

Registration number: 09522753

Quality Clouds Ltd

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2021

EKWilliams Accountants Limited
1 Pavilion Square
Cricketers Way
Westhoughton
Bolton
BL5 3AJ



Quality Clouds Ltd

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Quality Clouds Ltd

Company Information

Directors

Mr Alberto Gomez

Mr Albert Franquesa Ribe

Mr Angel Marquez Hurtado

Mr John Mcadam

Mr Mark Ross Sutherland

Company secretary

MBM Secretarial Services Limited

Registered office

20-22 Wenlock Road

London

N1 7GU

Independent Auditors

EKWilliams Accountants Limited

1 Pavilion Square

Cricketers Way

Westhoughton

Bolton

BL5 3AJ

Accountants

Meyer Williams Chartered Accountants

& Statutory Auditors

Stag House

Old London Road

Hertford

Hertfordshire

SG13 7LA

Quality Clouds Ltd

Directors' Report for the Year Ended 31 December 2021

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

Principal Activity

The principal activity of the company and the group during the year was that of computer software support and development.

Directors

The directors who held office during the year were as follows:

Mr Alberto Gomez

Mr Albert Franquesa Ribe

Mrs Maria Montserrat Puig Ponsico (ceased 4 May 2022)

Mr Angel Marquez Hurtado

Mr Jonathan Israel Tepper (ceased 4 May 2022)

The following directors were appointed after the year end:

Mr John Mcadam (appointed 4 May 2022)

Mr Mark Ross Sutherland (appointed 4 May 2022)

Research and development

The parent and its subsidiary continue to undertake research and development activities to improve product and service offerings and to assist in enhancing the wider software market.

Events since the end of the year

Information relating to events since the end of the year is given in the notes to the consolidated financial statements.

Going concern

Losses in the current year resulted in the company having negative equity of £2,603,322 at 31 December 2021 and the group having negative equity of £2,441,345. A significant amount of the liabilities are non-current and both the group and the company have a significant amount of deferred income in the net current liabilities of £516,451 for the group and £706,899 for the company. The group and the company liabilities include £1,600,000 relating to loans which will be converted into share capital on 27 October 2023, together with any accrued interest, if the loans and interest have not been repaid by that date.

The directors have carefully assessed the appropriateness of the going concern concept in relation to these financial statements and believe that the accounts should be prepared on a going concern basis. This conclusion has been reached based on the parent company securing £2,344,285 of additional funding on 6 May 2022. The directors believe this will provide enough working capital to allow the company and the group to meet liabilities and obligations as they fall due for the foreseeable future.

The directors have made enquiries and assessed the continuing impact of Covid-19 on the company and the group. Whilst the impact of Covid-19 is likely to be long lasting and will affect the global economy for the foreseeable future, the directors believe that the company and the group have more than enough financial resources to continue operating for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the company's financial statements.

The directors continue to monitor the impact of Brexit and the geopolitical situation in Ukraine on the company and the group but, in their opinion, it has been minimal so far. The directors believe the going concern assumption to be appropriate given the company and group's working capital position post year end.

Quality Clouds Ltd

Directors' Report for the Year Ended 31 December 2021

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director (as defined by Section 418 of the Companies Act 2006) in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of EKWilliams Accountants Limited as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Small companies provision statement

This report has been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

Approved and authorised by the Board on 30 May 2022 and signed on its behalf by:



.....
Mr Albert Franquesa Ribe
Director

Quality Clouds Ltd

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

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Quality Clouds Ltd

Independent Auditor's Report to the Members of Quality Clouds Ltd

Opinion

We have audited the financial statements of Quality Clouds Ltd (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021, which comprise the Consolidated Statement of Profit and Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs for Small and Medium-sized entities as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the parent company's and the Group's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; 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 responsibilities for the audit of the financial statements section of our report. We are independent of the group 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

In auditing the financial statements, we have concluded that the director's 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 Group's or the parent 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, 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.

Quality Clouds Ltd

Independent Auditor's Report to the Members of Quality Clouds Ltd

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.

Opinion on other matter 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 Group Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 4], 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 group's and the parent 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 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 Group financial statements.

Quality Clouds Ltd

Independent Auditor's Report to the Members of Quality Clouds Ltd

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.

