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HYDROGEN GROUP PLC

Annual report and accounts 2011

Contents

Corporate governance statement

For the year ended 31 December 2011

Statement of compliance with the Combined Code

The Board of the Company is committed to achieving high standards of corporate governance, integrity and ethics The Financial Reporting Council (FRC) published the new 'UK Corporate Governance Code' in June 2010, replacing the 'Combined Code on Corporate Governance', and in September 2010 the Quoted Companies Alliance (QCA) published 'Corporate Governance Guidelines for Smaller Quoted Companies', replacing previous guidelines issued in 2004 and 2005 Although as an AIM listed company it is not formally required to do so, the Group has sought to comply with the 'UK Corporate Governance Code' so far as is practical and appropriate for a public group of its size and nature The Group complies with the recommendations of the QCA on corporate governance

The Group's approach to corporate governance

The Group seeks to apply established best practice in the field of corporate governance so far as is practical and appropriate for a public company of its size and nature The Board is focused on creating shareholder value through respecting the needs of shareholders, employees, clients, candidates and contractors

Board effectiveness

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

• Having a Board constitution that exercises direction and supervision of the Group's operations and defines the line of responsibility from the Board to the business,

• Retaining specific responsibility for agreeing the strategic direction of the Group, the approval of accounts, business plan, budget and capital expenditure, the declaration of dividends, the review of operating results, the effectiveness of governance practice and risk management, and also the appointment of senior executives and succession planning, and

• Delegating responsibilities to sub-committees, Audit Committee, Remuneration Committee, and Nominations Committee

Board balance

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

The Board consists of 3 Executive Directors and 3 Non-Executive Directors The Non-Executive Directors meet at least once a year without the presence of the Executive Directors

Transparency of Board appointments

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

The Nominations Committee met on three occasions during 2011 and was fully attended

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

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

Regular re-election of Directors

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

The Board members due by rotation for re-election in 2012 are Tim Smeaton and Ishbel Macpherson, and the Board have considered and agreed that Tim and Ishbel be put forward for re-election

Timeliness and quality of Board information

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

• Distributing Board papers in advance of meetings and considering the adequacy of the information provided before making decisions,

Corporate governance statement

For the year ended 31 December 2011

- Adjourning meetings or deferring decisions when Directors have concerns about the information available to them, and
- Making the Company Secretary responsible to the Board for the timeliness and quality of information

Performance evaluation

An evaluation of Board performance and effectiveness is undertaken annually Each Director completes a detailed questionnaire giving their assessment of individual and collective performance The results are discussed and debated at Board and Committee level to ensure that issues arising are effectively addressed In 2011 no major issues were identified from the evaluation process

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

Going concern

The major areas which could affect the Group's financial position are detailed on page 18 and 19 Having taken account of the situation outlined there the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future For this reason they consider it appropriate to adopt the going concern basis in preparing the financial statements

Dialogue with institutional and major shareholders

The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by

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

Senior Independent Non-Executive Director

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

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

Constructive use of Annual General Meeting

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

Internal control

The Board is responsible for the effectiveness of the Group's system of internal control The Group's system of internal control is designed to safeguard the Group's assets and to ensure the reliability of information used within the business and for publication Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss

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

The Group held ten Board meetings in 2011, nine of which were fully attended, and one where one director was absent

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

Audit Committee

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

The Committee consists entirely of the independent Non-Executive Directors, and is chaired by the Senior Independent Non-Executive Director, Ishbel Macpherson At the invitation of the Committee, the Finance Director, Chairman and representatives of the external auditors attend the Audit Committee meetings The Audit Committee met without Executive

Board members present once durng the year, and had a meetng wth the audtors wthout Executve Board members present

The Audit Committee met four times during 2011 and was fully attended

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

Whistleblowing policy

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

Directors' remuneration report

For the year ended 31 December 2011

Scope and membership of Remuneration Committee

The Remuneration Committee meets not less than twice a year and comprises the independent Non-Executive Directors The Committee is chaired by Martyn Phillips The Executive Chairman and 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 that of the shareholders

The Committee reviews the remuneration of the Executive Directors with regard to the need to maintain a balance between the constituent elements of salary, incentive and other benefits The Remuneration Committee met on five occasions in 2011, four of which were fully attended and one were one director was absent 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 months' notice period The Non-Executive Directors have letters of appointment with the Group which have notice periods of three months

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

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

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

Base salary and benefits

Service contracts exist for each Executive Director that set contractual obligations The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for Executive Directors of companies of comparable status and market value Reviews of such base salary and benefits are conducted annually by the Committee having regard to wage inflation in the economy No salary increases were granted for 2010 The external benchmarking conducted in 2011 was the first to take account of the increased complexity associated with a business deriving a significant proportion of its income from international activities, and concluded that remuneration levels were some way below the market median As a consequence, average salary increases of 15% were awarded to the existing members of the Board in January 2011, but were deferred by the directors to July 2011 No salary increases have been awarded 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 and net fee income targets during the financial year In 2011, the maximum annual bonus entitlement for Executive Directors was equal to 100% of their base salary and the average earned in the year was 40%

Directors' remuneration report

For the year ended 31 December 2011

Share option schemes

During 2011 share options were granted to Executive Directors under the Hydrogen Group Unapproved share option scheme (see note 16) 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	Exercised during the year	Options outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option (£)
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	-	-	35,205	30/09/10	30/09/17	Nil
	2009	28,808	-	-	28,808	31/03/13	20/10/19	Nil
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	-	-	5,750	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
		283,155	**214,000**	-	**497,155**			
2010								
EMI Options								
Tim Smeaton	2006	124,200	-	-	124,200	29/09/06	29/09/16	0 805
	2009	22,362	-	-	22,362	31/03/13	20/10/19	Nil
Ian Temple	2009	40,000	-	-	40,000	31/03/13	20/10/19	Nil
John Glover	2007	35,205	-	-	35,205	30/09/10	30/09/17	Nil
	2009	28,808	-	-	28,808	31/03/13	20/10/19	Nil
Unapproved options								
Tim Smeaton	2009	17,638	-	-	17,638	31/03/13	20/10/19	Nil
John Glover	2007	5,750	-	-	5,750	30/09/10	30/09/17	Nil
	2009	9,192	-	-	9,192	31/03/13	20/10/19	Nil
		283,155	-	-	283,155			

Directors' remuneration report

For the year ended 31 December 2011

Performance criteria

The performance criteria on Directors share options are as follows

Options Issued in 2006

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

Options issued in 2007

Options vested in three tranches in the period 2008-2010 dependent on the profitability of the Hydrogen Group plc in each of these three years 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 2010 to 2012

