

CloudPay United Kingdom Limited

Annual Report and Financial Statements

Year ended 31 December 2021

Registered number: 03579805

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CloudPay United Kingdom Limited

Company information

Directors

J Pearce
A Thomson
C White

Registered office

Kingsgate House
Newbury Road
Andover
Hampshire
England
SP10 4DU

Registered number

03579805

Independent auditor

BDO LLP
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 2021.

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 2021.

Review of the business

Turnover for the year ended 31 December 2021 was £19,769,000 (2020: £14,146,000).

The comprehensive loss for the financial year to 31 December 2021 was £7,181,000 (2020: £907,000).

The Group has experienced significant revenue growth in 2021, driven by the implementation of new customer contracts for which the Group provides global payroll solutions. During the year the Group has continued to win new contracts for payroll and treasury services, securing further revenue growth for future periods.

The loss in 2021 increased due to the impact of foreign exchange losses in the year amounting to £1,633,000 compared to a foreign exchange gain of £2,833,000 in 2020. Other administration expenses continued to increase because of further significant investment in the Group's systems (SaaS software licences fees, cloud data storage costs and business process automation). The company also made a significant investment in headcount from an average of 171 employees in 2020 to 242 employees in 2021 which will enable the Group to scale to support future revenue growth.

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.

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.

CloudPay United Kingdom Limited Strategic Report (*continued*)

Risk management (*continued*)

Liquidity risk

The company has received written undertakings from its parent and other group companies that they will not demand repayment of the £65,510,000 (note 12) owed to them for a period of at least one year from the date of approval of these financial statements.

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

Post Brexit the Group has not experienced any detrimental effect on revenue or supplies. There remains some uncertainty regarding taxation arrangements between the UK and Europe.

Global risk

The war between Ukraine and Russia has not significantly impacted the Group during 2021 as Group has very limited exposure to contracts in Ukraine and Russia. Management have taken steps to ensure compliance with payment restrictions and regulations affecting these regions. Management will monitor the impact of the increased cost of living and inflation on service delivery and pricing.

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 the Group continues to invest in future growth.

By Order of the Board

DocuSigned by:

5586856832E0416
A Thomson
Director

Date: 12 October 2022

CloudPay United Kingdom Limited Directors' Report

The directors present their report and the financial statements for the year ended 31 December 2021.

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:

J Pearce
A Thomson
C White

Directors indemnity insurance

The company maintains liability insurance for its directors and officers.

Results

The comprehensive loss for the year, after taxation, amounted to £7,181,000 (2020: £907,000).

Dividend

The directors do not recommend the payment of a dividend (2020: 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.

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.

CloudPay United Kingdom Limited Directors' Report (*continued*)

Going concern (*continued*)

On 29 July 2021, CloudPay Inc. the ultimate parent undertaking, obtained additional equity investment of \$48.2million. A significant investment in technology will drive expansion of the treasury business, support continued growth in payroll revenue globally and lead to improvement in the Group gross margin.

At 31 December 2021, the parent undertaking, Cloudpay Holdings Limited had a debt facility of \$45million, of which \$35million was drawn down at the balance sheet date (2020: \$25million). During June 2022 an additional \$10million has been drawn down. On 26 September 2022, CloudPay Inc. the ultimate parent undertaking, obtained \$20million in convertible debt from existing shareholders and Cloudpay Holdings Limited obtained a further \$15million in their long-term debt facility. This will provide sufficient funding to both the Group and the company to enable continued growth and development of the business. An additional \$15million will be eligible for draw down from the long-term debt facility on condition of annual recurring revenue targets being met

The Group's forecasts contain sufficient cash projections and covenant coverage for the period beyond the twelve months from the date of signing of these accounts and there is sufficient funding available to both the Group and the Company to enable continued growth and development of the business. The directors have considered various scenarios to stress test the Group's forecasts.

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.

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

Post balance sheet events

Post year end on 26 September 2022, CloudPay Inc. the ultimate parent undertaking, obtained \$20million in convertible debt from existing shareholders and Cloudpay Holdings Limited, the immediate parent undertaking, obtained a further \$15million in their long-term debt facility (note 22).

