

## **Canonical UK Limited**

Report and Financial Statements

Year Ended

31 December 2019

Company Number 05055134

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# **Canonical UK Limited**

## **Report and financial statements for the year ended 31 December 2019**

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### **Director**

N French

### **Secretary**

K Ollerhead

### **Registered office**

5<sup>th</sup> Floor, Blue Fin Building, 110 Southwark Street, London, United Kingdom, SE1 0SU

### **Company number**

05055134

### **Auditors**

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

# Canonical UK Limited

## Strategic report for the year ended 31 December 2019

The director presents the strategic report together with the audited financial statements for the year ended 31 December 2019. During the prior financial period the company's accounting reference date was changed from 31 March to 31 December to align with other group companies. As such, financial information has been presented for the year ended 31 December 2019, with corresponding comparatives being the previously reported 9 months to 31 December 2018.

### Principal activities and business review

Canonical UK Limited is a wholly owned subsidiary of Canonical Group Limited, 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.

During the period Canonical UK continued to provide UK based engineering and support operations and worked with other group companies to provide services and support for the Ubuntu product group. No change in the nature of the company's operations is expected in the foreseeable future.

### Key performance indicators

Canonical UK Limited measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focussed on revenue and operating profit. 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	2019	2018
Revenue (\$m)	15.9	12.0
Operating (loss)/profit (\$m)	(1.3)	0.3

The Board is satisfied with the overall performance as indicated by these metrics. The increase in revenue for the period when compared to the same period in the prior year reflects the increase in staffing levels in the company and thus the service levels offered to other group companies. The drop in the company's operating profit reflects an increase in the cost of group senior management employed during the year, as the wider Group's operations continue to expand and become more complex.

### Financial risk management objectives and policies

The company uses various financial instruments including loans and cash. Canonical UK Limited is principally funded by inter-company loans from group companies. It has no trade debtors and all trade is through the provision of support and development services to other Canonical companies.

The existence of these financial instruments exposes the company to a number of financial risks which are described in more detail below. The risk 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.

*Currency risk* - The company has some exposure to currency translation risk arising on intercompany arrangements denominated in currencies that are not the functional currency of the company. The majority of trading transactions are, however, denominated in USD.

*Credit risk* - As Canonical UK Limited has no external clients, credit risk is managed through its parent Canonical Group Limited.

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

## Canonical UK Limited

### Strategic report for the year ended 31 December 2019 (*continued*)

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#### Going concern

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

The Directors are confident of building on the great progress made in 2019 and expect to further improve financial performance in 2020. However, despite a successful 2019, high levels of recurring revenues and as-expected cash levels in the business as at August 2020, the Directors have considered their response to the likely effects of the COVID-19 pandemic.

Canonical, as a remote-based software development and services provider, is naturally well placed to deal with the challenges that COVID-19 has given rise to. The vast majority of staff are already home based, and with the exception of some customer-centric physical delivery requirements, most customer service operations are remotely delivered. Thus, the impact of global lock down on our operations has been minimal to date and is predicted to continue as such.

The base case budget and plan for the year ended 2020, involves a plan for the status of the group to reach break-even (in terms of EBITDA and operating cash), despite increasing annualised costs by approximately 25%. The Group has not received any cash funding since mid-2018, owing to the ability of the Directors to closely match cost growth with sales growth.

As the Group enters an uncertain economic environment, triggered by Covid-19, necessary adjustments to this plan will be made, as necessary, in order to control costs. Given the high level of planned, but unexecuted investment in people, there is a high level of immediate control available to the directors in order to meet the forecast break-even status. Furthermore, the level of committed, non-cancellable costs in the business is very low, being relatively small offices and annual software licenses.

The rapid emergence of the COVID-19 pandemic has already, and will continue to cause, disruption to many of our customers. This in turn may lead to lower new sales, or a lower level of renewal of existing customer value.

In assessing the risks posed to the going concern assumptions, a set of detailed forecasts have been prepared that show the effects of various scenarios on the group. In particular the directors' have considered the potential impacts that COVID-19 may have on the ability to achieve adequate levels of sales.

The forecasts prepared by the Directors include scenarios where the group's sales and renewal plan is significantly impacted, by an approximate 30% reduction in sales which can be comfortably sustained before enacting cost-cutting measures. This level of reduction is not expected by management due to the nature of the services provided and due to the fact that a large proportion of the income throughout the going concern period has already been contracted with large companies that are expected to succeed in these economic conditions (e.g. public cloud operators).