Options issued in 2011

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

Share option scheme for Directors

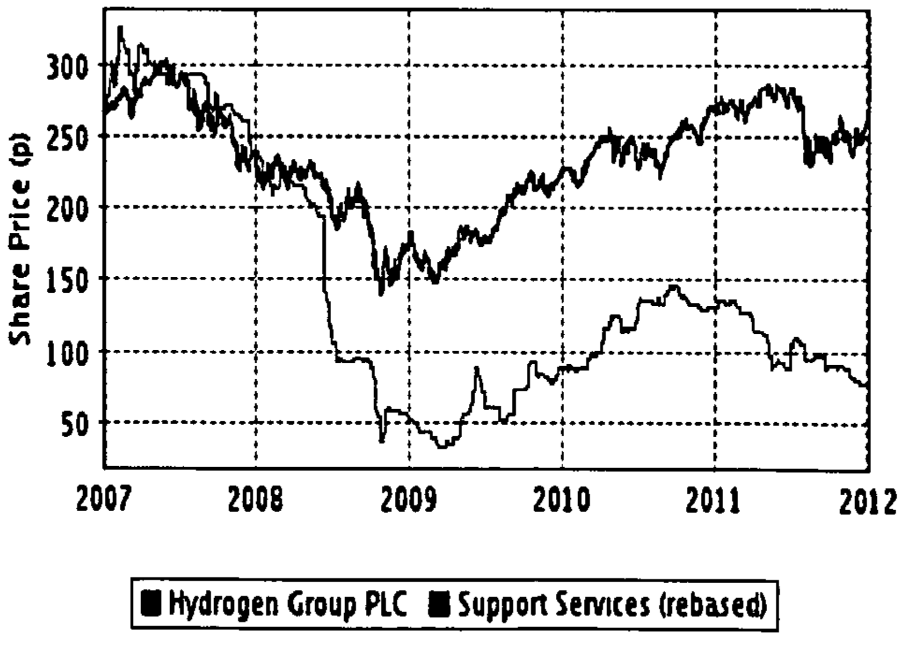
During the year options over shares were granted to Executive Directors under the Hydrogen Group Unapproved Share Option scheme The number of options that vest is dependent on Hydrogen Group plc net fee Income and profitability for the financial year 2013, and the vesting date is 31 March 2014 Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire Options are forfeit if the Director leaves the Group before options vest, except where the Director leaves for qualifying reasons Detail on the number of options issued during the year and the number outstanding at 31 December 2011 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 number of options that vest is dependent on the Hydrogen Group plc Net Fee Income and Profitability for the financial year 2011, and the vesting date is 31 March 2013 Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons Detail on the number of options issued during the year and the number outstanding at 31 December 2011 are given in note 16

Share price chart

Set out below is a graph of the Company's share price performance since flotation on AIM, benchmarked against the support services index



Source London Stock Exchange provided by Hemscott Group Limited

Directors' remuneration report

For the year ended 31 December 2011

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
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**
2010						
Executive Directors						
Tim Smeaton	195	12	188	395	-	395
Ian Temple	195	12	173	380	-	380
John Glover	130	7	126	263	-	263
Chris Cole*	63	5	12	80	-	80
Non-Executive Directors						
Ishbel Macpherson	35	-	-	35	-	35
Martyn Phillips	20	-	-	20	-	20
Ian Fallmann (from date of appointment 7/10/10)	6	-	-	6	-	6
Aggregate emoluments	**644**	**36**	**499**	**1,179**	-	**1,179**

* resigned from the Board on 2 March 2010

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

Outside appointments

The Remuneration Committee recognises that Non-Executive Director roles can be a significant benefit in broadening the Executive Board's experience Subject to review in each case, the Remuneration Committee's general policy is that Executive Directors may accept Non-Executive Director roles with other companies, so long as there is no conflict of interest and their effectiveness is not impaired The Executive is permitted to retain any fees for the service None of the Executive Directors currently hold any non-executive director appointments

Service contracts

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

Annual resolution

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

M Phillips
Chairman, Remuneration Committee

HYDROGEN GROUP PLC

Directors' report

For the year ended 31 December 2011

The Directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2011 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, Chief Executive's Review and the Financial Review on pages 1 to 6

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

<u>Information technology</u>
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 is also in the process of upgrading its front office systems to ensure that they provide appropriate functionality and resilience to support its global operations, both existing and planned

<u>People</u>
The Group is dependent on its ability to hire, train and retain people to achieve its growth To address this, the Group has put in place an internal recruitment function, a programme of training and development designed to equip leaders with the necessary skills, undertakes rigorous succession planning, and has implemented long term remuneration plans (as outlined in note 16) targeted at retaining the best talent

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

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

- Maintaining a balance between contract and permanent recruitment,
- Diversifying the sectors and geographies in which the Group operates,
- Where feasible, employing a mix of in-house and out-sourced resources to provide a flexible cost base, and
- Maintaining a strong balance sheet

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

<u>Customer concentration</u>
One customer in the Business Technology practice represents approximately 15% of the Group's net fee income for 2011 Other than fluctuations in client demand arising in the normal course of business, and the Group 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 2011 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 2011 the Group utilised foreign currency options to manage the foreign exchange risk on its non-Sterling fees

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

KPI		2011	2010
Net fee income (NFI)*	£M	**29 8**	27 6
Conversion ratio (PBT and exceptional cost divided by gross profit)	%	**12 4%**	9 1%
Productivity (gross profit divided by total average headcount)	£k	**86**	89
Days of sales outstanding (DSO)	days	**27**	25
Percentage of NFI billed outside of the UK	%	**37%**	32%
Permanent contract split of NFI	%	**46/54**	54/46
Ratio of billing headcount to support headcount (average for year)		**2 8**	2 9

* Gross profit

Financial instruments

Information in respect of financial instruments is set out in the 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 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 The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request and are summarised in the Corporate Governance Statement on pages 10 to12

Pursuant to a shareholder resolution at the AGM of the Company on 25 May 2011, the Company has the authority to issue 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 2010, during the period up to the next AGM Shareholders will be asked to renew this authority at the AGM in 2012

Directors' report

For the year ended 31 December 2011

Results and dividends

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

Going concern

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

The Group has two 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 The model operated by the majority of recruitment businesses is to fund the investment in working capital by utilising the asset created as security for asset backed financing The rate of cash investment during the growth phase can be controlled by management decisions in accepting or rejecting new business

The Group's contractor numbers and consequent working capital investment have remained relatively stable during 2011 The Group's bankers have increased available invoice discounting facilities to £18m in 2011, committed to February 2014, of which the Group's maximum utilisation in 2011 was 66% The Group have prepared forecasts for the period to March 2013, and shared these with its bankers The Directors have no reason to believe that its bankers will not continue to support its plans Consequently the Directors have a reasonable expectation that the Group will have adequate resources to continue operating in the foreseeable future On these grounds the Board have continued to adopt the going concern basis for the preparation of the financial statements

Directors

The following Directors have held office during the year

Tim Smeaton

Ian Temple

John Glover

Ishbel Macpherson

Martyn Phillips

Ian Fallmann

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

Directors' interests in shares

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

	Ordinary shares of 1p each held at 31 Dec 2011	Percentage of issued share capital at 31 Dec 2011	Ordinary shares of 1p each held at 31 Dec 2010	Percentage of issued share capital at 31 Dec 2010
Ian Temple	4,148,259	17 6%	4,090,259	17 4%
Tim Smeaton	2,818,134	12 0%	2,760,134	11 7%
Ishbel Macpherson	40,402	0 2%	40,402	0 2%
Martyn Phillips	18,850	0 1%	18,850	0 1%
Ian Fallmann	22,247	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 2011 and 2 March 2012

Substantial shareholders

At 2 March 2012, other than the Directors' interests shown above, the Company had been notified of the following substantial shareholdings

Shareholder	Interest in issued share capital at 2 March 2012
Chris Cole	12 5%
AXA Investment Managers SA	9 7%
Charles Marshall	7 9%
Majedie Asset Management	6 5%
Daniel Church	5 7%
Hydrogen Group Employee Benefit Trust (EBT)	5 0%
Barnaby Parker	3 9%
Nicola Parker	3 9%
Universities Superannuation Scheme	3 8%
Hydrogen Group Share Incentive Plan	1 9%

Employee involvement

The involvement of the employees in the business is key to their engagement and ultimately its success The business is organised into 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 2011, 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 2012 Shareholders will be asked to renew that authority at the Annual General Meeting of the Company

During 2011 the Company donated the funds to enable the EBT trust to purchase 150,000 ordinary shares of Hydrogen Group plc for a total consideration of £129,000

