

Registered number: 07493468

ZEPTOLAB UK LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2018

TUESDAY



L7H5DXM9

LD5

23/10/2018

#95

COMPANIES HOUSE

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

CONTENTS

	Page
Strategic Report	1 - 2
Directors' Report	3
Directors' Responsibilities Statement	4
Independent Auditors' Report	5 - 7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements	12 - 23
The following pages do not form part of the statutory financial statements:	
Detailed Profit and Loss Account and Summaries	24 - 25

ZEPTOLAB UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JANUARY 2018

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 increased 192% from 2017, and Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA) has increased to \$19,713,692 (2017: \$6,289,845). The Company has generated positive operating cash flows that are in line with the management expectations.

During 2018, the company had capitalised \$2,859,020 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 2018**

Future developments

The Company intends to continue to exploit and develop its intellectual property with new releases of software titles planned. The Company continues to successfully operate the game CATS and other existing titles in 2018. Furthermore, the Company is developing a new game release under the Om Nom (Cut the Rope) franchise, which is due to be launched at the end of 2018 or early in 2019. 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 at 2019.

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 22 October 2018 and signed on its behalf.



Spartak Zuy
Director

ZEPTOLAB UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JANUARY 2018**

The directors present their report and the financial statements for the year ended 31 January 2018.

Results and dividends

The profit for the year, after taxation, amounted to \$13,187,739 (2017 - loss \$3,282,399).

During the period the Company paid \$nil (2017: \$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 directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the directors 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 22 October 2018 and signed on its behalf.



Spartak Zuy
Director

ZEPTOLAB UK LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2018**

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 and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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

Opinion

We have audited the financial statements of Zeptolab UK Limited (the 'Company') for the year ended 31 January 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2018 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.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 2.2 in the financial statements, which indicates that as at 31 January 2018, the company's current liabilities exceeded its current assets by \$11,942,365 and it had net liabilities of \$6,141,095. As stated in note 2.2, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

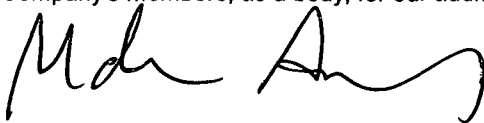
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

ZEPTOLAB UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEPTOLAB UK LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.



Mark Ayres (Senior Statutory Auditor)

for and on behalf of
Moore Stephens LLP

150 Aldersgate Street
London
EC1A 4AB

Date:

23 October 2018

ZEPTOLAB UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY 2018**

	Note	2018 \$	2017 \$
Turnover	4	54,854,869	18,803,538
Administration Expenses		(40,478,257)	(23,050,821)
Operating profit/(loss)	5	14,376,612	(4,247,283)
Interest receivable and similar income	8	1,271	-
Profit/(loss) before tax		14,377,883	(4,247,283)
Tax on profit/(loss)	9	(1,190,144)	964,884
Profit/(loss) for the financial year		13,187,739	(3,282,399)

There was no other comprehensive income for 2018 (2017:\$NIL).

The notes on pages 12 to 23 form part of these financial statements.

ZEPTOLAB UK LIMITED
REGISTERED NUMBER: 07493468

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2018

	Note	2018 \$	2017 \$
Fixed assets			
Intangible assets	10	5,801,270	8,279,330
		<u>5,801,270</u>	<u>8,279,330</u>
Current assets			
Debtors: amounts falling due after more than one year	11	3,506,809	4,418,817
Debtors: amounts falling due within one year	11	6,928,108	4,775,116
Cash at bank and in hand	12	23,870,897	4,206,565
		<u>34,305,814</u>	<u>13,400,498</u>
Creditors: amounts falling due within one year	13	(46,248,179)	(41,008,662)
Net current liabilities		<u>(11,942,365)</u>	<u>(27,608,164)</u>
Total assets less current liabilities		<u>(6,141,095)</u>	<u>(19,328,834)</u>
Net liabilities		<u>(6,141,095)</u>	<u>(19,328,834)</u>
Capital and reserves			
Called up share capital	15	155	155
Profit and loss account		(6,141,250)	(19,328,989)
		<u>(6,141,095)</u>	<u>(19,328,834)</u>

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

22 October 2018



Spartak Zuy
Director

The notes on pages 12 to 23 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY 2018**

	Share capital	Profit and loss account	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 1 February 2017	155	(19,328,989)	(19,328,834)
Total comprehensive income for the year	-	13,187,739	13,187,739
At 31 January 2018	155	(6,141,250)	(6,141,095)

The notes on pages 12 to 23 form part of these financial statements.

