**Hydrogen Group plc**
Annual Report

# 09

hydrogen

12% NFI growth in second half of 2009 on first half

International operations contributed 22% of total Group NFI

2008: 12%

Days of sales outstanding 29 days

2008: 40 days

**Contents**

# Chairman's statement

**Ian Temple**
**Executive Chairman**

The Group has delivered a good performance in what has been an exceptionally challenging year for trading across the global recruitment markets. Against this difficult backdrop we have continued to improve our operational efficiency and align our cost base to our trading environment, whilst maintaining flexibility in our business model to respond to demand in more robust markets and sectors.

We have remained focused on strengthening our offer across our four core disciplines of Technology, Finance, Professional and Engineering. In the UK, the investment we have made in maintaining our client relationships during the downturn has put us in a strong position now that activity levels are showing signs of improvement. At the same time, we have made significant progress in exploiting the high levels of demand that exist internationally for specialist candidates, with a very strong performance from our Sydney office and the recent opening of our office in Singapore. International operations grew 20% and now contribute 22% to the Group's net fee income ('NFI') (2008: 12%) and we will continue to focus on developing this important area of the business.

**Key financials**
Revenue fell during the period by 23% to £74.1m (2008: £96.2m) resulting in a decrease in NFI of 37% to £16.8m (2008: £26.7m). Profit before taxation and exceptional items was £0.3m (2008: £3.7m), generating adjusted earnings per share of 2.4p (2008: 11.8p).

As was reported at the half year, exceptional items for the period amounted to £5.8m (2008: £1.7m) which was largely a result of a £5.6m non-cash accounting goodwill impairment charge. As a result, loss for the period was £5.2m, generating a basic loss per share of 22.3p compared to a basic earnings per share of 4.4p in 2008.

During the year, we continued to maintain a strong focus on cost control with administration costs reducing by 28%.

Working capital management and reduction in trade receivables resulting from the decline in revenue ensured that the business remained cash generative, with surplus cash having been used to repay all outstanding senior debt two years in advance of schedule. Consequently net funds at the end of the period stood at £3.1m, compared to net debt of £0.9m at the end of the prior year. Days of sales outstanding (DSOs) have improved and now stand at 29 days (2008: 40 days). In 2010 we anticipate investment in working capital to support growth, should it continue through the year.

**Dividends**
An interim dividend of 0.5p (2008: 2.1p) was paid on 6 November 2009. As announced at the time of our trading update on 14 January 2010, the Board paid a second interim dividend of 3.6p per share on 12 February 2010 to shareholders on the register as at 22 January 2010. This was paid instead of a final dividend and total dividends for the year ended 31 December 2009 were therefore 4.1p per share (2008: 4.1p). The Board believes that this level of dividend is both appropriate and sustainable, given the cash generative characteristics of the group and its strong balance sheet and will seek to review it, as and when profitability improves.

**Board**
Following 13 years in the Group, Chris Cole, Executive Director responsible for Engineering, has informed the Board of his intention to leave the business in order to pursue other opportunities. Chris will step down from the Board with immediate effect and will formally leave the Group upon completing a handover period. Simon Walker, who has worked for Hydrogen for over 8 years, and has a proven successful track record with the Group, will take over responsibility for Engineering. On behalf of the Board I would like to thank Chris for his outstanding contribution and wish him all the best for the future.

I am pleased to announce that John Glover, Finance Director, been appointed to the Board. John joined the Company in January 2007 from BP plc and his appointment reflects the excellent contribution he has made to the business.

**Outlook**
We have continued to see signs of improvement in the UK since the year end, albeit against a low base in the prior year. Internationally there are more encouraging signs that markets are improving. Trading in our newly opened Singapore office has been ahead of expectations and we will continue to develop our presence in Australasia, the Middle East and other international markets where we see opportunities for further growth.

We are cautiously optimistic in our outlook for 2010 at this early stage in the year. Our strong business model and sound balance sheet give us confidence that we are well positioned for the year ahead.

**Ian Temple**
Executive Chairman

2 March 2010

# Our four key disciplines

Hydrogen is an international specialist recruitment group, placing mid to senior level professional staff into clients on both a permanent and contract basis. Operating across four key disciplines of Technology, Finance, Professional and Engineering, we focus on finding and building relationships with the high quality specialist candidates that our clients have difficulty recruiting.

## Technology

Business transformation and technology

51% of group NFI

## Finance

Accounting and finance

21% of group NFI

## Professional

Legal, HR and sales

19% of group NFI

## Engineering

Engineering, construction and power

9% of group NFI

# Operational review

**Tim Smeaton**
**Chief Executive Officer**

**The Business**
Hydrogen is an international specialist recruitment group, placing mid to senior level professional staff into clients on both a permanent and contract basis. Operating across four key disciplines of Technology, Finance, Professional and Engineering, we focus on finding and building relationships with the high quality specialist candidates that our clients have difficulty recruiting.

Trading conditions were extremely challenging throughout 2009, with demand for specialist candidates down across the vast majority of markets. However, the early actions taken to realign the business to the more difficult trading environment in the second half of 2008 positioned us well, and we were able to balance tight cost control with selective investment in new markets through our proven incubator model. This has enabled us to strengthen our position in more robust sectors in the UK, whilst expanding our footprint in higher growth international markets.

In this difficult trading environment, NFI for the year fell by 37% to £16.8m (2008: £26.7m), although it grew 12% in the second half of the year as compared with the first. As expected in a period of macro-economic uncertainty, the balance between permanent and contract recruitment shifted, with permanent recruitment falling to 48% of NFI (2008: 52%).

**Segments**
Whilst none of the disciplines in which we operate were untouched by the difficult trading conditions, the selective investments made into the more robust market sectors and geographies have continued to pay off. Our Engineering business delivered a good performance over the period growing NFI by 50% to £1.5m (2008: £1.0m) and our international operations also performed well, with International NFI for the period growing 20% and increasing to 22% of total NFI (2008: 12%).

Our office in Sydney has now been open for 2 years and continues to trade well. NFI was up 183% for the period to £1.2m (2008: £0.4m) and we moved into new premises during the second half of the year to accommodate increased headcount to support its expected continued growth. In addition, we recently opened a new office in Singapore having successfully incubated the team from London and the office has been trading ahead of expectations, albeit from a low base.

**Clients**
Client retention during the year has been strong and we won a number of new clients during the period. We were particularly pleased with our ability to transport our relationships internationally. Our ability to find scarce candidates from around the globe for our clients has been key to our international success. Our ability to maintain a strong client base throughout the economic downturn is testament to the strength and expertise of our specialist teams and positions us well for any upturn in the markets.

**Candidates**
We have continued to focus on building candidate pools in our key markets and have increased our investment in research teams in the second half of 2009. We have taken the opportunity to build our candidate database, whilst candidates have been relatively plentiful, in markets where we forecast future scarcity in supply. We have established international research teams to enable candidate mobility.

**Staff**
To strengthen our ability to recruit and develop high quality consultants, we established an internal recruitment and training function during the first half of the year, having previously used third parties for these activities. This investment has enabled us to achieve considerable cost savings in these areas, whilst also greatly improving our ability to hire and train consultants in high volumes.

We have a highly talented management team and have re-organised the business to ensure it is well structured to take advantage of future opportunities. We now have a cohesive structure to facilitate the movement of staff to stronger markets which we believe should enhance their career prospects and the Group’s ability to grow.

Headcount currently stands at 252 (2008: 261) having increased 10% during the second half of the year in response to early signs of improvement in some of our markets.

In challenging market conditions, I have been delighted with the dedication of our staff and the flexibility with which they have adapted to changing conditions and priorities. I would like to take this opportunity to thank them for all their hard work, resilience and commitment over the course of the year.

**Tim Smeaton**
Chief Executive Officer

2 March 2010

# Financial review

**Results**

The extraordinary economic conditions experienced during 2008 continued into 2009. Activity levels in recruitment markets were severely impacted by economic uncertainty, and trading conditions deteriorated through the first half of the year. While trading remained difficult, there were modest signs of stabilisation in some sectors in the second half of the year.

As expected, permanent recruitment experienced the greater decline in activity, with revenue from permanent placements for the year decreasing by 43% to £9.3m (2008: £16.4m). In contrast, contract revenue was more robust with a 19% decrease to £64.8m (2008: £79.8m). Overall, Group revenue for the year declined by 23% to £74.1m (2008: £96.2m). Group gross profit ('Net Fee Income') for the year declined by 37% to £16.8m (2008: £26.7m).

Internationally, the Group's Australian business delivered strong growth for the year, moving to larger premises to accommodate further growth in 2010. The Group continued to expand its international presence through its incubator model, with UK based teams targeting the Singapore and Gulf States' markets. As a result of these actions International NFI grew from £3.1m (12% of Group NFI) in 2008 to £3.7m (22% of Group NFI) in 2009, and the Group opened an office in Singapore in early 2010.

The Group continued to manage its cost base to ensure it was appropriate for market conditions. Headcount declined to a low of 230 at the half-year, but grew by 10% in the second half year, as the Group responded to growth opportunities, to finish the year at 252 (2008: 261).

Administration costs before exceptional items reduced by 28% to £16.4m (2008: £22.8m), with savings across the business, the largest being in property as the Group consolidated its London offices. The one area of cost increase was in the non-cash charge for share options issued to employees under Group share options schemes, which increased by 80% to £0.5m (2008: £0.3m), reflecting the increased use of options as a retention and remuneration tool.

The Group has had a cash surplus for the majority of the year, with little utilisation of its loan facilities. Finance costs of £0.1m (2008: £0.3m) predominantly relate to the unwinding of discount on provisions.

Profit before tax and exceptional items amounted to £0.3m (2008: £3.7m) a decrease of 92%.

Focus on cost control, continued debtor management and business contraction all contributed to ensuring that the business remained highly cash generative for the third successive year

**Exceptional costs**
The Group has taken an exceptional charge to cover a number of non-recurring costs. The decline in activity triggered a review of the carrying value of goodwill, resulting in a charge for impairment of £5.6m, predominantly on its Finance Professionals brand. Finalisation of the fees incurred in the aborted offer for Imprint plc resulted in a £0.3m release of unutilised provision. The Group took a charge of £0.5m at the half year for onerous lease costs relating to its surplus leasehold office accommodation. The Group has subsequently granted a sub-lease on the property for the period to the end of the head lease, and no further provision is anticipated.

**Taxation**
The total tax charge for the year is a credit of £0.2m (2008: charge of £1.0m), principally arising from:

- Exceptional cost of £5.6m goodwill impairment being disallowed for tax;
- A prior year tax credit of £0.3m for costs associated with abortive Imprint acquisition which were treated as disallowed for tax at the relevant time, but have subsequently been allowed.

**Dividends**
The Board previously declared an interim dividend of 0.5p per share (2008: 2.1p). A second interim dividend of 3.6p per share (2008: Nil) was paid in February 2010, bringing the total dividend for the year to 4.1p (2008: 4.1p). The Board does not propose to pay a final dividend for 2009 (2008: 2.0p).

**Earnings per share**
Basic adjusted earnings per share declined to 2.42p per share before exceptional costs (2008: 11.84p), and adjusted diluted earnings per share, taking into account existing share options, declined to 2.35p (2008: 11.22p).

**Balance sheet**
The Group's net assets at 31 December declined by £5.5m to £22.5m (2008: £28.0m), mainly as a result of the £5.6m impairment of goodwill.

Trade debtors reduced by 33% to £7.2m (2008: £10.5m), representing DSO's (days of sale outstanding) of 29 days (2008: 40 days). Trade debtors are anticipated to increase in 2010 as revenue grows.

Strong cash generation enabled the Group to repay all of its term borrowings two years in advance of schedule. The Group finished the year with a cash balance of £3.1m (2008: net debt £0.9m).

**Cash flow**
Focus on cost control, continued debtor management and business contraction all contributed to ensuring that the business remained highly cash generative for the third successive year. Cash generated from operations before cash flows associated with exceptional costs amounted to £5.1m (2008: £5.5m).

The Group has released £11.0m from working capital over the last three years, a trend that will inevitably show some reversal, even with tight working capital management, once the business returns to growth.

Cash flows arising from exceptional costs £0.3m (2008: £0.8m) were fees associated with abortive offer for the acquisition of Imprint plc.

Purchase of property, plant and equipment £0.2m (2008: £0.4m) was largely fittings and office equipment for the new Sydney office.

The Group made scheduled repayments of £0.3m of senior debt (2008: £1.0m), and utilised surplus cash to repay the remaining balance of £0.7m. The Group has an invoice discounting facility of £5.0m committed to 31 December 2010. At 31 December 2009 there was no draw down on this facility (2008: £0.5m).

Under the terms of the Hydrogen Group Restricted Share Agreement, 132,000 restricted shares were transferred to the Hydrogen Group Employee Benefit Trust (EBT) at nil cost, and 68,762 shares at a cost of £59,000. The Company also donated the funds to enable the EBT trust to purchase 230,000 ordinary shares of Hydrogen Group plc for a total consideration of £174,000.

Dividends paid to shareholders during the year were a final dividend for 2008 amounting to £0.5m (2008: £0.9m), and an interim dividend for 2009 of £0.1m (2008: £0.5m).

**Treasury management and currency risk**
During 2009 the Group utilised its surplus cash to repay all of its term bank borrowings, and the Group's operations are now predominantly financed by internal resources. The Group has a £5m committed invoice discounting facility available to finance short-term deficits, charged at floating rates based on Bank of England Base Rate.

At the time of initial draw down of its long term bank borrowings the Group entered into derivative contracts to mitigate its exposure to interest rate risk. These contracts were reviewed on repayment of the relevant borrowings but there was no commercial advantage in their cancellation at that time. Losses on the contracts to maturity will not be significant.

The main functional currency of the Group is sterling, with 10% of revenues in currencies other than sterling. The Group does not use financial instruments to manage actively its exposure to foreign currency exchange risk. The Group will continue to monitor its policies in this area as its international business grows.

**John Glover**
Finance Director

2 March 2010

# Board of directors

**Ian Temple**
**Executive Chairman**
Ian Temple has served as Executive Chairman to Hydrogen since its formation and is a member of the Nomination Committee. He worked for Computer Team Group from 1994 where he became General Manager for the South of England and subsequently PSD Group as a recruitment consultant. In 1997, Ian set up Finance Professionals with Chris Cole. He is Chairman of the Inner East London Board of the charity Young Enterprise and is a member of the Institute of Chartered Accountants in England & Wales.