Employee share schemes

The Group believes that share ownership is a key way of motivating and retaining staff and aligning their interests with those of shareholders The Group operates a number of share schemes, further details of which are set out in note 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 The policies set out by the Group are detailed on page 8 of this report

Policy on the payment of payables

The Group's payment terms and conditions with individual suppliers vary according to the commercial relationship and the terms of the agreements reached It is the policy of the Group that payments to suppliers are made in accordance with the terms agreed The average number of days' purchases included within trade payables at the year end for the Company was 18 days (2010 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 £5,825 (2010 £5,000), matching donations made by employees of the Group

Auditors

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

Statement as to disclosure of information to auditors

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

By order of the Board

J G Glover
Finance Director

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

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

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

In so far as each of the Directors is aware

- there is no relevant audit information of which the Company's auditor are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor are 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 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 22), the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 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 2011

Grant Thornton UK LLP

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
5 March 2012

HYDROGEN GROUP PLC

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	1	**156,195**	123,398
Cost of sales		**(126,418)**	(95,804)
Gross profit	1	**29,777**	27,594
Administration expenses		**(25,911)**	(24,990)
Operating profit	1	**3,866**	2,604
Finance costs	2	**(188)**	(162)
Finance income	3	**32**	18
Profit before taxation	4	**3,710**	2,460
Income tax expense	6	**(1,296)**	(709)
Profit for the year	20	**2,414**	1,751
Other comprehensive income			
Exchange differences on translating foreign operations		**(14)**	269
Other comprehensive income		**(14)**	269
Total comprehensive income for the period		**2,400**	2,020
Attributable to			
Equity holders of the parent		**2,400**	2,020
Earnings per share			
Basic earnings per share (pence)	19	**10 95p**	7 96p
Diluted earnings per share (pence)	19	**10 24p**	7 54p

The above results relate to continuing operations

HYDROGEN GROUP PLC

Consolidated statement of financial position

As at 31 December 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Goodwill	7	**13,658**	13,658
Other intangible assets	8	**492**	80
Property, plant and equipment	9	**1,220**	1,429
Deferred tax assets	10	**409**	312
Other financial assets	11	**543**	1,311
		16,322	16,790
Current assets			
Trade and other receivables	11	**25,609**	26,305
Cash and cash equivalents	12	**1,977**	828
		27,586	27,133
Total assets		**43,908**	43,923
Current liabilities			
Trade and other payables	13	**14,313**	16,684
Borrowings	14	**3,330**	3,040
Current tax liabilities		**777**	374
Provisions	15	**336**	356
		18,756	20,454
Non-current liabilities			
Deferred tax liabilities	10	**71**	43
Provisions	15	**201**	375
		272	418
Total liabilities		**19,028**	20,872
Net assets		**24,880**	23,051
Equity			
Capital and reserves attributable to the Company's equity holders			
Called-up share capital	17	**235**	235
Share premium account	20	**3,512**	3,510
Merger reserve	20	**16,100**	16,100
Own shares held	18	**(1,320)**	(1,373)
Share option reserve	20	**100**	100
Other reserve	20	**1,744**	1,393
Translation reserve	20	**335**	349
Retained earnings	20	**4,174**	2,737
Total equity		**24,880**	23,051

The financial statements on pages 24 to 54 were approved by the Board of Directors and authorised for issue on 2 March 2012 and are signed on its behalf by

Director

HYDROGEN GROUP PLC

Consolidated statement of changes in equity

As at 31 December 2011

	Called-up share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	234	3,479	16,100	(838)	100	1,267	80	2,102	22,524
Dividends	-	-	-	-	-	-	-	(1,116)	(1,116)
Increase in share capital	1	31	-	-	-	-	-	-	32
Share option charge	-	-	-	-	-	126	-	-	126
Purchase of shares by EBT	-	-	-	(535)	-	-	-	-	(535)
Transactions with owners	1	31	-	(535)	-	126	-	(1,116)	(1,493)
Profit for the year								1,751	1,751
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	-	269	-	269
Total comprehensive income for the period	-	-	-	-	-	-	269	1,751	2,020
At 31 December 2010	235	3,510	16,100	(1,373)	100	1,393	349	2,737	23,051
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 period	-	-	-	-	-		(14)	2,414	2,400
At 31 December 2011	235	3,512	16,100	(1,320)	100	1,744	335	4,174	24,880

HYDROGEN GROUP PLC

Consolidated statement of cash flows

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash from/(used in) operating activities	22a	**2,531**	(2,393)
Investing activities			
Finance income		**32**	18
Proceeds from disposal of property, plant and equipment		**44**	36
Purchase of property, plant and equipment		**(328)**	(1,341)
Purchase of software assets		**(471)**	(59)
Acquisition of subsidiaries, net of cash acquired		**-**	(218)
Net cash used in investing activities		**(723)**	(1,564)
Financing activities			
Proceeds on issuance of ordinary shares		**103**	32
Purchase of own shares by EBT	18	**(129)**	(535)
Increase in other borrowings	14	**290**	3,040
Equity dividends paid	5	**(913)**	(1,116)
Net cash (used in)/ generated in financing activities		**(649)**	1,421
Net increase /(decrease) in cash and cash equivalents		**1,159**	(2,536)
Cash and cash equivalents at beginning of year	12	**828**	3,108
Effect of foreign exchange rate changes		**(10)**	256
Cash and cash equivalents at end of year	12	**1,977**	828

Accounting policies

For the year ended 31 December 2011

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

Hydrogen Group plc is the Group's ultimate parent company The Company is a limited liability company incorporated and domiciled in the United Kingdom The address of Hydrogen Group's registered office and its principal place of business is 6 Laurence Pountney Hill, London, EC4R 0BL, England Hydrogen Group's shares are listed on the AIM Market

The consolidated financial statements for the year ended 31 December 2011 (including comparatives) are presented in GBP '000, and were approved and authorised for issue by the Board of Directors on 2 March 2012

Basis of preparation

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

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

The factors considered by the Directors in exercising their judgment of the Group's ability to continue to operate in the foreseeable future are set out on pages 18 and 19 On these grounds the Board consider it reasonable to continue to adopt the going concern basis for the preparation of the financial statements

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

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

IFRS 9 Financial Instruments (effective 1 January 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)

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

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective 1 July 2011)

Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)

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)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)

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

Consolidation

The consolidated financial information incorporates those of Hydrogen Group plc and all of its subsidiary undertakings made up to 31 December each year Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group Inter-company transactions and balances on transactions between Group companies are eliminated on consolidation

Business combinations are accounted for using the acquisition method of accounting The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange Costs of acquisition are recognised as an expense when incurred Goodwill arising on business combinations prior to 1 January 2006, the date of transition to IFRS, is stated at the previous UK GAAP carrying amount

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

Revenue

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

- revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the salary cost of these staff, being recognised when the service has been provided,
- revenue from permanent placements, representing fees received and receivable as a percentage of the candidate's remuneration package, being recognised when a candidate accepts an offer of employment and a start date has been determined

In the supply of contractors the Group's contractual arrangements mean that it operates as principal and not in an agency capacity As such, it bears all the risks and rewards of the income derived from placements, and accordingly includes in turnover both commission and salary costs of staff supplied
Revenue not invoiced at the year end is included within accrued income An adjustment 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 the salary cost of temporary staff and other direct costs, principally advertising costs

Gross profit

Gross profit is represented by revenue less cost of sales

Finance costs

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

Goodwill

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

Other intangible assets

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

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

Property, plant and equipment

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

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

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

Foreign currencies

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

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

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

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

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using rates and laws that have been enacted or substantially enacted by the 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 timing differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

