

## Canonical Group Limited

Report and Financial Statements

Period Ended

31 December 2018

Company Number 06870835



# Canonical Group Limited

## Report and financial statements for the period ended 31 December 2018

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### Director

N French

### Secretary

K Ollerhead

### Registered office

5<sup>th</sup> 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 period ended 31 December 2018

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The director presents the strategic report together with the audited financial statements for the period ended 31 December 2018.

### Principal activities

Canonical Group Limited is part of the Canonical group of companies, headed by Canonical Holdings Limited. The Canonical group is the leading provider of 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, public cloud providers and individual technologists. The Canonical group is uniquely positioned to help customers make the most of Ubuntu.

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

As Canonical Group Limited carries out services on behalf of the Canonical group, this commentary reflects that of the combined group.

Ubuntu is the platform of choice for multi-cloud. Most public cloud workloads are running on Ubuntu. Most public and private cloud container deployment on Kubernetes use Ubuntu. Most large-scale private cloud built with OpenStack are on Ubuntu, using both Kernel-based Virtual Machine ("KVM") and the LXD pure-container hypervisor for the world's fastest private clouds. The majority of new smart gateways, self-driving cars and advanced humanoid robots are running Ubuntu as well. Canonical Group Limited provides enterprise support and services for commercial users of Ubuntu.

In addition to producing Ubuntu, Canonical leads the development of key differentiating technologies which allow customers to operate efficiently at scale. Canonical leads the development of Juju, the model-driven operations system, and MAAS (Metal-as-a-Service), which creates a physical server cloud and IP Address Management ("IPAM") for amazing data centre operational efficiency. Further, Canonical leads the development of the snap universal Linux packaging system for secure, transactional device updates and app stores. Ubuntu Core is an all-snap instantiation of Ubuntu, perfect for devices and appliances.

Building on these technologies, Canonical offers Canonical Openstack and the Charmed Distribution of Kubernetes. Both offer enterprise, telecom providers and OEMs mechanisms to build multi-cloud infrastructure that's cost efficient to build and operate. Canonical consulting, training and managed services offering means companies can get started with their multi-cloud infrastructure in weeks.

To support the technology and go-to-market strategies, Canonical Group Limited continues to build world class global engineering, support and managed service operational teams. 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 support as required by the company during the period and since the period end. He has also provided confirmation that he will continue to provide limited support for at least 12 months from the date of signing of these financial statements.

Further details are included in note 1.

# Canonical Group Limited

## Strategic report for the period ended 31 December 2018 (continued)

### Key performance indicators

As Canonical Group Limited carries out services on behalf of the Canonical group, this commentary reflects that of the combined group headed by Canonical Holdings Limited.

High level unaudited financial information for Canonical Holdings Limited, and thus the Canonical group, for the year ended 31 March 2019, is below. The company, and group, has changed its financial year end to December, from March. As such financial information in the financial statements is for the 9 month period to 31 December 2018, with corresponding comparatives being the previously reported full year to 31 March 2018. In order to provide meaningful financial analysis the below unaudited, proforma financial information of Canonical Holdings Limited covering two 12 month periods, has been included.

	Year ended 31 March 2019 (pro-forma unaudited) US\$'000	Year ended 31 March 2018  US\$'000
<b>Turnover</b>	<b>99,371</b>	95,030
Cost of sales	(1,528)	(1,244)
<b>Gross profit</b>	<b>97,843</b>	93,786
Administrative expenses	(106,835)	(116,810)
<b>Operating loss</b>	<b>(8,992)</b>	(23,024)

In the period to 31 March 2019 turnover increased by \$4m to \$99m. The group continued to invest with average headcount moving from 427 to 437 in the period. Growth in revenue and improvements in efficiency led to operating loss moving from \$23m to \$9m.

The Canonical group measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focussed on revenue, operating loss, 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 – Canonical Holdings Limited

	Year ended 31 March (Pro-forma unaudited) 2019	Year ended 31 March 2018
Revenue (\$m)	99	95
Operating loss (\$m)	(9)	(23)
Cash used in operations (\$m)	(6)	(24)
Average headcount	437	427

The Board is satisfied with the overall performance as indicated by these metrics. The increase in revenue, and decrease in operating losses, year on year reflects the broadening business levels of the group.

