Hydrogen Group plc

Annual Report 2010

Growth and investment

Performance summary

Group NFI

+64%

December 2010	£27.6m
December 2009	£16.8m

International NFI

+138%

December 2010	£8.8m
December 2009	£3.7m

Engineering NFI

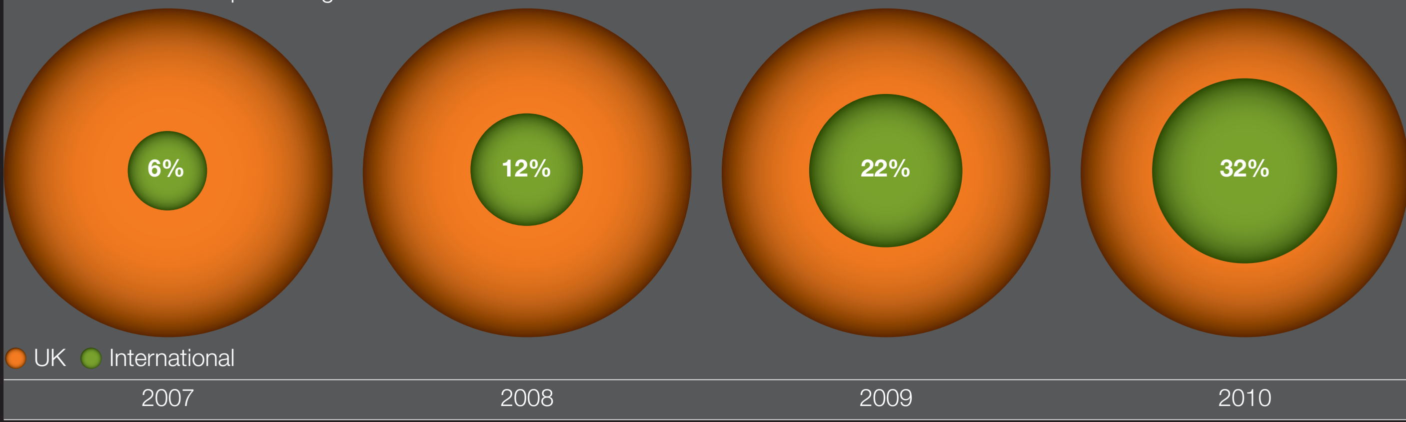
+160%

December 2010	£3.9m
December 2009	£1.5m

Contents

Growing international capability

International NFI as a percentage of total NFI



Head count

+31%

December 2010	329
December 2009	252

Productivity per head

+27%

December 2010	£89k per head
December 2009	£70k per head

Chairman's statement

Ian Temple
Executive Chairman

2010 was a year of substantial growth and investment for the Group with the actions and decisions taken over the past three years enabling us to return to the growth levels experienced prior to the downturn. Having carefully invested in new markets and sectors, whilst ensuring that our strong positions in established markets have been maintained, we were able to respond quickly to improving market conditions and deliver NFI growth of 64%.

We continued to make strong progress towards our goal of internationalising the business, with NFI from international markets representing 32% of total NFI (2009: 22%). Our office in Sydney and our new Singapore office both delivered excellent growth, and we continued to invest in new markets over the course of the year via our proven incubator model.

Our contracts business delivered a particularly strong performance, driven by a number of large project wins and the scaling up of certain existing projects. At the same time our permanent business delivered a strong set of results, driven by the rising confidence of both employers and candidates, coupled with the on-going skills shortages that exist within our markets.

Key financials
Revenue increased by 67% to £123.4m (2009: £74.1m) resulting in NFI growth of 64% to £27.6m (2009: £16.8m). Profit before taxation and exceptional costs was £2.5m (2009: £0.3m), generating increased basic earnings per share of 8.0p (2009: (22.3p), before exceptional costs 2.4p).

Trade debtors increased by 76% to £13.0m (2009: £7.4m) as a result of the significant growth in contractor activity experienced by the Group in 2010. Despite the rapid growth in activity, working capital was well controlled with trade receivables expressed in days of sales outstanding (DSOs) reducing by a further 4 days to 25 days (2009: 29 days) due to the impact of major contracts.

Cash flow has continued to be good, with operating cash flows before movements in working capital of £2.8m (2009: £0.8m).

Dividends
The Board previously declared an interim dividend of 1.4p (2009: 0.5p) which was paid on 5th November 2010. The Board is recommending a final dividend of 2.7p (2009: second interim dividend of 3.6p and final dividend of 0p) maintaining the total for the year at 4.1p per share (2009: 4.1p) which, subject to shareholder approval will be paid on 3 June 2011 to shareholders on the register as at 10 May 2011. The Board maintained a dividend through the downturn and having returned to a conventional dividend timetable will seek to pay a progressive dividend as profitability returns.

Board
2010 saw the appointment of two new members to the Board. Our Finance Director, John Glover, was appointed to the Board in March in recognition of the excellent contribution he has made since joining the business from BP plc in February 2007. In October, we were delighted to announce the appointment of Ian Fallmann as Non-Executive Director. Ian spent 15 years at Bloomberg LP Japan, as Managing Director for the Asia Pacific region, and has extensive experience of growing various businesses in Asia, a key region for the Group.

Outlook
Whilst visibility in the global recruitment markets remains limited we have seen a growth in confidence during 2010 and expect this to continue in 2011. We continue to invest in opportunities for potential growth and taking all available indicators into consideration, we remain well placed for the forthcoming year.

Technology
46% of group NFI

- Business transformation
- Technology transformation
- Application specialists

Professional
19% of group NFI

- Legal
- Talent performance and development
- Pharmaceutical

Finance
21% of group NFI

- Finance
- Trading and advisory

Engineering
14% of group NFI

- Energy

Operating review

Tim Smeaton
Chief Executive Officer

The Business
Hydrogen is a global specialist recruitment group, placing mid to senior level professional staff into clients on both a permanent and contract basis. Structured around four sectors with nine specialist global practices, we focus on finding and building relationships with high quality specialist candidates that our clients cannot source themselves.

The Group delivered a strong performance in 2010 with NFI growth of 64%. It was very encouraging to see strong performances in both permanent and contract, with NFI from permanent placements up by 83% to £14.8m (2009: £8.1m), and our contractor book growing by 93% to 1,233 (December 2009: 640). With both sides of the business growing strongly, we were able to maintain a balance between our permanent and contract businesses, with permanent NFI representing 54% of NFI and contract 46% (2009: 52% contract: 48% permanent).

During the downturn, the strategic decision was taken to internationalise the business, aiming to generate 50% of our NFI from outside the UK. We were pleased to see international NFI up by 138% to £8.8m in 2010 (2009: £3.7m), representing 32% of total NFI (2009: 22%). The year has seen a strong performance from our Sydney office with NFI up 150%, and our office in Singapore has had a promising first year of trading. Both offices moved to larger premises over the year to accommodate combined headcount growth of 98%. We have also moved two of our most experienced Managing Directors from the UK to Asia and Australia, strengthening our leadership capabilities in these regions.

We have continued to invest carefully in new high growth markets, in addition to exporting our existing practices into new locations. Our Engineering sector grew NFI by 160% to £3.9m (2009: £1.5m) and our recently launched Pharmaceuticals practice has gone from strength to strength and delivered a particularly good performance in Europe. Using our proven incubator model, we have continued to incubate teams focused on new locations and potential practices and we expect these to generate further growth for the Group in the coming years.

Clients
We worked hard to maintain our long-standing client relationships during the downturn. We have continued to invest in building the pools of highly scarce candidates that our clients look to us to provide. These steps positioned us well when hiring activity began to increase. As we expand internationally, we have looked to leverage client relationships and our long-standing track record of delivery in the UK is proving very beneficial in generating business in new markets.

Candidates
2010 saw the publication of our first study into the global migratory patterns of mid to senior level professional candidates. Based on a sample size of over 3,000, the survey revealed that 9 out of 10 of these professionals are either already working abroad or willing to do so. We have been placing great emphasis on joining up the business globally to enable us to exploit this trend and offer our candidates international career opportunities. In 2010, we placed candidates in over 40 countries, and we continue to invest in the systems and processes required to grow our capability in this area.

Staff
We continued to invest in our internal training and recruitment functions over the year, which in turn enabled us to increase total headcount by 31% to 329 (December 2009: 252). It is encouraging to note that headcount has now returned to our peak 2007 levels. Productivity per head is yet to reach the levels achieved at the peak of the last economic cycle and therefore we expect to see an incremental impact from this investment in the future.

Attracting, engaging and developing high quality staff is key to the success of the business and we were delighted to be placed in The Sunday Times "Best Companies to Work For" listings for the 6th time, and to be named one of "Britain's Top Employers" for the 5th year running in The Daily Telegraph. It was also excellent to see our training programmes being "highly commended" in the National Graduate Recruitment Awards. I would like to take this opportunity to thank everyone in the business for their part in delivering this set of results and for making Hydrogen a company we are all so proud to be a part of.

