

# **Zeptolab UK Limited**

Annual Report and Financial Statements

Year Ended

31 January 2023

Company Number 07493468

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# Zeptolab UK Limited

## Company Information

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<b>Director</b>	Mikhail Lyalin
<b>Company secretary</b>	MH Secretaries Limited
<b>Registered number</b>	07493468
<b>Registered office</b>	80 Cheapside London EC2V 6EE
<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 2023**

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### **Business review**

The Company ('Zeptolab') continued to exploit, under license agreements or as intellectual property owner, titles such as Cut the Rope, King of Thieves, CATS and other new games launched in 2023.

In 2023, Zeptolab UK (the Company) released Overcrowded, a game developed by a related party with the intellectual property owned by the Company. In the same year, the Company also purchased Bullet Echo from another related party.

The Company entered into a sales agreement and a distribution agreement with Zeptolab LLC for all of its legacy intellectual property on 11 February 2021 and 15 February 2021, respectively. The Company subsequently terminated their contract with Zeptolab LLC during the year and are no longer engaged with them to distribute and publish their titles and intellectual property.

Revenue has decreased by 23% from 2022 and Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) has decreased to a loss of \$(3,502,544) (2022: \$2,839,328).

During the current financial year, the Company acquired all the ordinary shares of Zeptolab DOO Belgrade. Zeptolab DOO Belgrade was established on the 18 October 2022 and is now a wholly owned subsidiary of Zeptolab UK Limited. The subsidiary did not have any material transactions in the year end 31 January 2023.

### **Post balance sheet events**

There were no significant events between the Balance Sheet date and the date of signing of the financial statements, affecting the Company, which require adjustment to or disclosure in the financial statements.

### **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.

# Zeptolab UK Limited

## Strategic Report (continued) For the Year Ended 31 January 2023

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### 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 month. 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.

### External factors effect on business operations

The Russia - Ukraine war has affected the Company and was the principal reason for the decrease in turnover and cost of sales in the current year in comparison to prior year . As mentioned in the Business Review section, during the year, the Company terminated the sale and licensing agreement with Zeptolab LLC for the legacy intellectual properties. This is a result of the sanctions imposed by the UK government on Russian-registered entities. As a result, the Company regained the ownership and became the direct distributor and marketer of intellectual properties.

### Future developments

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.

  
**Mikhail Lyalin**  
Director

Date: 05/04/2024

# Zeptolab UK Limited

## Director's Report For the Year Ended 31 January 2023

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The director presents his report and the audited financial statements for the year ended 31 January 2023.

### Results and dividends

The loss for the year, after taxation, amounted to \$4,174,939 (2022: profit of \$3,659,147).

In 2023 the Company has not declared a dividend (2022: \$Nil).

### Director

The directors who served during the year were:

Mikhail Lyalin  
Spartak Zuy (resigned 1 October 2022)

### 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 and other amounts due 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 director has 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

The director at the time when this report is approved has confirmed that:

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

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

  
Mikhail Lyalin  
Director

Date: 05/04/2024

# **Zeptolab UK Limited**

## **Director's Responsibilities Statement For the Year Ended 31 January 2023**

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The director is responsible for preparing the Strategic Report, the Director's 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 of the profit or loss of the Company for that period.

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

# Zeptolab UK Limited

## Independent Auditor's 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 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Zeptolab UK Limited ("the Company") for the year ended 31 January 2023 which comprise The Statement of Comprehensive Income, The Statement of Financial Position, The Statement of Changes in Equity, The Statement of Cash Flows and 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 Auditor's responsibilities for the audit of the financial statements section of our report. 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 \$2,474,381 and amounts owed of \$4,421,532 which are 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 Auditor's 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 auditor's 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.

### **Other Companies Act 2006 reporting**

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 Director's 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 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 Statement of Directors Responsibilities, 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.

# **Zeptolab UK Limited**

## **Independent Auditor's Report to the Members of Zeptolab UK Limited (continued)**

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### **Auditor's 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 auditor's 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be United Kingdom Generally Accepted Accounting Practice and Companies Act 2006.

The Company is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations.

