Full Audited Annual Report and Accounts 2012

Hydrogen Group plc

Company registration number: 5563206

Registered office: 6 Laurence Pountney Hill, London EC4R 0BL

CHAIRMAN'S STATEMENT

Transforming the business

2012 marked the end of a four year plan to transform Hydrogen into a global and more diversified recruitment group. We are now a very different business to the one in 2008, when we set out our vision to become a global specialist recruiter. Despite some of the most challenging economic conditions seen in our history, our achievements have been significant. We have demonstrated our ability to identify and seize opportunities in new markets by remaining agile, diversifying into Technical and Scientific markets and extending our global reach. In 2008, 88% of our Net Fee Income ('NFI') was generated in the UK. Today, we place individuals in more than 70 countries, across 5 continents representing 41% of our NFI.

The practices created in the Technical and Scientific operating segment have grown significantly, to represent almost 40% of the Group's NFI in 2012. This transformation has driven NFI growth of 86% between 2009 and 2012 (compound annual growth of 17%).

During this period we have also invested in building an infrastructure capable of supporting further growth. Our IT systems, now on one common platform, have been moved to the Cloud, allowing access from anywhere in the world.

Our strategy for the next four years to 2016 is to capitalise on this transformation and significantly increase our profitability and returns to shareholders. Our aim is to continue to grow and diversify our business both geographically and by market sector. We plan for non-UK business to increase from the current level of 41% to at least 65% of NFI by 2016. We will continue to focus our resources on growth markets, where client demand outstrips candidate supply. We plan to continue to build our Technical and Scientific operating segment to at least 50% of NFI to maintain a diversified growth business capable of delivering through different economic cycles. We will aim to maintain the balance of approximately 50% of NFI being generated from contract and 50% being generated from permanent recruitment.

2012 Financial performance

Group NFI grew by 5% to £31.3m (2011: £29.8m) despite a period of significant economic uncertainty. The investments we have made in positioning our business for further growth, after taking account of a lower than expected period of activity in the late summer, have resulted in operating profit for the year of £3.4m (2011: £3.9m). Reassuringly, business activity returned to our forecasted levels of performance towards the end of the year, but we remain vigilant and agile in reacting to the challenging environment in which we continue to operate.

Clients and candidates

Hydrogen works with many of the world's leading organisations. Our business succeeds because we are able to build strong relationships with exceptional candidates, wherever they are in the world. We recognise that our success depends on us continuing to deliver to both clients and candidates and I would like to thank them for their on-going support.

Our people

The fact that the business has managed to transform in line with our four-year strategy and grow profitably against such a challenging backdrop is testament to the commitment and quality of our people. Our business performance is down to their courage in taking on new challenges, with each playing their part in the transformation and consistently delivering to the high standards we set. On behalf of the Board, I would like to thank them for their hard work, dedication and performance during the year.

Corporate governance

Hydrogen seeks to demonstrate a high level of compliance with corporate governance standards appropriate for a company of its size, as set out in the QCA guidelines. This year, for the first time, all directors will stand for re-election at the AGM, in line with best practice for listed companies.

The Board

Concluding our 2012 objectives and setting our 2016 strategy provided us with a timely opportunity to refresh the Board. Two Non-Executive Directors ("NED"s), Ishbel Macpherson - our Senior Independent Director since listing - and Ian Fallmann, have left the Board. I am extremely grateful for the contribution they made to Hydrogen and for their assistance and steadfast support over the years.

Ishbel brought valuable City-facing and governance experience to Hydrogen, while Ian's experience and knowledge helped drive our expansion in the Asia Pacific region in particular. Martyn Phillips, who has been a NED since 2006, is now our Senior Independent Director and I am delighted that he has now been joined on the Board by three new NEDs: Barbara Anderson, Anne Baldock and Stephen Puckett.

In line with our long term succession plan I have decided that it is the right time for me to step back from day to day operational responsibility for the business, and move to a more formal Chairman role. We have a very capable CEO in Tim Smeaton who leads a strong Executive Team, determined to drive the business forward and to achieve its long term potential.

Dividend

The business has built up a strong dividend track record, having consistently paid a dividend since 2007. We propose a final dividend of 3.0p (2011: 2.9p) increasing the total dividend for the year by 5% to 4.5p (2011: 4.3p). The proposed dividend will be paid on 24 May 2013 to shareholders on the register on 3 May 2013, subject to approval at the AGM.

Current trading

While visibility in the recruitment industry remains limited, the business has commenced trading in 2013 in line with our expectations. We will seek to capitalise on the Group's transformation during recent years and continue to focus resources in carefully identified markets which offer growth opportunities.

Ian Temple
Chairman

OPERATIONAL REVIEW

2012 has been a successful year for Hydrogen, with the conclusion of our 4 year strategy to transform the business from a UK-centric professional support services recruiter into a global specialist recruitment company. The continuing global financial uncertainty has provided a challenging environment for the recruitment industry and we are extremely pleased with Hydrogen's performance during this four year period. With this strategic phase now complete, the transformation of the business has laid a solid foundation from which to increase scale and further capitalise on growth opportunities.

Achievement of our 2012 goals

In 2008 we set out our vision to transform Hydrogen into a global recruitment group, structured around specialist global practices. Our objective was to create a balanced, more diverse business, agile enough to take advantage of opportunities in markets with high demand for specialist candidates. We are extremely pleased with our achievements in what has been a challenging and complex market.

We are particularly pleased with our diversification into the Technical and Scientific markets. Since the launch of our first incubator business in these markets in 2008, the Technical and Scientific operating segment has grown to contribute nearly 40% of the Group's NFI in 2012. In 2012 alone, NFI from this operating segment increased by 42%. Within the Technical & Scientific area, our Oil & Gas practice has now placed candidates across more than 50 countries worldwide in both contract and permanent positions. Similarly, our Life Science practice has grown since its inception in 2009 to £2.9m, representing 9% of Group NFI in 2012.

We originally set targets in 2008 as aspirational goals for the business, to help drive the behaviours needed to transform Hydrogen and deliver balanced growth. The international goal, whilst not being achieved by the end of 2012, was probably the most challenging and we are pleased with our achievements in this area. We have driven activity into international markets, resulting in a significant increase in NFI from non-UK markets, from 12% for 2008 to an impressive 41% for 2012.

	2008 Actual NFI	**NFI Goals to 2012**	**2012 Actual NFI**
Contract	• 44%	• 50% +	• 51%
International	• 12%	• 50% +	• 41%
New practices	• 0%	• 30% +	• 39%

Foundation for growth

We have made significant investment into our operational infrastructure to ensure we have the foundations for future growth. We now have six offices globally, all practices are under one brand - Hydrogen - and we have created a centralised Operations function, with centres of excellence in HR, Marketing, Finance and IT, all focused on supporting the delivery of NFI growth. Since its inception, more than 100 people have been through our fast track training, designed to develop our future leaders.

In 2012 we moved our technology into the Cloud, making it more resilient, increasing the speed and agility of our operational support and enabling us to work anywhere in the world. The backbone of our infrastructure is our new global CRM system, based on the award winning Salesforce.com platform, which was delivered during the year. This brings together client and candidate data from all our offices and enables us to leverage it across regions and practices, giving us the foundation to scale the business and join up our practices across our regions.

Clients and candidates

Joining up our practices has always been part of our vision. It enables us to continue to be specialists in our chosen fields, whilst offering clients a global network of experts and visibility of the best candidates. In turn, it provides candidates access to global opportunities. In 2012 we filled positions in over 70 countries (50 in 2011).

Joining up our practices also allows us to differentiate ourselves from both local competition and disparate global players, allowing us to meet the differing needs of clients and candidates and to win global agreements with key clients, including an oil super major in 2012. The new CRM system was designed to enhance this joined up approach and already clients are seeing the benefits of shared candidates while candidates have access to the widest range of opportunities, enabling them to move around the world to further their career.

Market Overview

Global growth market

The recruitment market continues to display resilience despite the enduring economic uncertainty. *McKinsey* predicts that, by 2020, in the US alone there will be a shortfall of 18 million highly skilled workers. In addition, 70% of the jobs that will exist 20 years from now don't even exist today (source: *IBM*). For recruitment companies to be successful, they must remain agile in order to react quickly to changes in the marketplace.

We hear from our clients the difficulties they have in sourcing the talent they require. For example, based on investment levels in the Oil & Gas industry globally, in the next 10 years at least 100,000 highly skilled engineers will be needed in the sector alone *(*Source: *Wood Mackenzie Consultancy)*.

These factors all demonstrate an increased demand in specific sectors, leading to an imbalance of candidate supply and client demand. These demands are forecast to become more acute as economic conditions improve.

International clients and candidates

Our third annual 'Global Professionals on the Move' report highlights international experience as a prerequisite for senior professionals. 94% of those surveyed are considering relocating or have already done so. The report also highlights the growing importance clients place on international experience with nearly 75% of respondents confirming their employers also see it as important. The report's thoroughness and quality was recognised by a platinum award in the research/study category at the MarCom Awards for the second year running.

As more organisations operate at a truly global level, they need recruiters who can provide them with global talent pools and the expertise to select the best candidates. Coupled with this, candidates require recruitment specialists to provide them with access to global organisations.

In addition to an imbalance in demand for specific skills, the recruitment market is also seeing an imbalance in demand and supply for the same skills across different locations. The City of London has lost over 100,000 Financial Services jobs during the recession which are unlikely ever to come back (source: *Centre for Economics and Business Research*). However, at the same time, 400,000 Financial Services jobs are expected to be created in Shanghai alone by 2020 (source: *CERB*) resulting in a 160,000 shortage of local candidates. Being able to identify and build relationships with candidates who are willing to move from one geography to another is essential if we are truly to offer the service our clients require.

