

ZEPTOLAB UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2016



ZEPTOLAB UK LIMITED

COMPANY INFORMATION

Directors	Mikhail Lyalin Spartak Zuy
Registered number	07493468
Registered office	Staple Court 11 Staple Inn Buildings London WC1V 7QH
Auditors	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB

ZEPTOLAB UK LIMITED

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ZEPTOLAB UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JANUARY 2016

Business review

During the financial year the Company has continued to exploit intellectual property and has extended the Cut the Rope franchise with new merchandise licensing agreements and new versions of digital gaming software.

Revenue has increased 25% from 2015, and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has decreased to \$8,856,144 (2015: \$10,742,890). The Company has generated positive operating cash flows that are in line with the management expectations.

In February 2015 a new game 'King of Thieves' was released. The release of this new game is reflected in the increased revenue for the year. During 2016, the company has capitalised \$1,331,098 relating to the development of a new game due to be released in the following year.

Principal risks and uncertainties

The success of the Company depends significantly on its ability to acquire, develop and exploit its intellectual property. The fast moving nature of the sector in which the Company operates means that key business risks include changes in trends and technologies that can affect the demand and delivery of the Company's software titles and products. The Company is also affected by its ability to protect against infringement of its intellectual property.

The functional currency is the US Dollar and the Company is subject to foreign exchange risk on its borrowings which are denominated in Great British Pounds.

Financial key performance indicators

The Company uses the following key performance indicators (KPIs) to assist in the understanding of the development, performance and positions of the business. Amounts are not disclosed as this information is considered commercially sensitive:

Number of digital downloads

The Company monitors the daily number of downloads per title to measure digital revenue and the success of each game including the in application purchase options.

Unique monthly audience

The unique monthly audience figures show how many different people are using the software per monthly. This helps assess the number of end users and repeat users playing the gaming software titles.

Daily average audience

The daily average audience figures indicates the number of people using the software each day. The Company monitors these to ascertain the daily usage of the gaming software and a measure of popularity.

Cash flow operations

The Company monitors operating cash flows as a key element in understanding the performance and position of the business. This measure is the same as that in the cash flow statement. Management expects to continue to have positive cash flow from operations.

ZEPTOLAB UK LIMITED

**STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 JANUARY 2016**

Future developments

The Company intends to continue to exploit and develop its intellectual property with new releases of software titles planned. The Company is developing two new releases under the Cut the Rope franchise, which are due to be launched in 2016. The Company also intends to develop and release a new game under a new brand within the next year.

The Company will continue to develop new relationships and contracts across all their revenue streams, digital, advertising and merchandising which will increase their annual turnover in line with forecasts.

This report was approved by the board on *21st October 2016* and signed on its behalf.


Spartak Zuy
Director

ZEPTOLAB UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JANUARY 2016**

The directors present their report and the financial statements for the year ended 31 January 2016.

Results and dividends

The loss for the year, after taxation, amounted to \$1,840,984 (2015 - profit \$185,020).

During the period the Company paid £nil (2015: £nil) dividends.

Directors

The directors who served during the year were:

Mikhail Lyalin
Spartak Zuy

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

The auditors, Moore Stephens LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *21st October 2016* and signed on its behalf.



Spartak Zuy
Director

ZEPTOLAB UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 JANUARY 2016

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ZEPTOLAB UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEPTOLAB UK LIMITED

We have audited the financial statements of Zeptolab UK Limited for the year ended 31 January 2016, set out on pages 7 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2016 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.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2.2 to the financial statements concerning the Company's ability to continue as a going concern. At 31 January 2016 the Company's current liabilities exceeded its current assets by \$32,404,519 and it had net liabilities of \$16,046,435. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

ZEPTOLAB UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEPTOLAB UK LIMITED

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the directors' report has been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

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



Mark Ayres (Senior Statutory Auditor)

for and on behalf of

Moore Stephens LLP (Statutory Auditor)

150 Aldersgate Street

London

EC1A 4AB

Date: 28th October 2016

ZEPTOLAB UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY 2016**

	Note	2016 \$	2015 \$
Turnover		21,168,420	16,895,735
Gross profit		21,168,420	16,895,735
Administrative expenses		(23,009,404)	(16,412,579)
Operating (loss)/profit		(1,840,984)	483,156
Income from fixed assets investments		-	1,066
Interest receivable and similar income	10	-	28,040
(Loss)/profit before tax		(1,840,984)	512,262
Tax on (loss)/profit	11	-	(327,242)
(Loss)/profit for the year		(1,840,984)	185,020
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		(1,840,984)	185,020

The notes on pages 12 to 25 form part of these financial statements.

