

# HYDROGEN GROUP PLC

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Reports and accounts for the financial year  
ended 31 December 2019

Registered in England and Wales, Company No. 5563206
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# Annual Reports and Accounts 2019

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# HYDROGEN GROUP PLC

## Chairman's Report

### CHAIRMAN'S STATEMENT – 6 APRIL 2020

#### Coronavirus ("COVID-19")

I begin with an assessment of the risk that COVID-19 poses to the business. The Coronavirus first began to impact our operations in late January in Hong Kong, where most offices and schools have been closed since Chinese New Year. Although the impact has been less acute, our other operations elsewhere in Asia have also faced similar disruption since that time. To date, this disruption has primarily manifested itself in candidate start dates being deferred, which has in turn depressed our reported revenue. In recent days and weeks, as the situation has escalated, the impact has spread to our EMEA and US businesses, so that currently all our staff globally and a significant majority of our clients and candidates are working from home.

We have no experience of a similar crisis so there is no way of predicting the extent of the impact that the virus will have on the Group. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of the pandemic may be on global business investment and demand for recruitment services.

The evidence we have to date suggests that:

- client demand will be the biggest issue rather than our operational capability to transact work. Fortunately, we had already invested in technology throughout the Group that supports remote working and adopted flexible working practices in many of our offices;
- permanent recruitment activity will be more impacted than contract recruitment. Our experience in Hong Kong suggests that the resulting business uncertainty may promote short term demand for contract recruitment solutions; and
- some sectors and markets, for example the consumer sector, will be more adversely affected than others.

Our priority as we navigate the business through the crisis is to do everything we can to ensure that our staff and other stakeholders are as safe as possible and that we comply with different levels of local government restrictions as they come into place.

The Group's balance sheet is strong and we have significant, largely unutilised, banking facilities in place. As a result, our stress testing, which excludes the impact of any Government support or business interruption insurance that we may be able to draw upon, shows that the Group can withstand both a material and prolonged decline in revenue, however, there are also some material uncertainties that exist (see page 13, Going Concern). Notwithstanding this, we will continue to review activity levels throughout the Group and actively manage our cost base accordingly so as to conserve cash, while remaining mindful that we should maintain critical mass in all of our key markets so that the Group is in the best position possible to benefit from the opportunities that will present themselves when the crisis ends.

#### 2019 Review

The Group traded satisfactorily for the first three quarters of the year. During that period, the Group's performance was impacted by weaker trading conditions in certain of its APAC businesses and by Brexit related uncertainty dampening demand in the UK, however, the resilience of its businesses in other markets and, in particular, very strong trading in its US operations, enabled the Group to continue to grow, albeit modestly.

However, trading conditions deteriorated markedly during the fourth quarter. In the UK, the effect of growing political uncertainty on demand levels was exacerbated by the impact of the proposed changes to the IR35 legislation on clients' contract hiring plans. In the Asia Pacific region, the public disorder and demonstrations in Hong Kong had a material impact on local activity levels. In the US, the Group experienced a significant slowdown in quarter-on-quarter growth rates as investment in both new staff and physical infrastructure was onboarded and bedded in. Together, these factors negated the growth experienced earlier in the year and have resulted in a reduction in both net fee income ("NFI") and profit for the year.

Notwithstanding these challenges, we have continued to invest in, and develop, our operating model, which we are confident will help support a return to growth when market conditions improve.

# HYDROGEN GROUP PLC

## Chairman's Report

### Performance

In 2019, Group NFI (or Gross Profit) fell by 3.6% to £29.4m (2018: £30.5m). This was driven by declining NFI in both the EMEA and APAC regions, however, the Group's performance in the US was notable. Two new offices were opened in Charlotte and Los Angeles and US NFI increased by 82%, and by 81% on a constant currency basis, during the year.

The Group has adopted IFRS 16 on a fully retrospective basis. The impact of this change in accounting policy on the comparative figures previously reported is disclosed in note 29. The change resulted in a £0.3m increase in net assets as at 1 January 2018 and an increase of £0.2m to profit before tax in 2018.

The Board considers that the Group's underlying profit before exceptional items and tax (further details are set out in note 4) continues to be 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 decreased to £2.9m (2018: £3.2m as restated). Key adjustments include one-off exceptional expenses of £0.9m, as set out in note 4 (2018: net £nil), foreign exchange losses of £0.1m (2018: £0.1m), non-controlling loss of £0.1m (2018: profit of £0.2m), share based costs of £0.1m (2018: £0.1m) and the amortisation of acquired intangibles of £0.1m (2018: £0.1m). Underlying EPS was 7.5p (2018: 8.9p as restated). The statutory profit for the year was £1.3m (2018: £2.7m as restated).

The weak fourth quarter performance resulted in a reversal of the continued development of profit conversion that the Group had experienced in recent years. Underlying profit before tax margin (calculated as underlying profit divided by net fee income) decreased to 9.9% (2018: 10.5% as restated). Prior to Q4, profit conversion rates had been continuing to expand.

Net cash at 31 December 2019 was £4.5m (31 December 2018: £4.9m). Although a strong focus on working capital management was maintained throughout the year, the Group's net cash position was impacted by an increase in working capital as a result of changes in client payment terms. Moreover, the Group made payments during the year of approximately £1.3m in respect of dividends, share buy backs, and the earn out in relation to the acquisition of Argyll Scott in 2017.

### 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, and conversely those where it will destroy demand, allowing us to deploy our resources accordingly.

To support this strategy, we have developed, and are continuing to refine, an operating model that, by focusing on the key drivers of our Proposition, People, Platform and Performance, is further facilitating the development of scalable market leading teams.

The Group has continued to explore selective acquisition opportunities that may have the potential to accelerate future growth plans. Strict assessment criteria relating to financial, strategic, operational, and cultural fit are applied to any potential target. No opportunities were identified during the year that the Board believes fully met these criteria.

### Dividend

An interim dividend was paid in October 2019 of 0.6p (2018: 0.5p). It has been the Board's policy to pay a progressive and sustainable dividend. As noted above the Group has a robust balance sheet, however in light of the exceptional and open-ended uncertainty caused by the Covid-19 pandemic and the still rapidly changing environment, the Board has decided, in the interests of prudence, not to recommend a dividend (2018: 1.0p) until there is more certainty. When circumstances stabilise, the Board will review whether it is appropriate to re-instate the dividend retrospectively via a special dividend.

# Chairman's Report

## The Board

The Board complies with the QCA guidelines and has maintained the high standards of corporate governance appropriate to Hydrogen Group's size and market capitalisation. There were no changes in the membership of the Board during the year. In line with best practice, all Directors will stand for re-election by shareholders at the AGM.

## Outlook

The challenging trading conditions experienced during the fourth quarter of 2019 have continued into the first quarter of 2020. In the UK, clients' contractor hiring plans have continued to be impacted by the new IR35 legislation in the private sector, which was planned to be implemented in April 2020 but has now been delayed until April 2021. Moreover, as reported above, since Chinese New Year disruption arising from the COVID-19 virus has impacted activity levels in the APAC region. In recent weeks this disruption has spread to our EMEA and US operations. While the impact this will have on the business is as yet unclear, it creates a material uncertainty over management's expectations for trading for the year and in line with many other quoted companies we will no longer be giving guidance.



**Stephen Puckett**  
Chairman

6 April 2020

# HYDROGEN GROUP PLC

## Strategic Report

### BUSINESS REVIEW

The key financial highlights in 2019 were:

- revenue decreased to £121.3m (2018: £135.6m);
- NFI<sup>1</sup> fell by 3.6% to £29.4m (2018: £30.5m);
- NFI earned outside the UK increased to 57% of total NFI from 54%;
- profit conversion<sup>2</sup> ratio fell to 9.9% (2018: 10.5% as restated<sup>3</sup>).
- statutory profit before tax in the year decreased by £1.3m to £1.7m (2018: £3.0m as restated<sup>3</sup>);
- underlying profit before tax<sup>4</sup> in the year decreased by £0.3m to £2.9m (2018: £3.2m as restated<sup>3</sup>);
- net cash generated from operations of £3.4m (2018: £7.8m as restated<sup>3</sup>); and
- net cash as at 31 December 2019 of £4.5m (31 December 2018: £4.9m).

<sup>1</sup> Net Fee Income - which is the equivalent of gross profit

<sup>2</sup> Underlying PBT divided by NFI

<sup>3</sup> Restatement following the application of IFRS 16. Further details are set out in note 29 to the accounts.

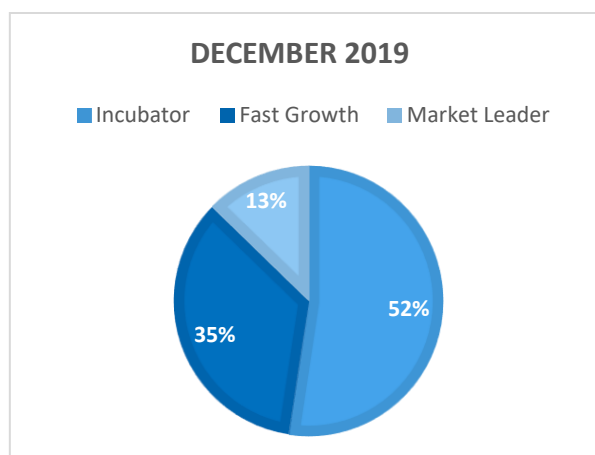
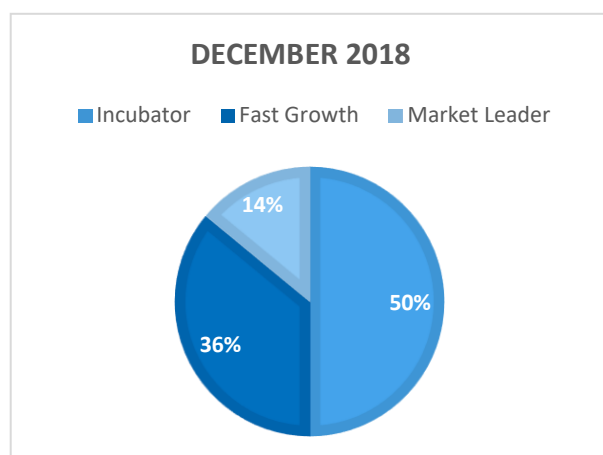
<sup>4</sup> Underlying PBT excludes amounts in respect of NCI profit or loss, foreign exchange gains/(losses), amortisation of acquired intangibles, share based payments and exceptional items. Further details are set out in note 4.

The Group has continued to develop and refine its operating model during the year, which we believe will provide the basis for a return to sustainable growth moving forward as market conditions improve.

**Proposition** - *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 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.

We have actively managed the Group's portfolio of niches during the year. We closed 16 low growth teams and entered nine new niche markets with greater growth prospects, reducing the total number of niche teams from 70 to 63. In total, six teams were promoted either from incubator to fast growth or from fast growth to market leader. However, predominantly due to the more challenging conditions experienced in the final months of the year, a further eight teams were demoted either from fast growth to incubator or from market leader to fast growth.



## HYDROGEN GROUP PLC

# Strategic Report

**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 that are delivered across the Group by the leadership and management teams; and which are complemented by selective third-party training. 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 promote an objective and high-performance working culture.

The leadership team and all managers of fast growth and market leading teams qualify to join the Group's minority share scheme. Currently 36 individuals are members of the scheme (2018: 35) with a further two staff expected to join during 2020. The Board is pleased with the way the scheme is impacting performance through the attraction, retention, motivation and development of key staff.

We have moderated our investment in headcount in certain of our more challenging markets during the year. As a result, group headcount decreased by 7% from 345 to 320 during the year.

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.

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

The Group operates on a single global technology and CRM platform. We have continued to invest both in the development of the CRM and in staff training in order to drive a "go to market" strategy that is both consistent and effective.

We continue to develop our digital marketing and social engagement programmes. Digital marketing 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. Social engagement enables us to create and develop leads which our consultants use to facilitate sales conversions.

Furthermore, we have progressed investment in our off-shore research centre in Bangkok, which conducts some of the more transactional and lower value-add candidate identification and screening processes in support of our higher cost business centres.

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

We have continued to develop our Business Intelligence systems to combine financial and operating data. During the year we invested in a new partnership with a data analytics partner to enable us to present more insightful 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.

# HYDROGEN GROUP PLC

## Strategic Report

### EMEA

NFI in EMEA fell by 8.5%, or £1.5m, to £16.1m (2018: £17.6m) during the year principally due to the impact of the proposed changes to the IR35 legislation on clients' contract hiring plans in the UK. The broader political uncertainty that was prevalent throughout the year in the UK also created trading headwinds, however, our permanent led UK businesses performed creditably despite this. Declining UK NFI was partially offset by growth in our non-UK EMEA operations, particularly in the Middle East where our business grew rapidly.

Despite the fall in NFI, operating profit before exceptional items increased by 52% to £4.7m (2018: £3.1m as restated) as a result of a strong focus on the management of our portfolio of niches in the region and on tight cost control.

### APAC

The APAC region had a challenging year. NFI fell by 12%, or by 13% on a constant currency basis, to £9.7m (2018: £11.0m). The fall was driven by weaker trading conditions in both our Singapore and Hong Kong businesses, with the deterioration in the latter becoming particularly marked during the fourth quarter as the political unrest and public disorder experienced locally further impacted demand levels. Conversely, our Thai and Australian businesses have continued to grow.

As a result, operating profit before exceptional items fell from £1.3m in 2018 to a loss of £0.1m for the year.

We restructured our APAC business during Q4, and reduced costs in Hong Kong in particular.

### USA

The Board continues to believe that the US market provides the Group an exciting growth opportunity. Therefore, we have continued to invest in our operational capability in the region and have opened two new offices in Charlotte and Los Angeles during the year. The Group now has five offices in the region, up from one 18 months ago. As a result, NFI grew by 82%, or 81% on a constant currency basis, to £3.5m (2018: £1.9m) during the year.

The investment contributed to a fall in operating profit before exceptional items to £nil (2018: profit of £0.1m).

### 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 scarce niche skills. Contract solutions provide clients with flexible resources usually to complete specific projects.