The Flexible Work Force

In these uncertain times, we have seen a growing demand for more contractors at a senior level who offer a greater degree of flexibility. We have witnessed a high degree of change in the Financial Services sector, leading to a change in the workforce. However, the need for flexibility is not just in the Professional Support Services markets. Engineering (especially Oil & Gas and Infrastructure), Technology and Clinical & Scientific sectors are all moving quickly towards more flexible staffing on a global stage.

Overall there has been a clear move towards non-permanent recruitment in the last 3-4 years, largely driven by two key factors; cost and flexibility. Areas heavily affected by the prolonged economic downturn such as the UK, US, Japan and southern Europe are willing to employ non-permanent staff due to cost pressures. Those less affected (Germany, Singapore, China and Australia) are attracted to this approach because of the flexibility and access to the exceptional talent which contract recruitment offers.

Our strategy to 2016

Our vision is to become the choice for specialist talent, no matter where they are in the world, matching our clients with the best talent available. Delivering on our 2012 strategy has provided us with a strong foundation and we now plan to capitalise on this. We will need to be able to continue to identify hot markets, move people around the globe within these markets to meet demand and remain agile to changes in market conditions. In addition, we intend to build strong, long term relationships with our candidates and clients and develop exceptional teams internally.

With this in mind, our strategy will be delivered around three key principles:

Joined Up Practices

We continue to see the benefits of joining up our practices globally. The practices reflect our candidate specialisms and offer both candidates and clients access to our specialist recruiters and a global support network. We utilise these networks, providing our clients with new candidates, who may not currently be located locally, thus differentiating ourselves in the market place.

Market Selection

Within all of our practices, niche opportunities exist. We have demonstrated our ability to identify hot markets, where client demand outstrips candidate supply. We will continue to select our markets carefully and remain alert to growth opportunities, identifying potential new practices to incubate. Using our centralised strategy and research function we are able to identify the best opportunities for the Group. Market selection also continues to be about identifying efficiencies within practices.

Infrastructure and Capability

We continue to place high importance on having the right people in place within the business, ensuring we recruit, develop and retain exceptional recruitment staff. In addition, we continue to nurture our strong culture and values, which are lived and breathed by our people and which are critical to our success.

We will be capitalising on our new CRM system, in particular by creating competitive advantage by turning data into knowledge. The intelligent business analytics it can generate will drive behaviours needed to continue to achieve our goals, such as increasing the utilisation of our top candidates.

Outlook

We are pleased with our achievements against the goals set in 2008 which have provided a firm basis from which we can scale the business and extend our reach. We are now fully focused on our 2016 objectives: to increase the percentage of NFI generated outside the UK to at least 65% by 2016, to build our Technical and Scientific market practices to deliver at least 50% of Group NFI and to maintain the balance between permanent and contract business.

Tim Smeaton
CEO

FINANCIAL REVIEW

Revenue

The Group recorded a third successive year of revenue growth, increasing revenues by 7% to a record £167.0m (2011: £156.2m).

Net fee income (NFI)

Net fee income comprises the total placement fees of permanent candidates and the margin earned on placement of contract candidates.

Overall, the Group delivered a 5% increase in total Group NFI to £31.3m (2011: £29.8m). Fees from permanent recruitment increased by 12% to £15.2m (2011: £13.6m). Fees from contract recruitment were marginally lower at £16.1m following the record year for contract in 2011 of £16.2m.

The Group's objective of maintaining a balance of NFI from permanent and contract placements was achieved with fees from contract placements representing 51% of Group NFI, and permanent 49% (2011: 54%:46%).

The Group continued to deliver on its strategy of increasing diversification across both geographies and industry sectors. NFI from the Group's Technical and Scientific operating segment (Oil and Gas, Life Sciences, Power and Mining) was £12.2m (2011: £8.6m), a year on year growth of 42%, and contributed 39% (2011: 29%) of Group NFI. The success of Technical and Scientific practices, which operate predominantly in markets outside the UK, resulted in NFI from international placements in 2012 increasing by 16% to £12.8m (2011: £11.0m), representing 41% of the Group's total NFI (2011: 37%).

The Group recorded an 8% decline in its Professional Support Service operating segment (Law, Finance, Technology, Trading and Advisory and Business Transformation) to £19.1m (2011: £21.1m). Activity in the Group's traditional financial services markets remained subdued, and the Group closed its HR practice during the year as it failed to meet the Group's criteria for development.

Administration costs

Administration costs for the year increased by 8% to £27.9m (2011: £25.9m), primarily driven by additional headcount, which on average for 2012 was 7% higher at 370 (2011: 347), higher levels of variable pay associated with increased NFI, and rebranding costs in connection with the move to a single global brand.

Finance costs

Finance costs were unchanged from the previous year at £0.2m (2011: £0.2m).

Profit before taxation

Profit before taxation for the year declined by 14% to £3.2m (2011: £3.7m).

Taxation

The tax charge for the year was £1.0m (2011: £1.3m), an effective tax rate of 30% (2011: 35%), above the UK statutory rate of 24.5% due to unutilised tax losses in the Group and non-deductible expenses, including charges for share option costs.

Dividends

The Board previously declared an interim dividend of 1.5p per share (2011: 1.4p). A final dividend of 3.0p per share (2011: 2.9p) is proposed for 2012, bringing the total dividend for the year to 4.5p (2011: 4.3p).

Earnings per share

Basic earnings per share was 10.10p (2011: 10.95p) and diluted earnings per share, taking into account existing share options, was 9.56p (2011: 10.24p).

Balance Sheet

The Group's net assets at 31 December 2012 increased by £1.4m to £26.3m (2011: £24.9m).

Tight control of working capital was maintained and although the increase in revenue gave rise to a 3% increase in trade receivables to £12.9m (2011: £12.5m), expressed in days of sales outstanding (DSO's) this was a decrease of 6 days to 21 days (2011: 27 days).

Time worked by contractors for the month of December is accrued on a gross basis in the financial statements, with revenue to be billed included in prepayments and accrued income in current assets, and payments due to contractors included in accruals and deferred income within current liabilities. Fees recognised for permanent placements with start dates after 31 December 2012 (forward fees) are also included in prepayments and accrued income.

The Group saw an 18% increase in prepayments and accrued income to £15.6m (2011: £13.1m), due to a higher level of forward fees arising from higher permanent activity in December, and an increase in amounts accrued to be billed for contract time worked in December 2012, arising from higher contractor numbers compared to 2011. For the latter accrual there was a corresponding increase in the amounts accrued payable to contractors for December 2012 included within current liabilities.

Cash flow and cash position

At the start of the year the Group had net debt of £1.4m. Before investment in working capital and payment of taxes and interest costs, the Group generated cash from trading activities of £3.7m (2011: £4.4m). After an investment of £2.0m (2011: £0.8m) in additional working capital, payment of taxes of £1.2m (2011: £0.9m) and interest payments of £0.1m (2011: £0.1m), cash generated from operations was £0.3m (2011: £2.5m).

A final dividend of £0.7m was paid for 2011 and an interim dividend of £0.3m was paid for 2012.

The Group spent £0.1m on the purchase of office equipment & improvements (2011: £0.3m), and £0.7m (2011: £0.5m) on licence and manpower costs associated with the rollout of its new global front office systems.

At 31 December 2012 the Group had net debt of £2.8m (2011: net debt £1.4m), an increase of £1.4m during the year.

Treasury management and currency risk

The Group has an invoice finance facility of £18m, committed to February 2014, and a three year £3m revolving credit facility.

The predominance 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. During 2012 the Group utilised currency options to manage its exposure to foreign currency exchange risk.

John Glover
Finance Director

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Corporate governance

The Board of the Company is committed to achieving high standards of corporate governance, integrity and ethics. The Directors recognise the value and importance of sound corporate governance and support the principles of the UK Corporate Governance Code published in 2010. Although as an AIM listed company it is not formally required to do so, the Group has sought to comply with the Code so far as is practical and appropriate for a public group of its size and nature. The Group also seeks to comply with the recommendations of the QCA on corporate governance.

The Board of Directors 2012

The Board of Directors is made up of the Chairman, Ian Temple, two Executive Directors and four Non-Executive Directors. On reaching the conclusion of its 2008-2012 planning period and formulating strategy for the four years to 2016, it was timely to refresh the composition of the Board. In September 2012, Senior Independent Non-Executive Director Ishbel Macpherson and Non-Executive Director Ian Fallmann stepped down, and three new Non-Executive Directors were appointed: Barbara Anderson, Anne Baldock and Stephen Puckett. Martyn Phillips remained on the Board, becoming Senior Independent Non-Executive Director (SID).

Committees of the Board

The Board has established three committees being the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which operates with defined terms of reference which are reviewed annually and are available on the Group's website: www.hydrogengroup.com.

Membership of these committees as at the date of this report, the number of meetings held in 2012, and the attendance record are summarised in the table below.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Ian Temple	Y(Chair)	N	Y(Chair)	N
Tim Smeaton	Y	N	N	N
John Glover	Y	N	N	N
Martyn Phillips (Senior Independent Non-Executive Director)	Y	N	Y	Y(Chair)
Stephen Puckett (Non-Executive Director)	Y	Y(Chair)	N	Y
Barbara Anderson (Non-Executive Director)	Y	Y	N	Y
Anne Baldock (Non-Executive Director)	Y	Y	Y	N
Number of meetings in 2012	10	5	3	7
Overall attendance record for 2012 meetings	98%	87%	92%	100%

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.

