for the year remained stable at £0.1m (2017: £0.1m).

Profit and loss before taxation

Reported profit before taxation (PBT) for the year was £2.8m (2017: £1.4m loss).

The Board's preferred measure of trading performance of the business removing one off and non-trading items has increased significantly with underlying PBT of £3.0m (2017: £0.8m).

Underlying PBT is calculated as follows:

	2018 £'m	2017 £'m
Profit Before Tax / (Loss Before Tax)	2.8	(1.4)
Exceptional items (note 4)	-	2.0
Non-controlling interest (profit) / loss	(0.2)	-
Non-trading items*	0.1	-
Amortisation of acquired intangibles (note 10)	0.1	0.1
Share based payments (note 18)	0.1	0.2
Foreign exchange losses	0.1	-
Underlying PBT	3.0	0.8

* Non trading costs incurred in the year relate to professional fees on potential acquisitions. These are included within administrative expenses in the Consolidated Statement of Comprehensive Income.

Underlying EPS is calculated as follows:

	2018 £'m	2017 £'m
Underlying PBT	3.0	0.8
Tax (expense)/credit	(0.4)	0.1
Underlying PAT	2.6	0.9
Number of shares	32.6	28.2
Underlying EPS	8.0p	3.2p

Taxation

There was a £0.4m tax charge for the year (2017: credit of £0.1m), giving an effective tax rate of 13% (2016: credit rate of 7%).

At 31 December 2018 the Group had unutilised tax losses of £6.5m (2017: £7.8m) available for offset against future profits. The Group has potential deferred tax assets of £1.4m (2017: £1.6m) which have not been recognised.

Dividend

The Board is confident in the prospects of the Group. As a result, the Board proposes a final dividend for the year 2018 of 1.0p to be agreed at the AGM on 23 May 2019. Subject to approval at the AGM, the dividend will be paid on 31 May 2019 to all shareholders on the register on 3 May 2019.

Profit per share

The basic profit per share was 7.0p (2017: loss of 4.4p). Diluted profit per share was 6.4p (2017: loss of 4.4p).

Balance Sheet

Net assets at 31 December 2018 increased by £0.9m to £21.1m (2017: £20.2m).

Goodwill remained flat at £12.2m. There were no

impairments to the carrying value of goodwill in 2018 (2017: £nil).

Current trade and other receivables decreased by 17% to £19.7m (2017: £23.8m).

The largest single component is trade receivables, which at year end have decreased by £3.2m to £10.8m (2017: £14.0m) as a result of improvements to transactional finance processes and a focus on working capital management. Consequently, days sales outstanding at 31 December 2018 decreased to 28 days (2017: 40 days).

The decrease of £3.8m in current liabilities is principally a result of two factors. A reduction in trade and other payables of £0.9m due to timing differences, and a decrease of £2.8m in borrowings resulting from the improvement in operating cash levels within the business.

Non-current liabilities increased by £1.0m largely due to the revalued redemption liability in relation to the expected future earn out payments associated to the purchase of certain minority interest holdings in certain subsidiaries of Argyll Scott, the arrangements for which

were in place at the time of the acquisition in 2017. Further details are set out in note 28.

Short term bank deposits remain positive at £5.2m (2017: £2.8m).

Reserves

As a result of the Group's strong trading performance in the year and the impact of the revised redemption liability (note 28), total equity has increased by £0.9m to £21.1m (2017: £20.2m).

Treasury management and currency risk

Approximately 73% of the Group's revenue in 2018 (2017: 75%) was denominated in Sterling. The Group aims to match cost and revenue in the same currency to provide a natural hedge in its major markets which it achieved with the exception of the Euro. The Group did not enter into any forward contracts and no foreign currency contracts were open as at 31 December 2018.

Cash flow and cash position

Net cash at 31 December 2018 was £4.9m (2017: net debt of £0.4m). Strong trading in the year boosted cash generation in the Group before working capital by £2.0m. Further improvements in working capital management resulted in positive cash inflows of £3.2m (2017: outflow of £3.0m) before taxes and financing costs.

Total inflows as a result of operating activities were £6.1m (2017: outflow of £2.5m).

Gross borrowings decreased during the year by £2.8m to £0.3m.

The Group has an Invoice Discounting facility of £18.0m with HSBC with a commitment to January 2021. After this date the facility shall continue until terminated by either party giving to the other not less than three months written notice.

The average facility available during the year was £7.3m. Average utilisation in the year was 42% (£2.1m). The average available funds (including cash) for the Group grew by £2.6m to £8.4m.

Foreign Exchange Risk

The appreciation of Sterling during the year had a negative impact on the translation of the earnings of the Group's overseas subsidiaries. The extent of the appreciation of Sterling is detailed in the table on this page.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point

The extent of the depreciation of Sterling

Major currencies	Depreciation/ (Appreciation) in Sterling over the 2018 financial year (average rates)	2018 NFI in local currency as a proportion of Group NFI
Singapore Dollar	(1%)	14%
Hong Kong Dollar	(4%)	10%
Euro	1%	5%
United States of America Dollar	(3%)	8%
Malaysian Ringgit	3%	2%
Australian Dollar	(5%)	3%
Thai Bhat	2%	6%
United Arab Emirates Dirham	(3%)	4%
Swiss Franc	(2%)	1%

The Group is currently not hedged against this translation exposure.

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

during a period of growth but is cash generative in the first periods of a downturn.

The Group has prepared financial forecasts for the period ending 30 June 2020 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



A global CRM system

The Group is now utilising a global CRM system which allows all employees to operate a single database that will be accessed by all staff globally.



Niche businesses

The Group builds real depth in relationships that are built and maintained over long periods of time.

Systems

The investment in resilient, cloud-based IT systems has enabled Hydrogen to become a global recruiter, with databases of information that can be made available to all employees, no matter where they are in the world. The Group is now utilising a single CRM system globally which allows all employees to operate a single database.

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.

Employees

The Board recognises the importance of engaging employees and supporting them through performance management initiatives. There continues to be regular

meetings and updates at all levels of the business, from daily and weekly team sessions and monthly regional sales meetings through to quarterly business wide update on the Group's progress against its regional and global objectives. Worldwide training courses are currently being deployed across the Group to develop our staff into the future leaders of the business and to ensure that they have the relevant skills and experience to grow the business profitably.

The Hydrogen Group Code of Conduct

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

Health and Safety

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

A crisis response system is in place to reinforce the support given to contractors working on client projects, sometimes in difficult or unstable parts of the world. We are working with AIG, a specialist crisis management assistance company which has wide experience of dealing with emergency situations. All contractors are issued with a 24/7 crisis response number at the start of their contract with Hydrogen, as well as having ongoing support from the contractor care team. There is a clear procedure for responding quickly to situations where a contractor or employee may be in danger. There were no emergency situations of this kind in 2018 (2017: nil).

Environment

We operate from modern, offices with energy efficient power and lighting systems. We do not use combustible fuels and our electricity costs are low. As a large UK employer, Hydrogen

complies with the Government's new regulations on energy use assessment and will be participating in the Energy Savings Opportunity Scheme in respect of its headquarters in London. The Board believes that further disclosure is not material for shareholders.

Equal opportunities and diversity

The Group is committed to the principle of hiring based purely on individual merit, both for its own staff and for clients. Job boards and social media are used to try to attract talent from a wide range of sources and we select our staff and offer career development and promotion opportunities on a non-discriminatory basis.

This includes giving equal consideration to applications for employment and onward career development at Hydrogen from people who may have a disability. In the event of an employee becoming disabled, we will make practical changes and make every effort to enable them to continue to work for us.

The focus on individual skills and capability flows through to the records we keep of applicants and employees.

We hold only such information as is needed to determine a person's suitability for their role, to ensure compliance with

employment law and, in respect of candidates, to meet clients' requirements for each particular role. The Group does not intend to monitor the diversity of employees in more detail but will concentrate on capturing skills, to enable us to find the best person for any role we offer.

Principal risks and uncertainties facing the Group

Hydrogen Group's business model and strategy are designed to increase placements and profitability without increasing risk beyond an acceptable limit.

The profile of risks fluctuates from time to time and the actions being taken to manage and control risks are intended to mitigate the effects on the business but cannot eliminate risks absolutely.

A summary of the principal risks which would affect Hydrogen Group's ability to continue in business appears in the following table. Any significant changes in the potential level of risk since the end of 2018 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.	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. Hydrogen continued to diversify its business operations from its traditional UK practices with the acquisition of Argyll Scott where the majority of the trade is situated overseas.
Brexit	Falls under Macro-economic however due to the increasing risk and focus, we are addressing separately. Potential disruption to demand of clients and supply/ access to candidates. Operational and legislative changes as result of Brexit related changes.	Contingency planning in place based on a number of different scenarios surrounding deal/no deal. Continue with diversifying operations including consultancy, globally reach and acquisitions.
Client Concentration	One customer in Professional Support Services represents approximately 8% of the Group's net fee income for 2018 and is expected to decrease to below 5% in 2019.	The Group has a wide spread of clients with a proven track record in winning and developing new clients. No customer within the Group attributes to over 10% of the Groups Net Fee Income. At its peak this was 16%. 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.	In permanent recruitment the Group operates in tightly defined niches, where candidates are hard to find, and often passive. Building a quality candidate pool provides best levels of talent solutions to clients and minimises downward pressure on pricing. Propositions for all Practices and teams are continually being refined to remain competitive in the environment and to adapt to changes in the market. The contract solutions business requires a high degree of compliance and often long-term relationships with clients to consistently deliver and provides more visibility of future earnings.
Staff	Hydrogen staff are highly attractive to the competition and staff turnover could impact the business performance.	Hydrogen puts a huge amount of resource into recruiting like-minded people who will thrive and add to the culture of the Group. With a highly developed internal communication program, world class training with clear promotion criteria all staff are empowered to own their performance and career development. Finally the Group offers market leading reward opportunities for high performance aligned to shareholders interest through its Minority Interest share scheme.

Type of risk	Potential impact on business	Mitigation
Talent	The Group needs both to be able to source talent that is willing to move to a new permanent position or work on client's sites as part of a contract solution.	Hydrogen Group works with talent in carefully selected markets where it seeks to build a market leading position. By having a deep understanding of a market and building a brand in that market the Group is able to attract and build long term relationships with the talent pool.
Data security and access (including Cyber Security)	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. Cyber-attacks from organised crime are becoming increasingly sophisticated and with the Group increasing its reliance on third parties to provide flexible service platforms our exposure to protect data is increased.	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. We have up-to-date security systems in place that mitigate the risks posed by the use of modern communications media.
Financial Control	Financial loss could result from procedures to maintain financial control across the business not being adequate.	A formal system of delegated authorities over payments is in place. The Group finance function is managed centrally, with regular reporting to sales leaders. Material areas of financial control are audited annually.
Foreign Exchange	Fluctuations in exchange rates up to the date of settlement of invoices can have an adverse impact on reported NFI and lead to foreign exchange gains/losses impacting reported profit.	Revenue and costs are currency matched wherever practicable. Credit periods are minimised, and transactions are carried out in local currency where possible. Foreign exchange policy and opportunities for risk mitigation are reviewed by the Board and the Audit Committee.
Liquidity	Insufficient working capital or a significant increase in debt would impact the Group's ability to do business.	The Group completes a daily report on its cash position and monitors the trend and available headroom. Facilities are reviewed regularly to maintain sufficient liquidity.
Strategy	Group proposition and vision fails to deliver improved performance and the business fails to consistently grow profitably.	The business has a very clear operating model focused on delivering the strategy. The key drivers for the strategy are building market leading niche businesses, developing, and retaining key staff and building the platform of the business. The Board regularly reviews performance and execution of the business against its strategy.
Clients	Inability to win new business.	The business has a very broad spread of clients across geographies and sectors with the largest single client representing less than 10% of NFI in 2018. We now have a proven track record of winning and retaining new business.
Market	The market is a rapidly changing and evolving affected by technological, social, and political factors.	The business operates a very agile model through its niche marketing model which should allow it to respond quickly to changes in market conditions. The Group has invested in a technology platform that should allow it to benefit from technological change by automating parts of the process and take advantage of its scale compared to in-house teams or smaller businesses.

