

Canonical Group Limited

Report and Financial Statements

Year Ended

31 March 2016

Company Number 06870835

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Canonical Group Limited

Report and financial statements
for the year ended 31 March 2016

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Director

J E Silber

Secretary

Standard Bank Offshore Trust Company Jersey Limited

Registered office

5th Floor, Blue Fin Building, 110 Southwark Street, London, SE1 0SU

Company number

06870835

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Canonical Group Limited

Strategic report for the year ended 31 March 2016

The director presents her strategic report together with the audited financial statements for the year ended 31 March 2016.

Principal activities

Canonical Group Limited is the leading provider of support services for Ubuntu deployments in the market. Ubuntu is a free, open-source platform for client, server and cloud computing. Since its launch in 2004, Ubuntu has become a natural choice for users of all kinds, from Fortune 500 companies to hardware makers, content providers, software developers and individual technologists. Providing the operational management for the global resources of the Canonical group of companies, Canonical Group Limited is uniquely positioned to help customers make the most of Ubuntu.

Canonical Group Limited provides the operational management resources and direction for the sales, engineering and support of Ubuntu services provided by the companies within the group. In addition under the strategic guidance and direction of Canonical Limited, Canonical Group Limited provides operational management for the development of the Ubuntu brand and products.

Review of development, performance and position of the business

In the year to 31 March 2016 turnover increased by \$10m to \$106m. The group continued to invest, particularly in its people; increasing average headcount from 391 in 2015 to 496 in 2016. Operating loss this year was \$3m compared to \$11m in 2015.

Canonical is structured with two divisions; Devices and Cloud. The Devices strategy is to develop the use of Ubuntu and related products for use on physical devices, while the Cloud strategy is to develop the use of Canonical Cloud products on the Cloud infrastructure and architecture so they become a central part to the Cloud ecosystem.

For Devices, during the year Canonical launched a mobile phone with the Ubuntu operating system driving the phone and also providing a new way in which smartphone users can enjoy content and services without a reliance on the traditional apps. The initial launch took place across Europe. Canonical has made the Ubuntu operating system available on phone sold through its partners BQ and Meizu.

For Cloud, the Canonical strategy is to continue development of its products and services (e.g. Landscape, Juju and MaaS) so they are core to the cloud ecosystems and Canonical remains at the forefront of large cloud infrastructure deployments. In addition, Ubuntu is the leading operating system in the Cloud and with its partner network, Canonical makes it available on most major public clouds. For Openstack Ubuntu is the reference operating system.

To support this strategy Canonical Group Limited continues to build a world class global engineering and support operation. The combination of these highly skilled individuals and Canonical Group Limited's class leading management tools, positions the group to be a leading player in the markets where it operates.

Going concern

Canonical Group Limited is a privately held company and ultimately supported by the group's sole beneficial owner who has provided a commitment to support the group and company's needs for a period of at least one year from the signing of these financial statements.

Further details are included in note 1.

Canonical Group Limited

Strategic report
for the year ended 31 March 2016 (continued)

Key performance indicators

Canonical Group Limited measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focussed on revenue, operating result, cash flow and average headcount. Given the nature of operations the Board considers these most relevant and the KPIs form the basis of operational reports provided to the Board and management.

KPIs	2016	2015
Revenue (\$m)	106.2	95.7
Operating loss (\$m)	(3.3)	(10.5)
Cash outflow before financing (\$m)	(105.6)	(75.1)
Average headcount	496	391

Financial risk management objectives and policies

The group uses various financial instruments including loans and cash. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial assets and liabilities such as trade debtors and creditors that arise directly from its operations.

The existence of these financial instruments exposes the group to a number of financial risks which are described in more detail below. The risks arising from the group's financial instruments are currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Principal risks and uncertainties

Currency risk - The group has minimal exposure to currency translation risk. The majority of the group is denominated in USD, which is in line with sales and costs which are also denominated in USD.

Credit risk - The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is limited by determining a limit for customers based on third party credit references, payment history and other factors. This risk is reviewed regularly in conjunction with debtor ageing and payment history.

Liquidity risk - Current and projected working capital demand is assessed on a monthly basis and parent company loans are drawn down as required.

Approval

This strategic report was approved on behalf of the Board on 20-12-2016

J E Silber

Director



Canonical Group Limited

Report of the director for the year ended 31 March 2016

The director presents her report together with the audited financial statements for the year ended 31 March 2016.

Results and dividends

The consolidated income statement is set out on page 7 and shows the loss for the year.

During the year, no dividends were paid (2015 - \$Nil). The director does not recommend the payment of a final dividend (2015 - \$Nil).