# Canonical Group Limited

## Strategic report for the period ended 31 December 2018 (continued)

### KPIs – Canonical Group Limited

	9 months ended 31 December 2019	Year ended 31 March 2018
Revenue (\$m)	83	110
Operating profit (\$m)	11	6
Cash used in operations (\$m)	(6)	(23)
Average headcount	385	443

The Board is satisfied with the overall performance as indicated by these metrics. The decrease in revenue year on year reflects the decrease in staffing levels in the company and thus the service levels offered to other group companies. Consequently, the company's operating profit has remained relatively stable.

### 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 the majority of 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 10/7/2019

N French

Director

DocuSigned by:  
  
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# Canonical Group Limited

## Director's report for the period ended 31 December 2018

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The director presents his report together with the audited financial statements for the period ended 31 December 2018.

### Results and dividends

The consolidated income statement is set out on page 9 and shows the profit for the period.

During the period, no dividends were paid (31 March 2018 - \$Nil). The director does not recommend the payment of a final dividend (31 March 2018 - \$Nil).

### Director

The director of the company during the period was:

N French

### 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.

### Employee Involvement

The company maintains an HR intranet site that provides employees with information on matters of concern to them as employees, including the financial and economic factors affecting the performance of the company. The intranet site includes functionality that enables employees to express views on matters that affect them anonymously and the company also undertakes staff surveys to canvas views on significant matters.

### Auditors

The current director has taken all the steps that he ought to have taken to make himself 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

N French

Director

DocuSigned by:  
*Nil French*  
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Date 10/7/2019

## **Canonical Group Limited**

### **Director's responsibilities statement for the period ended 31 December 2018**

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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 he is satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

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; and
- 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. The director 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

## Independent auditor's report

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### INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF CANONICAL GROUP LIMITED

#### Opinion

We have audited the financial statements of Canonical Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the 9 month period ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

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

#### Conclusions relating to going concern

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

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



# Canonical Group Limited

## Independent auditor's report *(continued)*

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### Other information

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

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

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

### Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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.

### Responsibilities of the Director

As explained more fully in the Director's responsibilities statement, the Director is 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 Director determines 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 Director is 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 intends to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Canonical Group Limited

### Independent auditor's report *(continued)*

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#### **Auditor's responsibilities for the audit of the financial statements**

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

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

#### **Use of our report**

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**BDO LLP**

Andrew Gandell (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK

Date 7/10/2019

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

**Canonical Group Limited**  
**Consolidated income statement**  
**for the period ended 31 December 2018**

	Note	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
Turnover	3	83,437	110,422
Cost of sales		(1,090)	(1,316)
<b>Gross profit</b>		<b>82,347</b>	<b>109,106</b>
Administrative expenses		(70,936)	(102,888)
<b>Operating profit</b>	6	<b>11,411</b>	<b>6,218</b>
Interest receivable and similar income	7	12	234
Interest payable and similar charges	8	(173)	(758)
<b>Profit on ordinary activities before tax</b>		<b>11,250</b>	<b>5,694</b>
Taxation	9	(394)	(86)
<b>Profit for the financial year and total comprehensive profit</b>		<b>10,856</b>	<b>5,608</b>

All amounts relate to continuing activities.  
There was no other comprehensive income in the current period or prior year.

The notes on pages 15 to 26 form part of these financial statements.

## Canonical Group Limited

### Consolidated balance sheet at 31 December 2018

<b>Company number 06870835</b>	<b>Note</b>	<b>31 December 2018 \$'000</b>	<b>31 December 2018 \$'000</b>	<b>31 March 2018 \$'000</b>	<b>31 March 2018 \$'000</b>
<b>Fixed assets</b>					
Tangible assets	10		1,348		1,655
<b>Current assets</b>					
Stock	12	157		195	
Debtors	13	362,347		344,304	
Cash at bank		16,078		13,278	
		<u>378,582</u>		<u>357,777</u>	
<b>Creditors: amounts falling due within one year</b>	14	<b>(437,217)</b>		<b>(427,575)</b>	
<b>Net current liabilities</b>			<b>(58,635)</b>		<b>(69,798)</b>
<b>Provisions for liabilities</b>	15		<b>(225)</b>		<b>(225)</b>
<b>Net liabilities</b>			<b>(57,512)</b>		<b>(68,368)</b>
<b>Capital and reserves</b>					
Share capital	17		-		-
Accumulated deficit			<b>(57,512)</b>		<b>(68,368)</b>
<b>Shareholder's deficit</b>			<b>(57,512)</b>		<b>(68,368)</b>

The financial statements were approved by the Board of Directors and authorised for issue on 10/7/2019

N French  
Director

DocuSigned by:  
*Nil French*  
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The notes on pages 15 to 26 form part of these financial statements.