ZEPTOLAB UK LIMITED
REGISTERED NUMBER: 07493468

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2016

	Note	2016 \$	2015 \$
Fixed assets			
Intangible assets	12	16,445,584	25,811,614
Investments	13	-	1
		<u>16,445,584</u>	<u>25,811,615</u>
Current assets			
Debtors: amounts falling due within one year	14	10,861,731	8,643,649
Cash at bank and in hand	15	5,146,293	2,895,468
		<u>16,008,024</u>	<u>11,539,117</u>
Creditors: amounts falling due within one year	16	(48,412,543)	(51,556,183)
Net current liabilities		<u>(32,404,519)</u>	<u>(40,017,066)</u>
Total assets less current liabilities		<u>(15,958,935)</u>	<u>(14,205,451)</u>
Provisions for liabilities			
Provisions	19	(87,500)	-
		<u>(87,500)</u>	<u>-</u>
Net liabilities		<u>(16,046,435)</u>	<u>(14,205,451)</u>
Capital and reserves			
Share capital	20	155	155
Profit and loss account		(16,046,590)	(14,205,606)
		<u>(16,046,435)</u>	<u>(14,205,451)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

21st October 2016



Spartak Zuy
Director

The notes on pages 12 to 25 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 JANUARY 2016**

	Share capital \$	Retained earnings \$	Total equity \$
At 1 February 2015	155	(14,205,606)	(14,205,451)
Comprehensive income for the year			
Loss for the year	-	(1,840,984)	(1,840,984)
Total comprehensive income for the year	-	(1,840,984)	(1,840,984)
At 31 January 2016	155	(16,046,590)	(16,046,435)

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 JANUARY 2015**

	Share capital \$	Retained earnings \$	Total equity \$
At 1 February 2014	155	(14,390,626)	(14,390,471)
Comprehensive income for the year			
Profit for the year	-	185,020	185,020
Total comprehensive income for the year	-	185,020	185,020
At 31 January 2015	155	(14,205,606)	(14,205,451)

The notes on pages 12 to 25 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JANUARY 2016**

	2016 \$	2015 \$
Cash flows from operating activities		
(Loss) / profit for the financial year	(1,840,984)	185,020
Adjustments for:		
Amortisation of intangible assets	10,697,128	10,258,668
Decrease in stock	-	120,879
Interest receivable	-	(28,040)
Income from fixed assets and dividends	-	(1,066)
Taxation	-	327,241
Increase in debtors	(2,213,989)	(655,346)
Increase in amounts owed by group undertakings	(4,094)	(26,825)
Increase/(decrease) in creditors	425,397	(69,382)
Decrease in amounts owed to group undertakings	327,322	(1,154)
Increase in provisions	87,500	-
Corporation tax	(13,871)	(12,188)
Foreign exchange on loan notes	(2,348,599)	(4,715,369)
Net cash generated from operating activities	5,115,810	5,382,438
Cash flows from investing activities		
Purchase of intangible fixed assets	(1,331,098)	(1,881,841)
Proceeds on sale of fixed asset investments	1	-
Interest received	-	28,040
Dividends received	-	1,066
Net cash used in investing activities	(1,331,097)	(1,852,735)

ZEPTOLAB UK LIMITED

STATEMENT OF CASH FLOWS (continued)
31 JANUARY 2016

Cash flows from financing activities

Repayment of loans	(1,533,888)	(7,537,654)
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Net cash used in financing activities	(1,533,888)	(7,537,654)
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Net increase / (decrease) in cash and cash equivalents	2,250,825	(4,007,951)
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Cash and cash equivalents at beginning of year	2,895,468	6,903,419
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Cash and cash equivalents at the end of year	5,146,293	2,895,468
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Cash and cash equivalents at the end of year comprise:

Cash at bank and in hand	5,146,293	2,895,468
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The notes on pages 12 to 25 form part of these financial statements.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2016

1. General Information

These financial statements are presented in US Dollars (USD), as that is the currency in which the majority of the Company's transactions are denominated. They comprise the financial statements of the Company for the year ended 31 January 2016 and are presented to the nearest dollar.

The continuing activities of Zeptolab UK Limited are that of exploiting and developing its intellectual property.