**Tim Smeaton**
**Chief Executive Officer**
Tim Smeaton has served as Hydrogen's Chief Executive Officer since August 2008 having previously held the position of Chief Operating Officer. He worked for Computer Team Group from 1994 where he became Sales Director for the South of England. Tim co-founded Project Partners in 2000.

**Chris Cole**
**Executive Director**
Chris Cole has served as an Executive Director to Hydrogen since its formation. He joined Johnson & Johnson in 1993 before moving into the recruitment sector where he worked for PSD Group and subsequently Michael Page. In 1997, Chris set up Finance Professionals with Ian Temple. Chris is stepping down from the Board to pursue other interests.

**Ishbel Macpherson**
**Senior Independent Non-Executive Director**

Ishbel Macpherson was appointed to the Hydrogen Board in July 2006. She currently chairs the Audit and Nomination Committees and is a member of the Remuneration Committee. Ishbel has over 20 years of investment banking experience where she specialised in UK mid market corporate finance. Her most recent role was Head of UK Mid-Market Corporate Finance for Dresdner Kleinwort Wasserstein, prior to which she was Head of UK Small Cap Corporate Finance for ABN AMRO. She is currently the Senior Independent Non-Executive Director of Speedy Hire plc and a Non-Executive Director of GAME Group plc and Dignity plc.

**Martyn Phillips**
**Non-Executive Director**

Martyn Phillips has been a Non-Executive Director of Hydrogen since its formation in 2005. He is chair of the Remuneration Committee and a member of the Audit and Nomination Committees. Martyn is Operations Director of B&Q, formerly HR Director, and is CIPD qualified. Martyn brings a clients' view to the company as well as a wealth of experience in the HR and management arenas.

# Corporate social responsibility

The Board recognises its responsibilities in respect of social, environmental and ethical matters. The policies set out by the Group are documented below:

**Disabled persons**
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that they are supported. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

**Equal opportunities**
The Group endorses and supports the principles of equal employment opportunities. It is the policy of the Group to provide equal employment opportunities to all appropriately qualified individuals, and to ensure that all employment decisions are made on a non-discriminatory basis.

**Health and Safety**
The Company Secretary has overall responsibility for the implementation of the Group's Health and Safety policy, with specific operational responsibility delegated to managers at each location. Procedures are designed to ensure that the Health and Safety at Work Act 1974, the European Community Directives on Health and Safety and the Australian Occupational Health and Safety Acts are complied with at all times in the jurisdiction they apply to.

**Environment**
The Group does not operate in a business sector which causes significant pollution; however, the Board recognises that the business does have an impact on the environment. The Group seeks to reduce the level of environmental impact by taking steps that it considers appropriate, such as the encouragement of reuse and recycling of waste materials, and the reduction of energy consumption.

**Employee involvement**
The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the Group. This is achieved through formal and informal meetings as well as a regular internal memoranda for all employees and the use of the Group's intranet. In recognition of its achievements in employee satisfaction the Group received a number of awards in 2009.

The Directors consider that the ability of employees to participate in the share ownership of the Group is vital for the success of the Group. The Group currently operates a number of share incentive schemes, details of which are included in note 17 to the accounts.

**Political and charitable donations**
The Group supports Young Enterprise, the UK's leading business and enterprise education charity. Hydrogen Group has Silver Membership with the charity and also helps with administrative support and recruitment services. The Group made a donation of £5,288 to Young Enterprise during the year (2008: Nil).

To strengthen our ability to recruit and develop high quality consultants, we established an internal recruitment and training function

# Annual Report and Accounts 2009

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# Corporate governance statement

**For the year ended 31 December 2009**

### Statement of compliance with the Combined Code

The Group recognises the value of the Principles of Good Governance and the Combined Code on Corporate Governance published in 2008 by the Financial Reporting Council ('the Combined Code'). Although as an AIM listed company it is not required to comply with the Combined Code, the Group complies with the Combined Code so far as is practical and appropriate for a public group of its size and nature. The Group supports the recommendations on corporate governance of the Quoted Companies Alliance (QCA) and has implemented steps to reach compliance.

### The Group's approach to corporate governance

The Group seeks to apply established best practice in the field of corporate governance. The Board is focused to create shareholder value through respecting the needs of shareholders, employees, clients, candidates and contractors.

### Board effectiveness

The Board considers that it has shown its commitment to leading and controlling the Group by:

- Having a Board constitution that exercises direction and supervision of the Group's operations and defines the line of responsibility from the Board to the business;
- Retaining specific responsibility for agreeing the strategic direction of the Group, the approval of accounts, business plan, budget and capital expenditure, the declaration of dividends, the review of operating results, the effectiveness of governance practice and risk management, and also the appointment of senior executives and succession planning;
- Delegating responsibilities to sub-committees; Audit Committee; Remuneration Committee; and Nominations Committee.

### Board balance

The Group's commitment to achieving a balance of Executive and Non-Executive Directors is shown by the Non-Executive Directors being considered to act independently of management and free from any business relationship that could materially interfere with the exercise of their independent judgement. The Company Secretary maintains a register of conflicts of interest.

The Board consists of 3 Executive Directors and 2 Non-Executive Directors, which the Board considers appropriate for the scale and development of the business. The Non-Executive Directors meet at least once a year without the presence of the Executive Directors.

### Transparency of Board appointments

The Nominations Committee is responsible for nominating candidates to fill Board vacancies and for making recommendations on Board composition and balance. The committee is chaired by the Senior Independent Non-Executive Director, Ishbel Macpherson and the other members are the Non-Executive Director, Martyn Phillips and the Chairman.

The Nominations Committee met on two occasions during 2009 and was fully attended.

The procedure for appointments to the Board includes the requirement to specify the nature of the position in writing and to ensure that Non-Executive Director appointees have sufficient time available to meet the demands of the position.

The Nominations Committee's Terms of Reference are reviewed annually and are available on the Group's website: www.hydrogengroup.com

### Regular re-election of Directors

All Directors are subject to re-election every three years as required by the provisions of the Combined Code. Prior to re-nomination, the Nominations Committee will conduct an assessment of the performance of each retiring Director. The Board will not approve such a re-nomination if the performance of the retiring Director is not considered satisfactory.

The Board member due by rotation for re-election in 2010 is Martyn Phillips, and the Board have considered and agreed that Martyn be put forward for re-election.

### Timeliness and quality of Board information

The Board has sought to ensure that Directors are properly briefed on issues arising at Board meetings by establishing procedures for:

- Distributing Board papers in advance of meetings and considering the adequacy of the information provided before making decisions;
- Adjourning meetings or deferring decisions when Directors have concerns about the information available to them; and
- Making the Company Secretary responsible to the Board for the timeliness and quality of information.

### Performance evaluation

An annual evaluation of Board performance and effectiveness is undertaken. With a detailed review undertaken by each Director, with a full Board discussion of the matters raised and process to ensure that the decisions taken were effectively implemented. The process did not identify any significant issues that needed to be addressed.

Each Executive Director has a performance review conducted quarterly by another Executive Director. The Remuneration Committee set financial and personal development objectives for the Executive Directors.

**Going concern**
Having made appropriate enquiries and having examined the major areas which could affect the Group's financial position the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they consider it appropriate to adopt the going concern basis in preparing the financial statements.

**Dialogue with institutional and major shareholders**
The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by:

- Making annual and interim presentations to institutional investors;
- Meeting shareholders to discuss long term issues and obtain their views;
- Communicating regularly throughout the year; and
- Regular meetings of the Board being used as the forum to ensure that Non-Executive Directors are updated on the views of major shareholders that have been communicated to the Executive Directors.

**Senior Independent Non-Executive Director**
The Board has nominated Ishbel Macpherson as the Senior Independent Non-Executive Director.

Ishbel Macpherson is available to shareholders who have concerns that cannot be addressed through the Chairman or Executive Directors.

**Constructive use of Annual General Meeting**
The Board seeks to use the Annual General Meeting to communicate with private investors and encourage their participation by providing a balanced and understandable assessment of the Group's position and prospects.

**Internal control**
The Board is responsible for the effectiveness of the Group's system of internal control. 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. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The full Board meets regularly and has a schedule of matters which are required to be brought to it or its duly authorised committee for decision, aimed at maintaining full and effective control over appropriate strategic, financial, operational and compliance issues on an ongoing basis.

The Group held 10 board meetings and the average attendance was 92%.

The Board has put in place an organisational structure with clearly defined responsibilities and delegation of authority.

**Audit Committee**
The Audit Committee's primary responsibilities are to review the financial statements; to review the internal control systems including risk management; to consider the appointment of the external auditors and their independence, and to review audit effectiveness. Annually the Audit Committee considers the requirement for an internal audit function and, to date, has concluded that it is unnecessary for a group of the size and complexity of Hydrogen. This will be kept under review.

The Committee consists entirely of the independent Non-Executive Directors, and is chaired by the Senior Independent Non-Executive Director, Ishbel Macpherson. At the invitation of the committee, the Finance Director, Chairman and representatives of the external auditors attend the Audit Committee meetings. The Audit Committee meet without Executive Board members present at least once a year.

The Audit Committee met four times during 2009 and was fully attended.

The Audit Committee's Terms of Reference are reviewed annually and are available on the Group's website: www.hydrogengroup.com

**Whistleblowing policy**
Hydrogen Group operates a positive commitment and open approach to whistleblowing. It encourages all individuals to raise any concerns that they may have about the conduct of others in the business or the way in which the business is run. Martyn Phillips, Independent Non-Executive Director, is the Group's appointed person for all whistleblowing matters and his contact details are available to all staff, and are published on the Group's intranet.

# Directors' remuneration report

**For the year ended 31 December 2009**

## Scope and membership of Remuneration Committee

The Remuneration Committee meets not less than twice a year and comprises the independent Non-Executive Directors: Ishbel Macpherson and Martyn Phillips, who chairs the committee. The Executive Chairman and Chief Executive Officer attend the meetings by invitation, but are not present when their own remuneration is under consideration.

The purpose of the Remuneration Committee is to review, on behalf of the Board, the remuneration policy for the Chairman, Executive Directors and other senior executives and to determine the level of remuneration, incentives and other benefits, compensation payments and the terms of employment of the Executive Directors and other senior executives. It seeks to provide a remuneration package that aligns the interests of Executive Directors with that of the shareholders.

The Committee reviews the remuneration of the Executive Directors with regard to the need to maintain a balance between the constituent elements of salary, incentive and other benefits. The Remuneration Committee met on six occasions in 2009, with 100% attendance. The Terms of Reference for the Remuneration Committee are reviewed annually and may be found on the Group's website, www.hydrogengroup.com

## Remuneration policy

The objective of the Group's remuneration policy is to attract, motivate and retain management with the appropriate professional, managerial and operational expertise necessary to realise the Group's objectives as well as to establish a framework for remunerating all employees.

It is the Group's policy that all Executive Directors' service contracts contain a minimum 12 months' notice period. The Non-Executive Directors have letters of appointment with the Group which have notice periods of three months.

The remuneration of the Non-Executive Directors is determined by the Board. The Non-Executive Directors do not receive any pension or other benefits, other than out-of-pocket expenses, from the Group, nor do they participate in any of the bonus or share option schemes.

The remuneration agreed by the Committee for the Executive Directors contains the following elements: a base salary and benefits, a quarterly and an annual bonus reflecting Group and individual performance and share options.

The following sections provide an outline of the Group's remuneration policy.

## Base salary and benefits

Service contracts exist for each Executive Director that set contractual obligations. The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for Executive Directors of companies of comparable status and market value. Reviews of such base salary and benefits are conducted annually by the Committee having regard to wage inflation in the economy. No salary increases were awarded to the existing members of the Board in 2009, nor are any currently proposed for 2010.

## Annual bonus plan

The Committee firmly believes in the effectiveness of incentive bonuses. Accordingly every employee of the Group is in some form of incentive scheme.

Annual bonuses for the Executive Directors are set at the beginning of the year and are dependant on achievement of objectives and targets during the financial year.

The Remuneration Committee set objectives for each Executive Director to be achieved during 2009 to qualify for annual bonus entitlement, both at an individual and total Group level. In 2009, the maximum annual bonus entitlement for Executive Directors was equal to 100% of their base salary. No annual bonuses were awarded for 2009.

## Quarterly bonus plan

A quarterly bonus plan exists for all sales employees, including Executive Directors. Each Executive Director has set objectives that need to be achieved during each quarter to qualify for the quarterly bonus entitlement. In 2009, the maximum bonus entitlement for Executive Directors was equal to 30% of their base salary. In 2009 Chris Cole met his objectives for Q1 and Q4 and received a bonus of £17,500. Tim Smeaton and Ian Temple met one of their objectives for each of Q3 and Q4 and received a bonus payment of £25,000 each.

For support staff the bonus plan is bi-annual, with a maximum bonus entitlement of 25% of base salary.

## Share option schemes

During 2009 share options were granted to Executive Directors under the Hydrogen Group Enterprise Management Incentive (EMI) scheme, and the Hydrogen Group Unapproved Share Option scheme (see note 17). As at the year end the options outstanding are set out in the table below:

| | Options outstanding 1 January | Granted during the year | Exercised during the year | Options outstanding 31 December | Earliest exercise date | Latest exercise date | Exercise price per option (£) |
|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | |
| **EMI Options** | | | | | | | |
| Chris Cole | 136,000 | – | – | 136,000 | 29/09/06 | 03/01/16 | 0.732 |
| Tim Smeaton | 124,200 | 22,362 | – | 146,562 | 29/09/06 | 20/10/19 | Nil-0.805 |
| Ian Temple | – | 40,000 | – | 40,000 | 31/03/13 | 20/10/19 | Nil |
| **Unapproved options** | | | | | | | |
| Tim Smeaton | – | 17,638 | – | 17,638 | 31/03/13 | 20/10/19 | Nil |
| | **260,200** | **80,000** | **–** | **340,200** | | | |
| **2008** | | | | | | | |
| **EMI Options** | | | | | | | |
| Chris Cole | 136,000 | – | – | 136,000 | 29/09/06 | 03/01/16 | 0.732 |
| Tim Smeaton | 124,200 | – | – | 124,200 | 29/09/06 | 03/01/16 | 0.805 |
| | 260,200 | – | – | 260,200 | | | |

## Restricted shares for senior employees

A restricted share plan was adopted in April 2006 for certain senior employees below Board level. The vesting of these shares is dependent upon the Group's share price and performance criteria for the divisions managed by these senior employees over a three year period, starting in 2006.

