

CloudPay United Kingdom Limited

Annual Report and Financial Statements

Year ended 31 December 2018

Registered number: 03579805



CloudPay United Kingdom Limited

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CloudPay United Kingdom Limited

Company information

Directors

A Pearson
D Leese

Registered office

Kingsgate House
Newbury Road
Andover
Hampshire
England
SP10 4DU

Registered number

03579805

Independent auditor

BDO LLP
Chartered Accounts and Statutory Auditor
Arcadia House
Maritime Walk
Ocean Village
Southampton
SO14 3TL

CloudPay United Kingdom Limited

Strategic Report

The directors, in accordance with s.414C of the Companies Act, present their strategic report with the audited financial statements for the year ended 31 December 2018.

Principal activity

CloudPay United Kingdom Limited ("the company") is a wholly-owned subsidiary of CloudPay Holdings Limited. Cloudpay Holdings Limited together with its subsidiary undertakings ("the Group") provide outsourced global payroll solutions.

The principal activity of the company is to act as a sales and payroll processing function in EMEA. There has been no change to this activity since the year end.

Overseas subsidiary and branch

The financial statements include the results of the company's French branch for the year ended 31 December 2018.

Review of the business

Turnover for the year ended 31 December 2018 was £8,290,000 (2017: £8,147,000).

The comprehensive loss for the financial year to 31 December 2018 was £5,632,000 (2017: comprehensive profit of £1,115,000).

Exchange losses arising on amounts due to and from other companies within the CloudPay group of £2,426,000 were recognised in the year ended 31 December 2018 (2017: exchange gains of £3,077,000). Other administration expenses have increased as a result of investment in people to support future growth within the company and the Group. The performance of the company is also impacted by a number of contracts and customer relationships that are managed by other companies within the Group. A business review is therefore contained within the strategic report in the consolidated financial statements of CloudPay Holdings Limited.

During 2018, the parent undertaking Cloudpay Holdings Limited negotiated a new debt facility of \$15million, of which \$11million had been drawn down at 31 December 2018. In addition, the ultimate parent undertaking, CloudPay Inc., received \$10million of equity funding from its existing shareholders.

The full results for the year are shown within the profit and loss account and will be transferred to reserves. The financial position of the company is shown in the balance sheet.

Risk management

The management of the business and execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are:

Competition

The outsourcing market is affected by the global economic environment. The global nature of the contracts being negotiated with clients means that there is therefore some uncertainty over the level of future revenue of the Group. Additionally, due to the nature of its core business, the Group could be impacted by the release of new technology to the market.

Credit risk

Credit risk is evaluated on processing of a new customer contract, with appropriate levels of credit being offered to customers depending upon information available.

Currency risk

The company operates in overseas territories and is therefore exposed to currency risk through the translation of overseas transactions, assets and liabilities.

Liquidity risk

The company has received written undertakings from its parent and other group companies that they will not demand repayment of the £43,599,000 (note 12) owed to them for a period of at least one year from the date of approval of these financial statements.

CloudPay United Kingdom Limited

Strategic Report

Interest rate cash flow risk

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances, which earn interest at a variable rate. Historically, where possible the Group has a policy of maintaining debt at a fixed rate.

Brexit risk

The ongoing Brexit developments and the US policy statements on international trade continue to create uncertainty regarding future trading arrangements between the UK and both Europe and the USA respectively. As a result, the company may experience volatile market conditions in those geographies.

The company currently has access to sufficient financial resources for its operations via its direct parent and ultimate parent, and as a consequence the directors believe that the company is well placed to manage its business risks despite the current uncertain economic outlook:

Key performance indicators

Analysis using key performance indicators is performed at an overall group level. The directors believe that given the interrelated nature of the Group, analysis of KPI's at individual company level is not relevant.

Future developments

The directors expect losses to continue, as costs continue to outstrip revenue as the company and Group continue to grow.

By Order of the Board



D Leese
Director

Date: 5 June 2019

CloudPay United Kingdom Limited

Directors' Report

The directors present their report and the financial statements for the year ended 31 December 2018.

A review of the business including employee information, principle risks and uncertainties and key performance indicators are not shown in the directors report as this information is included in the strategic report under S414C(11) of the Companies Act 2006.

Directors

The directors of the company, all of whom have held office throughout the period under review unless otherwise stated, are set out below;

A Pearson

D Leese

T Rook (resigned 2 March 2018)

Directors indemnity insurance

The company maintains liability insurance for its directors and officers.

