

Registered number: 07493468

**ZEPTOLAB UK LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2015**

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**ZEPTOLAB UK LIMITED**

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	Mikhail Lyalin Spartak Zuy
<b>REGISTERED NUMBER</b>	07493468
<b>REGISTERED OFFICE</b>	Staple Court 11 Staple Inn Buildings London WC1V 7QH
<b>AUDITORS</b>	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB

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**ZEPTOLAB UK LIMITED**

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**CONTENTS**

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	Page
<b>Strategic report</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Directors' responsibilities statement</b>	<b>3</b>
<b>Independent auditors' report</b>	<b>4 - 5</b>
<b>Profit and loss account</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Cash flow statement</b>	<b>8</b>
<b>Notes to the financial statements</b>	<b>9 - 19</b>

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## ZEPTOLAB UK LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 JANUARY 2015

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#### BUSINESS REVIEW

During the financial year the company has continued to exploit its 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 8% from 2014, and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has increased to \$10,742,890 (2014: negative \$238,963). The company has generated positive operating cash flows that are in line with management expectations.

The company intends to continue to exploit and develop its intellectual property with further new releases of software titles planned. During 2015, the company has capitalised \$1,881,841 relating to a new game 'King of Thieves', which was released in February 2015.

#### 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 of operation is US Dollar and the company is subject to foreign exchange risk on its borrowings which are denominated in Great British Pounds.

#### KEY PERFORMANCE INDICATORS

The company uses the following key performance indicators (KPIs) to assist in the understanding of the development, performance and position 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 month. This helps to 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.

This report was approved by the board on *16 October 2015* and signed on its behalf.

Spartak Zuy  
Director

*[Signature]*  
*Spartak!*

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**ZEPTOLAB UK LIMITED**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 JANUARY 2015**

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The directors present their report and the financial statements for the year ended 31 January 2015.

**DIRECTORS**

The directors who served during the year were:

Mikhail Lyalin  
Spartak Zuy

**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 trade profitably in the future. Additionally, the holder of the loan notes (see note 14) is not expected to seek any material repayments within 12 months of the date of financial statement approval.

**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.

**AUDITORS**

The auditor, 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 *16 October 2015* and signed on its behalf.

Spartak Zuy  
Director

*[Signature]* / Zuy Spartak!

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**ZEPTOLAB UK LIMITED**

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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 JANUARY 2015**

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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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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 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.

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## **ZEPTOLAB UK LIMITED**

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### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEPTOLAB UK LIMITED**

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We have audited the financial statements of Zeptolab UK Limited for the year ended 31 January 2015, set out on pages 6 to 19. 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 set out on page 3, 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 Auditing Practices Board's (APB'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](http://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 2015 and of its profit 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 1.2 to the financial statements concerning the company's ability to continue as a going concern. At 31 January 2015 the company's current liabilities exceeded its current assets by \$40,017,066 and it had net liabilities of \$14,205,451. 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.

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**ZEPTOLAB UK LIMITED**

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEPTOLAB UK LIMITED**

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**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**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: *20th October 2015*

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**ZEPTOLAB UK LIMITED**

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**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 JANUARY 2015**

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	Note	2015 \$	2014 \$
<b>TURNOVER</b>	1.3	<b>16,895,735</b>	<b>15,624,097</b>
Administrative expenses		<b>(16,412,579)</b>	<b>(26,121,728)</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>483,156</b>	<b>(10,497,631)</b>
Income from fixed asset investments		<b>1,066</b>	<b>-</b>
Interest receivable and similar income	7	<b>28,040</b>	<b>-</b>
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	<b>512,262</b>	<b>(10,497,631)</b>
Taxation	8	<b>(327,242)</b>	<b>2,048,193</b>
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	17	<b>185,020</b>	<b>(8,449,438)</b>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2015 or 2014 other than those included in the Profit and Loss account.

The notes on pages 9 to 19 form part of these financial statements.