The Committee consists entirely of independent Non-Executive Directors. Stephen Puckett, a Chartered Accountant, was appointed as Chairman of the Audit Committee on 7 September 2012, succeeding Ishbel Macpherson. Barbara Anderson and Anne Baldock are the other members of the Committee. At the invitation of the Committee, the Finance Director, Chairman, CEO and representatives of the external auditors may attend the Audit Committee meetings. The Audit Committee met without Executive Board members present once during the year, and had a meeting with the auditors without Executive Board members present.

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.

Nomination Committee

The Nomination Committee is responsible for establishing a formal, rigorous and transparent process for the appointment of new Directors to the Board, succession planning and for making recommendations on Board composition and balance.

Ian Temple was appointed as Chairman of the Nomination Committee on 7 September 2012, succeeding Ishbel Macpherson, and Martyn Phillips and Anne Baldock are members of the Committee.

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 Group considers candidates on merit, against objective criteria with due regard for the benefits of diversity on the Board, including gender. The Board believes that its current membership provides an appropriate balance of backgrounds and experience and reflects good gender balance across the Hydrogen Group as a whole.

Remuneration Committee
The purpose of the Remuneration Committee is to make recommendations to the Board on strategy and policy for executive remuneration, and to set the remuneration packages for individual Directors. The Chairman of the Remuneration Committee is Martyn Phillips, and the other members are Stephen Puckett and Barbara Anderson.

The Committee's report on Directors' remuneration may be found on pages 13 to 16.

Board Independence
All the Non-Executive Directors are considered by the Group to be independent. They act independently of management and are 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 Non-Executive Directors meet regularly without the presence of the Executive Directors.

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

• Having a clear division of responsibilities between the Chairman and Chief Executive Officer. The Chairman is primarily responsible for the running of the Board and investor relations. The Chief Executive Officer's responsibilities focus on implementing Group strategy and running the executive board;

• 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; and

• Delegating specific responsibilities to properly constituted Board sub-committees:the Audit Committee; Remuneration Committee; and Nomination Committee.

Annual re-election of Directors
With effect from March 2013, all Directors whose performance has been assessed and whose re-nomination is recommended by the Nomination Committee will seek re-election at each Annual General Meeting ("AGM"). The Board will not approve re-nomination if the performance of the retiring Director is not considered satisfactory. This change will bring Hydrogen into line with best practice among listed companies, allowing shareholders to vote on the election of all directors each year.

The Board members appointed in 2012, Stephen Puckett, Barbara Anderson and Anne Baldock will stand for election by shareholders for the first time at this year's AGM. John Glover, Martyn Phillips, Tim Smeaton and Ian Temple will each retire and stand for re-election with the full support of the Board, acting on the recommendation of the Nomination Committee.

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
A formal board evaluation was not undertaken in 2012 due to the changes to the Board composition that took place during the year. Subsequent to the appointment of the three new Non-Executive Directors considerable time has been spent on

ensuring that the Board operates effectively. The terms of reference for the committees, the matters reserved for the Board, and the agenda and format of matters for consideration have been reviewed and agreed for the period to end 31 December 2013. An assessment of Board effectiveness will be undertaken for the current financial year and a summary of results will be provided in the annual report to 31 December 2013.

The Remuneration Committee sets financial and personal development objectives for the Executive Directors. Each Executive Director has a performance review conducted bi-annually 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 Martyn Phillips as successor to Ishbel Macpherson as the Senior Independent Non-Executive Director.

Martyn Phillips 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 encourages their participation by providing a balanced and understandable assessment of the Group's position and prospects.

Internal control and risk management

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 on-going basis.

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

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, Senior Independent Non-Executive Director, is the Group's appointed person for all whistleblowing matters. 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 2012

Scope and membership of Remuneration Committee

The Remuneration Committee meets not less than twice a year, is chaired by Martyn Phillips and comprises the independent Non-Executive Directors Stephen Puckett and Barbara Anderson. The Chairman and Executive Directors 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 those of 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 2012, and all meetings were fully attended. 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 12 month 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. No salary increases were granted for 2012.

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, net fee income and profit targets during the financial year. In 2012, the maximum annual bonus entitlement for Executive Directors was equal to 100% of their base salary and the average earned in the year was 17%.

Share option schemes

During 2012, share options were granted to Executive Directors under the Hydrogen Group Unapproved share option scheme (see note 16). No further grants of share options will be made to Ian Temple, reflecting the change in his responsibilities this year as Chairman. As at the year end the options outstanding are set out in the table below:

	Year of issue	Options outstanding 1 January	Granted during the year	Forfeit during the year	Exercised during the year	Options outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option (£)
2012									
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	26,404	-	-	-	26,404	01/09/10	12/07/17	Nil
	2009	28,808	-	-	-	28,808	31/03/13	20/10/19	Nil
		241,774	-	-	-	241,774			
Unapproved options									
Tim Smeaton	2009	17,638	-	-	-	17,638	31/03/13	20/10/19	Nil
	2011	138,000	-	-	-	138,000	31/03/14	21/02/21	Nil
	2012	-	138,000	-	-	138,000	31/03/15	03/04/22	Nil
Ian Temple	2011	38,000	-	-	-	38,000	31/03/14	21/02/21	Nil
	2012	-	38,000	-	-	38,000	31/03/15	03/04/22	Nil
John Glover	2007	4,312	-	-	-	4,312	01/09/10	12/07/17	Nil
	2009	9,192	-	-	-	9,192	31/03/13	20/10/19	Nil
	2011	38,000	-	-	-	38,000	31/03/14	21/02/21	Nil
	2012	-	38,000	-	-	38,000	31/03/15	03/04/22	Nil
		245,142	214,000	-	-	459,142			
		486,916	**214,000**	**-**	**-**	**700,916**			
2011									
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	-	(8,801)	-	26,404	30/09/10	30/09/17	Nil
	2009	28,808	-	-	-	28,808	31/03/13	20/10/19	Nil
		250,575	-	(8,801)	-	241,774			
Unapproved options									
Tim Smeaton	2009	17,638	-	-	-	17,638	31/03/13	20/10/19	Nil
	2011	-	138,000	-	-	138,000	31/03/14	21/02/21	Nil
Ian Temple	2011	-	38,000	-	-	38,000	31/03/14	21/02/21	Nil
John Glover	2007	5,750	-	(1,438)	-	4,312	30/09/10	30/09/17	Nil
	2009	9,192	-	-	-	9,192	31/03/13	20/10/19	Nil
	2011	-	38,000	-	-	38,000	31/03/14	21/02/21	Nil
		32,580	214,000	(1,438)	-	245,142			
		283,155	214,000	(10,239)	-	486,916			

Performance criteria

The performance criteria for Executive 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 2008-2011 dependent on the profitability of the Hydrogen Group plc in each of these three years. The performance criteria were met on 60% of the options, the remaining 40% lapsed.

Options issued in 2009:

Options vest in 2013 dependent on the profitability of the Hydrogen Group plc in the period 2011 to 2012. The performance criteria were met on 53% of the options; the remaining 47% lapsed.

Options issued in 2011:

Options vest in 2014 dependent on the net fee income and profitability of the Hydrogen Group plc in 2013.

Options issued in 2012:

Options vest in 2015 dependent on the net fee income and profitability of the Hydrogen Group plc in 2014

Share option scheme for Directors

During the year, options over shares were granted to Executive Directors under the Hydrogen Group Unapproved Share Option scheme. The number of options that vest is dependent on Hydrogen Group plc's net fee income and profitability for the financial year 2014, and the vesting date is 31 March 2015. Options were granted at nil cost and may be exercised up to 10 years from date of grant, after which they expire. If the Director leaves the Group before options vest, except where the Director leaves for qualifying reasons, options are forfeit. Details of the number of options issued during the year and the number outstanding at 31 December 2012 are given in note 16.

Share options scheme for senior employees

During the year, options over shares were granted to senior employees below Board level. Options were granted under the Hydrogen Group Unapproved Share Option scheme. The performance criteria set based on Hydrogen Group plc's net fee income and profitability for the financial year 2012 were not met, and the options will lapse. Details of the number of options issued during the year and the number outstanding at 31 December 2012 are given in note 16.

Share price chart

Set out below is a graph of the Company's share price performance over the last five years, benchmarked against the FTSE All Share Support Services index.

Source: London Stock Exchange provided by Morningstar IR

Directors' remuneration report

For the year ended 31 December 2012

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
2012						
Executive Directors:						
Tim Smeaton	225	2	40	267	-	267
Ian Temple	225	2	28	255	-	255
John Glover	157	1	31	189	-	189
Non-Executive Directors:						
Ishbel Macpherson*	38	-	-	38	-	38
Martyn Phillips	34	-	-	34	-	34
Ian Fallmann*	21	-	-	21	-	21
Stephen Puckett^	11	-	-	11	-	11
Barbara Anderson^	8	-	-	8	-	8
Anne Baldock^	8	-	-	8	-	8
Aggregate emoluments	**727**	**5**	**99**	**831**	**-**	**831**
2011						
Executive Directors:						
Tim Smeaton	215	2	91	308	-	308
Ian Temple	215	2	72	289	-	289
John Glover	147	1	69	217	-	217
Non-Executive Directors:						
Ishbel Macpherson	40	-	-	40	-	40
Martyn Phillips	33	-	-	33	-	33
Ian Fallmann	25	-	-	25	-	25
Aggregate emoluments	**675**	**5**	**232**	**912**	**-**	**912**

***** resigned from the Board on 7 September 2012

^ from date of appointment to the Board on 7 September 2012

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. Ian Temple holds a Non-Executive appointment with Cube19 Limited.