Hydrogen builds relationships with amazing candidates clients cannot find themselves

Real life stories from an employee and a candidate demonstrate our skill at matching individual goals with global career opportunities.

"I was moving to the other side of the world and it was not going to be easy… A lot of emphasis was put on ensuring I had strong relationships with key stakeholders."

Country Director Emma Halls has come a long way since she joined Hydrogen as a trainee in 2002. After gaining experience as a consultant in Hydrogen's specialist finance business, Finance Professionals, Emma became a team leader in 2003. Identifying and fast tracking the development of potential future leaders is key to Hydrogen's success and by 2008 Emma's effectiveness in her role, combined with her interest in working abroad, led to her being selected to head up Hydrogen's new office in Sydney.

Emma had travelled in Australia in 2000 after university, so she already had an idea of what it would be like to live in Sydney. In addition, her time in Finance Professionals' City division had given her first hand experience of the two-way migratory path that exists between the London and Sydney professional markets.

Before her move to Sydney in 2008, Emma went though an intensive development process, so that she would take on her new role feeling well prepared and fully supported. The focus was on coaching and communication. She says: "I was moving to the other side of the world and it was not going to be easy. How I communicated and used the different subject matter experts in Hydrogen was going to be key. A lot of emphasis was put on ensuring I had strong relationships with key stakeholders."

Under Emma's leadership, the Australian office has grown impressively – with NFI growth of 430% over the past two years. "We have imported staff from our London office which has really helped us to build momentum and ensure we maintain the highly productive Hydrogen culture," Emma explains. "We prioritised which markets to attack first, based on growth opportunities locally. Importing highly skilled candidates from our global pools into the local market has been key to our success here."

"I have developed far more in the last six months as a lawyer than in the previous two years in London."

Lyndsey McAuley, a 27-year-old corporate lawyer, was working at a large London law firm, clocking up 100 hours a week, over six months, on a complex and lengthy transaction.

Taking stock of her work-life balance and career development, she decided to look at opportunities in another country, to gain international experience and broaden her portfolio of skills. She considered that moving to a large, well-respected international firm would allow her to experience an intimate professional environment of a local office, whilst retaining the infrastructure and top-end work that a Magic Circle* law firm offers.

"I'm young, have no commitments, I didn't have a gap year, and so this is the perfect time for me to work overseas," she says.

Once the decision was made Lyndsey's plans came to fruition quickly. She contacted Law Professionals, Hydrogen Group's specialist legal recruitment company, in May 2010. She was offered interviews with three firms within two to three weeks, received a job offer in June, and flew out to Dubai to take up her position as an Associate with Clifford Chance during the first week of September.

"The consultant I worked with was excellent and has become a good resource and friend," says Lyndsey. "I was hesitant about using a recruitment consultant as I'd had poor experiences in the past, but I didn't feel that they were pushing me into a role to get the commission. My consultant was determined to find the perfect role for me, she knew the market, and provided full support."

Dubai was attractive for a number of reasons. There were few language or other professional barriers and Lyndsey had visited the country several times before. She understood that the differing culture can mean restrictions for women, but she hasn't found this to be a problem and is revelling in the career opportunities the move has offered.

"Professionally, I have a lot more responsibility now. In the Dubai office there are 70 lawyers and I'm one of about 10 associates in my practice group. The financial and legal systems of the Middle East are different from those in London and that has meant a shift in the client focus aspect of my work. There is more of an educational role to the work with clients, and I have found that being required frequently to explain legal concepts in layman's terms has resulted in a rapid expansion of my skill set. I have developed far more in the last six months as a lawyer than in the previous two years in London and am undertaking a much broader role, in terms of both geography and practice area."

Lyndsey's contract in Dubai is a permanent one, and she is flexible with regards to how long she will remain in the country. She would consider another international assignment on her departure from Dubai – possibly in Italy. She feels that too many professional women are missing out by not considering an international position – even if it means moving far from home. "I think there are misconceptions of the Middle East and Asia. People perceive that there's an enormous cultural difference, but the globalisation of business means that professionally speaking, the environment is very similar wherever you work in the world. Yes, it is an upheaval, but it's also an enlightening experience; one which provides you with a greater understanding of your strengths and weaknesses, and which allows you to develop as a person and as a professional."

*Magic Circle is the informal term used to describe the companies considered to be the five leading London-based law firms: Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters and Slaughter and May.

Financial review

John Glover
Finance Director

Revenue and NFI

The Group experienced a strong recovery during the year with revenue growth of 67% to £123.4m (2009: £74.1m). This translated into NFI growth of 64% to £27.6m (2009: £16.8m).

The Group continued to deliver on its strategy of increasing diversification of both geographies and industry sectors, with international placements representing 32% of total NFI (2009: 22%), and the recently launched Pharmaceuticals practice making excellent progress.

Administration costs before exceptional costs

Administration costs for the year increased by 52% to £25.0m (2009: £16.4m). A significant contributor to the increase was additional headcount which, at 31 December 2010, was up 31% to 329 (2009: 252), and the associated training and property costs. Other factors were higher levels of variable pay and sales incentives, and increased travel costs. There were no exceptional costs in 2010.

Finance costs

Finance costs primarily relate to the unwinding of discount on onerous lease provisions, and interest on invoice discounting, where peak amounts borrowed during the payment cycle have increased but interest rates have remained low.

Profit before taxation

Profit before taxation for the year was £2.5m (2009: loss of £5.5m after exceptional costs).

Taxation

The tax charge for the year was £0.7m (2009: tax credit £0.2m), an effective tax rate of 29%, slightly above the UK statutory rate of 28% due to non-deductible expenses. It is expected that the Group's underlying tax rate will remain at about this level.

Earnings per share

Basic earnings per share increased to 8.0p (2009: (22.3p), before exceptional costs 2.4p) and diluted earnings per share, taking into account existing share options, increased to 7.5p (2009: (22.3p), before exceptional costs 2.4p).

Balance Sheet

The Group's net assets at 31 December 2010 remained relatively unchanged at £23.1m (2009: £22.5m).

Trade receivables increased by 76% to £13.0m (2009: £7.4m) as a result of the significant growth in contractor activity experienced by the Group in 2010. Despite the rapid growth in activity, working capital was well controlled with trade receivables expressed in days of sale outstanding (DSOs) reducing by a further 4 days to 25 days (2009: 29 days) due to the impact of major contracts.

The growth in contractor numbers also explained the increase in accrued income assets and deferred income liabilities as client billing and contractor payment for time worked in December was outstanding as at year end.

Cash flow and cash position

At the start of the year the Group had net cash of £3.1m. Operating cash flow before movements in working capital in the year was £2.8m (2009: £0.8m). An investment of £4.5m (2009: £4.5m release) in additional working capital was required to finance the significant growth in contractor numbers achieved during the year. After payment of taxes of £0.5m (2009: Nil) and interest payments of £0.2m (2009: Nil), cash used by operations was £2.4m (2009: cash generated £5.1m).

In 2010 the Company contributed £0.5m (2009; £0.2m) to the Hydrogen Employee Benefit Trust (EBT) to enable it to purchase 461,145 shares, bringing the EBT holding to 5% of the issued capital of Hydrogen Group PLC.

A second interim dividend of £0.8m was paid for 2009 and an interim dividend of £0.3m paid for 2010.

The Group spent £1.3m upgrading and expanding its office facilities in London, Singapore and Sydney, investing in additional space and upgraded training and video conferencing facilities. The Group spent £0.2m on two acquisitions during the year, acquiring a company with an employment license in Dubai and a UK registered recruitment company trading in the finance sector.

At 31 December 2010, the Group had net debt of £2.2m (2009: net cash £3.1m).

Treasury management and currency risk
The working capital investment required to finance the rapid growth in contractor activity in 2010 has resulted in the Group moving to a net debt position. The major source of finance is invoice discounting, and the Group has increased its facility twice during 2010 from £5m to £13m, and the arrangement is in place to February 2012. Continued growth in contractor numbers in 2011 may require further increases in the Group invoice discounting facilities and the Group has no reason to believe that facilities will not be made available.

Although over 30% of the Group's NFI is derived from overseas, the concentration of contract recruitment in the UK means that over 80% of the Group's revenues are in Sterling, and Sterling continues to be the functional currency of the Group. The Group does not use financial instruments actively to manage its exposure to foreign currency exchange risk but will continue to monitor its policies in this area as its international business grows.

The Group continued to deliver on its strategy of increasing diversification of both geographies and industry sectors, with international placements representing 32% of total NFI

Board of directors

Ian
Temple

Ishbel
Macpherson

Martyn
Phillips

John
Glover

Ian
Fallmann

Tim
Smeaton

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. Ian was a co-founder of Hydrogen. 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 Office 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 was a co-founder of Hydrogen.

John Glover
Finance Director
John joined Hydrogen in February 2007 and was appointed to the Board in March 2010, following over 20 years in a number of different finance roles at BP plc. During that time, John gained extensive experience in business management and control, change management, process reengineering and global systems implementation. John is a Chartered Accountant, and has a degree in Chemistry from the University of Nottingham.