Disclosure of information to auditors

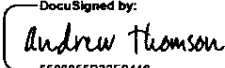
In the case of each director in office at the date the directors' report is approved:

- 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

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

DocuSigned by:

5586855B32E0416...
A Thomson

Director

Date: 12 October 2022

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

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 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.

We have audited the financial statements of CloudPay United Kingdom Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Total Comprehensive Income, Balance Sheet, Statement of Changes in Equity and 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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. 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 course of the audit, or otherwise appears to be materially misstated.

Independent auditor's report to the members of CloudPay United Kingdom Limited (*continued*)

Other information (*continued*)

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

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

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

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 or the Directors' 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.

Independent auditor's report to the members of CloudPay United Kingdom Limited (*continued*)

Auditor's responsibilities for the audit of the financial statements (*continued*)

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We have evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override, and considered that the principal risk were related to the posting of inappropriate journal entries to improve the result before tax for the year.

We designed our audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

Procedures performed included:

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations;
- Reading the minutes of meetings of those charged with governance;
- Evaluation of controls designed to prevent and detect irregularities; and
- Assessing journal entries as part of our planned audit approach.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

DocuSigned by:

Arbinder Chatwal

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

Date: 13 October 2022

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 2021 £'000	Year ended 31 Dec 2020 £'000
Turnover	3	19,769	14,146
Cost of sales		(14,812)	(8,921)
Gross profit		4,957	5,225
Administrative expenses		(12,378)	(5,983)
Operating loss	6	(7,421)	(758)
Interest receivable and similar income	7	8	7
Loss on ordinary activities before taxation		(7,413)	(751)
Taxation on loss on ordinary activities	8	-	-
Loss on ordinary activities after taxation		(7,413)	(751)
Other comprehensive income/ (loss)			
Currency translation differences		232	(156)
Other comprehensive income/ (loss) for the year		232	(156)
Total comprehensive loss for the year		(7,181)	(907)

The notes on pages 12 to 23 form part of these financial statements.

CloudPay United Kingdom Limited

Balance sheet

	Note	31 Dec 2021 £'000	31 Dec 2020 £'000
Fixed assets			
Investments	9	-	-
Tangible assets	10	310	255
		<u>310</u>	<u>255</u>
Current assets			
Debtors	11	43,399	33,889
Cash at bank and in hand		1,300	719
		<u>44,699</u>	<u>34,608</u>
Creditors: amounts falling due within one year	12	<u>(70,695)</u>	<u>(54,893)</u>
Net current liabilities		<u>(25,996)</u>	<u>(20,285)</u>
Total assets less current liabilities		<u>(25,686)</u>	<u>(20,030)</u>
Creditors: amounts falling due after more than one year	13	(2,968)	(1,555)
Net liabilities		<u>(28,654)</u>	<u>(21,585)</u>
Capital and reserves			
Called up share capital	16	2	2
Share premium account		2,999	2,999
Profit and loss account		<u>(31,655)</u>	<u>(24,586)</u>
		<u>(28,654)</u>	<u>(21,585)</u>

The financial statements on pages 9 to 23 were approved by the Board of Directors and were signed on its behalf by:

DocuSigned by:

 5086855B32E0418...
A Thomson
 Director

Date: 12 October 2022

Registered number: 03579805

The notes on pages 12 to 23 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 2020	2	2,999	(23,679)	(20,678)
Comprehensive loss for the year				
Loss for the year	-	-	(751)	(751)
Other comprehensive loss for the year				
Currency translation differences	-	-	(156)	(156)
Total comprehensive loss for the year	-	-	(907)	(907)
Transactions with owners recognised directly in equity				
Equity-settled share based payment	-	-	-	-
31 December 2020 and 1 January 2021	2	2,999	(24,586)	(21,585)
Comprehensive loss for the year				
Loss for the year	-	-	(7,413)	(7,413)
Other comprehensive income for the year				
Currency translation differences	-	-	232	232
Total comprehensive loss for the year	-	-	(7,181)	(7,181)
Transactions with owners recognised directly in equity				
Equity-settled share based payment	-	-	112	112
31 December 2021	2	2,999	(31,655)	(28,654)

The notes on pages 12 to 23 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 Company information 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 2021 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 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.