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

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

The Strategic Report was approved by the Board of Hydrogen Group plc on 2 April 2019 and signed on its behalf by:



Ian Temple
Chief Executive Officer

The Board



Stephen Puckett

Position: Chairman | **Appointment date:** March 2015

Stephen Puckett was appointed an Independent Non-Executive Director of the Company in September 2012 and became Chairman of the Board in March 2015. He is a Chartered Accountant with over 20 years' experience of the global recruitment industry and was Group Finance Director of Michael Page International plc (now Page Group plc). Stephen is also a NED of ITE Group plc.



Ian Temple

Position: Chief Executive | **Appointment date:** March 2015

Ian is the co-founder of Hydrogen Group, which can trace its origins to 1997. After qualifying as a Chartered Accountant, he moved into the recruitment industry and has been a member of the Board since 2005. Ian was Chairman until March 2015 when he became CEO and has been focused on moving the business back into profitable growth.



John Hunter

Position: Chief Operating Officer & Chief Financial Officer | **Appointment date:** June 2017

John joined the Board post Hydrogen's acquisition of Argyll Scott in June 2017. Prior to this, he was a co-founder and Chief Executive of Argyll Scott, which he built from a start up to a multinational business of some 120 consultants working in 6 offices in 6 countries. John is a Chartered Accountant with some 18 years recruitment experience.



Richard Green

Position: Senior Independent Director | **Appointment date:** March 2016

Richard Green is a Chartered Accountant with strong previous experience being Managing Partner of August Equity LLP from 2001 until 2009 and then Chairman until his retirement in April 2014. He is a past Chairman of the British Private Equity & Venture Capital Association and an experienced NED in both public and private companies. Richard is Chair of the Remuneration Committee and Audit Committee and a member of the Nomination Committee. He is an experienced NED in both public and private companies. Richard is a Director of Northern Venture Trust PLC, BGH Capital Offshore I GP Ltd and the non-executive Chairman of Technology Venture Partners LLP.

Corporate Report

For the year ended 31 December 2018



Corporate Governance Report

Statement on Corporate Governance

The Directors consider it important that appropriately high standards of corporate governance are maintained. They have therefore put in place governance structures and provide information which would be expected for companies listed on AIM of the London Stock Exchange. The Group and Company has adopted the QCA Governance Code (the “Code”) so this report is in compliance with all required disclosures.

The QCA Code recommends that smaller companies apply its ten principles in the way best suited to their size and market capitalisation. The Company has followed the QCA recommended location for each of the 10 principles in terms of whether these are published on the Company’s website or in the annual report and accounts. The annual report and accounts disclosures are detailed below and the website disclosures can be found at <https://www.hydrogengroup.com/investor-relations/shareholder-information/governance/>

The strongest focus has 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 2018.

Board Composition

The Board of Directors in 2018 comprised Stephen Puckett (Chairman and Non-Executive Director), Ian Temple (CEO), John Hunter (COO & CFO) and Richard Green (Senior Independent Director). Their biographies appear on page 26.

In 2018, the skills and experience considered in the composition of the Hydrogen Board were:

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

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.

The Board in 2018

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

The strategy of diversification has proved to be successful in transforming the Group's client list and reducing the risk of concentration on UK professional services recruitment and is now focussing on securing sustainable profitable growth.

The overall performance of the Group was reviewed against the strategy throughout the year and a new vision and strategy for 2022 implemented. Further details of the strategic goals for 2019 and beyond are provided in the Strategic Report.

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

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 Operating and Financial Officer (Statutory Director) and both the EMEA and APAC Chief Operating Officers. On 1 January 2019, the US Chief Operating Officer was appointed to the Executive Board.

Senior Independent Director

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

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

Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are followed, that the Company complies with company law and the AIM Rules and that the Board receives the information it needs to fulfil its duties effectively. All Directors have access to the Company Secretary and their appointment (or termination of appointment) is a matter for decision by the full Board.

Board effectiveness

The Board considers that it has shown its commitment to leading and controlling the Group by the actions taken during the year including:

- having a clear statement of senior responsibilities approved by the Board;
- a 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

Risk management and internal control

The Board has not delegated responsibility for risk management and internal control and time was spent this year on developing the Group's risk register and analysing the critical success factors for the business – namely, its ability to grow headcount and maintain productivity in order to grow NFI and the need to control increases in operational costs which would otherwise reduce the profit conversion ratio. A principal risk continues to be the requirement to recruit, retain and develop a high level of skills within the Group's businesses, in order to take advantage of opportunities where there is clear client demand and productivity is already above target levels.

The Group is also affected by external economic and market factors such as the EU referendum decision. A table of the principal risks which could impact the Group's operations is set out on pages 24-25.

Internal Controls

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

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

Examples of control procedures within the business include:

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

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

Performance evaluation

A formal evaluation of Board effectiveness was undertaken during September. Whilst no significant concerns were identified, key areas for improvement were noted as follows:

- improve communication on out of normal course business items;
- ensure an appropriate succession plan is put into place for Board members; and
- improve the composition of the Board to include an appropriate diversity of individuals.

Board meetings and Committees of the Board

The Board expects to meet at least eight times a year. In 2018, 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.

Board meetings and Committees of the Board (continued)

Attendance by each Director at full meetings of the Board and Board Committees of which they were a formal member during 2018 is summarised in the table below.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Stephen Puckett (Non-Executive Chairman)	8/8	3/3	4/4	2/2
Ian Temple	8/8	N/A	N/A	N/A
Richard Green (Non-Executive)	8/8	3/3	4/4	2/2
John Hunter	8/8	N/A	N/A	N/A

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 2018, the Chairman of the Remuneration Committee was Richard Green. The other member was Stephen Puckett. The full Board has been kept up to date with changes in headcount and remuneration during the year.

Further information about the Remuneration Committee is available on the Group's website:

<http://www.hydrogengroup.com/en/2015-03-23-12-38-58/governance/remuneration-committee>.

The Directors' Remuneration Report can be found on pages 36-42.

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 2018, Stephen Puckett chaired the Committee, and Richard Green was also a member of the Committee.

Dialogue with shareholders

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

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

Type of shareholder	% of total issued share capital
Directors	21.56
Employee Benefit Trust	3.40
Institutional investors	38.96
Brokers, individuals & other	36.08
Total	100.00

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



Stephen Puckett

Chairman

2 April 2019



Ian Temple

Chief Executive

2 April 2019

Audit Committee Report

Audit Committee

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

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

Meetings of the Audit Committee in 2018

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 2018:

- The reappointment of BDO as statutory auditors for Hydrogen;
- The reappointment of BDO as statutory auditors for Argyll Scott;
- The financial impact of new accounting standards in the year. Mainly IFRS 9 & 15;
- Evaluation on the impact of upcoming accounting standards and how these would impact the financial statements in coming years, with a key focus on IFRS 16;
- Approval of the financial statements for the year ended 31 December 2017;
- A review of 30 June 2018 interim accounts; and
- Evaluation of the current internal controls and risk management systems in place.

Risk and internal control

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

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

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

External audit

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

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

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

In the year to 31 December 2018, audit fees for the Group totalled £160k (2017: £145k), compared with non-audit fees, including advice on the interim review of £38k (2017: £128k). The Committee can confirm that BDO continues to be independent.

Whistle-blowing and anti-corruption measures

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

This report was approved by the Audit Committee and the Board on 2 April 2019 and was signed on its behalf by:



Richard Green

Chairman of the Audit Committee

Directors' Remuneration Report

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:

<https://www.hydrogengroup.com/investor-relations/shareholder-information/remuneration-committee/>.

The Terms of Reference were adopted in December 2013 and were reviewed and updated in September 2018.

The Remuneration Committee's work in 2018 fell within five main headings:

- Evaluating performance of key individuals for the year ended 2018;
- Setting remuneration for the Chairman, CEO and CFO;
- Implementation of a share option scheme and the granting of options;
- Monitoring performance of the Minority Interests scheme and the granting of options; and
- Reviewing and implementing Bonus Schemes for Senior and Executive Management.

Contracts

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

John Hunter's contract provides for 6 months' notice to be given. Restrictive covenants apply for 6 months following termination.

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

Share based incentives

The Group set up a 2017 leadership option scheme as it was considered essential to retain and motivate key employees going forward. Granting options to key employees was a way of promoting both staff retention and motivation. During the year, 248,250 shares forfeited based on performance conditions not met. Total shares remaining at year end in relation to this scheme is 1,406,750 (2017: 1,655,000)

During the year an additional 740,000 shares were granted under a 2018 CSOP scheme with a four-year vesting period. No options were forfeited.

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

Linking reward to business strategy

Remuneration remains the biggest single cost to the business.

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

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

Information and Advice

The Committee did not undertake formal benchmarking of Directors' remuneration in 2018. The Group does not have retention agreements with any external remuneration consultants and no consultants were used by the Committee this year. The Committee does not consult with employees on remuneration policy for Directors.

Executive Directors' Remuneration

The remuneration package for executive Directors is made up of:

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

Base salaries in 2018

All members of the Board received the same monthly base salaries in 2018 as they did in 2017.

Discretionary bonus

Due to the achievement of pre-set performance targets during the year, estimated bonuses payable to both Ian Temple and John Hunter were £0.15m each.

Pension

The Group contributes to a third party defined contribution pension scheme for senior managers and Directors. The Group makes no recommendations on individual investment decisions and there is no guarantee of the final pension amount which may result from those investments.

Outside appointments

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

Non-Executive Directors' Remuneration and Terms of Service

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

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

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

Directors' insurance and indemnity

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

Link between Directors' Remuneration and Group Strategy

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

	Objective and link to strategy	Key features	Comments and performance criteria and assessment
Service contracts	Contracts provide clarity for both parties and protect both the individual and the Group's interests.	Executive Directors' contracts specify a 12-month notice period for I Temple and 6 months' notice period for J Hunter and contain restrictive covenants to protect the Group's interests.	The Group will not normally make non-contractual payments on termination.
Base salary	Level of base salary recognises individual responsibilities, leadership and significant contribution to the business.	Contractual obligation - reviewed annually by the Remuneration Committee.	Annual salary review takes account of the current and forecast financial performance of the Group, individual performance and published remuneration information for similar companies.
Benefits	Benefits are competitive and promote continued service. The costs of providing benefits are reviewed regularly.	Contractual benefits include a company car allowance, life assurance and private health insurance.	Benefits are also available to managers below Board level, depending on seniority.
Pension contribution	Encourages provision for the future in a cost-efficient way which meets auto-enrolment requirements and does not increase risk to the Group.	Contribution of up to 5% of salary into an externally provided defined contribution pension arrangement.	Matching contribution is also available to managers below Board level. No difference in operation for Directors.
Annual bonus	Most employees participate in some form of short term incentive scheme. The schemes aim to focus attention on short term actions which will drive improved performance.	Staff bonuses are paid according to achievement of performance conditions against targets.	Annual bonus to the CEO and CFO is dependent on achievement of growth in NFI and profitability and is capped at 100% of base salary. Staff bonuses depended on individual and company performance during the year.
Share options	<p>The Company uses EMI and Unapproved share option schemes to retain and reward senior employees and Directors.</p> <p>In 2017, EMI options were granted to senior leaders to help with the strategic decision to retain key employees. CSOP options were additionally granted in 2018 to motivate senior managers.</p>	<p>Awards are made by the Remuneration Committee on behalf of the Board. The level of awards made was within dilution limits.</p> <p>The 2017 and 2018 share options require all employees to be in active employment and minimum growth in EPS each year of 30% before any shares vest.</p>	<p>Vesting of awards depends on compound annual growth in Group EPS and PBT over the performance period.</p> <p>248,250 shares were forfeited in the year based on performance conditions not met.</p>
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 2018 were as follows