During the year the Remuneration Committee used its discretion under the scheme rules to:

- lift the conditions on 132,000 shares where qualifying conditions were not achieved, and under the terms of the agreement requested 132,000 restricted shares be transferred to the EBT,
- extend the vesting period by one year and set relevant performance criteria on 66,000 shares where qualifying conditions were not achieved.

Detail on the movement in restricted shares during the year and the number outstanding at 31 December 2009 are given in note 17.

## Share option scheme for Directors

During the year options over shares were granted to Executive Directors under the Hydrogen Group Enterprise Management Incentive (EMI) scheme, and under the Hydrogen Group Unapproved Share Option scheme. The number of options that vest is dependent on the compound % growth in Hydrogen Group adjusted basic EPS, before taxation, over the period 2010-2012, and the vesting date is 31 March 2013. Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the Director leaves the Group before options vest, except where the Director leaves for qualifying reasons.

Detail on the number of options issued during the year and the number outstanding at 31 December 2009 are given in note 17.

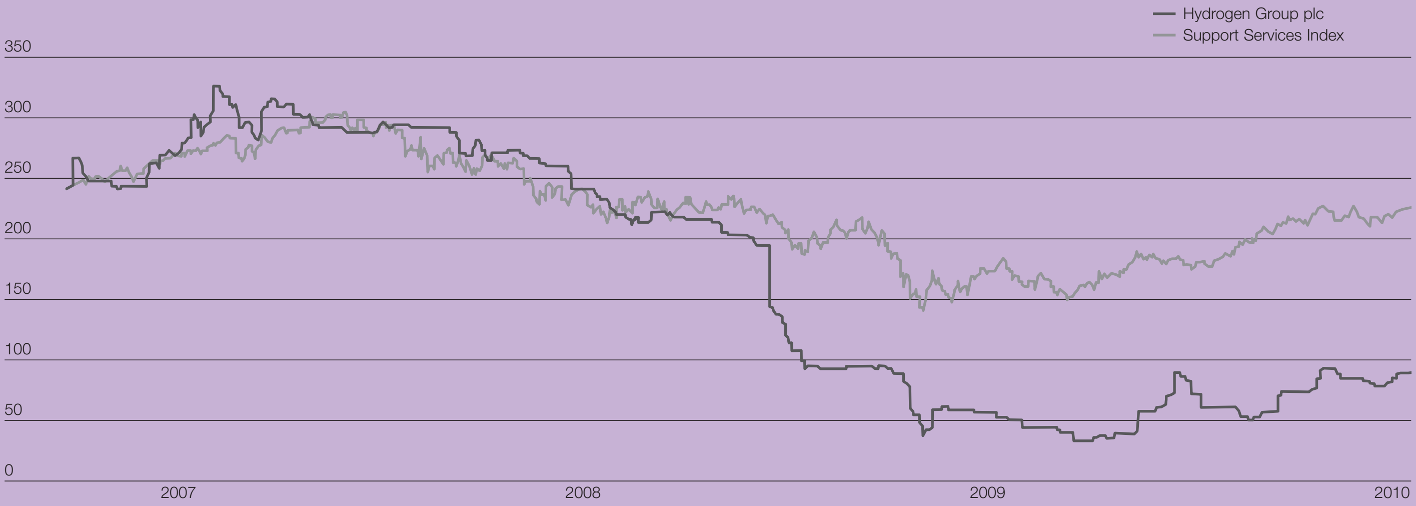
## Share options scheme for senior employees

During the year options over shares were granted to senior employees below Board level. Options were granted under the Hydrogen Group Enterprise Management Incentive (EMI) scheme, and under Hydrogen Group Unapproved Share Option scheme. The number of options that vest is dependent on the % growth in Hydrogen Group adjusted basic EPS, before taxation, for the financial year 2010, and the vesting date is 31 March 2013. Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons.

Detail on the number of options issued during the year and the number outstanding at 31 December 2009 are given in note 17.

## Share price chart

Set out below is a graph of the Company's share price performance for 2009, benchmarked against the support services index.




Source: London Stock Exchange provided by Hemscott Group Limited

## Emoluments

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

| | Salary and fees £'000 | Benefits £'000 | Bonuses £'000 | Total £'000 | Pension £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Executive Directors** | | | | | | |
| Ian Temple | 195 | 16 | 25 | 236 | – | 236 |
| Tim Smeaton | 195 | 13 | 25 | 233 | – | 233 |
| Chris Cole | 145 | 14 | 18 | 177 | – | 177 |
| **Non-Executive Directors** | | | | | | |
| Martyn Phillips | 20 | – | – | 20 | – | 20 |
| Ishbel Macpherson | 35 | – | – | 35 | – | 35 |
| **Aggregate emoluments** | **590** | **43** | **68** | **701** | **–** | **701** |
| **2008** | | | | | | |
| **Executive Directors** | | | | | | |
| Ian Temple | 195 | 19 | – | 214 | 2 | 216 |
| Tim Smeaton | 195 | 13 | – | 208 | – | 208 |
| Chris Cole | 145 | 12 | – | 157 | – | 157 |
| **Non-Executive Directors** | | | | | | |
| Martyn Phillips | 20 | – | – | 20 | – | 20 |
| Ishbel Macpherson | 35 | – | – | 35 | – | 35 |
| Aggregate emoluments | 590 | 44 | – | 634 | 2 | 636 |

Benefits above include car allowance and medical insurance. The Group does not operate a defined benefit pension scheme.

### Outside appointments

The Remuneration Committee recognises that Non-Executive Director roles can be a significant benefit in broadening the Executive Board's experience. Subject to review in each case, the Remuneration Committee'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. The Executive is permitted to retain any fees for the service. None of the Executive Directors currently holds any non-executive director appointments.

### Service contracts

All Executive Directors' service contracts contain a 12 month notice period. The service contracts also contain restrictive covenants preventing the Executive Directors from competing with the Group for one year following the termination of employment and preventing Executive Directors from soliciting key employees, clients and candidates of the employing Group and Group companies for 12 months following termination of employment. On termination, any compensation payments due to a Director are calculated in accordance with normal legal principles.

### Annual resolution

Shareholders will be given the opportunity to approve the Remuneration Report at the Annual General Meeting.

M Phillips
Chairman, Remuneration Committee

2 March 2010

# Directors' report

**For the year ended 31 December 2009**

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2009.

Hydrogen Group is a public listed company, incorporated and domiciled in England, and its shares are quoted on the AIM Market.

**Principal activities and business review**

The principal activities of the Group are to provide specialist professional recruitment services, placing high-calibre professionals, on a permanent and contract basis. The two main trading subsidiaries are Hydrogen UK Limited and Hydrogen International Limited. A review of the business, as well as expected future developments, is included in the Chairman's Statement, Operating Review and Financial Review on pages 1 to 5.

**Principal risks and uncertainties**

The principal risks and uncertainties facing the Group are reviewed on a regular basis by the Board. The Group's strategy is designed to mitigate the effects of the identified risks. As with any recruitment consultancy business, the Group has exposure to the following key risks:

- Downturn in levels of demand from clients through economic downturn or otherwise;
- Downturn in levels of supply of suitable candidates;
- Insolvency of a significant customer; and
- Loss of key staff

The Group has an on-going management training programme, one of the aims of which is to secure succession planning for key positions.

The business has processes to monitor these key risks to business performance. Some of the key performance indicators (KPIs) used by the Group to monitor progress are listed below:

| KPI | | 2009 | 2008 |
|---|---|---|---|
| Net fee income (NFI) | £M | **16.8** | 26.7 |
| Conversion ratio (PBT and exceptional cost divided by gross profit) | % | **2.0%** | 13.8% |
| Productivity (gross profit divided by total average headcount) | £k | **70** | 88 |
| Days of sales outstanding (DSO) | days | **29** | 40 |

**Financial instruments**

The main functional currency of the individual operations within the Group is Sterling. The Group's exposure to movements in exchange rates is increasing as it grows its operations outside of the UK. The Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments, but will continue to monitor its policies in this area as the impact of foreign exchange becomes more significant.

The Group's activities are predominantly financed from retained resources. The Group has an invoice discounting facility to meet its short term funding requirements. The Group produces regular cash flow forecasts and unutilised borrowing facilities are considered adequate to meet forecast funding requirements.

The Group repaid all of its long term borrowings during the year but has retained two derivatives contracts put in place to manage the interest rate risk on long term borrowings as there was no commercial advantage in terminating the contracts before maturity in 2011, and estimates of loss to maturity are immaterial.

The Group has a diverse customer base, predominantly companies making up the FTSE 100 and major professional partnerships. In addition it is taking action to diversify its activity to geographic locations outside the UK. The Group monitors its level of overdue debts, and has reduced its receivables, as measured by days of sale outstanding, by a further 11 days during 2009.

## Capital structure

Details of the authorised and issued share capital, together with movements during the year are shown in note 18. 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.

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, excluding the restricted stock. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 17. No votes are cast in respect of shares held in the Hydrogen Employee Share Trust.

No person has any special rights of control over the Company's share capital and all its issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on pages 10 and 11.

Under its Articles of Association, the Company has authority to issue ordinary shares to a maximum of 40 million ordinary shares for the Company.

## Results and dividends

The results for the year ended 31 December 2009 are as set out on page 22.

The Company paid the following dividends during the year:

– on 11 May 2009 a final dividend for the year ended 31 December 2008 of 2.0p (Year ended 31 Dec 2007: 4.0p) per share, and

– on 6 November 2009 an interim dividend for the year ended 31 December 2009 of 0.5p (2008: 2.1p) per share.

A second interim dividend for the year ended 31 December 2009 was paid on 12 February 2010 of 3.6p (2008: Nil) per share, bringing the total dividend for the year to 4.1p per share (2008: 4.1p). The Directors do not propose to pay a final dividend for 2009 (2008: 2.0p per share).

## Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events, which are inherently uncertain. At 31 December 2009 the Group was debt free, had cash in hand of £3.1m, and a commitment to December 2010 on its £5m invoice discounting facility.

The facilities available to the Group have been reviewed and compared to detailed cash flow forecasts prepared for the period March 2011. The business is forecast to remain cash generative and there are no anticipated:

– shortfalls in facilities against requirements; nor

– breaches of covenants.

The Directors have a reasonable expectation that the Group has adequate resources to continue operating in the foreseeable future. On these grounds the Board have continued to adopt the going concern basis for the preparation of the financial statements.

## Directors

The following Directors have held office during the year:

| | |
|---|---|
| Ian Temple | Reappointed 7 May 2009 |
| Tim Smeaton | Reappointed 7 May 2009 |
| Chris Cole | Resigned 2 March 2010 |
| Martyn Phillips | |
| Ishbel Macpherson | Reappointed 7 May 2009 |

John Glover was appointed to the Board on 2 March 2010.

Brief biographies on each of the Directors is set out on pages 6 and 7. During the period the Company maintained insurance for its Directors and Officers, who also had the benefit of an indemnity provision in the Company's Articles of Association.

## Directors' interests in shares

Directors' beneficial interests in the shares of the Company were as follows:

| | **Ordinary shares of 1p each held at 31 December 2009** | **Percentage of issued share capital at 31 December 2009** | Ordinary shares of 1p each held at 31 December 2008 | Percentage of issued share capital at 31 December 2008 |
|---|---|---|---|---|
| Ian Temple | **5,090,259** | **22.1%** | 5,090,259 | 22.1% |
| Tim Smeaton | **3,760,134** | **16.3%** | 3,760,134 | 16.3% |
| Chris Cole | **3,978,770** | **17.3%** | 3,978,770 | 17.3% |
| Martyn Phillips | **18,850** | **0.1%** | 18,850 | 0.1% |
| Ishbel Macpherson | **40,402** | **0.2%** | 40,402 | 0.2% |

Details of Directors' share options are provided in the Directors' remuneration report on page 13.

No changes took place in the interests of Directors between 31 December 2009 and 2 March 2010.

## Substantial shareholders

At 2 March 2010, other than the Directors' interests shown above, the Company had been notified of the following substantial shareholdings:

| Shareholder | **Interest in issued share capital at 2 March 2010** |
|---|---|
| Charles Marshall | **13.6%** |
| Barnaby Parker | **8.5%** |
| Daniel Church | **6.3%** |
| AXA Framlington Investment Management Ltd | **3.9%** |
| Majedie Asset Management | **3.4%** |
| Hydrogen Group Employee Benefit Trust (EBT) | **3.1%** |

## Employee involvement

The involvement of the employees in the business is key to their engagement and ultimately its success. The business is organised into four business segments based on discipline with business leaders empowered to run their operations within the operating framework of the Group. This allows for the two way flow of information between staff and the management responsible for their careers. The people framework includes quarterly reviews and goal setting for all staff, together with regular presentations on individual performance of divisions. All staff are treated as individuals and are managed accordingly to create an environment where they can fulfil their maximum potential.

## Equal opportunities

The Group is committed to the principles of hiring based purely on individual merit for both its own staff and for clients. The Group is committed to equal opportunities and ensures all staff are trained and understand these policies.

## Disabled employees

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities.

### Acquisition of the Company's own shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 7 May 2009, to purchase through the market, 2,302,486 ordinary shares with a nominal value of £0.01 each. This represented 10% of the Company's issued ordinary share capital at the date of the resolution, at prices ranging between 1p and 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange for the five business days immediately preceding the date on which such share is contracted to be purchased.

This authority expires on 7 November 2010. Shareholders will be asked to renew that authority at the Annual General Meeting of the Company.

During 2009, under the terms of the Hydrogen Group Restricted Share Agreement 132,000 restricted shares were transferred to the EBT at nil cost, and 68,762 shares at a cost of £59,000 (see note 17). The Company also donated the funds to enable the EBT trust to purchase 230,000 ordinary shares of Hydrogen Group plc for a total consideration of £174,000.

### Employee share schemes

The Group believes that share ownership is a key way of motivating and retaining staff and aligning their interests with those of shareholders. The Group operates a number of share schemes, further details of which are set out in note 17, and is committed to continuing to encourage participation in share schemes.