Zeptolab Marketplace Solutions Limited was a subsidiary of the Company in the prior year. On 19 February 2015, Zeptolab UK Limited's shareholding in Zeptolab Marketplace Solutions, a wholly owned subsidiary, was transferred to Zeptolab Jersey Limited at cost.

The Company is a United Kingdom company limited by shares. It is both incorporated and domiciled in England and Wales. The address of its registered office is Staple Court, 11 Staple Inn Buildings, London, WC1V 7QH.

2. Summary of significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, issued by the Financial Reporting Council.

The Company transitioned from the previous UK GAAP to FRS 102 as at 1 February 2014. The last financial statements prepared under the previous UK GAAP were for the year ended 31 January 2015. These are the Company's first set of financial statements prepared in accordance with FRS102. There have been no adjustments to prior year comparatives as a result of the adoption of Financial Reporting Standard 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The directors have compiled these financial statements on the going concern basis, notwithstanding the shareholders' deficit, as the directors believe that the company will continue to trade profitably in the future. The going concern basis of the company would be uncertain if material loan note recalls were sought outside of those permitted by cash flow forecast. In the opinion of the directors, the holder of the loan notes is not expected to seek any material repayments within 12 months of the date of the financial statement approval.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2016

2. Summary of significant accounting policies (continued)

2.3 Revenue

Revenue is comprised of digital royalties, advertising royalties and merchandise license royalties.

Digital Royalties

Digital royalties are earned on the sale of gaming software to digital publishing companies and direct to end users. Revenue is recognised in full at the point at which end users download the software or the digital publishing companies make sales of the software to users who are located around the world.

Advertising Royalties

Advertising royalties are earned on click through advertisements within the game software. Revenue is recognised in full at the point at which the click through is registered with the advertising companies.

Merchandise Licensing Royalties

Merchandise licensing royalties are recognised when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments are recognised as revenue in full when received.

Dividend Income

Dividend income is recognised when the right to receive the payment is established.

2.4 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.5 Intangible assets

Intangible fixed assets comprise the intellectual property of 'Cut the Rope', 'Pudding Monsters' and 'King of Thieves' gaming software rights and trademark. The Company will generate royalties on the sale of the gaming software over the life of the intellectual property, estimated to be 6 years, 3 years and 4 year respectively from the date of purchase or launch.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment loss, if any. The carrying value is assessed at each reporting date by the directors, based on discounted cash flow forecasts and is written down to its recoverable value if the carrying value is greater than its estimated recoverable amount.

Amortisation is provided on the following bases:

Intellectual property	-	3 - 6 years straight line
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2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2016

2. Summary of significant accounting policies (continued)

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from related parties.

Basic financial instruments are initially measured at cost and subsequently amortised cost.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.11 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rate of the month preceding the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

All foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'administrative expenses'.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016**

2. Summary of significant accounting policies (continued)

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as administrative expense.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2016

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as follows:

(a) Amortisation of intangible assets

The Company estimates the life of its intangible assets based on industry experience as to how long intellectual property is expected to generate royalties. Amortisation is then provided over this period.

(b) Estimated impairment of intangible assets

The Company tests annually whether the intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2.5

(c) Recoverability of deferred tax assets

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding the future profitable change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period where the change occurs.

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016**

4. Analysis of turnover

	2016 \$	2015 \$
United Kingdom	431,872	506,872
Europe	6,901,357	3,379,147
Rest of the world	13,835,191	13,009,716
	<u>21,168,420</u>	<u>16,895,735</u>

5. Operating (loss)/profit

The operating (loss)/profit is stated after charging/(crediting):

	2016 \$	2015 \$
Bad debt expense	2,134,130	-
Amortisation of intangible assets	<u>10,697,128</u>	<u>10,258,668</u>

6. Auditors' remuneration

	2016 \$	2015 \$
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>43,159</u>	<u>26,176</u>

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 \$	2015 \$
Wages and salaries	61,172	65,869
Social security costs	3,670	3,930
	<u>64,842</u>	<u>69,799</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Directors	<u>2</u>	<u>2</u>

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016

8. Directors' remuneration

	2016 \$	2015 \$
Directors' emoluments	<u>61,172</u>	<u>65,869</u>

9. Income from investments

	2016 \$	2015 \$
Dividends received from subsidiary	-	(1,066)
	<u>-</u>	<u>(1,066)</u>