Director

The director of the company during the year was:

J E Silber

Employee policies

Applications for employment by disabled persons are given full and fair consideration for all vacancies, having regard to their particular aptitudes and abilities. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Director's responsibilities

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director 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 group and company and of the loss of the group for that year.

In preparing these financial statements, the director is 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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. She is 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.

Canonical Group Limited

Report of the director for the year ended 31 March 2016 (*continued*)

Auditors

The current director has taken all the steps that she ought to have taken to make herself aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The director is not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

On behalf of the Board

J E Silber

Director



Date 20-12-2016

Canonical Group Limited

Independent auditor's report

TO THE MEMBERS OF CANONICAL GROUP LIMITED

We have audited the financial statements of Canonical Group Limited for the year ended 31 March 2016 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated statement of cash flows, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of the director and auditors

As explained more fully in the statement of director's responsibilities, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2016 and of the group's 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and director's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Canonical Group Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BMO LLP

*Julian Frost (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

Date *23 December 2016*

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

Canonical Group Limited

Consolidated income statement for the year ended 31 March 2016

	Note	2016 \$'000	2015 \$'000
Turnover	3	106,172	95,744
Cost of sales		(2,791)	(3,617)
Gross profit		103,381	92,127
Administrative expenses		(106,714)	(102,642)
Operating loss	6	(3,333)	(10,515)
Interest receivable and similar income	7	1,544	186
Interest payable and similar charges	8	(320)	(4,037)
Loss on ordinary activities before tax		(2,109)	(14,366)
Taxation	9	(140)	(109)
Loss for the financial year and total comprehensive loss		(2,249)	(14,475)

All amounts relate to continuing activities.

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated balance sheet at 31 March 2016

<i>Company number 06870835</i>	Note	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000
Fixed assets					
Tangible assets	11		2,052		1,530
Current assets					
Stock	13	186		215	
Debtors	14	299,388		182,474	
Cash at bank		27,355		31,571	
		<u>326,929</u>		<u>214,260</u>	
Creditors: amounts falling due within one year	15	<u>(401,789)</u>		<u>(286,574)</u>	
Net current liabilities			(74,860)		(72,314)
Provisions for liabilities	16		(225)		-
			<u>(73,033)</u>		<u>(70,784)</u>
Capital and reserves					
Share capital	18				
Profit and loss account			(73,033)		(70,784)
			<u>(73,033)</u>		<u>(70,784)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 20-12-2016

J E Silber
Director



The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated statement of changes in equity for the year ended 31 March 2016

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2015	-	(70,784)	(70,784)
Loss for the year	-	(2,249)	(2,249)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(2,249)	(2,249)
	<hr/>	<hr/>	<hr/>
31 March 2016	-	(73,033)	(73,033)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of changes in equity for the year ended 31 March 2015 (continued)

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2014	-	(56,309)	(56,309)
Loss for the year	-	(14,475)	(14,475)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(14,475)	(14,475)
	<hr/>	<hr/>	<hr/>
31 March 2015	-	(70,784)	(70,784)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Consolidated statement of cash flows for the year ended 31 March 2016

	2016 US\$'000	2015 US'000
Cash flows from operating activities		
Loss for the financial year	(2,249)	(14,475)
Adjustments for:		
Depreciation and impairment of fixed assets	1,165	733
Net interest (receivable)/payable	(1,224)	3,851
Taxation expense	140	109
Increase in trade and other debtors	(116,884)	(17,847)
Decrease/(increase) in stocks	29	(14)
Increase in trade and other creditors	116,379	44,956
Increase in provisions	225	-
	<hr/>	<hr/>
Cash from operations	(2,419)	17,313
Interest paid	-	-
Taxation paid	(110)	(51)
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(2,529)	17,364
	<hr/>	<hr/>
Cash flows from investing activities		
Purchases of tangible fixed assets	(1,687)	(2,607)
	<hr/>	<hr/>
Net cash used in investing activities	(1,687)	(2,607)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(4,216)	14,757
Cash and cash equivalents at beginning of year	31,571	16,814
	<hr/>	<hr/>
Cash and cash equivalents at end of year	27,355	31,571
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	27,355	31,571
	<hr/>	<hr/>
	27,355	31,571
	<hr/>	<hr/>

The notes on page 13 to 23 form part of these financial statements.