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. She is currently the Chairman of Speedy Hire plc and a Non-Executive Director of GAME Group plc,Dignity plc and May Gurney intergrated services plc

Martyn Phillips
Non-Executive Director
Martyn Phillips has been a Non-Executive Director of Hydrogen Group since 2006. He is chair of the Remuneration Committee and a member of the Audit and Nomination Committees. Martyn is Operations and HR Director of B&Q and is CIPD qualified. Martyn brings a client's view to the company as well as a wealth of experience in the HR and management arenas.

Ian Fallmann
Non-Executive Director
Ian joined Hydrogen as Non-Executive Director in October 2010, following over 20 years working in the Far East. He spent 15 years at Bloomberg LP, Japan as Managing Director for the Asia-Pacific region. During that time, Ian gained extensive experience working in a multi-cultural environment and growing various businesses in Asia. Ian is also a professional executive coach, and has a degree in Economics and German from the University of Sussex.

Corporate social responsibility

Madeleine Scrafton
Company Secretary

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 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 UK Health and Safety at Work Act 1974, the European community Directives on Health and Safety, the Australian Occupational Health and Safety Acts and the Singaporean Workplace Safety and Health Act are all complied with.

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 is committed to reducing its impact on the environment and operates a number of initiatives to enable this. Recycling is encouraged in all our offices, all our locations have access to video conferencing to reduce travel where possible, the lighting in all our locations is low energy to promote energy conservation and the majority of our core consumable resources are sourced from recyclable or sustainable sources.

Employee involvement
The Group values the involvement of its employees and continues to keep them informed on matters affecting them and on matters affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's intranet, and regular internal updates to all employees. In addition 2010 saw the launch of the annual company employee survey which was a successful gauge of employee satisfaction. Externally the Group's achievements in employee satisfaction were reflected by a number of awards.

The Directors consider that the ability of employees to participate in the share ownership of the Group is important to 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 charity. Hydrogen Group has silver membership with the charity and also helps with administrative support and recruitment services. The Group made a donation of £5,000 to Young Enterprise during the year. The Group also donated 12 Chelsea Football Club season tickets for auction at charitable events and has supported a number of employees who have participated in sponsored events.

2010
Britain's Top Employers – No 2
Best Companies Accreditation – 'One to Watch'

2009
Britain's Top Employers – No 2
Sunday Times 'Best Company to Work for'

2008
Britain's Top Employer – No 1
Sunday Times 'Best Company to Work for'

2007
Britain's Top Employer – No 1
Best Company to Star Status'
Sunday Times 'Best Company to Work for'

2006
Outstanding Workplace of the Year Award
Investors in People
Sunday Times 'Best Small Company to Work for'

Annual report and accounts 2010

Contents

Corporate governance statement

For the year ended 31 December 2010

Statement of compliance with the Combined Code

The Board of the Company is committed to achieving high standards of corporate governance, integrity and ethics. The Financial Reporting Council (FRC) published the new 'UK Corporate Governance Code' in June 2010, replacing the 'Combined Code on Corporate Governance', and in September 2010 the Quoted Companies Alliance (QCA) published 'Corporate Governance Guidelines for Smaller Quoted Companies', replacing previous guidelines issued in 2004 and 2005. Although as an AIM listed company it is not formally required to do so, the Group has sought to comply with the 'UK Corporate Governance 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 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 on creating 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 3 Non-Executive Directors. Ian Fallmann was appointed as a Non-Executive director during 2010. 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 The other members of the Committee are the Non-Executive Directors, Martyn Phillips and Ian Fallmann (following his appointment), and the Executive Chairman, Ian Temple.

The Nominations Committee met on three occasions during 2010 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. 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.

Ian Fallmann is due for election in 2011, and the Board have considered and agreed that Ian be put forward for election. The Board member due by rotation for re-election in 2011 is Ian Temple, and the Board have considered and agreed that Ian 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 evaluation of Board performance and effectiveness is undertaken annually. Each Director completes a detailed questionnaire giving their assessment of individual and collective performance. The results are discussed and debated at Board and Committee level to ensure that issues arising are effectively addressed. In 2010, the process identified the need for an additional Non-Executive Director, to maintain the executive to non-executive balance on the Board, which led to the appointment of Ian Fallmann in October 2010.

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

Going concern
The major areas which could affect the Group's financial position are detailed on page 19. Having taken account of the situation outlined there 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 nine board meetings in 2010 and the average attendance was 96%.

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 during the year.

The Audit Committee met six times during 2010 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 2010

Scope and membership of Remuneration Committee
The Remuneration Committee meets not less than twice a year and comprises the independent Non-Executive Directors. The Committee is chaired by Martyn Phillips. 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 seven occasions in 2010, with 100% attendance. The Terms of Reference for the Remuneration Committee 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 bi-annual 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 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 by the Remuneration Committee at the start of each year and are dependent on the achievement of objectives and targets during the financial year. In 2010, the maximum annual bonus entitlement for Executive Directors was equal to 100% of their base salary and the average earned in the year was 93.7%.

Share option schemes
During 2010 no share options were granted to Executive Directors (see note 17). As at the year end the options outstanding are set out in the table below:

	Year of issue	Options outstanding 1January	Granted during the year	Exercised during the year	Options outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option (£)
2010								
EMI Options								
Tim Smeaton	2006	124,200	–	–	124,200	29/09/06	29/09/16	0.805
	2009	22,362	–	–	22,362	31/03/13	20/10/19	Nil
Ian Temple	2009	40,000	–	–	40,000	31/03/13	20/10/19	Nil
John Glover	2007	35,205	–	–	35,205	30/09/10	30/09/17	Nil
	2009	28,808	–	–	28,808	31/03/13	20/10/19	Nil
Chris Cole*	2006	136,000	–	–	136,000	29/09/06	03/01/16	0.732
Unapproved options								
Tim Smeaton	2009	17,638	–	–	17,638	31/03/13	20/10/19	Nil
John Glover	2007	5,750	–	–	5,750	30/09/10	30/09/17	Nil
	2009	9,192	–	–	9,192	31/03/13	20/10/19	Nil
		419,155	**–**	**–**	**419,155**			
2009								
EMI Options								
Tim Smeaton	2006	124,200	–	–	124,200	29/09/06	20/09/16	0.805
	2009	–	22,362	–	22,362	31/03/13	20/10/19	Nil
Ian Temple	2009	–	40,000	–	40,000	31/03/13	20/10/19	Nil
John Glover	2007	35,205	–	–	35,205	30/09/10	30/09/17	Nil
	2009	–	28,808	–	28,800	31/03/13	20/10/19	Nil
Chris Cole*	2006	136,000	–	–	136,000	29/09/06	03/01/16	0.732
Unapproved options								
Tim Smeaton	2009	–	17,638	–	17,638	31/03/13	20/10/19	Nil
John Glover	2007	5,750	–	–	5,750	30/09/10	30/09/17	Nil
	2009	–	9,192	–	9,192	31/03/13	20/10/19	Nil
		301,155	**118,000**	**–**	**419,155**			

*resigned from the Board on 2 March 2010

Performance criteria
The performance criteria on Directors share options are as follows:

Options Issued in 2006:

Options vested in full on admission of the Hydrogen Group plc to the AIM market in 2006.

Options issued in 2007:

Options vested in three tranches in the period 2008-2010 dependent on the profitability of the Hydrogen Group plc in each of these three years.

Options issued in 2009:

Options vest in 2013 dependent on the profitability of the Hydrogen Group plc in the period 2010 to 2012.

Restricted shares for senior employees
During the year the vesting conditions were lifted on 66,000 shares where qualifying conditions were achieved. At 31 December 2010 there were no restricted shares outstanding (2009; 66,000 shares).

Share option scheme for Directors and senior employees
During the year no options over shares were granted to Executive Directors or senior employees of the Group.

Detail on the total number of options outstanding at 31 December 2010 are given in note 17.

Share price chart

Set out below is a graph of the Company's share price performance since flotation on AIM, 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
2010						
Executive Directors:						
Tim Smeaton	195	12	188	395	–	395
Ian Temple	195	12	173	380	–	380
John Glover	130	7	126	263	–	263
Chris Cole*	63	5	12	80	–	80
Non-Executive Directors:						
Martyn Phillips	20	–	–	20	–	20
Ishbel Macpherson	35	–	–	35	–	35
Ian Fallmann (from date of appointment 7/10/10)	6	–	–	6	–	6
Aggregate emoluments	**644**	**36**	**499**	**1,179**	**–**	**1,179**
2009						
Executive Directors:						
Tim Smeaton	195	13	25	233	–	233
Ian Temple	195	16	25	236	–	236
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**

*resigned from the Board on 2 March 2010

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 hold 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

Directors' report

For the year ended 31 December 2010

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2010. 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 main trading subsidiaries are Hydrogen UK Limited and Hydrogen International Limited in the UK, Hydrogen Group Pty Ltd in Australia and Hydrogen Group Pte Ltd in Singapore. A review of the business, as well as expected future developments, is included in the Chairman's Statement and Operating Review on pages 2 to 3 and the Financial Review on pages 6 to 7.