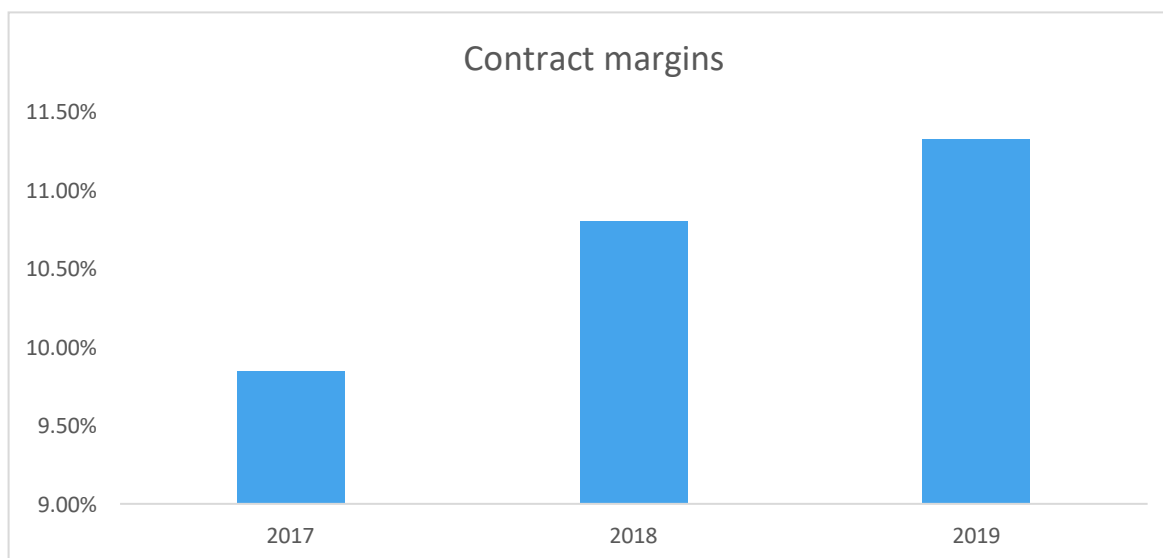
The Group's NFI that is derived from permanent placements was broadly flat at £17.6m (2018: £17.8m), while NFI derived from contract solutions declined by 7.1% to £11.8m (2018: £12.7m). These dynamics resulted in a shift of NFI to 60% permanent : 40% contract (2018: 58% permanent : 42% contract). The shift was driven principally by the impact of the planned changes to the IR35 legislation on UK contract recruitment activity supplemented by the growth in our US business where, as an immature and high growth business, reported NFI was skewed towards permanent NFI. NFI for permanent contracts is recognised in full at the start of a placement whereas contract NFI is recognised over the life of a placement. As the business matures the balance of permanent to contract NFI should stabilise.

The trend of improving contract margins experienced in recent years has continued with the Group achieving a contract margin of 11.4% in 2019 (2018: 10.8%). This growth was driven by both a change in contract client mix in the UK, and by a geographical shift in contract NFI away from the generally lower margin UK market to higher margin overseas markets, particularly Australia and the USA.



## HYDROGEN GROUP PLC

# Strategic Report



### 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 43% of NFI during 2019. Therefore, we have continued to review the possible impact on the business of the UK leaving 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.

# HYDROGEN GROUP PLC

## Strategic Report

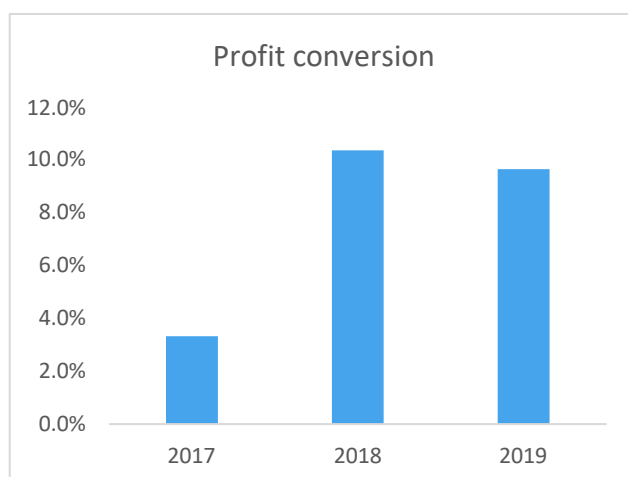
### FINANCIAL REVIEW

The Group has adopted IFRS 16, with respect to the recognition and measurement of leases, on a fully retrospective basis. The impact of this change in accounting policy on the comparative figures previously reported is disclosed in note 29. The change resulted in a £0.3m increase in net assets as at 1 January 2018 and an increase of £0.2m to profit before tax in 2018.

#### Revenue

Group revenue for 2019 totalled £121.3m (2018: £135.6m). The reduction was primarily driven by the fall in contract recruitment in the UK.

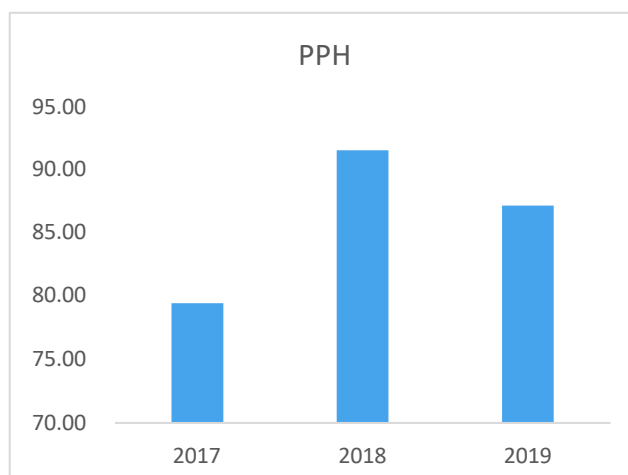
#### Key Profit Indicators



#### *Profit conversion*

Profit conversion is the underlying profit before tax (PBT adjusted for amounts in respect of NCI profit or loss, foreign exchange gains/(losses), amortisation of acquired intangibles, share based payments and exceptional items) divided by total NFI. This is key for the business to assess the level of underlying profitability.

In 2019, profit conversion in the Group fell to 9.9% (2018 as restated: 10.5%). The fall was driven by the reduction in activity levels in the fourth quarter.



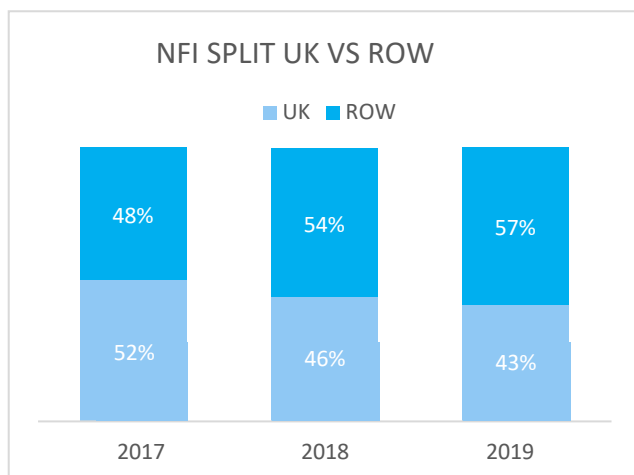
#### *Productivity per head*

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

Productivity per head fell by 4.4% to £87,000 (2018: £91,000), broadly in line with the fall in NFI.

# HYDROGEN GROUP PLC

## Strategic Report



### ***NFI split between the UK and the rest of the world***

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

Driven by the performance of our US business, NFI from the rest of the world increased by £0.2m to £16.8m and now represents 57% of the NFI for the year (2018: 54%).

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

Group NFI reduced by 3.6% to £29.4m (2018: £30.5m).

The fluctuation of sterling increased the value of reported NFI from overseas by 2% (£0.2m) during the year.

### **Operating segments**

Our current management and reporting structure focusses on the performance of our three core geographic markets: EMEA, APAC & the USA. The segmental analysis disclosed in note 1 reflects this.

NFI from the EMEA operating segment totalled £16.1m (2018: £17.6m) and contributed 55% (2018: 58%) of total NFI. NFI from the APAC operating segment totalled £9.7m (2018: £11.0m) and contributed 33% of total NFI (2018: 36%). NFI from the USA operating segment totalled £3.5m (2018: £1.9m) and contributed 12% (2018: 6%) of total NFI.

### **Exceptional costs**

Exceptional costs incurred in the year amounted to £0.9m (2018: net £nil) and principally relate to the impairment of loans, and professional fees for non-trading M&A expenditure. Further details of exceptional costs are set out in note 4.

### **Finance cost/income**

Group finance cost for the year decreased to £0.1m (2018 as restated: £0.2m).

# HYDROGEN GROUP PLC

## Strategic Report

### Profit and loss before taxation

Reported profit before taxation (PBT) for the year was £1.7m (2018 as restated: £3.0m).

The Board's preferred measure of trading performance of the business, underlying PBT, fell to £2.9m (2018 as restated: £3.2m) during the year.

Underlying PBT is calculated as follows:

	2019 £'m	2018 £'m
Profit Before Tax	1.7	3.0
Non-controlling loss/(profit)	-	(0.2)
Non-trading/exceptional items*	0.9	0.1
Amortisation of acquired intangibles	0.1	0.1
Share based payments	0.1	0.1
Foreign exchange losses	0.1	0.1
<b>Underlying PBT</b>	<b>2.9</b>	<b>3.2</b>

\*Non trading costs incurred in the year principally relate to the impairment of loans and professional fees for non-trading M&A expenditure. These are included within administrative expenses in the Consolidated Statement of Comprehensive Income.

Underlying EPS is calculated as follows:

	2019 £'m	2018 £'m
Underlying PBT	2.9	3.2
Tax expense	(0.4)	(0.3)
<b>Underlying PAT</b>	<b>2.5</b>	<b>2.9</b>
Weighted average number of shares (million)	33.5	32.6
<b>Underlying EPS</b>	<b>7.5p</b>	<b>8.9p</b>

### Taxation

There was a £0.39m tax charge for the year (2018 as restated: £0.32m), giving an effective tax rate of 23% (2018 as restated: 11%).

At 31 December 2019 the Group had unutilised tax losses of £7.3m (2018: £6.5m) available to offset against future profits, for which a deferred tax asset of £0.2m has been recognised. Further tax assets have not been recognised due to the uncertainty of future profits being recognised where the losses have arisen.

### Dividend

An interim dividend of 0.6p per share was paid in October 2019 (2018: 0.5p). In light of the rapidly evolving situation with COVID-19 and impact it may have on the Group's trading, no final dividend is proposed for the year (2018: 1.0p).

### Earnings per share

The basic earnings per share was 4.0p (2018 as restated: 7.8p). Diluted earnings per share was 3.7p (2018 as restated: 7.1p).

# HYDROGEN GROUP PLC

## Strategic Report

### Balance Sheet

Net assets at 31 December 2019 increased by £1.8m to £23.5m (2018 as restated: £21.7m).

Goodwill in the year remains flat at £12.2m (2018: £12.2m).

Current trade and other receivables decreased by 13% to £17.1m (2018: £19.7m) broadly in line with the fall in Group revenue. Within this balance, however, there was an underlying shift in the balance to trade receivables, which increased by £0.4m to £11.2m (2018: £10.8m), from contract assets, which reduced by £2.7m to £4.9m (2018: £7.4m). The shift was driven primarily by an increased proportion of the Group's contract work being invoiced weekly rather than monthly. Alongside this, days sales outstanding as at 31 December 2019 increased to 33 days (2018: 28 days) due to a small net adverse change in client payment terms.

Current trade and other payables decreased by 18% to £11.3m (2018: £13.7m as restated) principally as a result of a fall in accruals, which predominantly relate to monies owed to contract staff for time worked in December and which fell in sympathy with the lower contract activity levels experienced at the end of the year.

Non-current liabilities decreased by £2.1m, 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 £4.6m (2018: £5.2m).

### Reserves

As a result of the Group's profitable trading in the year and the impact of the revised redemption liability (note 28), net of dividends and share buy backs, total equity has increased by £1.8m to £23.5m (2018 as restated: £21.7m).

### Treasury management and currency risk

Approximately 69% of the Group's revenue in 2019 (2018: 73%) 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.

The Group did not enter into any forward contracts and no foreign currency contracts were open as at 31 December 2019.

### Cash flow and cash position

Net cash at 31 December 2019 was £4.5m (2018: £4.9m). During 2018 the Group benefited from a reduction in working capital arising from the implementation of improved invoicing and credit control processes. Although these improved processes have been maintained throughout 2019, working capital levels increased due to changes in client payment terms, which together with the lower profitability in the year led to a £4.4m reduction in net cash generated from operating activities of £3.4m (2018: £7.8m as restated). Furthermore, the Group made payments during the year of approximately £1.3m in respect of dividends, share buy backs, and the earn out in relation to the acquisition of Argyll Scott in 2017.

The Group had borrowings at year end of £0.2m (2018: £0.3m).

The Group has an Invoice Discounting facility of £18.0m with HSBC with a commitment to January 2022. 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 £6.3m (2018: £7.3m). Average utilisation in the year decreased from 42% to 2% (£0.1m). The average available funds (including cash) for the Group grew by £2.1m to £10.5m.

Since 31 December 2019, the Group has further extended its facilities by entering into new working capital agreements with HSBC in the USA for USD1.5m, Australia for AUD2.0m and Singapore for SGD1.7m.

# HYDROGEN GROUP PLC

## Strategic Report

### 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 below:

Major currencies	Depreciation/(Appreciation) in Sterling over the 2019 financial year (average rates)	2019 NFI in local currency as a proportion of Group NFI
USA Dollar	4%	13%
Singapore Dollar	3%	11%
Hong Kong Dollar	4%	8%
Thai Bhat	8%	7%
Euro	(1%)	4%
Australian Dollar	(3%)	5%
United Arab Emirates Dirham	4%	4%
Malaysian Ringgit	2%	2%

The Group is currently not hedged against this translation exposure.

### Going concern

As at 31 December 2019, the Group had net cash of £4.5m and an £18.0m Invoice Discounting facility with a commitment from HSBC to January 2022. The average facility available during the year was £6.3m (2018: £7.3m). This facility is subject to standard debt turn and dilution percentage covenants. Since 31 December 2019 and prior to the UK government's 'lock down' policy, the Group entered into new working capital agreements with HSBC in the USA for USD1.5m, Australia for AUD2.0m and Singapore for SGD1.7m, further increasing the Group's available facilities.

The Directors have prepared base case financial forecasts for the period ending 30 June 2021.

The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis.