Results

The comprehensive loss for the year, after taxation, amounted to £5,632,000 (2017: comprehensive profit for the year £1,115,000).

Dividend

The directors do not recommend the payment of a dividend (2017: nil).

Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the 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 of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CloudPay United Kingdom Limited

Directors' Report

Going Concern

The directors review their forecasts with specific reference to the ability of the business to meet its liabilities as they fall due and have a reasonable expectation that the company is able to manage its business risks successfully. The forecasts cover the period beyond the twelve months from the date of signing of these accounts and make allowance for reasonably foreseeable impacts of the current economic environment.

During 2018, the parent undertaking Cloudpay Holdings Limited negotiated a new debt facility of \$15million, of which \$11million had been drawn down at 31 December 2018. In addition, the ultimate parent undertaking, CloudPay Inc., received \$10million of equity funding from its existing shareholders.

The directors have received confirmation that the amounts due to other companies within the Group headed by CloudPay Inc. will only be settled when sufficient surplus funds exist.

The directors believe that the funding available to the Group is adequate for both the Group and the company to continue their operations for at least twelve months following the date of approval of these financial statements.

Accordingly, the directors continue to adopt the going concern basis in preparing the accounts.

Post Balance Sheet Events

There are no post balance sheet events requiring disclosure within the financial statements.

Disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors

During 2018 the Board carried out a competitive tender for the audit. Following the tender, the Board reappointed BDO LLP as auditor.

BDO LLP have indicated their willingness to continue in office and are deemed to be reappointed in accordance with section 487 of the Companies Act 2006.

By Order of the Board



D Leese
Director

Date: 5 June 2019

Independent auditor's report to the members of CloudPay United Kingdom Limited

Opinion

We have audited the financial statements of CloudPay United Kingdom Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Total Comprehensive Income, Balance Sheet and Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of CloudPay United Kingdom Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent auditor's report to the members of CloudPay United Kingdom Limited

Use of our report

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.

BDO LLP

Arbinder Chatwal (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK

6 June 2019

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

CloudPay United Kingdom Limited

Statement of total comprehensive income

	Note	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Turnover	3	8,290	8,147
Cost of sales		(5,963)	(5,705)
Gross profit		2,327	2,442
Administrative expenses		(7,916)	(1,235)
Operating (loss)/profit	6	(5,589)	1,207
Interest receivable and similar income	7	-	5
Interest payable and other charges	7	(6)	-
(Loss)/profit on ordinary activities before taxation		(5,595)	1,212
Taxation on (loss)/profit on ordinary activities	8	-	-
(Loss)/profit on ordinary activities after taxation		(5,595)	1,212
Other comprehensive income			
Currency translation differences		(37)	(97)
Other comprehensive income for the year		(37)	(97)
Total comprehensive (loss)/profit for the year		(5,632)	1,115

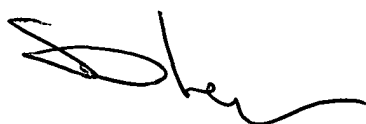
The notes on pages 12 to 22 form part of these financial statements.

CloudPay United Kingdom Limited

Balance sheet

	Note	31 Dec 2018 £'000	31 Dec 2017 £'000
Fixed assets			
Investments	9	-	-
Tangible assets	10	399	407
		<u>399</u>	<u>407</u>
Current assets			
Debtors	11	24,937	22,952
Cash at bank and in hand		510	363
		<u>25,447</u>	<u>23,315</u>
Creditors: amounts falling due within one year	12	<u>(45,281)</u>	<u>(37,764)</u>
Net current liabilities		<u>(19,834)</u>	<u>(14,449)</u>
Total assets less current liabilities		<u>(19,435)</u>	<u>(14,042)</u>
Creditors: amounts falling due after more than one year	13	(339)	(98)
Net liabilities		<u>(19,774)</u>	<u>(14,140)</u>
Capital and reserves			
Called up share capital	16	2	2
Share premium account		2,999	2,999
Profit and loss account		<u>(22,775)</u>	<u>(17,141)</u>
		<u>(19,774)</u>	<u>(14,140)</u>

The financial statements on pages 9 to 22 were approved by the Board of Directors and were signed on its behalf by:



D Leese
Director

Date: 5 June 2019

Registered number: 03579805

The notes on pages 12 to 22 form part of these financial statements.