Our procedures in respect of the above included:

- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

# Zeptolab UK Limited

## Independent Auditor's Report to the Members of Zeptolab UK Limited (continued)

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### *Fraud*

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be revenue recognition and management override of controls.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Assessing significant estimates made by management for bias; and
- Testing the evidence of revenue transaction on sample basis to contracts and evaluated the performance obligations had been satisfied. This involved testing cut off and completeness of deferred income.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

# Zeptolab UK Limited

## Independent Auditor's 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 auditor's 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:

*Dan Laird*

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**Daniel Laird** (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor  
London, UK

Date: 08 April 2024

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 2023

	Note	2023 \$	2022 \$
Turnover	4	39,744,273	51,340,393
Cost of sales		(36,661,253)	(47,680,507)
<b>Gross profit</b>		<b>3,083,020</b>	<b>3,659,886</b>
Administrative expenses		(7,366,767)	(907,614)
Other income	5	13,248	-
<b>Operating (loss)/profit</b>	6	<b>(4,270,499)</b>	<b>2,752,272</b>
Interest receivable and similar income	9	39,310	46,787
<b>(Loss)/profit before tax</b>		<b>(4,231,189)</b>	<b>2,799,059</b>
Tax on (loss)/profit	10	56,250	860,088
<b>(Loss)/profit for the financial year</b>		<b>(4,174,939)</b>	<b>3,659,147</b>

There was no other comprehensive income for 2023 (2022: \$Nil).

The notes on pages 15 to 27 form part of these financial statements.

**Zeptolab UK Limited**  
Registered number: 07493468

**Statement of Financial Position**  
**As at 31 January 2023**

	Note	2023 \$	2022 \$
<b>Fixed assets</b>			
Intangible assets	11	2,071,968	449,476
Investments	12	90	-
		<u>2,072,058</u>	<u>449,476</u>
<b>Current assets</b>			
Debtors	13	10,609,615	14,559,235
Cash at bank and in hand	14	3,581,255	1,918,513
		<u>14,190,870</u>	<u>16,477,748</u>
Creditors: amounts falling due within one year	15	(16,446,056)	(12,935,413)
<b>Net current (liabilities)/assets</b>		<u>(2,255,186)</u>	<u>3,542,335</u>
<b>Net (liabilities)/assets</b>		<u>(183,128)</u>	<u>3,991,811</u>
<b>Capital and reserves</b>			
Share capital	17	155	155
Profit and loss account		(183,283)	3,991,656
		<u>(183,128)</u>	<u>3,991,811</u>

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

  
**Mikhail Lyalin**  
Director

5 April 2024

The notes on pages 15 to 27 form part of these financial statements.

# Zeptolab UK Limited

## Statement of Changes in Equity For the Year Ended 31 January 2023

	Share capital \$	Retained earnings \$	Total equity \$
<b>At 1 February 2021</b>	<b>155</b>	<b>332,509</b>	<b>332,664</b>
Total comprehensive profit for the year	-	3,659,147	3,659,147
<b>At 1 February 2022</b>	<b>155</b>	<b>3,991,656</b>	<b>3,991,811</b>
Total comprehensive loss for the year	-	(4,174,939)	(4,174,939)
<b>At 31 January 2023</b>	<b>155</b>	<b>(183,283)</b>	<b>(183,128)</b>

The notes on pages 15 to 27 form part of these financial statements.

# Zeptolab UK Limited

## Statement of Cash Flows For the Year Ended 31 January 2023

	2023 \$	2022 \$
<b>Cash flows from operating activities</b>		
(Loss)/profit for the financial year	(4,174,939)	3,659,147
<b>Adjustments for:</b>		
Amortisation of intangible assets	767,955	87,056
Impairments of fixed assets	1,132,295	-
Interest received	(30,062)	(46,787)
Taxation charge	(56,250)	(860,088)
Increase in debtors	(2,211,296)	(1,244,301)
Decrease/(increase) in amounts owed by related parties	157,533	(138)
(Decrease)/increase in creditors	(147,842)	636,356
Increase in amounts owed to groups	3,935,394	1,146,164
Corporation tax paid	1,217,727	-
Foreign exchange on loan notes	(258,962)	91,298
Impairment of Deferred Tax Asset	3,616,677	-
Gain from disposal of the intangible assets	-	(1,066,545)
Receivable account write off	100,000	-
Related party write off	1,151,501	-
<b>Net cash generated from operating activities</b>	<b>5,199,731</b>	<b>2,402,162</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(2,522,742)	(468,189)
Sale of intangible assets	-	166,636
Interest received	-	9,165
<b>Net cash used in investing activities</b>	<b>(2,522,742)</b>	<b>(292,388)</b>
<b>Cash flows from financing activities</b>		
Repayment of other loans	(1,014,247)	(4,990,870)
<b>Net cash used in financing activities</b>	<b>(1,014,247)</b>	<b>(4,990,870)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,662,742</b>	<b>(2,881,096)</b>
Cash and cash equivalents at beginning of year	1,918,513	4,799,609
<b>Cash and cash equivalents at the end of year</b>	<b>3,581,255</b>	<b>1,918,513</b>



