

**ZINKIA ENTERTAINMENT, S.A.**

Audit Report, Interim Financial Statements  
and Director's Report for the six-month  
period ended at June 30, 2014

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

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## **STATUTORY AUDITOR'S REPORT ON THE INTERIM FINANCIAL STATEMENTS**

To the shareholders of Company Zinkia Entertainment, S.A.:

### Report on the interim financial statements

We have audited the interim financial statements completed of Zinkia Entertainment, S.A., comprising the financial statement at June 30, 2014, the income statement, the statement of changes in equity, the cash flow statement and the explanatory notes for the six month period then ended.

### *Responsibility of the board of directors for the preparation of the Interim financial statements*

The board of directors are responsible for the preparation of the accompanying Interim financial statements accordingly, so they can provide a fair presentation of the equity, the financial position and the results of Zinkia Entertainment, S.A., in accordance with the regulatory financial reporting framework applicable to the company in Spain, which is identified in Note 2.a of the explanatory notes to the financial statements, and for such internal control as the board of directors determines is necessary to enable the preparation of interim financial statements that are free from material misstatements, whether due to fraud or error.

### *Statutory auditor's responsibility*

Our responsibility is to express an opinion on the accompanying interim financial statements, based on our audit. We have carried out our audit in accordance with the audit regulations in force in Spain. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement of the interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the board of director's preparation and fair presentation of the interim financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the interim financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for our qualified opinion*

On April, 7th 2014, date of declaration of the voluntary arrangement with creditors of the company, has been left to recognize under the caption "financial expense" in the accompanying income statement, interests expenses accrued due to the financial liabilities affected by the arrangement with creditors of the company. According to the regulatory financial reporting framework applicable the company should record additional financial expenses amounting to approximately euro 188,000, as consequence, the financial expenses and financial liabilities should be increased and the equity should be reduced by this amount.

*Opinion*

In our opinion, except for the effects of the fact described in paragraph "basis for our qualified opinion" the accompanying interim consolidated financial statements for 2014 present fairly, in all material respects, the equity and financial position of Zinkia Entertainment, S.A. at June 30, 2014 and the results of its operations and cash flows for the six month period then ended, in accordance with the applicable regulatory financial reporting framework and, in particular, with the accounting principles and rules contained therein.

*Emphasis paragraphs*

We draw attention to what is indicated in note 2.i of the explanatory notes to the interim financial statements, where is indicated that on April 7th 2014, has been declared the voluntary arrangement with creditors of the company. This fact, along with the rest of factors indicated in the same note is indicative of a significant uncertainty about the company's ability to continue its operations. This issue does not change our opinion.

We draw attention to what is indicated in note 7 of the accompanying explanatory notes to the Interim financial statements, where is indicated that the company has a long-term account receivable amounting to euro 3.308.694 and a current asset amounting to euro 704.841 corresponding to the minimum royalty guarantee under a license agreement with the licensee CaRears Diapers, LLC. This agreement was signed on June, 24th 2012, being settled the deadline for the first collection in June, 23rd 2013. However, because of the delay in the commercialization of the products, on 18 November 2013 both parts have agreed to amend the original agreement. Thus, the recovery of the long-term account receivable will depend on the success of the commercialized products. This issue does not change our opinion.

Report on other legal and regulatory requirements

The accompanying directors' report for the six months period ended June 30, 2014 contains the explanations that the company's directors consider appropriate regarding important events of this period and their impact on the interim financial statements presented, of which is not an integral part, as well as the information required as provided in the Article 15 of the Royal Decree 1362/2007. We have checked that the accounting information contained in the directors' report is consistent with that contained in the interim financial statements for the six month period ended June 30, 2014. Our work as auditors was confined to check the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Zinkia Entertainment, S.A. accounting records.

Garrido Auditores, S.L.  
(Registered in R.O.A.C. under no. S1838)



David Jiménez Matías  
September 3<sup>rd</sup>, 2014



**ZINKIA ENTERTAINMENT, S.A.**

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**INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH  
PERIOD ENDED JUNE 30<sup>th</sup> 2014**

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**ZINKIA ENTERTAINMENT, S.A.**  
**INTERIM FINANCIAL STATEMENTS AT 30<sup>th</sup> 2014 (In EUR)**