### Social responsibility

The Board recognises its responsibilities in respect of social, environmental and ethical matters. The policies set out by the Group are detailed on page 8 of this report.

### Policy on the payment of payables

The Group's payment terms and conditions with individual suppliers vary according to the commercial relationship and the terms of the agreements reached. It is the policy of the Group that payments to suppliers are made in accordance with the terms agreed. The average number of days' purchases included within trade payables at the year end for the Company was 69 days (2008: 49 days), based on the average daily amount invoiced by suppliers during the year. As a holding company, with little purchasing activity, this measure is highly volatile depending on timing of receipt of invoices.

### Charitable and political donations

During the year, the Group supported the charity Young Enterprise and made a payment of £5,288 (2008: Nil).

### Auditors

Grant Thornton UK LLP offer themselves for re-appointment in accordance with Section 489 of the Companies Act 2006.

### 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

M Scrafton
Secretary

2 March 2010

# Statement of directors' responsibilities

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

UK Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the Directors are required to:

a select suitable accounting policies and then apply them consistently;

b make judgements and estimates that are reasonable and prudent;

c for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU; and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

# Independent auditor's report

**To the members of Hydrogen Group plc**

We have audited the group financial statements of Hydrogen Group plc for the year ended 31 December 2009 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 and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement (set out on page 20), the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

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

**Opinion on financial statements**

In our opinion the group financial statements:

- gives a true and fair view of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

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

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**

We have reported separately on the parent company financial statements of Hydrogen Group plc for the year ended 31 December 2009.

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

2 March 2010

# Consolidated statement of comprehensive income

**For the year ended 31 December 2009**

| | Note | **2009 £'000** | 2008 £'000 |
|---|---|---|---|
| **Revenue** | 1 | **74,073** | 96,174 |
| Cost of sales | | **(57,256)** | (69,437) |
| **Gross profit** | 1 | **16,817** | 26,737 |
| Administration expenses | | **(16,378)** | (22,806) |
| **Operating profit before exceptional costs** | | **439** | 3,931 |
| Exceptional costs | 2 | **(5,787)** | (1,686) |
| **Operating (loss)/profit** | | **(5,348)** | 2,245 |
| Finance costs | 3 | **(132)** | (301) |
| Finance income | 4 | **21** | 61 |
| **(Loss)/profit before taxation** | 5 | **(5,459)** | 2,005 |
| Income tax expense | 7 | **240** | (1,013) |
| **(Loss)/profit for the year** | 21 | **(5,219)** | 992 |
| **Other comprehensive income:** | | | |
| Exchange differences on translating foreign operations | | **58** | 19 |
| Deferred tax on share options | | **–** | (439) |
| **Other comprehensive income/(loss)** | | **58** | (420) |
| **Total comprehensive (loss)/income for the period** | | **(5,161)** | 572 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **(5,161)** | 572 |
| **Earnings per share** | | | |
| Basic (loss)/earnings per share (pence) | 20 | **(22.25)p** | 4.38p |
| Diluted (loss)/earnings per share (pence) | 20 | **(22.25)p** | 4.16p |

The above results relate to continuing operations.

# Consolidated statement of financial position

**As at 31 December 2009**

| | Note | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 8 | **13,440** | 19,010 | 19,010 |
| Other intangible assets | 9 | **171** | 356 | 320 |
| Property, plant and equipment | 10 | **361** | 493 | 963 |
| Deferred tax assets | 11 | **339** | 129 | 628 |
| Other financial assets | 12 | **420** | 315 | 84 |
| | | **14,731** | 20,303 | 21,005 |
| **Current assets** | | | | |
| Trade and other receivables | 12 | **14,982** | 19,644 | 24,081 |
| Cash and cash equivalents | 13 | **3,108** | 566 | 330 |
| | | **18,090** | 20,210 | 24,411 |
| **Total assets** | | **32,821** | 40,513 | 45,416 |
| **Current liabilities** | | | | |
| Trade and other payables | 14 | **9,111** | 9,693 | 10,749 |
| Borrowings | 15 | **–** | 966 | 2,514 |
| Current tax liabilities | | **174** | 471 | 1,307 |
| Provisions | 16 | **387** | 571 | – |
| | | **9,672** | 11,701 | 14,570 |
| **Non-current liabilities** | | | | |
| Borrowings | 15 | **–** | 480 | 1,982 |
| Deferred tax liabilities | 11 | **33** | – | – |
| Provisions | 16 | **592** | 373 | – |
| | | **625** | 853 | 1,982 |
| **Total liabilities** | | **10,297** | 12,554 | 16,552 |
| **Net assets** | | **22,524** | 27,959 | 28,864 |
| **Equity** | | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | | |
| Called-up share capital | 18 | **234** | 230 | 227 |
| Share premium account | 21 | **3,479** | 3,456 | 3,220 |
| Merger reserve | 21 | **16,100** | 16,100 | 16,100 |
| Own shares held | 19 | **(838)** | (605) | – |
| Share option reserve | 21 | **100** | 100 | 100 |
| Other reserve | 21 | **1,267** | 770 | 494 |
| Translation reserve | 21 | **80** | 22 | 3 |
| Retained earnings | 21 | **2,102** | 7,886 | 8,720 |
| **Total equity** | | **22,524** | 27,959 | 28,864 |

The financial statements on pages 22 to 56 were approved by the Board of Directors and authorised for issue on 2 March 2010 and are signed on its behalf by:

Ian Temple
Executive Chairman

# Consolidated statement of changes in equity

**As at 31 December 2009**

| | Called-up share capital £'000 | Share premium account £'000 | Merger reserve £'000 | Own shares held £'000 | Share option reserve £'000 | Other reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2008** | 227 | 3,220 | 16,100 | – | 100 | 494 | 3 | 8,720 | 28,864 |
| Dividends | – | – | – | – | – | – | – | (1,387) | (1,387) |
| Increase in share capital | 3 | 236 | – | – | – | – | – | – | 239 |
| Share option charge | – | – | – | – | – | 276 | – | – | 276 |
| Purchase of shares by EBT | – | – | – | (605) | – | – | – | – | (605) |
| Transactions with owners | 3 | 236 | – | (605) | – | 276 | – | (1,387) | (1,477) |
| Profit for the year | – | – | – | – | – | – | – | 992 | 992 |
| Other comprehensive income: | | | | | | | | | |
| Tax on share-based charges | – | – | – | – | – | – | – | (439) | (439) |
| Foreign currency translation | – | – | – | – | – | – | 19 | – | 19 |
| Total comprehensive income for the period | – | – | – | – | – | – | 19 | 553 | 572 |
| At 31 December 2008 | 230 | 3,456 | 16,100 | (605) | 100 | 770 | 22 | 7,886 | 27,959 |
| Dividends | | | | | | | | **(561)** | **(561)** |
| Increase in share capital | **4** | **23** | **–** | **–** | **–** | **–** | **–** | **(4)** | **23** |
| Share option charge | **–** | **–** | **–** | **–** | **–** | **497** | **–** | **–** | **497** |
| Purchase of shares by EBT | **–** | **–** | **–** | **(233)** | **–** | **–** | **–** | **–** | **(233)** |
| Transactions with owners | **4** | **23** | **–** | **(233)** | **–** | **497** | | **(565)** | **(274)** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,219)** | **(5,219)** |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation | **–** | **–** | **–** | **–** | **–** | **–** | **58** | **–** | **58** |
| Total comprehensive loss for the period | **–** | **–** | **–** | **–** | **–** | **–** | **58** | **(5,219)** | **(5,161)** |
| **At 31 December 2009** | **234** | **3,479** | **16,100** | **(838)** | **100** | **1,267** | **80** | **2,102** | **22,524** |

# Consolidated statement of cash flows

**For the year ended 31 December 2009**

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Net cash generated from operating activities** | 23a | **4,798** | 5,486 |
| **Investing activities** | | | |
| Finance income | | **21** | 61 |
| Proceeds from disposal of property, plant and equipment | | **35** | 62 |
| Purchase of property, plant and equipment | | **(150)** | (386) |
| Purchase of software assets | | **(18)** | (164) |
| **Net cash generated/(used) in investing activities** | | **(112)** | (427) |
| **Financing activities** | | | |
| Proceeds on issuance of ordinary shares | 18 | **23** | 239 |
| Purchase of own shares by EBT | 19 | **(174)** | (605) |
| Repayment of bank loans and loan notes | 15 | **(1,000)** | (2,000) |
| Repayment of other borrowings | 15 | **(465)** | (1,010) |
| Repayment of obligations under finance leases | | **(25)** | (79) |
| Equity dividends paid | 6 | **(561)** | (1,387) |
| **Net cash used in financing activities** | | **(2,202)** | (4,842) |
| **Net increase in cash and cash equivalents** | | **2,484** | 217 |
| **Cash and cash equivalents at beginning of year** | 13 | **566** | 330 |
| **Effect of foreign exchange rate changes** | | **58** | 19 |
| **Cash and cash equivalents at end of year** | 13 | **3,108** | 566 |

# Accounting policies

**For the year ended 31 December 2009**

## Nature of operations

Hydrogen Group plc ('the company') and its subsidiaries' (together 'the Group') principal activity is the provision of recruitment services for mid to senior level professional staff. The Group consists of four operating segments offering both permanent and contract specialist recruitment consultancy for large and medium sized organisations. The Group operates primarily in the technology, finance, professional and engineering sectors. Historically the Group has operated predominantly in the United Kingdom, but is becoming increasingly international, with operations in Australia and Singapore plus a number of internationally focused teams based in the UK.

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 address of Hydrogen Group's registered office and its principal place of business is 6 Laurence Pountney Hill, London, EC4R 0BL, England. Hydrogen Group's shares are listed on the AIM Market.

The consolidated financial statements for the year ended 31 December 2009 (including comparatives) are presented in GBP '000, and were approved and authorised for issue by the Board of directors on 2 March 2010.

## Basis of preparation

The consolidated financial statements of the Hydrogen Group plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and also comply with IFRIC interpretations and Company Law applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through the income statement.

The Group's accounting policies, as set out below, have been consistently applied to all the periods presented.

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events, which are inherently uncertain. The Group has used surplus cash generated in 2009 to repay all of its senior borrowings two years in advance of schedule. The Group has a £5m invoice discounting facility committed to December 2010.

The facilities available to the Group have been reviewed and compared to detailed cash flow forecasts prepared for the period to 31 March 2011, and there are no anticipated shortfalls in facilities against requirements.

The Directors have a reasonable expectation that the Group has adequate resources to continue operating in the foreseeable future. On these grounds the Board have continued to adopt the going concern basis for the preparation of the financial statements.

## Adoption of new and revised International Accounting Standards (IAS/IFRS) and interpretations affecting current or prior periods

IAS 1 – 'Presentation of Financial Statements – Revised 2007' has introduced terminology changes, including revised titles for the financial statements. In addition, the revised Standard has required the presentation of a third statement of financial position at 1 January 2008, because the entity has applied accounting policies retrospectively.

Adoption of IFRS 8 'Operating Segments' has resulted in redesignation of the Group's reportable segments to more closely follow internal management reporting.

## International Accounting Standards (IAS/IFRS) and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

| | |
|---|---|
| IFRS 3 | Business Combinations – Revised 2008 (effective 1 July 2009) |
| IFRS 9 | Financial instruments (effective 1 January 2013) |
| IAS 24 | Related party disclosures – Revised 2009 (effective 1 January 2011) |
| IAS 27 | Consolidated and separate Financial Statements – Revised 2008 (effective 1 July 2009) |
| IAS 39 | Amendments to Financial Instruments: Recognition and Measurement – Eligible Hedged Items |
| IFRS 1 | Amendment to Additional exemptions for first time adopters (effective 1 January 2010) |
| IFRS 2 | Amendments to Group cash settled share based payment transactions (effective 1 January 2010) |
| Various | Improvements to IFRSs 2009 (various effective dates 1 July 2009 – 2010) |
| IAS 32 | Amendments to Classification of rights issues (effective 1 February 2010) |
| IFRIC 17 | Distributions of Non-cash Assets to Owners (effective 1 July 2009) |
| IFRIC 18 | Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009) |
| IFRIC 19 | Extinguishing financial liabilities with equity instruments (effective 1 July 2010) |
| IFRIC 14 | Amendments to Prepayments of a minimum funding requirement (effective 1 January 2011) |

In January 2008, the IASB issued a revised version of IFRS 3 'Business Combinations'. The revised standard will introduce some changes to the existing accounting treatment of business combinations. For example, all transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. Assets and liabilities arising from business combinations occurring before the date of adoption by the Group will not be restated and thus there will be no effect on the Group's reported income or net assets on adoption.

The Directors anticipate that the adoption of the remaining Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

**Consolidation**
The consolidated financial information incorporates those of 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, plus costs directly attributable to the acquisition. 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.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date at which control is transferred to the Group. They are all deconsolidated from the date that control ceases.

**Revenue**
Revenue, which excludes value added tax, comprises the value of services undertaken by the Group under its principal activity, which is the provision of recruitment consultancy services. This broadly consists of:

– revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the salary cost of these staff, being recognised when the service has been provided;

– revenue from permanent placements, representing fees received and receivable as a percentage of the candidate's remuneration package, being recognised when a candidate accepts an offer of employment and a start date has been determined.

In the supply of contractors the Group's contractual arrangements mean that it operates as principal and not in an agency capacity. As such, it bears all the risks and rewards of the income derived from placements, and accordingly includes in turnover both commission and salary costs of staff supplied.

Revenue not invoiced at the year end is included within accrued income. A provision is made against accrued income on account of possible cancellations of placements before the commencement of employment.

**Finance income**
Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

**Cost of sales**
Cost of sales consists of the salary cost of temporary staff and other direct costs, principally advertising costs.

**Gross profit**
Gross profit is represented by revenue less cost of sales.

**Finance costs**
All borrowing costs are recognised in profit and loss in the period in which they are incurred.

**Goodwill**
Goodwill comprising the difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable 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.

**Other intangible assets**
Software costs are stated at cost less accumulated amortisation less provision for impairment. Amortisation is calculated to write off the cost in equal annual instalments over three years.

Trademarks costs are stated at cost less accumulated amortisation less provision for impairment. Amortisation is calculated to write off the cost in equal annual instalments over three years.