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 assign ownership and develop plans to mitigate the effects of the identified risks. The principal risks facing the business are as follows:

Information technology
In delivery of its service to clients the Group is highly dependent on a number of technology systems and the infrastructure on which they operate. The Group is currently planning an upgrade to its systems and infrastructure to ensure that they provide appropriate functionality and resilience to support both its UK and international operations, existing and planned.

People
The Group is dependent on its ability to hire, train and retain people to achieve its growth. To address this, the Group has put in place an internal recruitment function, a programme of training and development designed to equip leaders with the necessary skills, undertakes rigorous succession planning, and has implemented long term remuneration plans (as outlined in note 17) targeted at retaining the best talent.

Reliance on UK market/operational capability to support international expansion
The Group has a strategy of expanding the industry sectors and geographies in which it operates, one objective of which is to reduce its reliance on the UK recruitment market. However, this strategy does potentially expose the Group to risks that operational capability, systems and processes, and internal controls fail to keep pace with complexities introduced by geographic expansion. To manage this risk, the Group has a ranking mechanism for geographies and sectors, that includes complexity of operation and compliance, and regularly reviews the timings of entrance into new markets against its resource plan and risk profile.

Macro economic climate
The performance of the economies of the countries in which the Group operates can have a major impact on the performance of the Group. Steps taken to mitigate this in part are:

– Maintaining a balance between contract and permanent recruitment;

– Diversifying the sectors and geographies in which the Group operates;

– Where feasible employing a mix of in-house and out-sourced resources to provide a flexible cost base; and

– Maintaining a strong balance sheet.

Regulatory environment
The recruitment industry in subject to increasing levels of regulation and compliance, which varies from country to country, and industry to industry. The Group is committed to be compliant and takes a conservative approach in areas where judgement is required.

Availability of candidates
The Group operates in a number of industry sectors where the availability of highly skilled candidates is in short supply. The ability to identify suitable candidates can impact on the Group's performance.

Foreign exchange risk
The Group's exposure to movements in exchange rates is relatively small but will increase in line with the growth of the Group's operations outside the United Kingdom. The Board has undertaken a review of its currency hedging strategy with a view to ensuring that it is appropriate and currently the Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments. The Group will continue to monitor its policies in this area.

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		2010	2009
Net fee income (NFI)*	£M	**27.6**	16.8
Conversion ratio (PBT and exceptional cost divided by gross profit)	%	**8.9%**	2.0%
Productivity (gross profit divided by total average headcount)	£k	**89**	70
Days of sales outstanding (DSO)	days	**25**	29
Percentage of NFI billed outside of the UK	%	**32%**	22%
Permanent: contract split of NFI	%	**54/46**	48/52
Ratio of billing headcount to support headcount (average for year)		**2.9**	3.1

*Gross profit

Financial instruments
Information in respect of financial instruments is set out in the notes to the financial statements.

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 principles of 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 are summarised in the Corporate Governance Statement on pages 12 to13.

Pursuant to a shareholder resolution at the AGM of the Company on 25 May 2010, the Company has the authority to issue ordinary shares up to a maximum nominal amount of £76,749, representing one third of the current issued share capital of the Company at 31 December 2009, during the period up to the next AGM. Shareholders will be asked to renew this authority at the AGM in 2011.

Results and dividends
Information in respect of the Group's profits, dividends and other key financial information is contained within the Financial Review.

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

The Group has two business streams, permanent and contract recruitment. The cash flow characteristics of the two streams interact in a complementary fashion. The permanent business, which has little working capital requirement, is cash generative during the growth phase, and with tight cost control, near to cash neutral in a downturn. By contrast, the contract business has a large working capital requirement, and requires significant cash investment during a period of growth, but is cash generative in the first periods of a downturn. The model operated by the majority of recruitment businesses is to fund the investment in working capital by utilising the asset created as security for asset backed financing. The rate of cash investment during the growth phase can be controlled by management decisions in accepting or rejecting new business.

The Group has experienced significant growth in its contractor numbers during 2010, with the corresponding increase in its working capital, The Group's bankers have been supportive of the Group's growth and have increased available facilities on two occasions in 2010. The Group have prepared forecasts for the period to March 2012, and shared these with its bankers. The Directors have no reason to believe that its bankers will not continue to support its plans. Consequently the Directors have a reasonable expectation that the Group will have 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
Tim Smeaton
Chris Cole resigned from the Board on 2 March 2010
Martyn Phillips was reappointed to the Board on 25 May 2010
Ishbel Macpherson
John Glover was appointed to the Board on 2 March 2010.
Ian Fallmann was appointed to the Board on 7 October 2010.

Brief biographies on each of the Directors are set out on pages 8 to 9. 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 2010	**Percentage of issued share capital at 31 December 2010**	Ordinary shares of 1p each held at 31 December 2009	Percentage of issued share capital at 31 December 2009
Ian Temple	**4,090,259**	**17.4%**	5,090,259	22.1%
Tim Smeaton	**2,760,134**	**11.7%**	3,760,134	16.3%
Ishbel Macpherson	**40,402**	**0.2%**	40,402	0.2%
Martyn Phillips	**18,850**	**0.1%**	18,850	0.1%

Details of Directors' share options are provided in the Directors' remuneration report on page 15.

No changes took place in the interests of Directors between 31 December 2010 and 11 March 2011.

Substantial shareholders
At 11 March 2011, other than the Directors' interests shown above, the Company had been notified of the following substantial shareholdings:

Shareholder	**Interest in issued share capital at 11 March 2011**
Chris Cole	**11.6%**
AXA Framlington Investment Management Ltd	**8.9%**
Charles Marshall	**7.2%**
Majedie Asset Management	**6.5%**
Daniel Church	**5.7%**
Hydrogen Group Employee Benefit Trust (EBT)	**5.0%**
Barnaby Parker	**3.9%**
Nicola Parker	**3.9%**
Standard Life investments	**3.4%**
Universities Superannuation Scheme	**3.4%**
Hydrogen Group Share Incentive Plan	**1.9%**

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 aims to ensure 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, pursuant to the shareholders' resolutions of 25 May 2010, to purchase through the market, 2,343,421 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 25 November 2011. Shareholders will be asked to renew that authority at the Annual General Meeting of the Company.

During 2010 the Company donated the funds to enable the EBT trust to purchase 461,146 ordinary shares of Hydrogen Group plc for a total consideration of £535,000.

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 25 days (2009: 69 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 London, with a number of employees donating their time to support initiatives. In addition, the Group made a payment of £5,000 (2009:£5,288).

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

J G Glover
Finance Director

Statement of directors’ responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the Group's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and its Group and enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company’s auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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 2010 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 22), 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 and express an opinion on 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/private.cfm.

Opinion on financial statements
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit 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 2010.

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

11 March 2011

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Revenue	1	**123,398**	74,073
Cost of sales		**(95,804)**	(57,256)
Gross profit	1	**27,594**	16,817
Administration expenses		**(24,990)**	(16,378)
Operating profit before exceptional costs	1	**2,604**	439
Exceptional costs	2	**–**	(5,787)
Operating profit/(loss)	1	**2,604**	(5,348)
Finance costs	3	**(162)**	(132)
Finance income	4	**18**	21
Profit/(loss) before taxation	5	**2,460**	(5,459)
Income tax (expense)/credit	7	**(709)**	240
Profit/(loss) for the year	21	**1,751**	(5,219)
Other comprehensive income:			
Exchange differences on translating foreign operations		**269**	58
Other comprehensive income		**269**	58
Total comprehensive income/(loss) for the period		**2,020**	(5,161)
Attributable to:			
Equity holders of the parent		**2,020**	(5,161)
Earnings per share			
Basic earnings/(loss) per share (pence)	20	**7.96p**	(22.25)p
Diluted earnings/(loss) per share (pence)	20	**7.54p**	(22.25)p

The above results relate to continuing operations.

