

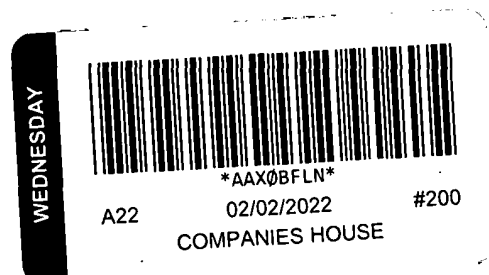
## **Zeptolab UK Limited**

Annual Report and Financial Statements

Year Ended

31 January 2021

Company Number 07493468



# Zeptolab UK Limited

## Company Information

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<b>Directors</b>	Mikhail Lyalin Spartak Zuy
<b>Company secretary</b>	MH Secretaries Limited
<b>Registered number</b>	07493468
<b>Registered office</b>	Staple Court 11 Staple Inn Buildings London WC1V 7QH
<b>Auditors</b>	BDO LLP 55 Baker Street London W1U 7EU

# Zeptolab UK Limited

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# Zeptolab UK Limited

## Strategic Report For the Year Ended 31 January 2021

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### Business review

The Company ('Zeptolab') continued to exploit its existing intellectual properties such as Cut the Rope, King of Thieves, CATS, and other new game titles launched in 2020.

In March 2020, Zeptolab released Om Nom: Run. This is the second Cut the Rope franchise game published by Zeptolab in cooperation with a third-party developer.

The Company also launched three new titles: Bullet Echo, Robotics, and Evo Pop. The latter two are developed by, and the intellectual property of, Zeptolab Barcelona S.L, with Zeptolab as publisher.

Revenue has increased by 35% from 2020 and Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) has increased to a profit of \$802,228 (2020: loss of \$1,993,376).

### 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 a positive cash position for the foreseeable future.

### COVID-19

COVID-19 has not affected the revenues of the Company significantly. Downloads and usage revenue increased in 2021 and advertising prices have dropped which has resulted in an increased revenue position when compared to 2020.

The Company's operations have not been significantly affected either, with the Company adapting to the remote work environment easily, with no significant impact on costs.

# **Zeptolab UK Limited**

## **Strategic Report (continued) For the Year Ended 31 January 2021**

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### **Future developments**

On 11 February 2021 the company sold all its intellectual property for consideration \$2,000,003. However, Zeptolab remains a publisher for those titles under a Licence agreement. The company launched a new game Downhill in November 2021 which was developed in cooperation with Hipster Whale.

Long term, Zeptolab will continue to act as a developer and publishing company, developing new relationships and collaborating across all their revenue streams: digital, advertising, and merchandising & licensing.

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



**Spartak Zuy**  
Director

Date: 31 January 2022

# Zeptolab UK Limited

## Directors' Report For the Year Ended 31 January 2021

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The directors present their report and the financial statements for the year ended 31 January 2021.

### Results and dividends

The profit for the year, after taxation, amounted to \$316,348 (2020: \$179,326).

In 2021 the Company has not declared a dividend (2020: \$Nil).

### Directors

The directors who served during the year were:

Mikhail Lyalin  
Spartak Zuy

### Going Concern

The accounts have been prepared on a going concern basis. The Company's forecast and projections show that the Company will be able to operate within the level of its current financial means for at least twelve months from the signing of these financial statements.

Careful consideration has been made by the directors of the loan notes issued to the parent company, which are repayable on demand. Although the directors have no reason to believe that the parent company will demand repayment, there is no contractual certainty on this. This indicates that a material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern.

However, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing the financial statements.

Please refer to note 2.2 for further disclosure on going concern.

### 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 are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have 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.

### Auditor

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

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



Spartak Zuy  
Director

Date: 31 January 2022

# **Zeptolab UK Limited**

## **Directors' Responsibilities Statement For the Year Ended 31 January 2021**

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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 director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The 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**

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### **Opinion on the 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 2021 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.

We have audited the financial statements of Zeptolab UK Limited ("the Company") for the year ended 31 January 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### **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 UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Material uncertainty related to going concern**

We draw attention to note 2.2 in the financial statements, which indicates that the Company has loan notes of \$8,647,162 which is repayable on demand at the request of the shareholder which, depending on the amount recalled, may be outside of that permitted by the Company's cash flow forecast. As stated in note 2.2, these events or conditions, along with other matters as set out in note 2.2, 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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.