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

| | |
|---|---|
| Computer and office equipment | 33% straight line |
| Motor vehicles | 25% straight line |
| Fixtures, fittings and equipment | Remaining life of lease (or 5 years if shorter) |
| Leasehold improvements | Remaining life of lease (or 5 years if shorter) |

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 income.

**Impairment of assets**
At each year end, the Group reviews the carrying amounts of its other intangible and tangible assets to determine whether there is any evidence that those assets have suffered an impairment loss. An impairment loss is recognised for the amount by which the assets 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).

**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 profit or loss.

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 as a separate component of equity.

**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 substantially enacted by the balance sheet date.

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

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

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

Deferred income tax is provided on temporary timing 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**
Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the lower of fair value or the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. The property, plant or equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Lease payments are apportioned between finance charges and reduction in lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income.

All other leases are operating leases and the annual rentals are charged to profit or loss on a straight line basis over the lease term.

The benefit of rent free periods received for entering into a lease is spread evenly over the lease term.

**Operating lease income**
Operating lease income is charged to profit or loss on a straight line basis over the lease term.

**Pensions**
The Group does not operate a pension scheme for employees but makes contributions to the personal defined contribution pension plans of certain Directors and senior members of staff. The pension costs charged to profit or loss represent the contributions payable by the Group during the year.

**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 fair value of shares awarded is measured at the date of grant by reference to the market price of the shares on the day, and is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The finance costs and administration costs relating to the SIP are charged to profit or loss. Dividend income arising on own shares are 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.

**Other share-based payments**
Where options are awarded after 7 November 2002 and that were unvested as of 1 January 2006, the fair value of the employee services received in exchange for the grant of the share options is charged to the income statement over the vesting period of the share option, based on the number of options which are expected to become exercisable. A corresponding adjustment is made to equity. Fair value is measured by use of a binomial model. 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 the income statement with a corresponding adjustment to equity.

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

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.

**Employee Benefit Trust**
The Hydrogen Group plc Employee Benefit Trust (EBT Trust) 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 Trust are held at acquisition cost and deducted from shareholders equity. Any assets held by the EBT cease to be recognised on the Group statement of financial position when the assets vest unconditionally to identified beneficiaries. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group profit or loss.

If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. The trustees have waived their rights to dividends on the shares held by the EBT Trust.

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

**Financial assets**

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

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

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

Cash and cash equivalents includes cash in hand and bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are classified with current liabilities in the balance sheet.

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 classified according to the substance of the contractual arrangements entered into.

The Group's financial liabilities comprise trade payables, borrowings, bank overdrafts and other payable balances that arise from its operations. They are classified as 'financial liabilities measured at amortised cost'. Finance charges are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the investment 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.

**Derivative financial instruments**

The Group manages its exposure to movements in interest rates on its debt by entering into derivative contracts for interest rate swaps and caps. Derivative financial instruments are recognised in the Group's statement of financial position at fair value with changes in the fair value recognised in profit or loss.

The Group has no foreign exchange derivatives.

**Segment reporting**

Operating segments have been identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker to allocate resources and assess performance.

**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 dividends are 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.

### Net debt
Net debt comprises cash and cash equivalents as defined in note 15, less long and short term borrowings.

### Exceptional items
These are non-recurring items which are presented separately due to their nature, size or incidence. The separate reporting of such items helps provide a better indication of the Group's underlying business performance.

### 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 analysis of all components of equity is given in note 21.

### Onerous contracts
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.

### Significant management judgement in applying accounting policies
In the process of applying the Group's accounting policies the subjects requiring management estimation and judgement that have the most significant risk of causing material adjustments to the amounts recognised in the financial statements are described below:

### Estimation
#### Goodwill impairment
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 estimation of future cash flows and the selection of a suitable discount rate.

#### Revenue recognition
In making its estimate of back-out provision management exercises judgement based on past experience.

#### Accrued income
In making an estimate for time worked by contractors in December management exercises judgement based on the number of working days in the month, and past experience.

### Judgement
#### Revenue recognition
Revenue from permanent placements is recognised when a candidate accepts an offer of employment and a start date has been determined. There are occasionally circumstances where a candidate never takes up the offer of employment and the revenue has to be backed out in subsequent periods. A provision for back-outs is made at the time of revenue recognition, based on an estimate of the number of employment offers that will not be taken up.

#### Variable pay
Amounts paid as variable pay to sales staff is dependent on total activity in the month of payment. In calculating accruals required for variable pay management have to make a judgment of amounts to be paid based on activity and payment history.

# Notes to the financial statements

**For the year ended 31 December 2009**

## 1 Segment reporting

As set out above the Group has adopted IFRS 8 'Operating Segments' with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis on internal reports that are regularly reviewed by the chief operating decision maker to allocate resources and assess performance. The previous standard, IAS 14 'Segment Reporting', required an entity to identify a primary and secondary segment, based on business or geographical. Under IAS 14 the Group operated in one business segment, recruitment and one geographical area.

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

For management purposes, the Group is organised into four business segments based on the discipline of the candidates being placed. All of the operating segments have similar economic characteristics and share a majority of the aggregation criteria set out in IFRS 8.12. The Group's reportable segments are as follows:

- **Technology**, which places mid to senior IT business technologists and change professionals;
- **Finance**, which places finance, accounting and audit professionals into mid to senior roles from part qualified ACAs and CIMAs to director level appointments;
- **Professional**, which places lawyers from qualified to director level, and mid to senior level HR professionals; and
- **Engineering**, which places engineers, and property and construction professionals.

| | Technology £'000 | Finance £'000 | Professional £'000 | Engineering £'000 | Non-Allocated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| Revenue | **55,001** | **10,563** | **5,014** | **3,495** | **–** | **74,073** |
| Gross profit | **8,531** | **3,578** | **3,157** | **1,516** | **35** | **16,817** |
| Depreciation | **209** | **78** | **83** | **48** | **19** | **437** |
| Operating profit/(loss) | **1,436** | **(35)** | **(573)** | **(110)** | **(279)** | **439** |
| Exceptional costs | | | | | | **(5,787)** |
| Finance costs | | | | | | **(132)** |
| Finance income | | | | | | **21** |
| Loss before tax | | | | | | **(5,459)** |
| **2008** | | | | | | |
| Revenue | 72,935 | 13,682 | 7,651 | 1,906 | – | 96,174 |
| Gross Profit | 14,177 | 5,874 | 5,635 | 1,007 | 43 | 26,737 |
| Depreciation | 240 | 161 | 158 | 32 | 10 | 601 |
| Operating profit/(loss) | 4,421 | 513 | 469 | (215) | (1,257) | 3,931 |
| Exceptional costs | | | | | | (1,686) |
| Finance costs | | | | | | (301) |
| Finance income | | | | | | 61 |
| Profit before tax | | | | | | 2,005 |

Non-allocated costs in 2009 are partially offset by the release of the onerous lease provision of £653,000 (2008: Nil).

Revenue reported above represents revenue generated from external customers. There are no sales between segments in the year (2008: Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described above. Segment profit represents the profit earned by each segment without allocation of central administration costs, exceptional costs (see note 2), finance costs and finance income.

The information reviewed by the chief operating decision maker, or otherwise regularly provided to the chief operating decision maker does not include information on net assets. The cost to develop this information would be excessive in comparison to the value that would be derived.

There is one external customer that represented more than 10% of the entity's revenues with revenue of £7,716,000 in the Technology segment (2008: one customer, £14,828,000, Technology segment).

## 1 Segment reporting continued

### (b) Revenue and gross profit, by geography

| | **Revenue 2009 £'000** | Revenue 2008 £'000 | **Gross profit 2009 £'000** | Gross profit 2008 £'000 |
|---|---|---|---|---|
| UK | **65,777** | 90,880 | **13,117** | 23,646 |
| Rest of world | **8,296** | 5,294 | **3,700** | 3,091 |
| | **74,073** | 96,174 | **16,817** | 26,737 |

### (c) Revenue and gross profit by recruitment classification

| | **Revenue 2009 £'000** | Revenue 2008 £'000 | **Gross profit 2009 £'000** | Gross profit 2008 £'000 |
|---|---|---|---|---|
| Permanent | **9,258** | 16,338 | **8,061** | 14,854 |
| Contract | **64,815** | 79,836 | **8,756** | 11,883 |
| | **74,073** | 96,174 | **16,817** | 26,737 |

## 2 Exceptional costs

Exceptional items comprise:

– income of £266,000 (2008: costs of £221,000) write back of surplus provisions on completion of accounting for abortive acquisition costs in offer to acquire Imprint plc;

– £483,000 (2008: £944,000) for onerous contracts relating to surplus leasehold property. The contract became onerous during 2008 when the Group reduced its workforce in response to difficult market conditions. The office accommodation has been sub-let for the remaining lease term which expires on 1 Sept 2013. The provision has been increased in 2009 to cover the period of un-occupancy and shortfall in sub-lease rental receivable over the remainder of the lease;

The provision has been discounted at the Group's weighted average cost of capital 9.27%;

– £5,570,000 (2008: £ Nil) impairment of goodwill associated with the finance and professional operating segments;

– Nil (2008: £209,000) rationalisation costs arising from headcount reduction programme.

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Write back of surplus provisions relating to abortive acquisition | **(266)** | 221 |
| Provision for onerous contract | **483** | 944 |
| Impairment of goodwill and leasehold improvements | **5,570** | 312 |
| Rationalisation costs | **–** | 209 |
| | **5,787** | 1,686 |

## 3 Finance costs

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Interest on finance leases | **1** | 6 |
| Interest on invoice discounting | **2** | 133 |
| Interest on bank overdrafts and loans | **38** | 162 |
| Unwinding of provision discount | **91** | – |
| | **132** | 301 |

## 4 Finance income

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Bank interest receivable | **5** | 39 |
| Other interest receivable | **16** | 22 |
| | **21** | 61 |

## 5 (Loss)/profit on ordinary activities before taxation

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

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Amortisation of intangible assets | | |
| – software assets | **193** | 191 |
| – domain name | **10** | 7 |
| Depreciation of property, plant and equipment | | |
| – owned assets | **219** | 387 |
| – leased assets | **21** | 23 |
| Staff costs | **12,417** | 16,307 |
| Operating lease rentals on land and buildings | **1,053** | 1,074 |
| Operating lease income | **36** | – |
| Foreign exchange losses/(gains) | **12** | (82) |
| Share-based payments (equity settled) | **497** | 277 |
| Profit on disposal of assets | **(13)** | – |

The analysis of auditor's remuneration is as follows:

| | | |
|---|---|---|
| **Audit fees** | | |
| Fees payable to the Company's auditor for the audit of the Company and Group annual accounts | **40** | 40 |
| **Total audit fees** | **40** | 40 |
| **Non-audit fees** | | |
| – Other services | **3** | 3 |
| – Tax services (compliance and general tax advice) | **18** | 15 |
| – The audit of the Company's subsidiaries pursuant to legislation | **30** | 30 |
| **Total non-audit fees** | **51** | 48 |

## 6 Dividends

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Amounts recognised and distributed to shareholders in the year** | | |
| Interim dividend for the year ended 31 December 2009 of 0.5p per share (2008: 2.1p per share) | **114** | 483 |
| Final dividend for the year ended 31 December 2008 of 2.0p per share (2008: 4.0p) | **447** | 904 |
| | **561** | 1,387 |

An interim dividend of 0.5p (2008: 2.1p) per share was paid on 6 November 2009 to shareholders on the register at the close of business on 9 October 2009. The proposed interim dividend was approved by the Board on 3 September 2009.

A second interim dividend of 3.6p (2008: Nil) per share was paid on 12 February 2010 to shareholders on the register at the close of business as at 22 January 2010.

The Directors do not propose the payment of a final dividend for 2009 (Final 2008 Dividend: 2.0p per share).

## 7 Tax

(a) Analysis of tax charge for the year:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| The charge based on the (loss)/profit for the year comprises: | | |
| **Corporation tax** | | |
| UK corporation tax on (loss)/profits for the year | **167** | 952 |
| Adjustment to tax charge in respect of previous periods | **(231)** | 1 |
| | **(64)** | 953 |
| **Foreign tax** | | |
| Current tax | **–** | – |
| Total current tax | **(64)** | 953 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(56)** | 60 |
| adjustments in respect of previous periods | **(120)** | – |
| Total deferred tax | **(176)** | 60 |
| **Tax on (loss)/profit for the year** | **(240)** | 1,013 |

Corporation tax is calculated at 28% (2008: 28%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

(b) The charge for the year can be reconciled to the (loss)/profits per the statement of comprehensive income as follows:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **(Loss)/profit before tax** | **(5,459)** | 2,005 |
| Tax at the UK corporation tax rate of 28% (2008: 28%) | **(1,529)** | 563 |
| **Effects of** | | |
| Non deductible exceptional costs | | – |
| Expenses not deductible for tax purposes | **(9)** | 280 |
| Capital allowances in excess of depreciation | **(73)** | 54 |
| Tax relief on the exercise of options | **(7)** | (19) |
| Tax losses arising in the year not relieved | **3** | 60 |
| Profits charged at (lower)/ higher rates of tax | **(1)** | 14 |
| Adjustment to tax charge in respect of prior periods | **(231)** | 1 |
| Share-based payments | **61** | 60 |
| Non taxable income | **(14)** | – |
| Consolidated goodwill impairment | **1,560** | – |
| Tax charge for the year | **(240)** | 1,013 |

There has been no deferred tax relating to share options charged directly to equity (2008: charge of £439,000) (see note 21).

## 8 Goodwill

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January and 31 December | **19,010** | 19,010 | 19,010 |
| **Accumulated impairment losses** | | | |
| At 1 January | **–** | – | – |
| Impairment charge | **(5,570)** | – | – |
| At 31 December | **(5,570)** | – | – |
| **Carrying amount at 31 December** | **13,440** | 19,010 | 19,010 |
| **Allocation of goodwill to cash generating units (CGU)** | | | |
| Technology operating segment | **9,530** | 9,530 | 9,530 |
| Finance operating segment | **1,599** | 6,371 | 6,371 |
| Professional operating segment | **2,311** | 3,109 | 3,109 |
| | **13,440** | 19,010 | 19,010 |

The adoption of IFRS 8 'Operating Segments' resulted in goodwill being monitored for internal management purposes at a lower level of CGU, requiring a reallocation of goodwill.