As part of our planning of the audit work required, we obtained an understanding of the legal and regulatory frameworks that are applicable to the entity via enquiries of the company's management, carried out analytical procedures, held discussions amongst the engagement team and using knowledge of the sector determined that the most significant laws and regulations are those that relate to:

- Health and safety regulations.
- Employment law.
- General Data Protection Regulations.
- UK Tax legislation.

We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as International Financial Reporting Standards and the Companies Act 2006.

Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with the laws and regulations and the fraud risks identified. This included enquiries with management to understand their policies and procedures for compliance with those regulations and we completed the following tests:

- Obtained an understanding of relevant controls.
- Reviewed the company's risk assessments, procedures and systems.
- Checked samples of documentation.
- Reviewed correspondence with HMRC and the Pensions Regulator.

We also assessed the risks of material misstatement in respect of fraud as follows:

- Revenue fraud.
- Unauthorised expenditure and/or payments.
- Management override of controls.
- Related party fraud.

Based on the results of our risk assessment we designed our audit procedures to identify and to address material misstatements in relation to fraud. This included the risk of management bias and the risk of making inappropriate accounting entries, no significant issues were identified during our testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusions, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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.

Quality Clouds Ltd

Independent Auditor's Report to the Members of Quality Clouds Ltd



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Peter Brassington ACA FCCA (Senior Statutory Auditor)
For and on behalf of EK Williams Accountants Limited, Statutory Auditor

**1 Pavilion Square
Cricketers Way
Westhoughton
Bolton
BL5 3AJ**

30 May 2022

Quality Clouds Ltd

Consolidated Statement of Profit and Loss for the Year Ended 31 December 2021

	Note	2021 £	2020 £
Continuing Operations			
Revenue	3	1,042,352	707,896
Cost of sales		<u>(23,045)</u>	<u>(92,327)</u>
Gross profit		1,019,307	615,569
Administrative expenses		(2,532,989)	(2,133,295)
Other operating income	4	<u>10,842</u>	<u>940</u>
Operating loss	5	<u>(1,502,840)</u>	<u>(1,516,786)</u>
Finance income	6	-	129
Finance costs	7	<u>(106,518)</u>	<u>(18,569)</u>
		<u>(106,518)</u>	<u>(18,440)</u>
Loss before income tax		(1,609,358)	(1,535,226)
Income Tax on loss	10	<u>120,463</u>	<u>108,801</u>
Loss for the financial year		<u>(1,488,895)</u>	<u>(1,426,425)</u>
Profit/(loss) attributable to:			
Owners of the parent company		<u>(1,488,895)</u>	<u>(1,426,425)</u>

All amounts relate to continuing operations

Quality Clouds Ltd

Consolidated Statement of Other Comprehensive Income for the Year Ended 31
December 2021

	2021 £	2020 £
Loss for the year	(1,488,895)	(1,426,425)
Other comprehensive income		
(Items that may be reclassified to profit and loss):		
Exchange differences on consolidation	<u>(2,458)</u>	<u>1,435</u>
Total comprehensive income for the year	<u>(1,491,353)</u>	<u>(1,424,990)</u>
Total comprehensive income attributable to:		
Owners of the company	<u>(1,491,353)</u>	<u>(1,424,990)</u>


Quality Clouds Ltd

(Registration number: 09522753)

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 £	2020 £
Assets			
Non-current assets			
Property, plant and equipment	11	16,671	24,429
Deferred tax	20	2,090	4,005
		18,761	28,434
Current assets			
Trade and other receivables	13	332,393	655,230
Tax receivable	13	148,308	129,984
Cash and cash equivalents	14	242,419	544,092
		723,120	1,329,306
Total assets		741,881	1,357,740
Equity			
Shareholders' Equity			
Called up share capital	17	2	2
Share premium reserve		1,702,021	1,699,959
Other reserves		(1,646)	812
Retained earnings		(4,141,722)	(2,652,827)
Total equity		(2,441,345)	(952,054)
Liabilities			
Non-current liabilities			
Trade and other payables	15	267,488	328,362
Finance liabilities – borrowings			
Interest bearing loans and borrowings	18	1,639,167	1,084,141
		1,906,655	1,412,503
Current liabilities			
Trade and other payables	15	1,202,198	849,505
Finance liabilities – borrowings			
Interest bearing loans and borrowings	18	58,736	25,692
Tax payable		15,637	22,094
		1,276,571	897,291
Total liabilities		3,183,226	2,309,794
Total Equity and liabilities		741,881	1,357,740