Leased assets and obligations

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

Lease payments are apportioned between finance charges and reduction in lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly to 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 a 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 Directors and senior members of staff The pension costs charged to profit or loss represent the contributions payable by the Group during the year

Share Incentive Plan

Under The Hydrogen Group plc Share Incentive Plan (the SIP) shares are held in trust on behalf of employees for a minimum of three years The fair value of shares awarded is measured at the date of grant by reference to the market price of the shares on the day, and is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest

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

Other share-based payments

Where options are awarded after 7 November 2002 and 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 profit or loss statement over the vesting period of the share option, based on the number of options which are expected to become exercisable A corresponding adjustment is made to equity Fair value is measured by use of a binomial model At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in 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 profit and loss If in a subsequent period the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

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

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

Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at fair value and subsequently at amortised cost, and are classified according to the substance of the contractual arrangements entered into

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

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

Derivative financial instruments

The Group manages its exposure to movements in 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

Segment reporting

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

Dividends

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

Provisions 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

Accounting policies

For the year ended 31 December 2011

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 £165,000 (2010 nil) 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

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 2011to align reporting more closely with its strategic objectives Comparative data for 2010 has been restated on to the new basis

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

For management purposes, the Group is organised into two operating segments based on the practice areas operated by the Group Both of the operating segments have similar economic characteristics and share a majority of the aggregation criteria set out in IFRS 8 12 The Group's reportable segments are as follows

- **Professional Support Services**, which includes Legal, Finance, Trading and Advisory, HR and Transformational Technology practices,
- **Technical and Scientific**, which includes Oil and Gas Natural Resources, Infrastructure and Pharmaceutical practices

Practice areas are based on the discipline of the candidate being placed

	2011				2010			
	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	128,143	28,052	-	156,195	106,279	17,119	-	123,398
Gross profit	21,147	8,620	10	29,777	22,738	4,891	(35)	27,594
Depreciation and amortisation	378	150	16	544	323	86	13	422
Operating profit/(loss)	4,016	1,656	(1,806)	3,866	3,633	665	(1,694)	2,604
Finance costs				(188)				(162)
Finance income				32				18
Profit before tax				3,710				2,460

Non-allocated costs in 2011 are partially offset by the utilisation of the onerous lease provision of £372,000 (2010 £413,000)

Revenue reported above represents revenue generated from external customers There are no sales between segments in the year (2010 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 35% of the entity's revenues, with revenue of £54,724,000, and approximately 15% of the Group's net fee income, included in the Professional support services segment (2010 one customer, revenue £31,741,000, Professional support services segment)

(b) Revenue and gross profit by geography

	Revenue		Gross profit	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
UK	**125,154**	100,138	**18,753**	18,819
Rest of world	**31,041**	23,260	**11,024**	8,775
	156,195	123,398	**29,777**	27,594

(c) Revenue and gross profit by recruitment classification

	Revenue		Gross profit	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Permanent	**13,626**	15,376	**13,597**	14,846
Contract	**142,569**	108,022	**16,180**	12,748
	156,195	123,398	**29,777**	27,594

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

	2011 £'000	2010 £'000
Interest on invoice discounting	**121**	61
Interest on bank overdrafts and loans	**6**	20
Unwinding of provision discount	**61**	81
	188	162

3 Finance income

	2011 £'000	2010 £'000
Bank interest receivable	**32**	15
Other interest receivable	**-**	3
	32	18

4 Profit on ordinary activities before taxation

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

	2011 £'000	2010 £'000
Amortisation of intangible assets		
- software assets	**56**	143
- domain name	**3**	10
Depreciation of property, plant and equipment		
- owned assets	**485**	278
Staff costs (note 21)	**19,294**	18,919
Operating lease rentals on land and buildings	**1,564**	1,469
Operating lease income	**(259)**	(290)
Foreign exchange losses	**189**	165
Loss/(gain) on disposal of assets	**8**	(22)

	2011 £'000	2010 £'000
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	**50**	55
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**60**	46
Total audit fees	**110**	101
Non-audit fees		
- Other services	**2**	3
- Tax services (compliance and general tax advice)	**19**	25
Total non-audit fees	**21**	28

5 Dividends

	2011 £'000	2010 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2011 of 1 4p per share (2010 1 4p per share)	**311**	309
Second interim dividend for the year ended 31 December 2009 of 3 6p per share	**-**	807
Final dividend for the year ended 31 December 2010 of 2 7p per share (2009 nil per share)	**602**	-
	913	1,116

An interim dividend of 1 4p (2010 1 4p) per share was paid on 4 November 2011 to shareholders on the register at the close of business on 7 October 2011 The interim dividend was approved by the Board on 5 September 2011

The final dividend in relation to 2010 was recommended on 14 March 2011, and was not recognised as a liability in the year ended 31 December 2010

The Board propose a final dividend of 2 9p per ordinary share for the year ended 31 December 2011 (2010 2 7p), to be paid be paid on 25 May 2012 to shareholders on the register as at 4 May 2012 The proposed final dividend has not been approved by shareholders at 31 December 2011

Notes to the consolidated financial statements

For the year ended 31 December 2011

6 Tax

(a) Analysis of tax charge for the year

The charge based on the profit for the year comprises	2011 £'000	2010 £'000
Corporation tax		
UK corporation tax on profits for the year	**1,366**	679
Adjustment to tax charge in respect of previous periods	**(14)**	(7)
	1,352	672
Foreign tax		
Current tax	-	-
Total current tax	**1,352**	672
Deferred tax		
Origination and reversal of temporary differences	**(56)**	36
Adjustments in respect of previous periods	-	1
Total deferred tax	**(56)**	37
Tax charge on profit for the year	**1,296**	709

Corporation tax is calculated at 26 5% (2010 28%) of the estimated assessable profits for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

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

Profit before tax	**3,710**	2,460
Tax at the UK corporation tax rate of 26 5% (2010 28%)	**983**	689
Effects of		
Non deductible exceptional costs		
Expenses not deductible for tax purposes	**98**	133
Capital allowances in excess of depreciation	**27**	(67)
Tax losses arising in the year not relieved	**195**	-
Profits charged at (lower)/ higher rates of tax	**18**	16
Adjustment to tax charge in respect of prior periods	**(14)**	(7)
Share-based payments	**61**	(10)
Other	**(72)**	(45)
Tax charge for the year	**1,296**	709

There has been a deferred tax credit of £15,000 relating to share options charged directly to equity (2010 Nil) (see note 21)

Notes to the consolidated financial statements

For the year ended 31 December 2011

7 Goodwill

	2011 £'000	2010 £'000
Cost		
At 1 January	19,228	19,010
Additions	-	218
At 31 December	19,228	19,228
Accumulated impairment losses		
At 1 January	(5,570)	(5,570)
Impairment charge	-	-
At 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 Cash flows are discounted by the Group's weighted average cost of capital

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

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

Cash generating unit	Growth rate 2012 %	Growth rate 2013 -18 %	Discount rate %
Technology	(4%)	4%-5%	9 3%
Finance	0%	5%	9 3%
Law	0%	5%	9 3%

The growth rates for 2012 are taken from the Group's operating plan for 2012 and reflect the Directors' view that there will be little growth in UK recruitment markets in 2012, with potentially a small decline in UK Technology markets due to completion of specific client projects

For the periods 2013 and later, where there is less visibility, the Directors have assumed a weak recovery in UK recruitment markets However, recoverable amounts remain in excess of carrying values with no growth throughout the period 2013 to 2018

The discount rate used is an estimate of the Group's weighted average cost of capital