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 Directors' remuneration report at the Annual General Meeting.

M Phillips
Chairman, Remuneration Committee

Directors' report

For the year ended 31 December 2012

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2012. 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, Hydrogen Group Pte Ltd in Singapore and Hydrogen Group Ltd in Hong Kong. A review of the business, as well as expected future developments, is included in the Chairman's Statement, Operational Review and the Financial Review on pages 1 to 8.

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 and candidates the Group is highly dependent on a number of technology systems and the infrastructure on which they operate. The Group has completed the outsourcing of all its network and hardware to a third party provider. The provision of this service includes backup in event of hardware or network failure. The Group has also upgraded its front office system to a cloud based industry-leading CRM solution, to ensure that it has the appropriate systems functionality and resilience to support its global operations, both 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, an award winning 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 16) targeted at retaining the best talent.

Reliance on UK market/operational capability to support international expansion
The Group has a strategy of diversifying the industry sectors and geographies in which it operates, one objective of which is to reduce its dependence on the UK recruitment market. However, this strategy does expose the Group to the potential 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;
- Maintaining a high level of variable pay, linked to performace;
- 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 is subject to increasing levels of regulation and compliance, which vary from country to country, and industry to industry. The Group is committed to being compliant and takes a conservative approach in areas where judgement is required.

Customer concentration
One customer in the Professional Support Services segment represents approximately 10% of the Group's net fee income for 2012. Other than fluctuations in client demand arising in the normal course of business, and the Group's ability to win

new clients, there is no expectation of significant change in this position in the foreseeable future. No other customer represents more than 5% of the Group's net fee income.

Foreign exchange risk
Approximately 80% of the Group's revenue in 2012 was denominated in Sterling. For contract revenue, the Group aims to pay and bill in the same currency to provide a natural hedge for the majority of its revenues. During 2012 the Group utilised foreign currency options to manage the foreign exchange risk on its non-Sterling fees, but there were no contracts outstanding at the year end.

Key Performance Indicators

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:

KPIs		2012	2011
Net fee income (NFI)*	£M	**31.3**	**29.8**
Conversion ratio (Operating profit before exceptional items divided by gross profit)	%	**10.8**	**13.0**
Productivity (gross profit divided by total average headcount)	£k	**84**	**86**
Days of sales outstanding (DSO)	days	**21**	**27**
Geographic diversification (percentage of NFI billed outside of the UK)	%	**41**	**37**
Sector diversification (split of NFI: Technical & Scientific/Professional support services)	%	**39/61**	**29/71**
Permanent: contract split of NFI	%	**49/51**	**46/54**
Average headcount during the year		**370**	**347**
Ratio of billing headcount to support headcount (average for year)		**3.1**	**2.8**
Net debt at year end	£M	**2.8**	**1.4**

* Gross profit

Financial instruments

Information in respect of financial instruments is set out in note 24 to the financial statements.

Capital structure

Details of the authorised and issued share capital, together with movements during the year, are shown in note 17. 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. 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 16. 35,964 shares were issued during the year following an exercise of options under the Company's share option plans. No votes are cast in respect of shares held in the Hydrogen Employee Share Trust or the Hydrogen Group Share Incentive Plan.

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 Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Pursuant to a shareholder resolution at the AGM of the Company on 25 May 2012, the Company has the authority to issue new/additional ordinary shares up to a maximum nominal amount of £78,381, representing one third of the current issued share capital of the Company at 31 December 2011, during the period up to the next AGM. Shareholders will be asked to renew this authority at the AGM in 2013.

Directors' report

For the year ended 31 December 2012

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 revenue 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. A common model operated in the recruitment industry 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 8% revenue growth from contractor placements during 2012 with an associated additional investment in working capital of £2m. The Group has an invoice discounting facility of £18m, committed to February 2014, of which the Group's maximum utilisation in 2012 was 66%. In addition, in 2012 it agreed and drew down a revolving credit facility of £3m for a three year term. The Group has prepared financial forecasts for the period to March 2014, 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 has continued to adopt the going concern basis for the preparation of the financial statements.

Directors

The following Directors held office during the year:
Tim Smeaton

Ian Temple

John Glover

Ishbel Macpherson (resigned 7 September 2012)

Martyn Phillips

Ian Fallmann (resigned 7 September 2012)

Stephen Puckett (appointed 7 September 2012)

Barbara Anderson (appointed 7 September 2012)

Anne Baldock (appointed 7 September 2012)

Brief biographies of each of the Directors are available on the Companies website at www.hydrogengroup.com. 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 Dec 2012	Percentage of issued share capital at 31 Dec 2012	Ordinary shares of 1p each held at 31 Dec 2011	Percentage of issued share capital at 31 Dec 2011
Ian Temple	4,149,476	17.6%	4,148,259	17.6%
Tim Smeaton	2,828,176	12.0%	2,818,134	12.0%
Martyn Phillips	18,850	0.1%	18,850	0.1%

Details of Directors' share options are provided in the Directors' remuneration report on page 14.
No changes took place in the interests of Directors between 31 December 2012 and 8 March 2013.

Substantial shareholders

At 8 March 2013, other than the Directors' interests shown above, the Company had been notified of the following substantial shareholdings:

Shareholder	Interest in issued share capital at 8 March 2013
Chris Cole	12.5%
AXA Investment Managers SA	9.7%
Charles Marshall	7.9%
Majedie Asset Management	6.5%
Daniel Church	5.6%
Hydrogen Group Employee Benefit Trust (EBT)	5.0%
Barnaby Parker	3.9%
Nicola Parker	3.9%
Universities Superannuation Scheme	3.8%
Hydrogen Group Share Incentive Plan	1.6%

Employee involvement

The involvement of the employees in the business is key to their engagement and ultimately its success. The business is organised into two 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 2012, to purchase through the market, 2,351,442 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 2013. Shareholders will be asked to renew that authority at the Annual General Meeting of the Company.

During 2012 the Company donated £20,000 to enable the EBT to purchase 20,477 ordinary shares of Hydrogen Group plc.

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 16, 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.

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 18 days (2011: 25 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 made charitable donations of £10,152 (2011: £5,825), matching donations made by employees of the Group. Hydrogen has made no political donations during the year.

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 Glover
Finance Director

Hydrogen Group plc
Registered office: 6 Laurence Pountney Hill,
London.
EC4R 0BL
Registered in England and Wales, no: 5563206

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 prepared 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 judgements 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 and;
- 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.

The Directors confirm that:

- so far as each director 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 as Directors in order 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 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the 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 2012 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 2012.

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
8 March 2013

HYDROGEN GROUP PLC

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Revenue	1	**166,972**	156,195
Cost of sales		**(135,711)**	(126,418)
Gross profit	1	**31,261**	29,777
Administration expenses		**(27,900)**	(25,911)
Operating profit	1	**3,361**	3,866
Finance costs	2	**(167)**	(188)
Finance income	3	**20**	32
Profit before taxation	4	**3,214**	3,710
Income tax expense	6	**(958)**	(1,296)
Profit for the year	20	**2,256**	2,414
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(39)**	(14)
Other comprehensive income for the year, net of tax		**(39)**	(14)
Total comprehensive income for the year		**2,217**	2,400
Attributable to:			
Equity holders of the parent		**2,217**	2,400
Earnings per share			
Basic earnings per share (pence)	19	**10.10p**	10.95p
Diluted earnings per share (pence)	19	**9.56p**	10.24p

The above results relate to continuing operations.

HYDROGEN GROUP PLC

Consolidated statement of financial position

As at 31 December 2012

	Note	**2012 £'000**	2011 £'000
Non-current assets			
Goodwill	7	**13,658**	13,658
Other intangible assets	8	**1,120**	492
Property, plant and equipment	9	**806**	1,220
Deferred tax assets	10	**412**	409
Other financial assets	11	**278**	543
		16,274	16,322
Current assets			
Trade and other receivables	11	**28,348**	25,609
Cash and cash equivalents	12	**2,704**	1,977
		31,052	27,586
Total assets		**47,326**	43,908
Current liabilities			
Trade and other payables	13	**14,781**	14,313
Borrowings	14	**5,462**	3,330
Current tax liabilities		**474**	777
Provisions	15	**181**	336
		20,898	18,756
Non-current liabilities			
Deferred tax liabilities	10	**71**	71
Provisions	15	**56**	201
		127	272
Total liabilities		**21,025**	19,028
Net assets		**26,301**	24,880
Equity			
Capital and reserves attributable to the Company's equity holders			
Called-up share capital	17	**235**	235
Share premium account	20	**3,512**	3,512
Merger reserve	20	**16,100**	16,100
Own shares held	18	**(1,338)**	(1,320)
Share option reserve	20	**100**	100
Other reserve	20	**1,960**	1,744
Translation reserve	20	**296**	335
Retained earnings	20	**5,436**	4,174
Total equity		**26,301**	24,880

The financial statements on pages 25 to 54 were approved by the Board of Directors and authorised for issue on 8 March 2013 and are signed on its behalf by:

T Smeaton
CEO

HYDROGEN GROUP PLC

Consolidated statement of changes in equity

As at 31 December 2012

	Called-up share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Other reserve £'000	Trans-lation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2011	235	3,510	16,100	(1,373)	100	1,393	349	2,737	23,051
Dividends	-	-	-	-	-	-	-	(913)	(913)
Increase in share capital	-	2	-	-	-	-	-	-	2
Share option charge	-	-	-	-	-	351	-	-	351
Tax on share option charge	-	-	-	-	-	-	-	15	15
Purchase of shares by EBT	-	-	-	(129)	-	-	-	-	(129)
Shares issued from EBT	-	-	-	182	-	-	-	(79)	103
Transactions with owners	-	2	-	53	-	351	-	(977)	(571)
Profit for the year	-	-	-	-	-	-	-	2,414	2,414
Other comprehensive income:									
Foreign currency translation	-	-	-	-	-	-	(14)	-	(14)
Total comprehensive income for the year	-	-	-	-	-	-	(14)	2,414	2,400
At 31 December 2011	235	3,512	16,100	(1,320)	100	1,744	335	4,174	24,880
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(974)**	**(974)**
Share option charge	**-**	**-**	**-**	**-**	**-**	**216**	**-**	**-**	**216**
Tax on share option charge	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18)**	**(18)**
Purchase of shares by EBT	**-**	**-**	**-**	**(20)**	**-**	**-**	**-**	**-**	**(20)**
Shares issued from EBT	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**(2)**	**-**
Transactions with owners	**-**	**-**	**-**	**(18)**	**-**	**216**	**-**	**(994)**	**(796)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,256**	**2,256**
Other comprehensive income:									
Foreign currency translation	**-**	**-**	**-**	**-**	**-**	**-**	**(39)**	**-**	**(39)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(39)**	**2,254**	**2,215**
At 31 December 2012	**235**	**3,512**	**16,100**	**(1,338)**	**100**	**1,960**	**296**	**5,436**	**26,301**

HYDROGEN GROUP PLC

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	**2012 £'000**	2011 £'000
Net cash generated from operating activities	22a	**305**	2,531
Investing activities			
Finance income		**20**	32
Proceeds from disposal of property, plant and equipment		**41**	44
Purchase of property, plant and equipment		**(63)**	(328)
Purchase of software assets		**(681)**	(471)
Net cash used in investing activities		**(683)**	(723)
Financing activities			
Proceeds on issuance of ordinary shares		**-**	103
Purchase of own shares by EBT	18	**(20)**	(129)
Increase in borrowings	14	**3,000**	290
Repayment of borrowings	14	**(868)**	-
Equity dividends paid	5	**(974)**	(913)
Net cash generated from / (used in) financing activities		**1,138**	(649)
Net increase in cash and cash equivalents		**760**	1,159
Cash and cash equivalents at beginning of year	12	**1,977**	828
Effect of foreign exchange rate changes		**(33)**	(10)
Cash and cash equivalents at end of year	12	**2,704**	1,977

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 two 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, Singapore and Hong Kong, plus a number of internationally focused teams based in the UK.

Basis of preparation

Hydrogen Group plc is the Group's ultimate parent company. The Company is a limited liability company incorporated and domiciled in the United Kingdom. The 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 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. 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.

The consolidated financial statements for the year ended 31 December 2012 (including comparatives) are presented in GBP '000, and were approved and authorised for issue by the Board of Directors on 8 March 2013.

Changes in accounting policies

The Group has early adopted 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS1) . The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to group items presented in Other comprehensive Income (OCI) into those that, in accordance with other IFRS's, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group (except for the Amendments to IAS1 noted above):

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013**)
- IFRS 11 Joint Arrangements (effective 1 January 2013**)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013**)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013**)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013**))
- Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective 1 January 2014)
- Mandatory Effective Date and Transition Disclosures - Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)

- Government Loans - Amendments to IFRS 1 (effective 1 January 2013)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)
- Annual Improvements 2009-2011 Cycle (effective 1 January 2013)
- Transition Guidance - Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2013)
- Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27 (effective 1 January 2014)

** Note: EU mandatory effective date is 1 January 2014, not 2013. Also Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (IASB effective date 1 January 2012) has a mandatory EU effective date of periods commencing on or after 1 January 2013.

Basis of 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 deconsolidated from the date that control ceases.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the Company's functional and presentational currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

On consolidation, the results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each year end presented are translated at the closing rate of that year end;

(ii) income and expenses for each statement of comprehensive income are translated at the average rates;

(iii) all resulting exchange differences are recognised in other comprehensive income.

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.

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 based on past experience 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 charges from contractors 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.

Internal costs incurred on the projects relating to the introduction or design of new systems or improvement of the existing systems are only capitalised as intangible assets if capitalisation criteria under IAS 38 'Intangible Assets' are met, i.e. where the related expenditure is separately identifiable, the costs are measurable and management are satisfied as to the ultimate technical and commercial viability of the project such that it will generate future economic benefits based on all relevant available information. Capitalised development costs are amortised from the date the system is available for use over their expected useful lives.

Other costs linked to development projects that do not meet the above criteria are recognised as an expense as incurred.

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 profit or loss.

Impairment of assets

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

Taxation

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

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

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

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

Deferred income tax is measured at the tax rates that are expected to apply in the periods in which temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the reporting date. Deferred income tax is 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 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 profit or loss.

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 an operating lease is spread evenly over the lease term.

Operating lease income

Operating lease income is credited 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 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 the consolidated statement of comprehensive income. Dividend income arising on own shares is excluded in arriving at profit before taxation and deducted from aggregate dividends paid and proposed. The shares are ignored for the purposes of calculating the Company's earnings per share.

Other share-based payments

Where options are awarded after 7 November 2002 and 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 consolidated statement of comprehensive income 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 profit or loss with a corresponding adjustment to equity.

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

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 initially measured at fair value and subsequently at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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 consolidated statement of comprehensive income. 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 Statement of Financial Position.

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

Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at fair value and are classified according to the substance of the contractual arrangements entered into. Financial liabilities are subsequently revalued at amortised cost.
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 exchange rates on its foreign currency income by entering into currency options and forward contracts. 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 interest rate derivatives.

Dividends

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

Provisions and onerous contracts

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

Net debt

Net debt comprises cash and cash equivalents as defined in note 12, less long and short term borrowings.

Invoice discounting

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

Equity and reserves

A detailed analysis of all components of equity is given in note 20.

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:

Judgement and 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.

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.

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.

Deferred tax
The Group recognised a deferred tax asset of £277,000 (2011: £165,000) related to trading losses to be carried forward and relieved against profits arising in future periods. The decision to recognise the deferred tax asset is dependent on the Group's forecasts on future profitability.

Share based payments
The fair value of equity settled share based payments involves estimation of such factors as lapse rates and achievement of performance criteria.

Bad debt provision
In deciding the level of bad debt provision required management exercises judgement based on the age of the debt, knowledge of any known disputes surrounding the debt, the credit rating and Group's past trading experience of trading with the client.

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. The Group changed its reporting segments during 2011 to align reporting more closely with its strategic objectives.

(a) Revenue, gross profit and operating profit by discipline
For management purposes, the Group is organised into the following two operating segments:
- **Professional Support Services** (the operating segment includes the legal, finance, and technology recruitment business units),
- Technical and Scientific, (the operating segment includes the oil and gas, mining, power and life sciences recruitment business segments).

The operating segments noted reflect the information that is regularly reviewed by the Group's Chief Operating Decision Maker (CODM) which is the Board of Hydrogen Group plc. Both of these operating segments have similar economic characteristics.

	2012				2011			
	Professional support services £'000	**Technical and scientific £'000**	**Non-allocated £'000**	**Total £'000**	Professional support services £'000	Technical and scientific £'000	Non-allocated £'000	Total £'000
Revenue	**126,139**	**40,792**	**41**	**166,972**	128,143	28,052	-	156,195
Gross profit	**19,095**	**12,168**	**(2)**	**31,261**	21,147	8,620	10	29,777
Depreciation and amortisation	**294**	**210**	**-**	**504**	378	150	16	544
Operating profit/(loss)	**2,914**	**1,798**	**(1,351)**	**3,361**	4,016	1,656	(1,806)	3,866
Finance costs				**(167)**				(188)
Finance income				**20**				32
Profit before tax				**3,214**				3,710

Non-allocated costs represent central management costs that are not allocated to operating segments. In 2012 they were partially offset by the release of the onerous lease provision of £364,000 (2011: £372,000).

Revenue reported above represents revenue generated from external customers. There were no sales between segments in the year (2011: 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, finance costs and finance income.

There is one external customer that represented 33% of the entity's revenues, with revenue of £54,786,000, and approximately 10% of the Group's net fee income, included in the Professional support services segment (2011: one customer, revenue £54,724,000, Professional support services segment).

(b) Revenue and gross profit by geography

	Revenue		Gross profit	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
UK	**134,579**	125,154	**18,507**	18,753
Rest of world	**32,393**	31,041	**12,754**	11,024
	166,972	156,195	**31,261**	29,777

(c) Revenue and gross profit by recruitment classification

	Revenue		Gross profit	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Permanent	**15,197**	13,626	**15,195**	13,597
Contract	**151,775**	142,569	**16,066**	16,180
	166,972	156,195	**31,261**	29,777

The information reviewed by the Chief Operating Decision Maker, or otherwise regularly provided to the Chief Operating Decision Maker does not include information on net assets. The cost to develop this information would be excessive in comparison to the value that would be derived.