Approved and authorised by the Board on 30 May 2022 and signed on its behalf by:



 Mr Albert Franquesa Ribe
 Director

Quality Clouds Ltd

(Registration number: 09522753)

Statement of Financial Position as at 31 December 2021

	Note	2021 £	2020 £
Assets			
Non-current assets			
Property, plant and equipment	11	7,220	11,016
Investments	12	3,011	3,011
		10,231	14,027
Current assets			
Trade and other receivables	13	263,702	587,291
Tax receivable	13	148,308	129,984
Cash and cash equivalents	14	217,077	495,785
		629,087	1,213,060
Total assets		639,318	1,227,087
Equity			
Shareholders' equity			
Called up share capital	17	2	2
Share premium reserve		1,702,021	1,699,959
Retained earnings		(4,305,345)	(2,733,730)
Total equity		(2,603,322)	(1,033,769)
Liabilities - Non-current liabilities			
Trade and other payables	15	267,488	328,362
Finance liabilities – interest bearing loans and borrowings	18	1,639,167	1,043,333
		1,906,655	1,371,695
Liabilities - Current liabilities			
Trade and other payables	15	1,325,985	882,494
Finance liabilities – interest bearing loans and borrowings	18	10,000	6,667
		1,335,985	889,161
Total liabilities		3,242,640	2,260,856
Total Equity and liabilities		639,318	1,227,087

The company made a loss after tax for the financial year of £1,571,615 (2020 - loss of £1,482,720).

Approved and authorised by the Board on 30 May 2022 and signed on its behalf by:



.....
Mr Albert Franquesa Ribe
Director

Quality Clouds Ltd

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2021
Equity attributable to the parent company

	Called Up share capital £	Share premium £	Other reserves – foreign exchange on consolidation £	Profit and loss account £
At 1 January 2021	2	1,699,959	812	(2,652,827)
Deficit for the year	-	-	-	(1,488,895)
Other comprehensive income	-	-	(2,458)	-
Total comprehensive income	-	-	(2,458)	(1,488,895)
Issue of share capital	-	2,062	-	-
At 31 December 2021	2	1,702,021	(1,646)	(4,141,722)
				Total equity
				£
At 1 January 2021				(952,054)
Loss for the year				(1,488,895)
Other comprehensive income				(2,458)
Total comprehensive income				(1,491,353)
Issue of share capital				2,062
At 31 December 2021				(2,441,345)
				Total equity
				£
At 1 January 2020	2	1,699,959	(623)	(1,226,402)
Deficit for the year	-	-	-	(1,426,425)
Other comprehensive income	-	-	1,435	-
Total comprehensive income	-	-	1,435	(1,426,425)
At 31 December 2020	2	1,699,959	812	(2,652,827)
				Total equity
				£
At 1 January 2020				472,936
Loss for the year				(1,426,425)
Other comprehensive income				1,435
Total comprehensive income				(1,424,990)
At 31 December 2020				(952,054)

The notes on pages 16 to 31 form an integral part of these financial statements.

Quality Clouds Ltd

Statement of Changes in Equity for the Year Ended 31 December 2021

	Called Up share capital	Share premium	Profit and loss account	Total
	£	£	£	£
At 1 January 2021	2	1,699,959	(2,733,730)	(1,033,769)
Deficit for the year	-	-	(1,571,615)	(1,571,615)
Total comprehensive income	-	-	(1,571,615)	(1,571,615)
Issue of share capital	-	2,062	-	2,062
At 31 December 2021	2	1,702,021	(4,305,345)	(2,603,322)

	Called Up share capital	Share premium	Profit and loss account	Total
	£	£	£	£
At 1 January 2020	2	1,699,959	(1,251,010)	448,951
Deficit for the year	-	-	(1,482,720)	(1,482,720)
Total comprehensive income	-	-	(1,482,720)	(1,482,720)
At 31 December 2020	2	1,699,959	(2,733,730)	(1,033,769)

The notes on pages 16 to 31 form an integral part of these financial statements.