Canonical Group Limited

Company balance sheet at 31 March 2016

Company number 06870835	Note	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000
Fixed assets					
Tangible assets	11		1,079		869
Investments	12		854		700
			1,933		1,569
Current assets					
Stock	13	186		215	
Debtors	14	298,457		181,024	
Cash at bank		26,144		29,952	
		324,787		211,191	
Creditors: amounts falling due within one year	15	(413,651)		(294,968)	
Net current liabilities			(88,864)		(83,777)
			(86,931)		(82,208)
Capital and reserves					
Share capital	18		(86,931)		(82,208)
Profit and loss account			(86,931)		(82,208)
			(86,931)		(82,208)

The financial statements were approved by the Board of Directors and authorised for issue on 20-12-2016

J E Silber
Director

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Company statements of changes in equity for the year ended 31 March 2016

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2015	-	(82,208)	(82,208)
Loss for the year	-	(4,723)	(4,723)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year		(4,723)	(4,723)
	<hr/>	<hr/>	<hr/>
31 March 2016		(86,931)	(86,931)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company statements of changes in equity for the year ended 31 March 2015

	Share capital US\$'000	Profit and loss account US\$'000	Total equity US\$'000
1 April 2014	-	(64,543)	(64,543)
Loss for the year	-	(17,665)	(17,665)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year		(17,665)	(17,665)
	<hr/>	<hr/>	<hr/>
31 March 2015		(82,208)	(82,208)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 23 form part of these financial statements.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016

1 Accounting policies

Basis of preparation of financial statements

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

These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 22.

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

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards other than the application of merger accounting in the circumstances referred to below. The financial statements have been prepared using the US Dollar as the presentational currency on the basis that the directors believe the US Dollar to be the functional currency of the company. The year-end exchange rate between US Dollar and Sterling was 1.4374.

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

Basis of consolidation

The Group financial statements consolidate the financial statements of Canonical Group Limited and all its subsidiary undertakings as at 31 March 2016. The Group uses the acquisition method of accounting to consolidate the results of the subsidiary undertakings unless otherwise stated. All inter-company transactions and balances between group enterprises are eliminated on consolidation.

For the consolidated financial statements the adoption of merger accounting presents Canonical Group Limited as if Canonical UK Limited had always been the subsidiary undertaking of the Group.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

1 Accounting policies (*continued*)

The following principal accounting policies have been applied:

Going concern

The financial statements are produced on a going concern basis. The directors have produced forecast cash flows that indicate that the company is reliant on continued support from the company's parent undertaking, Canonical Holdings Limited, who in turn is reliant on continued support from the Group's sole beneficial owner to continue to trade and meet its obligations as they fall due. The Group's sole beneficial owner has been providing support as required by the Group and company during the year and since the year end, and has confirmed that he will continue to make such support as the Group and company needs available as required over the forecast period. The ultimate controlling party has also provided assurance of financial support to enable the group and company to continue its operations for at least one year from the date of signing these financial statements.

Canonical Holdings Limited and all related undertakings have confirmed to the directors that it is their intention to not seek repayment of the amounts due at the balance sheet date for the foreseeable future and in any case for a period of at least 12 months from the approval of these financial statements.

After making enquiries of the shareholders and having given consideration to the confirmation of support by the Group's sole beneficial owner, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Turnover comprises of revenues from third parties and fees from other group companies in respect of charges for outsourced business services, exclusive of sales taxes.

Revenue from third parties is generated from the provision of custom software engineering, the provision of support, maintenance and training services, the sale of merchandise and from advertising fees. Revenue is recognised for each revenue stream as follows:

Software Engineering - revenue is measured with reference to the stage of completion of the contract. The stage of completion is determined by the level of services performed to date as a percentage of total services expected to be performed. Where the stage of completion cannot be reliably measured in this way, reference is made to the completion of project milestones;

Maintenance and Support - revenue is deferred and recognised on a straight line basis over the year to which the support relates;

Merchandise Sales - revenue is recognised once the sale has taken place and the risks and rewards have been transferred to a third party; and

Advertising Fees - revenue is recognised when earned based on the click-through activity of an internet user on a third party web-site advertisement.

Each sales contract is designed to meet the specific requirements of each customer. Where agreements involve multiple elements, the entire fee from such arrangements is allocated to each of the individual elements based on each element's fair value. The revenue in respect of each element is recognised in accordance with the above policies.

Where the company is contractually committed to future revenues from a third party, revenue will be accrued in accordance with the terms of the agreement.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

1 Accounting policies (*continued*)

Foreign currency

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of transactions. Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the income statement in the year in which they arise.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated to write down the cost, with nil residual value, of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Leasehold improvements	-	over the term of the lease
Computer equipment	-	over 30 months straight line
Fixtures and fittings	-	over 30 months straight line

Taxation

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 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's subsidiaries operate and generate taxable income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the group can control their reversal and such reversal is not considered probable in the foreseeable future.