The group has not utilised any government-led offers of financial assistance, e.g. furlough schemes. Based on the forecasts noted above, the various scenarios considered and the sensitivities applied thereto, including the Group's inherent remote operating capabilities, and the high level of ability to reduce future costs rapidly, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

In forming his judgement the director has taken into account the fact that the immediate parent company, Canonical Group Limited, as confirmed that it will not recall the amounts due to related undertakings within one year of the date of signing of these financial statements.

#### Approval

This strategic report was approved by order of the Board on 9/15/2020

N French  
Director

DocuSigned by:  
  
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## Canonical UK Limited

### Director's report for the year ended 31 December 2019

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The director presents his report together with the audited financial statements for the year ended 31 December 2019.

#### Results and dividends

The income statement is set out on page 8 and shows the loss for the year. Further details on results of the company are explained in the principal activities and business review section within the Strategic Report on page 1.

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

#### Director

The director of the company during the year and after the year end was:

N R French

#### Going concern

See note 1 for further details on going concern.

#### 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 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 re-appoint them will be proposed at the annual general meeting.

#### On behalf of the Board

DocuSigned by:  
  
2FA3519341EF47C...  
N French

#### Director

Date 9/15/2020

## **Canonical UK Limited**

### **Director's responsibilities statement for the year ended 31 December 2019**

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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 period. Under that law the director has 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 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 company and of the profit or loss of the company 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 UK Limited

### Independent auditor's report

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

##### Opinion

We have audited the financial statements of Canonical UK Limited ("the Company") for the year ended 31 December 2019 which comprise income statement, balance sheet and statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### Basis for opinion

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

##### Conclusions relating to going concern

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

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

## **Canonical UK 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 and Director's 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.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of 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 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 Director either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



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

**BDO LLP**

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

Date 16/09/2020

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

# Canonical UK Limited

## Income statement for the year ended 31 December 2019

	Note	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
Turnover	2	15,881	11,978
Administrative expenses		(17,224)	(11,680)
Operating (loss)/profit	4	(1,343)	298
Interest receivable and similar income	5a	26	4,701
Interest payable and similar charges	5b	(1,930)	(50)
(Loss)/profit on ordinary activities before taxation		(3,247)	4,949
Taxation	6	(75)	(156)
(Loss)/profit for the financial period and total comprehensive income		(3,322)	4,793

All amounts relate to continuing activities.

There was no other comprehensive income in the current or prior year.

The notes on pages 11 to 18 form part of these financial statements.

# Canonical UK Limited

## Balance sheet at 31 December 2019

<i>Company number 05055134</i>	Note	2019 US\$'000	2019 US\$'000	2018 US\$'000	2018 US\$'000
<b>Current assets</b>					
Debtors	7	38,669		98,024	
Cash at bank and in hand		63		19	
		<u>38,732</u>		<u>98,043</u>	
<b>Creditors: amounts falling due within one year</b>	8	<u>(26,595)</u>		<u>(82,584)</u>	
<b>Net current assets</b>			<u>12,137</u>		<u>15,459</u>
<b>Total assets less current liabilities</b>			<u>12,137</u>		<u>15,459</u>
<b>Capital and reserves</b>					
Share capital	9		-		-
Retained earnings			<u>12,137</u>		<u>15,459</u>
<b>Shareholder's funds</b>			<u>12,137</u>		<u>15,459</u>

The financial statements were approved by the Director and authorised for issue on 9/15/2020.

DocuSigned by:  
  
 N French  
 Director

The notes on pages 11 to 18 form part of these financial statements.

## Canonical UK Limited

### Statement of changes in equity for the year ended 31 December 2019

	Share capital US\$'000	Retained earnings US\$'000	Total equity US\$'000
1 January 2019	-	15,459	15,459
Loss for the year	-	(3,322)	(3,322)
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the year	-	(3,322)	(3,322)
	<hr/>	<hr/>	<hr/>
31 December 2019	-	12,137	12,137
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### Statement of changes in equity for the year ended 31 March 2018

	Share capital US\$'000	Retained earnings US\$'000	Total equity US\$'000
1 April 2018	-	10,666	10,666
Profit for the period	-	4,793	4,793
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	-	4,793	4,793
	<hr/>	<hr/>	<hr/>
31 December 2018	-	15,459	15,459
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 11 to 18 form part of these financial statements.

# Canonical UK Limited

## Notes forming part of the financial statements for the year ended 31 December 2019

### 1 Accounting policies

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

Canonical UK Limited is a private 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 company'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 management to exercise judgement in applying the company's accounting policies. The director does not believe that the financial statements contain any critical accounting estimates or judgements.