Quality Clouds Ltd

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

	Notes	2021 £	2020 £
Cash flows from operating activities			
Cash generated from operations	1	(983,080)	(1,349,183)
Interest paid		(2,260)	(4,103)
Taxation paid		(32,580)	(11,221)
Taxation refund		129,983	65,625
Net cash from operating activities		<u>(887,937)</u>	<u>(1,298,882)</u>
Cash flows from investing activities			
Purchase of tangible non-current assets		(4,567)	(16,935)
Sale of tangible non-current assets		700	-
Interest received		-	129
Net cash from investing activities		<u>(3,867)</u>	<u>(16,806)</u>
Cash flows from financing activities			
Loans received in the year		600,000	1,094,486
Loan repayments in the year		(11,931)	(21,256)
Amount withdrawn by directors		-	(22,742)
Share issue		2,062	-
Net cash from financing activities		<u>590,131</u>	<u>1,050,488</u>
Decrease in cash and cash equivalents		<u>(301,673)</u>	<u>(265,200)</u>
Cash and cash equivalents at the beginning of the year	2	544,092	809,292
Cash and cash equivalents at end of the year	2	<u>242,419</u>	<u>544,092</u>

Notes to the Consolidated Statement of Cash Flows

1. Reconciliation of loss before income tax to cash from operations

Loss before income tax	(1,609,358)	(1,535,226)
Depreciation charges	11,562	9,236
Loss on disposal of non-current assets	62	-
Foreign exchange movement	(2,264)	1,435
Finance (income) / costs	106,518	18,440
Decrease/(Increase) in trade and other receivables	322,837	(525,220)
Increase in trade and other payables	187,563	682,152
Cash generated from operations	<u>(983,080)</u>	<u>(1,349,183)</u>

2. Cash and cash equivalents

The disclosures above in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts

	31.12.21	01.01.21
Cash and cash equivalents	242,419	544,092
	31.12.20	01.01.20
Cash and cash equivalents	544,092	809,292

The notes on pages 16 to 31 form an integral part of these financial statements.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is:

20-22 Wenlock Road

London

N1 7GU, England

These financial statements were authorised for issue by the Board on 30 May 2022.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board and are consistent with the previous period. The consolidated financial statements have been prepared on a historical cost basis and are presented in pound sterling ("Sterling") which is the Company's functional and presentational currency with all values rounded to the nearest pound. The subsidiary of the Group prepares its financial statements in euros, and these are translated into Sterling on consolidation.

The preparation of financial statements in accordance with UK-adopted international accounting standards requires the use of accounting estimates and assumptions. Additionally, it requires management's judgement during the implementation process of the Group's accounting policies. Accounting policies have been applied consistently, other than where new policies have been adopted. The estimates and assumptions are made to the best of management's knowledge in the current circumstances. These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101)

Standards issued but not yet effective and not early adopted

The following standards have been issued, amended or clarified but are not yet effective and not early adopted in preparing these financial statements:

1.1.22 - Amendment to IFRS 16, 'Leases'

1.1.22 - A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS and IFRS 16

1.1.23 - Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8

1.1.23 - Amendment to IAS 12 - deferred tax

1.1.23 - IFRS 17 - Insurance contracts

1.1.24 - Amendments to IAS 1, Presentation of financial statements on classification of liabilities

Management has assessed that the above changes to the standards are not expected to have a material impact on the financial position or financial performance of the company.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its wholly owned subsidiary Quality Clouds S.L. drawn up to 31 December 2021.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions and any intercompany profits or losses are eliminated in the consolidated financial statements.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

Going concern

Losses in the current year resulted in the company having negative equity of £2,603,322 at 31 December 2021 and the group having negative equity of £2,441,345. A significant amount of the liabilities are non-current and both the group and the company have a significant amount of deferred income in the net current liabilities of £516,451 for the group and £706,899 for the company. The group and the company liabilities include £1,600,000 relating to loans which will be converted into share capital on 27 October 2023, together with any accrued interest, if the loans and interest have not been repaid by that date.

The directors have carefully assessed the appropriateness of the going concern concept in relation to these financial statements and believe that the accounts should be prepared on a going concern basis. This conclusion has been reached based on the parent company securing £2,344,285 of additional funding on 6 May 2022. The directors believe this will provide enough working capital to allow the company and the group to meet liabilities and obligations as they fall due for the foreseeable future.