Forecast stress testing scenarios, in light of COVID-19, has demonstrated that the Group could withstand both a material and prolonged decrease in revenue without breaching its banking facilities. For example, the Group could withstand a more than 60% decrease in revenues for 6 months and still operate within existing facilities. Importantly, this scenario is prior to any cost saving, other mitigating action or government support that may be available to the Group. In the event that such a scenario arose, the Directors would of course take appropriate mitigating action. Such mitigating action may include furloughing staff and/or reducing overheads. On this basis, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Group and the Company continues to adopt the going concern basis in preparing its Financial Statements.

However, if the impacts of COVID-19 are worse or more prolonged than the Directors' expectations, the Group may need to seek additional support from funders. Given the lack of certainty that COVID-19 will have on the Group's customers and the markets in which it operates, and the support from funders that may be required if pronounced sensitivity scenarios arise, these events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The financial statements do not include any adjustments should the going concern basis of preparation be inappropriate.

# HYDROGEN GROUP PLC

## Strategic Report

### RESOURCES AND RELATIONSHIPS

#### Systems

The investment in resilient, cloud-based IT systems has enabled Hydrogen to become a global recruiter, with databases of information that can be made available to all employees, no matter where they are in the world. The Group is 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 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 continue to be regular meetings and updates at all levels of the business, from daily and weekly team sessions and monthly regional sales meetings through to quarterly business wide updates on the Group's progress against its regional and global objectives. Worldwide training courses are 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 2019 (2018: 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. We provide extensive recycling facilities in all our offices. 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.

# HYDROGEN GROUP PLC

## Strategic Report

### Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Hydrogen Group plc is responsible for the overall conduct of the Group's business. Throughout this report, we aim to provide examples of how the Board consider each of these factors for the benefit of its stakeholders. 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 other stakeholders.

The Board consider that they have acted in a way that would be most likely to promote the success of the Group for the benefit of its members in the decisions taken during the year as noted throughout in the Chairman's Statement and Strategic Report and in accordance with s172. Directors have a duty to promote the success of the company for the benefit of the members, considering the following six areas of broader stakeholder interests identified in section 172(1)(a)-(f)).

	Interests identified	Hydrogen response
1	Likely consequence of any decision in the long term	Further details on long term decision making and key decisions made are set out in the Chairman's Report and Strategic Report.
2	Interests of employees	Our employees are fundamental to the delivery of the Group's business. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. Further details can be found within the People section of this report on page 6.
3	Foster business relationships with suppliers, customers and others	The Group aims to establish, maintain and develop business relationships based on confidence, trust and respect. We consider the wider impact on others and on the business before making commercial decisions. We ensure that all candidates are screened in accordance with local practices and laws applicable to us and are advised of the documents they will need to prove their entitlement to work in any particular location.
4	Maintain a reputation for high standards of business conduct	The Group's takes its responsibility to uphold a high standard of business conduct globally. Full details can be found at <a href="https://www.hydrogengroup.com/Hydrogen/media/Investors-documents/AGM-documents/Hydrogen-Group-Plc-Code-of-Conduct-June-2018.pdf">https://www.hydrogengroup.com/Hydrogen/media/Investors-documents/AGM-documents/Hydrogen-Group-Plc-Code-of-Conduct-June-2018.pdf</a>
5	Act fairly as between members of the company	All employees should operate ethically, whether dealing with clients, candidates or internal stakeholders, and work to the same standards regardless of where in the world they are based.
6	Impact of operations on the community and the environment	<p>Hydrogen operates globally and seeks to have a positive impact, wherever it operates. Examples of ongoing thought leadership and community involvement include:</p> <ul style="list-style-type: none"> <li>• The production of our annual Global Mobility Report which promotes thought leadership on global recruitment issues;</li> <li>• Hydrogen's Sponsorship Fund which supports individual charitable and sporting activities and matches employee donations.</li> </ul> <p>As an office-based organisation, Hydrogen aims to minimise the impact of its activities on the environment by encouraging video conferences to prevent unnecessary travel and reducing its use of energy and resources in each office</p>

The Board is confident it has satisfied the Code's requirements for its effective performance of their statutory duties in accordance with s172(1) Companies Act 2006.



# HYDROGEN GROUP PLC

## Strategic Report

### Principal risks and uncertainties facing the Group

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.

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
<b>Political</b>		
<i>Brexit</i>	Brexit - Potential disruption to demand of clients and supply/access to candidates. Operational and legislative changes as result of Brexit related changes.	Contingency planning is in place based on several different scenarios surrounding deal/no deal. We are continuing to diversify our operations, reducing the Group's reliance on the UK.
<i>Hong Kong political uncertainty and public disorder</i>	Continuing anti Government demonstrations impact business confidence and demand levels in Hong Kong.	We are limiting new investment in Hong Kong to reduce the Group's exposure in the medium term to this market.

<b>Economic</b>		
<i>Economic growth</i>	Recruitment activity levels are strongly affected by changes in economic confidence or the impacts of a recession (see COVID-19 risks below).	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.
<i>Foreign Exchange</i>	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.
<i>Financial Control</i>	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.
<i>Liquidity</i>	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.
<i>Strategy</i>	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.

# HYDROGEN GROUP PLC

## Strategic Report

Type of risk	Potential impact on business	Mitigation
<b>Social</b>		
<i>Competition</i>	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.
<i>Career attitudes</i>	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.
<i>Clients</i>	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 5% of NFI.

<b>Technology</b>		
<i>IT systems</i>	IT system failure or loss of confidential data. Companies that fail to keep personal data safe risk long-lasting reputational damage that can impact on the future success of the business.	IT systems are cloud based with tier 1 suppliers. There is ongoing staff training on data protection combined with an in-house legal and compliance function to ensure correct processes are followed.
<i>Data security and access (including Cyber Security)</i>	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.	We have up-to-date security systems in place that mitigate the risks posed by the use of modern communications media.

<b>Legal</b>		
<i>Employment laws IR 35 (UK)</i>	IR35 has been introduced to tackle the problem of 'deemed employment'. IR35 essentially aims to turn a one-person small business (limited company) into being an employee if certain principles apply. If IR35 does apply, Hydrogen would have to pay the extra income tax and NICs on all contractors deemed as an employee. It has been noted that the implementation of IR35 in the private sector has been deferred until April 2021.	New solutions are being put in place across the Group to tackle the effect on IR35. The Group also uses professional firms to assess the impact of the 'deemed employment' criteria so that we can confidently apply the new legislation. Where tests of employment are not clear, insurance is taken out to mitigate any risk on incorrect status applied.

HYDROGEN GROUP PLC

# Strategic Report

Type of risk	Potential impact on business	Mitigation
<b>Environmental</b>		
<i>Health &amp; Safety - Coronavirus</i>	Global recruitment activity levels may reduce, potentially for a significant time period, due to the impact of Coronavirus.	The business operates an agile model with a relatively small proportion of its cost base tied into long-term contracts. The Group therefore can react to significant changes in demand levels accordingly. The Group has also invested in the development of a single IT and operating platform, which would allow it to divert resources remotely to less impacted geographies as well as allowing staff to work from home should circumstances require.

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 Strategic Report was approved by the Board of Hydrogen Group plc on 6 April 2020 and signed on its behalf by:



**Ian Temple**

**Chief Executive Officer**

## The Board

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### **Stephen Puckett**

**Position:** Chairman

**Appointment date:** March 2015

**Bio:**

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 Hyve Group plc (formally ITE Group plc).

### **Ian Temple**

**Position:** Chief Executive

**Appointment date:** March 2015

**Bio:**

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

**Bio:**

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 19 years recruitment experience.

### **Richard Green**

**Position:** Senior Independent Director

**Appointment date:** March 2016

**Bio:**

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. Richard is a Director of Northern Venture Trust PLC, BGH Capital Offshore GP I Ltd and the non-executive Chairman of Technology Venture Partners LLP.

# Corporate Governance Report

For the year ended 31 December 2019

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## 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 2019.

## Board Composition

The Board of Directors in 2019 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 19.

In 2019, 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.

# Corporate Governance Report

For the year ended 31 December 2019

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## 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 Group CEO (Statutory Director), Group COO & CFO (Statutory Director) and both the US and APAC COO's.

## 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 Group's Company Secretary, Ben Harber, 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](http://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 further developing the Group's risk register and analysing the critical success factors for the business – namely, its ability to manage headcount to maintain productivity and 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 16-18.

# Corporate Governance Report

For the year ended 31 December 2019

## 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. The Group does not have a dedicated internal audit function as the Board believe this would not be a sufficient use of Group resources given the size and scale of the business.

## Performance evaluation

Following an evaluation of Board effectiveness in September 2018, no formal evaluation took place in 2019. A formal evaluation of Board effectiveness will be undertaken in 2020.

## Board meetings and Committees of the Board

The Board expects to meet at least eight times a year. In 2019, the Board met nine times. In addition, authority was delegated to sub-committees on an ad hoc basis to deal with statutory matters such as final approval of the interim and final accounts statements and the Notice of AGM. These short sub-committee meetings are not included in the table of attendance below.

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

Attendance by each Director at full meetings of the Board and Board Committees of which they were a formal member during 2019 is summarised in the table below.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Stephen Puckett (Non-Executive Chairman)	9/9	3/3	3/3	1/1
Ian Temple	9/9	N/A	N/A	N/A
Richard Green (Non-Executive)	9/9	3/3	3/3	1/1
John Hunter	9/9	N/A	N/A	N/A

# Corporate Governance Report

For the year ended 31 December 2019

## 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 2019, 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 26-31.

## 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 2019, 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	21.43
Employee Benefit Trust	2.23
Institutional investors	42.92
Brokers, individuals & other	33.42
<b>TOTAL</b>	<b>100.00</b>

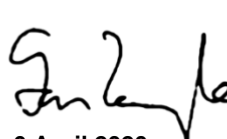
The Board seeks to build on a mutual understanding of objectives between the Group and its shareholders by communicating regularly during the year and providing information on the Group website. Investors can attend the AGM and ask questions to make their own assessment of the Group's position and prospects. 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



6 April 2020

**Ian Temple**  
Chief Executive



6 April 2020



# Audit Committee Report

For the year ended 31 December 2019

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## Audit Committee

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

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

The Audit Committee's report on its work during the year appears on pages 24-25.

## Meetings of the Audit Committee in 2019

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 2019:

- The reappointment of BDO as statutory auditors for Hydrogen;
- The financial impact of new accounting standards in the year. Mainly the adoption of IFRS 16;
- Evaluation on the impact of upcoming accounting standards
- Approval of the financial statements for the year ended 31 December 2018;
- A review of 30 June 2019 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 2019, audit fees for the Group totalled £170k (2018: £160k), compared with non-audit fees, including advice on the interim review of £56k (2018: £38k). The Committee can confirm that BDO continues to be independent.

# Audit Committee Report

For the year ended 31 December 2019

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## 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 6 April 2020 and was signed on its behalf by:



**Richard Green**  
Chairman of the Audit Committee

# Directors' Remuneration Report

For the year ended 31 December 2019

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The following disclosures are in line with the regulations set out by the Companies Act and include all information which the Board believe are in the interest of its stakeholders given the size and scope of the Group.

## 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 2019 fell within five main headings:

- Evaluating performance of key individuals for the year ended 2019;
- Setting remuneration for the Chairman, CEO and COO & 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 leadership option scheme in 2017 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 an additional 275,000 shares (2018: 740,000) were granted. 479,000 shares forfeited during the year based on performance conditions not met (2018: nil). 95,250 shares were exercised during the year (2018: nil).

Total shares remaining at year end in relation to this scheme is 1,847,500 (2018: 2,146,750).

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.

# Directors' Remuneration Report

For the year ended 31 December 2019

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## Information and Advice

The Committee did not undertake formal benchmarking of Directors' remuneration in 2019. 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 2019

From June 2019, under the terms agreed on his appointment to the board in June 2017, John Hunter received a 12% increase in base salary. All other members of the Board received the same base salaries in 2019 as they did in 2018.

## Discretionary bonus

Due to the achievement of pre-set performance targets during the year, estimated bonuses payable to Ian Temple totalled £30k and to John Hunter £50k.

## 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](http://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.

# Directors' Remuneration Report

For the year ended 31 December 2019

## 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
<b>Service contracts</b>	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.
<b>Base salary</b>	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.
<b>Benefits</b>	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.
<b>Pension contribution</b>	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.
<b>Annual bonus</b>	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 COO/CFO is substantially 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.
<b>Share options</b>	<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 and 2019 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, 2018 and 2019 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>479,000 (2018: 248,259) shares were forfeited in the year based on performance conditions not met.</p>

**Directors' Remuneration Report****For the year ended 31 December 2019**

<b>Shareholding Policy</b>	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.
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**Directors' interests in shares**

Directors' beneficial interests in the shares of the Company at 31 December 2019 were as follows:

	<b>Ordinary shares of 1p each held at 31 Dec 2019</b>	<b>Percentage of issued share capital at 31 Dec 2019</b>	<b>Ordinary shares of 1p each held at 31 Dec 2018</b>	<b>Percentage of issued share capital at 31 Dec 2018</b>
Ian Temple	<b>4,060,726</b>	<b>11.83%</b>	4,060,726	11.90%
Stephen Puckett	<b>1,016,370</b>	<b>2.96%</b>	1,016,370	2.98%
John Hunter	<b>1,646,872</b>	<b>4.80%</b>	1,646,872	4.83%
Richard Green	<b>633,036</b>	<b>1.84%</b>	633,036	1.85%

**Share option schemes**

As part of the ongoing incentivisation and retention programme the Leadership 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:

**2019**

	<b>Year of issue</b>	<b>Options outstanding 1 January</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Forfeit during the year</b>	<b>Options Outstanding 31 December</b>	<b>Earliest exercise date</b>	<b>Latest exercise date</b>	<b>Exercise price per option £</b>
Ian Temple	2017	425,000	-	-	-	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	425,000	-	-	-	425,000	02/06/18	02/06/27	0.34
	2018	125,000	-	-	-	125,000	28/06/19	28/06/28	0.35
		<b>1,100,000</b>	-	-	-	<b>1,100,000</b>			

**2018**

	<b>Year of issue</b>	<b>Options outstanding 1 January</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Forfeit during the year</b>	<b>Options Outstanding 31 December</b>	<b>Earliest exercise date</b>	<b>Latest exercise date</b>	<b>Exercise price per option £</b>
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
		<b>1,012,000</b>	<b>250,000</b>	<b>(12,000)</b>	<b>(150,000)</b>	<b>1,100,000</b>			

# Directors' Remuneration Report

For the year ended 31 December 2019

## Performance criteria

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

### Options issued in 2017 and 2018:

Ian Temple and John Hunter were awarded share options in relation to the leadership scheme in both 2017 and 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. The option awards are due to expire in 2027 and 2028 respectively. During the year there were no share options forfeited by either Director, due to performance conditions being met in 2018. Expected share options to be exercisable in June 2020 based on 2019 performance is nil 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:

	Salary & fees £'000	Benefits & shares £'000	Bonuses £'000	Total £'000	Pension £'000	Total £'000
<b>2019</b>						
<b>Executive Directors:</b>						
Ian Temple	232	39	30	<b>301</b>	10	<b>311</b>
John Hunter	192	39	50	<b>281</b>	10	<b>291</b>
<b>Non-Executive Directors:</b>						
Stephen Puckett	80	-	-	<b>80</b>	-	<b>80</b>
Richard Green	35	-	-	<b>35</b>	-	<b>35</b>
<b>Aggregate emoluments</b>	<b>539</b>	<b>78</b>	<b>80</b>	<b>697</b>	<b>20</b>	<b>717</b>

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

<sup>†</sup> Up to date of resignation

As at 1 January 2019, John Hunter had a loan outstanding from Hydrogen Group plc of £8,000 (1 January 2018: £28,000), which arose as a result of the acquisition of Argyll Scott in 2017. During the year, repayments of £8,000 have been repaid (2018: £20,000 repaid). The loan has now been repaid in full.