10. Interest receivable and similar income

	2016 \$	2015 \$
Other interest receivable	<u>-</u>	<u>28,040</u>

11. Taxation

	2016 \$	2015 \$
Corporation tax		
Current tax on profits for the year	-	13,871
Adjustments in respect of previous periods	-	12,188
Total current tax	<u>-</u>	<u>26,059</u>
Deferred tax		
Tax losses carried forward	-	301,183
Taxation on profit on ordinary activities	<u>-</u>	<u>327,242</u>

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015 - *higher than*) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	2016 \$	2015 \$
(Loss)/Profit on ordinary activities before tax	(1,840,984)	512,262
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	(368,197)	102,452
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	-	21,663
Utilisation of tax losses	-	(118,294)
Adjustments to tax charge in respect of prior periods	-	12,188
Dividends from UK companies	-	(213)
Unrelieved tax losses carried forward	368,197	301,183
Other differences leading to an increase (decrease) in the tax charge	-	8,263
Total tax charge for the year	-	327,242

Factors that may affect future tax charges

There is no UK corporation tax liability on the results for the year ended 31 January 2016 due to the losses incurred. The deferred tax asset as at 31 January 2016 is \$3,453,933 (2015: \$3,453,933).

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016

12. Intangible assets

	Intellectual property \$
Cost	
At 1 February 2015	63,233,281
Additions	1,331,098
At 31 January 2016	<u>64,564,379</u>
Amortisation	
At 1 February 2015	37,421,667
Charge for the year	10,697,128
At 31 January 2016	<u>48,118,795</u>
Net book value	
At 31 January 2016	<u>16,445,584</u>
At 31 January 2015	<u>25,811,614</u>

13. Fixed asset investments

	Investment in subsidiary \$
At 1 February 2015	1
Disposals	(1)
At 31 January 2016	<u>-</u>
Net book value	
At 31 January 2016	<u>-</u>
At 31 January 2015	<u>1</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016**

13. Fixed asset investments (continued)

Subsidiary undertaking

Zeptolab Marketplace Solutions Limited was a subsidiary of the Company in the prior year. On 19 February 2015, Zeptolab UK Limited's shareholding in Zeptolab Marketplace Solutions, a wholly owned subsidiary, was transferred to Zeptolab Jersey Limited at cost.

14. Debtors

	2016	2015
	\$	\$
Trade debtors	5,185,799	4,171,304
Amounts owed by group undertakings	30,919	26,825
Other debtors	73,580	94,780
Prepayments and accrued income	2,117,500	896,807
Deferred taxation (see note 18)	3,453,933	3,453,933
	10,861,731	8,643,649

15. Cash and cash equivalents

	2016	2015
	\$	\$
Cash at bank and in hand	5,146,293	2,895,468

Included in cash at bank is \$1,000 (2015: \$122,406) held in a trust account by a third party.

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2016**

16. Creditors: Amounts falling due within one year

	2016 \$	2015 \$
Loan notes issued to parent company	42,557,763	46,440,250
Trade creditors	734,483	443,953
Amounts owed to parent company	4,421,532	4,421,532
Amounts owed to fellow subsidiary	327,322	-
Corporation tax	-	13,871
Taxation and social security	51	9,601
Accruals and deferred income	371,392	226,976
	<u>48,412,543</u>	<u>51,556,183</u>

The Company issued £37,800,000 of loan notes to Zeptolab Jersey Limited, the parent company, on 30 June 2011. These loan notes are interest free and are repayable on demand at the request of the noteholder. Redemptions of £960,000 (2015: £4,700,000) were made during the year and at the balance sheet date £29,867,038 (2015: £30,827,038) of notes were outstanding, these are disclosed in US dollars at the year end foreign exchange rate.

17. Financial instruments

	2016 \$	2015 \$
Financial assets		
Financial assets measured at fair value through profit or loss	5,146,293	2,895,468
Financial assets that are debt instruments measured at amortised cost	7,204,180	5,164,715
	<u>12,350,473</u>	<u>8,060,183</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(48,412,494)	(51,532,711)
	<u>(48,412,494)</u>	<u>(51,532,711)</u>

Financial assets measured at fair value through profit or loss comprise cash and cash equivalents.

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings, other debtors, prepayments and accrued income.

Financial liabilities measured at amortised cost comprise loan notes issued to parent company, trade creditors, amounts owed to parent company and accruals.