The directors have made enquiries and assessed the continuing impact of Covid-19 on the company and the group. Whilst the impact of Covid-19 is likely to be long lasting and will affect the global economy for the foreseeable future, the directors believe that the company and the group have more than enough financial resources to continue operating for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the company's financial statements.

The directors continue to monitor the impact of Brexit and the geopolitical situation in Ukraine on the company and the group but, in their opinion, it has been minimal so far. The directors believe the going concern assumption to be appropriate given the company and group's working capital position post year end.

Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

Key sources of estimation uncertainty

The nature of estimation means that actual outcomes could differ from those estimates. In the opinion of the directors, there are no areas where management judgements have had a significant effect on amounts recognised in the financial statements.

Revenue recognition

Revenue represents amounts receivable in respect of services provided during the year, excluding value added tax ("VAT"). In accordance with IFRS 15 ("Revenue from Contracts with Customers"), revenue is measured by reference to the fair value of the consideration received or receivable by the company for the services provided, excluding VAT. For contracts with customers that stipulate the service will be provided over a period of time, the fair value of the contract is assessed and split equally over the term of the contract. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and when the costs incurred or to be incurred can be measured reliably.

Product development

Expenditure on product development is written off in the period in which it is incurred.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

Foreign currency transactions and balances

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 functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss, within finance costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

Tax

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

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 group operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the consolidated financial statements.

Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Property, Plant and Equipment (Tangible assets)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the income statement within other operating income or the relevant expense item.

Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Asset class	Depreciation method and rate
Fixtures and fittings	25% or 33% on cost
Computer equipment	25% or 33% on cost



Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the group includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade and other receivables (Debtors)

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Trade and other payables (Creditors)

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Share based payments

The Group operates an equity-settled share-based remuneration plans for its employees. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

Financial instruments

Recognition and measurement

Debt instruments like loans and other accounts receivable and payable are initially measured at present value of the future payments and subsequently at amortised cost using the effective interest method; Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially and subsequently, at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and the best estimate, which is an approximation, of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 Revenue

The revenue and profit for the financial year are attributable to the group's principal activity of providing computer software support and development services to clients. The geographical split of turnover is as follows:

	2021	2020
	£	£
United Kingdom	121,430	65,301
Europe	373,462	279,121
Rest of World	547,460	363,474
	<u>1,042,352</u>	<u>707,896</u>

4 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2021	2020
	£	£
Government grants	-	803
Miscellaneous other operating income	10,842	137
	<u>10,842</u>	<u>940</u>

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

5 Operating loss

	2021	2020
	£	£
Arrived at after charging/(crediting)		
Bank loan interest	1,731	2,392
Loss on disposal of property, plant and equipment	62	-
	62	-

6 Finance income

	2021	2020
	£	£
Interest income on bank deposits	-	129
	-	129

7 Finance costs

	2021	2020
	£	£
Bank loan interest	1,731	2,392
Other loan interest	104,787	16,177
	106,518	18,569

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021	2020
	£	£
Remuneration (Mr Hurtado's remuneration is included in consultancy costs in the detailed consolidated profit and loss account)	236,324	160,898
	236,324	160,898

The group's average number of employees for 2021 was 37 (2020: 34)

9 Auditors' remuneration

	2021	2020
	£	£
Audit of these financial statements	6,168	44,677
	6,168	44,677

10 Taxation

Tax charged/(credited) in the income statement

	2021	2020
	£	£
Current taxation		
UK corporation tax	(122,184)	(104,810)
Deferred taxation		
Arising from origination and reversal of timing differences	1,721	(3,991)
Tax receipt in the income statement	(120,463)	(108,801)

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Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

10 Taxation - continued

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £	2020 £
Loss before tax	(1,609,358)	(1,535,226)
Corporation tax at standard rate	(305,778)	(291,693)
Increase from effect of different UK tax rates on some earnings	46,026	40,340
Effect of expense not deductible in determining taxable profit (tax loss)	8,412	3,803
Effect of tax losses	233,533	230,656
Deferred tax credit relating to changes in tax rates or laws	(1,915)	(3,991)
Foreign deferred tax expense relating to changes in tax rates or laws	7,252	5,867
Deferred tax credit from unrecognised temporary difference from a prior period	(181)	-
Tax increase from effect of capital allowances and depreciation	2,029	2,487
Tax decrease from effect of adjustment in research and development tax credit	(109,841)	(96,270)
Total tax credit	(120,463)	(108,801)