## Canonical Group Limited

### Consolidated statement of changes in equity for the period ended 31 December 2018

	<b>Share capital US\$'000</b>	<b>Accumulated deficit US\$'000</b>	<b>Total equity US\$'000</b>
<b>31 March 2018</b>	-	(68,368)	(68,368)
<b>Profit for the period</b>	-	10,856	10,856
	<hr/>	<hr/>	<hr/>
<b>Total comprehensive profit for the period</b>	-	10,856	10,856
	<hr/>	<hr/>	<hr/>
<b>31 December 2018</b>	-	(57,512)	(57,512)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<b>Share capital US\$'000</b>	<b>Accumulated deficit US\$'000</b>	<b>Total equity US\$'000</b>
<b>1 April 2017</b>	-	(73,976)	(73,976)
<b>Profit for the year</b>	-	5,608	5,608
	<hr/>	<hr/>	<hr/>
<b>Total comprehensive profit for the year</b>	-	5,608	5,608
	<hr/>	<hr/>	<hr/>
<b>31 March 2018</b>	-	(68,368)	(68,368)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 15 to 26 form part of these financial statements.

## Canonical Group Limited

### Consolidated statement of cash flows for the period ended 31 December 2018

	9 month period ended 31 December 2018 US\$'000	Year ended 31 March 2018 US'000
<b>Cash flows from operating activities</b>		
<b>Profit for the financial year</b>	10,856	5,608
Adjustments for:		
Depreciation of fixed assets	798	1,454
Disposal of assets	50	-
Net interest payable	161	525
Taxation expense	394	86
Increase in trade and other debtors	(18,322)	68,965
Decrease in stocks	38	11
Decrease in trade and other creditors	(346)	(100,065)
	<hr/>	<hr/>
<b>Cash used in operations</b>	(6,371)	(23,416)
Taxation paid	(288)	(50)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	(6,659)	(23,466)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchases of tangible fixed assets	(541)	(901)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(541)	(901)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Decrease in amounts owed to ultimate controlling party	-	(638)
Increase in loans payable	10,000	15,000
	<hr/>	<hr/>
<b>Net cash from financing activities</b>	10,000	14,362
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	2,800	(10,005)
Cash and cash equivalents at beginning of year	13,278	23,283
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	16,078	13,278
	<hr/> <hr/>	<hr/> <hr/>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	16,078	13,278
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 15 to 26 form part of these financial statements.

## Canonical Group Limited

### Company balance sheet at 31 December 2018

<b>Company number 06870835</b>	<b>Note</b>	<b>31 December 2018 \$'000</b>	<b>31 December 2018 \$'000</b>	<b>31 March 2018 \$'000</b>	<b>31 March 2018 \$'000</b>
<b>Fixed assets</b>					
Tangible assets	10		966		911
Investments	11		864		864
			<u>1,830</u>		<u>1,775</u>
<b>Current assets</b>					
Stock	12	157		195	
Debtors	13	337,195		323,883	
Cash at bank		15,097		12,784	
		<u>352,499</u>		<u>336,862</u>	
<b>Creditors: amounts falling due within one year</b>	14	<b>(433,993)</b>		<b>(423,238)</b>	
<b>Net current liabilities</b>			<b>(81,494)</b>		<b>(86,376)</b>
<b>Net liabilities</b>			<b>(79,664)</b>		<b>(84,601)</b>
<b>Capital and reserves</b>					
Share capital	17		-		-
Accumulated deficit			<b>(79,664)</b>		<b>(84,601)</b>
<b>Shareholder's deficit</b>			<b>(79,664)</b>		<b>(84,601)</b>

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 profit after taxation for the financial year ended 31 December 2018 of \$4,937,000 (31 March 2018 – profit of \$11,130,000).

The financial statements were approved by the Board of Directors and authorised for issue on 10/7/2019

DocuSigned by:  
  
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 N French  
 Director

The notes on pages 15 to 26 form part of these financial statements.