The recruitment sector as a whole has experienced a significant downturn in profitability in 2009 as a result of the global economic crisis. This provided a clear indication that the value of goodwill as at 31 December 2009 might be impaired. Testing confirmed that the following impairment charges were required:

| | £'000 |
|---|---|
| **Impairment charges** | |
| Finance operating segment | **4,772** |
| Professional operating segment | **798** |
| | **5,570** |

The recoverable amount of each cash generating unit is determined on a value-in-use basis utilising the value of cash flow projections over eight years, which is estimated by management to be the duration of the recruitment cycle. Cash flows are discounted by the Group's weighted average cost of capital.

Growth rates and discount rates used are stated below:

| | Growth rate 2010-2012 % | Growth rate 2013-2017 % | Discount rate % |
|---|---|---|---|
| **Operating segment** | | | |
| Technology operating segment | 0%-5% | 4%-5% | 9.3% |
| Finance operating segment | 0%-20% | 5% | 9.3% |
| Professional operating segment | 0%-20% | 5% | 9.3% |

The stronger growth rates for Finance and Professional segments over the period 2010-2012 reflect the low base cash flow forecasts in the current and next financial year. Given Hydrogen Group's relatively small market share, in a limited number of sectors and geographies, it is not unreasonable for its growth rates in the period 2013-2017 to exceed the long-term growth rate of the overall market.

## 9 Other intangible assets

| | Domain names & trademarks | Computer software | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | – | 630 | 630 |
| Additions | 30 | 134 | 164 |
| Disposals | – | (14) | (14) |
| Reclassification from property, plant and equipment | – | 71 | 71 |
| At 31 December 2008 | 30 | 821 | 851 |
| Additions | – | 18 | 18 |
| Disposals | – | – | – |
| **At 31 December 2009** | **30** | **839** | **869** |
| **Amortisation** | | | |
| At 1 January 2008 | – | 310 | 310 |
| Charge for the year | 7 | 191 | 198 |
| Disposals | – | (14) | (14) |
| Reclassification from property, plant and equipment | – | 1 | 1 |
| At 31 December 2008 | 7 | 488 | 495 |
| Charge for the year | 10 | 193 | 203 |
| Disposals | – | – | – |
| **At 31 December 2009** | **17** | **681** | **698** |
| **Net book value at 31 December 2009** | **13** | **158** | **171** |
| Net book value at 31 December 2008 | 23 | 333 | 356 |
| Net book value at 31 December 2007 | – | 320 | 320 |

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

## 10 Property, plant and equipment

| | Computer and office equipment £'000 | Motor vehicles £'000 | Leasehold improvements £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2008 | 1,427 | 362 | 383 | 2,172 |
| Additions | 117 | 191 | 78 | 386 |
| Disposals | (417) | (125) | – | (542) |
| Reclassification to intangible assets | (71) | – | – | (71) |
| At 31 December 2008 | 1,056 | 428 | 461 | 1,945 |
| Additions | 72 | – | 76 | 148 |
| Disposals | (1) | (122) | – | (123) |
| Reclassification to intangible assets | – | – | – | – |
| **At 31 December 2009** | **1,127** | **306** | **537** | **1,970** |
| **Accumulated depreciation** | | | | |
| At 1 January 2008 | 996 | 142 | 71 | 1,209 |
| Charge for year | 213 | 110 | 97 | 420 |
| Impairment | 27 | – | 285 | 312 |
| Disposals | (416) | (72) | – | (488) |
| Reclassifications | (1) | - | – | (1) |
| At 31 December 2008 | 819 | 180 | 453 | 1,452 |
| Charge for the year | 145 | 91 | 4 | 240 |
| Impairment | – | – | – | – |
| Disposals | (1) | (82) | – | (83) |
| Reclassifications | – | – | – | – |
| **At 31 December 2009** | **963** | **189** | **457** | **1,609** |
| **Net book value at 31 December 2009** | **164** | **117** | **80** | **361** |
| Net book value at 31 December 2008 | 237 | 248 | 8 | 493 |
| Net book value at 31 December 2007 | 431 | 220 | 312 | 963 |

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

The Group has pledged all of its assets to secure banking facilities granted to the Group (see note 15).

## 11 Deferred tax

| | Accelerated depreciation £'000 | Share based payments £'000 | Total £'000 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| At 1 January 2008 | 67 | 561 | 628 |
| Credited/(charged) to profit or loss | – | (60) | (60) |
| (Charged)/ credited to equity | – | (439) | (439) |
| At 31 December 2008 | 67 | 62 | 129 |
| Credited/(charged) to the profit or loss | 133 | 77 | 210 |
| (Charged)/ credited to equity | – | – | – |
| **At 31 December 2009** | **200** | **139** | **339** |

| | Accelerated capital allowances £'000 |
|---|---|
| **Deferred tax (liability)** | |
| At 1 January 2008 | – |
| Credited/(charged) to profit or loss | – |
| (Charged)/ credited to equity | – |
| At 31 December 2008 | – |
| Credited/(charged) to profit or loss | (33) |
| (Charged)/ credited to equity | – |
| **At 31 December 2009** | **(33)** |

No reversal of deferred tax is expected within the next twelve months (2008: Nil; 2007: Nil).

## 12 Trade and other receivables

Trade and other receivables are as follows:

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Trade receivables | **7,368** | 10,804 | 13,727 |
| Allowance for doubtful debts | **(210)** | (277) | (27) |
| Prepayments and accrued income | **7,691** | 8,789 | 9,769 |
| Other receivables: | | | |
| – due within 12 months | **133** | 328 | 612 |
| – due after more than 12 months | **420** | 315 | 84 |
| **Total** | **15,402** | 19,959 | 24,165 |
| **Current** | **14,982** | 19,644 | 24,081 |
| **Non Current** | **420** | 315 | 84 |

As at 31 December 2009, the average credit period taken on sales of recruitment services was 29 days (2008: 40 days), and the receivables are predominantly non-interest bearing. An allowance of £210,000 (2008: £277,000) 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. Bad debt expense recognised in the year was £229,000 (2008: £277,000)

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

The Group uses an external credit scoring system to assess the creditworthiness of new customers. The Group supplies approximately 870 companies, mainly blue chip, FTSE 100 companies and major professional partnerships.

Included in the Group's trade receivable balances are receivables with a carrying amount of £1,931,000 (2008: £4,504,000, 2007: £5,932,000) which are past due date at the reporting date for which the Group has not provided as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired trade receivables:

| Number of days overdue | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| 0-30 days | **1,197** | 2,616 | 3,279 |
| 30-60 days | **485** | 1,083 | 1,697 |
| 60-90 days | **195** | 634 | 564 |
| 90+ days | **54** | 171 | 392 |
| **31 December** | **1,931** | 4,504 | 5,932 |

Movement in allowance for doubtful debts:

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| 1 January | **(277)** | (27) | (9) |
| Impairment losses recognised | **(210)** | (277) | (27) |
| Previous impairment losses reversed | **10** | – | 9 |
| Amounts written off as uncollectible | **267** | 27 | – |
| **31 December** | **(210)** | (277) | (27) |

## 12 Trade and other receivables continued

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.

Included in the allowance for doubtful debts are individually impaired trade receivables of £82,000 (2008: £270,000, 2007: £27,000) that have been placed in administration or liquidation. The impairment recognised represents the whole of the carrying amount of these trade receivables (net of VAT), with no expected liquidation proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| 0-30 days | **22** | – | – |
| 30-60 days | **45** | – | – |
| 60-90 days | **62** | 7 | – |
| 90+ days | **81** | 270 | 27 |
| **31 December** | **210** | 277 | 27 |

As at 31 December no trade receivables have been discounted (2008: £693,000).

## 13 Cash and cash equivalents

Cash and cash equivalents are as follows:

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Short-term bank deposits | **3,108** | 566 | 330 |
| | **3,108** | 566 | 330 |

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

## 14 Trade and other payables

Trade and other payables are as follows:

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Trade payables | **211** | 472 | 1,614 |
| Other taxes and social security costs | **778** | 758 | 1,277 |
| Other payables | **1,692** | 801 | 787 |
| Accruals and deferred income | **6,430** | 7,662 | 7,071 |
| | **9,111** | 9,693 | 10,749 |

Accruals and deferred income principally comprise accruals for amounts owed to contract staff for time worked in December. The average credit period taken on trade purchases, excluding contract staff costs, by the Group is 26 days (2008: 21 days), based on the average daily amount invoiced by suppliers. Interest is charged by suppliers 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 value of trade and other payables, the Directors consider that the carrying value approximates to their fair value.

## 15 Borrowings

| | 2009 | | | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Within one year £'000** | **In more than one year £'000** | **Total £'000** | Within one year £'000 | In more than one year £'000 | Total £'000 | Within one year £'000 | In more than one year £'000 | Total £'000 |
| Bank loans | – | – | – | 480 | 476 | 956 | 1,209 | 1,936 | 3,145 |
| Invoice discounting | – | – | – | 465 | – | 465 | 1,247 | – | 1,247 |
| Amounts payable under finance leases | – | – | – | 21 | 4 | 25 | 58 | 46 | 104 |
| | – | – | – | 966 | 480 | 1,446 | 2,514 | 1,982 | 4,496 |

Analysis of bank loans:

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Amounts repayable: | | | |
| On demand or within one year | – | 945 | 2,456 |
| In the second year | – | 476 | 980 |
| In the third to fifth years inclusive | – | – | 956 |
| | – | 1,421 | 4,392 |

Minimum future payments under finance leases:

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Amounts repayable: | | | |
| On demand or within one year | – | 22 | 63 |
| In the second year | – | 4 | 41 |
| In the third to fifth years inclusive | – | – | 8 |
| | | | 112 |
| Less: finance charges allocated to future periods | – | (1) | (8) |
| Present value of minimum lease payments | – | 25 | 104 |
| Of which payable | | | |
| – On demand or within one year | – | 21 | 58 |
| – In the second year | – | 4 | 39 |
| – In the third to fifth years inclusive | – | – | 7 |

Weighted average interest rates paid were:

| | **2009 %** | 2008 % | 2007 % |
|---|---|---|---|
| Bank loans | – | 6.43 | 7.02 |
| Invoice discounting | **2.10** | 5.81 | 6.66 |
| Finance leases | – | 7.70 | 8.00 |

## 15 Borrowings continued

Analysis of borrowing by interest rate:

| | 2009 | | | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Fixed £'000** | **Capped £'000** | **Floating £'000** | Fixed £'000 | Capped £'000 | Floating £'000 | Fixed £'000 | Capped £'000 | Floating £'000 |
| Bank loans | **–** | **–** | **–** | – | – | 1,421 | – | – | 4,392 |
| Finance leases | **–** | **–** | **–** | 25 | – | – | 104 | – | – |
| Impact of derivatives | **800** | **800** | **–** | 1,000 | 1,000 | (2,000) | 1,400 | 1,400 | (2,800) |
| | **800** | **800** | **–** | 1,025 | 1,000 | (579) | 1,504 | 1,400 | 1,592 |

The Group repaid all outstanding borrowings during the year. Derivative contracts for an interest rate swap and cap taken out at commencement of the loans remain in place as there was no commercial advantage in their early cancellation.

The principal amounts at 31 December 2009 were £0.6m each (2008: £1.0m each, 2007: £1.4m each).

Under the terms of the swap the Group receives interest at variable rates linked to LIBOR and pays interest fixed at 5.1%. The weighted average interest rate for interest paid under the swap for the year was 3.56% (2008: 6.06%), and interest amount £28,000.

Under the terms of the cap the Group receives interest for periods when variable interest rates exceed the cap rate of 5.1%. There is no payment of interest when variable interest rates are below the cap rate of 5.1%. There were no receipts or payments of interest in 2009 as variable rates were below the cap rate.

## 16 Provisions

| | **Onerous lease 2009 £'000** | Onerous lease 2008 £'000 | Onerous lease 2007 £'000 |
|---|---|---|---|
| At 1 January | **944** | – | – |
| New provision | **597** | 944 | – |
| Utilised | **(653)** | – | – |
| Unwinding of discount | **91** | – | – |
| **At 31 December** | **979** | 944 | – |
| Of which – expected to be incurred within 1 year | **387** | 571 | – |
| – expected to be incurred in more than 1 year | **592** | 373 | – |

Liabilities are discounted using the Group's estimated weighted cost of capital of 9.3%.

## 17 Share-based payments

All share-based payment arrangements are equity-settled.

During the year options over 192,000 ordinary shares were granted to a number of employees of the Group under the Hydrogen Group Enterprise Management Incentive (EMI) scheme.

Options vest on various dates from September 2011 to September 2013 subject to successful achievement of performance criteria, based on growth in the Group's profitability. Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the employee leaves the Group before options vest, except were the employee leaves for qualifying reasons.

The Group also granted options over 315,386 under the Hydrogen Group Enterprise Management Incentive (EMI) scheme, and 20,614 options under Hydrogen Group Unapproved Share Option scheme to senior employees. The number of options that vest is dependent on the % growth in Hydrogen Group adjusted basic EPS, before taxation, for the financial year 2010, and the vesting date is 31 March 2013. Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons.

The Group awarded to Executive Directors options over 62,362 shares under the Hydrogen Group Enterprise Management Incentive (EMI) scheme, and 17,638 options were granted under Hydrogen Group Unapproved Share Option scheme. The number of options that vest is dependent on the compound % growth in Hydrogen Group adjusted basic EPS, before taxation, over the period 2010-2012, and the vesting date is 31 March 2013. Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the director leaves the Group before options vest, except where the director leaves for qualifying reasons.

During the year the vesting conditions were modified on 844,581 unvested EMI and unapproved options granted in 2007 and 2008, with the aim of increasing the effectiveness of the schemes. To recognise the increasing frequency of changes to employees roles and targets arising from internal re-organisation vesting conditions were modified to base performance criteria on Group profitability rather than on individual or team performance, and to take account of reduced activity in the recruitment sector caused by instability in the financial markets, and its impact on profitability. None of these changes impacted the Executive Directors.