CloudPay United Kingdom Limited

Statement of changes in equity

	Share capital	Share premium	Profit and loss account	Total Equity
	£'000	£'000	£'000	£'000
1 January 2017	2	2,999	(18,255)	(15,254)
Comprehensive profit for the year				
Profit for the year	-	-	1,212	1,212
Other comprehensive income for the year				
Currency translation differences	-	-	(97)	(97)
Total comprehensive income for the year	-	-	1,115	1,115
Transactions with owners recognised directly in equity				
Equity-settled share based payment	-	-	(1)	(1)
31 December 2017 and 1 January 2018	2	2,999	(17,141)	(14,140)
Comprehensive loss for the year				
Loss for the year	-	-	(5,595)	(5,595)
Other comprehensive income for the year				
Currency translation differences	-	-	(37)	(37)
Total comprehensive loss for the year	-	-	(5,632)	(5,632)
Transactions with owners recognised directly in equity				
Equity-settled share based payment	-	-	(2)	(2)
31 December 2018	2	2,999	(22,775)	(19,774)

The notes on pages 12 to 22 form part of these financial statements.

CloudPay United Kingdom Limited

Notes to the financial statements

(1) Accounting policies

Basis of preparation of financial statements

CloudPay United Kingdom Limited is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies (see note 2).

The company is itself a subsidiary company and is exempt from the requirements to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

This information is included in the consolidated financial statements of CloudPay Holdings Limited as at 31 December 2018 and these financial statements may be obtained from Kingsgate House, Newbury Road, Andover, Hampshire, England, SP10 4DU.

The following principal accounting policies have been applied:

Financial reporting standard 102 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102, Section 1.12:

- the requirements of Section 7 *Statement of Cash Flows* and Section 3 *Financial Statement Presentation* paragraph 3.17(d);
- the requirements of Section 11 paragraphs 11.41(b) to 11.48(c) and Section 12.26 to 12.29A;
- the requirements of Section 26 *Share-based Payment* paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- the requirement of Section 33 *Related Party Disclosures* paragraph 33.1A and 33.7.

Going concern

The company made a total comprehensive loss in the financial year of £5,632,000 (2017: profit of £1,115,000) and has been reliant on the continued financial support of its fellow group undertakings. The company had net current liabilities of £19,834,000 (2017: £14,449,000) and net liabilities of £19,774,000 (2017: £14,140,000) at the year end.

The directors review their forecasts with specific reference to the ability of the business to meet its liabilities as they fall due and have a reasonable expectation that the company is able to manage its business risks successfully. The forecasts cover the period beyond the twelve months from the date of signing of these accounts and make allowance for reasonably foreseeable impacts of the current economic environment.

During 2018, the parent undertaking Cloudpay Holdings Limited negotiated a new debt facility of \$15million, of which \$11million had been drawn down at 31 December 2018. In addition, the ultimate parent undertaking, CloudPay Inc., received \$10million of equity funding from its existing shareholders.

The directors have received confirmation that the amounts due to other companies within the Group headed by CloudPay Inc. are only settled when sufficient surplus funds exist.

The directors believe that the funding available to the Group is adequate for both the Group and the company to continue their operations for at least twelve months following the date of approval of these financial statements.

Accordingly, the directors continue to adopt the going concern basis in preparing the accounts.

CloudPay United Kingdom Limited

Notes to the financial statements

(1) Accounting policies (*continued*)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Sterling', which is the company's functional and presentation currency.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date, including any goodwill in relation to that entity. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

Transactions and balances

Foreign currency transactions are translated into the company's functional currency using the exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Turnover

Turnover is measured at the fair value of consideration received or receivable and represents amounts for goods and services provided to third parties in the normal course of business during the period, net of value added tax and any discounts, and results from the principal activity of the company.

Each element of revenue (described below) is recognised only when:

- Delivery of goods or provision of services has occurred;
- The consideration receivable is fixed or determinable;
- There are no significant vendor obligations remaining; and
- Collection of the amount due from the customer is reasonably assured.

(i) Income from payroll processing and any related support, maintenance and unit based licensing arrangements is recognised rateably over the initial term of the related customer contract.

(ii) Implementation and set-up fees in connection with the provision of payroll processing services are deferred until such initial work is considered complete and is then recognised rateably over the remaining initial term of the related customer contract.