## Canonical Group Limited

### Company statement of changes in equity for the period ended 31 December 2018

	Share capital US\$'000	Accumulated deficit US\$'000	Total equity US\$'000
<b>31 March 2018</b>	-	(84,601)	(84,601)
<b>Profit for the period</b>	-	4,937	4,937
	-----	-----	-----
<b>Profit and total comprehensive income for the period</b>	-	4,937	4,937
	-----	-----	-----
<b>31 December 2018</b>	-	(79,664)	(79,664)
	=====	=====	=====
	Share capital US\$'000	Accumulated deficit US\$'000	Total equity US\$'000
<b>1 April 2017</b>	-	(95,731)	(95,731)
<b>Profit for the year</b>	-	11,130	11,130
	-----	-----	-----
<b>Profit and total comprehensive income for the year</b>	-	11,130	11,130
	-----	-----	-----
<b>31 March 2018</b>	-	(84,601)	(84,601)
	=====	=====	=====

The notes on pages 15 to 26 form part of these financial statements.



# Canonical Group Limited

## Notes forming part of the financial statements for the period ended 31 December 2018

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### 1 Accounting policies

#### *Basis of preparation of financial statements*

Canonical Group Limited is a company limited by shares, 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 strategic 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.

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, due to the fact that the US Dollar is the functional currency of the company. The year-end exchange rate between US Dollar and Sterling was 1.2763.

#### *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 December 2018. 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 a subsidiary undertaking of the Group.

# Canonical Group Limited

## Notes forming part of the financial statements for the period ended 31 December 2018 *(continued)*

### 1 Accounting policies *(continued)*

#### *Going concern*

The financial statements are produced on a going concern basis. The director has prepared a cash flow forecast that indicates that the group and the company are 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 during the year and since the year end, and has confirmed that he will continue to make limited support available over the forecast period, which is at least 12 months from the date of signing of these financial statements. The cash flow forecast shows that the Group and Company do not need more than the available funding in order to continue to trade and meet their obligations as they fall due.

Canonical Holdings Limited and all related undertakings have confirmed to the director 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 limited 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.

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 following:

- 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.

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 period ended 31 December 2018 *(continued)*

### 1 Accounting policies *(continued)*

#### *Foreign currency*

Transactions denominated in currencies other than USD are recorded at the rate of exchange ruling at the dates of transactions. Assets and liabilities expressed in currencies other than USD are translated into USD 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 the income statement, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company'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 period ended 31 December 2018 *(continued)*

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### 1 Accounting policies *(continued)*

#### *Research and development tax credit*

Companies within the group may be entitled to claim special tax allowances in relation to qualifying research and development expenditure (e.g. R&D tax credits), using the above the line ('ATL') R&D tax credit scheme. The group accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the group and that benefit can be reliably measured. R&D tax credits are recognised within administrative expenses reducing the expenditure incurred on the R&D project to which the credit relates. To the extent the amounts due in respect of them are not settled by the balance sheet date, they reduce current tax payable or are held as a receivable.

#### *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, fair value of contractual components 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.
- Determine the recoverability of amounts owed by fellow group companies. Factors taken into consideration include the economic viability of the counterparty and the guarantee provided by the ultimate controlling party.

## Canonical Group Limited

### Notes forming part of the financial statements for the period ended 31 December 2018 (continued)

#### 3 Turnover

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

	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
Analysis by geographical market:		
United Kingdom	12,389	18,528
Rest of Europe	6,540	11,481
Rest of the World	64,508	80,413
	83,437	110,422
	83,437	110,422

#### 4 Employees

	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
Staff costs consist of:		
Wages and salaries	37,284	54,889
Social security costs	2,707	4,480
Pension costs	2,347	3,205
	42,338	62,574
	42,338	62,574

The average number of employees, including directors, during the period was 385 (31 March 2018 - 443).

#### 5 Directors' remuneration

	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
Directors' emoluments	220	225
	220	225
	220	225

The director was paid \$219,587 (31 March 2018 - \$225,000) in the year by the Company. The key management of the group and company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group and non-group companies.