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.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (continued)

1 Accounting policies (continued)

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Contribution to pension funds

The group makes contributions to individuals personal pension plans. Pension costs are charged against profits in respect of the accounting year in which they are paid.

Leased assets

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

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

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

- Determine the stage of completion in respect of ongoing services. Factors considered include milestone achievements and level of staff time incurred per project as a proportion of the total expected time.
- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine the requirement for provisions or contingent liabilities based on the probability of cash out flows and professional advice obtained.
- 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.

3 Turnover

The turnover for the year is derived from the Group's principal activity.

	2016 \$'000	2015 \$'000
Analysis by geographical market:		
United Kingdom	52,117	53,446
Rest of Europe	6,195	1,936
Rest of the World	47,860	40,362
	<hr/>	<hr/>
	106,172	95,744
	<hr/>	<hr/>

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2016 (continued)

4 Employees	2016	2015
	\$'000	\$'000
Staff costs consist of:		
Wages and salaries	60,831	51,547
Social security costs	5,291	4,557
Pension costs	3,368	2,743
	<u>69,490</u>	<u>58,847</u>

The average number of employees, including directors, during the year was 496 (2015 - 391).

5 Directors' remuneration	2016	2015
	\$'000	\$'000
Directors' emoluments	401	469
	<u>401</u>	<u>469</u>

The highest paid director was paid \$400,830 (2015 - \$469,150) in the year. The key management of the group and company are the director and Mark Shuttleworth who is remunerated via other group companies.

6 Operating loss	2016	2015
	\$'000	\$'000
This has been arrived at after charging:		
Depreciation	1,165	733
Operating leases:		
- Land and buildings	3,623	2,528
- Other	690	621
Fees payable to the company's auditor for:		
-the audit of the group	77	73
-the audit of the subsidiaries	18	18
	<u>6,376</u>	<u>4,512</u>

7 Interest receivable and similar income	2016	2015
	\$'000	\$'000
Bank interest	40	38
Unrealised foreign exchange gain	1,504	148
	<u>1,544</u>	<u>186</u>

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

8 Interest payable and similar charges

	2016 \$'000	2015 \$'000
Bank interest	2	90
Unrealised foreign exchange loss	318	3,947
	<u>320</u>	<u>4,037</u>

9 Taxation

	2016 \$'000	2015 \$'000
<i>Corporation tax</i>		
Current tax on overseas income for the year	140	234
Adjustment to tax charge in respect of prior periods	-	(125)
	<u>140</u>	<u>109</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2016 \$'000	2015 \$'000
Loss on ordinary activities before tax	<u>(2,109)</u>	<u>(14,366)</u>
Loss on ordinary activities at the standard rate of corporation tax in the UK 20% (2015 - 21%)	(422)	(3,016)
Expenses not deductible for tax purpose	107	23
Fixed asset differences	8	87
Adjustment to tax charge in respect of previous periods	-	(125)
Differences in overseas tax rate	46	101
Other timing differences	17	156
Deferred tax not recognised	384	2,883
	<u>140</u>	<u>109</u>
Total tax charge for the year	<u>140</u>	<u>109</u>

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses and accelerated capital allowances as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is \$14.2m (2015 - \$15.2m). The asset would be recovered if sufficient future taxable profits were to arise against which the asset could be offset.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 March 2016 (*continued*)

10 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the company has elected not to present its own income statement for the year.

The company reported a loss after taxation for the financial year ended 31 March 2016 of \$4,723,000 (2015 - \$17,665,000).

11 Tangible assets

Group	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<i>Cost</i>				
At 1 April 2015	564	4,385	463	5,412
Additions	-	1,658	29	1,687
At 31 March 2016	564	6,043	492	7,099
<i>Depreciation</i>				
At 1 April 2015	194	3,249	439	3,882
Charge for the year	92	1,064	9	1,165
At 31 March 2016	286	4,313	448	5,047
<i>Net book value</i>				
At 31 March 2016	278	1,730	44	2,052
At 31 March 2015	370	1,136	24	1,530
Company				
<i>Cost</i>				
At 1 April 2015	555	2,290	-	2,845
Additions	-	781	-	781
At 31 March 2016	555	3,071	-	3,626
<i>Depreciation</i>				
At 1 April 2015	187	1,789	-	1,976
Charge for the year	69	502	-	571
At 31 March 2016	256	2,291	-	2,547
<i>Net book value</i>				
At 31 March 2016	299	780	-	1,079
At 31 March 2015	368	501	-	869

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2016 (continued)

12 Investments

	\$'000
Cost	
At 1 April 2015	700
Additions	154
	<hr/>
At 31 March 2016	854
	<hr/> <hr/>

The company had the following subsidiary undertakings at the end of the year, all of which have been included in the consolidated accounts.