2 Finance costs

	2012 £'000	2011 £'000
Interest on invoice discounting	**135**	121
Interest on bank overdrafts and loans	**2**	6
Other interest payable	**2**	-
Unwinding of provision discount	**28**	61
	167	188

3 Finance income

	2012 £'000	2011 £'000
Bank interest receivable	**10**	32
Other interest receivable	**10**	-
	20	32

4 Profit on ordinary activities before taxation

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

	2012 **£'000**	2011 £'000
Amortisation of intangible assets		
- software assets	**53**	56
- domain name	**-**	3
Depreciation of property, plant and equipment		
- owned assets	**451**	485
Staff costs (note 21)	**21,035**	19,294
Operating lease rentals on land and buildings	**1,628**	1,564
Operating lease income	**(240)**	(259)
Foreign exchange losses	**296**	189
(Gain)/loss on disposal of assets	**(22)**	8

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	**53**	50
Total audit fees	**53**	50
Non-audit fees		
- Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**66**	60
- Other services	**9**	2
- Tax services (compliance and general tax advice)	**16**	19
Total non-audit fees	**91**	81

5 Dividends

	2012 **£'000**	2011 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2012 of 1.5p per share (2011: 1.4p per share)	**333**	311
Final dividend for the year ended 31 December 2011 of 2.9p per share (2010: 2.7p per share)	**641**	602
	974	913

An interim dividend of 1.5p (2011: 1.4p) per share was paid on 9 November 2012 to shareholders on the register at the close of business on 12 October 2012. The interim dividend was approved by the Board on 7 September 2012.

The final dividend in relation to 2011 was recommended on 14 March 2012, and was not recognised as a liability in the year ended 31 December 2011.

The Board proposes a final dividend of 3.0p per ordinary share for the year ended 31 December 2012 (2011: 2.9p), to be paid on 24 May 2013 to shareholders on the register as at 3 May 2013, subject to approval at the AGM. The proposed final dividend has not been approved by shareholders at 31 December 2012. No income tax consequences are expected to arise at the Hydrogen Group plc level as a result of this transaction.

6 Tax

(a) Analysis of tax charge for the year:

The charge based on the profit for the year comprises:	**2012 £'000**	2011 £'000
Corporation tax:		
UK corporation tax on profits for the year	**979**	1,366
Adjustment to tax charge in respect of previous periods	**-**	(14)
	979	1,352
Foreign tax:		
Current tax	**-**	-
Total current tax	**979**	1,352
Deferred tax:		
Origination and reversal of temporary differences	**3**	(56)
Adjustments in respect of previous periods	**(24)**	-
Total deferred tax	**(21)**	(56)
Tax charge on profit for the year	**958**	1,296

Corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

Profit before tax	**3,214**	3,710
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	**788**	983
Effects of:		
Expenses not deductible for tax purposes	**53**	98
Capital allowances in excess of depreciation	**-**	27
Tax losses arising in the year not relieved	**65**	195
Profits charged at higher rates of tax	**-**	18
Adjustment to tax charge in respect of prior periods	**(24)**	(14)
Share-based payments	**134**	61
Other	**(58)**	(72)
Tax charge for the year	**958**	1,296

There has been a deferred tax credit of £18,000 relating to share options charged directly to equity (2011:charge of £15,000) (see note 10).

7 Goodwill

	2012 £'000	2011 £'000
Cost		
At 1 January and 31 December	**19,228**	19,228
Accumulated impairment losses		
At 1 January and 31 December	**(5,570)**	(5,570)
Carrying amount at 31 December	**13,658**	13,658
Allocation of goodwill to cash generating units (CGU):		
Technology	**9,530**	9,530
Finance	**1,749**	1,749
Law	**2,379**	2,379
	13,658	13,658

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. The first year of the projections are based on detailed budgets prepared as part of the Group's performance and control procedures. Subsequent years are based on extrapolations using the key assumptions listed below. 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 revenue growth rates and discount rates used in the impairment review are stated below:

Cash generating unit	Growth rate 2013 -20 %	Discount rate %
Technology	5%	9.3%
Finance	5%	9.3%
Law	5%	9.3%

The revenue growth rates for 2013-20 are based on the historic growth rates for the recruitment market in theses specialisms in the UK, the predominant market for these CGU's. The Group operates in markets were demographics are favourable, where there is high demand and a shortage of suitably qualified candidates, and it is not unusual for growth rates to significantly exceed long term GDP growth rates..

The discount rate used is an estimate of the Group's weighted average cost of capital. The CGU's are considered to have similar economic characteristics and the same discount rate has been applied to each.

The estimate of recoverable amount for the finance practice is sensitive to both the growth rate and discount rate. At growth rates below 5% pa, or a discount factor greater than 9.6%, an impairment loss would need to be recognised for the Finance CGU.

8 Other intangible assets

	Domain names & trademarks	Computer software	Total
Cost			
At 1 January 2011	30	901	931
Additions	-	471	471
At 31 December 2011	30	1,372	1,402
Additions	-	681	681
At 31 December 2012	**30**	**2,053**	**2,083**
Amortisation			
At 1 January 2011	27	824	851
Charge for the year	3	56	59
At 31 December 2011	30	880	910
Charge for the year	-	53	53
At 31 December 2012	**30**	**933**	**963**
Net book value at 31 December 2012	**-**	**1,120**	**1,120**
Net book value at 31 December 2011	-	492	492

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

9 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2011	1,497	278	1,467	3,242
Additions	207	54	67	328
Disposals	(42)	(100)	(9)	(151)
Exchange difference	(3)	-	-	(3)
At 31 December 2011	1,659	232	1,525	3,416
Additions	20	41	2	63
Disposals	(28)	(91)	-	(119)
Exchange difference	(4)	-	(5)	(9)
At 31 December 2012	**1,647**	**182**	**1,522**	**3,351**
Accumulated depreciation				
At 1 January 2011	1,102	184	527	1,813
Charge for year	191	50	244	485
Disposals	(15)	(85)	(2)	(102)
At 31 December 2011	1,278	149	769	2,196
Charge for the year	169	30	252	451
Disposals	(23)	(77)	-	(100)
Exchange difference	(2)	-	-	(2)
At 31 December 2012	**1,422**	**102**	**1,021**	**2,545**
Net book value at 31 December 2012	**225**	**80**	**501**	**806**
Net book value at 31 December 2011	381	83	756	1,220

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

The Group has pledged all of its assets to secure banking facilities granted to the Group (see note 14).

10 Deferred tax

Deferred tax asset	General Provision £'000	Unutilised losses £'000	Accelerated depreciation £'000	Share based payments £'000	Total £'000
At 1 January 2011	-	-	178	134	312
Credited/ (charged) to profit or loss	-	165	(76)	(7)	82
Credited to reserves	-	-	-	15	15
At 31 December 2011	-	165	102	142	409
Credited/ (charged) to profit or loss	31	112	(25)	(97)	21
Debited to reserves	-	-	-	(18)	(18)
At 31 December 2012	**31**	**277**	**77**	**27**	**412**

Deferred tax (liability)	Accelerated capital allowances £'000
At 1 January 2011	(43)
Exchange differences	(2)
Charged to profit or loss	(26)
At 31 December 2011	(71)
Exchange differences	-
Credited/(charged) to profit or loss	-
At 31 December 2012	**(71)**

No reversal of deferred tax is expected within the next twelve months (2011: Nil).

11 Trade and other receivables

Trade and other receivables are as follows:	**2012 £'000**	2011 £'000
Trade receivables	**12,869**	12,542
Allowance for doubtful debts	**(172)**	(123)
Prepayments and accrued income	**15,570**	13,135
Other receivables:		
- due within 12 months	**81**	55
- due after more than 12 months	**278**	543
Total	**28,626**	26,152
Current	**28,348**	25,609
Non current	**278**	543

As at 31 December 2012, the average credit period taken on sales of recruitment services was 21 days (2011: 27 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. An allowance of £172,000 (2011: £123,000) 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 £146,000 (2011: income £116,000).

Prepayments and accrued income principally comprise accruals for amounts to be billed for contract staff for time worked in December, and amounts to be billed for permanent placements with a start date in 2013. Other receivables due after more than 12 months are 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 £4,336,000 (2011: £3,972,000) 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)	**2012 £'000**	2011 £'000
0-30 days	**2,223**	2,316
30-60 days	**917**	982
60-90 days	**621**	536
90+ days	**575**	138
31 December	**4,336**	3,972

Movement in allowance for doubtful debts:	**2012 £'000**	2011 £'000
1 January	**(123)**	(362)
Impairment losses recognised	**(139)**	(73)
Previous impairment losses reversed	**36**	205
Amounts written off the trade receivables ledger as uncollectible	**54**	107
31 December	**(172)**	(123)

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 £Nil (2011: £Nil) that have been placed in administration or liquidation.

Ageing of impaired trade receivables:	**2012 £'000**	2011 £'000
30-60 days	**25**	-
60-90 days	**9**	-
90+ days	**57**	123
31 December	**91**	123

As at 31 December trade receivables to a value of £6,652,000 have been invoice discounted (2011: £6,424,000).

12 Cash and cash equivalents

Cash and cash equivalents are as follows:	**2012 £'000**	2011 £'000
Short-term bank deposits	**2,704**	1,977
	2,704	1,977

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.

13 Trade and other payables

Trade and other payables are as follows:	**2012 £'000**	2011 £'000
Trade payables	**477**	714
Other taxes and social security costs	**1,081**	974
Other payables	**1,275**	1,659
Accruals and deferred income	**11,948**	10,966
	14,781	14,313

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 10 days (2011: 38 days), based on the average daily amount invoiced by suppliers. The reduction in trade creditors is due to expiry of the lease on 16 Old Bailey (see note 15), and the absence of quarter rent due on 31 December 2012. 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.

14 Borrowings

	2012 £'000	2011 £'000
Invoice discounting (repayable on demand)	**2,462**	3,330
Revolving credit facility	**3,000**	-
	5,462	3,330

All borrowing is at floating interest rates. Interest on the invoice discounting facility is charged at 2.35% over UK Base Rate on actual amounts drawn down, and the margin is fixed to February 2014. The weighted average interest rate for the year charged on amounts drawn down on invoice discounting was 2.35% (2011: 2.18%).