At 31 December 2021 the group had unrelieved trading losses amounting to approximately £3,300,000 (2020: £2,000,000) which are available to be carried forward and offset against future trading profits. No deferred tax asset has been recognised in respect of these losses as there is uncertainty about the timing and extent of the future trading profits.

The parent company losses are not available to transfer against taxable profits in the subsidiary undertaking and a deferred tax asset is recognised in respect of timing differences in the subsidiary as set out in the Deferred Tax note 20 in the financial statements.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

11 Property, Plant and Equipment

Group

	Furniture, fittings and equipment £	Computer equipment £	Total £
Cost or valuation			
At 1 January 2021	1,394	41,127	42,521
Additions	-	4,567	4,567
Disposals	-	(1,999)	(1,999)
At 31 December 2021	1,394	43,695	45,089
Depreciation			
At 1 January 2021	799	17,293	18,092
Charge for the year	416	11,147	11,563
Eliminated on disposal	-	(1,237)	(1,237)
At 31 December 2021	1,215	27,203	28,418
Carrying amount			
At 31 December 2021	179	16,492	16,671
At 31 December 2020	595	23,834	24,429

Company

	Furniture, fittings and equipment £	Computer equipment £	Total £
Cost or valuation			
At 1 January 2021	1,394	17,263	18,657
Additions	-	2,316	2,316
Disposals	-	(1,999)	(1,999)
At 31 December 2021	1,394	17,580	18,974
Depreciation			
At 1 January 2021	799	6,842	7,641
Charge for the year	416	4,934	5,350
Eliminated on disposal	-	(1,237)	(1,237)
At 31 December 2021	1,215	10,539	11,754
Carrying amount			
At 31 December 2021	179	7,041	7,220
At 31 December 2020	595	10,421	11,016

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Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

12 Investments

Company

	2021	2020
	£	£
Investments in subsidiaries	3,011	3,011

Subsidiaries

Cost or valuation

At 1 January 2021

And 31 December 2021

£

3,011

Carrying amount

At 31 December 2021

At 31 December 2020

3,011

3,011

Details of undertakings

Details of the investments (including principal place of business of unincorporated entities) in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2021	2020
Subsidiary undertakings				
Quality Clouds S.L.	Quality Clouds S.L. Calle Torrent de L'olla, 218 - P. 1 PTA. 3, Barcelona, 08012 Spain	Ordinary	100%	100%

Subsidiary undertakings

Quality Clouds S.L.

The principal activity of Quality Clouds S.L. is Computer software development. The profit for the financial period of Quality Clouds S.L. was £82,721 (2020 - £60,458) and the aggregate amount of capital and reserves at the end of the period was £164,577 (2020 - £88,890).

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

13 Trade and other receivables

	Group		Company	
	2021 £	2020 £	2021 £	2020 £
Trade receivables	214,146	533,682	214,146	533,682
Other receivables	79,844	66,029	11,153	-
Prepayments and accrued income	38,403	55,519	38,403	53,609
Trade and other receivables	332,393	655,230	263,702	587,291
Income tax asset	148,308	129,984	148,308	129,984
	<u>480,701</u>	<u>785,214</u>	<u>412,010</u>	<u>717,275</u>

The parent company has surrendered its losses relating to Research and Development costs, including the enhanced allowances available, in order to receive a cash refund.

Trade and other receivables and Tax receivables are categorised in level 2 within the fair value hierarchy.