**ZEPTOLAB UK LIMITED**  
**REGISTERED NUMBER: 07493468**

**BALANCE SHEET**  
**AS AT 31 JANUARY 2015**

	Note	\$	2015 \$	\$	2014 \$
<b>FIXED ASSETS</b>					
Intangible assets	9		25,811,614		34,188,441
Investments	10		1		1
			<u>25,811,615</u>		<u>34,188,442</u>
<b>CURRENT ASSETS</b>					
Stocks	11	-		120,879	
Debtors	12	8,643,649		8,262,660	
Cash at bank	13	2,895,468		6,903,419	
			<u>11,539,117</u>	<u>15,286,958</u>	
<b>CREDITORS:</b> amounts falling due within one year	14	(51,556,183)		(63,865,871)	
<b>NET CURRENT LIABILITIES</b>			<u>(40,017,066)</u>		<u>(48,578,913)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>(14,205,451)</u>		<u>(14,390,471)</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	16		155		155
Profit and loss account	17		(14,205,606)		(14,390,626)
<b>SHAREHOLDERS' DEFICIT</b>	18		<u>(14,205,451)</u>		<u>(14,390,471)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on  
*16th October 2015*

**Spartak Zuy**  
 Director

*[Signature] / Zuy Spartak!*

The notes on pages 9 to 19 form part of these financial statements.

**ZEPTOLAB UK LIMITED**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 JANUARY 2015**

	Note	2015 \$	2014 \$
Net cash inflow from operating activities	23	5,394,626	1,203,690
Returns on investments and servicing of finance	24	29,106	-
Taxation		(12,188)	-
Capital expenditure and financial investment	24	(1,881,841)	-
<b>CASH INFLOW BEFORE FINANCING</b>		<b>3,529,703</b>	<b>1,203,690</b>
Financing	24	(7,537,654)	(463,021)
<b>(DECREASE)/INCREASE IN CASH IN THE YEAR</b>		<b>(4,007,951)</b>	<b>740,669</b>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT  
FOR THE YEAR ENDED 31 JANUARY 2015**

	2015 \$	2014 \$
(Decrease)/Increase in cash in the year	(4,007,951)	740,669
Cash outflow from decrease in debt and lease financing	7,537,654	463,021
<b>CHANGE IN NET DEBT RESULTING FROM CASH FLOWS</b>	<b>3,529,703</b>	<b>1,203,690</b>
Other non-cash changes	4,715,369	(2,686,351)
<b>MOVEMENT IN NET DEBT IN THE YEAR</b>	<b>8,245,072</b>	<b>(1,482,661)</b>
Net debt at 1 February	(51,789,854)	(50,307,193)
<b>NET DEBT AT 31 JANUARY</b>	<b>(43,544,782)</b>	<b>(51,789,854)</b>

The notes on pages 9 to 19 form part of these financial statements.

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## **ZEPTOLAB UK LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2015**

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#### **1. ACCOUNTING POLICIES**

##### **1.1 Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is the parent undertaking of a medium group and as such is required by the Companies Act 2006 to prepare group accounts. The subsidiary is considered immaterial to the group. These financial statements therefore present information about the company as an individual undertaking and not for the group.

##### **1.2 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. Additionally, 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 financial statement approval.

##### **1.3 Turnover**

Turnover is comprised of digital royalties, advertising royalties and merchandise license 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 software or the digital publishing companies make sales of the software to users who are located around the world. All of the digital publishing companies are located outside of the United Kingdom.

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

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.

##### **1.4 Intangible fixed assets and amortisation**

Intangible fixed assets comprise the intellectual property of 'Cut the Rope', 'Pudding Monsters' and 'King of Thieves' gaming software rights and trademarks. 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 years 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 cashflow forecasts and is written down to its recoverable value if the carrying value is greater than its estimated recoverable amount.