ZEPTOLAB UK LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JANUARY 2018**

	2018 \$	2017 \$
Cash flows from operating activities		
Profit/(loss) for the financial year	13,187,739	(3,282,399)
Adjustments for:		
Amortisation of intangible assets	5,337,080	10,537,128
Interest received	(1,271)	-
Taxation charge	1,190,144	(964,884)
(Increase)/decrease in debtors	(2,153,147)	2,670,670
Increase/(decrease) in creditors	893,965	(110,151)
(Decrease)/increase in amounts owed to associates	(524,388)	159,077
Increase/(decrease) in provisions	-	(87,500)
Foreign exchange on loan notes	4,727,814	(4,996,421)
Net cash generated from operating activities	22,657,936	3,925,520
Cash flows from investing activities		
Purchase of intangible fixed assets	(2,859,020)	(2,370,874)
Interest received	1,271	-
Net cash from investing activities	(2,857,749)	(2,370,874)
Cash flows from financing activities		
Receipt of unpaid share capital	155	-
Repayment of loans	(136,010)	(2,494,374)
Net cash used in financing activities	(135,855)	(2,494,374)
Net increase/(decrease) in cash and cash equivalents	19,664,332	(939,728)
Cash and cash equivalents at beginning of year	4,206,565	5,146,293
Cash and cash equivalents at the end of year	23,870,897	4,206,565
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	23,870,897	4,206,565

The notes on pages 12 to 23 form part of these financial statements.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2018

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 2018 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

As at 31 January 2018, the company's current liabilities exceeded its current assets by \$11,942,365 and it had net liabilities of \$6,141,095.

As at 31 January 2018, loan notes issued to the parent company amounted to \$39,658,772, these loan notes are repayable on demand at the request of the shareholder. The going concern basis of the company is materially uncertain if material loan note recalls were sought outside of those permitted by cash flow forecast. The directors have compiled these financial statements on the going concern basis, notwithstanding the shareholders' deficit, as the directors believe the company will continue to trade profitably in the future.

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

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.

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', 'King of Thieves' and 'CATS' 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, 4 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 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
-----------------------	---	-----------------------------

2.6 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 2018**

2. Summary of significant accounting policies (continued)

2.7 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.

2.8 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.

2.9 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.

2.10 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 2018

2. Summary of significant accounting policies (continued)

2.11 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.

ZEPTOLAB UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2018

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 2.5.

(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 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 2018**

4. Turnover

	2018 \$	2017 \$
United Kingdom	945,616	664,360
Europe	20,904,763	6,855,803
Rest of the world	33,004,490	11,283,375
	<u>54,854,869</u>	<u>18,803,538</u>

5. Operating profit/(loss)

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

	2018 \$	2017 \$
Amortisation of intangible assets	5,337,080	10,537,128
Bad debt expense	-	1,785,152
Audit fees	50,500	40,000
Accountancy fees	158,035	99,158
Auditor fees - other services	33,526	74,519
Exchange rate differences	3,755,604	(4,951,589)
	<u>3,755,604</u>	<u>(4,951,589)</u>

6. Employees

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

	2018 \$	2017 \$
Wages and salaries	258,542	54,488
Social security costs	5,466	1,913
	<u>264,008</u>	<u>56,401</u>

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

	2018 No.	2017 No.
Directors	<u>2</u>	<u>2</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

7. Directors' remuneration

	2018 \$	2017 \$
Directors' emoluments	258,542	54,488
	<u>258,542</u>	<u>54,488</u>