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18. Deferred taxation

	Deferred tax
	\$
At 1 February 2015 and 31 January 2016	<u>3,453,933</u>

The deferred tax asset is made up as follows:

	2016	2015
	\$	\$
Tax losses carried forward	<u>3,453,933</u>	<u>3,453,933</u>

19. Provisions

	Provision
	\$
Charged to the profit or loss	<u>87,500</u>
At 31 January 2016	<u>87,500</u>

A consumer lawsuit was filed in Texas, on 15 January 2013, which named Zeptolab UK Limited as a defendant, among various other application developers. Whilst the Company was named as a defendant, the case targets the distributors of the Zeptolab 'Cut the Rope' application rather than the developers themselves. In May 2014, the claims of the plaintiffs were partially dismissed. In June 2014 the plaintiffs filed an amended complaint based on the remaining claims. In January 2015, an oral hearing was held to discuss the lawsuit against Zeptolab and the other defendants. Due to the length of the law suit and the increasing associated legal fees the parties were negotiating a settlement. The settlement will not admit any liability of Zeptolab UK Limited's part and the lawsuit has now been concluded post year end and the \$87,500 has been settled.

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20. Share capital

	2016	2015
	\$	\$
Allotted, called up and unpaid		
100 Ordinary shares of £1 each	155	155

21. Contingent liabilities

The Company is obligated to provide second line support in respect of the software titles for which revenue was fully recognised at the point of sale. In the opinion of the directors, based on past experience, no material outflow of resources is expected to be required in the provision of this support.

As part of the asset purchase agreement for the intellectual property of the 'Cut the Rope' gaming software rights and trademarks, the Company is required to pay an earn-out should net revenues from sale or distribution of any asset exceed the initial purchase price. The earn-out terms are mutually agreed by the parties at such time as the earn-out conditions are met.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2016

22. Related party transactions

During the year the Company undertook various transactions with Zeptolab Jersey Limited, a company incorporated in Jersey which is the parent company of Zeptolab UK Limited.

At 31 January 2016 the sum of \$4,421,532 (2015: \$4,421,532) was due to Zeptolab Jersey Limited. This amount is disclosed within amounts owed to parent company (Note 16).

At 31 January 2016 the sum of \$327,322 (2015: \$nil) was due to Zeptolab Barcelona. This amount is disclosed within amounts owed to fellow subsidiary (Note 16) and related to reimbursement of agency costs.

During the year the Company paid £4,463,550 (\$6,822,926) (2015: £4,458,300 (\$7,359,664)) to Zeptolab Jersey Limited in relation to a master service agreement. All amounts due to Zeptolab Jersey Limited regarding the management service agreement were paid during the year.

The Company issued £37,800,000 of loan notes to Zeptolab Jersey Limited on 30 June 2011. During the year redemptions of £960,000 (2015: £4,700,000) were made. At 31 January 2016 £29,867,038 (2015: £30,827,038) of notes were outstanding. The loan notes are interest free and repayable on demand. These amounts are disclosed in US dollars within loan notes issued to parent company (Note 16).

At the balance sheet date, Mikhail Lyalin, a director of the Company owed the Company \$2,083 (2015: \$11,579). This amount is included within other debtors (Note 14). The maximum advance for reimbursable expenses during the year was \$37,787 (2015: \$25,546). This balance is interest free and has been repaid after the year end.

During the year the Company paid expenses of \$4,093 (2015: \$27,253) and received income \$nil (2015: \$427) on behalf of Zeptolab Marketplace Solutions Limited a wholly owned subsidiary. At 31 January 2016 the sum of \$30,919 (2014: \$26,825) was due from Zeptolab Marketplace Solutions Limited. This amount is disclosed within amounts owned by group undertakings (Note 14)

The Company has borne the cost of all Zeptolab Marketplace Solutions Limited's audit, accountancy and legal fees for the years ended 31 January 2016, 31 January 2015 and 31 January 2014.

At the balance sheet date, Efim Voinov, a shareholder of the Company up to 29 December 2014, owed Zeptolab UK Limited \$71,342 (2015: \$83,045). This amount is disclosed within other debtors (Note 14). This loan is interest free with no fixed payment term.

During the year the Company recognised income of \$357 (2015: \$23,788) from Svyaznoy Zagruzka. At the balance sheet date, Svyaznoy Zagruzka owed \$76 (2015: \$767) to the Company. Svyaznoy Zagruzka is related to the Company by virtue of a director related party relationship. This amount is included within trade debtors (Note 14).

23. Controlling party

The Company's parent undertaking is Zeptolab Jersey Limited, a company incorporated in Jersey. The directors do not consider there to be an ultimate controlling party.