Consolidated statement of financial position

As at 31 December 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Goodwill	8	**13,658**	13,440
Other intangible assets	9	**80**	171
Property, plant and equipment	10	**1,429**	361
Deferred tax assets	11	**312**	339
Other financial assets	12	**1,311**	420
		16,790	14,731
Current assets			
Trade and other receivables	12	**26,305**	14,982
Cash and cash equivalents	13	**828**	3,108
		27,133	18,090
Total assets		**43,923**	32,821
Current liabilities			
Trade and other payables	14	**16,684**	9,111
Borrowings	15	**3,040**	–
Current tax liabilities		**374**	174
Provisions	16	**356**	387
		20,454	9,672
Non-current liabilities			
Deferred tax liabilities	11	**43**	33
Provisions	16	**375**	592
		418	625
Total liabilities		**20,872**	10,297
Net assets		**23,051**	22,524
Equity			
Capital and reserves attributable to the Company's equity holders			
Called-up share capital	18	**235**	234
Share premium account	21	**3,510**	3,479
Merger reserve	21	**16,100**	16,100
Own shares held	19	**(1,373)**	(838)
Share option reserve	21	**100**	100
Other reserve	21	**1,393**	1,267
Translation reserve	21	**349**	80
Retained earnings	21	**2,737**	2,102
Total equity		**23,051**	22,524

The financial statements on pages 24 to 53 were approved by the Board of Directors and authorised for issue on 11 March 2011 and are signed on its behalf by:

Ian Temple
Executive Chairman

Consolidated statement of changes in equity

As at 31 December 2010

	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 2009	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
Dividends								**(1,116)**	**(1,116)**
Increase in share capital	**1**	**31**	**–**	**–**	**–**	**–**	**–**	**–**	**32**
Share option charge	**–**	**–**	**–**	**–**	**–**	**126**	**–**	**–**	**126**
Purchase of shares by EBT	**–**	**–**	**–**	**(535)**	**–**	**–**	**–**	**–**	**(535)**
Transactions with owners	**1**	**31**	**–**	**(535)**	**–**	**126**	**–**	**(1,116)**	**(1,493)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,751**	**1,751**
Other comprehensive income:									
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**–**	**269**	**–**	**269**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**269**	**1,751**	**2,020**
At 31 December 2010	**235**	**3,510**	**16,100**	**(1,373)**	**100**	**1,393**	**349**	**2,737**	**23,051**

Consolidated statement of cash flows

For the year ended 31 December 2010

	Note	**2010 £'000**	2009 £'000
Net cash (used in)/generated from operating activities	23a	**(2,393)**	4,798
Investing activities			
Finance income		**18**	21
Proceeds from disposal of property, plant and equipment		**36**	35
Purchase of property, plant and equipment		**(1,341)**	(150)
Purchase of software assets		**(59)**	(18)
Acquisition of subsidiaries, net of cash acquired		**(218)**	–
Net cash used in investing activities		**(1,564)**	(112)
Financing activities			
Proceeds on issuance of ordinary shares	18	**32**	23
Purchase of own shares by EBT	19	**(535)**	(174)
Increase in other borrowings	15	**3,040**	–
Repayment of bank loans and loan notes	15	**–**	(1,000)
Repayment of other borrowings	15	**–**	(465)
Repayment of obligations under finance leases		**–**	(25)
Equity dividends paid	6	**(1,116)**	(561)
Net cash generated/(used) in financing activities		**1,421**	(2,202)
Net (decrease)/ increase in cash and cash equivalents		**(2,536)**	2,484
Cash and cash equivalents at beginning of year	13	**3,108**	566
Effect of foreign exchange rate changes		**256**	58
Cash and cash equivalents at end of year	13	**828**	3,108

Accounting policies

For the year ended 31 December 2010

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 2010 (including comparatives) are presented in GBP '000, and were approved and authorised for issue by the Board of Directors on 11 March 2011.

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 profit or loss.

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

The factors considered by the Directors in exercising their judgment of the Group's ability to continue to operate in the foreseeable future are set out on page 19. On these grounds the Board consider it reasonable to continue 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
IFRS 3 Business Combinations – Revised 2008 (effective 1 July 2009). The revised standard introduces 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.

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 9 Financial Instruments (effective 1 January 2013)

IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)

IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)

Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2 (effective 1 January 2010)

Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 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)

Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)

Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)

Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011)

Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)

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. Costs of acquisition are recognised as an expense when incurred. Goodwill arising on business combinations prior to 1 January 2006, the date of transition to IFRS, is stated at the previous UK GAAP carrying amount.

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

- revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the 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. An adjustment is made against accrued income on account of possible cancellations of placements before the commencement of employment.

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 identifiable net assets acquired is capitalised at cost and is subsequently measured at cost less any accumulated impairment losses. It is reviewed annually for impairment, and any impairment is recognised immediately in profit and loss and is not subsequently reversed. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

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 in other comprehensive income.

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 2010

1 Segment reporting

Segment operating profit is the profit earned by each segment excluding the allocation of central administration costs, and is the measure reported to the Group's Chief Executive for performance management and resource allocation purposes.

(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 partner 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
2010						
Revenue	**89,484**	**13,985**	**8,038**	**11,891**	**–**	**123,398**
Gross profit	**12,682**	**5,814**	**5,236**	**3,897**	**(35)**	**27,594**
Depreciation	**199**	**81**	**61**	**68**	**13**	**422**
Operating profit/(loss)	**2,729**	**375**	**877**	**317**	**(1,694)**	**2,604**
Finance costs						**(162)**
Finance income						**18**
Profit before tax						**2,460**
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)before exceptional costs	1,436	(35)	(573)	(110)	(279)	439
Exceptional costs						(5,787)
Finance costs						(132)
Finance income						21
Loss before tax						(5,459)

Non-allocated costs in 2010 are partially offset by the utilisation of the onerous lease provision of £413,000 (2009: £653,000).

Revenue reported above represents revenue generated from external customers. There are no sales between segments in the year (2009: 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.

There is one external customer that represented more than 10% of the entity's revenues with revenue of £31,741,000 in the Technology segment (2009: one customer, £7,716,000, Technology segment).

1 Segment reporting continued

(b) Revenue and gross profit by geography

	Revenue		Gross profit	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
UK	**100,138**	65,777	**18,819**	13,117
Rest of world	**23,260**	8,296	**8,775**	3,700
	123,398	74,073	**27,594**	16,817

(c) Revenue and gross profit by recruitment classification

	Revenue		Gross profit	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Permanent	**15,376**	9,258	**14,846**	8,061
Contract	**108,022**	64,815	**12,748**	8,756
	123,398	74,073	**27,594**	16,817

2 Exceptional costs

	2010 £'000	2009 £'000
Write back of surplus provisions relating to abortive acquisition	**–**	(266)
Provision for onerous contract	**–**	483
Impairment of goodwill and leasehold improvements	**–**	5,570
	–	5,787

3 Finance costs

	2010 £'000	2009 £'000
Interest on finance leases	**–**	1
Interest on invoice discounting	**61**	2
Interest on bank overdrafts and loans	**20**	38
Unwinding of provision discount	**81**	91
	162	132

4 Finance income

	2010 £'000	2009 £'000
Bank interest receivable	**15**	5
Other interest receivable	**3**	16
	18	21

5 Profit/(loss) on ordinary activities before taxation

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

	2010 £'000	2009 £'000
Amortisation of intangible assets		
– software assets	**143**	193
– domain name	**10**	10
Depreciation of property, plant and equipment		
– owned assets	**278**	219
– leased assets	**–**	21
Staff costs	**18,919**	12,417
Operating lease rentals on land and buildings	**1,469**	1,053
Operating lease income	**290**	36
Foreign exchange losses	**165**	12
Share-based payments (equity settled)	**126**	497
Profit on disposal of assets	**(22)**	(12)
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	**55**	40
Total audit fees	**55**	40
Non-audit fees		
– Other services	**3**	3
– Tax services (compliance and general tax advice)	**25**	18
– The audit of the Company's subsidiaries pursuant to legislation	**46**	30
Total non-audit fees	**74**	51

6 Dividends

	2010 £'000	2009 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2010 of 1.4p per share (2009: 0.5p per share)	**309**	114
Second interim dividend for the year ended 31 December 2009 of 3.6p per share	**807**	–
Final dividend for the year ended 31 December 2008 of 2.0p per share (2008: 4.0p)	**–**	447
	1,116	561

An interim dividend of 1.4p (2009: 0.5p) per share was paid on 5 November 2010 to shareholders on the register at the close of business on 8 October 2010. The interim dividend was approved by the Board on 3 September 2010.

A second interim dividend in relation to 2009 was agreed on 12 January 2010, and was not recognised as a liability in the year ended 31 December 2009. The Directors did not propose the payment of a final dividend for 2009.

7 Tax

(a) Analysis of tax charge for the year:

The charge based on the profit/(loss) for the year comprises:

	2010 £'000	2009 £'000
Corporation tax		
UK corporation tax on profits/(loss) for the year	**679**	167
Adjustment to tax charge in respect of previous periods	**(7)**	(231)
	672	(64)
Foreign tax		
Current tax	**–**	–
Total current tax	**672**	(64)
Deferred tax		
Origination and reversal of temporary differences	**36**	(56)
Adjustments in respect of previous periods	**1**	(120)
Total deferred tax	**37**	(176)
Tax charge/(credit) on profit/(loss) for the year	**709**	(240)

Corporation tax is calculated at 28% (2009: 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 profit/(loss) per the statement of comprehensive income as follows:

	2010 £'000	2009 £'000
Profit/(loss) before tax	**2,460**	(5,459)
Tax at the UK corporation tax rate of 28% (2009: 28%)	**689**	(1,529)
Effects of:		
Expenses not deductible for tax purposes	**133**	(9)
Capital allowances in excess of depreciation	**(67)**	(73)
Tax relief on the exercise of options	**(15)**	(7)
Tax losses arising in the year not relieved	**–**	3
Profits charged at (lower)/ higher rates of tax	**16**	(1)
Adjustment to tax charge in respect of prior periods	**(7)**	(231)
Share-based payments	**5**	61
Non taxable income	**–**	(14)
Consolidated goodwill impairment	**1**	1,560
Other	**(46)**	–
Tax charge/(credit) for the year	**709**	(240)

There has been no deferred tax relating to share options charged directly to equity (2009:Nil) (see note 21).