8. Interest receivable and similar income

	2018 \$	2017 \$
Other interest receivable	1,271	-
	<u>1,271</u>	<u>-</u>

9. Taxation

	2018 \$	2017 \$
Corporation tax		
Current tax on profits for the year	732,134	-
R&D tax credit	(453,998)	-
Deferred tax		
Deferred tax (see note 14)	912,008	(964,884)
Taxation on profit/(loss) on ordinary activities	<u>1,190,144</u>	<u>(964,884)</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

9. Taxation (continued)

Factors affecting tax charge for the year

	2018	2017
	\$	\$
Profit/(loss) on ordinary activities before tax	14,377,883	(4,247,284)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2017 - 20%)	2,755,761	(849,457)
Effects of:		
Expenses not deductible for tax purposes	2,876	7,777
Amortisation intangible assets	235,784	-
Unrelieved tax losses carried forward	-	(128,039)
Group relief surrender	-	4,835
Use of tax losses brought forward	(1,350,279)	-
Prior period R&D claim	(453,998)	-
Total tax charge for the year	1,190,144	(964,884)

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

10. Intangible assets

	Intellectual property \$
Cost	
At 1 February 2017	66,935,253
Additions	2,859,020
At 31 January 2018	69,794,273
Amortisation	
At 1 February 2017	58,655,923
Charge for the year	5,337,080
At 31 January 2018	63,993,003
Net book value	
At 31 January 2018	5,801,270
At 31 January 2017	8,279,330

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

11. Debtors

	2018	2017
	\$	\$
Due after more than one year		
Deferred tax asset	3,506,809	4,418,817
	<u>3,506,809</u>	<u>4,418,817</u>
	2018	2017
	\$	\$
Due within one year		
Trade debtors	5,510,499	3,618,803
Amounts owed by related parties	68,908	68,908
Other debtors	467,866	231,276
Unpaid share capital	-	155
Prepayments and accrued income	880,835	855,974
	<u>6,928,108</u>	<u>4,775,116</u>

12. Cash and cash equivalents

	2018	2017
	\$	\$
Cash at bank and in hand	23,870,897	4,206,565
	<u>23,870,897</u>	<u>4,206,565</u>

Included in cash at bank is \$27,211 (2017: \$6,458) held in a trust account by a third party.

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

13. Creditors: Amounts falling due within one year

	2018 \$	2017 \$
Loan notes issued to parent company	39,658,772	35,066,968
Trade creditors	1,176,322	564,329
Amounts owed to parent company	4,421,532	4,421,532
Amounts owed to related party	-	524,388
Corporation tax	278,136	-
Taxation and social security	10	17,891
Accruals and deferred income	713,407	413,555
	<u>46,248,179</u>	<u>41,008,663</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 £100,000 (2017: £1,841,938) were made during the year and at the balance sheet date £27,925,100 (2017: £28,025,100) of notes were outstanding, these are disclosed in US dollars at the year end foreign exchange rate.

14. Deferred taxation

	Deferred tax \$
At beginning of year	4,418,817
Charged to the profit or loss	(912,008)
At end of year	<u>3,506,809</u>

The deferred tax asset is made up as follows:

	2018 \$	2017 \$
Tax losses carried forward	3,506,809	4,418,817
	<u>3,506,809</u>	<u>4,418,817</u>

ZEPTOLAB UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2018**

15. Share capital

	2018	2017
	\$	\$
Allotted, called up and fully paid		
100 (2017 - 100) Ordinary shares of £1.00 each	<u>155</u>	<u>155</u>

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.

Net revenues have exceeded the initial purchase price but payment of the earnout has been deferred until such time that the value and the payment deadline are mutually agreed by the parties.

17. Related party transactions

At the reporting date, Mikhail Lyalin, a director of the Company owed the Company \$239,806 (2017: \$168,628) in relation to advances for reimbursable expenses. This amount is included within other debtors (Note 11). The maximum advance for reimbursable expenses during the year was \$296,147 (2017: \$201,422)

At the reporting date, Spartak Zuy, a director of the Company owed the Company \$118,139 (2017: \$Nil) in relation to a loan balance of £90,000 drawn down on 29 August 2017. This amount is included in other debtors (note 11). The loan is unsecured, charges interest at a margin of 2.5% above the UK base rate and is due for repayment on 29 August 2019.

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.