# **Zeptolab UK Limited**

## **Independent Auditors' report to the members of Zeptolab UK Limited (continued)**

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### **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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic Report and 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.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and 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, 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the 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.

# Zeptolab UK Limited

## Independent Auditors' report to the members of Zeptolab UK Limited (continued)

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### 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.

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and held discussions with management to understand the laws and regulations relevant to the Company. We considered the significant laws and regulations to be the financial reporting framework, Companies Act 2006 and tax legislation.

Our testing included but was not limited to:

- Our audit planning identified fraud risks in relation to management override and risk of fraud in revenue recognition. We considered processes and controls that the company has established to address risks identified, or that otherwise prevent, deter, and detect fraud and how management monitors that processes and controls.
- We performed testing on the financial statement disclosures to supporting documentation, performing substantive testing on account balances which require judgement by management and those considered to be greater risk of susceptibility to fraud.
- We designed our audit procedures to detect irregularities, including fraud. Our procedures included targeted journal testing based on identified characteristics the audit team considered could be indicative of fraud, for example credit entries to revenue without a corresponding entry to trade receivables, cash, or accrued income as well as a focus on large and unusual transactions based on our knowledge of the business and its principal activity.
- We made enquiries of management and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to the financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditors' report.

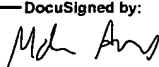
# Zeptolab UK Limited

## Independent Auditors' report to the members of Zeptolab UK Limited (continued)

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### 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.

DocuSigned by:  
  
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**Mark Ayres** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK

Date:

31 January 2022

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

# Zeptolab UK Limited

## Statement of Comprehensive Income For the Year Ended 31 January 2021

	Note	2021 \$	2020 \$
Turnover	4	24,104,159	17,904,233
Administrative expenses		(25,002,326)	(21,537,853)
Other income	5	275,641	-
<b>Operating loss</b>	6	<b>(622,526)</b>	<b>(3,633,620)</b>
Interest receivable and similar income	9	15,563	12,455
<b>Loss before tax</b>		<b>(606,963)</b>	<b>(3,621,165)</b>
Tax on loss	10	923,311	3,441,839
<b>Profit/(loss) for the financial year</b>		<b>316,348</b>	<b>(179,326)</b>

There was no other comprehensive income for 2021 (2020:\$Nil).

The notes on pages 13 to 22 form part of these financial statements.

**Zeptolab UK Limited**  
Registered number:07493468

**Statement of Financial Position**  
**As at 31 January 2021**

	Note	2021 \$	2020 \$
<b>Fixed assets</b>			
Intangible assets	11	410,077	2,050,321
		<u>410,077</u>	<u>2,050,321</u>
<b>Current assets</b>			
Debtors	12	11,091,984	9,737,657
Cash at bank and in hand	13	4,799,609	3,355,059
		<u>15,891,593</u>	<u>13,092,716</u>
Creditors: amounts falling due within one year	14	(15,969,006)	(15,126,721)
<b>Net current liabilities</b>		<u>(77,413)</u>	<u>(2,034,005)</u>
<b>Total assets less current liabilities</b>		<u>332,664</u>	<u>16,316</u>
<b>Net assets</b>		<u>332,664</u>	<u>16,316</u>
<b>Capital and reserves</b>			
Share capital	16	155	155
Profit and loss account		332,509	16,161
		<u>332,664</u>	<u>16,316</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 January 2022.

  
**Spartak Zuy**  
Director

The notes on pages 13 to 22 form part of these financial statements.

# Zeptolab UK Limited

## Statement of Changes in Equity For the Year Ended 31 January 2021

	Share capital \$	Retained earnings \$	Total equity \$
<b>At 1 February 2019</b>	<b>155</b>	<b>195,487</b>	<b>195,642</b>
Total comprehensive loss for the year	-	(179,326)	(179,326)
<b>At 1 February 2020</b>	<b>155</b>	<b>16,161</b>	<b>16,316</b>
Total comprehensive profit for the year	-	316,348	316,348
<b>At 31 January 2021</b>	<b>155</b>	<b>332,509</b>	<b>332,664</b>

The notes on pages 13 to 22 form part of these financial statements.