In September 2012 the Group agreed a £3 million revolving credit facility (RCF) with its bankers for a three year period. Interest on the revolving credit facility is charged at 2.45% over the London Inter-Bank Overnight Rate (LIBOR) on actual amounts drawn down. There is a non-utilisation charge of 1.23% over LIBOR.

The RCF is subject to the following covenants:
- pre-tax profit will not be less than 400% of interest charges,
- net debt shall not exceed 250% of EBITDA

15 Provisions

		2012		2011
	Dilapid -ations £'000	**Onerous lease £'000**	**Total £'000**	Total £'000
At 1 January	**201**	**336**	**537**	731
New provision	**36**	**-**	**36**	117
Utilised	**-**	**(364)**	**(364)**	(372)
Unwinding of discount	**-**	**28**	**28**	61
At 31 December	**237**	**-**	**237**	537
Of which – expected to be incurred within 1 year	**181**	**-**	**181**	336
– expected to be incurred in more than 1 year	**56**	**-**	**56**	201

The onerous lease provision related to surplus office accommodation at 16 Old Bailey, London, EC4N 7EG, the lease on which expired in November 2012.

The dilapidations provisions relate to the Group leased offices in London, Singapore and Sydney.

16 Share-based payments

All share-based payment arrangements are equity-settled.

At the beginning of the year the Group awarded to Executive Directors and senior managers options over 375,000 shares under the Hydrogen Group Unapproved Share Option scheme. The number of options that vest is dependent on the net fee income and profit before tax in the financial year 2014, and the vesting date is 31 March 2015.

On the same date, options over 289,500 ordinary shares were also granted to a number of employees of the Group under the Hydrogen Group Unapproved Share Option scheme. The number of options that vest on 31 March 2015 is dependent on the net fee income and profit before tax in the financial year 2012.

For both awards options granted were nil cost options and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons. The nominal value of the shares issued will be settled on the date that the options are exercised.

Details of the movements in share options during the years and the number outstanding at the end of the year are shown below:

	Number of shares 2012	**Weighted average exercise price 2012 £**	Number of shares 2011	Weighted average exercise price 2011 £
Outstanding at 1 January	**1,636,128**	**0.121**	1,249,044	0.241
Granted during the year	**664,500**	**0.000**	645,000	0.000
Forfeited during the year	**(146,589)**	**0.000**	(98,424)	0.000
Exercised during the year	**(37,564)**	**0.000**	(159,492)	0.646
Outstanding at 31 December	**2,116,475**	**0.094**	1,636,128	0.121
Exercisable at 31 December	**481,274**	**0.412**	492,592	0.402

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

	31 December 2012				31 December 2011			
	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**	**247,045**	**77.7p**	**3.0 years**	**73p-81p**	**247,045**	**77.7p**	**4.0 years**
2007 award	**Nil**	**164,243**	**Nil**	**4.5 years**	**Nil**	**197,006**	**Nil**	**5.5 years**
2008 award	**Nil**	**57,187**	**Nil**	**5.5 years**	**Nil**	**100,077**	**Nil**	**6.5 years**
2009 award	**Nil**	**412,000**	**Nil**	**6.5 years**	**Nil**	**462,000**	**Nil**	**7.5 years**
2011 award	**Nil**	**584,000**	**Nil**	**8 years**	**Nil**	**630,000**	**Nil**	**9 years**
2012 award	**Nil**	**652,000**	**Nil**	**9 years**	**-**	**-**	**-**	**-**
		2,116,475				**1,636,128**		

The weighted average share price at the date of exercise for share options exercised during the period was £0.96 (2011: £1.13).

For options issued in 2006, the fair value of employee services received in exchange for share options was valued using a binomial option pricing model. The inputs into the binomial model are given below. Options issued in subsequent years are all nil cost options, where fair value always approximates to share price at date of grant.

	Options issued in 2011	Options issued in 2011	Options issued in 2009	Options issued in 2008	Options issued in 2007	Options issued in 2006
Share price at date of grant	92p	132p	56p - 90p	203p	293p	251p
Exercise price	0.00p	0.00p	0.00p	0.00p	0.00p	80.5p
Fair value per option at grant date	92p	132p	56p - 90p	203p	293p	16p – 18p
Expected volatility						20% - 50%
Expected option life at date of grant						2/3 year – 21/2 years
Risk free interest rate						4.08% - 4.75%
Expected dividend yield						1% - 2%

As Hydrogen was not a listed share when 2006 options were valued, expected volatility was determined by reference to the average historical volatility of the share price of a number of competitors.

Share Incentive Plan (SIP)

During the year 59,172 (2011: 2,434) shares were exercised and 381,639 (2011: 440,811) shares were held in the Hydrogen Group SIP Plan at the year-end.

The Group recognised total expense of £216,000 (2011: £351,000) relating to equity-settled share based payment transactions in the year.

17 Share capital

The share capital at 31 December 2012 and 2011 was as follows:

	2012		2011	
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	**23,514,424**	**235**	23,510,624	235
Issuance of new shares for employee share schemes	**35,964**	**-**	3,800	-
31 December	**23,550,388**	**235**	23,514,424	235

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

During 2012, 37,564 options were exercised (2011: 159,492), as set out in note 16. Of these options, 1,600 (2011:155,692) were satisfied from shares issued by the EBT, and 35,964 (2011: 3,800) from issuance of new shares.

At 31 December 2012 1,185,451 (2011: 1,166,574) shares were held in the EBT (see note 18).

At 31 December 2012, 381,639 (2011: 440,811) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan trust for employees (see note 16).

18 Own shares

During the year the Company donated £20,000 to enable the EBT trust to purchase 20,477 ordinary shares of Hydrogen Group plc. The EBT utilised 1,600 shares to satisfy options exercised by employees.
At 31 December 2012, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2012**	2011
Number of shares	**1,185,451**	1,166,574
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,320
Market value	**984**	904

19 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.

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	**2012 £'000**	2011 £'000
Earnings		
Profit attributable to equity holders of the parent	**2,217**	2,400
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**21,948,067**	21,909,409
Dilutive effect of share plans	**1,231,639**	1,521,828
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**23,179,706**	23,431,237
Basic earnings per share (pence)	**10.10p**	10.95p
Diluted earnings per share (pence)	**9.56p**	10.24p

20 Equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Share option reserve £'000	Other reserve £'000	Trans-lation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2011	235	3,510	16,100	(1,373)	100	1,393	349	2,737	23,051
Profit for the year	-	-	-	-	-	-	-	2,414	2,414
Dividends	-	-	-	-	-	-	-	(913)	(913)
Share option charge	-	-	-	-	-	351	-	-	351
Tax on share option charge	-	-	-	-	-	-	-	15	15
Purchase of shares by EBT	-	-	-	(129)	-	-	-	-	(129)
Shares issued by EBT	-	-	-	182	-	-	-	(79)	103
Increase in share capital	-	2	-	-	-	-	-	-	2
Foreign currency translation	-	-	-	-	-	-	(14)	-	(14)
At 31 December 2011	235	3,512	16,100	(1,320)	100	1,744	335	4,174	24,880
At 1 January 2012	**235**	**3,512**	**16,100**	**(1,320)**	**100**	**1,744**	**335**	**4,174**	**24,880**
Profit for the year	-	-	-	-	-	-	-	**2,256**	**2,256**
Dividends	-	-	-	-	-	-	-	**(974)**	**(974)**
Share option charge	-	-	-	-	-	**216**	**-**	**-**	**216**
Tax on share option charge	-	-	-	-	-	**-**	**-**	**(18)**	**(18)**
Purchase of shares by EBT	-	-	-	**(20)**	**-**	**-**	**-**	**-**	**(20)**
Shares issued by EBT	-	-	-	**2**	**-**	**-**	**-**	**(2)**	**-**
Foreign currency translation	-	-	-	-	-	-	**(39)**	**-**	**(39)**
At 31 December 2012	**235**	**3,512**	**16,100**	**(1,338)**	**100**	**1,960**	**296**	**5,436**	**26,301**

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 into the presentation currency of the group accounts.

Retained earnings

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

21 Employees

The monthly average number of employees (including Directors) during the year and the total number of employees at 31 December 2012 was as follows:

	Average no. 2012	Average no. 2011	31 December 2012	31 December 2011
Client services	**279**	255	**274**	269
Administration	**86**	86	**89**	86
Management	**5**	6	**5**	7
	370	347	**368**	362

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

	2012 £'000	2011 £'000
Wages and salaries	**18,858**	17,117
Social security costs	**1,753**	1,775
Other pension costs	**208**	51
Share-based payments (see note 16)	**216**	351
	21,035	19,294

Directors' emoluments

	2012 £'000	2011 £'000
Emoluments for qualifying services	**831**	912
	831	912

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:

	2012 £'000	2011 £'000
Emoluments for qualifying services	**267**	308
	267	308

The Directors did not exercise any share options during the year (2011: nil).

There are no retirement benefits accruing to Directors under money purchase pension schemes (2011: nil).