(iii) Any income arising from pure consultancy work is recognised in the statement of comprehensive income on a time and materials basis.

Goods and services that have been delivered at the end of a financial period but which have not been invoiced at that time are recognised as turnover in the statement of comprehensive income and shown within prepayments and accrued income on the balance sheet.

Advance payments from customers or advance invoicing at the end of a financial period are included within accruals and deferred income in the balance sheet. Such amounts are recognised in the statement of comprehensive income when the services are provided to the customer in accordance with points (i) to (iii) as set out above.

Interest

Interest payable or receivable is recognised in the statement of comprehensive income over the term of the debt using the effective interest rate method.

CloudPay United Kingdom Limited

Notes to the financial statements

(1) Accounting policies (*continued*)

Deferred costs

Costs in respect of implementation and set up fees are deferred until such initial work is considered complete and are then recognised rateably over the remaining initial term of the related customer contract. Deferred costs are included within prepayments and accrued income in the balance sheet.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows;

- | | |
|--------------------------|----------------------------|
| - Leasehold improvements | - The remaining lease term |
| - Office equipment: | - 3 years |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Impairment of tangible assets

Assets that are subject to depreciation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. 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 (or CGU's) fair value less costs to sell and value in use.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of the estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

CloudPay United Kingdom Limited

Notes to the financial statements

(1) Accounting policies (*continued*)

Share-based payment incentives

Certain employees of the company participate in the equity-settled share-based payment incentive scheme run by CloudPay Inc., the ultimate parent undertaking.

Where share options are awarded to employees, the fair value of the option at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

The company is recharged by the ultimate parent undertaking an amount in relation to those employees who have an interest in share-based incentive schemes.

Pensions

Contributions to the Group's defined contribution pension scheme are charged to the Statement of Total Comprehensive Income in the year in which they become payable.

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are not discounted.

CloudPay United Kingdom Limited

Notes to the financial statements

(1) Accounting policies (*continued*)

Reserves

The company's reserves are as follows;

- Called up share capital reserve represents the nominal value of the shares issued.
- The share premium account includes the premium of equity shares, net of any issue costs.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

(2) Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Investments (see note 9)

On an annual basis, a review for potential impairment to the carrying value of investments in subsidiaries is carried out. This review is based on management's best estimate of future cash flows for a period of 5 years. Management also use judgement to apply an appropriate weighted average cost of capital in calculating the discount rate, and uses estimates for future revenue growth which are deemed to be in line with industry and country averages.

- Tangible fixed assets (see note 10)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

In determining whether there are indicators of impairment of the company's tangible assets, factors taken into consideration include the economic viability and expected future financial performance of the asset.

- Deferred costs (see note 11)

Revenue generated from implementation work performed on new customer contracts is deferred and released over the remaining initial term of the contract. The related costs are also deferred and released over this same period. The value of costs deferred are based on an estimated average profit margin based on contract pricing estimates prepared at the commencement of each contract. Costs are then deferred on a straight-line basis for the duration of the estimated implementation phase.

(3) Turnover

All turnover arises from the principal activities of the company and an analysis of the geographical origin of turnover is given below:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
United Kingdom	5,531	5,295
United States	1,187	1,055
Germany	542	733
Rest of Europe	953	944
Rest of the World	77	120
	8,290	8,147

CloudPay United Kingdom Limited

Notes to the financial statements

(4) Staff costs

The average monthly number of staff employed by the company (including executive directors) during the year was 100 (2017: 78). Staff costs for these individuals are shown below:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Wages and salaries	4,243	3,451
Social security costs	545	435
Pension costs	268	126
Staff costs excluding share-based payment	5,056	4,012
Share based payments	(2)	(1)
Total staff costs	5,054	4,011

(5) Directors' emoluments

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Directors' emoluments	249	384
Company contributions to money purchase pension schemes	9	12
	258	396

Emoluments of the highest paid director were £223,000 (2017 restated: £104,000) excluding Company pension contributions of £7,000 (2017 restated: £4,000).

(6) Operating (loss)/ profit

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Operating (loss)/ profit is stated after charging:		
Depreciation of tangible fixed assets	206	125
Impairment of investments	20	127
Auditors' remuneration: audit services	16	25
Loss on disposal of fixed assets	-	15
Operating lease charges: Land and buildings	166	108
Operating lease charges: Plant and machinery	9	13
Share based payments	(2)	(1)
Exchange differences	2,426	(3,077)

Statutory information on remuneration for other services provided by the company's auditors is given on a consolidated basis in the Group accounts of the immediate parent, CloudPay Holdings Limited.