# Zeptolab UK Limited

## Statement of Cash Flows For the Year Ended 31 January 2021

	2021 \$	2020 \$
<b>Cash flows from operating activities</b>		
Profit / (loss) for the financial year	316,348	(179,326)
<b>Adjustments for:</b>		
Amortisation of intangible assets	1,640,244	1,640,244
Interest received	(15,563)	(12,455)
Taxation charge	(923,311)	(3,441,839)
(Increase)/decrease in debtors	(1,862,879)	1,316,521
Increase/(decrease) in creditors	1,368,573	(132,614)
Decrease in amounts owed to group companies	(292,760)	(74,795)
Corporation tax receipt / (paid)	1,431,863	(1,670)
Foreign exchange on loan notes	330,928	42,961
<b>Net cash flows from/(used in) operating activities</b>	<b>1,993,443</b>	<b>(842,973)</b>
<b>Cash flows from investing activities</b>		
Interest received	15,563	12,455
<b>Net cash generated from investing activities</b>	<b>15,563</b>	<b>12,455</b>
<b>Cash flows from financing activities</b>		
Repayment of loan notes	(564,456)	(1,466,454)
Dividends paid	-	(19,515,355)
<b>Net cash used in financing activities</b>	<b>(564,456)</b>	<b>(20,981,809)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,444,550</b>	<b>(21,812,327)</b>
Cash and cash equivalents at beginning of year	3,355,059	25,167,386
<b>Cash and cash equivalents at the end of year</b>	<b>4,799,609</b>	<b>3,355,059</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	4,799,609	3,355,059
	<b>4,799,609</b>	<b>3,355,059</b>

The notes on pages 13 to 22 form part of these financial statements.

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

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### 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 2021 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 private 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

On 11 March 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a global pandemic. To date, there has been no material change in the business. After reviewing and assessing the level of current activities, the directors are confident that the pandemic will not have a material adverse effect on the Company in the long run. The Company has recently released a number of new game titles, bringing in \$0.8m to \$1.6m of revenue on a monthly basis. The directors note that after modelling cash flow forecasts prepared under stress test methodology of restricting revenue to existing games, the business would maintain a positive cash position for at least twelve months from the date of signing the financial statements. In addition, the directors have not deemed it necessary to take any significant cost reductions. As at 31 January 2021, the Company's current liabilities exceeded its current assets by \$77,413.

As at 31 January 2021, loan notes issued to the parent company amounted to \$8,647,162. These loans notes are repayable upon demand at the request of the shareholder which, depending on the amount recalled, may be outside of that permitted by the Company's cash flow forecast. Although the directors have no reason to believe that the parent company will demand repayment, there is no contractual certainty on this. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The directors have compiled these financial statements on the going concern basis, as the directors believe the Company will continue to trade profitably in the future, and that the loan notes will not be recalled, and therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements do not include any adjustments should the going concern basis be inappropriate.



# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

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### 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 profit or loss 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, 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
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#### 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.

#### 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.

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

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### 2. Summary of significant accounting policies (continued)

#### 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 including loan notes from parent company 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 exchange rate on 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'.

#### 2.11 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss 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.

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 2. Summary of significant accounting policies (continued)

#### 2.11 Current and deferred taxation (continued)

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

### 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 on a straight line basis 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.

### 4. Turnover

	2021 \$	2020 \$
United Kingdom	395,080	1,334,946
Europe	19,508,683	12,239,176
Rest of the world	4,200,396	4,330,111
	<u>24,104,159</u>	<u>17,904,233</u>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 5. Other income

	2021 \$	2020 \$
Compensation income	<u>275,641</u>	<u>-</u>

### 6. Operating loss

The operating loss is stated after charging:

	2021 \$	2020 \$
Amortisation of intangible assets	1,640,244	1,640,244
Audit fees	58,659	53,516
Accountancy fees	169,480	170,339
Auditors' fees - corporation tax	23,690	25,453
Auditors' fees - other taxation	128,780	130,528
Exchange rate differences	140,873	66,149
Operating lease rental	<u>67,719</u>	<u>65,477</u>

### 7. Employees

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

	2021 \$	2020 \$
Wages and salaries	200,444	281,293
Social security costs	7,649	3,171
	<u>208,093</u>	<u>284,464</u>

The average number of persons employed by the Company (including directors) during the year, was 3 (2020: 3).