Remuneration of key management

	2012 £'000	2011 £'000
Emoluments	**2,531**	2,495
Share-based payments	**192**	280
Money purchase pension contributions	**28**	48
	2,751	2,823

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

22 Notes to the cash flow statement

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

	2012 £'000	2011 £'000
Profit before taxation	**3,214**	3,710
Adjusted for:		
Depreciation and amortisation	**504**	544
Utilisation of onerous lease provision	**(364)**	(372)
(Gain)/loss on sale of property, plant and equipment	**(22)**	8
Share-based payments	**216**	351
Net finance costs	**147**	156
Operating cash flows before movements in working capital and exceptional costs	**3,695**	4,397
(Increase)/decrease in receivables	**(2,508)**	1,436
Increase/(decrease) in payables	**493**	(2,253)
Cash generated from operating activities before exceptional costs	**1,680**	3,580
Income taxes paid	**(1,237)**	(922)
Finance costs	**(138)**	(127)
Net cash inflow from operating activities	**305**	2,531

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

	2012 £'000	2011 £'000
Increase in cash and cash equivalents in the year	**727**	1,149
Increase in net debt resulting from cash flows	**(2,132)**	(290)
(Increase)/decrease in net debt during the year	**(1,405)**	859
Net debt at the start of the year	**(1,353)**	(2,212)
Net debt at the end of the year	**(2,758)**	(1,353)

23 Operating lease commitments

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

	2012 **£'000**	2011 £'000
Within one year	875	1,549
Between one and five years	221	914
	1,096	2,463

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 2.7 years and rentals are fixed for an average of 1.5 years.

24 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 as set out in note 20.

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

The Board of Directors regularly reviews 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 2012.

The gearing ratio at the year end is as follows	**2012** **£'000**	2011 £'000
Debt	**(5,462)**	**(3,330)**
Cash and cash equivalents	**2,704**	**1,977**
Net debt	**(2,758)**	**(1,353)**
Equity	**26,191**	**24,880**
Net debt to equity ratio	**10.5%**	**5.4%**

Debt is defined as long and short-term borrowings.
Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

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 2012.

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.

	2012 **£'000**	2011 £'000
Financial assets		
Loans and receivables		
Trade and other receivables net of impairment provision	**12,697**	12,419
Other receivables	**359**	598
Cash and cash equivalents	**2,704**	1,977
	15,760	14,994
Financial liabilities at amortised cost		
Trade and other payables	**14,781**	14,313
Borrowings	**5,462**	3,330
	20,243	17,643

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

Foreign currency risks

The Group publishes its consolidated financial statements in Sterling and approximately 80% of its revenues are in Sterling. For the contract business, the Group endeavours to pay and bill in the same currency to provide a natural hedge. The Group uses currency options to manage any remaining exposure to foreign currency risk. There were no currency options outstanding at 31 December 2012.

The functional currencies of the Group's main operating subsidiaries are Sterling, the Singapore, Hong Kong and Australian dollar. The Group's subsidiaries generally raise invoices and incur expenses in their local currencies.

The Group is exposed to foreign currency translation differences 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 and revolving credit facility. Given the current low level of interest rates, and the high level of variability in the amount and duration of its drawdown, the Group does not actively manage its exposure to interest rate fluctuations.

Credit risk

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

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

The Group's credit risk arises primarily on its trade receivables. The Group transacts with a large number of customers across a variety of industry sectors. On-going credit evaluation and management of exposures is undertaken, utilising external credit ratings. 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 £18m invoice discounting facility committed to February 2014, and a £3m revolving credit facility committed to 2015. These are considered adequate to meet the Group's funding requirements.

Apart from its bank borrowings disclosed in note 14, the Group has no financial liabilities other than short-term trade payables and accruals disclosed in note 13, all due within one year of the year end.

25 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:

	2012 **£'000**	2011 £'000
Dividends paid to Directors	**307**	286

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 2012 that 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 2012;
- 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 2012.

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
8 March 2013

HYDROGEN GROUP PLC

Parent company balance sheet

As at 31 December 2012

	Note	**2012 £'000**	2011 £'000
Fixed assets			
Investments	4	**7,088**	7,088
		7,088	7,088
Current assets			
Debtors due in more than 12 months	5	**4,454**	1,798
Debtors due within 12 months	5	**971**	1,889
Cash at bank and in hand		**24**	17
		5,449	3,704
Creditors: amounts falling due within one year	6	**551**	1,939
Net current assets		**4,898**	1,765
Total assets less current liabilities		**11,986**	8,853
Net assets		**11,986**	8,853
Called up share capital	7	**235**	235
Own shares held	8	**(1,338)**	(1,320)
Share premium account	9	**3,512**	3,512
Share option reserve	9	**100**	100
Other reserve	9	**219**	106
Profit and loss account	9	**9,258**	6,220
Equity shareholders' funds		**11,986**	8,853

The financial statements on pages 56 to 62 were approved by the Board of Directors and authorised for issue on 8 March 2013 and are signed on its behalf by:

T Smeaton
Director

Hydrogen Group plc
Registered office: 6 Laurence Pountney Hill,
London.
EC4R 0BL
Registered in England and Wales no: 5563206

Notes to the parent company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical 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 dividend is approved by the Company's shareholders. An interim dividend distribution is recognised in the period in which it is 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 profit and loss 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 Company revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in 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 liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its financial liabilities.

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

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to profit and loss reserves.

Notes to the parent company financial statements

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 2012 of £4,086,000 (2011: £504,000).

The auditor's remuneration for audit of the Company is £10,000 (2011: £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:

	2012 £'000	2011 £'000
Interim dividend for the year ended 31 December 2012 of 1.5p per share (2011: 1.4p per share)	**333**	311
Final dividend for the year ended 31 December 2011 of 2.9p per share (2010: 2.7p per share)	**641**	602
	974	913

An interim dividend of 1.5p (2011: 1.4p) per share was paid on 9 November 2012 to shareholders on the register at the close of business on 12 October 2012. The interim dividend was approved by the Board on 7 September 2012.

The final dividend in relation to 2011 was recommended on 14 March 2012, and was not recognised as a liability in the year ended 31 December 2011.

The Board proposes a final dividend of 3.0p per ordinary share for the year ended 31 December 2012 (2011: 2.9p), to be paid on 24 May 2013 to shareholders on the register as at 3 May 2013. The proposed final dividend has not been approved by shareholders at 31 December 2012.

4 Fixed asset investments

	2012 £'000	2011 £'000
Subsidiary undertakings at cost		
At 1 January	**7,088**	7,076
Additions	**-**	12
Balance at 31 December	**7,088**	7,088

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%
Hydrogen Norge AS	Norway	Recruitment	100%
Hydrogen Group LLC	USA	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

5 Debtors

	2012 £'000	2011 £'000
Due within one year:		
Amounts owed by group companies	**551**	1,527
Other taxation and social security	**357**	327
Other debtors and prepayments	**63**	35
	971	1,889
Due after more than one year:		
Amounts owed by Group companies	**4,443**	1,774
Deferred tax		
- accelerated depreciation	**2**	4
- share based costs	**9**	20
	11	24
	4,454	1,798
	5,425	3,687

6 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	**72**	21
Amounts owed to group companies	**192**	1,279
Corporation tax	**46**	70
Accruals and deferred income	**241**	569
	551	1,939

7 Share capital

The share capital at 31 December 2012 and 2011 was as follows:

	2012		2011	
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	**23,514,424**	**235**	23,510,624	235
Issuance of new shares for employee share schemes	**35,964**	**-**	3,800	-
31 December	**23,550,388**	**235**	23,514,424	235

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

During 2012, 37,564 options were exercised (2011: 159,492), as set out in note 16. Of these options, 1,600 (2011:155.692) were satisfied from shares issued by the EBT, and 35,964 (2011; 3,800) from issuance of new shares.

At 31 December 2012 1,185,451 (2011: 1,166,574) shares were held in the EBT trust (see note 18).

At 31 December 2012, 381,639 (2011: 448,811) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan trust for employees (see note 16 of the Group financial statements).

Notes to the parent company financial statements

8 Own shares

During the year the Company donated the funds to enable the EBT trust to purchase 20,477 ordinary shares of Hydrogen Group plc for a total consideration of £20,000. The EBT utilised 1,600 shares to satisfy options exercised by employees. At 31 December 2012, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2012**	2011
Number of shares	**1,185,451**	1,166,574
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,320
Market value	**984**	904

9 Reserves

	Own shares held £'000	Share premium £'000	Share option reserve £'000	Other reserve £'000	Retained earnings £'000
Balance at 1 January 2012	(1,320)	3,512	100	106	6,220
Profit for the year	-	-	-	-	4,086
Dividends paid	-	-	-	-	(974)
Share option charge	-	-	-	113	-
Shares purchased by EBT	(20)	-	-	-	-
Shares issued from EBT	2	-	-	-	-
Exchange (loss)/gain	-	-	-	-	(74)
Balance at 31 December 2012	**(1,338)**	**3,512**	**100**	**219**	**9,258**

10 Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial year	**4,086**	504
Dividends paid	**(974)**	(913)
Share option charge	**113**	91
Shares issued from EBT	**2**	103
Shares purchased by EBT	**(20)**	(129)
Increase in share capital	**-**	2
Exchange (loss)/gain	**(74)**	15
Net addition/(deduction) to shareholders' funds	**3,133**	(327)
Opening shareholders' funds	**8,853**	9,180
Closing shareholders' funds	**11,986**	8,853

Notes to the parent company financial statements

11 Contingent liabilities

The Company has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £5,462,000 (2011: £3,330,000) at the balance sheet date.

12 Related parties

As permitted by FRS 8 the Company has not disclosed transactions with subsidiaries in its own accounts as these accounts are presented together with the consolidated group financial statements.
The Directors receive remuneration from the Company, which is disclosed in the Directors' remuneration report. As shareholders, the Directors also receive dividends from the Company:

	2012	2011
	£'000	£'000
Dividends paid to Directors	**307**	286

Directors and advisors

Directors and advisors

Directors

Ian Temple

Tim Smeaton

John Glover

Martyn Phillips (Non-Executive) – Senior Independent Director

Stephen Puckett (Non-Executive)

Barbara Anderson (Non-Executive)

Anne Baldock (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

Nominated adviser and broker

Oriel Securities 150 Cheapside London EC2V 6ET