Amortisation is provided at the following rates:

Intellectual property	- 3 - 6 years straight line
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## **ZEPTOLAB UK LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2015**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **1.5 Investments**

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

##### **1.6 Stocks**

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

##### **1.7 Deferred taxation**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

##### **1.8 Foreign currencies**

The financial statements have been prepared in US dollars as this is considered the functional currency of the industry in which the company operates.

Monetary assets and liabilities denominated in non US dollar currencies are translated into US dollars at rates of exchange ruling at the balance sheet date.

Transactions in non US currencies are translated into US dollars at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

#### **2. TURNOVER**

The whole of the turnover is attributable to the development of digital gaming software titles and the exploitation of the related intellectual property.

3% of income was generated in the United Kingdom, 20% was attributable to geographical markets in Europe and 77% was attributable to geographical markets in the rest of the world.

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**ZEPTOLAB UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

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**3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

The profit/(loss) is stated after charging:

	2015	2014
	\$	\$
Amortisation - intangible fixed assets	10,258,668	10,258,668
(Gain)/loss on foreign exchange	(4,781,820)	2,646,916
	<u>                    </u>	<u>                    </u>

**4. AUDITOR'S REMUNERATION**

	2015	2014
	\$	\$
Fees payable to the company's auditor for the audit of the company's annual accounts	26,176	25,104
	<u>                    </u>	<u>                    </u>

**5. STAFF COSTS**

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

	2015	2014
	\$	\$
Wages and salaries	65,869	62,727
Social security costs	3,930	6,999
	<u>                    </u>	<u>                    </u>
	<u>69,799</u>	<u>69,726</u>

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

	2015	2014
	No.	No.
Directors	2	2
	<u>                    </u>	<u>                    </u>

**6. DIRECTORS' REMUNERATION**

	2015	2014
	\$	\$
Remuneration	65,869	62,727
	<u>                    </u>	<u>                    </u>

**ZEPTOLAB UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

**7. INTEREST RECEIVABLE**

	2015 \$	2014 \$
Other interest receivable	<u>28,040</u>	<u>-</u>

**8. TAXATION**

	2015 \$	2014 \$
<b>Analysis of tax charge in the year</b>		
<b>Current tax</b> (see note below)		
UK corporation tax charge on profit/loss for the year	13,871	-
Adjustments in respect of prior periods	12,188	-
<b>Total current tax</b>	<u>26,059</u>	<u>-</u>
<b>Deferred tax</b> (see note 15)		
Deferred tax	301,183	(2,048,193)
<b>Tax on profit/(loss) on ordinary activities</b>	<u>327,242</u>	<u>(2,048,193)</u>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2014 - *higher than*) the standard rate of corporation tax in the UK of 20% (2014 - 21.33%). The differences are explained below:

	2015 \$	2014 \$
Profit/(loss) on ordinary activities before tax	<u>512,262</u>	<u>(10,497,631)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 21.33%)	102,452	(2,239,145)
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	21,663	35,880
Utilisation of tax losses brought forward	(118,294)	-
Adjustments to tax charge in respect of prior periods	12,188	-
Dividends from UK companies	(213)	-
Unrelieved tax losses carried forward	-	2,203,265
Other differences leading to an increase (decrease) in the tax charge	8,263	-
<b>Current tax charge for the year</b>	<u>26,059</u>	<u>-</u>

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**ZEPTOLAB UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

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**9. INTANGIBLE FIXED ASSETS**

	<b>Intellectual property \$</b>
<b>Cost</b>	
At 1 February 2014	61,351,440
Additions	1,881,841
At 31 January 2015	<u>63,233,281</u>
<b>Amortisation</b>	
At 1 February 2014	27,162,999
Charge for the year	10,258,668
At 31 January 2015	<u>37,421,667</u>
<b>Net book value</b>	
At 31 January 2015	<u><u>25,811,614</u></u>
<i>At 31 January 2014</i>	<u><u>34,188,441</u></u>