Details of the movements in unapproved share options and the EMI scheme during the years and the number outstanding at the end of the years in the share option schemes was as follows:

| | **Number of shares 2009** | **Weighted average exercise price 2009 £** | Number of shares 2008 | Weighted average exercise price 2008 £ |
|---|---|---|---|---|
| Outstanding at 1 January | **1,411,327** | **0.286** | 1,975,400 | 0.391 |
| Granted during the year | **608,000** | **0.000** | 164,808 | 0.000 |
| Forfeited during the year | **(364,279)** | **0.133** | (412,354) | 0.310 |
| Exercised during the year | **(53,278)** | **0.439** | (316,527) | 0.756 |
| Outstanding at 31 December | **1,601,770** | **0.207** | 1,411,327 | 0.286 |
| **Exercisable at 31 December** | **459,879** | **0.724** | 527,248 | 0.767 |

## 17 Share-based payments continued

The range of exercise prices for options outstanding in all share option schemes at the end of the year was as follows:

| | 31 December 2009 | | | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Range of exercise price** | **Number of Options** | **Weighted average exercise price** | **Weighted average remaining life** | Range of exercise price | Number of Options | Weighted average exercise price | Weighted average remaining life |
| 2006 award | **73p-81p** | **430,788** | **76.6p** | **6.0 years** | 73p-81p | 527,248 | 76.6p | 7.0 years |
| 2007 award | **Nil** | **435,901** | **Nil** | **7.5 years** | Nil | 739,127 | Nil | 8.5 years |
| 2008 award | **Nil** | **127,081** | **Nil** | **8.5 years** | Nil | 144,952 | Nil | 9.5 years |
| 2009 award | **Nil** | **608,000** | **Nil** | **9.5 years** | – | – | – | – |
| | | **1,601,770** | | | | 1,411,327 | | |

The weighted average share price at the date of exercise for share options exercised during the period was £0.90 (2008: £2.16).

The fair value of employee services received in exchange for share options in both schemes was valued using a binomial option pricing model. The inputs into the binomial model are as follows:

| | **Options issued in 2009** | Options issued in 2008 | Options issued in 2007 | Options issued in 2006 |
|---|---|---|---|---|
| Share price at date of grant | **56-90p** | 203p | 293p | 251p |
| Exercise price | **0.00p** | 0.00p | 0.00p | 80.5p |
| Expected volatility | **81%** | 30.4% | 33.5% | 20%-50% |
| Expected option life at date of grant | **4.3 years** | 4.3 years | 4 years | 2/3 year-21/2 years |
| Risk free interest rate | **3.75%** | 3.75% | 5.72%-5.77% | 4.08%-4.75% |
| Expected dividend yield | **2.5%** | 2.5% | 2.5% | 1%-2% |
| Fair value per option at grant date | **56p-90p** | 203p | 293p | 16p-18p |

Expected volatility was determined by calculating the historical volatility of the shares of Hydrogen Group plc.

**Restricted Share Plan**

A restricted share plan was adopted in April 2006 for certain senior employees. The vesting of these shares is dependent upon the Group's share price and performance criteria for the divisions managed by these senior employees over a three year period, starting in 2006. On 12 April 2006 3,300 restricted ordinary shares were issued at 0.1p per share. These have converted into 660,000 restricted ordinary 1p shares as a result of the bonus issue and share consolidation in September 2006. The fair value of employee services received in exchange for the share options were valued using a binomial option pricing model, with inputs into the binomial as per the table above.

- During the year the Remuneration Committee used its discretion under the scheme rules to:

  lift the conditions on 132,000 shares where qualifying conditions were not achieved, and under the terms of the agreement requested 132,000 restricted shares be transferred to the EBT,

- extend the vesting period by one year and set relevant performance criteria on 66,000 shares where qualifying conditions were not achieved.

At 31 December 2009 there were 66,000 shares remaining under restriction (2008: 330,000).

**Share Incentive Plan (SIP)**

On 1 July 2009 356,070 (2008: Nil) ordinary shares of the Hydrogen Group plc with a value of £251,029 (2008: Nil) were issued to the Hydrogen Employee Share Group Trust ('the Trust') to be held for the benefit of employees under the Hydrogen Group plc Share Incentive Plan (SIP). The shares were issued at nominal value using funds provided by Hydrogen Group plc.

During the year 2,866 (2008: 2,650) shares were exercised and 476,508 (2008: 123,304) shares were outstanding at the year end.

The Group recognised total expense of £497,000 (2008: £277,000) relating to equity-settled share based payment transactions, in the year.

## 18 Share capital

The share capital at 31 December 2009, 2008 and 2007 was as follows:

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| Ordinary shares of 1p each | **Number of shares** | **£'000** | Number of shares | £'000 | Number of shares | £'000 |
| **Authorised** | | | | | | |
| **At 1 January and 31 December 2008** | **40,000,000** | **400** | 40,000,000 | 400 | 40,000,000 | 400 |
| **Issued** | | | | | | |
| At 1 January | **23,024,864** | **230** | 22,708,337 | 227 | 22,542,338 | 225 |
| Issuance of new shares for employee share schemes | **409,348** | **4** | 316,527 | 3 | 165,999 | 2 |
| **31 December** | **23,434,212** | **234** | 23,024,864 | 230 | 22,708,337 | 227 |

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

The Company issued 356,070 ordinary shares to the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

During 2009, 53,278 options were exercised (2008: 316,527; 2007: 38,900), as set out in note 17.

At 31 December 2009 711,121 (2008; 280,359; 2007: Nil) shares where held in the EBT trust (see note 19).

At 31 December 2009, 476,508 ordinary shares (2008; 123,304; 2007: 125,954) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

## 19 Own shares

Under the terms of the Hydrogen Group Restricted Share Agreement 132,000 restricted shares were transferred to the EBT at nil cost (see note 17), and 68,762 shares at a cost of £59,000. The Company also donated the funds to enable the EBT trust to purchase 230,000 ordinary shares of Hydrogen Group plc for a total consideration of £174,000.

At 31 December 2009, the total number of ordinary shares held in the EBT and their values were as follows:

| Shares held for share option schemes | **2009** | 2008 | 2007 |
|---|---|---|---|
| Number of shares | **711,121** | 280,359 | – |

| | **£'000** | £'000 | £'000 |
|---|---|---|---|
| Nominal value | **7** | 3 | – |
| Carrying value | **838** | 605 | – |
| Market value | **604** | 156 | – |

## 20 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.

Adjusted earnings per share is as per basic earnings per share, with profit adjusted to add back exceptional costs.

Fully 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.

From continuing operations

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| **Earnings** | | |
| (Loss)/profit attributable to equity holders of the parent | **(5,219)** | 992 |
| **Adjusted earnings** | | |
| (Loss)/profit for the year | **(5,219)** | 992 |
| Exceptional costs | **5,787** | 1,686 |
| | **568** | 2,678 |
| **Number of shares** | | |
| Weighted average number of shares used for basic and adjusted earnings per share | **23,453,130** | 22,616,448 |
| Dilutive effect of share plans | **699,188** | 1,249,617 |
| Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share | **24,152,318** | 23,866,065 |
| Basic (loss)/earnings per share (pence) | **(22.25p)** | 4.38p |
| Diluted (loss)/earnings per share (pence) | **(22.25p)** | 4.16p |
| Adjusted basic earnings per share (pence) | **2.42p** | 11.84p |
| Adjusted diluted earnings per share (pence) | **2.35p** | 11.22p |

## 21 Equity

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Own shares £'000 | Share option reserve £'000 | Other reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2008** | 227 | 3,220 | 16,100 | – | 100 | 494 | 3 | 8,720 | 28,864 |
| Profit for the year | – | – | – | – | – | – | – | 992 | 992 |
| Dividends | – | – | – | – | – | – | – | (1,387) | (1,387) |
| Share option charge | – | – | – | – | – | 276 | – | – | 276 |
| Purchase of shares by EBT | – | – | – | (605) | – | – | – | – | (605) |
| Tax on share-based charges | – | – | – | – | – | – | – | (439) | (439) |
| Increase in share capital | 3 | 236 | – | – | – | – | – | – | 239 |
| Foreign currency translation | – | – | – | – | – | – | 19 | – | 19 |
| **At 31 December 2008** | 230 | 3,456 | 16,100 | (605) | 100 | 770 | 22 | 7,886 | 27,959 |
| **At 1 January 2009** | **230** | **3,456** | **16,100** | **(605)** | **100** | **770** | **22** | **7,886** | **27,959** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,219)** | **(5,219)** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(561)** | **(561)** |
| Share option charge | **–** | **–** | **–** | **–** | **–** | **497** | **–** | **–** | **497** |
| Purchase of shares by EBT | **–** | **–** | **–** | **(233)** | **–** | **–** | **–** | **–** | **(233)** |
| Tax on share-based charges | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Increase in share capital | **4** | **23** | **–** | **–** | **–** | **–** | **–** | **(4)** | **23** |
| Foreign currency translation | **–** | **–** | **–** | **–** | **–** | **–** | **58** | **–** | **58** |
| **At 31 December 2009** | **234** | **3,479** | **16,100** | **(838)** | **100** | **1,267** | **80** | **2,102** | **22,524** |

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

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

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

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

### Share option reserve
This reserve represents the cumulative amounts charged to profit in respect of employee share-based payment arrangements for Hydrogen employees, where the scheme has not yet been settled by means of an award of shares to an individual.

### Other reserve
This reserve represents the cumulative amount reserved for options issued to and exercised by employees of subsidiary companies in respect of employee share-based payment arrangements.

### Translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations.

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

## 22 Employees

The monthly average number of employees (including Directors) during the year and the total number of employees at 31 December 2009 was as follows:

| | Average no. 2009 | Average no. 2008 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|---|
| Client services | **182** | 230 | **193** | 197 |
| Administration | **54** | 67 | **54** | 58 |
| Management | **4** | 6 | **5** | 6 |
| | **240** | 303 | **252** | 261 |

Staff costs (including Directors' costs) are as follows and have been included in Administration Expenses in profit or loss:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Wages and salaries | **10,749** | 14,403 |
| Social security costs | **1,157** | 1,615 |
| Other pension costs | **14** | 12 |
| Share-based payments (see note 17) | **497** | 277 |
| | **12,417** | 16,307 |

### Directors' emoluments

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Emoluments for qualifying services | **701** | 634 |
| Money purchase pension contributions | **–** | 2 |
| | **701** | 636 |

The table of Directors' emoluments includes those Directors that have resigned during the year.

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

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Emoluments for qualifying services | **236** | 214 |
| Pension contributions | **–** | 2 |
| | **236** | 216 |

This Directors did not exercise any share options during the year (2008: Nil).

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes was nil (2008: 1).

### Remuneration of key management

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Emoluments | **1,427** | 1,360 |
| Share-based payments | **272** | 87 |
| Money purchase pension contributions | **19** | 8 |
| | **1,718** | 1,455 |

Key management, including Executive and Non-Executive Directors above, includes senior divisional managers.

## 23 Notes to the cash flow statement

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

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| (Loss)/profit before taxation | **(5,459)** | 2,005 |
| Adjusted for: | | |
| Exceptional costs | **5,787** | 1,686 |
| Depreciation and amortisation | **443** | 618 |
| Amortisation of finance charges | **44** | 39 |
| Utilisation of onerous lease provision | **(653)** | – |
| Gain on sale of property, plant and equipment | **(12)** | (10) |
| Share-based payments | **497** | 277 |
| Net finance costs | **111** | 240 |
| Operating cash flows before movements in working capital and exceptional costs | **758** | 4,855 |
| Decrease in receivables | **4,310** | 4,528 |
| Increase/(decrease) in payables | **149** | (763) |
| Cash generated from operating activities before exceptional costs | **5,217** | 8,620 |
| Income taxes paid | **(33)** | (1,973) |
| Finance costs | **(41)** | (301) |
| Net cash inflow from operating activities before exceptional costs | **5,143** | 6,346 |
| Cash flows arising from exceptional costs | **(345)** | (860) |
| Net cash inflow from operating activities | **4,798** | 5,486 |

### b. Reconciliation of net cash flow to movement in net funds/(debt):

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Increase in cash and cash equivalents in the year | **2,542** | 237 |
| Change in net debt resulting from cash flows | **1,489** | 3,089 |
| Other non-cash changes | **(43)** | (39) |
| **Movement in net debt in the year** | **3,988** | 3,286 |
| **Net debt at the start of the year** | **(880)** | (4,166) |
| **Net funds/(debt) at the end of the year** | **3,108** | (880) |

## 24 Operating lease commitments

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

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Within one year | **1,160** | 1,085 | 956 |
| Between one and five years | **2,127** | 2,931 | 1,829 |
| | **3,287** | 4,016 | 2,785 |

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

At the balance sheet date, the Group had future minimum lease payment receivables under non-cancellable operating leases, which fall due as follows:

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Within one year | **261** | – | – |
| Between one and five years | **490** | – | – |
| | **751** | – | – |

Operating lease payment receivables are rentals due under the sub-lease if its office properties. Rentals are fixed to the end of the lease in 2012.

## 25 Financial Instruments

### Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. During 2009, the Group repaid all of its senior borrowings, hence banking covenant restrictions on debt no longer apply. 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 in note 21.

### Gearing ratio

The Board of Directors regularly review the capital structure of the Group. Over the long term the Group has a target gearing ratio in the range of 25%-30% as determined as net debt to equity, but makes adjustments to it in the light of changes in economic circumstances or Group structure. During 2009 the Group has taken the opportunity to apply cash generated by the business to repay all of its borrowings. There have been no other significant changes in capital structure implemented in the year ended 31 December 2009.

The gearing ratio at the year end is as follows:

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Debt | **–** | (1,446) | (4,496) |
| Cash and cash equivalents | **3,108** | 566 | 330 |
| Net cash / (debt) | **3,108** | (880) | (4,166) |
| Equity | **22,462** | 27,959 | 28.864 |
| Net debt to equity ratio | **0%** | 3.1% | 14.4% |

Debt is defined as long and short-term borrowings.

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

## 25 Financial Instruments continued

### Externally imposed capital requirements
The Group is not subject to externally imposed capital requirements.

### Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of the financial statements. There have been no significant changes in accounting policy in the year ended 31 December 2009.