	Ordinary shares of 1p each held at 31 Dec 2018	Percentage of issued share capital at 31 Dec 2018	Ordinary shares of 1p each held at 31 Dec 2017	Percentage of issued share capital at 31 Dec 2017
Ian Temple	4,060,726	11.90%	4,048,726	12.11%
Stephen Puckett	1,016,370	2.98%	550,000	1.65%
John Hunter	1,646,872	4.83%	1,646,872	4.93%
Richard Green	633,036	1.85%	166,666	0.50%

Share option schemes

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

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

2018	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 £
Ian Temple	2009	12,000	-	(12,000)	-	-			
	2017	500,000	-	-	(75,000)	425,000	02/06/18	02/06/27	0.34
	2018	-	125,000	-	-	125,000	28/06/19	28/06/28	0.35
John Hunter	2017	500,000	-	-	(75,000)	425,000	02/06/18	02/06/27	0.34
	2018	-	125,000	-	-	125,000	28/06/19	28/06/28	0.35
		1,012,000	250,000	(12,000)	(150,000)	1,100,000			

2017	Year of issue	Options outstanding 1 January	Granted during the year	Exercised during the year	Forfeit during the year	Options Outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option £
Ian Temple	2009	12,000	-	-	-	12,000	31/03/13	20/10/19	0.01
	2017	-	500,000	-	-	500,000	02/06/18	02/06/27	0.34
John Hunter	2017	-	500,000	-	-	500,000	02/06/18	02/06/27	0.34
		12,000	1,000,000	-	-	1,012,000			

Performance criteria

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

Options issued in 2017:

Ian Temple and John Hunter were both awarded shares in relation to the leadership scheme in 2018. Both sets of options require the Directors to have continued employment with Hydrogen and minimum growth in EPS of 30% each year before any options can vest. EPS targets range from 30% to 50% growth year on year with the number of options applicable to vest based on a sliding scale basis. Both sets of options are due to expire in 2027. During the year 75,000 shares were forfeited by each Director due to performance conditions not being met in 2017. Expected shares to be exercisable in June 2019 based on 2018 performance is 75,000 shares each.

Options issued in 2018:

Ian Temple and John Hunter were both awarded shares in relation to the leadership scheme in the year. These options require the Directors to have continued employment with Hydrogen and minimum growth in EPS of 30% each year before any options can vest. EPS targets range from 30% to 50% growth year on year with the number of options applicable to vest based on a sliding scale basis. Both sets of options are due to expire in 2028. Expected shares to be exercisable in June 2019 based on 2018 performance is 18,750 shares each.

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

Emoluments

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

2018	Salary & fees £'000	Benefits & shares £'000	Bonuses £'000	Total £'000	Pension £'000	Total £'000
Executive Directors:						
Ian Temple	232	24	154	410	10	420
John Hunter	180	23	154	357	10	367
Non-Executive Directors:						
Stephen Puckett	80	-	-	80	-	80
Richard Green	35	-	-	35	-	35
Aggregate emoluments	527	47	308	882	20	902

2017	Salary & fees £'000	Benefits & shares £'000	Bonuses £'000	Total £'000	Pension £'000	Total £'000
Executive Directors:						
Ian Temple	232	5	-	237	10	247
Colin Adams†	47	2	-	49	2	51
John Hunter	97	8	-	105	-	105
Non-Executive Directors:						
Stephen Puckett	80	-	-	80	-	80
Richard Green	35	-	-	35	-	35
Aggregate emoluments	491	15	-	506	12	518

† Up to date of resignation

As at 1 January 2018, John Hunter had a loan outstanding from Hydrogen Group plc of £28,000, which arose as a result of the acquisition of Argyll Scott. During the year, repayments of £20,000 have been repaid. The loan outstanding currently amounts to £8,000 as at 31 December 2018.

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 2 April 2019 and was signed on its behalf by:



Richard Green

Chairman, Remuneration Committee

Directors' Report

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2018. Hydrogen Group Plc is a public listed company, incorporated and domiciled in England, and its shares are quoted on AIM of the London Stock Exchange.

Substantial shareholders

At 2 January 2019, the Group was aware of, or had been notified under the Disclosure and Transparency Rules, of the following substantial interests (over 5% shareholding):

Shareholder	Interest in issued share capital
Milton Asset Management Ltd.	16.2%
Ian Temple	11.9%
Brain Hamill	8.6%
Christopher Cole	7.2%
Shane Sibraa	5.6%

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 26; the names of Directors during the year are listed in the Corporate Governance Report on page 29.
Directors' interests and indemnity provisions	Directors' Remuneration Report, page 38.
Results and dividends	Financial Review, pages 17-21.
Going concern confirmation	Financial Review, page 21.
Subsidiaries	Notes to the parent company accounts, pages 101-112
Capital structure	Note 19 to the accounts, page 87.
Expected future developments	Chairman's Report, page pages 5-8.
Use of financial instruments	Note 26 to the Accounts, pages 94-96.
Information on employees, environment and community activities	Strategic Report, pages 22-23.

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. During the year, the Group purchased 385,000 shares in Treasury shares equating to 1.1% of the issued share capital. A request for renewal of the authority is included in the resolutions for this year's AGM.

There were no transactions in 2018 between the Company and the Employee Benefit Trust.

Auditors

BDO LLP offer themselves for re-appointment in accordance with Section 489 of the Companies Act. A resolution to re-appoint BDO LLP as auditors' will be proposed at the forthcoming AGM.

Statement as to disclosure of information to auditors

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

By order of the Board

**Stephen Puckett**

Chairman

Hydrogen Group plc

Registered office: 30-40 Eastcheap

London EC3M 1HD

Registered in England and Wales, no: 5563206

2 April 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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

Opinion

We have audited the financial statements of Hydrogen Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the 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 the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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 financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Matter	How we addressed the matter in our audit
<p>Revenue recognition</p> <p>The group generates revenue from the provision of recruitment consultancy services, which consists of revenue from contractors and permanent placements. In respect of revenue recognition, the accounting policy is described on pages 63-64 and management's judgement is described on pages 71-72 to the financial statements.</p> <p>The risk of material misstatement in relation to revenue recognition concerns the recognition around the year end, particularly in relation to contractor placements. Revenue is recognised for contractor placements when the service has been provided. There is a significant judgement involved at the period end as to the amount of accrued cost for these contractors that the group are liable to and therefore the amount of corresponding revenue that should be recognised.</p> <p>In view of the judgements involved and the significance of this matter to the determination of group revenue, we consider this to be an area giving rise to significant risk of material misstatement in the financial statements.</p> <p>The year ended 31 December 2018 also represents the first year in which the financial statements are prepared under the provisions of IFRS 15 – revenue from contracts with customers. We consider that the judgements made by management in relation to the completeness and accuracy of the financial impact and disclosures on the transition from IAS 18 Revenue to IFRS 15 represent a risk of material misstatement.</p>	<p>For contractor placements, we selected a sample of contracts for testing. We assessed whether the revenue recognised was in line with contractual terms, the group's revenue recognition policy and the relevant accounting standards.</p> <p>In particular, we performed the following procedures in relation to contractor revenue around the year end:</p> <ul style="list-style-type: none"> • We tested estimates at the period end relating to accrued contractor costs and the corresponding income. We did this by agreeing these estimates to supporting evidence and by comparison between the accrued costs and income to that actually recognised in January and February 2019. • We selected entries over a set threshold either side of the year end and agreed to supporting documentation to check that the cost and associated revenue was recognised in the correct period based on when the service was provided. <p>We considered whether the revenue and cost recognition policies comply with Accounting Standards, with specific reference to IFRS 15.</p> <p>Our audit procedures included comparing management's impact assessment of the adoption of IFRS 15 and its supporting documentation with the accounting standard and its disclosure requirements. We inspected the terms and conditions of a sample of contracts for contractor, temporary and retainer revenue and challenged these against the impact assessment to ensure that it was complete. We reviewed the disclosures made in the financial statements against the impact assessment and the provisions of the standard.</p>

Matter	How we addressed the matter in our audit
<p>Goodwill impairment review</p> <p>The Group has goodwill arising on consolidation of £12.2m, in relation to the 'EMEA (including USA) Professional Support Services' and the 'Argyll Scott Group' cash generating units. In respect of goodwill impairment, the accounting policy is described on page 64 and management's judgement is described on pages 71-72 to the financial statements.</p> <p>We consider there to be a significant risk in relation to the valuation of goodwill in those cash generating units, which have to be assessed for impairment on an annual basis by management. The goodwill valuation models used require a number of assumptions and judgements to be exercised by management, for example revenue growth rates, forecast profitability and appropriate discount rates.</p>	<p>Our procedures for challenging management's judgements included:</p> <ul style="list-style-type: none"> • We compared prior year forecasts against the Group's results, to gain an understanding of the reasonableness of business plans. We then considered the appropriateness of the 5 year forecast assumptions prepared by management, ensuring they are in line with IAS 36 (Impairment) requirements. We performed sensitivity analysis on the 5 year forecasts provided by Management. • We challenged the robustness of key assumptions, including revenue growth rates, profitability assumptions and the discount rate, based on our understanding of the CGUs through reperformance of calculations and by comparing the assumptions used with other, similar, recruitment firms.

Matter	How we addressed the matter in our audit
<p>Redemption liability</p> <p>As disclosed in the significant estimates and judgements, and note 28, Hydrogen has a forward purchase redemption liability due to the contractual obligation to purchase the remainder of the non-controlling interest in the Argyll Scott Group.</p> <p>This is a key audit matter given the judgemental nature of the liability, as the fair value is driven by estimates of the future trading performance of Argyll Scott. The contractual terms of the agreement were modified in the period, and the directors have changed the accounting policy in the period in relation to the accounting for the redemption liability (see note [Accounting Policies, Basis of Preparation section]).</p> <p>Any inaccuracy or unreasonable bases used in the estimates of future trading performance of the Argyll Scott Group and the value apportioned to employment conditions, could result in a material misstatement of the income statement, balance sheet liability and redemption reserve. Any change in accounting policy should only be in favour of a more appropriate policy.</p> <p>There is a risk that the Directors may influence these significant judgements and estimates in respect of the forward purchase redemption liability and its accounting, in order to mitigate its income statement impact and/or meet market expectations.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Recalculation of the forward purchase liability, corroborated the key growth and discount rates used in the forecasts of future trading performance by reference to historical and market growth rate expectations. Assessed the internal consistency of forecasts being used by the Group for calculation of the redemption liability, against those prepared and approved by the board for goodwill impairment and going concern assessments. Agreed the modification in contractual terms of the liability to signed contracts and board approved documentation, and assessed whether the modification in terms were treated in accordance with relevant accounting standards. Considered whether the proposed change in accounting policy, to take the fair value movement of the liability to the redemption reserve rather than income statement, met the requirements of the accounting standards. Considered the disclosures in the accounts against the requirements of accounting standards.

Our application of materiality

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

Materiality

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

Our determination of materiality increased from £450,000 for the year ending 31 December 2017 to £530,000 for the year ending 31 December 2018. Our basis for materiality remains unchanged at a three year average of 2% of the group's gross profit (net fee income), as this metric is considered to be the most significant determinant of the group's financial performance.

Performance materiality and component materiality

We applied measures of both performance materiality and component materiality to our group audit, to ensure that our audit appropriately guarded against the risk that errors, when aggregated both within a component and across different components, may be material to the financial statements. Performance materiality was set at £371,000 (2017: £315,000) which represents 70% (2017: 70%) of the above materiality levels. Parent company materiality was set at £477,000 (2017: £405,000). Component materiality is shown in the Overview of the scope of our audit section below.

Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our audit in excess of £10,600 (2017: £9,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

The Group contains 22 distinct components of which we judged the parent company and 4 subsidiaries to be significant components. In order to gain appropriate audit coverage of the areas where we identified a risk of material misstatement and of each individually significant reporting component, full scope audits were conducted for Hydrogen Group Plc, Hydrogen International Limited, Argyll Scott International Limited, Argyll Scott Technology Limited and Argyll Scott (Holdings) Limited. In respect of the risk relating to revenue recognition, we performed specific scope procedures over five additional entities.