8 Other intangible assets

	Domain names & trademarks	Computer software	Total
Cost			
At 1 January 2010	30	839	869
Additions	-	59	59
Exchange difference	-	3	3
At 31 December 2010	30	901	931
Additions		471	471
At 31 December 2011	**30**	**1,372**	**1,402**
Amortisation			
At 1 January 2010	17	681	698
Charge for the year	10	143	153
At 31 December 2010	27	824	851
Charge for the year	3	56	59
At 31 December 2011	**30**	**880**	**910**
Net book value at 31 December 2011	-	**492**	**492**
Net book value at 31 December 2010	3	77	80

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

Notes to the consolidated financial statements

For the year ended 31 December 2011

9 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2010	1,127	306	537	1,970
Additions	358	60	923	1,341
Disposals	-	(88)	-	(88)
Exchange difference	12	-	7	19
At 31 December 2010	1,497	278	1,467	3,242
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**
Accumulated depreciation				
At 1 January 2010	963	189	457	1,609
Charge for year	139	69	70	278
Disposals	-	(74)	-	(74)
Exchange difference	-	-	-	-
At 31 December 2010	1,102	184	527	1,813
Charge for the year	191	50	244	485
Disposals	(15)	(85)	(2)	(102)
Exchange difference	-	-	-	-
At 31 December 2011	**1,278**	**149**	**769**	**2,196**
Net book value at 31 December 2011	**381**	**83**	**756**	**1,220**
Net book value at 31 December 2010	395	94	940	1,429

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	Unutilised losses £'000	Accelerated depreciation £'000	Share based payments £'000	Total £'000
At 1 January 2010	-	200	139	339
Charged to profit or loss	-	(22)	(5)	(27)
At 31 December 2010	-	178	134	312
Credited/(charged) to the profit or loss	165	(76)	(7)	82
Credited to reserves	-	-	15	15
At 31 December 2011	**165**	**102**	**142**	**409**

Deferred tax (liability)	Accelerated capital allowances £'000
At 1 January 2010	(33)
Charged to profit or loss	(10)
At 31 December 2010	(43)
Exchange differences	(2)
Credited/(charged) to profit or loss	(26)
At 31 December 2011	**(71)**

No reversal of deferred tax is expected within the next twelve months (2010 Nil)

11 Trade and other receivables

Trade and other receivables are as follows	2011 £'000	2010 £'000
Trade receivables	**12,542**	12,964
Allowance for doubtful debts	**(123)**	(362)
Prepayments and accrued income	**13,135**	13,615
Other receivables		
- due within 12 months	**55**	88
- due after more than 12 months	**543**	1,311
Total	**26,152**	27,616
Current	**25,609**	26,305
Non current	**543**	1,311

As at 31 December 2011, the average credit period taken on sales of recruitment services was 27 days (2010 25 days), and the receivables are predominantly non-interest bearing An allowance of £123,000 (2010 £362,000) 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 Income from write back of unutilised bad debt provision recognised in the year was £116,000 (2010 expense £191,000)

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

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

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

Included in the Group's trade receivable balances are receivables with a carrying amount of £3,972,000 (2010 £4,405,000) 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)	2011 £'000	2010 £'000
0-30 days	**2,316**	2,763
30-60 days	**982**	883
60-90 days	**536**	450
90+ days	**138**	309
31 December	**3,972**	4,405

Movement in allowance for doubtful debts	2011 £'000	2010 £'000
1 January	**(362)**	(210)
Impairment losses recognised	**(73)**	(319)
Previous impairment losses reversed	**205**	149
Amounts written off as uncollectible	**107**	18
31 December	**(123)**	(362)

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 (2010 £60,000) that have been placed in administration or liquidation The impairment recognised represents the whole of the carrying amount of these trade receivables (net of VAT), with no expected liquidation proceeds The Group does not hold any collateral over these balances

Ageing of impaired trade receivables	**2011 £'000**	2010 £'000
30-60 days	-	1
60-90 days	-	131
90+ days	**123**	230
31 December	**123**	362

As at 31 December trade receivables to a value of £6,424,000 have been invoice discounted (2010 £7,873,000)

12 Cash and cash equivalents

Cash and cash equivalents are as follows	**2011 £'000**	2010 £'000
Short-term bank deposits	**1,977**	828
	1,977	828

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	**2011 £'000**	2010 £'000
Trade payables	**714**	1,718
Other taxes and social security costs	**974**	1,447
Other payables	**1,659**	1,644
Accruals and deferred income	**10,966**	11,875
	14,313	16,684

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 38 days (2010 52 days), based on the average daily amount invoiced by suppliers Interest is charged by suppliers at various rates on payables not settled within terms The Group has procedures to ensure that payables are paid to terms wherever possible Due to the short-term nature value of trade and other payables, the Directors consider that the carrying value approximates to their fair value

14 Borrowings

	2011 £'000	2010 £'000
Invoice discounting (repayable on demand)	3,330	3,040

The weighted average interest rate for the year charged on amounts drawn down on invoice discounting was 2 18% (2010 1 86%)

Analysis of borrowing by interest rate	2011			2010		
	Fixed £'000	Capped £'000	Floating £'000	Fixed £'000	Capped £'000	Floating £'000
Invoice discounting	-	-	3,330	-	-	3,040
Impact of derivatives	-	-	-	200	200	-
	-	-	3,330	200	200	3,040

The Group repaid all term loans in 2009 Derivative contracts for an interest rate swap and cap taken out at commencement of the loans were retained as there was no commercial advantage in their early cancellation Both contracts expired on 31 March 2011

The principal amounts at 31 December 2011 were £Nil on each contract (2010 £0 2m each contract)

Under the terms of the swap the Group received interest at variable rates linked to LIBOR and pays interest fixed at 5 1% The weighted average interest rate for interest paid under the swap for the year was 2 4% (2010 4 42%), and interest amount £2,000
Under the terms of the cap the Group received interest for periods when variable interest rates exceed the cap rate of 5 1% There is no payment of interest when variable interest rates are below the cap rate of 5 1% There were no receipts or payments of interest in 2011 (2010 nil) as variable rates were below the cap rate

15 Provisions

	2011 Dilapid -ations £'000	2011 Onerous lease £'000	2011 Total £'000	2010 Onerous lease £'000
At 1 January	84	647	731	979
New provision	117	-	117	84
Utilised	-	(372)	(372)	(413)
Unwinding of discount	-	61	61	81
At 31 December	201	336	537	731
Of which – expected to be incurred within 1 year	-	336	336	356
– expected to be incurred in more than 1 year	201	-	201	375

Liabilities are discounted using the Group's estimated weighted cost of capital of 9 3%

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 manager options over 355,000 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 2013, and the vesting date is 31 March 2014

On the same date, options over 290,000 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 2014 is dependent on the net fee income and profit before tax in the financial year 2011

For both awards options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire Options are forfeit if the employee leaves the Group before options vest, except were the employee leaves for qualifying reasons

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

	Number of shares 2011	Weighted average exercise price 2011 £	Number of shares 2010	Weighted average exercise price 2010 £
Outstanding at 1 January	1,249,044	0 241	1,601,770	0 207
Granted during the year	645,000	0 000	-	-
Forfeited during the year	(98,424)	0 000	(276,314)	0 000
Exercised during the year	(159,492)	0 646	(76,412)	0 404
Outstanding at 31 December	1,636,128	0 121	1,249,044	0 241
Exercisable at 31 December	492,592	0 402	483,863	0 624

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

	31 December 2011				31 December 2010			
	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	4 0 years	73p-81p	387,445	77 7p	5 0 years
2007 award	Nil	197,006	Nil	5 5 years	Nil	284,374	Nil	6 5 years
2008 award	Nil	100,077	Nil	6 5 years	Nil	107,225	Nil	7 5 years
2009 award	Nil	462,000	Nil	7 5 years	Nil	470,000	Nil	8 5 years
2011 award	Nil	630,000	Nil	9 years	-	-	-	-
		1,636,128				1,249,044		