# Zeptolab UK Limited

## Statement of Cash Flows (continued) For the Year Ended 31 January 2023

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	2023 \$	2022 \$
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	3,581,255	1,918,513
	<u>3,581,255</u>	<u>1,918,513</u>

The notes on pages 15 to 27 form part of these financial statements.

# **Zeptolab UK Limited**

## **Notes to the Financial Statements For the Year Ended 31 January 2023**

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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 2023 and are presented to the nearest dollar.

The continuing activities of Zeptolab UK Limited are that of exploiting and developing its intellectual property and game publisher under licensing arrangements.

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 80 Cheapside, London, EC2V 6EE.

### **2. Summary of significant accounting policies**

#### **2.1 Basis of preparation of financial statements**

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

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

The following principal accounting policies have been applied:

#### **2.2 Going concern**

The financial statements have been prepared on a going concern basis.

The Company has procedures in place for reviewing future performance including budgeted and forecast trading and profitability. These include reasonable assumptions and forecasts over assumed customers and turnover and take a prudent view of the costs and cash flows of the business.

The Company is also planned to release a new game title that is forecasted to bring in \$0.8 million to \$1.5 million 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 2023, loan notes issued and other amounts due to the parent company amounted to \$2,474,381 and \$4,421,532. These are repayable upon demand which, depending on the amount recalled, may be outside of that permitted by the Company's cash flow forecast. Although the director has 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 and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The director has compiled these financial statements on the going concern basis, as the director believes the Company will continue to trade profitably in the future, and that the loan notes and amounts due to parent company 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 2023

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

#### 2.3 Turnover

Turnover is comprised of digital royalties, advertising royalties and merchandise licensing royalties earned from licensed and owned intellectual properties. Turnover also includes licence income from publishing arrangements.

##### *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.

##### *Licence Income*

Licence income is earned on the reimbursement of full amount of costs incurred by the Company in distributing licensed intellectual properties.

#### 2.4 Cost of sales

Cost of sales include disbursements that are directly attributable to the revenue. These are recognised as incurred in the Statement of Comprehensive Income

#### 2.5 Interest income

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

#### 2.6 Intangible assets

Intangible fixed assets comprise the intellectual property of 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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# **Zeptolab UK Limited**

## **Notes to the Financial Statements For the Year Ended 31 January 2023**

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

#### **2.7 Impairment of fixed assets and goodwill**

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

#### **2.8 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.

#### **2.9 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.

#### **2.10 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.

#### **2.11 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.

# **Zeptolab UK Limited**

## **Notes to the Financial Statements For the Year Ended 31 January 2023**

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

#### **2.12 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 the Statement of Comprehensive Income.

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

#### **2.13 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 2023

### 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 2.6.

#### *(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

Analysis of turnover by country of destination:

	2023 \$	2022 \$
United Kingdom	392,763	450,234
Europe	28,555,790	31,717,771
Rest of the world	10,795,720	19,172,388
	<u>39,744,273</u>	<u>51,340,393</u>

### 5. Other income

	2023 \$	2022 \$
Compensation income	<u>13,248</u>	<u>-</u>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 6. Operating (loss)/profit

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

	2023 \$	2022 \$
Amortisation of intangible assets	767,955	87,056
Audit fees	83,719	74,025
Accountancy fees	167,654	194,159
Auditors' fees - corporation tax	23,791	23,690
Auditors' fees - other taxation	137,448	276,740
Exchange differences	(49,022)	(80,861)
Operating lease rental	67,552	72,975
Loss/(gain) from disposal of intangible assets	1,151,502	(1,066,545)
Impairment on intangible assets	1,132,295	-
Impairment on deferred tax assets	3,616,677	-

### 7. Employees

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

	2023 \$	2022 \$
Wages and salaries	118,306	229,876
Social security costs	19,518	47,489
	<u>137,824</u>	<u>277,365</u>

The average number of persons employed by the Company (including directors) during the year, was 3 (2022: 3).