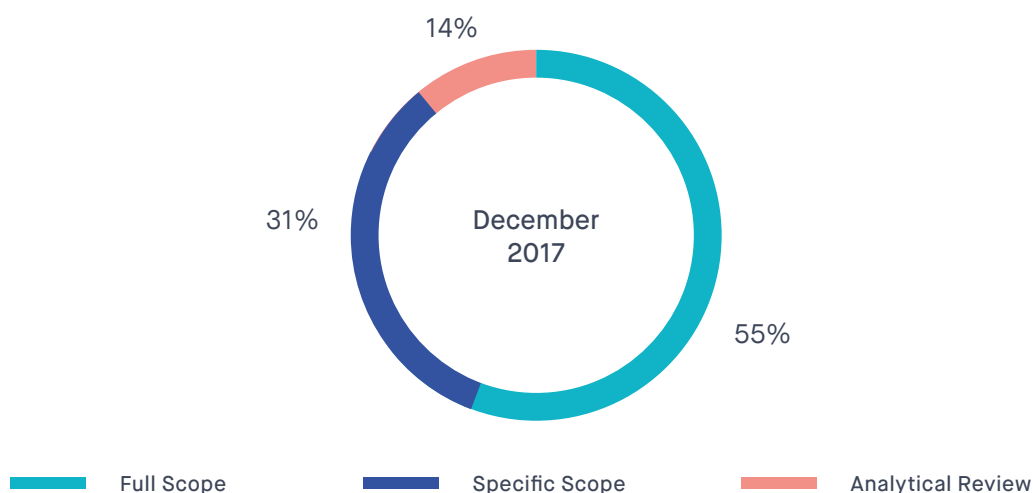
We also tested the consolidation process and carried out analytical procedures on the financial information of the remaining components not subject to audit.

An overview of the scope of our audit (continued)

The performance materiality thresholds applied in the component audits ranged from £23,000 for Argyll Scott Technology Limited to £477,000 for Hydrogen Group Plc.

The chart below sets shows the percentage of Group net fee income covered by full scope, specific scope and analytical review procedures. All of the testing was performed by BDO LLP, except for specific scope procedures in two components, which were performed by BDO LLP (Singapore) and BDO Limited (Hong Kong).

The audit approach



Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 45, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'BDO LLP'.**Mark Cardiff (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor
London, UK

2 April 2019

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

Consolidated statement of comprehensive income

	Note	2018 £'000	2017 £'000
Revenue	1	135,637	125,853
Cost of sales		(105,111)	(103,060)
Gross profit	1	30,526	22,793
Other administrative expenses		(28,237)	(22,605)
Exceptional administrative expenses	4	(1)	(1,963)
Administrative expenses		(28,238)	(24,568)
Other income	1	529	539
Operating profit before exceptional items	1	2,818	727
Exceptional items		(1)	(1,963)
Operating profit/(loss)		2,817	(1,236)
Share of profit/(loss) in associate		70	(100)
Finance costs	2	(100)	(123)
Finance income	3	22	12
Profit/(loss) before taxation	5	2,809	(1,447)
Income tax (expense)/credit	7	(358)	107
Profit/(loss) for the year		2,451	(1,340)
Other comprehensive gains and losses:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		6	141
Exchange differences on intercompany loans		207	(391)
Other comprehensive profit/(loss) for the year, net of tax		213	(250)
Total comprehensive gains/(losses) for the year		2,664	(1,590)
Profit attributable to:			
Equity holders of the parent		2,292	(1,232)
Non-controlling interest		159	(108)
Total comprehensive income attributable to:			
Equity holders of the parent		2,505	(1,482)
Non-controlling interest		159	(108)
Profit/(loss) per share:			
Basic profit/(loss) per share (pence)	21	7.0p	(4.4p)
Diluted profit/(loss) per share (pence)	21	6.4p	(4.4p)

The above results relate to continuing operations.

Consolidated statement of financial position

Company no: 05563206	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill	8	12,244	12,214
Investment in associate	9	120	50
Other intangible assets	10	710	789
Property, plant and equipment	11	947	882
Deferred tax assets	12	112	181
Other financial assets	13	274	312
		14,407	14,428
Current assets			
Trade and other receivables	13	19,709	23,765
Current tax receivable		-	290
Cash and cash equivalents	14	5,227	2,770
		24,936	26,825
Total assets		39,343	41,253
Current liabilities			
Trade and other payables	15	(14,705)	(15,647)
Redemption liability	28	(615)	(69)
Current tax payable		(2)	-
Borrowings	16	(293)	(3,132)
Provisions	17	-	(602)
		(15,615)	(19,450)
Non-current liabilities			
Redemption liability	28	(1,640)	(951)
Deferred tax liabilities	12	(117)	(136)
Provisions	17	(839)	(503)
		(2,596)	(1,590)
Total liabilities		(18,211)	(21,040)
Net assets		21,132	20,213
Equity			
Share capital	19	341	334
Share premium	22	3,520	3,520
Merger reserve	22	19,240	19,240
Own shares held	20	(1,546)	(1,338)
Share option reserve	22	2,014	1,735
Translation reserve	22	(386)	(599)
Forward purchase reserve	22	(2,255)	(1,020)
Retained earnings/(Deficit)	22	(61)	(1,871)
		20,867	20,001
Non-controlling interest	22	265	212
Total equity		21,132	20,213

The financial statements on pages 55 to 98 were approved by the Board of Directors and authorised for issue on 2 April 2019 and were signed on its behalf by:



Ian Temple
Chief Executive

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Translation reserve £'000	Forward purchase reserve £'000	(Deficit)/Retained earnings £'000	Owners £'000	NCI £'000	Total equity £'000
At 1 January 2017	239	3,520	16,100	(1,338)	2,544	(788)	-	(1,262)	19,015	-	19,015
Acquisition of Argyll Scott	90	-	3,140	-	-	-	-	-	3,230	320	3,550
New shares issued	5	-	-	-	54	-	-	-	59	-	59
Movement in redemption liability	-	-	-	-	-	-	(1,020)	-	(1,020)	-	(1,020)
Share option charge	-	-	-	-	199	-	-	-	199	-	199
Transactions with owners	95	-	3,140	-	253	-	(1,020)	-	2,468	320	2,788
Reduction to share option reserve	-	-	-	-	(1,062)	-	-	1,062	-	-	-
Translation transfer	-	-	-	-	-	439	-	(439)	-	-	-
Redemption liability	-	-	-	-	-	-	(1,020)	-	(1,020)	-	(1,020)
Loss for the year	-	-	-	-	-	-	-	(1,232)	(1,232)	(108)	(1,340)
Other comprehensive income:											
Exchange differences on intercompany loans	-	-	-	-	-	(391)	-	-	(391)	-	(391)
Foreign currency translation charge	-	-	-	-	-	141	-	-	141	-	141
Total comprehensive loss for the year	-	-	-	-	(1,062)	189	-	(609)	(1,482)	(108)	(1,590)
At 31 December 2017	334	3,520	19,240	(1,338)	1,735	(599)	(1,020)	(1,871)	20,001	212	20,213

Consolidated statement of changes in equity (continued)

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Translation reserve £'000	Forward purchase reserve £'000	(Deficit)/ Retained earnings £'000	Owners £'000	NCI £'000	Total equity £'000
At 31 December 2017	334	3,520	19,240	(1,338)	1,735	(599)	(1,020)	(1,871)	20,001	212	20,213
New shares issued	7	-	-	-	204	-	-	-	211	-	211
NCI purchase	-	-	-	-	-	-	142	(62)	80	(106)	(26)
Movement in redemption liability	-	-	-	-	-	-	(1,377)	-	(1,377)	-	(1,377)
Share repurchase	-	-	-	(208)	-	-	-	-	(208)	-	(208)
Share option charge	-	-	-	-	75	-	-	-	75	-	75
Dividends	-	-	-	-	-	-	-	(420)	(420)	-	(420)
Transactions with owners	7	-	-	(208)	279	-	(1,235)	(482)	(1,639)	(106)	(1,745)
Profit for the year	-	-	-	-	-	-	-	2,292	2,292	159	2,451
Other comprehensive income:											
Exchange differences on intercompany loans	-	-	-	-	-	207	-	-	207	-	207
Foreign currency translation charge	-	-	-	-	-	6	-	-	6	-	6
Total comprehensive profit for the year	-	-	-	-	-	213	-	2,292	2,505	159	2,664
At 31 December 2018	341	3,520	19,240	(1,546)	2,014	(386)	(2,255)	(61)	20,867	265	21,132

Consolidated statement of cash flows

	Note	2018 £'000	2017 £'000
Net cash generated/(used) from operating activities	24a	6,140	(2,501)
Investing activities			
Investment in associate	9	-	(150)
Purchase of property, plant and equipment	11	(269)	(46)
Purchase of software assets	10	(102)	(255)
Net cash used in investing activities		(371)	(451)
Financing activities			
(Decrease)/increase in borrowings	16	(2,839)	2,045
Decrease in redemption liability on NCI pay-out		(142)	-
Purchase of treasury shares		(208)	-
Equity dividends paid	6	(420)	-
Net cash (used)/generated from financing activities		(3,609)	2,045
Net increase/(decrease) in cash and cash equivalents		2,160	(907)
Cash and cash equivalents at beginning of year	14	2,770	3,106
Exchange gain on cash and cash equivalents		297	571
Cash and cash equivalents at end of year	14	5,227	2,770

Accounting policies

Nature of operations

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

Basis of preparation

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

The consolidated financial statements of Hydrogen Group plc have been prepared under the historical cost convention, apart from the treatment of certain financial assets, and in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union and also comply with IFRIC interpretations and Company Law applicable to companies reporting under IFRS. The Group’s accounting policies, as set out below, have been consistently applied to all the periods presented other than for the adoption of IFRS 9 and 15 as described below.

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 17-21 and in the table of principal risks on pages 24-25. The Group has prepared financial forecasts for the period to 30 June 2020 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 21).

New and amended standards adopted by the group 4-6 IAS8(28) The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. No material impact on the amounts has been recognised in current or prior periods and the Group does not expect either standards to significantly affect future periods. Further details on the two standards provided below

IFRS 9 Financial Instruments

IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) have been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39.

On review of the Group's financial instruments, the Board considers that this standard has had no material impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer and contract costs.

In previous years, Hydrogen Group recognised revenue from contractor placements as services were provided and from permanent placements on start date in line with when the risks and rewards passed to the client. This policy is in line with the principles set out in IFRS 15 which focuses on when control passes to the client. Therefore, there was no material impact on the Group's financial statements on the adoption of IFRS 15 and, as a result, there are no adjustments necessary to opening retained earnings.

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 2018 are:

- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 12: 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
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases.

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

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease, unless this is not readily determinable, the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Hydrogen Group Plc has reviewed its dealing with the implementation of this key new accounting standard and is able to provide the following information regarding its likely impact.

The Group has elected to apply the full retrospective transition approach with the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. As a consequence of this, the Group will recognise a right of use asset of £3.6m and lease liabilities of £4.6m on the 1 January 2018. Additional depreciation of £1.1m would be recognised in 2018 however property costs of £1.4m would be reversed in the Group relating to rental charges. Interest payable of £0.1m would be incurred on the unwinding of the lease liability. The Group has also elected to apply the following practical expedients:

- Short-term leases (leases of less than 12 months and leases with less than 12 months remaining) as at the date of adoption of the new standard will not be within the scope of IFRS 16.
- Leases for which the asset is of low value, for example IT equipment, will not be within the scope of IFRS 16.

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

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

Segment reporting

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

Revenue

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

- revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the direct costs of their contracts, being recognised when the service has been provided;
- revenue from permanent placements (including fixed term placements), representing fees received and receivable as a percentage of the candidate's remuneration package, being recognised when a candidate starts their new role;

Revenue (continued)

- revenue from retainers, representing fees receivable on an agreed completion basis, being recognised once specific milestones are completed; and
- revenue from statement of works, representing fees that are earned once a team of people deliver specific projects. Revenue is recognised based on when the service has been provided.