The weighted average share price at the date of exercise for share options exercised during the period was £1 13 (2010 £1 32)

For nil cost options share price at date of grant represents fair value The fair value of employee services received in exchange for share options issued in 2006 were valued using a binomial option pricing model The inputs into the binomial model 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 2009	Options issued in 2008	Options issued in 2007	Options issued in 2006
Share price at date of grant	132p	56p - 90p	203p	293p	251p
Exercise price	0 00p	0 00p	0 00p	0 00p	80 5p
Fair value per option at grant date	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 2,434 (2010 32,046) shares were exercised and 440,811 (2010 443,245) shares were held in the Hydrogen Group SIP Plan at the year end

The Group recognised total expense of £351,000 (2010 £126,000) relating to equity-settled share based payment transactions, in the year

17 Share capital

The share capital at 31 December 2011 and 2010 was as follows

	2011		2010	
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	**23,510,624**	**235**	23,434,212	234
Issuance of new shares for employee share schemes	**3,800**	**-**	76,412	1
31 December	**23,514,424**	**235**	23,510,624	235

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

During 2011, 159,492 options were exercised (2010 76,412), as set out in note 16 Of these options, 155 692 were satisfied from shares issued by the EBT, and 3,800 from issuance of new shares

At 31 December 2011 1,166,574 (2010, 1,172,266) shares were held in the EBT trust (see note 18)

At 31 December 2011, 440,811 ordinary shares (2010, 443,245) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 16) trust for employees

18 Own shares

During the year the Company donated the funds to enable the EBT trust to purchase 150,000 ordinary shares of Hydrogen Group plc for a total consideration of £129,000 The EBT utilised 155,692 shares to satisfy options exercised by employees At 31 December 2011, the total number of ordinary shares held in the EBT and their values were as follows

Shares held for share option schemes	2011	2010
Number of shares	**1,166,574**	1,172,266
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,320**	1,373
Market value	**904**	1,547

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	2011 £'000	2010 £'000
Earnings		
Profit attributable to equity holders of the parent	**2,400**	1,751
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**21,909,409**	21,991,151
Dilutive effect of share plans	**1,521,828**	1,204,319
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**23,431,237**	23,195,470
Basic earnings per share (pence)	**10 95p**	7 96p
Diluted earnings per share (pence)	**10 24p**	7 54p

Notes to the consolidated financial statements

For the year ended 31 December 2011

20 Equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Share option reserve £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	234	3,479	16,100	(838)	100	1,267	80	2,102	22,524
Profit for the year	-	-	-	-	-	-	-	1,751	1,751
Dividends	-	-	-	-	-	-	-	(1,116)	(1,116)
Share option charge	-	-	-	-	-	126	-	-	126
Purchase of shares by EBT	-	-	-	(535)	-	-	-	-	(535)
Increase in share capital	1	31	-	-	-	-	-	-	32
Foreign currency translation	-	-	-	-	-	-	269	-	269
At 31 December 2010	235	3,510	16,100	(1,373)	100	1,393	349	2,737	23,051
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**

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 2011 was as follows

	Average no 2011	Average no 2010	31 December 2011	31 December 2010
Client services	**255**	232	**269**	237
Administration	**86**	74	**86**	87
Management	**6**	5	**7**	5
	347	311	**362**	329

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

	2011 £'000	2010 £'000
Wages and salaries	**17,117**	16,982
Social security costs	**1,775**	1,782
Other pension costs	**51**	29
Share-based payments (see note 16)	**351**	126
	19,294	18,919

Directors' emoluments

	2011 £'000	2010 £'000
Emoluments for qualifying services	**912**	1,179
	912	1,179

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

	2011 £'000	2010 £'000
Emoluments for qualifying services	**308**	395
	308	395

The Directors did not exercise any share options during the year (2010 nil)

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes was nil (2010 nil)

Remuneration of key management

	2011 £'000	2010 £'000
Emoluments	**2,495**	3,375
Share-based payments	**280**	64
Money purchase pension contributions	**48**	45
	2,823	3,484

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

22 Notes to the cash flow statement

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

	2011 £'000	2010 £'000
Profit before taxation	3,710	2,460
Adjusted for		
Depreciation and amortisation	544	422
Utilisation of onerous lease provision	(372)	(396)
Loss/(gain) on sale of property, plant and equipment	8	(22)
Share-based payments	351	126
Net finance costs	156	225
Operating cash flows before movements in working capital and exceptional costs	4,397	2,815
Decrease/(increase) in receivables	1,436	(12,277)
(Decrease)/increase in payables	(2,253)	7,731
Cash generated from/(used in) operating activities before exceptional costs	3,580	(1,731)
Income taxes paid	(922)	(484)
Finance costs	(127)	(161)
Net cash inflow /(outflow) from operating activities before exceptional costs	2,531	(2,376)
Cash flows arising from exceptional costs	-	(17)
Net cash inflow/(outflow) from operating activities	2,531	(2,393)

b Reconciliation of net cash flow to movement in net debt

	2011 £'000	2010 £'000
Increase/(decrease) in cash and cash equivalents in the year	1,149	(2,280)
Increase in net debt resulting from cash flows	(290)	(3,040)
(Increase)/decrease in net debt during the year	859	(5,320)
Net (debt)/ funds at the start of the year	(2,212)	3,108
Net debt at the end of the year	(1,353)	(2,212)

23 Operatıng lease commitments

At the reportıng date, the Group had outstandıng commıtments for future mınımum lease payments under non-cancellable operatıng leases, whıch fall due as follows

	2011 £'000	2010 £'000
Wıthın one year	**1,549**	1,524
Between one and five years	**914**	1,808
	2,463	3,332

Operatıng lease payments represent rentals payable by the Group for ıts office propertıes Leases are negotıated for an average term of 3 7 years and rentals are fixed for an average of 2 2 years

At the reportıng date, the Group had future mınımum lease receıvables under non-cancellable operatıng leases, whıch fall due as follows

	2011 £'000	2010 £'000
Wıthın one year	**229**	261
Between one and five years	**-**	229
	229	490

Operatıng lease payment receıvables are rentals due under the sub-lease of ıts office propertıes Rentals are fixed to the end of the lease ın 2012

24 Fınancıal rısk management

Capıtal rısk management

The Group manages ıts capıtal to ensure that the entıtıes ın the Group wıll be able to contınue as goıng concerns whıle maxımısıng the return to stakeholders through the optımısatıon of the debt and equıty balance The capıtal structure of the Group consısts of cash and cash equıvalents and equıty attrıbutable to equıty holders of the parent, comprısıng ıssued capıtal, reserves and retaıned earnıngs ın note 20

The Group monıtors capıtal on the basıs of the gearıng ratıo

The Board of Dırectors regularly revıew the capıtal structure of the Group Over the long term the Group has a target gearıng ratıo ın the range of 25%-30% as determıned as net debt to equıty, but makes adjustments to ıt ın the lıght of changes ın economıc cırcumstances or Group structure There have been no other sıgnıficant changes ın capıtal structure ımplemented ın the year ended 31 December 2011

The gearıng ratıo at the year end ıs as follows	2011 £'000	2010 £'000
Debt	**(3,330)**	(3,040)
Cash and cash equıvalents	**1,977**	828
Net (debt)/cash	**(1,353)**	(2,212)
Equıty	**25,709**	23,051
Net debt to equıty ratıo	**5 3%**	9 6%