**10. FIXED ASSET INVESTMENTS**

	<b>Investments in subsidiary \$</b>
<b>Cost</b>	
At 1 February 2014 and 31 January 2015	<u>1</u>
<b>Net book value</b>	
At 31 January 2015	<u><u>1</u></u>
<i>At 31 January 2014</i>	<u><u>1</u></u>
<b>Subsidiary undertakings</b>	

The following is a subsidiary undertaking of the company:

<b>Name</b>	<b>Class of shares</b>	<b>Holding</b>
Zeptolab Marketplace Solutions Limited	Ordinary	100 %

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**ZEPTOLAB UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

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**10. FIXED ASSET INVESTMENTS (continued)**

The aggregate of the share capital and reserves as at 31 January 2015 and of the profit or loss for the year ended on that date for the subsidiary undertaking was as follows:

Name	Aggregate of share capital and reserves \$	Profit \$
Zeptolab Marketplace Solutions Limited	397	396

**11. STOCKS**

	2015 \$	2014 \$
Finished goods and goods for resale	-	120,879

In April 2014, a fire at the storage warehouse destroyed all stock held. The directors are in the process of pursuing an insurance claim however at the balance sheet date no insurance claim has been confirmed or received and so has not been recognised in the accounts.

**12. DEBTORS**

	2015 \$	2014 \$
Trade debtors	4,171,304	3,259,527
Amounts owed by group undertakings	26,825	-
Other debtors	94,780	49,074
Prepayments and accrued income	896,807	1,198,943
Deferred tax asset (see note 15)	3,453,933	3,755,116
	<u>8,643,649</u>	<u>8,262,660</u>

**13. CASH AT BANK**

Included in cash at bank is \$122,406 (2014: \$380,612) held in a trust account by a third party.

**ZEPTOLAB UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

**14. CREDITORS:**

**Amounts falling due within one year**

	2015 \$	2014 \$
Loan notes issued to parent company	46,440,250	58,693,273
Trade creditors	443,953	293,735
Amounts owed to parent company/related parties	4,421,532	4,422,686
Corporation tax	13,871	-
Other taxation and social security	9,601	109,723
Other creditors	-	52,184
Accruals	226,976	294,270
	<u>51,556,183</u>	<u>63,865,871</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 £4,700,000 (2014: £286,200) were made during the year and at the balance sheet date £30,827,038 (2014: £35,527,038) of notes were outstanding, these are disclosed in US dollars at the year end foreign exchange rate.

**15. DEFERRED TAX ASSET**

	2015 \$	2014 \$
At beginning of year	3,755,116	1,706,923
Movement	(301,183)	2,048,193
	<u>3,453,933</u>	<u>3,755,116</u>

The deferred tax asset is made up as follows:

	2015 \$	2014 \$
Tax losses carried forward	<u>3,453,933</u>	<u>3,755,116</u>

**16. SHARE CAPITAL**

	2015 \$	2014 \$
<b>Allotted, called up and not paid</b>		
100 Ordinary shares of £1 each	<u>155</u>	<u>155</u>

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**ZEPTOLAB UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

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**17. PROFIT AND LOSS ACCOUNT**

	\$
At 1 February 2014	(14,390,626)
Profit for the financial year	185,020
	<u>(14,205,606)</u>
At 31 January 2015	<u>(14,205,606)</u>

**18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT**

	2015 \$	2014 \$
Opening shareholders' deficit	(14,390,471)	(5,941,033)
Profit/(loss) for the financial year	185,020	(8,449,438)
	<u>(14,205,451)</u>	<u>(14,390,471)</u>
Closing shareholders' deficit	<u>(14,205,451)</u>	<u>(14,390,471)</u>

**19. 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.

A consumer lawsuit was filed in Texas, on January 15, 2013, which named Zeptolab UK Limited as a defendant, among various other application developers. Whilst the company was a named defendant, the case targets the distributors of Zeptolab's '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. It is the strong opinion of the directors that the allegations against Zeptolab UK Limited have no merit and will therefore continue to be strongly defended.