14 Cash and cash equivalents

	Group		Company	
	2021 £	2020 £	2021 £	2020 £
Cash at bank	242,419	544,092	217,077	495,785

15 Trade and other payables

	Note	Group		Company	
		2021 £	2020 £	2021 £	2020 £
Current					
Trade payables		74,061	53,593	61,233	25,507
Amounts due to related parties		-	-	404,661	176,532
Social security and other taxes		60,015	79,084	13,572	20,329
Outstanding defined contribution pension costs		1,112	2,944	1,112	2,944
Other payables		729,962	553,634	728,429	548,822
Accruals		337,048	160,250	116,978	108,360
		<u>1,202,198</u>	<u>849,505</u>	<u>1,325,985</u>	<u>882,494</u>
Non-Current					
Other non-current financial liabilities		267,488	328,362	267,488	328,362
		<u>267,488</u>	<u>328,362</u>	<u>267,488</u>	<u>328,362</u>

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

16 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £16,791 (2020 - £16,378).

Contributions totalling £1,112 (2020 - £2,944) were payable to the scheme at the end of the year and are included in creditors.

17 Share capital

Allotted, called up and fully paid shares

	2021		2020	
	No.	£	No.	£
Ordinary of £0.00 each	1,050,100	2	1,050,100	2
Series A1 of £0.00 each	240,300	-	240,300	-
Series A2 of £0.00 each	333,715	-	333,715	-
B Ordinary of £0.00 each	12,128	-	-	-
	1,636,243	2	1,624,115	2

Shares in entity held by entity, subsidiaries, associates or joint ventures

The ordinary, series A1 and Series A2 classes of shares have equal voting and dividend rights. B Ordinary shares have no dividend rights or rights to attend, speak or vote at any general meeting or on any written shareholder resolutions.

On 18 November 2019 a special resolution was passed giving Series A1 and Series A2 shares priority over the ordinary shares on distributions from a winding up of the company.

During the year options granted under the Employee Management Incentive scheme set out in note 23 to the consolidated financial statements were exercised. 12,128 B Ordinary shares of £0.000001 were issued and fully paid for by cash, at a price of £0.17 per share from options exercised during the year ended 31 December 2021

18 Loans and borrowings

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Non-current loans and borrowings				
Bank borrowings	39,167	84,141	39,167	43,333
Other borrowings	1,600,000	1,000,000	1,600,000	1,000,000
	1,639,167	1,084,141	1,639,167	1,043,333
	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Current loans and borrowings				
Bank borrowings	58,736	25,692	10,000	6,667

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

18 Loans and borrowings

	Within 1 year £	1-2 years £	2-5 years £	Totals £
Non-current loans and borrowings				
Bank loans	58,736	10,000	29,167	97,903
Other loans	-	1,600,000	-	1,600,000
	<u>58,736</u>	<u>1,610,000</u>	<u>29,167</u>	<u>1,697,903</u>

Company

	Within 1 year £	1-2 years £	2-5 years £	Totals £
Non-current loans and borrowings				
Bank loans	10,000	10,000	29,167	49,167
Other loans	-	1,600,000	-	1,600,000
	<u>10,000</u>	<u>1,610,000</u>	<u>29,167</u>	<u>1,649,167</u>

Financial liabilities are categorised in level 2 within the fair value hierarchy except other loans outstanding at 31 December 2021 which are categorised in level 3 within the fair value hierarchy.

Other loans outstanding at 31 December 2021 represent amounts due under a convertible loan agreement entered into by the company on 27 October 2020. The loan will be converted into ordinary shares on 27 October 2023 at an undetermined conversion price and is consequently categorised as a liability.

19 Financial Instruments

Group	2021 £	2020 £
Financial assets		
Financial assets measured at fair value through profit or loss	242,420	544,092
Financial assets measured at amortised cost	<u>291,485</u>	<u>602,884</u>
	<u>533,905</u>	<u>1,146,976</u>
Financial liabilities		
Financial liabilities that are debt instruments measured at amortised cost	<u>1,818,405</u>	<u>1,187,795</u>
Company		
Financial assets		
Financial assets measured at fair value through profit or loss	217,078	495,785
Financial assets measured at amortised cost	<u>225,299</u>	<u>533,682</u>
	<u>442,376</u>	<u>1,029,467</u>
Financial liabilities		
Financial liabilities that are debt instruments measured at amortised cost	<u>2,159,969</u>	<u>1,254,982</u>

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

20 Deferred Tax

	2021	2020
Group	£	£
Balance as at 1 January	4,005	-
Subsidiary timing differences	(1,721)	4,005
Exchange difference	(194)	-
	2,090	4,005

21 Non adjusting events after the financial period

On 4 May 2022, the parent company secured significant external finance from YFM Equity Partners Growth III LP to provide additional working capital to support the business' investment and growth. The net amount received on 6 May 2022, after deducting fees and associated VAT, was £2,344,285. In addition to this on 4 May 2022, an ordinary resolution was passed to allot 262,405 Y1 Preferred Shares, 242,723 Preferred Shares, 85,000 G Shares and 142,644 B Ordinary Shares, all with a nominal value of £0.000001 each.