# Directors' Remuneration Report

For the year ended 31 December 2019

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## 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 6 April 2020 and was signed on its behalf by:



**Richard Green**  
Chairman, Remuneration Committee



**Directors' Report****For the year ended 31 December 2019**

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2019. 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 2020, 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.	15.8%
Ian Temple	11.8%
Christopher Cole	7.2%
Brain Hamill	6.8%
Shane Sibraa	5.5%

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 19; the names of Directors during the year are listed in the Corporate Governance Report on page 20.
Directors' interests and indemnity provisions	Directors' Remuneration Report, page 27.
Results and dividends	Financial Review, pages 9-13.
Going concern confirmation	Financial Review, page 13.
Subsidiaries	Notes to the parent company accounts, pages 82-93.
Capital structure	Note 19 to the accounts, page 68.
Expected future developments	Chairman's Report, page 4.
Use of financial instruments	Note 26 to the Accounts, pages 74-76.
Information on employees, environment and community activities	Strategic Report, page 14-15.

**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 540,000 shares in Treasury shares equating to 1.6% of the issued share capital. A request for renewal of the authority is included in the resolutions for this year's AGM.

# Directors' Report

**For the year ended 31 December 2019**

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## **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

**6 April 2020**

# Statement of Directors' Responsibilities

**For the year ended 31 December 2019**

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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

For the year ended 31 December 2019

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## 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 2019 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, Accounting Policies, 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 2019 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.

## Material uncertainty related to going concern

We draw attention to page 13 of the financial statements, which indicates that the Group may need to raise further funds should the impact of COVID-19 be worse or more prolonged than the Directors' expectations. As stated on page 13, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above, we considered going concern to be a key audit matter. We have performed the following work as part of our audit:

- Obtained an understanding of the financing facilities, including the nature of facilities, repayment terms, covenants and attached conditions;
- Assessed the facility headroom calculations on both a base case scenario, and the directors' downside scenarios as a result of the ongoing COVID-19 pandemic;
- Challenged the appropriateness of management's assessment of going concern by testing the mechanical accuracy, assessing historical forecasting accuracy, understanding management's consideration of downside sensitivity and the impact on facilities and covenants;
- Reviewed any mitigating actions that have been considered by management
- Performed our own sensitivity calculations on management's downside scenarios to consider alternative possible trading impacts and conditions;
- Considered the consistency of management's forecasts with other areas of the audit, such as impairment financial models; and
- Considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards.

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

For the year ended 31 December 2019

## 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. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How we addressed the matter in our audit
<p><b>Revenue – recognition of year end contractor placements</b></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 page 47 and management's judgement is described on page 52-53 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>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"> <li>We tested estimates at the period end relating to accrued contractor costs and the corresponding income. We did this by comparing the estimates made to actual timesheet receipts post year end and subsequent sales invoices raised.</li> <li>We selected all entries over a set threshold from both sides of the year end and agreed to supporting documentation to ensure that the cost and associated revenue was recognised in the correct period based on when the service was provided.</li> </ul> <p><i>Key observation</i></p> <p>Based on the work performed we consider that revenue recognised for contractor placements at the period end has been recognised appropriately in accordance with the Group's revenue recognition criteria and IFRS, and we noted no material uncorrected misstatements.</p>
<p><b>Goodwill impairment review</b></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.</p> <p>In respect of goodwill impairment, the accounting policy is described on page 48 and management's judgement is described on page 52 to the financial statements.</p>	<p>Our procedures for challenging management's judgements included:</p> <ul style="list-style-type: none"> <li>Comparing 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.</li> </ul>

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

For the year ended 31 December 2019

<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 made by management, for example revenue growth rates, forecast profitability and appropriate discount rates.</p>	<ul style="list-style-type: none"> <li>• Testing the mechanical accuracy of impairment models used.</li> <li>• Using internal valuations experts to challenge the robustness of key assumptions, including revenue growth rates, profitability assumptions and the discount rate, based on our understanding of the CGUs through re-performance of calculations and by comparing the assumptions used with other, similar, recruitment firms.</li> </ul> <p><i>Key observation</i></p> <p>We consider that the 5 year forecasts prepared by management are in line with IAS 36 and that the assumptions used in the impairment models are within an acceptable range.</p>
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The key audit matters presented above are different to those presented in the prior year audit report. The redemption liability was presented as a key audit matter in the prior year, but this has been removed. Due to the much reduced liability and pay out profile becoming less judgemental this risk has been downgraded for audit purposes.

## 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 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 for the Group as a whole decreased from £530,000 for the year ended 31 December 2018 to £110,000 for the year ended 31 December 2019. Our basis for materiality changed from a three year average of 2% of the Group's gross profit (net fee income), to 5% of profit before tax. This change has been driven by the normalisation of the group's activities following a number of years of restructuring which previously meant that a profit before tax measure was not appropriate.

## 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. Following a review of the control environment and a low history of misstatements, performance materiality for the Group was set at £82,000 (2018: £371,000) which represents 75% (2018: 70%) of the above materiality levels.

The performance materiality threshold for the only significant component, Hydrogen International Limited, applied in the component audit, was £69,300 (2018: £203,700).

The materiality set for the Parent Company was £66,000 (2018: £291,000), this being capped at 60% of Group materiality (2018 – capped at 90% of Group materiality). The performance materiality threshold applied to the Parent Company was £46,200 (2018: £203,700), this representing 70% of Parent Company materiality (2018 – 70% of Parent Company materiality)

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

For the year ended 31 December 2019

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## 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 £10,000 (2018: £10,600). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

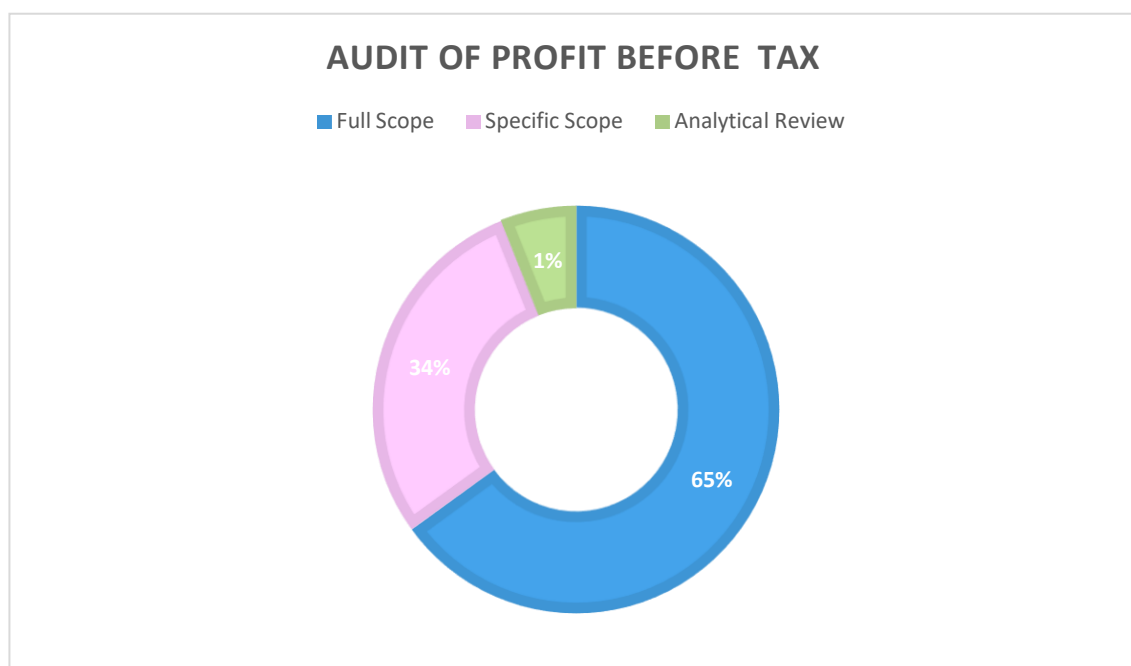
## An overview of the scope of our audit

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 26 distinct components and therefore, 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, Argyll Scott (Holdings) Limited and Project Partners Limited. On consideration of the risk relating to revenue recognition, we performed specific scope procedures over 11 additional components.

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

The chart below sets shows the percentage of Group profit before tax covered by full scope, specific scope and analytical review procedures. All of the testing was performed by BDO LLP, except for specific scope procedures on two components, which were performed by BDO LLP (Singapore) and BDO Limited (Hong Kong). Our audit approach involved the issuance of specific procedures to these two firms for completion and a review of their work throughout the audit process.



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

**For the year ended 31 December 2019**

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## Other information

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

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

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

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 34, 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.



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

**For the year ended 31 December 2019**

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## **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](http://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.

Mark Cardiff (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK  
6 April 2020

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

**Consolidated statement of comprehensive income****For the year ended 31 December 2019**

	Note	2019 £'000	2018 As restated £'000
<b>Revenue</b>	1	<b>121,277</b>	135,637
Cost of sales		(91,865)	(105,111)
<b>Gross profit</b>	1	<b>29,412</b>	30,526
Other administrative expenses		(27,371)	(27,925)
Exceptional impairment on loans	4	(542)	-
Exceptional administrative expenses	4	(333)	(1)
Administrative expenses		(28,246)	(27,926)
Other income	1	526	529
Operating profit before exceptional items	1	2,567	3,130
Exceptional impairment on loans	4	(542)	-
Exceptional administrative expenses	4	(333)	(1)
<b>Operating profit</b>		<b>1,692</b>	3,129
Share of profit in associate		66	70
Finance costs	2	(108)	(192)
Finance income	3	38	22
<b>Profit before taxation</b>		<b>1,688</b>	3,029
Income tax expense	7	(391)	(318)
<b>Profit for the year</b>		<b>1,297</b>	2,711
<b>Other comprehensive gains and losses:</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		86	6
Exchange differences on intercompany loans		(222)	207
<b>Other comprehensive (loss)/profit for the year, net of tax</b>		<b>(136)</b>	213
<b>Total comprehensive gains for the year</b>		<b>1,161</b>	2,924
<b>Profit attributable to:</b>			
Equity holders of the parent		1,340	2,552
Non-controlling (loss)/interest		(43)	159
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent		1,204	2,765
Non-controlling (loss)/interest		(43)	159
<b>Profit per share:</b>			
Basic profit per share (pence)	21	4.0p	7.8p
Diluted profit per share (pence)	21	3.7p	7.1p

The above results relate to continuing operations.

**Consolidated statement of financial position****As at 31 December 2019**

Company no: 05563206		2019	2018	2017
	Note	£'000	As restated £'000	As restated £'000
<b>Non-current assets</b>				
Goodwill	8	12,198	12,244	12,214
Investment in associate	9	186	120	50
Other intangible assets	10	739	710	789
Property, plant and equipment	11	857	947	882
Right of use assets	30	1,915	2,298	3,763
Deferred tax assets	12	296	282	311
Other receivables	13	417	274	312
		<b>16,608</b>	<b>16,875</b>	<b>18,321</b>
<b>Current assets</b>				
Trade and other receivables	13	17,133	19,709	23,765
Current tax receivable		-	-	290
Cash and cash equivalents	14	4,620	5,227	2,770
		<b>21,753</b>	<b>24,936</b>	<b>26,825</b>
<b>Total assets</b>		<b>38,361</b>	<b>41,811</b>	<b>45,146</b>
<b>Current liabilities</b>				
Trade and other payables	15	(11,313)	(13,748)	(14,690)
Redemption liability	28	-	(615)	(69)
Lease liabilities	31	(512)	(649)	(1,230)
Current tax payable		(156)	(2)	-
Borrowings	16	(154)	(293)	(3,132)
Provisions	17	-	-	(602)
		<b>(12,135)</b>	<b>(15,307)</b>	<b>(19,723)</b>
<b>Non-current liabilities</b>				
Redemption liability	28	(236)	(1,640)	(951)
Lease liabilities	31	(2,052)	(2,641)	(3,290)
Deferred tax liabilities	12	(96)	(117)	(136)
Provisions	17	(326)	(384)	(503)
		<b>(2,710)</b>	<b>(4,782)</b>	<b>(4,880)</b>
<b>Total liabilities</b>		<b>(14,845)</b>	<b>(20,089)</b>	<b>(24,603)</b>
<b>Net assets</b>		<b>23,516</b>	<b>21,722</b>	<b>20,543</b>
<b>Equity</b>				
Share capital	19	343	341	334
Share premium		3,607	3,520	3,520
Merger reserve		19,240	19,240	19,240
Own shares held		(1,171)	(1,546)	(1,338)
Share option reserve		1,627	2,014	1,735
Translation reserve		(522)	(386)	(599)
Forward purchase reserve		(236)	(2,255)	(1,020)
Retained earnings/(Deficit)		554	529	(1,541)
		<b>23,442</b>	<b>21,457</b>	<b>20,331</b>
Non-controlling interest		74	265	212
<b>Total equity</b>		<b>23,516</b>	<b>21,722</b>	<b>20,543</b>

The financial statements on pages 41 to 79 were approved by the Board of Directors and authorised for issue on 6 April 2020 and were signed on its behalf by:

**Ian Temple**  
Chief Executive



**Consolidated statement of changes in equity****As at 31 December 2019**

	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 2018 (as reported)	334	3,520	19,240	(1,338)	1,735	(599)	(1,020)	(1,871)	20,001	212	20,213
Prior year adjustment (net of tax) – note 29	-	-	-	-	-	-	-	330	330	-	330
At 1 January 2018 (as restated)	334	3,520	19,240	(1,338)	1,735	(599)	(1,020)	(1,541)	20,331	212	20,543
New shares issued	7	-	-	-	204	-	-	-	211	-	211
NCI purchase	-	-	-	-	-	-	142	(62)	80	(106)	(26)
Movement in redemption liability – note 28	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	2,552	2,552	159	2,711
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	-	2,552	2,765	159	2,924
At 31 December 2018 (as restated)	341	3,520	19,240	(1,546)	2,014	(386)	(2,255)	529	21,457	265	21,722
NCI purchase – note 28	-	-	-	-	-	-	506	(460)	46	(46)	-
Movement in redemption liability – note 28	-	-	-	-	-	-	1,513	-	1,513	-	1,513
EBT share transfer	-	-	-	170	-	-	-	(440)	(270)	-	(270)
Share contribution	-	-	-	-	(507)	-	-	-	(507)	-	(507)
MI scheme pay out	2	87	-	205	-	-	-	106	400	-	400
Share option charge	-	-	-	-	120	-	-	-	120	-	120
Dividends	-	-	-	-	-	-	-	(521)	(521)	(102)	(623)
Transactions with owners	2	87	-	375	(387)	-	2,019	(1,315)	781	(148)	633
Profit for the year	-	-	-	-	-	-	-	1,340	1,340	(43)	1,297
Other comprehensive income:											
Exchange differences on intercompany loans	-	-	-	-	-	(222)	-	-	(222)	-	(222)
Foreign currency translation charge	-	-	-	-	-	86	-	-	86	-	86
Total comprehensive profit for the year	-	-	-	-	-	(136)	-	1,340	1,204	(43)	1,161
At 31 December 2019	343	3,607	19,240	(1,171)	1,627	(522)	(236)	554	23,442	74	23,516

**Consolidated statement of cash flows****For the year ended 31 December 2019**

	Note	2019 £'000	2018 As restated £'000
<b>Cash generated from operating activities</b>	24a	<b>3,623</b>	7,808
Income taxes paid		(183)	(30)
<b>Net cash generated from operating activities</b>	24a	<b>3,440</b>	7,778
<b>Investing activities</b>			
Purchase of property, plant and equipment	11	(134)	(269)
Purchase of software assets	10	(208)	(102)
<b>Net cash used in investing activities</b>		<b>(342)</b>	(371)
<b>Financing activities</b>			
Finance costs	2	(37)	(100)
Finance income	3	38	22
Principal paid on lease liabilities		(1,418)	(1,392)
Decrease in borrowings	16	(139)	(2,839)
Decrease in redemption liability on NCI pay-out	28	(506)	(142)
Purchase of treasury shares		(240)	(118)
Equity dividends paid	6	(521)	(420)
Dividends paid to NCI		(102)	-
<b>Net cash (used)/generated from financing activities</b>		<b>(2,925)</b>	(4,989)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>173</b>	2,418
<b>Cash and cash equivalents at beginning of year</b>	14	<b>5,227</b>	2,770
<b>Exchange (loss)/gain on cash and cash equivalents</b>		<b>(780)</b>	39
<b>Cash and cash equivalents at end of year</b>	14	<b>4,620</b>	5,227

# HYDROGEN GROUP PLC

## Accounting policies

### For the year ended 31 December 2019

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#### **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 have been consistently applied to all the periods presented other than for the adoption of IFRS 16.

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 9-13 and in the table of principal risks on pages 16-18. The Directors have prepared base case financial forecasts for the period ending 30 June 2021. The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis.

Forecast stress testing scenarios, in light of COVID-19, has demonstrated that the Group could withstand both a material and prolonged decrease in revenue without breaching its banking facilities. For example, the Group could withstand a more than 60% decrease in revenues for 6 months and still operate within existing facilities. Importantly, this scenario is prior to any cost saving, other mitigating action or government support that may be available to the Group. In the event that such a scenario arose, the Directors would of course take appropriate mitigating action. Such mitigating action may include furloughing staff and/or reducing overheads. On this basis, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of these Financial Statements. Accordingly, the Group and the Company continues to adopt the going concern basis in preparing its Financial Statements.

However, if the impacts of COVID-19 are worse or more prolonged than the Directors' expectations, the Group may need to seek additional support from funders. Given the lack of certainty that COVID-19 will have on the Group's customers and the markets in which it operates, and the support from funders that may be required if pronounced sensitivity scenarios arise, these events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The financial statements do not include any adjustments should the going concern basis of preparation be inappropriate.

#### **New and amended standards adopted by the Group**

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRIC 23 Uncertainty over income tax positions
- IFRS 16 Leases

The Group has adopted the following accounting policy on a fully retrospective approach following the adoption of IFRIC 23 and IFRS 16.

#### *IFRIC 23 Uncertainty over income tax positions*

IFRIC 23 clarifies how to recognise and measure current and deferred income tax assets and liabilities when there is uncertainty over income tax treatments. The Group assesses whether it is probable a taxation authority will accept an uncertain tax treatment and if probable the treatment will be accepted, a judgement is made to recognise either a tax asset or liability accordingly.

# HYDROGEN GROUP PLC

## Accounting policies

### For the year ended 31 December 2019

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#### **New and amended standards adopted by the group (continued)**

##### *IFRS 16 Leases*

The transition accounting under the fully retrospective approach requires entities to retrospectively apply the new standard to each prior reporting period presented as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Under this transition approach, entities need to adjust equity at the beginning of the earliest comparative period presented. Details of the impact of this standard are given below and in note 29.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 2.3%. The lease liabilities are not included within the Group's net cash/(debt) calculations.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Right of use assets are initially measured at the amount equal to the lease liability. Further details can be found under our '*Leased assets and obligations*' accounting policy.

The Group has also elected to apply the following practical expedients:

- Short-term leases (leases of less than 12 months, cancellable within 12 months and or have 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.

#### **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 2019 are:

- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS12: Income Taxes
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- IAS 28: Investment Entities: Applying the Consolidation Exception

#### **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.

# HYDROGEN GROUP PLC

## Accounting policies

### For the year ended 31 December 2019

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#### Foreign currencies (continued)

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. In line with IFRS 15, a five-step model is applied to determine when to recognise revenue. These steps consist of

- identifying of the initial contract (agreement between client and Hydrogen);
- recognising the performance obligation (has the service been provided or candidate started);
- determining the transaction price (an agreed price between both parties);
- allocating the price and performance obligation (based on agreed fees so no judgement involved);
- recognising the revenue (revenue is recognised when control passes to a customer at the amount to which the Group expects to be entitled)

Key revenue streams in the Group 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 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.



## Accounting policies

For the year ended 31 December 2019

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**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.
- 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.

# Accounting policies

For the year ended 31 December 2019

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## **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**

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments expected to be payable under the terms of the lease. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

### *Measurement of sublease income*

The Group's London office was sub-let to two other tenants during the year. Income received from these tenancies was recognised as other income within the Groups statement of comprehensive income.

# HYDROGEN GROUP PLC

## Accounting policies

### For the year ended 31 December 2019

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#### 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.

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, 2018 and 2019, 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 statement of comprehensive income. 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 statement of comprehensive income.

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

#### Pensions

The Group matches local practices but have no defined benefit schemes in place. The pension costs charged in the statement of comprehensive income represent the contributions payable by the Group during the year and there are no additional liabilities.

#### 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.

# Accounting policies

For the year ended 31 December 2019

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## Financial assets

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

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. 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.

# Accounting policies

## For the year ended 31 December 2019

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### Exceptional items

Material and non-recurring items of income and expense are disclosed in the consolidated statement of total comprehensive income as 'exceptional items' due to their non repeatable (one-off) nature. 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.

Any subsequent changes in the fair value of the redemption liability are recognised 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.

### 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:

#### *Deferred tax – Note 7*

The Group assesses the impact on all uncertain tax treatments separately before making any adjustments in the relevant Group tax computation. All judgements are based on whether it will be probable that the entities tax authority will accept the adjustment before recognising any unused tax losses or credits. All tax rates used are consistent with the local jurisdictions.

#### *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 – 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. 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.

# Accounting policies

For the year ended 31 December 2019

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## 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.

HYDROGEN GROUP PLC

# Notes to the consolidated financial statements

As at 31 December 2019

## 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 2019					31 December 2018 (as restated)				
	EMEA £'000	USA £'000	APAC £'000	Group £'000	Total £'000	EMEA £'000	USA £'000	APAC £'000	Group £'000	Total £'000
Revenue	93,160	7,733	20,354	30	121,277	108,060	6,895	20,672	30	135,637
Gross profit	16,146	3,496	9,740	30	29,412	17,617	1,921	10,958	30	30,526
Depreciation and amortisation	(640)	(16)	(652)	(89)	(1,397)	(719)	(2)	(660)	(89)	(1,470)
Other income	526	-	-	-	526	529	-	-	-	529
Operating profit before exceptional items	4,652	9	(132)	(1,962)	2,567	3,114	148	1,347	(1,479)	3,130
Exceptional items	(12)	-	(28)	(835)	(875)	(1)	-	-	-	(1)
Operating profit /(loss)	4,640	9	(160)	(2,797)	1,692	3,113	148	1,347	(1,479)	3,129
Finance costs					(108)					(192)
Finance income					38					22
Profit from associate					66					70
Profit before tax					1,688					3,029
Total Assets	7,275	2,233	5,328	23,525	38,361	12,534	1,661	6,390	21,226	41,811
Total Liabilities	(6,617)	(480)	(2,015)	(5,733)	(14,845)	(7,232)	(775)	(2,251)	(9,831)	(20,089)

## Notes to the consolidated financial statements

As at 31 December 2019

**1 Segment reporting (continued)**

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

The majority of exceptional items included principally relate to the impairment of loans, and professional fees for non-trading M&A expenditure. Refer to note 4 for a breakdown.

Revenue reported above is generated from external customers. There were no sales between segments in the year (2018: nil).

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

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

There is one external customer that represented 14% (2018: 21%) of the entity's revenues, with revenue of £17.3m (2018: £29.1m), and approximately 4% (2018: 8%) of the Group's NFI which is included in the EMEA segment.

**(b) Revenue and gross profit by geography:**

	Revenue		Gross profit	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>UK</b>	<b>83,651</b>	98,822	<b>12,566</b>	13,903
<b>Rest of world</b>	<b>37,626</b>	36,815	<b>16,846</b>	16,623
	<b>121,277</b>	135,637	<b>29,412</b>	30,526

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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Permanent</b>	<b>17,648</b>	17,828	<b>17,645</b>	17,802
<b>Contract</b>	<b>103,629</b>	117,809	<b>11,767</b>	12,724
	<b>121,277</b>	135,637	<b>29,412</b>	30,526

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.



## Notes to the consolidated financial statements

As at 31 December 2019

**2 Finance costs**

	2019 £'000	2018 As restated £'000
Invoice discounting and associated costs	37	100
Finance costs on lease liabilities	71	92
	<b>108</b>	<b>192</b>

**3 Finance income**

	2019 £'000	2018 £'000
Bank interest	38	22
	<b>38</b>	<b>22</b>

**4 Underlying profit before tax and exceptional items**

Underlying PBT is calculated as follows:

	2019 £'000	2018 As restated £'000
Profit Before Tax	1,688	3,029
Non-controlling loss/(profit)	43	(159)
Non-trading/exceptional items*	875	51
Amortisation of acquired intangibles	89	89
Share based payments	120	75
Foreign exchange losses	74	101
<b>Underlying PBT</b>	<b>2,889</b>	<b>3,186</b>

Underlying EPS is calculated as follows:

	2019 £'000	2018 As restated £'000
Underlying PBT	2,889	3,187
Tax expense	(391)	(318)
<b>Underlying PAT</b>	<b>2,498</b>	<b>2,869</b>
Weighted average number of shares (million)	33.5	32.6
<b>Underlying EPS</b>	<b>7.5p</b>	<b>8.9p</b>

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

	2019 £'000	2018 £'000
Restructuring costs	40	66
Rates rebate	-	(520)
Right of use asset impairment	-	455
Impairment of loans	542	-
Professional fees	293	-
<b>Total</b>	<b>875</b>	<b>1</b>

Non trading costs incurred in the year principally relate to the impairment of loans and professional fees for non-trading M&A expenditure. These are included within administrative expenses in the Consolidated Statement of Comprehensive Income.

## Notes to the consolidated financial statements

As at 31 December 2019

## 5 Profit before taxation

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

	2019 £'000	2018 As restated £'000
Amortisation of intangible assets (note 10)	179	181
Depreciation of property, plant and equipment (owned assets – note 11)	214	209
Depreciation of right of use assets (note 30)	1,004	1,080
Profit in associate (note 9)	(66)	(70)
Staff costs (note 23)	19,630	19,906
Foreign exchange losses	74	101
Right of use asset impairment	-	455
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor:		
- for the audit of the Company and Group annual accounts	19	25
- for the audit of the Company's subsidiaries pursuant to legislation	151	135
<i>Total audit fees</i>	<b>170</b>	<b>160</b>
<i>Non-audit fees</i>		
- Other services	56	38
<i>Total non-audit fees</i>	<b>56</b>	<b>38</b>

## 6 Dividends

	2019 £'000	2018 £'000
<b>Amounts recognised and distributed to shareholders in the year</b>		
Final dividend for the year ended 31 December 2018 of 1.0p per share (2017: 0.8p per share)	324	257
Interim dividend for the year ended 31 December 2019 of 0.6p per share (2018: 0.5p per share)	197	163
	<b>521</b>	<b>420</b>

A final dividend has not been proposed for the year ended 31 December 2019.