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. 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 period-end exchange rate between US dollar and Sterling was 1.311 (2018: 1.269).

The following principal accounting policies have been applied:

#### *Going concern*

#### *Group headed by the ultimate parent company, Canonical Holdings Limited (the 'CHL Group')*

As the company carries out services on behalf of the Canonical group, this commentary reflects that of the combined group headed by Canonical Holdings Limited (the 'CHL Group'). The financial statements have been prepared using the going concern basis of accounting. The directors have reviewed the CHL Group's going concern position taking into account its current business activities, budgeted performance and factors likely to affect its future development. Based on the information contained within the accounts and including specific consideration with the risks associated with the COVID-19 situation, the directors have reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

As at 31 December 2019, the CHL Group had cash resources of \$11.2m (2018: \$17.0m), current assets of \$51.1m (2018: \$43.7m) and had net current assets of \$12.4m (2018: £7.1m). The CHL Group has no external loans or borrowings. In the year to 31 December 2019 the CHL Group made a loss before tax of \$2.4m (2018: \$5.5m) and net cash used in operations was \$2.9m (2018: \$6.3m). These losses have reduced in 2019 as part of a gradual reduction in recent years, as the business moves steadily towards profitability. Whilst the business continues to invest heavily in R&D in order to preserve the products market-leading nature, contractual revenues are rising to the point that they are forecast to overtake costs in 2020 and beyond.

The directors have considered the potential impact COVID-19 may have on the ability to achieve budgeted sales. Whereas a large proportion of the income throughout the going concern period has already been contracted with large companies that are expected to succeed the economic conditions (e.g. public cloud operators), the rapid emergence of the corona virus pandemic has caused significant disruption to some of the group's customers and thus may lead to lower new sales, or a lower level of renewals from existing customers.

The results of the Group's stress test show that owing to the Group's strong cash position on entering the crisis, high level of contracted sales and low level of fixed costs the business can comfortably sustain an approximate 30% reduction in sales before enacting cost-cutting measures. Furthermore, in the most extreme case, the business could sustain the removal of sales to the contracted minimum, if necessary, with an appropriate reduction in variable cost that would not impede short to medium term mandatory customer and internal operations.

## Canonical UK Limited

### Notes forming part of the financial statements for the year ended 31 December 2019 *(continued)*

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#### 1 Accounting policies *(continued)*

##### *Going concern (continued)*

##### *Canonical UK Limited*

The company provides services to other group companies. It has no external borrowings.

As at 31 December 2019, the company had cash resources of \$0.06m (2018: \$0.02m), current assets of \$38.7m (2018: \$98.0m) and had net current assets and net assets of \$12.1m (2018: £15.5m).

After making enquiries of the shareholders and having given consideration to the fact that the immediate parent company, Canonical Group Limited, as confirmed that it will not recall the amounts due to related undertakings within one year of the date of signing of these financial statements, the directors are satisfied that the company has sufficient resources to continue in operational existence for at least 12 months from the date of signing of these financial statements and consequently continue to adopt the going concern basis in preparing these financial statements.

##### *Turnover*

Turnover represents the amount receivable from fellow group companies, in respect of charges for outsourced business services. Fees are recognised as the work is performed.

##### *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.

##### *Contributions to pension funds*

The company makes contributions to individual's personal pension plans. Pension costs are charged against profits in respect of the accounting period in which they are paid.

##### *Foreign currency*

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at a rate of exchange ruling at the balance sheet date. Any differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

##### *Exemption from preparing a cash flow statement*

The company has taken the exemption within Chapter 1 of FRS 102, not to prepare a cash flow statement as it is included within the consolidated financial statements of its intermediate parent, Canonical Group Limited, which are publicly available.

##### *Financial instruments*

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The company only has basic financial instruments and have not chosen to designate any as fair value through profit and loss.

## Canonical UK Limited

### Notes forming part of the financial statements for the year ended 31 December 2019 (*continued*)

#### 1 Accounting policies (*continued*)

##### *Financial instruments (continued)*

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors or creditors, 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, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

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 statement of comprehensive income.

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 best estimate, which is an approximation of the amount that the Group 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.

##### *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 company can control their reversal and such reversal is not considered probable in the foreseeable future.

# Canonical UK Limited

## Notes forming part of the financial statements for the year ended 31 December 2019 (continued)

### 1 Accounting policies (continued)

#### Taxation (continued)

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.

#### Research and development tax credit

The company is 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 company accounts for such allowances as tax credits, which means that they are recognised when it is probable that the benefit will flow to the company and that benefit can be reliably measured. R&D tax credits are accounted 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.