22 Ultimate controlling party

No single party has had ultimate control of the parent company during the current year or previous year.

23 Share-based payment transactions

During the year the group commenced its Employee Management Incentive scheme which will be settled by share based payments.

The scheme granted 43,941 share options on 24 September 2020 with a vesting period of 4 years from the date of employment. The estimated fair value of each share option granted in the Employee Management Incentive scheme is £0.17. The exercise price at the date of the grant of the share options is £0.17 and as a result of the fair value and exercise prices being equal there is no cost that needs to be accounted for as a share-based payment.

12,128 share options have been exercised at 31 December 2021 (2020: £nil) and there was a weighted average remaining contractual life of 8.75 years.

24 Related party disclosures

Related parties include the subsidiary undertaking and the members of the board of Directors.

Transactions and balances with the subsidiary which are included in the parent company financial statements but have been eliminated on consolidation are as follows:

Included in Cost of sales		
Management charges to the subsidiary	88,711	56,954
Included in Administrative expenses		
Services purchased from the subsidiary	1,299,305	1,112,550
Included in Trade and other payables		
Amounts owed to group undertakings	404,661	176,532

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Risk management

The company is exposed to various financial risks such as market risk (variation in foreign exchange rates, interest rates etc.), credit risk and liquidity risk. The company's risk management policy is aimed at limiting the negative impact of these risks on its financial results which are derived from the inability to predict financial markets and the changes in variables affecting costs and revenue.

The risk management policy is executed by the company's directors using the following procedure:

- Evaluation of risks related to the company's activities.
- Methodology planning and selection of any suitable actions for risk reduction.
- Execute risk management in accordance to the procedure approved by the directors.

Business Risk

The directors consider that the company's principal business risks are over-reliance on key customers. The directors are confident that the company is well placed to retain its existing customers and to also attract new business.

Financial instruments

The company's financial instruments are mainly comprised of bank deposits and amounts owed to and owed from third parties.

The carrying amounts reflected in the accompanying Statement of Financial Position for balances approximately their respective fair values due to the relatively short-term maturity of these financial instruments.

Fair value of assets and liabilities

All assets and liabilities for which fair value is disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 1 Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- 2 Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- 3 Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Liquidity risk

The company manages its liquidity by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in its day-to-day business. Liquidity needs are monitored in various time bands, on a daily, weekly and monthly basis.

Foreign exchange risk

Currency risk arises from the fair values, or the cash flows, of a financial instrument fluctuating due to changes in foreign currency exchange rates. The group has trade receivables in various currencies such as Sterling, the Euro and the US Dollar and a significant proportion of the group's payables are also denominated in foreign currencies.

Quality Clouds Ltd

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Risk management - continued

Foreign exchange risk - continued

With a high level of foreign currency income and foreign currency costs there is a significant exposure to currency risk because the LLP does not actively undertake currency hedging transactions. Risks have been managed successfully to date through the operation of bank accounts for each currency with low levels of foreign exchange differences in the current year or previous period.

Credit risk

Credit risk is the risk of financial loss to the group if a counterparty fails to meet its contractual obligations.

Maximum exposure to credit risk at the reporting date to which the group is exposed is the carrying value of the trade and other receivables and customer defaults could adversely affect the liquidity of the group. However, due to the large number of customers and the diversification of the customer base, there is an acceptable level of concentration of credit risk with respect to these receivables.

The group has established credit policies under which customers are analysed for creditworthiness and there is an effective management of receivables in place both before and after they become overdue and if they were to become doubtful. In monitoring credit risk, customers are grouped according to their credit risk characteristics, ageing profile and existence of previous financial difficulties. If customers were to be characterised as doubtful, they would be reassessed at each reporting date for the estimated loss that would be expected, and an appropriate impairment allowance would be established.