CloudPay United Kingdom Limited

Notes to the financial statements

(7) Net interest

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
Bank interest (payable)/ receivable	(6)	5
Net interest	(6)	5

(8) Tax on (loss)/ profit on ordinary activities

Analysis of tax charge for the year:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
<i>UK corporation tax</i>		
Current tax on (loss)/ profit for the year	-	-
Total current tax/ tax on (loss)/ profit on ordinary activities	-	-

There has been no deferred tax movement recognised in the current or prior year.

Factors affecting the tax charge for the period:

The tax assessed for the year is different to the standard rate of corporation tax in the UK applied to results before tax. The differences are explained below:

	Year ended 31 Dec 2018 £'000	Year ended 31 Dec 2017 £'000
(Loss) / profit on ordinary activities before taxation	(5,595)	1,212
(Loss)/ profit on ordinary activities multiplied by the rate of tax for small companies in the UK of 19% (2017: 19.25%)	(1,063)	233
Effects of:		
Expenses not allowable for tax purposes	13	34
Group relief claimed	-	(1)
Fixed asset differences	1	4
Deferred tax not recognised	1,049	(270)
Total tax charge for the year	-	-

CloudPay United Kingdom Limited

Notes to the financial statements

(9) Investments in subsidiary companies

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Investments in subsidiary undertakings		
Cost:		
At 1 January	216	89
Additions	20	127
At 31 December	236	216
Impairment:		
At 1 January	(216)	(89)
Charge for the year	(20)	(127)
At 31 December	(236)	(216)
Net book value		
At 31 December	-	-

Further details of the company's subsidiary undertakings whose principal activity is to provide payroll processing services are given below:

Name of subsidiary	Registered Address	Percentage of equity share capital held	Capital and reserves at 31 Dec 2018 £'000	Loss for the period ended 31 Dec 2018 £'000
CloudPay Software Service (Shanghai) Limited	Lippo Plaza No. 222, Middle Huaihai Road, Shanghai, China	100%	(535)	(78)
CloudPay Italy srl	Via Ludovisi, 16 00187 Rome, Italy	100%	(43)	(55)

(10) Tangible assets

	Leasehold improvements £'000	Office equipment £'000	Total £'000
Cost:			
At 1 January 2018	215	430	645
Additions	8	190	198
Disposals	-	-	-
At 31 December 2018	223	620	843
Depreciation:			
At 1 January 2018	73	165	238
Charge for the period	44	162	206
Disposals	-	-	-
At 31 December 2018	117	327	444
Net book value:			
At 31 December 2018	106	293	399
At 31 December 2017	142	265	407

CloudPay United Kingdom Limited

Notes to the financial statements

(11) Debtors

	31 Dec 2018 £'000	31 Dec 2017 £'000
Trade debtors	1,410	1,181
Amounts owed by group companies	22,531	20,928
Other debtors	138	189
Prepayments and accrued income	858	654
	<u>24,937</u>	<u>22,952</u>

Prepayments and accrued income includes deferred costs totalling £346,000 (2017: £240,000) relating to customer contracts which are expected to be recognised in the profit and loss account as follows:

	31 Dec 2018 £'000	31 Dec 2017 £'000
Within one year	163	170
After more than one year	183	70
	<u>346</u>	<u>240</u>

(12) Creditors: amounts falling due within one year

	31 Dec 2018 £'000	31 Dec 2017 £'000
Trade creditors	380	387
Other taxation and social security	261	263
Other creditors	43	25
Accruals and deferred income	998	1,004
Amounts owed to group companies	43,599	36,085
	<u>45,281</u>	<u>37,764</u>

Accruals and deferred income includes £260,000 (2017: £234,000) in respect of deferred income on customer contracts (note 14).

Amounts owed to group companies are unsecured, interest free and repayable when sufficient surplus funds exist.