### 8. Directors' remuneration

	2021 \$	2020 \$
Directors' emoluments	<u>200,444</u>	<u>246,377</u>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 9. Interest receivable and similar income

	2021 \$	2020 \$
Other interest receivable	15,563	12,455

### 10. Taxation

	2021 \$	2020 \$
<b>Corporation tax</b>		
R&D tax credit	(881,287)	(2,140,971)
<b>Deferred tax</b>		
Deferred tax (see note 15)	(42,024)	(1,300,868)
<b>Taxation credit on loss on ordinary activities</b>	<b>(923,311)</b>	<b>(3,441,839)</b>

#### Factors affecting tax credit for the year

	2021 \$	2020 \$
Loss on ordinary activities before tax	(606,963)	(3,621,165)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(115,323)	(688,022)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	-	1,235
Amortisation intangible assets	150,942	150,942
Prior period R&D claim	-	(1,431,864)
Current period R&D claim	(881,287)	(709,107)
Losses carried forward	(77,643)	(765,023)
<b>Total tax credit for the year</b>	<b>(923,311)</b>	<b>(3,441,839)</b>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 11. Intangible assets

	Intellectual property \$
<b>Cost</b>	
At 1 February 2020	69,794,273
At 31 January 2021	69,794,273
<b>Amortisation</b>	
At 1 February 2020	67,743,952
Charge for the year	1,640,244
At 31 January 2021	69,384,196
<b>Net book value</b>	
At 31 January 2021	410,077
At 31 January 2020	2,050,321

On 11 February 2021 the company sold all its intellectual property for consideration of \$2,000,003.

### 12. Debtors

	2021 \$	2020 \$
<b>Due after more than one year</b>		
Other debtors	226,652	218,252
Deferred tax asset (see note 15)	4,493,885	4,451,861
	4,720,537	4,670,113
<b>Due within one year</b>		
Trade debtors	3,566,848	2,012,942
Amounts owed by related parties	20,368	20,368
Other debtors	553,810	546,823
Prepayments and accrued income	640,026	346,440
R&D tax credit	1,590,395	2,140,971
	11,091,984	9,737,657

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 13. Cash and cash equivalents

	2021 \$	2020 \$
Cash at bank and in hand	<u>4,799,609</u>	<u>3,355,059</u>

Included in cash at bank is \$55,467 (2020: \$24,042) held in a trust account by a third party.

### 14. Creditors: Amounts falling due within one year

	2021 \$	2020 \$
Loan notes issued to parent company	8,647,162	8,880,690
Trade creditors	1,152,012	467,718
Amounts owed to group companies	4,706,091	4,998,851
Other taxation and social security	-	2,336
Accruals and deferred income	1,463,741	777,126
	<u>15,969,006</u>	<u>15,126,721</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 £450,000 (2020: £1,095,000) were made during the year. At the balance sheet date £6,306,654 (2020: £6,756,654) of notes were outstanding. These are disclosed in US dollars at the year end exchange rate.

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

### 15. Deferred tax asset

	Deferred tax \$
At beginning of year	4,451,861
Credit to the profit or loss	42,024
<b>At end of year</b>	<b>4,493,885</b>

The deferred tax asset is made up as follows:

	2021 \$	2020 \$
Tax losses carried forward	4,493,885	4,451,861
	<b>4,493,885</b>	<b>4,451,861</b>

### 16. Share capital

	2021 \$	2020 \$
<b>Allotted, called up and fully paid</b>		
100 (2020:100) Ordinary shares of £1.00 each	155	155

### 17. Commitments under operating leases

At 31 January 2021 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2021 \$	2020 \$
Not later than 1 year	50,869	46,506



# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2021

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### 18. 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 earn-out has been deferred until such time that the value and the payment deadline are mutually agreed by the parties.

### 19. Related party transactions

At the reporting date, Mikhail Lyalin, a director of the Company owed the Company \$293,489 (2020: \$286,685) in relation to advances for reimbursable expenses of \$111,387, loan notes of \$355,000 drawn down during the year and \$22,102 unpaid interest. This amount is included within other debtors (note 12). The loan is unsecured and since 4 April 2018 has charged interest at a margin of 2.5% above the UK base rate. Subsequent to the year end the loan repayment term has been extended to 01 January 2028.

At the reporting date, Spartak Zuy, a director of the Company owed the Company \$132,252 (2020: \$123,812) in relation to a loan balance of £90,000 drawn down on 29 August 2017. This amount is included in other debtors (note 12). The loan is unsecured, charges interest at a margin of 2.5% above the UK base rate. Subsequent to the year end the loan repayment term has been extended to 28 August 2021.

At the reporting date, Sidestreet Limited, a related party of the Company owed the Company \$226,652 (2020: \$218,252) in relation to a loan balance of \$210,000 entered into on 4 February 2019. The amount is included within other debtors (note 12). The loan is unsecured, charges interest of 4% per annum and is due for repayment on 3 February 2025.

### 20. 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.