## 7 Tax

(a) Analysis of tax charge for the year:

	2019 £'000	2018 As restated £'000
The charge based on the profit for the year comprises:		
<b>Corporation tax:</b>		
UK corporation tax on profits for the year	426	348
Adjustment to tax charge in respect of previous periods	-	(44)
	<b>426</b>	<b>304</b>
<b>Foreign tax</b>		
Current tax	-	4
Total current tax	<b>426</b>	<b>308</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	-	62
Adjustment to tax charge in respect of previous periods	(35)	(52)
Total deferred tax	<b>(35)</b>	<b>10</b>
<b>Tax charge on profit for the year</b>	<b>391</b>	<b>318</b>

UK corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## Notes to the consolidated financial statements

As at 31 December 2019

**7 Tax (continued)**

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

Profit before tax	<b>1,688</b>	3,029
Tax at the UK corporation tax rate of 19.00% (2018: 19.00%)	<b>320</b>	576
Effects of:		
Fixed asset differences	<b>17</b>	1
Expenses not deductible for tax purposes	<b>227</b>	80
Income not taxable	<b>(150)</b>	(68)
Effect of difference in tax rates	<b>(78)</b>	(33)
Utilisation of tax losses and other deductions	<b>(100)</b>	(224)
Tax losses carried forward not recognised for deferred tax	<b>238</b>	227
Adjustment to tax charge in respect of prior periods	<b>(83)</b>	(216)
Share-based payments	-	(25)
Tax charge for the year	<b>391</b>	318

Short term timing differences relate to the differences between taxable profits and total comprehensive income as stated in the financial statements throughout the Group.

In total, at the reporting date, the Group had unutilised tax losses of £7.3m (2018: £6.5m) available for offset against future profits, for which a deferred tax asset of £0.2m has been recognised. Further tax assets have not been recognised due to the uncertainty of future profits being recognised where the losses have arisen. There has been no deferred tax charge relating to share options charged directly to equity (2018: nil). The Group is unaware of any uncertain or irregular tax judgements or treatments that would have a material impact on the tax charge for the current or prior year.

## Notes to the consolidated financial statements

As at 31 December 2019

## 8 Goodwill

	2019 £'000	2018 £'000
<b>Cost</b>		
At 1 January	21,331	21,301
Additions	-	30
Gain of bargain purchase	(46)	-
At 31 December	21,285	21,331
<b>Accumulated impairment losses</b>		
At 1 January	(9,087)	(9,087)
At 31 December	(9,087)	(9,087)
<b>Carrying amount at 31 December</b>	<b>12,198</b>	<b>12,244</b>
<b>Allocation of goodwill to cash generating units (CGU):</b>		
EMEA (including USA) Professional Support Services	10,141	10,141
Argyll Scott Group	2,057	2,103

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 2019 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 determines that there has been no impairment in the carrying value of goodwill in 2019 (£nil).

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	2020 %	2021-2024 %	Discount rate %
EMEA (including USA) Professional Support Services	2.5%	2.5%	13.4%
Argyll Scott Group	2.5%	2.5%	13.4%

For the purposes of the goodwill impairment review, the Board consider it prudent to assume a 2.5% revenue growth on pre-tax actuals for 2020 through to 2024. The revenue growth rates for 2020-2024 are the Group's own internal forecasts, supported by external industry reports. 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 noted. Following the outbreak of Covid-19, the Group has further sensitised the numbers which the Board are confident will have no material impact on goodwill.

## Notes to the consolidated financial statements

As at 31 December 2019

## 9 Investment in associate

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

	2019 £'000	2018 £'000
1 January	120	50
Share of associate's profit	66	70
<b>31 December</b>	<b>186</b>	<b>120</b>

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

## Tempting Ventures Limited aggregated results

	2019	2018
Net (Liabilities) Assets:	(£0.2m)	£0.0m
Gross Profit:	£6.0m	£4.7m
Net Profit	£0.1m	£0.2m

## 10 Other intangible assets

	Computer software £'000	Database £'000	Brand £'000	Total £'000
<b>Cost</b>				
At 1 January 2018	2,125	500	125	2,750
Additions	102	-	-	102
At 31 December 2018	2,227	500	125	2,852
<b>Additions</b>	<b>208</b>	<b>-</b>	<b>-</b>	<b>208</b>
<b>Disposals</b>	<b>(1,815)</b>	<b>-</b>	<b>-</b>	<b>(1,815)</b>
<b>At 31 December 2019</b>	<b>620</b>	<b>500</b>	<b>125</b>	<b>1,245</b>
<b>Amortisation and impairment</b>				
At 1 January 2018	(1,909)	(42)	(10)	(1,961)
Charge for the year	(93)	(70)	(18)	(181)
At 31 December 2018	(2,002)	(112)	(28)	(2,142)
<b>Charge for the year</b>	<b>(91)</b>	<b>(70)</b>	<b>(18)</b>	<b>(179)</b>
<b>Disposals</b>	<b>1,815</b>	<b>-</b>	<b>-</b>	<b>1,815</b>
<b>At 31 December 2019</b>	<b>(278)</b>	<b>(182)</b>	<b>(46)</b>	<b>(506)</b>
<b>Net book value at 31 December 2019</b>	<b>342</b>	<b>318</b>	<b>79</b>	<b>739</b>
Net book value at 31 December 2018	225	388	97	710

During the year, the Group disposed of fully written down assets no longer utilised by the Group of £1.8m.

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

## Notes to the consolidated financial statements

As at 31 December 2019

## 11 Property, plant and equipment

	Computer and office equipment £'000	Leasehold improvements £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	668	1,959	2,627
Additions	255	14	269
At 31 December 2018	923	1,973	2,896
<b>Additions</b>	<b>126</b>	<b>8</b>	<b>134</b>
<b>Disposals</b>	<b>(670)</b>	<b>(294)</b>	<b>(964)</b>
<b>At 31 December 2019</b>	<b>379</b>	<b>1,687</b>	<b>2,066</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2018	(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)
<b>Charge for the year</b>	<b>(123)</b>	<b>(91)</b>	<b>(214)</b>
<b>Disposals</b>	<b>670</b>	<b>294</b>	<b>964</b>
<b>Exchange differences</b>	<b>(6)</b>	<b>(4)</b>	<b>(10)</b>
<b>At 31 December 2019</b>	<b>(119)</b>	<b>(1,090)</b>	<b>(1,209)</b>
<b>Net book value at 31 December 2019</b>	<b>260</b>	<b>597</b>	<b>857</b>
Net book value at 31 December 2018	263	684	947

## Notes to the consolidated financial statements

As at 31 December 2019

## 12 Deferred tax

Deferred tax asset	Unutilised tax losses £'000	Short term timing differences £'000	Total £'000
At 1 January 2019 (as restated)	-	282	282
Credited/(charged) to profit or loss	150	(136)	14
<b>At 31 December 2019</b>	<b>150</b>	<b>146</b>	<b>296</b>

Deferred tax (liability)	Accelerated capital allowances £'000	Intangible Assets £'000	Total £'000
At 1 January 2019	(20)	(97)	(117)
Credited to profit or loss	3	18	21
<b>At 31 December 2019</b>	<b>(17)</b>	<b>(79)</b>	<b>(96)</b>

In total, at the reporting date, the Group had unutilised tax losses of £7.3m (2018: £6.5m) available for offset against future profits, for which a deferred tax asset of £0.2m has been recognised.

## 13 Trade and other receivables

Trade and other receivables are as follows:	<b>2019 £'000</b>	<b>2018 £'000</b>
Trade receivables	11,151	10,780
Expected credit losses	(123)	(279)
Contract assets	4,921	7,414
Prepayments	645	749
Other taxes and social security costs	109	-
Other receivables:		
- due within 12 months	430	1,045
- due after more than 12 months	417	274
<b>Total</b>	<b>17,550</b>	<b>19,983</b>
<b>Current</b>	<b>17,133</b>	<b>19,709</b>
<b>Non- current</b>	<b>417</b>	<b>274</b>

As at 31 December 2019, the average credit period taken by clients was 33 days (2018: 28 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. Expected credit losses of £123,000 (2018: £279,000) 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.

## Notes to the consolidated financial statements

As at 31 December 2019

**13 Trade and other receivables (continued)**

Contract assets 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 recognise expected credit losses 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.

Included in the Group's trade receivable balances are receivables with a carrying amount of £4.1m (2018: £2.9m) 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.

Movement in expected credit losses:	<b>2019 £'000</b>	2018 £'000
1 January	<b>(279)</b>	(135)
Expected credit losses	<b>(123)</b>	(279)
Impairment losses reversed	<b>279</b>	135
<b>31 December</b>	<b>(123)</b>	(279)

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 (2018: nil).

Ageing of expected credit losses:	<b>Gross carrying amount</b>	<b>Expected loss rate</b>	<b>Total</b>	Gross carrying amount	Expected loss rate	Total
	<b>2019 £'000</b>	<b>2019 %</b>	<b>2019 £'000</b>	2018 £'000	2018 %	2018 £'000
0-30 days	<b>7,265</b>	<b>0.7</b>	<b>51</b>	6,715	0.5	34
31-60 days	<b>2,950</b>	<b>1.5</b>	<b>44</b>	2,236	1.5	34
61-90 days	<b>585</b>	<b>2.6</b>	<b>15</b>	978	2.5	24
90+ days	<b>351</b>	<b>3.7</b>	<b>13</b>	851	3.6	31
<b>31 December</b>	<b>11,151</b>		<b>123</b>	10,780		123

As at 31 December 2019 trade receivables of nil (2018: £156,000) had lifetime credit losses of the full value of receivables.

As at 31 December 2019 trade receivables to a value of £5.7m were subject to an invoice financing facility (2018: £6.2m).



## Notes to the consolidated financial statements

As at 31 December 2019

**14 Cash and cash equivalents**

Cash and cash equivalents are as follows:	<b>2019</b>	2018
	<b>£'000</b>	£'000
Short-term bank deposits	<b>4,620</b>	5,227
	<b>4,620</b>	5,227

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:	<b>2019</b>	2018
	<b>£'000</b>	As restated £'000
Trade payables	<b>1,216</b>	1,516
Other taxes and social security costs	<b>998</b>	1,279
Other payables	<b>1,081</b>	1,806
Accruals	<b>8,018</b>	9,147
	<b>11,313</b>	13,748

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 18 days (2018: 20 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**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Invoice discounting	<b>154</b>	293

As at 31 December 2019, the Group had one (2018: two) invoice discounting facility 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 2022.

The Barclays facility was terminated in January 2019.

## Notes to the consolidated financial statements

As at 31 December 2019

## 17 Provisions

	Leasehold dilapidations £'000	System Integration £'000	Onerous short-term leaseholds £'000	Onerous contracts £'000	Total £'000
At 1 January 2018 (as restated)	447	217	379	62	1,105
New provision	11	-	-	-	11
Utilised	(74)	(217)	(379)	(62)	(732)
<b>At 31 December 2018 (as restated)</b>	<b>384</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384</b>
<b>Utilised</b>	<b>(58)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(58)</b>
<b>At 31 December 2019</b>	<b>326</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>326</b>
<b>Current</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>	<b>326</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>326</b>

The dilapidations provisions relate to the Group's current leased offices in UK, Singapore, Hong Kong, Malaysia and Thailand. This provision will unwind over the course of the lease agreements which range from 2-10 years.

## 18 Share-based payments

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

**EMI & Unapproved Schemes:** During 2019, 480,000 shares were exercised (2018: 400,000 shares). 25,000 shares were forfeited during the year (2018: 25,000 shares).

**Leadership Scheme:** During the year, 275,000 shares were granted in (2018: 740,000 shares). 479,000 forfeited in the year based on performance conditions not being met. 95,250 shares were exercised during the year. 1,847,500 shares remain as at 31 December 2019.

**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. No shares were issued within Hydrogen International Limited during the year (2018: 700 shares) which equated to approximately nil Hydrogen Group plc shares if exercised (2018: 113,032 shares). No shares were issued within Argyll Scott Holdings (2018: 600 shares) which equated to approximately nil Hydrogen Group plc shares if exercised (2018: 117,079 shares). 486,479 shares were transferred to employees based on milestones being achieved on the 2018 scheme (2018: 336,354 shares).

The expense arising from the share-based option schemes during the year was £0.1m (2018: £0.1m).

## Notes to the consolidated financial statements

As at 31 December 2019

## 18 Share-based payments (continued)

## EMI, Unapproved and CSOP 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 – 27-Nov-19
Number granted	1,455,000	455,000	125,000	630,000	3,000,000
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
<b>Fair value calculated by applying the Black Scholes or Monte Carlo option pricing model:</b>					
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 - £0.36
Expected volatility	62%	62%	62%	62%	18% - 27%
Expected dividends	-	-	-	-	0 – 1%
Contractual life	10 years	10 years	10 years	10 years	10 years
Risk Free Rate	2%	2%	2%	2%	0.75%

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,826,750	21p	2,760,000	21p
Granted during the period	275,000	34p	740,000	34p
Forfeited during the period	(479,000)	31p	(273,250)	31p
Exercised during the period	(575,250)	1p	(400,000)	1p
<b>Outstanding at end of year</b>	<b>2,047,500</b>		<b>2,826,750</b>	
<b>Exercisable during 2019</b>	<b>464,000</b>	<b>1p</b>	<b>890,750</b>	<b>1p</b>
<b>Exercisable after 2020</b>	<b>1,583,500</b>	<b>34p</b>	<b>1,936,000</b>	<b>34p</b>

## Notes to the consolidated financial statements

As at 31 December 2019

**18 Share-based payments (continued)**

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

	31 December 2019				31 December 2018			
	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	150,000	1p	5.5 years	1p	630,000	1p	5.5 years
2016 issue	1p	50,000	1p	6.5 years	1p	50,000	1p	6.5 years
2017 issue	34p	1,062,500	34p	7.5 years	34p	1,406,750	34p	7.5 years
2018 issue	34p	510,000	34p	8.5 years	34p	740,000	34p	8.5 years
2019 issue	36p	275,000	36p	9.5 years	-	-	-	-
		<b>2,047,500</b>				<b>2,826,750</b>		

**Share Incentive Plan (SIP)**

212,895 shares were held in the Hydrogen Group share incentive plan at the year end.

## Notes to the consolidated financial statements

As at 31 December 2019

**19 Share capital**

The share capital at 31 December 2019 was as follows:

	2019		2018	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
<b>Issued and fully paid:</b>				
At 1 January	34,127,927	341	33,425,823	334
Issuance of new shares	207,000	2	702,104	7
<b>31 December</b>	<b>34,334,927</b>	<b>343</b>	<b>34,127,927</b>	<b>341</b>

During 2019, 100,000 options were exercised (2018: 400,000), all of which were satisfied by the issuance of new shares.

At 31 December 2019, 766,301 (2018: 1,162,051) shares were held in the EBT.