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.

Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

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
Leasehold improvements	Remaining life of lease

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

Intangible assets**Computer software**

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

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

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

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

Brand and Database

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

Impairment of non-financial assets

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

Taxation

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except those arising from the initial recognition of goodwill.

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

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

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

Leased assets and obligations

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

Pensions

The Group matches local practices but have no defined benefit schemes in place. The pension costs charged to profit or loss represent the contributions payable by the Group during the year and there are no additional liabilities.

Share-based payments

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

Share-based payments (continued)

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

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

In 2017 and 2018, the Group offered share options to employees in its parent entity. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in profit or loss with a corresponding adjustment to equity. Fair value is measured by use of a Monte Carlo model – dependent on the terms of the options certificates issued. At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in profit or loss with a corresponding adjustment to equity.

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

Share Incentive Plan

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

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

Employee Benefit Trust

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

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

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

Financial instruments

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

Financial assets

The Group's financial assets comprise cash and various other receivable balances that arise from its operations.

Under IAS 39, effective until 31 December 2017, trade receivables, loans and other receivables that had fixed or determinable payments that were not quoted in an active market were classified as loans and receivables. Loans and receivables were initially measured at fair value and subsequently at amortised cost using the effective interest rate method, less any impairment. Interest income was recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

Financial assets (continued)

Under IFRS 9, effective from 1 January 2018, the Group holds trade and other receivables with the objective to collect the contractual cashflows and therefore measures them initially at fair value and then subsequently at amortised cost using the effective interest method. The Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses. Under IFRS 9, the Group is required to consider forward looking information and the probability of default when calculating expected credit losses. The measurement of expected credit losses reflects an unbiased and probability weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Group considers reasonable and supportable customer-specific and market information about past events, current conditions (including significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation and default or delinquency in payments) and forecasts of future economic conditions when measuring expected credit losses.

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

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

Financial liabilities and equity

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

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

Dividends

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

Provisions

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

Net cash

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

Invoice discounting

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

Equity and reserves

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

Exceptional items

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

Redemption liability

Where the Group has a contract that contains an obligation for it to deliver cash in exchange for its own equity shares, it recognises a financial liability for the present value of the redemption amount. If a forward purchase is entered into over a non-controlling interest, the ownership risks and rewards of the relevant shares are analysed to determine whether the equity is attributable to the non-controlling interest or to the parent. Where the significant risks and rewards of ownership remain with the non-controlling interest, the non-controlling interest continues to be recognised and is allocated its share of profits and losses and a financial liability is recognised in respect of the forward purchase. Where the significant risks and rewards of ownership reside with the controlling interest, the financial liability recognised is offset against the non-controlling interest.

Change in accounting policy

In the prior year, the Group's policy was to account for subsequent changes in the fair value of the redemption liability through profit or loss. However, the directors have reconsidered this policy and have decided that a more appropriate presentation would be to record subsequent fair value movements in equity. This approach is supported by the fact that, on initial recognition of the redemption liability, the risks and rewards were not transferred to the parent and the non-controlling interests are still being recognised with profit and loss being allocated between controlling and non-controlling interests and also by the fact that IFRS 10 requires adjustments related to changes in the parent's ownership interest that do not result in the parent losing control over a subsidiary being treated as ownership transactions.

Change in accounting policy (continued)

This change in policy has had no effect on profit reported for the year ended 31 December 2017 nor on Net Assets as at that date, as the movements on the fair value of the redemption liability between inception and 31 December 2017 were immaterial and were not recognised in the prior year.

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:

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.

Contract Assets (accrued income) – Note 13

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

Expected credit losses – Note 13

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. To measure expected credit losses on a collective basis, trade and other receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the year end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers.

Provisions – Note 17

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

Significant management judgement in applying accounting policies (continued)**Share based payments – Note 18**

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

Redemption Liability – Note 28

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

Notes to the consolidated financial statements

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 three operating segments based on the geography of the business unit: EMEA (covering Europe, Middle East and Africa); USA; and APAC (covering Asia and Australia). The operating segments noted reflect the information that is regularly reviewed by the Group's Chief Operating Decision Maker which is the Board of Hydrogen Group plc. All operating segments have similar economic characteristics and share a majority of the aggregation criteria set out in IFRS 8:12.

	31 December 2018					31 December 2017				
	EMEA £'000	USA £'000	APAC £'000	Group cost £'000	Total £'000	EMEA £'000	USA £'000	APAC £'000	Group cost £'000	Total £'000
Revenue	108,060	6,895	20,672	30	135,637	104,055	3,898	17,900	-	125,853
Gross profit	17,617	1,921	10,958	30	30,526	14,811	916	7,066	-	22,793
Depreciation and amortisation	(226)	(2)	(75)	(89)	(392)	(351)	-	(41)	(52)	(444)
Other income	529	-	-	-	529	539	-	-	-	539
Operating profit before exceptional items	2,817	148	1,331	(1,478)	2,818	1,447	(19)	371	(1,072)	727
Exceptional items	(1)	-	-	-	(1)	(1,408)	-	(230)	(325)	(1,963)
Operating profit/(loss)	2,816	148	1,331	(1,478)	2,817	39	(19)	141	(1,397)	(1,236)
Finance costs					(100)					(123)
Finance income					22					12
Profit/(loss) from associate					70					(100)
Profit/(loss) before tax					2,809					(1,447)
Total Assets	13,333	1,661	5,901	18,448	39,343	16,621	1,083	6,377	17,172	41,253
Total Liabilities	(8,330)	(775)	(2,053)	(7,053)	(18,211)	(15,758)	(344)	(1,919)	(3,019)	(21,040)

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

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

Revenue reported above is generated from external customers. There were no sales between segments in the year (2017: nil).

1. Segment reporting (continued)

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

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

There is one external customer that represented 21% (2017: 22%) of the entity's revenues, with revenue of £29.1m (2017: £27.5m), and approximately 8% (2017: 9%) of the Group's Net Fee Income ("NFI") which is included in the EMEA segment.

(b) Revenue and gross profit by geography:

	Revenue		Gross profit	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
UK	98,822	94,984	13,903	11,795
Rest of world	36,815	30,869	16,623	10,998
	135,637	125,853	30,526	22,793

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Permanent	17,828	11,626	17,802	11,549
Contract	117,809	114,227	12,724	11,244
	135,637	125,853	30,526	22,793

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

	2018 £'000	2017 £'000
Invoice discounting and associated costs	100	123
	100	123

3. Finance income

	2018 £'000	2017 £'000
Bank interest	22	1
	22	1

4. Exceptional administrative items

Exceptional items are costs/(income) that are separately disclosed due to their material and non-recurring nature.

	2018 £'000	2017 £'000
Restructuring costs	66	201
Impairment of software (note 10)	-	589
IT integration	-	236
Rates rebate	(520)	
Onerous leases (note 17)	455	692
Professional fees	-	245
Total	1	1,963

Restructuring fees are in respect to final costs incurred due to the acquisition of Argyll Scott.

The rates rebate in the year relates to the net repayment of overpaid rates from the period of 2012 to 2017.

5. Profit/(loss) before taxation

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

	2018 £'000	2017 £'000
Amortisation of intangible assets (note 10)	181	294
Depreciation of property, plant and equipment (owned assets – note 11)	209	137
Profit/(loss) in associate	70	(100)
Staff costs (note 23)	19,906	13,892
Operating lease rentals on land and buildings	1,378	1,029
Foreign exchange losses	101	28
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	25	40
- for the audit of the Company's subsidiaries pursuant to legislation	135	105
Total audit fees	160	145
Non-audit fees		
- Other services	38	123
- Tax services (compliance and general tax advice)	-	5
Total non-audit fees	38	128

6. Dividends

	2018 £'000	2017 £'000
Amounts recognised and distributed to shareholders in the year		
Final dividend for the year ended 31 December 2017 of 0.8p per share (2016: nil per share)	257	-
Interim dividend for the year ended 31 December 2018 of 0.5p per share (2017: nil per share)	163	-
	420	-

A final dividend of 1.0p has been proposed but not yet approved for the year ended 31 December 2018.

7. Tax

(a) Analysis of tax charge for the year:

	2018 £'000	2017 £'000
The charge based on the profit for the year comprises:		
Corporation tax:		
UK corporation tax on profits for the year	348	39
Adjustment to tax charge in respect of previous periods	(44)	81
Foreign tax	304	120
Current tax	4	80
Total current tax	308	200
Deferred tax:		
Origination and reversal of temporary differences	62	(72)
Adjustment to tax charge in respect of previous periods	(12)	(235)
Total deferred tax	50	(307)
Tax charge/(credit) for the year	358	(107)

UK corporation tax is calculated at 19.00% (2017: 19.25%) 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	2,809	(1,447)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	534	(279)
Effects of:		
Fixed asset differences	1	30
Expenses not deductible for tax purposes	80	110
Income not taxable	(68)	-
Effect of difference in tax rates	(33)	48
Utilisation of tax losses and other deductions	(224)	(91)
Tax losses carried forward not recognised for deferred tax	122	157
R&D additional tax relief	-	(17)
Adjustment to tax charge in respect of prior periods	(29)	(155)
Share-based payments	(25)	(20)
Other short term timing differences	-	110
Tax charge/(credit) for the year	358	(107)

There has been no deferred tax charge relating to share options charged directly to equity (2017: nil).

In total, at the reporting date, the Group had unutilised tax losses of £6.5m (2016: £7.8m) available for offset against future profits, for which no deferred tax assets had been recognised.

8. Goodwill

	2018 £'000	2017 £'000
Cost		
At 1 January	21,301	19,228
Additions	30	2,073
At 31 December	21,331	21,301
Accumulated impairment losses		
At 1 January	(9,087)	(9,087)
Impairment charge for the year	-	-
At 31 December	(9,087)	(9,087)
Carrying amount at 31 December	12,244	12,214
Allocation of goodwill to cash generating units (CGU):		
EMEA (including USA) Professional Support Services	10,141	10,141
Argyll Scott Group	2,103	2,073

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

The recoverable amount is determined on a value-in-use basis utilising the value of cash flow projections over five years with a terminal value added. Multiple scenarios were tested, firstly using the 2018 actuals (of which key assumptions are detailed below) and secondly using detailed budgets prepared as part of the Group's performance and control procedures. Subsequent years are based on further extrapolations using the key assumptions listed below. Cash flows are discounted by the cash generating unit's weighted average cost of capital. Management believes that no reasonably possible change to the key assumptions given below would cause the carrying value to materially exceed the recoverable amount. Management determines that there has been no impairment in the carrying value of goodwill in 2018.

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

	Growth rates		
Net fee income growth rate on actuals	2019 %	2020-2023 %	Discount rate %
EMEA (including USA) Professional Support Services	2.5%	2.5%	7.3%
Argyll Scott Group	2.5%	2.5%	7.2%

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 2019 through to 2023. The revenue growth rates for 2019-2023 are the Group's own internal forecasts, supported by external industry reports predicting improving conditions in the industry, with demand for the industry's services anticipated to pick up. The discount rate used is an estimate of the Group's weighted average cost of capital, based on the risk adjusted average weighted cost of its debt and equity financing. The Group has sensitised both the discount rate and growth rate by 2.5% with no material impact (and no impairments) noted.