On 29 July 2021, CloudPay Inc. the ultimate parent undertaking, obtained additional equity investment of \$48.2million. A significant investment in technology will drive expansion of the treasury business, support continued growth in payroll revenue globally and lead to improvement in the Group gross margin.

At 31 December 2021, the parent undertaking, Cloudpay Holdings Limited had a debt facility of \$45million, of which \$35million was drawn down at the balance sheet date (2020: \$25million). During June 2022 an additional \$10million has been drawn down. On 26 September 2022, CloudPay Inc. the ultimate parent undertaking, obtained \$20million in convertible debt from existing shareholders and Cloudpay Holdings Limited obtained a further \$15million in their long-term debt facility. This will provide sufficient funding to both the Group and the company to enable continued growth and development of the business. An additional \$15million will be eligible for draw down from the long-term debt facility on condition of annual recurring revenue targets being met.

The Group's forecasts contain sufficient cash projections and covenant coverage for the period beyond the twelve months from the date of signing of these accounts and there is sufficient funding available to both the Group and the Company to enable continued growth and development of the business. The directors have considered various scenarios to stress test the Group's forecasts.

CloudPay United Kingdom Limited

Notes to the financial statements (*continued*)

(1) Accounting policies (*continued*)

Going concern (*continued*)

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.

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

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.

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

(1) Accounting policies *(continued)*

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*.

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.

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

(1) Accounting policies (continued)

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.

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.

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

(1) Accounting policies *(continued)*

Current and deferred taxation *(continued)*

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.

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 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.

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

(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 2021 £'000	Year ended 31 Dec 2020 £'000
United Kingdom	9,508	7,914
United States	3,123	2,209
Rest of Europe	5,309	2,970
Rest of the World	1,829	1,053
	19,769	14,146

(4) Staff costs

The average monthly number of staff employed by the company (including executive directors) during the year was 242 (2020: 171). Staff costs for these individuals are shown below:

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Wages and salaries	10,083	7,557
Social security costs	1,244	953
Pension costs	948	631
Staff costs excluding share-based payment	12,275	9,141
Share based payments	112	-
Total staff costs	12,387	9,141

(5) Directors' emoluments

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Directors' emoluments	560	286
Company contributions to money purchase pension schemes	45	26
	605	312

Emoluments of the highest paid director were £229,000 (2020: £186,000) excluding Company pension contributions of £10,000 (2020: £15,000).

CloudPay United Kingdom Limited

Notes to the financial statements (*continued*)

(6) Operating loss

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Operating loss is stated after charging/ (crediting):		
Depreciation of tangible fixed assets	188	212
Impairment of investments	94	64
Auditors' remuneration: audit services	19	16
Operating lease charges: Land and buildings	217	202
Operating lease charges: Plant and machinery	5	9
Share based payments	111	-
Exchange differences	1,633	(2,833)

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.

(7) Net interest

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Bank interest receivable	8	7
Net interest	8	7

(8) Tax on loss on ordinary activities

Analysis of tax charge for the year:

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
<i>UK corporation tax</i>		
Current tax on loss for the year	-	-
Total current tax/ tax on loss on ordinary activities	-	-

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

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

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

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 2021 £'000	Year ended 31 Dec 2020 £'000
Loss on ordinary activities before taxation	(7,413)	(751)
Loss on ordinary activities multiplied by the rate of tax for small companies in the UK of 19% (2020: 19%)	(1,408)	(143)
Effects of:		
Expenses not allowable for tax purposes	104	38
Fixed asset differences	5	-
Deferred tax not recognised	1,299	105
Total tax charge for the year	-	-

(9) Investments in subsidiary companies

	Year Ended 31 Dec 2021 £'000	Year Ended 31 Dec 2020 £'000
Investments in subsidiary undertakings		
Cost:		
At 1 January	345	281
Additions	94	64
At 31 December	439	345
Impairment:		
At 1 January	(345)	(281)
Charge for the year	(94)	(64)
At 31 December	(439)	(345)
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 2021 £'000	Loss for the period ended 31 Dec 2021 £'000
CloudPay Software Service (Shanghai) Limited	Lippo Plaza No. 222, Middle Huaihai Road, Shanghai, China	100%	(940)	(138)
CloudPay Italy srl	Via Ludovisi, 16 00187 Rome, Italy	100%	(86)	(96)