Name of undertaking	Country of incorporation	Class of share	Voting rights held (%)	Nature of business
Canonical USA Inc	USA	Ordinary	100%	Software development
Canonical Canada Limited	Canada	Ordinary	100%	Software development
Canonical UK Limited	UK	Ordinary	100%	Services provider
Canonical China Limited	China	Ordinary	100%	Software development
Canonical Taiwan Limited	Taiwan	Ordinary	100%	Software development

13 Stock

	Group and company 2016 £	Group and company 2015 £
Merchandise stock	186	215
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above.

14 Debtors

	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
Due within one year:				
Trade debtors	10,828	9,125	10,789	9,079
Prepayments and accrued income	8,289	6,148	7,845	5,192
Other debtors	572	589	236	223
Amounts owed by fellow subsidiary undertakings	279,587	166,530	279,587	166,530
Corporation tax	112	82	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	299,388	182,474	298,457	181,024
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2016 (continued)

15 Creditors: amounts falling due within one year

	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
Trade creditors	536	1,615	663	1,217
Accruals and deferred income	23,607	17,686	17,207	13,314
Amounts owed to parent undertaking	322,266	257,430	322,266	257,430
Amounts owed to ultimate controlling party	680	641	680	641
Amounts owed to fellow subsidiary undertakings	53,366	8,366	72,360	22,169
Other creditors	1,334	836	475	197
	<u>401,789</u>	<u>286,574</u>	<u>413,651</u>	<u>294,968</u>

Loan payable to parent undertaking is the amount due to Canonical Holdings Limited. This loan is payable on demand, interest free and unsecured. \$320,654,935 (2015 - \$255,704,935) is denominated in US Dollars and £1,121,469 (2015 - £1,593,875) in Pounds Sterling.

The other loan is due to Mark Shuttleworth, the sole beneficial shareholder of the company. The loan is denominated in Euros, totals €596,861 (2015 - €596,861), is unsecured, interest free and has no specified repayment date.

16 Provisions	Total \$'000
At 1 April 2015	-
Provided in year	225
	<u>225</u>
At 31 March 2016	<u>225</u>

The provision relates to VAT potentially payable on funds provided to one of the group's subsidiaries.

17 Financial instruments

The Group's financial instruments may be analysed as follows:

	Group 2016 \$'000	Group 2015 \$'000
Financial assets		
Financial assets measured at amortised cost	<u>323,881</u>	<u>326,443</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>387,694</u>	<u>402,112</u>

Financial assets measured at amortised cost comprise cash, trade debtors, stock, other debtors, accrued income and amounts owed by fellow subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, provisions, other creditors, accruals, amounts owed to fellow subsidiary undertakings and loans payable to the parent undertaking.

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2016 (continued)

18 Share capital

	Allotted, called up and fully paid			2015 £
	2016 Number	2015 Number	2016 £	
Ordinary shares of £1 each	1	1	1	1
			\$	\$
Converted to USD			2	2

19 Commitments under operating leases

As at 31 March 2016, the group had minimum lease payments under non-cancellable operating leases as set out below:

	2016 Land and buildings \$'000	2016 Other \$'000	2015 Land and buildings \$'000	2015 Other \$'000
Operating leases which expire:				
Within one year	3,624	690	2,529	621
In two to five years	6,667	110	6,554	689
In greater than five years	1,153	-	2,237	-
	11,444	800	11,320	1,310

As at 31 March 2016, the company had minimum lease payments under non-cancellable operating leases as set out below:

	2016 Land and buildings \$'000	2016 Other \$'000	2015 Land and buildings \$'000	2015 Other \$'000
Operating leases which expire:				
Within one year	2,272	6	1,270	6
In two to five years	5,747	-	4,618	-
In greater than five years	1,153	-	2,237	-
	9,172	6	8,125	6

20 Related parties

The company has taken advantage of the exemption conferred by Financial Reporting Standard 102 Section 33 'Related Party Disclosures' paragraph 33.1A not to disclose transactions with certain group companies on the grounds that 100% of the voting rights in the company are controlled by the group headed by Canonical Holdings Limited.

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 March 2016 (*continued*)

21 Ultimate controlling party

At 31 March 2016, the company's immediate and ultimate parent company and head of the smallest and largest group into which this company is consolidated was Canonical Holdings Limited, a company incorporated in the Isle of Man. The ultimate controlling party is Mark Shuttleworth.

22 First time adoption of FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.