

Registered number: 07493468

ZEPTOLAB UK LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2017

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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 2017

Business review

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

Revenue has decreased 11% from 2016, and Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA) has slightly decreased to \$6,289,846 (2016: \$8,856,144). The Company has generated positive operating cash flows that are in line with the management expectations.

During 2017, the company has capitalised \$2,370,874 relating to the development of a new game which was released post year end.

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 2017**

Future developments

The Company intends to continue to exploit and develop its intellectual property with new releases of software title planned. The Company has released its new title CATS game in April 2017. The launch of the game was very successful and all the planned KPI's were exceeded. Furthermore, the Company is developing a new game release under the Om Nom (Cut the Rope) franchise, which are due to be launched in 2017. The Company also intends to develop a new game under a new brand within the next year. In addition, the Company intends to act as a publisher to prepare for a third-party developer for its launch.

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 forecast.

This report was approved by the board on 6 October 2017 and signed on its behalf.



Spartak Zuy
Director

ZEPTOLAB UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JANUARY 2017**

The directors present their report and the financial statements for the year ended 31 January 2017.

Results and dividends

The loss for the year, after taxation, amounted to \$3,282,399 (2016 - loss \$1,840,984).

During the period the Company paid \$nil (2016: \$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 the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the 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 6 October 2017 and signed on its behalf.



Spartak Zuy
Director

ZEPTOLAB UK LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2017**

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's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to 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 2017, set out on pages 7 to 21. 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 on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 2017 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 2017 the company's current liabilities exceeded its current assets by \$27,608,164 and it had net liabilities of \$19,328,834. 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 (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006

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

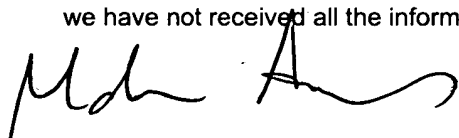
- the information given in the Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Director's Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, 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: 6 October 2017

ZEPTOLAB UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY 2017**

	Note	2017 \$	2016 \$
Turnover	2,3,4	18,803,538	21,168,420
Gross profit		<u>18,803,538</u>	<u>21,168,420</u>
Administrative expenses		(23,050,821)	(23,009,404)
Operating loss		<u>(4,247,283)</u>	<u>(1,840,984)</u>
Loss before tax		<u>(4,247,283)</u>	<u>(1,840,984)</u>
Taxation	8	964,884	-
Loss for the year		<u>(3,282,399)</u>	<u>(1,840,984)</u>
Total comprehensive loss for the year		<u><u>(3,282,399)</u></u>	<u><u>(1,840,984)</u></u>

The notes on pages 11 to 21 form part of these financial statements.


ZEPTOLAB UK LIMITED
REGISTERED NUMBER: 07493468

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2017

	Note	2017 \$	2016 \$
Non-current assets			
Intangible assets	9	8,279,330	16,445,584
		<u>8,279,330</u>	<u>16,445,584</u>
Current assets			
Debtors	10	9,193,933	10,861,731
Cash at bank and in hand	11	4,206,565	5,146,293
		<u>13,400,498</u>	<u>16,008,024</u>
Creditors: amounts falling due within one year	12	(41,008,662)	(48,412,543)
Net current liabilities		<u>(27,608,164)</u>	<u>(32,404,519)</u>
Total assets less current liabilities		<u>(19,328,834)</u>	<u>(15,958,935)</u>
Provisions for liabilities			
Provisions	14	-	(87,500)
		<u>-</u>	<u>(87,500)</u>
Net liabilities		<u>(19,328,834)</u>	<u>(16,046,435)</u>
Capital and reserves			
Share capital	15	155	155
Accumulated losses		(19,328,989)	(16,046,590)
		<u>(19,328,834)</u>	<u>(16,046,435)</u>

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

6 October 2017



Spartak Zuy

Director

The notes on pages 11 to 21 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY 2017**

	Share capital	Accumulated losses	Total equity
	\$	\$	\$
At 1 February 2016	155	(16,046,590)	(16,046,435)
Total comprehensive loss for the year	-	(3,282,399)	(3,282,399)
At 31 January 2017	155	(19,328,989)	(19,328,834)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY 2016**

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

The notes on pages 11 to 21 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JANUARY 2017**

	2017 \$	2016 \$
Cash flows from operating activities		
Loss for the financial year	(3,282,399)	(1,840,984)
Adjustments for:		
Amortisation of intangible assets	10,537,128	10,697,128
Decrease/(increase) in debtors	2,670,670	(2,213,989)
Increase in amounts owed by group undertakings	-	(4,094)
(Decrease)/increase in creditors	(110,151)	425,397
Increase in amounts owed to associates	159,077	327,322
(Decrease)/increase in provisions	(87,500)	87,500
Corporation tax	(964,884)	(13,871)
Foreign exchange on loan notes	(4,996,421)	(2,348,599)
Net cash generated from operating activities	<u>3,925,520</u>	<u>5,115,810</u>
Cash flows from investing activities		
Purchase of intangible fixed assets	(2,370,874)	(1,331,098)
Proceeds on sale of fixed asset investments	-	1
Net cash used in investing activities	<u>(2,370,874)</u>	<u>(1,331,097)</u>
Cash flows from financing activities		
Repayment of loans	(2,494,374)	(1,533,888)
Net cash used in financing activities	<u>(2,494,374)</u>	<u>(1,533,888)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(939,728)</u>	<u>2,250,825</u>
Cash and cash equivalents at beginning of year	5,146,293	2,895,468
Cash and cash equivalents at the end of year	<u><u>4,206,565</u></u>	<u><u>5,146,293</u></u>
Cash at bank and in hand	<u><u>4,206,565</u></u>	<u><u>5,146,293</u></u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017**

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 2017 and are presented to the nearest dollar.