### Categories of financial instruments

| | **2009 £'000** | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Loans and receivables | | | |
| Trade and other receivables | **7,711** | 11,132 | 14,339 |
| Cash and cash equivalents | **3,108** | 566 | 330 |
| | **10,819** | 11,698 | 14,669 |
| **Financial liabilities at amortised cost** | | | |
| Trade and other payables | **8,464** | 8,936 | 9,472 |
| Borrowings | **–** | 1,446 | 4,496 |
| | **8,464** | 10,382 | 13,968 |

Financial assets are predominantly short term in nature, and hence their carrying value approximates to their fair value and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

### Market risk

#### Foreign currency risks
The main functional currency of the individual operations within the Group is Sterling, and over 90% of the Group's revenues are denominated in Sterling. The Group's exposure to movements in exchange rates is increasing as it grows its operations outside of the UK. The Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments, but will continue to monitor its policies in this area as the impact of foreign exchange becomes more significant.

#### Interest rate risk
Following repayment of its borrowings The Group has negligible exposure to changes in interest rates. Two derivatives contracts put in place to manage the interest rate risk on long term borrowings remain in place as there was no commercial advantage in terminating the contracts before maturity in 2011, and estimated loss to maturity is considered immaterial.

An analysis of the derivative contracts at 31 December 2009 is shown in the table below. Fair value has been calculated by discounting market forecasts of future interest rates The gains/(losses) have not been reflected in the accounts as amounts are not significant.

| | Average contract fixed interest rate | | Notional principal amount | | Fair value | | |
|---|---|---|---|---|---|---|---|
| | **2009 %** | 2008 % | **2009 £'000** | 2008 £'000 | **2009 £'000** | 2008 £'000 | 2007 £'000 |
| 1-2 years | **3.6** | 5.1 | **1,200** | 2,000 | **(25)** | (28) | 12 |

## 25 Financial Instruments continued

### Credit risk

The Group is exposed to credit risk on its trade and other receivables, and cash and cash equivalents. 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:

| | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Cash and cash equivalents | **3,108** | 566 | 330 |
| Trade receivables net of impairment provision | **7,158** | 10,527 | 13,700 |
| Other receivables | **553** | 643 | 696 |
| | **10,819** | 11,736 | 14,726 |

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

The Group continuously monitors defaults of customers, and incorporates this information into its credit risk controls. External credit ratings on customers are obtained. At the year end no customer represented more than 5% of the total balance of trade receivables.

It is the Directors' opinion that no further provision for doubtful debts is required.

### Liquidity risk

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

The Group has a £5m invoice discounting facility committed to December 2010, and are considered adequate to meet the Group's funding requirements.

The Group has no financial liabilities other than short term trade payables and accruals disclosed in note 14, all due within one year of the year end. The Group's contractual maturities for its derivative financial liabilities are not material.

## 26 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Directors, Ian Temple and Chris Cole are also shareholders of Human Capital Search Limited, IQ Education Recruitment Limited and Resourcing Associates Limited. During the year, there were no transactions with related parties or balances outstanding.

No single party has ultimate control of the company.

# Independent auditor's report

**To the members of Hydrogen Group plc**

We have audited the parent company financial statements of Hydrogen Group plc for the year ended 31 December 2009 which comprise the parent company balance sheet, the statement of total recognised gains and losses, significant accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement (set out on page 20), the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

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

**Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

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

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

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

**Other matter**

We have reported separately on the group financial statements of Hydrogen Group plc for the year ended 31 December 2009.

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

2 March 2010

# Company balance sheet

**As at 31 December 2009**

| | Note | 2009 £'000 | 2008 Restated £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible fixed assets | 4 | **14** | 23 |
| Tangible assets | 5 | **6** | 7 |
| Investments | 6 | **6,418** | 6,418 |
| Debtors | 7 | **557** | 375 |
| | | **6,995** | 6,823 |
| **Current assets** | | | |
| Debtors | 7 | **3,463** | 1,423 |
| Cash at bank and in hand | | **34** | 49 |
| | | **3,497** | 1,472 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 8 | **190** | 1,975 |
| **Net current assets/(liabilities)** | | **3,307** | (503) |
| **Total assets less current liabilities** | | **10,302** | 6,320 |
| Creditors: amounts falling due after more than one year | 9 | **–** | (476) |
| **Net assets** | | **10,302** | 5,844 |
| **Capital and reserves** | | | |
| Called up share capital | 10 | **234** | 230 |
| Own shares held | 11 | **(838)** | (605) |
| Share premium account | 12 | **3,479** | 3,456 |
| Share option reserve | 12 | **100** | 100 |
| Profit and loss account | 12 | **7,327** | 2,663 |
| Equity shareholders' funds | | **10,302** | 5,844 |

The financial statements on pages 55 to 63 were approved by the Board of Directors and authorised for issue on and are signed on its behalf by:

Ian Temple
Executive Chairman

# Statement of total recognised gains and losses

**As at 31 December 2009**

| | Note | **2009 £'000** | 2008 Restated £'000 |
|---|---|---|---|
| Profit for the financial year | 2 | **5,229** | 3,852 |
| Share option charge | | **–** | 276 |
| Total recognised gains and losses relating to the financial year | | **5,229** | 4,128 |
| Prior year adjustment (see note 13) | | **–** | (770) |
| Total recognised gains and losses relating to the financial year restated | | **5,229** | 3,358 |

# Notes to the Company financial statements

**Hydrogen Group plc**

## 1 Significant Accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historic cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

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.

### Tangible fixed assets and depreciation

Fixed assets are stated at historical cost.

Depreciation is provided on computer and office equipment at 33% straight line on cost less estimated residual value.

### Investments

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

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### Dividends

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

### Share-based payments

Where options are awarded after 7 November 2002 and that were unvested as of 1 January 2006, the fair value of the employee services received in exchange for the grant of the share options is charged to the income statement over the vesting period of the share option, based on the number of options which are expected to become exercisable. A corresponding adjustment is made to equity. Fair value is measured by use of a binomial model. At each balance sheet date, 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 the profit and loss account with a corresponding adjustment to equity.

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

The Company has changed its accounting policy in the situation where options over the Company's shares are awarded to employees of subsidiary companies. In previous years the Company has recorded an increase in equity matched by an increase in the cost of investment for the fair value of employee services received in exchange for the grant of share options to employees of subsidiary companies. From 2009 the Company will only show the issue of fresh equity when it occurs. The change in accounting policy has been treated as a prior-year adjustment with restatement of 2008 comparatives.

### Financial instruments

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

## 1 Significant Accounting policies continued

### Financial assets

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

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

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

Cash and cash equivalents includes cash in hand and bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, less bank overdrafts where right of set-off exists.

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the asset, the Company recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 classified according to the substance of the contractual arrangements entered into.

The Company's financial liabilities comprise trade payables, borrowings, bank overdrafts and other payable balances that arise from its operations. They are classified as 'financial liabilities measured at amortised cost'. Finance charges are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the investment to the extent they are not settled in the period in which they arise.

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

### Derivative financial instruments

The Company manages its exposure to movements in interest rates on its debt by entering into derivative contracts for interest rate swaps and caps. The interest differential amounts due to and from on interest rate swaps are accrued until settlement date and are recognised as an adjustment to interest expense. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

The Company has no foreign exchange derivatives.

## 2 Profit for the year

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 2009 of £5,229,000 (2008: £3,852,000).

The auditor's remuneration for audit of the Company is £10,000 (2008: £10,000).

Fees payable to Grant Thornton UK 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 Dividend

Amounts recognised as distributions to equity holders in the year:

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| **Amounts recognised and distributed to shareholders in the year** | | |
| Interim dividend for the year ended 31 December 2009 of 0.5p per share (2008: 2.1p per share) | **114** | 483 |
| Final dividend for the year ended 31 December 2008 of 2p per share (2008: 4p) | **447** | 904 |
| | **561** | 1,387 |

An interim dividend of 0.5p (2008: 2.1p) per share was paid on 6 November 2009 to shareholders on the register at the close of business on 9 October 2009. The proposed interim dividend was approved by the Board on 3 September 2009.

A second interim dividend of 3.6p (2008: Nil) per share was paid on 12 February 2010 to shareholders on the register at the close of business on 22 January 2010.

The Directors do not propose the payment of a final dividend for 2009 (Final 2008 Dividend: 2.0p per share).

## 4 Intangible fixed assets

| | Trademarks £'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 30 |
| Additions | – |
| **At 31 December 2009** | **30** |
| **Amortisation** | |
| At 1 January 2009 | 7 |
| Amortisation for the year | 9 |
| **At 31 December 2009** | **16** |
| **Net book value at 31 December 2009** | **14** |
| Net book value at 31 December 2008 | 23 |

## 5 Tangible fixed assets

| | Computer and office equipment £'000 |
|---|---|
| **Cost** | |
| At 1 January 2009 | 32 |
| Additions | 4 |
| **At 31 December 2009** | **36** |
| **Amortisation** | |
| At 1 January 2009 | 25 |
| Depreciation for the year | 5 |
| **At 31 December 2009** | **30** |
| **Net book value at 31 December 2009** | **6** |
| Net book value at 31 December 2008 | 7 |

## 6 Fixed asset investments

| | **2009 £'000** | 2008 Restated £'000 |
|---|---|---|
| **Subsidiary undertakings at cost** | | |
| At 1 January | **6,418** | 7,188 |
| **Restated for change in accounting policy (see note 13)** | **–** | (770) |
| **Restated balance at 1 January and 31 December** | **6,418** | 6,418 |

In accordance with Section 409 of the Companies Act 2006 the information provided below is given only for principal subsidiary undertakings, all of which have been consolidated:

| Subsidiary | Country of incorporation | Nature of activities | % ordinary share capital and voting rights |
|---|---|---|---|
| Hydrogen UK Limited* | United Kingdom | Recruitment | 100% |
| Hydrogen International Limited | United Kingdom | Recruitment | 100% |
| Hydrogen Group Pty Limited | Australia | Recruitment | 100% |
| Hydrogen Singapore | Singapore | Recruitment | 100% |
| Professionals Group Limited | United Kingdom | Dormant | 100% |
| Hydrogen Employee Share Group Limited | United Kingdom | Trustee of Share Incentive Plan | 100% |

*held indirectly

Hydrogen Group plc also owns twenty three dormant companies that are subsidiary undertakings of Hydrogen UK Limited and Hydrogen International Limited.

## 7 Debtors

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Due within one year:** | | |
| Amounts owed by Group companies | **3,401** | 1,411 |
| Other debtors | **50** | – |
| Prepayments | **12** | 12 |
| | **3,463** | 1,423 |
| **Due after more than one year:** | | |
| Amounts owed by Group companies | **554** | 375 |
| Deferred tax – accelerated depreciation | **3** | – |
| | **557** | 375 |
| | **4,020** | 1,798 |

## 8 Creditors: amounts falling due within one year

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Bank loans | **–** | 480 |
| Trade creditors | **50** | 88 |
| Amounts owed to group companies | **2** | 673 |
| Corporation tax | **60** | 85 |
| Other tax and social security | **26** | 11 |
| Accruals and deferred income | **52** | 638 |
| | **190** | 1,975 |

Bank loans are secured by a fixed and floating charge on all the assets of the Group.

## 9 Creditors: amounts falling due after more than one year

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Bank loans | **–** | 476 |

Analysis of debt maturity:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Bank loans** | | |
| Amounts repayable: | | |
| In one year or less or on demand | **–** | 480 |
| In more than one year but not more than two years | **–** | 476 |
| In more than two years but not more than five years | **–** | – |
| | **–** | 956 |

## 10 Share capital

The share capital at 31 December 2009 and 2008 was as follows:

| Ordinary shares of 1p each | 2009 Number of shares | 2009 £'000 | 2008 Number of shares | 2008 £'000 |
|---|---|---|---|---|
| **Authorised** | | | | |
| **At 1 January and 31 December** | **40,000,000** | **400** | 40,000,000 | 400 |
| **Issued** | | | | |
| At 1 January | **23,024,864** | **230** | 22,708,337 | 227 |
| Issued of new shares for employee share schemes | **409,348** | **4** | 316,527 | 3 |
| 31 December | **23,434,212** | **234** | 23,024,864 | 230 |

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

The Company issued 356,070 ordinary shares to the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

During 2009, 53,278 options were exercised (2008: 316,527), as set out in note 17.

At 31 December 2009 711,121 (2008; 280,359) shares where held in the EBT trust.

At 31 December 2009, 476,508 ordinary shares (2008; 123,304) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

## 11 Own shares

Under the terms of the Hydrogen Group Restricted Share Agreement 132,000 restricted shares were transferred to the EBT at nil cost (see note 17), and 68,762 shares at a cost of £59,000. The Company also donated the funds to enable the EBT trust to purchase 230,000 ordinary shares of Hydrogen Group plc for a total consideration of £174,000.

At 31 December 2009, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes

| | 2009 | 2008 |
|---|---|---|
| Number of shares | **711,121** | 280,359 |

| | £'000 | £'000 |
|---|---|---|
| Nominal value | **3** | 3 |
| Carrying value | **838** | 605 |
| Market value | **604** | 156 |

## 12 Reserves

| | Share premium £'000 | Share option reserve £'000 | Other reserve £'000 | Retained earnings £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2009** | **3,456** | **100** | **770** | **2,663** |
| **Restated for change in accounting policy (see note 13)** | **–** | **–** | **(770)** | **–** |
| **Restated balance at 1 January 2009** | **3,456** | **100** | **–** | **2,663** |
| Profit for the year | **–** | **–** | **–** | **5,229** |
| Dividends paid | **–** | **–** | **–** | **(561)** |
| Share option charge (see note 13) | **–** | **–** | **–** | **–** |
| Increase in share capital | **23** | **–** | **–** | **(4)** |
| **Balance at 31 December 2009** | **3,479** | **100** | **–** | **7,327** |

## 13 Share based payments

The Company has changed its accounting policy where employees of subsidiary companies are granted options by the parent company over its shares in exchange for services to the subsidiary company (see note 17 of the consolidated group financial statements for details of options outstanding). In previous years the Company has recorded an increase in investment in subsidiary and a corresponding credit to equity for an amount equivalent to the fair value of employee services received by the subsidiary. From 2009 the Company will only recognise fresh equity when it is actually issued. There is no change to the accounting treatment in subsidiary companies which will continue to record a cost and increase in equity within its own financial statements for the options awarded

The change in accounting policy has been treated as a prior year adjustment.

## 14 Contingent liabilities

The Group has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which were unutilised (2008: £465,000) at the balance sheet date.

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