### 8. Directors' remuneration

	2023 \$	2022 \$
Directors' emoluments	<u>118,306</u>	<u>115,017</u>

### 9. Interest receivable and similar income

	2023 \$	2022 \$
Other interest receivable	<u>39,310</u>	<u>46,787</u>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 10. Taxation

	2023 \$	2022 \$
<b>Corporation tax</b>		
Current tax on profits for the year	-	10,485
Adjustments in respect of previous periods	(7,531)	-
R&D tax credit	(155,144)	(302,936)
Foreign tax on income for the year	126,671	86,138
<b>Total current tax</b>	<b>(36,004)</b>	<b>(206,313)</b>
<b>Deferred tax</b>		
Deferred tax (see note 16)	(20,246)	(653,775)
<b>Taxation credit on profit on ordinary activities</b>	<b>(56,250)</b>	<b>(860,088)</b>

### Factors affecting tax credit for the year

	2023 \$	2022 \$
(Loss)/profit on ordinary activities before tax	(4,231,189)	2,799,059
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	(827,993)	539,390
<b>Effects of:</b>		
Expenses not deductible for tax purposes	907,502	69,124
Other permanent differences	-	(16,365)
Current tax exchange difference arising on movement between opening and closing spot rates	(7,531)	-
Foreign tax credits	126,671	86,138
Remeasurement of deferred tax for changes in tax rates	(4,859)	-
Movement in deferred tax not recognised	-	(1,235,439)
R&D claim	(155,144)	(302,936)
Surrender of tax losses for R&D tax credit refund	251,920	-
Additional deduction for R&D expenditure	(346,816)	-
<b>Total tax credit for the year</b>	<b>(56,250)</b>	<b>(860,088)</b>



# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 11. Intangible assets

	Intellectual property \$
<b>Cost</b>	
At 1 February 2022	468,189
Additions	3,522,742
At 31 January 2023	<u>3,990,931</u>
<b>Amortisation and Impairment</b>	
At 1 February 2022	18,713
Amortisation for the year	767,955
Impairment for the year	1,132,295
At 31 January 2023	<u>1,918,963</u>
<b>Net book value</b>	
At 31 January 2023	<u><u>2,071,968</u></u>
At 31 January 2022	<u><u>449,476</u></u>

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

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### 12. Fixed asset investments

	Investments in subsidiary companies \$
<b>Cost or valuation</b>	
At 1 February 2022	-
Additions	90
At 31 January 2023	<u>90</u>

#### Subsidiary undertaking

The following was a subsidiary undertaking of the Company:

Name	Registered office	Class of shares	Holding
Zeptolab DOO Belgrade	Cara Lazara 5-7, Belgrade	Ordinary	100%

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 13. Debtors

	2023 \$	2022 \$
<b>Due after more than one year</b>		
Amounts owed by related parties	-	647,654
Other debtors	767,002	638,891
Deferred tax asset (see note 16)	1,551,229	5,147,660
	<u>2,318,231</u>	<u>6,434,205</u>
<b>Due within one year</b>		
Trade debtors	5,758,706	3,369,117
Amounts owed by related parties	20,709	652,117
Other debtors	656,922	570,511
Prepayments and accrued income	1,155,325	1,639,954
R&D tax credit	699,722	1,893,331
	<u>10,609,615</u>	<u>14,559,235</u>

### 14. Cash and cash equivalents

	2023 \$	2022 \$
Cash at bank and in hand	<u>3,581,255</u>	<u>1,918,513</u>

Included in cash at bank is \$15,480 (2022: \$40,374) held in a trust account by a third party.