## Canonical Group Limited

### Notes forming part of the financial statements for the period ended 31 December 2018 (continued)

<b>6 Operating profit</b>	<b>9 month period ended 31 December 2018 \$'000</b>	<b>Year ended 31 March 2018 \$'000</b>
This has been arrived at after charging/(crediting):		
Depreciation	798	1,454
Operating leases:		
- Land and buildings	3,767	4,044
- Other	552	501
Fees payable to the company's auditor for:		
- the audit of the group	73	67
- the audit of the subsidiaries	27	27
Research and development tax credit	(1,115)	(763)
	<b>798</b>	<b>1,454</b>
<b>7 Interest receivable and similar income</b>	<b>9 month period ended 31 December 2018 \$'000</b>	<b>Year ended 31 March 2018 \$'000</b>
Realised foreign exchange gain	12	234
	<b>12</b>	<b>234</b>
<b>8 Interest payable and similar charges</b>	<b>9 month period ended 31 December 2018 \$'000</b>	<b>Year ended 31 March 2018 \$'000</b>
Unrealised foreign exchange loss	173	758
	<b>173</b>	<b>758</b>

## Canonical Group Limited

### Notes forming part of the financial statements for the period ended 31 December 2018 *(continued)*

#### 9 Taxation

	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
<i>Corporation tax</i>		
Current tax on overseas income for the year	105	140
Adjustment to tax charge in respect of prior periods	289	(54)
	394	86

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

	9 month period ended 31 December 2018 \$'000	Year ended 31 March 2018 \$'000
Profit on ordinary activities before tax	11,250	5,694
Profit on ordinary activities at the standard rate of corporation tax in the UK 19% (2017 - 19%)	2,138	1,082
Expenses not deductible for tax purpose	90	143
Adjustment to tax charge in respect of previous periods	289	(54)
Differences in overseas tax rate	-	14
Brought forward losses utilised	(1,422)	(1,099)
Other differences	(76)	-
Offset of current year research and development credits	(491)	-
Offset of other utilised research and development credits	(134)	-
Total tax charge for the year	394	86

The adjustment in respect of prior periods relates to the claiming of a research and development tax credit under the 'above the line' scheme.

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 \$11.0m (31 March 2018 - \$13.4m). 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 period ended 31 December 2018 *(continued)*

### 10 Tangible assets

Group	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<i>Cost</i>				
At 1 April 2018	738	8,118	630	9,486
Additions	197	240	104	541
Disposals	(9)	(78)	10	(77)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	<b>926</b>	<b>8,280</b>	<b>744</b>	<b>9,950</b>
<i>Depreciation</i>				
At 1 April 2018	446	6,908	477	7,831
Charge for the year	66	684	48	798
Disposals	(8)	(37)	18	(27)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	<b>504</b>	<b>7,555</b>	<b>543</b>	<b>8,602</b>
<i>Net book value</i>				
At 31 December 2018	<b>422</b>	<b>725</b>	<b>201</b>	<b>1,348</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018	292	1,210	153	1,655
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Company</b>				
<i>Cost</i>				
At 1 April 2018	729	4,007	-	4,736
Additions	197	208	39	444
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	<b>926</b>	<b>4,215</b>	<b>39</b>	<b>5,180</b>
<i>Depreciation</i>				
At 1 April 2018	418	3,408	-	3,826
Charge for the year	66	318	4	388
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	<b>484</b>	<b>3,726</b>	<b>4</b>	<b>4,214</b>
<i>Net book value</i>				
At 31 December 2018	<b>442</b>	<b>489</b>	<b>35</b>	<b>966</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018	311	600	-	911
	<hr/>	<hr/>	<hr/>	<hr/>



## Canonical Group Limited

**Notes forming part of the financial statements  
for the period ended 31 December 2018 (continued)**

<b>11</b>	<b>Investments</b>	<b>\$'000</b>
	Cost	
	At 31 March 2018 and at 31 December 2018	<b>864</b>

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 (Shanghai) Software Technology Limited	China	Ordinary	100%	Software development
Canonical Group Limited (Taiwan Branch)	Taiwan	Ordinary	100%	Software development
Canonical Japan K.K Limited	Japan	Ordinary	100%	Software development

Registered offices:

Canonical USA Inc  
C32 W.Loockerman Street, Suite 201, Dover, Delaware 19904 USA

Canonical Canada Limited  
1000 De la Gauchetiere Street West, Suite 2500, Montreal, Quebec H3B 0A2

Canonical Group Limited and Canonical UK Limited  
5<sup>th</sup> Floor Blue Fin Building, 110 Southwark Street, London, SE1 0SU