At 31 December 2019, 545,521 (2018: 385,000) shares were held in Treasury.

At 31 December 2019, 212,895 (2018: 212,895) 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. 207,000 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 23 May 2019, 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 £114,093; 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 £114,093, 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 3,422,792.

Shareholders will be asked to renew and update these authorities at the AGM in 2020.

## Notes to the consolidated financial statements

As at 31 December 2019

**20 Own shares held**

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

At 31 December 2019, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	2019	2018
As at 1 January	1,162,051	1,162,051
Transferred out	(395,750)	-
As at 31 December	766,301	1,162,051
	£'000	£'000
Nominal value	8	12
Carrying value	882	1,338

At 31 December 2019, the total number of ordinary shares held in Treasury and their values were as follows:

Shares held in Treasury	2019	2018
As at 1 January	385,000	-
Transferred out	(379,479)	-
New shares purchased	540,000	385,000
As at 31 December	545,521	385,000
	£'000	£'000
Nominal value	5	4
Carrying value	289	208

**Reconciliation of own shares held**

	2019	2018
	£'000	£'000
As at 1 January	1,546	1,338
Additions	286	208
Transfers out	(661)	-
As at 31 December	1,171	1,546

## Notes to the consolidated financial statements

As at 31 December 2019

**21 Earnings per share**

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

Diluted earnings 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	2019 £'000	2018 As restated £'000
<b>Earnings</b>		
Profit attributable to equity holders of the parent	1,340	2,552
<b>Adjusted earnings</b>		
Profit for the year	1,340	2,552
Add back: exceptional costs	875	1
	2,215	2,553
	2019	2018
<b>Number of shares</b>		
Weighted average number of shares used for basic and adjusted earnings per share	33,491,503	32,608,110
Dilutive effect of share plans*	2,338,521	3,211,955
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	35,830,024	35,820,065
Basic profit per share (pence)	4.00p	7.83p
Diluted profit per share (pence)	3.74p	7.13p
Adjusted basic profit earnings per share (pence)	6.61p	7.83p
Adjusted diluted profit earnings per share (pence)	6.18p	7.13p

\*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). No shares have been identified to have an antidilutive effect.

# Notes to the consolidated financial statements

As at 31 December 2019

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## 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 purchase 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.



## Notes to the consolidated financial statements

As at 31 December 2019

**23 Employees**

The average number of employees (including Directors) during the year and the total number of employees at 31 December 2019 was as follows:

	Average no. 2019	Average no. 2018	31 December 2019	31 December 2018
Client services	246	265	224	278
Administration	87	65	92	63
Management	4	4	4	4
	<b>337</b>	<b>334</b>	<b>320</b>	<b>345</b>

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

	2019 £'000	2018 £'000
Wages and salaries	17,734	18,026
Social security costs	1,263	1,449
Other pension costs	513	356
Share-based payments (see note 18)	120	75
	<b>19,630</b>	<b>19,906</b>

**Directors' emoluments**

	2019 £'000	2018 £'000
Emoluments for qualifying services	717	902
	<b>717</b>	<b>902</b>

Information on Directors' emoluments (page 30) and interests (page 29), 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:

	2019 £'000	2018 £'000
Emoluments for qualifying services	311	420
	<b>311</b>	<b>420</b>

**Remuneration of key management**

	2019 £'000	2018 £'000
Short term employee benefits (including social security costs)	1,149	1,283
Share-based payments	71	55
	<b>1,220</b>	<b>1,338</b>

## Notes to the consolidated financial statements

As at 31 December 2019

## 24 Notes to the cash flow statement

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

	2019 £'000	2018 As restated £'000
Profit before taxation	1,688	3,029
Less profit from associate	(66)	(70)
Add back exceptional items	875	1
Adjusted profit	2,497	2,960
Adjusted for:		
Depreciation and amortisation	1,466	1,470
(Decrease)/increase in non-exceptional provisions	(58)	11
Interest paid on lease liabilities	(71)	(92)
FX unrealised losses	26	67
Share-based payments	120	75
FX realised losses	49	34
Operating cash flows before movements in working capital	4,029	4,525
Increase in receivables	2,433	4,094
Decrease in payables	(2,435)	(942)
Net cash outflow from operating activities before exceptional items	4,027	7,677
Cash flows arising from exceptional costs	(404)	131
Net cash outflow from operating activities	3,623	7,808

## b. Reconciliation of net cash and borrowings:

	2019 £'000	2018 £'000
Cash and cash equivalents at the end of the year	4,620	5,227
Borrowings at the start of the year	(293)	(3,132)
Decrease in borrowings	139	2,045
Borrowings at the end of the year	(154)	(293)
Net cash at the end of the year	4,466	4,934

## c. Reconciliation of financing cashflows

	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)
Lease liabilities	(4,520)	1,392	(162)	(3,290)
	(8,672)	4,373	(1,539)	(5,838)

	At 1 January 2019	Financing cash flows	Other non-cash changes	31 December 2019
Borrowings	(293)	139	-	(154)
Redemption liability	(2,255)	506	1,513	(236)
Lease liabilities	(3,290)	1,418	(692)	(2,564)
	(5,838)	2,063	821	(2,954)

## Notes to the consolidated financial statements

As at 31 December 2019

## 25 Operating lease receivables

## 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:

	2019 £'000	2018 £'000
Within one year	312	551
Between one and five years	-	312
	<b>312</b>	<b>863</b>

The operating lease receivables represent rentals receivable by the Group for the two floors subleased in its office property based in London. As these leases are typically on short let agreements, it is deemed that not all the risks and rewards of the head lease have been transferred.

## 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 2019.

The gearing ratio at the year-end is as follows	2019 £'000	2018 As restated £'000
Debt (note 16)	(154)	(293)
Cash and cash equivalents (note 14)	4,620	5,227
Net cash	4,466	4,934
Equity	23,442	21,457
Net cash to equity ratio	19.1%	23.0%

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.

## Notes to the consolidated financial statements

As at 31 December 2019

## 26 Financial risk management (continued)

## 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.

	2019 £'000	2018 As restated £'000
<b>Financial assets</b>		
Amortised cost of financial assets		
Trade receivables net of impairment provision	11,028	10,501
Other receivables	847	1,319
Contract assets	4,921	7,414
Cash and cash equivalents	4,620	5,227
	<b>21,416</b>	<b>24,461</b>
<b>Financial liabilities at fair value</b>		
Redemption liability	236	2,255
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	2,297	3,322
Accruals	8,018	9,147
Lease liabilities	2,564	3,290
Borrowings	154	293
	<b>13,033</b>	<b>16,052</b>

## Financial instruments measured at fair value

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

	Level 3	
	2019 £'000	2018 £'000
<b>Financial liabilities</b>		
Redemption liability	236	2,255
	<b>236</b>	<b>2,255</b>

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.

# Notes to the consolidated financial statements

As at 31 December 2019

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## 26 Financial risk management (continued)

### *Foreign currency risks*

The Group publishes its consolidated financial statements in Sterling and approximately 69% 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, the United Arab Emirates Dirham 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, these loan balances are classified as non-trading loans based on the nature of the activity in the accounts and are treated as part of the net investment. The exchange differences arising from the translation of these loans 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 2022 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.

## Notes to the consolidated financial statements

As at 31 December 2019

**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 30. 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. Dividends paid to Directors totalled £91,000 (2018: £86,000). Total dividends paid to all shareholders in the year was £521,000 (2018: £420,000).

No single party has ultimate control of the company.

As at 1 January 2019, John Hunter had a loan outstanding from Hydrogen Group plc of £8,000 (1 January 2018: £28,000), which arose as a result of the acquisition of Argyll Scott in 2017. During the year, repayments of £8,000 have been repaid (2018: £20,000). The loan has now been repaid in full.

Hydrogen Group plc holds a 49% of the shareholding in Tempting Ventures Limited. Loans outstanding with the Company total £500,000 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. During the year, all loans and interest accrued with Tempting Ventures have been fully provided for as they are no longer considered recoverable.

Professional fees paid in relation to Tempting Ventures for the Group was £47,000. Total income for the year in relation to Tempting Ventures for the Group was £168,000.

**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 Group PE with a floor of 5 and a cap of 7.5) multiplied by PAT of previous years audited accounts.	
Argyll Scott International (Hong Kong) Ltd		30 April 2019		
Argyll Scott Hong Kong Ltd		30 April 2020		
Argyll Scott International (Singapore) Ltd		30 April 2021		
Argyll Scott Singapore Ltd				
Argyll Scott Recruitment (Thailand) Ltd				
Argyll Scott Malaysia Sdn Bhd				

During the year, Hydrogen Group plc, bought back 7.5% of the relevant entities noted on the above schedule. A total of £0.4m 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. Additionally, £0.1m was paid on an accelerated basis for the remaining 22.5% of Argyll Scott Technology.

## Notes to the consolidated financial statements

As at 31 December 2019

## 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:

	2019 £'000	2018 £'000
As at 1 January	2,255	1,020
NCI pay-out	(506)	(142)
Fair value adjustment	(1,513)	1,377
As at 31 December	236	2,255
Current	-	615
Non-current	236	1,640

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 best estimate of Argyll Scott's further trading prospects.

## 29 Adjustments recognised on adoption of IFRS 16

The Group has adopted IFRS 16 with respect to the recognition and measurement of leases on a fully retrospective basis.

The impact of this change in accounting policy on the comparative figures previously reported is illustrated below on each line item of the Group financial statements that has been affected:

As reported under previous policy		Adjustments		Restated under the new accounting policy	
Y/E 2018 £'000	Y/E 2017 £'000	Y/E 2018 £'000	Y/E 2017 £'000	Y/E 2018 £'000	Y/E 2017 £'000
<b>Consolidated Statement of Comprehensive Income</b>					
Gross profit	30,526	-		30,526	
Other administrative expenses	(28,237)	312		(27,925)	
Finance costs	(100)	(92)		(192)	
Profit before tax	2,809	220		3,029	
Tax	(358)	40		(318)	
<b>Profit after tax</b>	<b>2,451</b>	<b>260</b>		<b>2,711</b>	
<b>Consolidated Statement of Financial Position</b>					
Right of use asset	-	2,298	3,763	2,298	3,763
Deferred tax asset	112	170	130	282	311
<b>Total Assets</b>	<b>39,343</b>	<b>2,468</b>	<b>3,893</b>	<b>41,811</b>	<b>45,146</b>
Lease Liability	-	(3,290)	(4,520)	(3,290)	(4,520)
Trade and other payables	(14,705)	(96)	(96)	(14,801)	(15,743)
Accruals	(10,200)	1,053	1,053	(9,147)	(9,293)
Provisions	(839)	455	-	(384)	(1,105)
<b>Total Liabilities</b>	<b>(18,211)</b>	<b>(1,878)</b>	<b>(3,563)</b>	<b>(20,089)</b>	<b>(24,603)</b>
<b>Total Equity</b>	<b>21,132</b>	<b>590</b>	<b>330</b>	<b>21,722</b>	<b>20,543</b>

## Notes to the consolidated financial statements

As at 31 December 2019

**30 Right of use Asset**

	<b>Total £'000</b>
The following amounts where the Group was a lessee under finance leases for office buildings	
<b>Cost</b>	
Restated as at 1 January 2018	6,224
Additions	70
Restated as at 31 December 2018	6,294
<b>Additions</b>	<b>621</b>
<b>Disposals</b>	<b>(790)</b>
<b>At 31 December 2019</b>	<b>6,125</b>
<b>Accumulated depreciation and impairment</b>	
Restated as at 1 January 2018	(2,461)
Charge for the year	(1,080)
Impairment	(455)
Restated as at 31 December 2018	(3,996)
<b>Charge for the year</b>	<b>(1,004)</b>
<b>Disposals</b>	<b>790</b>
<b>At 31 December 2019</b>	<b>(4,210)</b>
<b>Net book value at 31 December 2019</b>	<b>1,915</b>
Net book value at 31 December 2018	2,298

**31 Lease Liabilities**

Lease liabilities are presented in the statement of financial position as follows:

	<b>2019 £'000</b>	<b>2018 £'000</b>
Current	<b>512</b>	649
Non-current	<b>2,052</b>	2,641

All lease liabilities relate to office properties in the Group. Leases are negotiated with an average term of 4.9 years. The lease payments are discounted using the weighted average lessee's incremental borrowing rate of 2.3%. Interest payable in the year on lease liabilities of £0.1m (2018: £0.1m).

**32 Non adjusting post balance sheet event considerations**

As a result of recent developments with COVID-19, the Board has identified the following items that may have a material impact on the Net Assets of the Group:

*Investment in Associate – note 9*

Current market conditions make it difficult to assess the likely short-term trading performance of Tempting Ventures Limited. Although the Board is mindful that Tempting Ventures Limited may well be able to access government loans and other support, the potential impact on the Group's financial statements would be to impair this investment, which at 31 December 2019 was £0.2m.

*Redemption liability – note 28*

Current market conditions make it difficult to assess the likely trading performance on Argyll Scott in APAC, which will in turn will impact the earn out consideration that becomes payable. At 31 December 2019 the consideration that will be due to acquire the remaining 7.5% of Argyll Scott business in APAC is provided for at £0.2m. As trading remains uncertain and currently behind budget, it is possible that this liability will be reduced to nil.

No other items have been identified as at the date of approval of these financial statements.



## HYDROGEN GROUP PLC

## Parent company statement of financial position

As at 31 December 2019

	Note	2019 £'000	2018 As restated £'000	2017 As restated £'000
<b>Non-current assets</b>				
Investments in subsidiaries	6	10,372	11,482	9,987
Investments in associate	6	186	120	50
Deferred tax asset	7	33	13	1
Amounts owed by subsidiary undertakings	9	7,400	4,601	4,240
		17,991	16,216	14,278
<b>Current assets</b>				
Trade and other receivables	8	94	773	406
Amounts owed by subsidiary undertakings	9	5,403	4,212	5,842
Current tax receivable		25	25	176
Cash at bank and in hand		12	-	1
		5,534	5,010	6,425
<b>Total assets</b>		<b>23,525</b>	<b>21,226</b>	<b>20,703</b>
<b>Current liabilities</b>				
Cash overdraft		-	(22)	-
Lease liabilities	17	(149)	(731)	(714)
Trade and other payables	10	(493)	(1,454)	(536)
		(642)	(2,207)	(1,250)
<b>Non-current liabilities</b>				
Trade and other payables	10	(236)	(1,640)	(951)
Lease liabilities	17	(1,898)	(2,047)	(2,778)
Amounts owed to subsidiary undertakings		(2,957)	(3,937)	(1,532)
		(5,091)	(7,624)	(5,261)
<b>Total liabilities</b>		<b>(5,733)</b>	<b>(9,831)</b>	<b>(6,511)</b>
<b>Net assets</b>		<b>17,792</b>	<b>11,395</b>	<b>14,192</b>
<b>Equity shareholders' funds</b>				
Share capital	11	343	341	334
Share premium account		3,607	3,520	3,520
Merger reserve		3,140	3,140	3,140
Own shares held	12	(1,171)	(1,546)	(1,338)
Share option reserve		1,324	1,204	1,014
Retained earnings		10,549	4,736	7,522
<b>Equity shareholders' funds</b>		<b>17,792</b>	<b>11,395</b>	<b>14,192</b>

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 profit for the financial year ended 31 December 2019 of £6,728,000 (2018: loss £2,366,000).