Debt ıs defined as long and short-term borrowıngs
Equıty ıncludes all capıtal and reserves of the Group attrıbutable to equıty holders of the parent

Externally ımposed capıtal requırements

The Group ıs not subject to externally ımposed capıtal requırements

Sıgnıficant accountıng polıcıes

Detaıls of the sıgnıficant accountıng polıcıes and methods adopted, ıncludıng the crıterıa for recognıtıon, the basıs of measurement and the basıs on whıch ıncome and expenses are recognısed, ın respect of each class of financıal 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 2011

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

	2011 £'000	2010 £'000
Financial assets		
Loans and receivables		
Trade and other receivables net of impairment provision	12,419	12,602
Other receivables	598	1,399
Cash and cash equivalents	1,977	828
	14,994	14,829
Financial liabilities at amortised cost		
Trade and other payables	14,313	16,684
Borrowings	3,330	3,040
	17,643	19,724

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 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 A contract to sell €2m for £1 7m before 31 March 2012 was outstanding at year end

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 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 are considered adequate to meet the Group's funding requirements

The Group has no financial liabilities other than short term trade payables and accruals disclosed in note 13, all due within one year of the year end The Group's contractual maturities for its derivative financial liabilities are not material

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

	2011 £'000	2010 £'000
Dividends paid to Directors	**286**	445

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 2011 which comprise the parent company balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 22), the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011,
- 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 2011

Grant Thornton UK LLP

Charles Hutton-Potts BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
2 March 2012

HYDROGEN GROUP PLC

Parent company balance sheet

As at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	4	-	4
Tangible assets	5	-	3
Investments	6	7,088	7,076
		7,088	7,083
Current assets			
Debtors due in more than 12 months	7	1,798	2,032
Debtors due within 12 months	7	1,889	1,194
Cash at bank and in hand		17	62
		3,704	3,288
Creditors amounts falling due within one year	8	1,939	1,191
Net current assets		1,765	2,097
Total assets less current liabilities		8,853	9,180
Net assets		8,853	9,180
Capital and reserves			
Called up share capital	9	235	235
Own shares held	10	(1,320)	(1,373)
Share premium account	11	3,512	3,510
Share option reserve	11	100	100
Other reserve	11	106	15
Profit and loss account	11	6,220	6,693
Equity shareholders' funds		8,853	9,180

The financial statements on pages 56 to 63 were approved by the Board of Directors and authorised for issue on 2 March 2012 and are signed on its behalf by

Director

Company registration number 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 historic cost convention and in accordance with applicable United Kingdom Accounting Standards and law

The principal accounting policies used in the preparation of the Company financial statements are summarised below They have all been applied consistently throughout the year and the preceding year

Tangible fixed assets and depreciation

Fixed assets are stated at historical cost
Depreciation is provided on computer and office equipment at 33% straight line on cost less estimated residual value

Investments

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

Deferred taxation

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

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

Dividends

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

Share-based payments

Where options are awarded after 7 November 2002 and that were unvested as of 1 January 2006, the fair value of the employee services received in exchange for the grant of the share options is charged to 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 Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in the profit and loss account with a corresponding adjustment to equity

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

Financial instruments

Financial 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 2011 of £504,000 (2010 £156,000)

The auditor's remuneration for audit of the Company is £10,000 (2010 £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

	2011 £'000	2010 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2011 of 1 4p per share (2010 1 4p per share)	**311**	309
Second interim dividend for the year ended 31 December 2009 of 3 6p per share	-	807
Final dividend for the year ended 31 December 2010 of 2 7p per share (2009 nil per share)	**602**	-
	913	1,116

An interim dividend of 1 4p (2010 1 4p) per share was paid on 4 November 2011 to shareholders on the register at the close of business on 7 October 2011 The interim dividend was approved by the Board on 5 September 2011

The final dividend in relation to 2010 was agreed on 14 March 2011, and was not recognised as a liability in the year ended 31 December 2010

The Board propose a final dividend of 2 9p per ordinary share for the year ended 31 December 2011 (2010 2 7p), to be paid be paid on 25 May 2012 to shareholders on the register as at 4 May 2012 The proposed final dividend has not been approved by shareholders at 31 December 2011

4 Intangible fixed assets

	Domain names and Trademarks £'000
Cost	
At 1 January 2011and 31 December 2011	30
Amortisation	
At 1 January 2011	26
Amortisation for the year	4
At 31 December 2011	30
Net book value at 31 December 2011	-
Net book value at 31 December 2010	4

Notes to the parent company financial statements

5 Tangible fixed assets

	Computer and office equipment £'000
Cost	
At 1 January 2011	36
Additions	-
At 31 December 2011	**36**
Amortisation	
At 1 January 2011	33
Depreciation for the year	3
At 31 December 2011	**36**
Net book value at 31 December 2011	**-**
Net book value at 31 December 2010	3

Notes to the parent company financial statements

6 Fixed asset investments

	2011 £'000	2010 £'000
Subsidiary undertakings at cost		
At 1 January	**7,076**	6,418
Additions	**12**	658
Balance at 31 December	**7,088**	7,076

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%
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

Notes to the parent company financial statements

7 Debtors

	2011 £'000	2010 £'000
Due within one year		
Amounts owed by group companies	1,527	1,150
Other taxation and social security	327	24
Prepayments	35	20
	1,889	1,194
Due after more than one year		
Amounts owed by Group companies	1,774	2,021
Deferred tax		
- accelerated depreciation	4	4
- share based costs	20	7
	24	11
	1,798	2,032
	3,687	3,226

8 Creditors amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	21	37
Other creditors	-	150
Amounts owed to group companies	1,279	358
Corporation tax	70	81
Accruals and deferred income	569	565
	1,939	1,191

Notes to the parent company financial statements

9 Share capital

The share capital at 31 December 2011 and 2010 was as follows

	2011		2010	
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	**23,510,624**	**235**	23,434,212	234
Issue of new shares for employee share schemes	**3,800**	**-**	76,412	1
31 December	**23,514,424**	**235**	23,510,624	235

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

During 2011, 159,492 options were exercised (2010 76,412), as set out in note 16 Of these options, 155 692 were satisfied from shares issued by the EBT, and 3,800 from issuance of new shares

At 31 December 2011 1,166,574 (2010, 1,172,266) shares were held in the EBT trust (see note 18)

At 31 December 2011, 440,811 ordinary shares (2010, 443,245) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan (see note 16) trust for employees

10 Own shares

During the year the Company donated the funds to enable the EBT trust to purchase 150,000 ordinary shares of Hydrogen Group plc for a total consideration of £129,000 The EBT utilised 155,692 shares to satisfy options exercised by employees

At 31 December 2011, the total number of ordinary shares held in the EBT and their values were as follows

Shares held for share option schemes	2011	2010
Number of shares	**1,166,574**	1,172,266
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,320**	1,373
Market value	**904**	1,547

Notes to the parent company financial statements

11 Reserves

	Own shares held £'000	Share premium £'000	Share option reserve £'000	Other reserve £'000	Retained earnings £'000
Balance at 1 January 2011	(1,373)	3,510	100	15	6,693
Profit for the year	-	-	-	-	504
Dividends paid	-	-	-	-	(913)
Share option charge	-	-	-	91	-
Shares purchased by EBT	(129)	-	-	-	-
Shares issued from EBT	182	-	-	-	(79)
Increase in share capital	-	2	-	-	-
Exchange gain	-	-	-	-	15
Balance at 31 December 2011	**(1,320)**	**3,512**	**100**	**106**	**6,220**