(13) Creditors: amounts falling due after more than one year

	31 Dec 2018 £'000	31 Dec 2017 £'000
Deferred income (note 14)	<u>339</u>	<u>98</u>

(14) Deferred income

Deferred income on customer contracts is expected to be recognised as turnover in the profit and loss account as follows:

	31 Dec 2018 £'000	31 Dec 2017 £'000
Within one year	260	234
Between two and five years	339	98
	<u>599</u>	<u>332</u>

CloudPay United Kingdom Limited

Notes to the financial statements

(15) Deferred tax

At 31 December 2018, there are unrecognised deferred tax balances comprising the following:

	31 Dec 2018 £'000
Capital allowances in advance of depreciation	1
Temporary differences	19
Unrelieved trading losses	3,941
	<u>3,961</u>

These assets have not been recognised in the financial statements as there is currently insufficient certainty about the availability of future taxable profits to offset these amounts.

(16) Called up share capital

	31 Dec 2018 £'000	31 Dec 2017 £'000
Authorised:		
100,000 ordinary shares of £1 each	100	100
	Number	Number
Allotted, called up and fully paid:		
2,384 (2017: 2,384) ordinary shares of £1 each	2,384	2,384

(17) Commitments under operating leases

At the period end the company had minimum lease payments under non-cancellable operating leases as set out below:

	31 Dec 2018 £'000	31 Dec 2017 £'000
No later than 1 year	189	178
Later than 1 year and not later than 5 years	43	231
Later than 5 years	-	-
	<u>232</u>	<u>409</u>

(18) Pensions

The company operates a defined contribution pension scheme and the assets of the scheme are held separately from those of the company in an independently administered fund.

The pension charge for the period amounted to £268,000 (2017: £126,000). Included in creditors at 31 December 2018 were £43,000 (2017: £29,000) of unpaid pension contributions.

CloudPay United Kingdom Limited

Notes to the financial statements

(19) Share based payment

Certain eligible management and employees of the company have been granted share options under the CloudPay Inc. Share Option Scheme. There were no options (2017: none) granted to employees of the company during the year in respect of this share option scheme.

CloudPay Inc. recharges the company for the fair value of the share options granted to employees and management of the company.

Once the options have vested they may be exercised in full or in part on the payment of the exercise price. The persons to whom the options have been issued have no right to participate by virtue of these options in any share issue of any other company in the Group and the company has no legal or constructive obligation to repurchase or settle the options in cash.

UK Growth Share Scheme

During the year, the ultimate parent company, CloudPay Inc. introduced a new share scheme for UK employees of the Group. Under this scheme, CloudPay Inc. granted 50,421 options to employees of the company to purchase Series 2 Common Stock in CloudPay Inc. (including 33,426 options to directors of the company). All 50,421 options were exercised in the year at an exercise price of US\$0.10. The fair value of the options granted was £nil and therefore no share based payment charge has been recognised in the profit and loss account.

(20) Related party transactions

E Barnes, a shareholder of the ultimate parent undertaking, is a Director of BJIC Ltd. During the period, there was a charge to the company's profit and loss account of £60,000 (2017: £38,000) in relation to various insurance policies brokered by BJIC Ltd on behalf of the company with third party insurers. BJIC Ltd received a brokerage fee of £6,000 (2017: £6,000) from the Group.

At 31 December 2018 A Pearson had an interest free loan from the company of £52,000 (2017: £52,000). During the year no repayments were made (2017: £2,000). After the balance sheet date the company agreed to forgive £26,000 of the loan with an effective date of 1 December 2018.

Key management personnel include all directors and a number of senior managers across the Group who together have authority and responsibility for planning, directing and controlling the activities of the Group. The total compensation paid to key management personnel for services provided to the Group was £1,966,000 (2017: £1,972,000).

(21) Commitments and contingencies

During the year CloudPay Holdings Limited, the immediate parent undertaking, entered into a new debt facility of \$15million, of which \$11million has been drawn down. The company is a joint borrower under the facility. The loan has a variable interest rate linked to the US Prime rate and has a maturity date of 1 April 2022. The company has granted fixed and floating charges over its assets in favour of the lender.

(22) Controlling party

CloudPay Holdings Limited, a company incorporated in England and Wales, is the immediate parent undertaking of the company and is the smallest and largest company to consolidate these financial statements. The consolidated financial statements may be obtained from CloudPay Holdings Limited, Kingsgate House, Newbury Road, Andover, Hampshire, SP10 4DU.

CloudPay Inc., a company incorporated in Delaware, United States of America, is the ultimate parent undertaking of the company and is considered by the directors to be the ultimate controlling party.