9. Investment in associate

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

	2018 £'000	2017 £'000
1 January	50	-
Investment acquired	-	150
Share of associate's profit/(loss)	70	(100)
31 December	120	50

Principle associate	Investment held by	Principal activity	Country of incorporation	Equity interest
Tempting Ventures Limited (previously CBBG Limited)	Hydrogen Group Plc	Advisory services	UK	49%

Tempting Ventures Limited consolidated results as at 31 December 2018

Net Assets:	£0.0m
Gross Profit:	£4.7m
Net Profit	£0.5m

10. Other intangible assets

	Computer software £'000	Database £'000	Brand £'000	Total £'000
Cost				
At 1 January 2017	2,317	-	-	2,317
Additions	255	-	-	255
Assets acquired	-	500	125	625
Disposals	(447)	-	-	(447)
At 31 December 2017	2,125	500	125	2,750
Additions	102	-	-	102
At 31 December 2018	2,227	500	125	2,852
Amortisation and impairment				
At 1 January 2017	(1,525)	-	-	(1,525)
Charge for the year	(242)	(42)	(10)	(294)
Disposals	447	-	-	447
Impairment	(589)	-	-	(589)
At 31 December 2017	(1,909)	(42)	(10)	(1,961)
Charge for the year	(93)	(70)	(18)	(181)
At 31 December 2018	(2,002)	(112)	(28)	(2,142)
Net book value at 31 December 2018	225	388	97	710
Net book value at 31 December 2017	216	458	115	789

Amortisation of intangible assets is charged to administration expenses in the Consolidated Statement of Comprehensive Income. Impairment of £0.6m noted in 2017 on software development that does not support the future economic value to the Group. This has been included within exceptional IT costs in note 4.

11. Property, plant and equipment

	Computer and office equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 January 2017	859	1,918	2,777
Additions	31	15	46
Assets Acquired	59	26	85
Disposals	(281)	-	(281)
At 31 December 2017	668	1,959	2,627
Additions	255	14	269
At 31 December 2018	923	1,973	2,896
Accumulated depreciation and impairment			
At 1 January 2017	(792)	(1,127)	(1,919)
Charge for the year	(58)	(79)	(137)
Disposals	281	-	281
Exchange differences	25	5	30
At 31 December 2017	(544)	(1,201)	(1,745)
Charge for the year	(121)	(88)	(209)
Exchange differences	5	-	5
At 31 December 2018	(660)	(1,289)	(1,949)
Net book value at 31 December 2018	263	684	947
Net book value at 31 December 2017	124	758	882

12. Deferred tax

	Short term timing differences £'000	Accelerated depreciation £'000	Total £'000
Deferred tax asset			
At 1 January 2018	152	29	181
Charged to profit or loss	(55)	(14)	(69)
At 31 December 2018	97	15	112
	Accelerated capital allowances £'000	Intangible Assets £'000	Total £'000
Deferred tax (liability)			
At 1 January 2018	(21)	(115)	(136)
Credited to profit or loss	1	18	19
At 31 December 2018	(20)	(97)	(117)

No reversal of deferred tax is expected within the next twelve months (2017: nil).

In total, at the reporting date, the Group had unutilised tax losses of £6.5m (2016: £7.8m) available for offset against future profits, for which no deferred tax assets had been recognised.

13. Trade and other receivables

Trade and other receivables are as follows:	2018	2017
	£'000	£'000
Trade receivables	10,780	14,003
Expected credit losses	(279)	(135)
Contract assets (accrued income)	7,414	8,329
Prepayments	749	792
Other receivables:		
– due within 12 months	1,045	776
– due after more than 12 months	274	312
Total	19,983	24,077
Current	19,709	23,765
Non- current	274	312

As at 31 December 2018, the average credit period taken by clients was 28 days (2017: 40 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. Expected credit losses of £279,000 (2017: £135,000) 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.

Contract assets (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 major companies and major professional partnerships.

13. Trade and other receivables (continued)

Included in the Group's trade receivable balances are receivables with a carrying amount of £2.9m (2017: £5.4m) 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)	2018 £'000	2017 £'000
0-30 days	1,963	2,579
30-60 days	658	1,544
60-90 days	161	408
90+ days	99	899
31 December	2,881	5,430
Movement in expected credit losses:	2018 £'000	2017 £'000
1 January	(135)	(142)
Impairment losses recognised on receivables	-	(139)
Expected credit losses	(279)	-
Impairment losses reversed	135	146
31 December	(279)	(135)

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 calculation of expected credit losses (2017: nil).

Ageing of expected credit losses:	Gross carrying amount	Expected loss rate %	Total £'000
0-30 days	6,715	0.5	34
31-60 days	2,236	1.5	34
61-90 days	978	2.5	24
90+ days	851	3.6	31
31 December	10,780		123

As at 31 December 2018 trade receivables of £156,000 (2017: nil) had lifetime credit losses of the full value of receivables. The receivables due at the end of the financial year relate to one customer, which experienced a delay in raising capital to launch their platform.

As at 31 December 2018 trade receivables to a value of £6.2m were subject to an invoice financing facility (2017: £6.8m).

14. Cash and cash equivalents

Cash and cash equivalents are as follows:	2018	2017
	£'000	£'000
Short-term bank deposits	5,227	2,770
	5,227	2,770

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

15. Trade and other payables

Trade and other payables are as follows:	2018	2017
	£'000	£'000
Trade payables	1,516	2,490
Other taxes and social security costs	1,279	1,315
Other payables	1,710	1,496
Accruals	10,200	10,346
	14,705	15,647

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 20 days (2017: 38 days), based on the average daily amount invoiced by suppliers. Interest charged by suppliers is at various rates on payables not settled within terms. The Group has procedures to ensure that payables are paid to terms wherever possible. Due to the short-term nature of trade and other payables, the Directors consider that the carrying value approximates to their fair value.

16. Borrowings

	2018	2017
	£'000	£'000
Invoice discounting (repayable on demand)	293	3,132
	293	3,132

As at 31 December 2018, the Group had two (2017: two) invoice discounting facilities in operation.

The HSBC facility has a maximum drawdown of £18.0m with no year-end balance outstanding. Interest on the facility is charged at 1.7% over UK Base Rate on actual amounts drawn down, and the margin is fixed to January 2021.

The Barclays facility was terminated in January 2019. At year end the facility had a maximum drawdown of £1.0m with a year-end balance outstanding of £0.3m. Interest on the facility was charged at 2.3% over UK Base Rate on actual amounts drawn down.

17. Provisions

	Leasehold dilapidations £'000	Onerous Leaseholds £'000	System Integration £'000	Onerous contracts £'000	Total £'000
At 1 January 2017	309	-	-	-	309
New provision	138	692	217	62	1,109
Utilised	-	(313)	-	-	(313)
At 31 December 2017	447	379	217	62	1,105
New provision	11	455	-	-	466
Utilised	(74)	(379)	(217)	(62)	(732)
At 31 December 2018	384	455	-	-	839
Current	-	-	-	-	-
Non-current	384	455	-	-	839

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

The onerous lease contract relates to surplus office space in our London office identified during 2018. Following discussions with advisors, the Group has taken an exceptional charge for 33 months' costs, starting from 1 October 2020 to 30 June 2023, relating to costs to cover the marketing void and rent free incentive that is assumed would be required to sublet this space along with a 35% rent shortfall for the duration of any sub-lease eventually granted.

18. Share-based payments

The Group have various Share Schemes in place – the 2007 and 2009 EMI Scheme, the 2013 Long-term Incentive Scheme, the 2015 and 2016 EMI and Unapproved Schemes, the 2017 EMI Leadership Scheme, the 2017 and 2018 Minority Interest Scheme, detailed separately below and the 2018 CSOP scheme. All share-based payment arrangements are either cash or equity-settled.

LTIP Scheme: During 2018, 15,750 shares were exercised (2017: nil). No shares were forfeited during the year (2017: 7,849 shares).

EMI & Unapproved Schemes: During 2018, 400,000 shares were exercised (2017: 450,000 shares). 25,000 shares were forfeited during the year (2017: 200,000 shares).

Leadership Scheme: In 2017, 1,985,000 shares were granted under the Leadership scheme of which 330,000 shares were forfeited based on employment conditions not being met. 740,000 additional shares were granted in 2018. 248,250 shares forfeited in the year based on performance conditions not met. No shares have been exercised.

18. Share-based payments (continued)

Minority Interest Scheme: Hydrogen's Minority Interest scheme allows leaders and managers the opportunity to acquire a stake of their niche business units, at market value, which can subsequently be transferred into Hydrogen Group plc shares based on the valuation of the business unit at certain milestones. There were 700 shares issued within Hydrogen International Limited during the year which equated to approximately 113,032 Hydrogen Group plc shares once exercised. A further 600 shares were issued within Argyll Scott Holdings which equated to approximately 117,079 Hydrogen Group plc shares. 336,354 shares were transferred to employees based on milestones being achieved on the 2017 scheme.

The expense arising from the share-based option schemes during the year was £0.1m (2017: £0.2m).

EMI, Unapproved and CSOP 2015, 2016, 2017 and 2018 Share Option Schemes

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

Type of arrangement	Enterprise Management Incentive Scheme			Unapproved Share Option Scheme	Leadership Scheme
Date of grant	02-Jun-15	03-Dec-15	01-Jun-16	02-Jun-15	01-Jun-17 – 01-Jul-18
Number granted	1,455,000	455,000	125,000	630,000	2,725,000
Vesting conditions	Two years' service	Two years' service	Two years' service	Two years' service	Active employment EPS growth of at least 30%
Estimated Fair value	£0.52	£0.29	£0.29	£0.52	£0.07

Fair value calculated by applying the Black Scholes or Monte Carlo option pricing model:

Share price at grant date	£0.53	£0.30	£0.30	£0.53	£0.35 – £0.36
Exercise price	£0.01	£0.01	£0.01	£0.01	£0.34 – £0.35
Expected volatility	62%	62%	62%	62%	18% – 22%
Expected dividends	-	-	-	-	0 – 1%
Contractual life	10 years	10 years	10 years	10 years	10 years
Risk Free Rate	2%	2%	2%	2%	0.5%

18. Share-based payments (continued)

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

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,760,000	21p	1,755,000	1p
Granted during the period	740,000	34p	1,985,000	34p
Forfeited during the period	(273,250)	31p	(530,000)	1p
Exercised during the period	(400,000)	1p	(450,000)	1p
Outstanding at end of year	2,826,750		2,760,000	
Exercisable during 2019	890,750	1p	1,105,000	1p
Exercisable after 2020	1,936,000	34p	1,655,000	34p

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

	31 December 2018					31 December 2017		
	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	630,000	1p	6.5 years	1p	980,000	1p	1p
2016 issue	1p	50,000	1p	7.5 years	1p	125,000	1p	1p
2017 issue	34p	1,406,750	34p	8.5 years	34p	1,655,000	34p	34p
2018 issue	34p	740,000	34p	9.5 years	-	-	-	-
		2,826,750				2,760,000		

Other Share Option Scheme: 2007- 2011

The below details the shares outstanding at year end:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	15,750	1p	23,599	1p
Forfeited during the period	-	1p	-	1p
Exercised during the period	(15,750)	1p	-	1p
Expired during the period	-	1p	(7,849)	1p
Outstanding at end of year	-		15,750	
Exercisable during the next financial year	-	1p	15,750	1p

Share Incentive Plan (SIP)

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

19. Share capital

The share capital at 31 December 2018 was as follows:

Ordinary shares of 1p each	2018		2017	
	Number of shares	£'000	Number of shares	£'000
Issued and fully paid:				
At 1 January	33,425,823	334	23,903,713	239
Issuance of new shares	702,104	7	9,522,110	95
31 December	34,127,927	341	33,425,823	334

During 2018, 400,000 options were exercised (2017: 450,000), as set out in note 18, all of which were satisfied by the issuance of new shares.

At 31 December 2018, 1,162,051 (2017: 1,162,051) shares were held in the EBT (see note 20).

At 31 December 2018, 385,000 (2017: nil) shares were held in Treasury (see note 20).

At 31 December 2018, 211,414 (2017: 211,414) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan trust for employees.

Capital structure

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

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

Details of employee share schemes are set out in note 18. 400,000 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 25 May 2018, 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 £111,503; 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 £111,503, representing one third of the then current issued share capital of the Company;
- To authorise the Company to make market purchases of ordinary shares of 1p each in the capital of the Company provided that the maximum number of ordinary shares purchased is 3,345,082.