12 Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**504**	156
Dividends paid	**(913)**	(1,116)
Share option charge	**91**	15
Shares issued from EBT	**103**	-
Shares purchased by EBT	**(129)**	(534)
Increase in share capital	**2**	31
Exchange gain	**15**	326
Net addition to shareholders' funds	**(327)**	(1,122)
Opening shareholders' funds	**9,180**	10,302
Closing shareholders' funds	**8,853**	9,180

13 Contingent liabilities

The Company has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £3,330,000 (2010 £3,040,000) at the balance sheet date

14 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

Directors and advisors

Directors and advisors

Directors

Ian Temple

Tim Smeaton

John Glover

Ishbel Macpherson (Non-Executive) – Senior Independent Director

Martyn Phillips (Non-Executive)

Ian Fallmann (Non-Executive)

Secretary

Madeleine Scrafton

Company number

5563206

Registered office

6 Laurence Pountney Hill London EC4R 0BL

Auditor

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

Solicitor

Travers Smith 10 Snow Hill London EC1A 2AL

Banker

HSBC 60 Queen Victoria Street London EC4N 4TR

Registrar

Computershare The Pavilions Bridgwater Road Bristol BS99 1XZ

Nominated adviser and broker

Oriel Securities 125 Wood Street London EC2V 7AN

Directors' remuneration report

For the year ended 31 December 2011

Scope and membership of Remuneration Committee

The Remuneration Committee meets not less than twice a year and comprises the independent Non-Executive Directors The Committee is chaired by Martyn Phillips The Executive Chairman and 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 that of the shareholders

The Committee reviews the remuneration of the Executive Directors with regard to the need to maintain a balance between the constituent elements of salary, incentive and other benefits The Remuneration Committee met on five occasions in 2011, four of which were fully attended and one were one director was absent 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 months notice period The Non-Executive Directors have letters of appointment with the Group which have notice periods of three months

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

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

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

Base salary and benefits

Service contracts exist for each Executive Director that set contractual obligations The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for Executive Directors of companies of comparable status and market value Reviews of such base salary and benefits are conducted annually by the Committee having regard to wage inflation in the economy No salary increases were granted for 2010 The external benchmarking conducted in 2011 was the first to take account of the increased complexity associated with a business deriving a significant proportion of its income from international activities, and concluded that remuneration levels were some way below the market median As a consequence average salary increases of 15% were awarded to the existing members of the Board in January 2011 but were deferred by the directors to July 2011 No salary increases have been awarded 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 and net fee income targets during the financial year In 2011 the maximum annual bonus entitlement for Executive Directors was equal to 100% of their base salary and the average earned in the year was 40%

Directors' remuneration report

For the year ended 31 December 2011

Share option schemes

During 2011 share options were granted to Executive Directors under the Hydrogen Group Unapproved share option scheme (see note 16) 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	Exercised during the year	Options outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option (£)
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	-	-	35,205	30/09/10	30/09/17	Nil
	2009	28 808	-	-	28,808	31/03/13	20/10/19	Nil
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	-	-	5 750	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
		283,155	214,000	-	497,155			
2010								
EMI Options								
Tim Smeaton	2006	124 200	-	-	124,200	29/09/06	29/09/16	0 805
	2009	22 362	-		22,362	31/03/13	20/10/19	Nil
Ian Temple	2009	40,000	-	-	40,000	31/03/13	20/10/19	Nil
John Glover	2007	35,205	-	-	35,205	30/09/10	30/09/17	Nil
	2009	28 808	-	-	28,808	31/03/13	20/10/19	Nil
Unapproved options								
Tim Smeaton	2009	17 638	-	-	17,638	31/03/13	20/10/19	Nil
John Glover	2007	5,750	-	-	5,750	30/09/10	30/09/17	Nil
	2009	9,192	-		9,192	31/03/13	20/10/19	Nil
		283 155	-	-	283,155			

Directors' remuneration report

For the year ended 31 December 2011

Performance criteria

The performance criteria on Directors share options are as follows

Options issued in 2006

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

Options issued in 2007

Options vested in three tranches in the period 2008-2010 dependent on the profitability of the Hydrogen Group plc in each of these three years 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 2010 to 2012

Options issued in 2011

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

Share option scheme for Directors

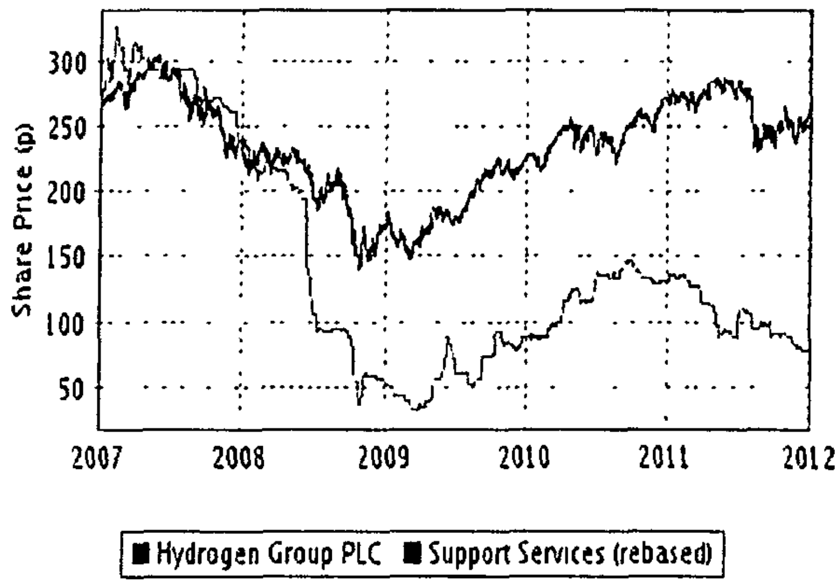
During the year options over shares were granted to Executive Directors under the Hydrogen Group Unapproved Share Option scheme The number of options that vest is dependent on Hydrogen Group plc net fee income and profitability for the financial year 2013, and the vesting date is 31 March 2014 Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant, after which they expire Options are forfeit if the Director leaves the Group before options vest except where the Director leaves for qualifying reasons Detail on the number of options issued during the year and the number outstanding at 31 December 2011 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 number of options that vest is dependent on the Hydrogen Group plc Net Fee Income and Profitability for the financial year 2011 and the vesting date is 31 March 2013 Options may be exercised without the payment of an exercise price and may be exercised up to 10 years from date of grant after which they expire Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons Detail on the number of options issued during the year and the number outstanding at 31 December 2011 are given in note 16

Share price chart

Set out below is a graph of the Company's share price performance since flotation on AIM, benchmarked against the support services index



Source London Stock Exchange provided by Hemscott Group Limited

Directors' remuneration report

For the year ended 31 December 2011

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
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
2010						
Executive Directors						
Tim Smeaton	195	12	188	395	-	395
Ian Temple	195	12	173	380	-	380
John Glover	130	7	126	263	-	263
Chris Cole*	63	5	12	80	-	80
Non-Executive Directors						
Ishbel Macpherson	35	-		35	-	35
Martyn Phillips	20		-	20	-	20
Ian Fallmann (from date of appointment 7/10/10)	6	-	-	6	-	6
Aggregate emoluments	644	36	499	1,179	-	1,179

* resigned from the Board on 2 March 2010

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

Outside appointments

The Remuneration Committee recognises that Non-Executive Director roles can be a significant benefit in broadening the Executive Board's experience Subject to review in each case, the Remuneration Committee s general policy is that Executive Directors may accept Non-Executive Director roles with other companies so long as there is no conflict of interest and their effectiveness is not impaired The Executive is permitted to retain any fees for the service None of the Executive Directors currently hold any non-executive director appointments

Service contracts

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

Annual resolution

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

M Phillips
Chairman Remuneration Committee