8 Goodwill

	2010 £'000	2009 £'000
Cost		
At 1 January	**19,010**	19,010
Additions	**218**	–
At 31 December	**19,228**	19,010
Accumulated impairment losses		
At 1 January	**(5,570)**	–
Impairment charge	**–**	(5,570)
At 31 December	**(5,570)**	(5,570)
Carrying amount at 31 December	**13,658**	13,440
Allocation of goodwill to cash generating units (CGU):		
Technology operating segment	**9,530**	9,530
Finance operating segment	**1,749**	1,599
Professional operating segment	**2,379**	2,311
	13,658	13,440

The additions during the year represent the goodwill arising on the acquisition of KHG Partners Ltd £150,000 and Morgan Hunt Ltd (Dubai) £68,000.

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

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.

Management determine that there has been no further impairment in the carrying value of goodwill.

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

	Growth rate 2011 %	Growth rate 2012-2018 %	Discount rate %
Operating segment			
Technology operating segment	10%	4%-5%	9.3%
Finance operating segment	16%	5%	9.3%
Professional operating segment	30%	5%	9.3%

The growth rates for 2011 are taken from the Group's operating plan for 2011 and reflect the Directors' view that 2011 will continue to see recovery in traditional recruitment markets, strong growth in emerging markets and continuation of the Group's success in expanding into new geographies and sectors. These rates are below those experienced in 2010.

For the periods 2012 and later, where there is less visibility, more conservative rates have been used. 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 2012-2018 to exceed the long-term growth rate of the overall market.

9 Other intangible assets

	Domain names and trademarks	Computer software	Total
Cost			
At 1 January 2009	30	821	851
Additions	–	18	18
At 31 December 2009	30	839	869
Additions	–	59	59
Exchange difference	–	3	3
At 31 December 2010	**30**	**901**	**931**
Amortisation			
At 1 January 2009	7	488	495
Charge for the year	10	193	203
At 31 December 2009	17	681	698
Charge for the year	10	143	153
At 31 December 2010	**27**	**824**	**851**
Net book value at 31 December 2010	**3**	**77**	**80**
Net book value at 31 December 2009	13	158	171

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 2009	1,056	428	461	1,945
Additions	72	–	76	148
Disposals	(1)	(122)	–	(123)
At 31 December 2009	1,127	306	537	1,970
Additions	358	60	923	1,341
Disposals	–	(88)	–	(88)
Exchange difference	12	–	7	19
At 31 December 2010	**1,497**	**278**	**1,467**	**3,242**
Accumulated depreciation				
At 1 January 2009	819	180	453	1,452
Charge for year	145	91	4	240
Disposals	(1)	(82)	–	(83)
At 31 December 2009	963	189	457	1,609
Charge for the year	139	69	70	278
Disposals	–	(74)	–	(74)
Exchange difference	–	–	–	–
At 31 December 2010	**1,102**	**184**	**527**	**1,813**
Net book value at 31 December 2010	**395**	**94**	**940**	**1,429**
Net book value at 31 December 2009	164	117	80	361

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 2009	67	62	129
Credited/(charged) to profit or loss	133	77	210
At 31 December 2009	200	139	339
Credited/(charged) to the profit or loss	(22)	(5)	(27)
At 31 December 2010	**178**	**134**	**312**

	Accelerated capital allowances £'000
Deferred tax (liability)	
At 1 January 2009	–
Credited/(charged) to profit or loss	(33)
(Charged)/ credited to equity	–
At 31 December 2009	(33)
Credited/(charged) to profit or loss	(10)
(Charged)/ credited to equity	–
At 31 December 2010	**(43)**

No reversal of deferred tax is expected within the next twelve months (2009: Nil).

12 Trade and other receivables

Trade and other receivables are as follows:

	2010 £'000	2009 £'000
Trade receivables	**12,964**	7,368
Allowance for doubtful debts	**(362)**	(210)
Prepayments and accrued income	**13,615**	7,691
Other receivables:		
– due within 12 months	**88**	133
– due after more than 12 months	**1,311**	420
Total	**27,616**	15,402
Current	**26,305**	14,982
Non current	**1,311**	420

As at 31 December 2010, the average credit period taken on sales of recruitment services was 25 days (2009: 29 days), and the receivables are predominantly non-interest bearing. An allowance of £362,000 (2009: £210,000) 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 £191,000 (2009: £229,000).

Other receivables due after more than 12 months is predominately rental deposits on leasehold properties.

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

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

Included in the Group's trade receivable balances are receivables with a carrying amount of £4,405,000 (2009: £1,931,000) 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	2010 £'000	2009 £'000
0-30 days	**2,763**	1,197
30-60 days	**883**	485
60-90 days	**450**	195
90+ days	**309**	54
31 December	**4,405**	1,931

Movement in allowance for doubtful debts:

	2010 £'000	2009 £'000
1 January	**(210)**	(277)
Impairment losses recognised	**(319)**	(210)
Previous impairment losses reversed	**149**	10
Amounts written off as uncollectible	**18**	267
31 December	**(362)**	(210)

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 £60,000 (2009: £82,000) 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:

	2010 £'000	2009 £'000
0-30 days	–	22
30-60 days	1	45
60-90 days	131	62
90+ days	230	81
31 December	**362**	210

As at 31 December trade receivables to a value of £7,873,000 have been discounted (2009: £Nil).

13 Cash and cash equivalents

Cash and cash equivalents are as follows:

	2010 £'000	2009 £'000
Short-term bank deposits	828	3,108
	828	3,108

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:

	2010 £'000	2009 £'000
Trade payables	1,718	211
Other taxes and social security costs	1,447	778
Other payables	1,644	1,692
Accruals and deferred income	11,875	6,430
	16,684	9,111

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 52 days (2009: 26 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

	2010 £'000	2009 £'000
Invoice discounting (repayable on demand)	**3,040**	–

The weighted average interest rate for the year charged on amounts drawndown on invoice discounting was 1.86% (2009; 2.1%).

Analysis of borrowing by interest rate:

	2010			2009		
	Fixed £'000	Capped £'000	Floating £'000	Fixed £'000	Capped £'000	Floating £'000
Invoice discounting	**–**	**–**	**3,040**	–	–	–
Impact of derivatives	**200**	**200**	**–**	600	600	–
	200	**200**	**3,040**	600	600	–

The Group repaid all term loans in 2009. 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. Both contracts expire on 31 March 2011.

The principal amounts at 31 December 2010 were £0.2m on each contract (2009: £0.6m each contract).

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 4.42% (2009: 3.56%), and interest amount £18,000.

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 2010 (2009; nil) as variable rates were below the cap rate.

16 Provisions

	2010			2009
	Dilapidations £'000	Onerous lease £'000	Total £'000	Onerous lease £'000
At 1 January	**–**	**979**	**979**	944
New provision	**84**	**–**	**84**	597
Utilised	**–**	**(413)**	**(413)**	(653)
Unwinding of discount	**–**	**81**	**81**	91
At 31 December	**84**	**647**	**731**	979
Of which – expected to be incurred within 1 year	**–**	**356**	**356**	387
– expected to be incurred in more than 1 year	**84**	**291**	**375**	592

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. No share options were issued during the year.

Details of the movements in share options during the years and the number outstanding at the end of the year was as follows:

	Number of shares 2010	**Weighted average exercise price 2010 £**	Number of shares 2009	Weighted average exercise price 2009 £
Outstanding at 1 January	**1,601,770**	**0.207**	1,411,327	0.286
Granted during the year	**–**	**–**	608,000	0.000
Forfeited during the year	**(276,314)**	**0.000**	(364,279)	0.133
Exercised during the year	**(76,412)**	**0.404**	(53,278)	0.439
Outstanding at 31 December	**1,249,044**	**0.241**	1,601,770	0.207
Exercisable at 31 December	**483,863**	**0.624**	459,879	0.724

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

	31 December 2010				31 December 2009			
	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**	**387,445**	**77.7p**	**5.0 years**	73p-81p	430,788	76.6p	6.0 years
2007 award	**Nil**	**284,374**	**Nil**	**6.5 years**	Nil	435,901	Nil	7.5 years
2008 award	**Nil**	**107,225**	**Nil**	**7.5 years**	Nil	127,081	Nil	8.5 years
2009 award	**Nil**	**470,000**	**Nil**	**8.5 years**	Nil	608,000	Nil	9.5 years
		1,249,044				1,601,770		

The weighted average share price at the date of exercise for share options exercised during the period was £1.32 (2009: £0.90).