Shareholders will be asked to renew and update these authorities at the AGM in 2019.

20. Own shares held

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

At 31 December 2018, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	2018	2017
Number of shares	1,162,051	1,162,051
	£'000	£'000
Nominal value	12	12
Carrying value	1,338	1,338

At 31 December 2018, the total number of ordinary shares held in Treasury and their values were as follows:

Shares held in Treasury	2018	2017
Number of shares	385,000	-
	£'000	£'000
Nominal value	4	-
Carrying value	208	-

Reconciliation of own shares held

	2018	2017
	£'000	£'000
As at 1 January 2018	1,338	1,338
Additions	208	-
As at 31 December 2018	1,546	1,338

21. Earnings/(loss) per share

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

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

From continuing operations	2018 £'000	2017 £'000
Earnings		
Profit/(loss) attributable to equity holders of the parent	2,292	(1,232)
Adjusted earnings		
Profit/(loss) for the year	2,292	(1,232)
Add back: exceptional costs	1	1,963
	2,293	731

	2018	2017
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	32,608,110	28,176,049
Dilutive effect of share plans (note 18)*	3,211,955	2,597,754
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	35,820,065	30,773,803
Basic profit/(loss) per share (pence)	7.03p	(4.37p)
Diluted profit/(loss) per share (pence)	6.40p	(4.37p)
Adjusted basic profit earnings per share (pence)	7.03p	2.59p
Adjusted diluted profit earnings per share (pence)	6.40p	2.38p

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

22. Equity

Share capital

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

Share premium

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

Merger reserve

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

Own shares held

The Group's holdings in its own equity instruments are shown as deductions from shareholder's equity at cost. The balance on the own shares reserve represents both 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 and treasury shares repurchased by the Company.

Share option reserve

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

Translation reserve

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

Forward purchase reserve

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

Retained earnings /(Deficit)

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

Non-controlling interest

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

23. Employees

The average number of employees (including Directors) during the year and the total number of employees at 31 December 2018 was as follows:

	Average no. 2018	Average no. 2017	31 December 2018	31 December 2017
Client services	265	222	278	250
Administration	65	61	63	59
Management	4	4	4	4
	334	287	345	313

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

	2018 £'000	2017 £'000
Wages and salaries	18,026	12,345
Social security costs	1,449	1,119
Other pension costs	356	229
Share-based payments (see note 18)	75	199
	19,906	13,892

Directors' emoluments	2018 £'000	2017 £'000
Emoluments for qualifying services	815	403
	815	403

Information on Directors' emoluments (page 42) and interests (page 40), 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:

	2018 £'000	2017 £'000
Emoluments for qualifying services	420	247
	420	247

Remuneration of key management	2018 £'000	2017 £'000
Short term employee benefits (including social security costs)	1,283	1,253
Share-based payments	55	82
	1,338	1,335

24. Notes to the cash flow statement

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

	2018 £'000	2017 £'000
Profit/(loss) before taxation	2,809	(1,447)
(Profit)/loss from associate	(70)	100
Add back exceptional items	1	1,963
Adjusted profit	2,740	616
Adjusted for:		
Depreciation and amortisation	392	431
Increase/ (decrease) in non-exceptional provisions	11	(7)
FX unrealised losses/(gains)	67	(6)
Share-based payments	75	199
FX realised losses	34	111
Operating cash flows before movements in working capital	3,319	1,344
Decrease/(increase) in receivables	3,937	(6,126)
(Decrease)/increase in payables	(786)	3,154
Income tax (expense)/credit	(358)	107
Cash generated/(used) in operating activities	6,112	(1,521)
Income taxes paid	(25)	(354)
Finance costs	(100)	(123)
Finance income	22	78
Net cash outflow from operating activities before exceptional items	6,009	(1,920)
Cash flows arising from exceptional costs	131	(581)
Net cash outflow from operating activities	6,140	(2,501)

b. Reconciliation of net cash and borrowings

	2018 £'000	2017 £'000
Cash and cash equivalents at the end of the year	5,227	2,770
Borrowings at the start of the year	(3,132)	(1,087)
Decrease/(Increase) in borrowings	2,839	(2,045)
Borrowings at the end of the year	(293)	(3,132)
Net cash at the end of the year	4,934	(362)

c. Reconciliation of financing cashflows

	At 1 January 2017	Financing cash flows	Other non-cash changes	31 December 2017
Borrowings	(1,087)	(2,045)	-	(3,132)
Redemption liability	-	-	(1,020)	(1,020)
	(1,087)	(2,045)	(1,020)	(4,152)

c. Reconciliation of financing cashflows (continued)

	At 1 January 2018	Financing cash flows	Other non-cash changes	31 December 2018
Borrowings	(3,132)	2,839	-	(293)
Redemption liability	(1,020)	142	(1,377)	(2,255)
	(4,152)	2,981	(1,377)	(2,548)

25. Operating lease commitments**Operating lease commitments where the Group is lessee**

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

	2018 £'000	2017 £'000
Within one year	1,219	1,057
Between one and five years	2,845	3,489
After five years	-	4,329
	4,064	8,875

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

The operating lease term commitment is based on the expected termination date. All leases in the Group have break clauses to limit the potential liability. During the year, it was decided by management to calculate the operating lease commitment up until the break point in 2023 instead of the lease term of 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:

	2018 £'000	2017 £'000
Within one year	551	551
Between one and five years	312	864
After five years	-	-
	863	1,415

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

26. Financial risk management

Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as set out in note 22.

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

There have been no significant changes in capital structure implemented in the year ended 31 December 2018.

The gearing ratio at the year-end is as follows	2018 £'000	2017 £'000
Debt (note 16)	(293)	(3,132)
Cash and cash equivalents (note 14)	5,227	2,770
Net cash/(debt)	4,934	(362)
Equity	21,132	20,213
Net cash/(debt) to equity ratio	23.3%	(1.8%)

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.

Externally imposed capital requirements

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

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

Categories of financial instruments

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

26. Financial risk management (continued)

	2018 £'000	2017 £'000
Financial assets		
Loans and receivables		
Trade receivables net of impairment provision	10,501	13,868
Other receivables	1,320	1,088
Accrued income	7,414	8,329
Cash and cash equivalents	5,227	2,770
	24,462	26,055
Financial liabilities at fair value		
Redemption liability	2,255	1,020
Financial liabilities at amortised cost		
Trade and other payables	3,226	3,986
Accruals	10,200	10,346
Borrowings	293	3,132
	13,719	18,484

Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below:

	Level 3	
	2018 £'000	2017 £'000
Financial liabilities		
Redemption liability	2,255	1,020
	2,255	1,020

There were no transfers between levels during the period.

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 73% of its revenues are in Sterling. For the contract business, the Group endeavours to pay and bill in the same currency to provide a natural hedge. The Group periodically uses currency options to manage any remaining exposure to foreign currency risk.

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

The Group is exposed to foreign currency translation differences in accounting for its investment in overseas operations. While the settlement of intercompany balances held with foreign operations is neither planned nor likely to occur in the foreseeable future, the majority of these loan balances are classified as non-trading

loans based on the nature of the activity in the accounts. The exchange differences arising from the translation associated with the permanent, non-repayable element of the loan, is recognised in other comprehensive income. While the exchange differences arising from the translation associated with the trading element of the intercompany loan, is recognised in the profit and loss account.

Interest rate risk

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

Credit risk

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

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

The Group's credit risk arises primarily on its trade receivables. The Group transacts with a large number of customers across a variety of industry sectors. On-going credit evaluation and management of exposures is undertaken, utilising external credit ratings. No customer represented more than 10% of the total balance of trade receivables. An expected credit losses model has been calculated to assess the Groups recoverability risk.

Liquidity risk

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

The Group has a £18m invoice discounting facility with HSBC committed to January 2021 and this is considered adequate to meet the Group's funding requirements. Apart from its bank borrowings disclosed in note 16, the Group has no financial liabilities other than short-term trade payables and accruals disclosed in note 15, all due within one year of the year end.

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report on page 42. Total remuneration for members of key management, which includes the Directors, is given in note 23.

As shareholders, the Directors who are shareholders also receive dividends from the Company. Total dividends paid to all shareholders in the year was £420,000 (2017: nil).

No single party has ultimate control of the company.

As at 1 January 2018, John Hunter had a loan outstanding from Hydrogen Group plc of £28,000, which arose as a result of the acquisition of Argyll Scott. During the year, repayments of £20,000 have been repaid. The loan outstanding currently amounts to £8,000 as at 31 December 2018.

27. Related party transactions (continued)

Hydrogen Group plc acquired a further 4% stake in Tempting Ventures Limited during the year and now holds 49% of the shareholding. Loans outstanding with the Company total £350,000 at year end. All loans have been provided to the company are currently included within other receivables. Interest of 5% is accrued annually on the balance. Professional fees paid in relation to Tempting Ventures for the Group was £96,000. Total income for the year in relation to Tempting Ventures for the Group was £84,000.

28. Acquisition of Argyll Scott Holdings

On 2 June 2017, Hydrogen Group plc acquired the entire issued share capital of Argyll Scott Holdings for £3.2m, satisfied by the issuance of 9,034,110 ordinary shares in Hydrogen Group Plc. Net assets acquired totalled £1.2m with goodwill arising of £2.1m.

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

The conditions on the buy-back are as follows:

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

During the year, Hydrogen Group plc, bought back 7.5% of the relevant entities noted on the above schedule. A total of £0.1m was paid out for the shares in Argyll Scott International (Hong Kong) Ltd, Argyll Scott Hong Kong Ltd, Argyll Scott International (Singapore) Ltd, Argyll Scott Singapore Ltd, Argyll Scott Recruitment (Thailand) Ltd and Argyll Scott Malaysia Sdn Bhd.

28. Acquisition of Argyll Scott Holdings (continued)**Redemption Liability**

A financial liability is recognised in respect of the forward purchase at fair value. Movements in the year are as follows:

	2018 £'000	2017 £'000
As at 1 January	1,020	-
Liability acquired	-	1,020
NCI pay-out	(142)	
Fair value adjustment	1,377	-
As at 31 December	2,255	1,020
Current	615	61
Non-current	1,640	951

The redemption liability relates to future consideration due in respect of the acquisition of Argyll Scott. The fair value adjustment reflects an upward revision of the Board's estimate of Argyll Scott's further trading prospects, and certain changes to the agreement in respect of the future consideration relating to employment conditionality. Under the terms of the original purchase agreement, certain payments were only payable in the event that employment conditions were satisfied. During the current year, the terms of the agreement were changed such that the employment conditions were removed. As a result, the Directors' best estimate of the redemption liability has increased as the full expected liability has been recognised whereas, in the prior year, any amounts relating to employment were being recognised over time as service was provided.