Canonical (Shanghai) Software Technology Limited  
Room 1246, 12F, No. 331 North Caoxi Road, Shanghai, China, 200040

Canonical Group Limited (Taiwan Branch)  
Room D, 46F, No.7, Xin Yi Rd., Sec. 5. Taipei City

Canonical Japan K.K Limited  
ATT New Tower 11F, 2-11-7 Akasaka, Minatu-ku, Tokyo 107-0052, Japan

<b>12</b>	<b>Stock</b>	<b>Group and company 31 December 2018 \$'000</b>	<b>Group and company 31 March 2018 \$'000</b>
	Merchandise stock	<b>157</b>	<b>195</b>

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

## Canonical Group Limited

### Notes forming part of the financial statements for the period ended 31 December 2018 (continued)

#### 13 Debtors

	Group 31 December 2018 \$'000	Group 31 March 2018 \$'000	Company 31 December 2018 \$'000	Company 31 March 2018 \$'000
Due within one year:				
Trade debtors	13,499	11,509	13,499	11,509
Prepayments and accrued income	8,420	9,426	7,958	9,119
Other debtors	3,580	3,251	2,890	2,520
Amounts owed by fellow subsidiary undertakings	335,937	319,101	312,275	300,364
Corporation tax	911	1,017	573	371
	<u>362,347</u>	<u>344,304</u>	<u>337,195</u>	<u>323,883</u>

Amounts owed by fellow subsidiaries are interest free, unsecured and repayable on demand.

#### 14 Creditors: amounts falling due within one year

	Group 31 December 2018 \$'000	Group 31 March 2018 \$'000	Company 31 December 2018 \$'000	Company 31 March 2018 \$'000
Trade creditors	1,679	771	1,473	742
Accruals and deferred income	22,727	24,590	19,195	20,300
Amounts owed to parent undertaking	404,366	394,538	404,366	394,538
Amounts owed to fellow subsidiary undertakings	7,742	7,657	8,255	7,639
Other creditors	703	19	704	19
	<u>437,217</u>	<u>427,575</u>	<u>433,993</u>	<u>423,238</u>

Amounts owed to parent undertaking is the amount due to Canonical Holdings Limited. This loan is payable on demand, interest free and unsecured. \$402,331,630 (31 March 2018 - \$392,331,630) is denominated in US Dollars and £1,593,875 (31 March 2018 - £1,593,875) in Pounds Sterling.

#### 15 Provisions

	Total \$'000
At 31 March 2018 and at 31 December 2018	<u>225</u>

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

## Canonical Group Limited

**Notes forming part of the financial statements  
for the period ended 31 December 2018 (continued)**

### 16 Financial instruments

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

	<b>Group 31 December 2018 \$'000</b>	<b>Group 31 March 2018 \$'000</b>
<b>Financial assets</b>		
Financial assets measured at amortised cost	<b>375,049</b>	352,033
	<hr/>	<hr/>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>419,284</b>	409,029
	<hr/>	<hr/>

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.

### 17 Share capital and reserves

	<b>Allotted, called up and fully paid</b>			
	31 December 2018 Number	31 March 2018 Number	31 December 2018 £	31 March 2018 £
Ordinary shares of £1 each	1	1	1	1
	<hr/>	<hr/>	<hr/>	<hr/>
			\$	\$
Converted to USD			2	2
			<hr/>	<hr/>

The accumulated deficit reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

## Canonical Group Limited

### Notes forming part of the financial statements for the period ended 31 December 2018 (continued)

#### 18 Commitments under operating leases

As at 31 December 2018, the group had minimum lease payments under non-cancellable operating leases as set out below:

	31 December 2018 Land and buildings \$'000	31 March 2018 Other \$'000	31 December 2018 Land and buildings \$'000	31 March 2018 Other \$'000
Operating leases which expire:				
Within one year	3,767	552	4,044	501
In two to five years	6,396	203	7,655	94
	10,163	755	11,699	595

As at 31 December 2018, the company had minimum lease payments under non-cancellable operating leases as set out below:

	31 December 2018 Land and buildings \$'000	31 March 2018 Land and buildings \$'000
Operating leases which expire:		
Within one year	1,530	2,539
In two to five years	3,578	4,455
	5,108	6,994

#### 19 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.

#### 20 Ultimate controlling party

At 31 December 2018, 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.