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## ZEPTOLAB UK LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2015

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#### 20. RELATED PARTY TRANSACTIONS

During the year the company undertook various transactions with Zeptolab Jersey Limited, a company incorporated in Jersey which became the parent company of Zeptolab UK Limited on 29 December 2014, and was previously related by virtue of common shareholders.

At 31 January 2015 the sum of \$4,421,532 (2014: \$4,421,532) was due to Zeptolab Jersey Limited. This amount is disclosed within amounts owed to parent company/related parties (see note 14).

During the year the company paid £4,458,300 (\$7,359,664) (2014: £4,793,400 (\$7,506,589)) 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 £4,700,000 (2014: £286,200) were made. At 31 January 2015 £30,827,038 (2014: £35,527,038) 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 14).

At the balance sheet date, Mikhail Lyalin, a director of the company owed the company \$11,579 (2014: was owed \$52,184). This amount is included within other debtors (see note 12) (2014: other creditors (see note 14)). The maximum advance for reimbursable expenses during the year was \$25,546. This balance is interest free and has been repaid after the year end.

During the year the company paid expenses of \$27,253 (2014: \$14,203) and received income \$427 (2014: \$15,357) on behalf of Zeptolab Marketplace Solutions Limited a wholly owned subsidiary. At 31 January 2015 the sum of \$26,825 was due from (2014: \$1,154 was due to) Zeptolab Marketplace Solutions Limited. This amount is disclosed within amounts owed by group undertakings (See note 12) (2014: amounts owed to related parties (See note 14)).

At the balance sheet date, Efim Voinov, a shareholder of the company up to 29 December 2014, owed Zeptolab UK Limited \$83,045 (2014: \$48,919). This amount is disclosed within other debtors (see note 12). This loan is interest free with no fixed payment term.

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

During the year the company recognised income of \$23,788 (2014: \$31,259) from Svyaznoy Zagruzka. At the balance sheet date, Svyaznoy Zagruzka owed \$767 (2014: \$7,256) 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 (see note 12).

#### 21. POST BALANCE SHEET EVENTS

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

#### 22. PARENT UNDERTAKING AND 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

**23. NET CASH FLOW FROM OPERATING ACTIVITIES**

	2015	2014
	\$	\$
Operating profit/(loss)	483,156	(10,497,631)
Amortisation of intangible fixed assets	10,258,668	10,258,668
Decrease/(increase) in stocks	120,879	(120,879)
Increase in debtors	(655,347)	(1,129,787)
Increase in amounts owed by group undertakings	(26,825)	-
(Decrease)/increase in creditors	(69,382)	8,713
Decrease in amounts owed to group undertakings	(1,154)	(1,745)
Foreign exchange on loan notes	(4,715,369)	2,686,351
<b>Net cash inflow from operating activities</b>	<b>5,394,626</b>	<b>1,203,690</b>

**24. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT**

	2015	2014
	\$	\$
<b>Returns on investments and servicing of finance</b>		
Interest received	28,040	-
Dividends received	1,066	-
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>29,106</b>	<b>-</b>
	2015	2014
	\$	\$
<b>Capital expenditure and financial investment</b>		
Purchase of intangible fixed assets	(1,881,841)	-
	2015	2014
	\$	\$
<b>Financing</b>		
Repayment of loan notes	(7,537,654)	(463,021)

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**ZEPTOLAB UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JANUARY 2015**

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**25. ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS**

	<b>1 February 2014</b>	<b>Cash flow</b>	<b>Other non-cash changes</b>	<b>Exchange Movement</b>	<b>31 January 2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	6,903,419	(4,007,951)	-	-	2,895,468
<b>Debt:</b>					
Debts due within one year	(58,693,273)	7,537,654	-	4,715,369	(46,440,250)
<b>Net (debt)/funds</b>	<b>(51,789,854)</b>	<b>3,529,703</b>	<b>-</b>	<b>4,715,369</b>	<b>(43,544,782)</b>