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.

17 Share-based payments continued

Restricted Share Plan

A restricted share plan was adopted in April 2006 for certain senior employees. The vesting of these shares was 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 performance criteria were met and the restrictions were lifted on the remaining 66,000 shares.

At 31 December 2010 there were no shares remaining under restriction (2009: 66,000).

Share Incentive Plan (SIP)

During the year 32,046 (2009: 2,866) shares were exercised and 443,245 (2008: 476,508) shares were held in the Hydrogen Group SIP Plan at the year end.

The Group recognised total expense of £126,000 (2009: £497,000) relating to equity-settled share based payment transactions, in the year.

18 Share capital

The share capital at 31 December 2010 and 2009 was as follows:

	2010		2009	
Ordinary shares of 1p each	**Number of shares**	**£'000**	Number of shares	£'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued				
At 1 January	**23,434,212**	**234**	23,024,864	230
Issuance of new shares for employee share schemes	**76,412**	**1**	409,348	4
31 December	**23,510,624**	**235**	23,434,212	234

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

During 2010, 76,412 options were exercised (2009: 53,278), as set out in note 17.

At 31 December 2010 1,172,266 (2009; 711,121) shares were held in the EBT trust (see note 19).

At 31 December 2010, 443,245 ordinary shares (2009; 476,508) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

19 Own shares

The Company donated the funds to enable the EBT trust to purchase 461,145 ordinary shares of Hydrogen Group plc for a total consideration of £535,000.

At 31 December 2010, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2010**	2009
Number of shares	**1,172,266**	711,121

	£'000	£'000
Nominal value	**12**	7
Carrying value	**1,373**	838
Market value	**1,547**	604

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

	2010 £'000	2009 £'000
Earnings		
Profit/(loss) attributable to equity holders of the parent	**1,751**	(5,219)
Adjusted earnings		
Profit/(loss) for the year	**1,751**	(5,219)
Exceptional costs	**–**	5,787
Adjusted profit for the year	**1,751**	568
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**21,991,151**	23,453,130
Dilutive effect of share plans	**1,204,319**	699,188
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**23,195,470**	24,152,318
Basic earnings/(loss) per share (pence)	**7.96p**	(22.25p)
Diluted earnings/(loss) per share (pence)	**7.54p**	(22.25p)
Adjusted basic earnings per share (pence)	**7.96p**	2.42p
Adjusted diluted earnings per share (pence)	**7.54p**	2.35p

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 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)
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
At 1 January 2010	**234**	**3,479**	**16,100**	**(838)**	**100**	**1,267**	**80**	**2,102**	**22,524**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,751**	**1,751**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,116)**	**(1,116)**
Share option charge	**–**	**–**	**–**	**–**	**–**	**126**	**–**	**–**	**126**
Purchase of shares by EBT	**–**	**–**	**–**	**(535)**	**–**	**–**	**–**	**–**	**(535)**
Increase in share capital	**1**	**31**	**–**	**–**	**–**	**–**	**–**	**–**	**32**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**–**	**269**	**–**	**269**
At 31 December 2010	**235**	**3,510**	**16,100**	**(1,373)**	**100**	**1,393**	**349**	**2,737**	**23,051**

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 2010 was as follows:

	Average no. 2010	**Average no. 2009**	31 December 2010	31 December 2009
Client services	**232**	**182**	237	193
Administration	**74**	**54**	87	54
Management	**5**	**4**	5	5
	311	**240**	329	252

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

	2010 £'000	2009 £'000
Wages and salaries	**16,982**	10,749
Social security costs	**1,782**	1,157
Other pension costs	**29**	14
Share-based payments (see note 17)	**126**	497
	18,919	12,417

Directors' emoluments

	2010 £'000	2009 £'000
Emoluments for qualifying services	**1,179**	701
	1,179	701

The table of Directors' emoluments includes those Directors that have resigned during the year. Information on Directors' emoluments and interests, which form part of these audited financial statements, is given in the Directors Remuneration Report.

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

	2010 £'000	2009 £'000
Emoluments for qualifying services	**395**	236
	395	236

The Directors did not exercise any share options during the year (2009: nil).

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes was nil (2009: nil).

Remuneration of key management

	2010 £'000	2009 £'000
Emoluments	**3,375**	1,427
Share-based payments	**64**	272
Money purchase pension contributions	**45**	19
	3,484	1,718

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

23 Notes to the cash flow statement

a. Reconciliation of profit/(loss) before tax to net cash inflow from operating activities

	2010 £'000	2009 £'000
Profit/(loss) before taxation	**2,460**	(5,459)
Adjusted for:		
Exceptional costs	**–**	5,787
Depreciation and amortisation	**422**	443
Amortisation of finance charges	**–**	44
Utilisation of onerous lease provision	**(396)**	(653)
Gain on sale of property, plant and equipment	**(22)**	(12)
Share-based payments	**126**	497
Net finance costs	**225**	111
Operating cash flows before movements in working capital and exceptional costs	**2,815**	758
(Increase)/decrease in receivables	**(12,277)**	4,310
Increase in payables	**7,731**	149
Cash (used)/generated from operating activities before exceptional costs	**(1,731)**	5,217
Income taxes paid	**(484)**	(33)
Finance costs	**(161)**	(41)
Net cash (outflow)/ inflow from operating activities before exceptional costs	**(2,376)**	5,143
Cash flows arising from exceptional costs	**(17)**	(345)
Net cash (outflow)/inflow from operating activities	**(2,393)**	4,798

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

	2010 £'000	2009 £'000
(Decrease)/increase in cash and cash equivalents in the year	**2,280**	2,542
(Increase)/decrease in net debt resulting from cash flows	**(3,040)**	1,489
Other non-cash changes	**(136)**	(43)
Movement in net (debt)/funds in the year	**(896)**	3,988
Net funds/(debt) at the start of the year	**3,108**	(880)
Net (debt)/funds at the end of the year	**(2,212)**	3,108

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:

	2010 £'000	2009 £'000
Within one year	**1,524**	1,160
Between one and five years	**1,808**	2,127
	3,332	3,287

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:

	2010 £'000	2009 £'000
Within one year	**261**	261
Between one and five years	**229**	490
	490	751

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

25 Financial risk management

Capital risk management
The Group manages its capital to ensure that the entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings in note 21.

The Group monitors capital of the basis of the 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. There have been no other significant changes in capital structure implemented in the year ended 31 December 2010.

The gearing ratio at the year end is as follows:

	2010 £'000	2009 £'000
Debt	**(3,040)**	–
Cash and cash equivalents	**828**	3,108
Net (debt)/cash	**(2,212)**	3,108
Equity	**23,051**	22,524
Net debt to equity ratio	**9.6%**	0%

Debt is defined as long and short-term borrowings.

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

25 Financial risk management continued

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

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of the financial statements. There have been no significant changes in accounting policy in the year ended 31 December 2010.

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

	2010 £'000	2009 £'000
Financial assets		
Loans and receivables		
Trade and other receivables net of impairment provision	**12,602**	7,158
Other receivables	**1,399**	553
Cash and cash equivalents	**828**	3,108
	14,829	10,819
Financial liabilities at amortised cost		
Trade and other payables	**16,684**	9,111
Borrowings	**3,040**	–
	19,724	9,111

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

Foreign currency risks
The Group publishes its consolidated financial statements in Sterling and conducts the majority of its business in Sterling. Consequently the Group has limited exposed to foreign exchange risk due to exchange rate movements.

The functional currencies of the Group's main operating subsidiaries are Sterling, and the Singapore and Australian dollar. The Group's subsidiaries generally raise invoices and incur expenses in their local currencies. The exception is Euro denominated business transacted from the UK, which gives rise to a transactional and monetary asset exposure. The Group's policy is not to hedge these exposures.

The Group is exposed to foreign currency translation differences in accounting in accounting for its investment in overseas operations. The settlement of intercompany balances held with foreign operations is neither planned nor likely to occur in the foreseeable future. Therefore, exchange differences arising from the translation of the net investments are recognised in other comprehensive income.

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

Two derivatives contracts put in place to manage the interest rate risk on term borrowings that were repaid in advance of terms in 2009 remain in place as there was no commercial advantage in terminating the contracts before maturity in 2011. The estimated loss to maturity is considered immaterial.

An analysis of the derivative contracts at 31 December 2010 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	
	2010 %	2009 %	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
1-2 years	**4.42**	3.6	**400**	1,200	**(2)**	(25)

25 Financial risk management continued

Credit risk

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

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

The Group's credit risk arises primarily on its trade receivables. The Group transacts with a large number of customers across a variety of industry sectors. On-going credit evaluation and management of exposures is undertaken, utilising external credit ratings. 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 £13m invoice discounting facility committed to February 2012, 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 receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. As shareholders, the Directors also receive dividends from the Company:

	2010 £'000	2009 £'000
Dividends paid to Directors	**445**	223

The Director, Ian Temple is also a shareholder 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 2010 which comprise the parent company balance sheet 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 22), 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 and express an opinion on 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/private.cfm.