The financial statements on pages 80 to 93 were approved by the Board of Directors and authorised for issue on 6 April 2020 and were signed on its behalf by:

**Ian Temple**

**CEO**

Hydrogen Group plc

Registered office: 30-40 Eastcheap, London, EC3M 1HD

Registered in England and Wales no: 5563206



## HYDROGEN GROUP PLC

## Parent company statement of changes in equity

As at 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2017 (as restated)	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
MI scheme pay out	2	87	-	205	-	106	400
Hive up adjustment (see details below)	-	-	-	-	-	(53)	(53)
EBT Transfer	-	-	-	170	-	(447)	(277)
Share scheme contribution	-	-	-	-	120	-	120
Dividends (note 4)	-	-	-	-	-	(521)	(521)
Transactions with owners	2	87	-	375	120	(915)	(331)
Profit for the year	-	-	-	-	-	6,728	6,728
Total comprehensive loss for the year	-	-	-	-	-	6,728	6,728
Balance at 31 December 2019	343	3,607	3,140	(1,171)	1,324	10,549	17,792

Following a review in the current year, the Company has processed a hive up adjustment relating to a correction in the accounting treatment of an original investment in Hydrogen Academy Limited and the hive up of its trade and assets in 2011. The amendment reflects the reduction in the original cost of the investment as the amount released to Retained Earnings.

## HYDROGEN GROUP PLC

# Notes to the parent company financial statements

## For the year ended 31 December 2019

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### 1 Significant accounting policies

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 16.

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new Standard has been applied using the fully retrospective approach. Please see note 17 for further details.

### 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 2019. 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.

### 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.

# Notes to the parent company financial statements

## For the year ended 31 December 2019

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### 1 Significant accounting policies (continued)

#### 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.

#### 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 Company 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 in the Group's consolidated accounts.

#### Other payables

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

# Notes to the parent company financial statements

## For the year ended 31 December 2019

### 1 Significant accounting policies (continued)

#### Leased assets

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

##### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments expected to be payable under the terms of the lease. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

##### *Measurement of sublease income*

The Company's London office was sub-let to two other tenants during the year. Income received from these tenancies was recognised as other income within the statement of comprehensive income.

##### *The Company has also elected to apply the following practical expedients:*

- Short-term leases (leases with 12 months or less or cancellable within 12 months) as at the date of adoption of the new standard.
- Leases for which the asset is of low value, for example IT equipment.

Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

#### 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 cashflows.

##### *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.

# HYDROGEN GROUP PLC

## Notes to the parent company financial statements

### For the year ended 31 December 2019

#### 1 Significant accounting policies (continued)

##### Significant management judgement in applying accounting policies (continued)

###### *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 (2018: £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:	2019 £'000	2018 £'000
Wages and salaries	635	981
Social security costs	69	76
Other pension costs	5	21
<b>Total</b>	<b>709</b>	<b>1,078</b>

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 (2018: 5).

#### 4 Dividend

	2019 £'000	2018 £'000
<b>Amounts recognised and distributed to shareholders in the year</b>		
Final dividend for the year ended 31 December 2018 of 1.0p per share (2017: 0.8p per share)	324	257
Interim dividend for the year ended 31 December 2019 of 0.6p per share (2018: 0.5p per share)	197	163
	<b>521</b>	<b>420</b>

A final dividend has not been proposed for the year ended 31 December 2019.

#### 5 Share-based payments

The total expense arising from the share-based option schemes during the year was £0.1m (2018: £0.2m).

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

	2019 £'000	2018 £'000
Hydrogen International	120	190
<b>Total</b>	<b>120</b>	<b>190</b>

# HYDROGEN GROUP PLC

## Notes to the parent company financial statements

### For the year ended 31 December 2019

#### 6 Non-current investments

	2019 £'000	2018 £'000
<b>Subsidiary undertakings at cost</b>		
At 1 January	11,482	9,987
Additions	508	118
Fair value adjustment	(1,513)	1,377
Impairment	(105)	-
<b>At 31 December</b>	<b>10,372</b>	<b>11,482</b>

Additions in the year mainly relate to the Company acquiring shares in Hydrogen International as per the Hydrogen's Minority Interest scheme.

The fair value adjustment in the year consists of a £1.5m reduction in earn out payments as part of the redemption liability. The impairment of £0.1m relates to a write down of trading investments with Switzerland, Germany, Netherlands and Norway.

#### 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%
Argyll Scott Interim Limited (formally 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	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%
Argyll Scott Interim Limited (formally Hydrogen Group Pte Limited)	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	100%
Argyll Scott Consulting 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%
Project Partners Limited	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Argyll Scott Holdings Ltd	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	100%
Hydrogen Professional Ltd (formally Argyll Scott International Ltd)*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	90%
Hydrogen International 2 Ltd (formally Argyll Scott Technology Ltd)*	United Kingdom	30 - 40 Eastcheap, London, United Kingdom, EC3M 1HD	Recruitment	85%

HYDROGEN GROUP PLC

# Notes to the parent company financial statements

For the year ended 31 December 2019

**6 Non-current investments (continued)**

**Subsidiaries (continued)**

Argyll Scott International (Hong Kong) Ltd*	Hong Kong	8/F, Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong	Recruitment	85%
Argyll Scott Hong Kong Ltd*	Hong Kong	12 Floor, No. 8 Queen's Road Central, Hong Kong	Recruitment	85%
Argyll Scott International (Singapore) Ltd*	Singapore	30 Cecil Street #23-05/06 Prudential Tower Singapore 049712	Recruitment	85%
Argyll Scott Malaysia Sdn Bhd*	Malaysia	B4-3A-6, Solaris Dutamas, No.1, Jalan Dutamas 1, Kuala Lumpur, Malaysia	Recruitment	85%

\*held indirectly

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

**Associate undertakings at cost**

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

	2019 £'000	2018 £'000
1 January	120	50
Share of associate's profit	66	70
<b>31 December</b>	<b>186</b>	<b>120</b>

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

**Tempting Ventures Limited consolidated results**

	2019	2018
Net (Liabilities) Assets:	(£0.2m)	£0.0m
Gross Profit:	£6.0m	£4.7m
Net Profit	£0.1m	£0.2m



## HYDROGEN GROUP PLC

# Notes to the parent company financial statements

## For the year ended 31 December 2019

**7 Deferred tax**

	<b>Other £'000</b>
<b>Deferred tax asset</b>	
At 1 January 2018	1
Charged to profit or loss	12
At 31 December 2018	13
<b>Charged to profit or loss</b>	<b>20</b>
<b>At 31 December 2019</b>	<b>33</b>

No reversal of deferred tax is expected within the next twelve months (2018: nil).

In total, at the reporting date, the company had unutilised tax losses of £107,167 (2018: £159,301) available for offset against future profits, for which no deferred tax assets had been recognised.

**8 Trade and other receivables**

	<b>2019 £'000</b>	2018 £'000
Trade and other receivables are as follows:		
Trade receivables	6	22
Other taxation and social security	80	267
Other debtors and prepayments	8	484
<b>Current</b>	<b>94</b>	<b>773</b>

**9 Amounts owed by subsidiary undertakings**

	<b>2019 £'000</b>	2018 £'000
Amounts owed by subsidiary undertakings are as follows:		
Amounts owed by Group companies	17,839	13,550
Less: impairment provision	(5,036)	(4,737)
	<b>12,803</b>	<b>8,813</b>
<b>Current</b>	<b>5,403</b>	4,212
<b>Non- current</b>	<b>7,400</b>	4,601
	<b>12,803</b>	<b>8,813</b>

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. Expected credit losses of £5,036,000 (2018: £4,737,000) has been made for estimated irrecoverable amounts. The Company does not recognise expected credit losses 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.

	<b>2019 £'000</b>	2018 £'000
Movement in expected credit losses:		
1 January	(4,737)	(3,591)
Expected credit losses	(299)	(1,146)
<b>31 December</b>	<b>(5,036)</b>	<b>(4,737)</b>

HYDROGEN GROUP PLC

# Notes to the parent company financial statements

For the year ended 31 December 2019

**10 Trade and other payables**

	2019 £'000	2018 £'000
Trade and other payables are as follows:		
Trade payables	294	312
Accruals	198	527
Other payables	237	2,255
<b>Total</b>	<b>729</b>	<b>3,094</b>
<b>Current</b>	<b>493</b>	<b>1,454</b>
<b>Non- current</b>	<b>236</b>	<b>1,640</b>
	<b>729</b>	<b>3,094</b>

**11 Share capital**

The share capital at 31 December 2019 was as follows:

	2019		2018	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
<b>Issued and fully paid:</b>				
At 1 January	34,127,927	341	33,425,823	334
Issuance of new shares	207,000	2	702,104	7
<b>31 December</b>	<b>34,334,927</b>	<b>343</b>	<b>34,127,927</b>	<b>341</b>

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

HYDROGEN GROUP PLC

# Notes to the parent company financial statements

## For the year ended 31 December 2019

### 12 Own shares held

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

At 31 December 2019, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	2019	2018
As at 1 January	1,162,051	1,162,051
Transferred out	(395,750)	-
As at 31 December	766,301	1,162,051
	£'000	£'000
Nominal value	8	12
Carrying value	882	1,338

At 31 December 2019, the total number of ordinary shares held in Treasury and their values were as follows:

Shares held in Treasury	2019	2018
As at 1 January	385,000	-
Transferred out	(379,479)	-
New shares purchased	540,000	385,000
As at 31 December	545,521	385,000
	£'000	£'000
Nominal value	5	4
Carrying value	289	208

### Reconciliation of own shares held

	2019	2018
	£'000	£'000
As at 1 January	1,546	1,338
Additions	286	208
Transfers out	(661)	-
As at 31 December	1,171	1,546

## HYDROGEN GROUP PLC

# Notes to the parent company financial statements

### For the year ended 31 December 2019

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#### 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 £nil (2018: £0.5m) at the balance sheet date.

#### 15 Operating lease receivables

##### 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:

	2019 £'000	2018 £'000
Within one year	312	551
Between one and five years	-	312
	312	863

The operating lease receivables represent rentals receivable by the Company for the two floors subleased in its office property based in London. As these leases are typically on short let agreements, it is deemed that not all the risks and rewards of the head lease have been transferred.

## HYDROGEN GROUP PLC

# Notes to the parent company financial statements

## For the year ended 31 December 2019

### 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. Dividends paid to Directors totalled £91,000 (2018: £86,000). Total dividends paid to all shareholders in the year was £521,000 (2018: £420,000).

As at 1 January 2019, John Hunter had a loan outstanding from Hydrogen Group plc of £8,000 (1 January 2018: £28,000), which arose as a result of the acquisition of Argyll Scott in 2017. During the year, repayments of £8,000 have been repaid (2018: £20,000). The loan has now been repaid in full.

Hydrogen Group plc holds a 49% of the shareholding in Tempting Ventures Limited. Loans outstanding with the Company total £500,000 at year end. All loans (including interest) are included within other receivables. Interest of 5% is accrued annually on the balance. During the year, all loans and interest accrued with Tempting Ventures have been fully provided for as they are no longer considered recoverable.

Professional fees paid in relation to Tempting Ventures for the Company was £47,000. Total income for the year in relation to Tempting Ventures for the Company was £168,000.

### 17 Adjustments recognised on adoption of IFRS 16

The Company has adopted IFRS 16 with respect to the recognition and measurement of leases on a fully retrospective basis. The impact of this change in accounting policy on the comparative figures previously reported is illustrated below:

	YE 2018 £'000	YE 2017 £'000
Increase in intercompany with Hydrogen International Limited	2,778	3,492
Increase in lease liabilities	(2,778)	(3,492)

The above adjustments are in relation to leases held at our London office which are in the name of Hydrogen Group plc but have since inception been utilised and recognised fully in the Company's trading subsidiary Hydrogen International Limited. As such, a lease liability has been included in the Company's accounts with a corresponding intercompany receivable with Hydrogen International Limited.

#### *Lease Liabilities*

Lease liabilities are presented in the statement of financial position as follows:

	2019 £'000	2018 £'000
Current	149	731
Non-current	1,898	2,047
	<b>2,047</b>	<b>2,778</b>

The lease payments are discounted using the weighted average lessee's incremental borrowing rate of 2.3%. Interest payable in the year on lease liabilities of £0.1m (2018: £0.1m)

# Notes to the parent company financial statements

## For the year ended 31 December 2019

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### 18 Non adjusting post balance sheet event considerations

As a result of recent developments with COVID-19, the Board has identified the following items that may have a material impact on the Net Assets of the Company:

#### *Investment in Associate – note 6*

Current market conditions make it difficult to assess the likely short-term trading performance of Tempting Ventures Limited. Although the Board is mindful that Tempting Ventures Limited may well be able to access government loans and other support, the potential impact on the Group's financial statements would be to impair this investment, which at 31 December 2019 was £0.2m.

#### *Redemption liability*

Current market conditions make it difficult to assess the likely trading performance on Argyll Scott in APAC, which will in turn will impact the earn out consideration that becomes payable. At 31 December 2019 the consideration that will be due to acquire the remaining 7.5% of Argyll Scott business in APAC is provided for at £0.2m. As trading remains uncertain and currently behind budget, it is possible that this liability will be reduced to nil.

No other items have been identified as at the date of approval of these financial statements.

**HYDROGEN GROUP PLC**  
**Directors and Advisors**  
**For the year ended 31 December 2019**

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**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

6<sup>th</sup> 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