Parent company statement of financial position

	Note	2018 £'000	2017 £'000
Non-current assets			
Investments in subsidiaries	6	11,482	9,987
Investments in associate	6	120	50
Deferred tax asset	7	13	1
Amounts owed by subsidiary undertakings	9	4,601	4,240
		16,216	14,278
Current assets			
Trade and other receivables	8	773	406
Amounts owed by subsidiary undertakings	9	1,434	2,350
Current tax receivable		25	176
Cash at bank and in hand		-	1
		2,232	2,933
Total assets		18,448	17,211
Current liabilities			
Cash overdraft		(22)	-
Trade and other payables	10	(1,454)	(536)
		(1,476)	(536)
Non-current liabilities			
Trade and other payables	10	(1,640)	(951)
Deferred tax liabilities	7	-	-
Amounts owed to subsidiary undertakings		(5,577)	(1,532)
		(5,969)	(2,483)
Total liabilities		(7,053)	(3,019)
Net assets		11,395	14,192
Share capital	11	341	334
Share premium account		3,520	3,520
Merger reserve		3,140	3,140
Own shares held	12	(1,546)	(1,338)
Share option reserve		1,204	1,014
Retained earnings		4,736	7,522
Equity shareholders' funds		11,395	14,192

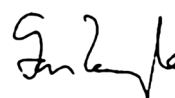
As permitted by Section 408 of the Companies Act 2006 the profit and loss account for the Company is not presented as part of these financial statements. Hydrogen Group plc reported a loss for the financial year ended 31 December 2018 of £2,340,000 (2017: loss £1,787,370). The financial statements on pages 99 to 112 were approved by the Board of Directors and authorised for issue on 2 April 2019 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



Parent company statement of changes in equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	239	3,520	-	(1,338)	815	9,309	12,545
Acquisition of Argyll Scott	90	-	3,140	-	-	-	3,230
New shares issued	5	-	-	-	-	-	5
Share scheme contribution	-	-	-	-	199	-	199
Transactions with owners	95	-	3,140	-	199	-	3,434
Loss for the year	-	-	-	-	-	(1,787)	(1,787)
Total comprehensive loss for the year	-	-	-	-	-	(1,787)	(1,787)
Balance at 31 December 2017	334	3,520	3,140	(1,338)	1,014	7,522	14,192
Share repurchase	-	-	-	(208)	-	-	(208)
New shares issued	7	-	-	-	-	-	7
Share scheme contribution	-	-	-	-	190	-	190
Dividends	-	-	-	-	-	(420)	(420)
Transactions with owners	7	-	-	(208)	190	(420)	(431)
Loss for the year	-	-	-	-	-	(2,366)	(2,366)
Total comprehensive loss for the year	-	-	-	-	-	(2,366)	(2,366)
Balance at 31 December 2018	341	3,520	3,140	(1,546)	1,204	4,736	11,395

On 19 March 2019, a dividend was declared to Hydrogen Group plc from Hydrogen International Limited for £2.4m. Following this dividend, retained earnings in the Company would increase by £2.4m respectively.

Notes to the parent company financial statements

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 other than for the adoption of IFRS 9 and 15.

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 2018. 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 B67 of 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.

1. Significant accounting policies (continued)

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.

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.

1. Significant accounting policies (continued)

Share-based payments

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

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

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

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

Employee Benefit Trust

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

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

Financial instruments

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

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

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to profit and loss. Measurement of financial assets and financial liabilities are detailed on p68 and p69 of the Group accounts.

1. Significant accounting policies (continued)

Other payables

Other payables are accounted for at fair value and represent the amounts shown as redemption liability in 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).

Judgement and estimation:

Share based payments – Note 5

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

Impairment of investments – Note 6

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

Recoverability of intercompany receivables – Note 9

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

Other payables

These relate to the future earn out payments to the non-controlling interests within Argyll Scott and require management to estimate the future profits in the relevant entities and discount these back to present value. These forecasts are based on management's best estimates of internal profit conversion, inflationary increases in costs and, where relevant in the prior year, the chances of any employment conditions being satisfied.

2. Auditors

The auditor's remuneration for audit of the Company is £5,000 (2017: £5,000). Fees payable to BDO LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

3. Employees

Staff costs (including Directors' costs) are as follows:	2018 £'000	2017 £'000
Wages and salaries	981	481
Social security costs	76	63
Other pension costs	21	11
Total	1,078	555

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 (2017: 5).

4. Dividend

	2018 £'000	2017 £'000
Amounts recognised and distributed to shareholders in the year		
Final dividend for the year ended 31 December 2017 of 0.8p per share (2016: nil per share)	257	-
Interim dividend for the year ended 31 December 2018 of 0.5p per share (2017: nil per share)	163	-
	420	-

A final dividend of 1.0p has been proposed but not yet approved for the year ended 31 December 2018.

5. Share-based payments

The total expense arising from the share-based option schemes during the year was £0.2m (2017: £0.2m).

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

	2018 £'000	2017 £'000
Australia	-	2
Singapore	-	18
International	190	179
Total	190	199

6. Non-current investments

	2018 £'000	2017 £'000
Subsidiary undertakings at cost		
At 1 January	9,987	7,232
Acquisition of Argyll Scott	-	3,230
Additions	1,495	1,219
Disposals	-	(1,694)
Impairment	-	-
At 31 December	11,482	9,987

Additions in the year mainly relate to the £1.4m fair value adjustment in earn out payments as part of the redemption liability.

6. Non-current investments (continued)

Subsidiaries

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

Subsidiary	Country of incorporation	Registered office	Nature of activities	% ordinary share capital and voting rights
Hydrogen UK Limited*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Hydrogen International Limited	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Hydrogen Group Pty Limited	Australia	Level 10, 10-14 Spring Street, Sydney NSW 2000, Australia	Recruitment	100%
Hydrogen Group GmbH	Germany	Landshuter Allee 8-10 80637 München	Recruitment	100%
Hydrogen Group Limited	Hong Kong	Unit 801-2, 8/F., Tung Hip commercial building, 244-248 Des Voeux Road central, Sheung Wan, HK	Recruitment	100%
Hydrogen Group Sdn. Bhd	Malaysia	B4-3A-6 Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia	Recruitment	100%
Hydrogen Oil & Gas Sdn. Bhd*	Malaysia	B4-3A-6 Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia	Recruitment	40%
Hydrogen Agency Sdn Bhd*	Malaysia	B4-3A-6 Solaris Dutamas, No. 1 Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia	Recruitment	40%
Hydrogen Group BV	Netherlands	Orteliuslaan 850, 3528 BB Utrecht	Recruitment	100%
Hydrogen Norge AS	Norway	Hydrogen Norge AS, Postboks 8034, 4068 Stavanger, Norway	Recruitment	100%
Hydrogen Group Pte Limited	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	100%
Hydrogen Group AG	Switzerland	Poststrasse 24, 6300 Zug, Switzerland.	Recruitment	100%
Hydrogen Group LLC	USA	19C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%
Hydrogen Group Staffing LLC*	USA	20C Trolley Square, Wilmington, DE 19806 Delaware, USA.	Recruitment	100%
Hydrogen Employee Share Company Limited	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Trustee of Share Incentive Plan	100%
Argyll Scott Holdings Ltd	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Argyll Scott International Ltd*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	90%
Argyll Scott Technology Ltd*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	77.5%
Argyll Scott International (Hong Kong) Ltd*	Hong Kong	8/F, Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong	Recruitment	77.5%
Argyll Scott Hong Kong Ltd*	Hong Kong	12 Floor, No. 8 Queen's Road Central, Hong Kong	Recruitment	77.5%
Argyll Scott International (Singapore) Ltd*	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	77.5%
Argyll Scott Singapore Ltd*	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	77.5%
Argyll Scott Recruitment (Thailand) Ltd*	Thailand	999/9, the office at central world, 17 th floor, room ML1705, Rama I Road, Phatumwan, Bangkok	Recruitment	77.5%
Argyll Scott Malaysia Sdn Bhd*	Malaysia	B4-3A-6, Solaris Dutamas, No.1, Jalan Dutamas 1, Kuala Lumpur, Malaysia	Recruitment	77.5%

*held indirectly

6. Non-current investments (continued)

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

Associate undertakings at cost

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

	2018 £'000	2017 £'000
Investment at 1 January	50	-
Investment acquired	-	150
Share of associate's profit/(loss)	70	(100)
Total	120	50

Principle associate	Investment held by	Principal activity	Country of incorporation	Equity interest
Tempting Ventures Limited (previously CBFG Limited)	Hydrogen Group Plc	Advisory services	UK	49%

Tempting Ventures Limited consolidated results as at 31 December 2018

Net Assets:	£0.0m
Gross Profit:	£4.7m
Net Profit	£0.5m

7. Deferred tax

Deferred tax asset	Other £'000
At 1 January 2017	1
Charged/ (credited) to profit or loss	-
At 31 December 2017	1
Charged to profit or loss	12
At 31 December 2018	13

Deferred tax (liability)	Accelerated capital allowances £'000
At 1 January 2017	54
Credited to profit or loss	(54)
At 31 December 2017	-
Credited to profit or loss	-
At 31 December 2018	-

No reversal of deferred tax is expected within the next twelve months (2017: nil).

In total, at the reporting date, the company had unutilised tax losses of £159,301 (2017: £86,349) available for offset against future profits, for which no deferred tax assets had been recognised.

8. Trade and other receivables

Trade and other receivables are as follows:	2018	2017
	£'000	£'000
Trade receivables	22	3
Other taxation and social security	267	74
Other debtors and prepayments	484	329
Current	773	406

9. Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are as follows:	2018	2017
	£'000	£'000
Amounts owed by Group companies	10,772	10,181
Less: impairment provision	(4,737)	(3,591)
	6,035	6,590
Current	1,434	2,350
Non- current	4,601	4,240
	6,035	6,590

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

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

10. Trade and other payables

Trade and other payables are as follows:	2018	2017
	£'000	£'000
Trade payables	312	330
Accruals	527	137
Other payables	2,255	1,020
Total	3,094	1,487
Current	1,454	536
Non- current	1,640	951
	3,094	1,487

11. Share capital

	2018		2017	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
Issued and fully paid:				
At 1 January	33,425,823	334	23,903,713	239
Issuance of new shares	702,104	7	9,522,110	95
31 December	34,127,927	341	33,425,823	334

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

12. Own shares held

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

At 31 December 2018, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	2018	2017
Number of shares	1,162,051	1,162,051
	£'000	£'000
Nominal value	12	12
Carrying value	1,338	1,338

At 31 December 2018, the total number of ordinary shares held in Treasury and their values were as follows:

Shares held in Treasury	2018	2017
Number of shares	385,000	-
	£'000	£'000
Nominal value	2	-
Carrying value	208	-

Reconciliation of own shares held

	2018 £'000	2017 £'000
As at 1 January 2018	1,338	1,338
Additions	208	-
As at 31 December 2018	1,546	1,338

13. Reserves

Share capital

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

Share premium

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

Merger reserve

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

Own shares held

The Group's holdings in its own equity instruments are shown as deductions from shareholder's equity at cost. The balance on the own shares reserve represents both 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 and treasury shares repurchased by the Company.

Share option reserve

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

Retained earnings

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

14. Contingent liabilities

The Company has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £0.5m (2017: £0.5m) at the balance sheet date.

15. Operating lease commitments

Operating lease commitments where the Company is lessee

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

	2018 £'000	2017 £'000
Within one year	787	787
Between one and five years	2,755	3,148
After five years	-	4,329
	3,542	8,264

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 operating lease term commitment is based on the expected termination date. All leases in the Group have break clauses to limit the potential liability. During the year, it was decided by management to calculate the operating lease commitment up until the break point in 2023 instead of the lease term of 2028.

Operating lease commitments where the Company 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:

	2018 £'000	2017 £'000
Within one year	551	551
Between one and five years	312	864
After five years	-	-
	863	1,415

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

16. Related parties

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

The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. As shareholders, the Directors who are shareholders also receive dividends from the Company. Total dividends paid to all shareholders in the year was £420,000 (2017: nil).

As at 1 January 2018, John Hunter had a loan outstanding from Hydrogen Group plc of £28,000, which arose as a result of the acquisition of Argyll Scott. During the year, repayments of £20,000 have been repaid. The loan outstanding currently amounts to £8,000 as at 31 December 2018.

Hydrogen Group plc acquired a further 4% stake in Tempting Ventures Limited during the year and now holds 49% of the shareholding. Loans outstanding with the Company total £350,000 at year end. All loans have been provided to the company are currently included within other receivables. Interest of 5% is accrued annually on the balance. Professional fees paid in relation to Tempting Ventures for the Company was £96,000. Total income for the year in relation to Tempting Ventures for the Company was £84,000.

Directors and Advisors

Directors

Stephen Puckett (Chairman)

Richard Green (Senior Independent Director)

Ian Temple (Chief Executive Officer)

John Hunter (Chief Operating Officer & Chief Financial Officer)

Company Secretary

Ben Harber

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

Company number

5563206

Registered office

30-40 Eastcheap, London, EC3M 1HD

Auditor

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

Solicitor

Travers Smith, 10 Snow Hill London, EC1A 2AL

Banker

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

Registrar

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

Nominated adviser and broker

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