### 2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

### 3 Employees

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
Staff costs consist of:		
Wages and salaries	13,793	9,210
Social security costs	1,409	1,069
Pension	490	341
	<hr/>	<hr/>
	15,692	10,620
	<hr/>	<hr/>

The average number of employees, including directors during the year was 113 (2018 - 110).

Remuneration in the sum of \$265,517 (2018 - \$204,523) was paid to the Director during the year ended 31 December 2019 via other group companies. The key management of the company are the director and the directors of Canonical Holdings Limited, who are remunerated via other group companies.



# Canonical UK Limited

Notes forming part of the financial statements  
for the year ended 31 December 2019 (*continued*)

## 4 Operating profit

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
This has been arrived at after charging/(crediting):		
Operating lease - land and buildings	670	503
Operating lease - other	510	414
Fees payable to the company's auditor for the audit	23	20
Research and development tax credit	(395)	(409)
	<u>          </u>	<u>          </u>

## 5a Interest receivable and similar income

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
Unrealised foreign exchange gain	26	4,701
	<u>          </u>	<u>          </u>

## 5b Interest payable and similar charges

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
Realised foreign exchange loss	-	50
Unrealised foreign exchange loss	1,930	-
	<u>          </u>	<u>          </u>
	1,930	50
	<u>          </u>	<u>          </u>

## Canonical UK Limited

Notes forming part of the financial statements  
for the year ended 31 December 2019 (*continued*)

### 6 Taxation

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
<i>Current tax</i>		
Adjustment to tax charge in respect of prior years	75	156

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

	Year ended 31 December 2019 US\$'000	9 months ended 31 December 2018 US\$'000
(Loss)/profit on ordinary activities before tax	(3,247)	4,949
UK corporation tax rate of 19% (2018 - 19%)	(617)	941
Expenses not deductible for taxation purposes	-	8
Group relief surrendered	438	-
Deferred tax not recognised	179	-
Brought forward losses utilised	-	(466)
Offset of current year research & development costs	75	(331)
Offset of other research & development credits	-	(134)
Reversal of previously unrecognised deferred tax	-	(18)
Adjustment to tax charge in respect of prior years	-	156
Current tax for the period	75	156

The adjustments to the tax charge in respect of prior years' relates to the research and development credits under the above the line scheme.

## Canonical UK Limited

### Notes forming part of the financial statements for the year ended 31 December 2019 *(continued)*

#### 7 Debtors

	2019 US \$'000	2018 US \$'000
Amounts owed by related undertakings	38,138	97,481
Other debtors	8	12
Prepayments	174	168
Corporation tax	349	363
	<u>38,669</u>	<u>98,024</u>

All debtors are due within one year. A proportion of amounts owed by related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company. These are interest free, unsecured and repayable on demand. The large decrease in intercompany balances is due to a netting off exercise between debtors and creditors amounts owed by related undertakings.

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

	2019 US\$'000	2018 US\$'000
Trade creditors	-	144
Accruals	1,327	990
Amounts owed to related undertakings	25,268	81,450
	<u>26,595</u>	<u>82,584</u>

A proportion of amounts owed to related undertakings are denominated in Sterling and thus give rise to foreign currency exposure to the company. These are interest free, unsecured and repayable on demand. The large decrease in intercompany balances is due to a netting off exercise between debtors and creditors amounts owed by related undertakings.

#### 9 Share capital and reserves

	2019 Number	Allotted, called up and fully paid 2018 Number	2019 £	2018 £
Ordinary shares of £1 each	1	1	1	1
			\$	\$
Converted to USD			2	2

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

## Canonical UK Limited

### Notes forming part of the financial statements for the year ended 31 December 2019 (*continued*)

#### 10 Commitments under operating leases

As at 31 December 2019, the company had minimum lease payments under non-cancellable operating leases as set out below:

	2019 Land and buildings US\$'000	2019 Other US\$'000	2018 Land and buildings US\$'000	2018 Other US\$'000
Operating leases which expire:				
Within one year	633	622	671	552
In two to five years	264	264	671	202
	<u>997</u>	<u>886</u>	<u>1,342</u>	<u>754</u>

Commitments have decreased during the year owing to the re-signing of the lease of the UK property in London for 1 years.

#### 11 Related party transactions

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.

Further disclosure of loans with related parties is included within note 7 and 8.

#### 12 Ultimate controlling party

At 31 December 2019 the company's immediate parent company was Canonical Group Limited. The largest group into which the company's results are consolidated is Canonical Holdings Limited. The company's ultimate controlling party is Mark Shuttleworth.