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

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 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 2017

2. Summary of significant accounting policies (continued)

2.3 Turnover

Turnover 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 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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2.5 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.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

2. Summary of significant accounting policies (continued)

2.6 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.

2.7 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.

2.8 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.

2.9 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 profit or loss.

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

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

2. Summary of significant accounting policies (continued)

2.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge 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 tax 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 tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.11 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 2017

3. Judgements 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 2.4

(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 judgement 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 2017**

4. Turnover

	2017 \$	2016 \$
United Kingdom	664,360	431,872
Europe	6,855,803	6,901,357
Rest of the world	11,283,375	13,835,191
	<u>18,803,538</u>	<u>21,168,420</u>

5. Operating loss

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

	2017 \$	2016 \$
Bad debt expense	1,785,152	2,134,130
Audit fees	40,000	43,159
Accountancy fees	99,158	112,385
Auditor fees - other services	74,519	63,915
Amortisation of intangible assets	10,537,128	10,697,128
Exchange rate differences	(4,951,589)	(2,348,599)
	<u>(4,951,589)</u>	<u>(2,348,599)</u>

6. Employees

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

	2017 \$	2016 \$
Wages and salaries	54,488	61,172
Social security costs	1,913	3,670
	<u>56,401</u>	<u>64,842</u>

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

	2017 No.	2016 No.
Directors	<u>2</u>	<u>2</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017**

7. Directors' remuneration

	2017 \$	2016 \$
Directors' emoluments	<u>54,488</u>	<u>61,172</u>

8. Taxation

	2017 \$	2016 \$
Total current tax	-	-
Deferred tax (see note 13)		
Deferred tax	(964,884)	-
Taxation on loss on ordinary activities	<u>(964,884)</u>	<u>-</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - *lower than*) the standard rate of corporation tax in the UK of 20% (2016 - 20%). The differences are explained below:

	2017 \$	2016 \$
Loss on ordinary activities before tax	(4,247,283)	(1,840,984)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	(849,457)	(368,197)
Effects of:		
Unrelieved tax losses carried forward	849,457	368,197
Deferred tax credit	(964,884)	-
Total tax credit for the year	<u>(964,884)</u>	<u>-</u>

Factors that may affect future tax charges

There is no UK corporation tax liability on the results for the year ended 31 January 2017 due to the losses incurred. The deferred tax asset as at 31 January 2017 is \$4,418,817 (2016: \$3,453,933).

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017**

9. Intangible assets

	Intellectual property \$
Cost	
At 1 February 2016	64,564,379
Additions	2,370,874
At 31 January 2017	<u>66,935,253</u>
Amortisation	
At 1 February 2016	48,118,795
Charge for the year	10,537,128
At 31 January 2017	<u>58,655,923</u>
Net book value	
At 31 January 2017	<u><u>8,279,330</u></u>
At 31 January 2016	<u><u>16,445,584</u></u>

10. Debtors

	2017 \$	2016 \$
Trade debtors	3,618,803	5,185,799
Amounts owed by related parties	68,908	30,919
Other debtors	231,276	73,425
Unpaid share capital	155	155
Prepayments and accrued income	855,974	2,117,500
Deferred taxation (see note 13)	4,418,817	3,453,933
	<u><u>9,193,933</u></u>	<u><u>10,861,731</u></u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017**

11. Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank and in hand	<u>4,206,565</u>	<u>5,146,293</u>

Included in cash at bank is \$6,458 (2016: \$1,000) held in a trust account by a third party.

12. Creditors: Amounts falling due within one year

	2017 \$	2016 \$
Loan notes issued to parent company	35,066,968	42,557,763
Trade creditors	564,329	734,483
Amounts owed to parent company	4,421,532	4,421,532
Amounts owed to related party	524,388	327,322
Taxation and social security	17,891	51
Accruals and deferred income	413,554	371,392
	<u>41,008,662</u>	<u>48,412,543</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 £1,841,938 (2016: £960,000) were made during the year and at the balance sheet date £28,025,100 (2016: £29,867,038) of notes were outstanding, these are disclosed in US dollars at the year end foreign exchange rate.

13. Deferred taxation

	Deferred tax \$
At beginning of year	3,453,933
Credit to profit or loss	964,884
At end of year	<u>4,418,817</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2017**

13. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2017 \$
Tax losses carried forward	4,418,817

14. Provisions

	Provision \$
At 1 February 2016	87,500
Utilised in year	(87,500)
At 31 January 2017	-

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 negotiated a settlement. The settlement did not admit any liability of Zeptolab UK Limited's part and the lawsuit has now been concluded and the \$87,500 has been settled.

15. Share capital

	2017 \$	2016 \$
Allotted, called up and unpaid		
100 Ordinary shares of £1 each	155	155

16. 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.

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17. Related party transactions

At the balance sheet date, Mikhail Lyalin, a director of the Company owed the Company \$168,628 (2016: \$2,083) in relation to advances for reimbursable expenses. This amount is included within other debtors (Note 10). The maximum advance for reimbursable expenses during the year was \$201,422 (2016: \$37,787)

At the balance sheet date, Efim Voinov, a shareholder of the Company up to 29 December 2014, owed Zeptolab UK Limited \$62,648 (2016: \$71,342). This balance is interest free and repayable on demand.

18. 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.