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

(10) Tangible assets

	Leasehold improvements £'000	Office equipment £'000	Total £'000
Cost:			
At 1 January 2021	221	858	1,079
Additions	-	243	243
Disposals	-	(117)	(117)
Foreign exchange difference		(1)	(1)
At 31 December 2021	221	983	1,204
Depreciation:			
At 1 January 2021	188	636	824
Charge for the period	18	170	188
Disposals	-	(117)	(117)
Foreign exchange difference		(1)	(1)
At 31 December 2021	206	688	894
Net book value:			
At 31 December 2021	15	295	310
At 31 December 2020	33	222	255

(11) Debtors

	31 Dec 2021 £'000	31 Dec 2020 £'000
Trade debtors	4,504	2,715
Amounts owed by group companies	33,077	27,309
Other debtors	279	137
Prepayments and accrued income	5,539	3,728
	43,399	33,889

Prepayments and accrued income includes deferred costs totalling £4,168,000 (2020: £2,677,000) relating to customer contracts which are expected to be recognised in the profit and loss account as follows:

	31 Dec 2021 £'000	31 Dec 2020 £'000
Within one year	1,774	1,201
After more than one year	2,394	1,476
	4,168	2,677

(12) Creditors: amounts falling due within one year

	31 Dec 2021 £'000	31 Dec 2020 £'000
Trade creditors	1,054	1,247
Other taxation and social security	797	735
Other creditors	118	82
Accruals and deferred income	3,216	2,616
Amounts owed to group companies	65,510	50,213
	70,695	54,893

Accruals and deferred income includes £2,000,000 (2020: £1,330,000) 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.

CloudPay United Kingdom Limited

Notes to the financial statements *(continued)*

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

	31 Dec 2021 £'000	31 Dec 2020 £'000
Deferred income (note 14)	<u>2,968</u>	<u>1,555</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 2021 £'000	31 Dec 2020 £'000
Within one year	2,000	1,330
Between two and five years	2,957	1,534
Greater than five years	11	21
	<u>4,968</u>	<u>2,885</u>

(15) Deferred tax

At 31 December 2021, there are unrecognised deferred tax balances comprising the following:

	31 Dec 2021 £'000
Temporary differences	33
Unrelieved trading losses	<u>5,115</u>
	<u>5,148</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 2021 £'000	31 Dec 2020 £'000
Authorised:		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
2,384 (2020: 2,384) ordinary shares of £1 each	<u>2</u>	<u>2</u>

CloudPay United Kingdom Limited

Notes to the financial statements (*continued*)

(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 2021 £'000	31 Dec 2020 £'000
No later than 1 year	48	211
Later than 1 year and not later than 5 years	43	85
Later than 5 years	14	25
	105	321

(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 £948,000 (2020: £631,000). Included in creditors at 31 December 2021 were £118,000 (2020: £82,000) of unpaid pension contributions.

(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 21,839 options (2020: 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 2018 the ultimate parent company, CloudPay Inc. introduced a new share scheme for UK employees of the Group. Under this scheme, CloudPay Inc. granted nil options (2020: 978) to employees of the company to purchase Series 2 Common Stock in CloudPay Inc. (including nil options to directors of the company 2020: none). In the prior year all 978 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

At 31 December 2021, A Pearson had an interest free loan from the company of £26,000 (2020: £26,000). During the year no repayments were made (2020: £nil).

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 £2,578,000 (2020: £2,124,000).

CloudPay United Kingdom Limited

Notes to the financial statements (*continued*)

(21) Commitments and contingencies

At 31 December 2021, the parent undertaking, Cloudpay Holdings Limited had a debt facility of \$45million, of which \$35million was drawn down at the balance sheet date (2020: \$25million). During June 2022 an additional \$10million has been drawn down. In September 2022 the facility was extended by a further \$30million, with \$15million drawn down.

The Company is a joint borrower under the facility and has granted fixed and floating charges over its assets in favour of the lender. The loan had a variable interest rate linked to the US Prime rate.

(22) Subsequent events

Post year end on 26 September 2022, CloudPay Inc. the ultimate parent undertaking, obtained \$20million in convertible debt from existing shareholders and Cloudpay Holdings Limited, the immediate parent undertaking, obtained a further \$15million from their long-term debt facility.

(23) 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.