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 15. Creditors: amounts falling due within one year

	2023 \$	2022 \$
Loan notes issued to parent company	2,474,381	3,747,590
Trade creditors	1,672,419	1,370,477
Amounts owed to group companies	5,989,469	4,980,147
Amounts owed to related parties	4,798,175	872,103
Corporation tax	71,575	83,461
Other taxation and social security	298,857	959,382
Other creditors	427,119	118,634
Accruals and deferred income	714,061	803,619
	<u>16,446,056</u>	<u>12,935,413</u>

The Company issued £37,800,000 of loan notes to Zeptolab Jersey Limited, the parent company, on 30 June 2011. Redemptions of £750,000 (2022: £3,516,372) were made during the year. At the Statement of Financial Position date £2,490,272 (2022: £2,790,272) of notes were outstanding. These are disclosed in US dollars at the year end exchange rate. All loan notes and amounts owed to Parent company, group companies and related parties are unsecured, interest free and repayable on demand.

### 16. Deferred tax asset

	Deferred tax \$
At beginning of year	5,147,660
Credit to the profit or loss	20,246
Impairment	(3,616,677)
<b>At end of year</b>	<u><b>1,551,229</b></u>

The deferred tax asset is made up as follows:

	2023 \$	2022 \$
Tax losses carried forward	<u>1,551,229</u>	<u>5,147,660</u>

At 31 January 2023, the Company has not recognised deferred tax asset from tax losses carried forward amounting to \$3,616,677 due to uncertainties as to their unwinding against tax profit (2022: Nil).

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 17. Share capital

	2023 \$	2022 \$
<b>Allotted, called up and fully paid</b>		
100 (2022: 100) Ordinary shares of £1.00 each	155	155

### 18. Commitments under operating leases

At 31 January 2023 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2023 \$	2022 \$
Not later than 1 year	67,552	53,412

### 19. Related party transactions

At the reporting date, Mikhail Lyalin, a director of the Company owed the Company \$250,219 (2022: \$271,261) in relation to advances for reimbursable expenses of \$74,951 loan notes of \$168,140 and \$7,128 unpaid interest. This amount is included within other debtors (note 13). The loan is unsecured and since 4 April 2018 has charged interest at a 2.5% interest rate. During the previous year, the loan repayment term has been extended to 31 May 2023.

At the reporting date, Spartak Zuy, a former director of the Company owed the Company \$127,277 (2022: \$132,579) in relation to a loan balance of 90,000 drawn down on 29 August 2017. This amount is included in other debtors (note 13). During the previous year, the loan repayment term has been extended to 28 August 2023. During the current year, the repayment term has been extended again to 30 August 2023.

At the reporting date, Sidestreet Limited, a related party of the Company owed the Company \$639,724 (2022: \$253,052) in relation to a loan balance of \$210,000 entered into on 4 February 2019. The amount is included within other debtors (note 13). The loan is unsecured, charges interest of 4% per an annum and is due for repayment on 3 February 2025.

On 19 November 2021, the Company and Zeptolab LLC became related parties under common ownership. Prior to this date transactions with Zeptolab LLC occurred under third party contractual arrangements.

The Company has the following transactions and balances with Zeptolab LLC:

	Income/ (Charges)/ (Purchase)	Receivable/ (Payable)
<b>For the year ended January 31 2023</b>	<b>\$</b>	<b>\$</b>
Licence income	1,837,127	11,670,593
Licence expense	(6,703,298)	(15,468,768)
Purchase of intellectual property	1,000,000	1,000,000

# Zeptolab UK Limited

## Notes to the Financial Statements For the Year Ended 31 January 2023

### 19. Related party transactions (continued)

	Income/(Charges/ (Purchase)	Receivable/(Payable)
For the period from 19 November 2021 to 31 January 2023	\$	\$
Licence income	1,464,679	7,893,366
Licence expense	(2,876,981)	8,765,469
Sale of intellectual property	-	1,279,265

The outstanding balance arising from licence income, licence expense and purchase of intellectual property has been set-off and included under amounts owed to related parties within Note 15 and the receivable from sale of intellectual property is presented under amounts owed by related parties within Note 13.

During the year, the Company was charged by Zeptolab Barcelona, a related party under common ownership, with an amount of \$2.5 million for the cost of production of Overcrowded (2022: Nil).

### 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.

### 21. Post balance sheet events

There were no significant events between the Balance Sheet date and the date of signing of the financial statements, affecting the Company, which require adjustment to or disclosure in the financial statements.