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 2010;
- 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 2010.

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

11 March 2011

Company balance sheet

As at 31 December 2009

	Note	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	4	**4**	14
Tangible assets	5	**3**	6
Investments	6	**7,076**	6,418
		7,083	6,438
Current assets			
Debtors due in more than 12 months	7	**2,032**	557
Debtors due with 12 months	7	**1,194**	3,463
Cash at bank and in hand		**62**	34
		3,288	4,054
Creditors: amounts falling due within one year	8	**1,191**	190
Net current assets		**2,097**	3,864
Total assets less current liabilities		**9,180**	10,302
Net assets		**9,180**	10,302
Capital and reserves			
Called up share capital	9	**235**	234
Own shares held	10	**(1,373)**	(838)
Share premium account	11	**3,510**	3,479
Share option reserve	11	**100**	100
Other reserve	11	**15**	–
Profit and loss account	11	**6,693**	7,327
Equity shareholders' funds		**9,180**	10,302

The financial statements on pages 55 to 61 were approved by the Board of Directors and authorised for issue on 11 March 2011 and are signed on its behalf by:

John Glover
Finance Director

Notes to the Company financial statements

1 Significant accounting policies

Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared 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.

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 has derivative contracts for interest rate swaps and caps, taken out to manage interest rate fluctuations on term debt that was repaid in advance of due dates. 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 2010 of £156,000 (2009: £5,229,000).

The auditor's remuneration for audit of the Company is £10,000 (2009: £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:

	2010 £'000	2009 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2010 of 1.4p per share (2009: 0.5p per share)	**309**	114
Second interim dividend for the year ended 31 December 2009 of 3.6p per share	**807**	–
Final dividend for the year ended 31 December 2008 of 2.0p per share (2008: 4.0p)	**–**	447
	1,116	561

An interim dividend of 1.4p (2009: 0.5p) per share was paid on 5 November 2010 to shareholders on the register at the close of business on 8 October 2010. The proposed interim dividend was approved by the Board on 3 September 2010.

A second interim dividend in relation to 2009 was proposed on 12 January 2010, and was not recognised as a liability in the year ended 31 December 2009. The Directors did not propose the payment of a final dividend for 2009.

4 Intangible fixed assets

	Domain names and trademarks £'000
Cost	
At 1 January 2010	30
Additions	–
At 31 December 2010	**30**
Amortisation	
At 1 January 2010	16
Amortisation for the year	10
At 31 December 2010	**26**
Net book value at 31 December 2010	**4**
Net book value at 31 December 2009	14

5 Tangible fixed assets

	Computer and office equipment £'000
Cost	
At 1 January 2010	36
Additions	–
At 31 December 2010	**36**
Amortisation	
At 1 January 2010	30
Depreciation for the year	3
At 31 December 2010	**33**
Net book value at 31 December 2010	**3**
Net book value at 31 December 2009	6

6 Fixed asset investments

	2010 £'000	2009 £'000
Subsidiary undertakings at cost		
At 1 January	**6,418**	6,418
Additions	**658**	–
Balance at 31 December	**7,076**	6,418

The additions in investments during the year relate to the following:

KHG Partners Ltd	100%
Morgan Hunt Ltd (Dubai)	100%
Hydrogen Group Limited (Hong Kong)	100%

Goodwill amounting to £218,000 was capitalised where the net assets acquired was lower than the total consideration paid. Investments comprise the following subsidiaries 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 Group Pte Limited	Singapore	Recruitment	100%
Hydrogen Group Limited	Hong Kong	Recruitment	100%
Professionals Group Limited	United Kingdom	Dormant	100%
Hydrogen Employee Share Group Limited	United Kingdom	Trustee of Share Incentive Plan	100%
KHG Partners Limited	United Kingdom	Recruitment	100%
Target Partners Limited*	United Kingdom	Dormant	100%
Hydrogen Consulting Limited*	United Kingdom	Dormant	100%
Law Professionals Limited*	United Kingdom	Dormant	100%
Audit Professionals Limited*	United Kingdom	Dormant	100%
Technology Professionals Limited*	United Kingdom	Dormant	100%
Sales Professionals Limited*	United Kingdom	Dormant	100%
Human Resources Professionals Limited*	United Kingdom	Dormant	100%
Taxation Professionals Limited*	United Kingdom	Dormant	100%
Finance Professionals Limited*	United Kingdom	Dormant	100%
Professional Recruitment Organisation Limited*	United Kingdom	Dormant	100%
Pro Source International Limited*	United Kingdom	Dormant	100%
Partners Group Limited*	United Kingdom	Dormant	100%
Timetorecruit Limited*	United Kingdom	Dormant	100%
Reflect Limited*	United Kingdom	Dormant	100%
Commerce Partners Limited*	United Kingdom	Dormant	100%
Project Partners Limited*	United Kingdom	Dormant	100%
Finance Partners Limited*	United Kingdom	Dormant	100%
Partners Search and Selection Limited*	United Kingdom	Dormant	100%
Eurisko Search Limited*	United Kingdom	Dormant	100%
Darwin Park Limited*	United Kingdom	Dormant	100%
Pro Limited	United Kingdom	Dormant	100%
Propartners Limited	United Kingdom	Dormant	100%
Hydrogen Business Solutions Limited	United Kingdom	Dormant	100%
Hydrogen Recruitment Limited	United Kingdom	Dormant	100%

*held indirectly

7 Debtors

	2010 £'000	2009 £'000
Due within one year:		
Amounts owed by Group companies	**1,150**	3,401
Other debtors	**–**	50
Other tax	**24**	–
Prepayments	**20**	12
	1,194	3,463
Due after more than one year:		
Amounts owed by Group companies	**2,021**	554
Deferred tax		
– accelerated depreciation	**4**	3
– share based costs	**7**	–
	11	3
	2,032	557
	3,226	4,020

8 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	**37**	50
Other creditors	**150**	–
Amounts owed to group companies	**358**	2
Corporation tax	**81**	60
Other tax and social security	**–**	26
Accruals and deferred income	**565**	52
	1,191	190

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

9 Share capital

The share capital at 31 December 2010 and 2009 was as follows:

Ordinary shares of 1p each	2010 Number of shares	2010 £'000	2009 Number of shares	2009 £'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued				
At 1 January	**23,434,212**	**234**	23,024,864	230
Issued of new shares for employee share schemes	**76,412**	**1**	409,348	4
31 December	**23,510,624**	**235**	23,434,212	234

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

During 2010, 76,412 options were exercised (2009: 53,278), as set out in note 17.

At 31 December 2010 1,172,266 (2009; 711,121) shares where held in the EBT trust (see note 19).

At 31 December 2010, 443,245 ordinary shares (2009; 476,508) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 17) trust for employees.

10 Own shares

The Company donated the funds to enable the EBT trust to purchase 461,145 ordinary shares of Hydrogen Group plc for a total consideration of £504,000.

At 31 December 2010, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes

	2010	2009
Number of shares	**1,172,266**	711,121

	£'000	£'000
Nominal value	**12**	7
Carrying value	**1,373**	838
Market value	**1,547**	604

11 Reserves

	Share premium £'000	Share option reserve £'000	Other reserve £'000	Retained earnings £'000
Balance at 1 January 2010	3,479	100	–	7,327
Profit for the year	–	–	–	156
Dividends paid	–	–	–	(1,116)
Share option charge	–	–	15	–
Increase in share capital	31	–	–	–
Exchange gain	–	–	–	326
Balance at 31 December 2010	**3,510**	**100**	**15**	**6,693**

12 Contingent liabilities

The Group has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £3,040,000 (2009:nil) at the balance sheet date.

Directors and advisors

Directors
Ian Temple
Tim Smeaton
John Glover
Ishbel Macpherson (Non-Executive)
– Senior Independent Director
Martyn Phillips (Non-Executive)
Ian Fallmann (Non-Executive)

Secretary
Madeleine Scrafton

Company number
5563206

Registered office
6 Laurence Pountney Hill
London EC4R 0BL

Auditor
Grant Thornton UK LLP
Chartered Accountants
Grant Thornton House
Melton Street
London NW1 2EP

Solicitor
Travers Smith
10 Snow Hill
London EC1A 2AL

Banker
HSBC
60 Queen Victoria Street
London EC4N 4TR

Registrar
Computershare
The Pavilions
Bridgwater Road
Bristol BS99 1XZ

Dedicated telephone number
for Hydrogen shareholders:
0870 707 1334

Nominated adviser and broker
Oriel Securities
125 Wood Street
London EC2V 7AN

Designed and produced by
Langsford Corporate Design
www.langsford.co.uk

Printed by Moore

Hydrogen Group plc
Pountney Hill House
6 Laurence Pountney Hill
London EC4R 0BL

T +44 (0)20 7240 2500
F +44 (0)20 7240 2600

www.hydrogengroup.com