ASSETS	Note	6/30/2014	12/31/2013
<b>A) NON-CURRENT ASSETS</b>		<b>18,495,438</b>	<b>19,129,869</b>
<b>I. Intangible fixed assets</b>	<b>5</b>	<b>8,510,471</b>	<b>8,511,271</b>
3. Patents, licenses, trademarks and similar		3,360,323	3,355,989
5. Computer software		50,244	63,090
7. Research		5,099,904	5,092,193
<b>II. Property, plant and equipment</b>	<b>6</b>	<b>48,493</b>	<b>54,716</b>
2. Plant and other PPE		48,493	54,716
<b>IV. Non-current investments in group companies and associates</b>	<b>7, 8</b>	<b>992,164</b>	<b>992,164</b>
1. Equity instruments		992,164	992,164
<b>V. Non-current financial investments</b>	<b>7, 11</b>	<b>135,793</b>	<b>128,005</b>
1. Equity instruments		300	26,383
4. Derivatives			3
5. Other financial assets		135,493	101,619
<b>VI. Tax credits</b>	<b>21</b>	<b>4,968,020</b>	<b>5,319,202</b>
<b>VII. Non-current trade receivables</b>	<b>7, 11</b>	<b>3,840,497</b>	<b>4,124,510</b>
1. From clients		3,819,673	4,124,510
1. From clients		20,825	
<b>B) CURRENT ASSETS</b>		<b>4,591,419</b>	<b>3,940,961</b>
<b>III. Trade and other accounts receivable</b>	<b>7, 11</b>	<b>2,612,670</b>	<b>1,524,007</b>
1. From clients		2,429,639	1,369,027
2. Clients, group companies and associates		108,227	112,021
3. Sundry receivables		24,457	-
4. Employees		-	21
5. Current tax assets		2	2
6. Other tax credits		50,344	42,935
<b>IV. Current investments in group companies and associates</b>	<b>7, 11, 26</b>	<b>-</b>	<b>476,998</b>
2. Loans to companies		-	476,666
5. Other financial assets		-	332
<b>V. Current financial investments</b>	<b>7, 11</b>	<b>1,004,260</b>	<b>1,012,661</b>
1. Equity instruments		157	164
5. Other financial assets		1,004,103	1,012,497
<b>VI. Prepaid expenses</b>		<b>8,450</b>	<b>23,716</b>
<b>VII. Cash and cash equivalents</b>	<b>14</b>	<b>966,040</b>	<b>903,578</b>
1. Cash		965,761	903,439
2. Cash equivalents		278	139
<b>TOTAL ASSETS</b>		<b>23,086,858</b>	<b>23,070,829</b>

Notes 1-32 are an integral part of the Interim Financial Statements at June 30th' 2014.





**ZINKIA ENTERTAINMENT, S.A.**  
**INTERIM FINANCIAL STATEMENTS AT 30<sup>th</sup> 2014 (In EUR)**

	Nota	6/30/2014	12/31/2013
<b>A) NET EQUITY</b>		<b>8,616,496</b>	<b>8,979,829</b>
<b>A-1) SHAREHOLDER'S EQUITY</b>		<b>8,465,931</b>	<b>8,829,261</b>
<b>I. Capital</b>	<b>15</b>	<b>2,445,677</b>	<b>2,445,677</b>
1. Registered capital		2,445,677	2,445,677
<b>II. Share premium</b>	<b>15</b>	<b>9,570,913</b>	<b>9,570,913</b>
<b>III. Reserves</b>	<b>16</b>	<b>918,423</b>	<b>918,423</b>
1. Legal and statutory		330,475	330,475
2. Other reserves		587,948	587,948
<b>IV. Treasury stock</b>	<b>17</b>	<b>(403,841)</b>	<b>(403,841)</b>
<b>V. Profit/(loss) carryforwards</b>		<b>(3,701,910)</b>	<b>(2,681,613)</b>
2. Tax loss carryforwards		(3,701,910)	(2,681,613)
<b>VII. Profit/(loss) for the year</b>	<b>18</b>	<b>(363,330)</b>	<b>(1,020,297)</b>
<b>A-2) ADJUSTMENTS DUE TO VALUE CHANGES</b>	<b>12</b>	<b>(3,950)</b>	<b>(3,947)</b>
<b>II. Hedgings transactions</b>		<b>(3,950)</b>	<b>(3,947)</b>
<b>A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED</b>	<b>20</b>	<b>154,515</b>	<b>154,515</b>
<b>B) NON-CURRENT LIABILITIES</b>		<b>6,860,761</b>	<b>6,871,332</b>
<b>II. Non-current payables</b>	<b>7, 13</b>	<b>6,796,767</b>	<b>6,807,339</b>
1. Debentures and other marketable securities		2,238,000	2,238,000
2. Bank borrowings		555,917	555,917
5. Other financial liabilities		4,002,850	4,013,422
<b>IV. Deferred tax liabilities</b>		<b>63,994</b>	<b>63,994</b>
<b>C) CURRENT LIABILITIES</b>	<b>7, 13</b>	<b>7,609,601</b>	<b>7,219,668</b>
<b>II. Current provisions</b>		<b>100,000</b>	<b>100,000</b>
<b>III. Current payables</b>		<b>4,270,523</b>	<b>4,253,867</b>
1. Debentures and other marketable securities		98,472	33,049
2. Bank borrowings		1,294,497	1,296,397
5. Other financial liabilities		2,877,554	2,924,421
<b>VI. Current accruals and deferred income</b>	<b>7, 13</b>	<b>29,381</b>	<b>28,755</b>
<b>V. Trade an other payables</b>		<b>2,833,913</b>	<b>2,527,583</b>
3. Sundry payables		2,330,346	2,102,376
4. Wages and salaries pending of payment		7,616	20,114
6. Other tax payables		495,951	405,093
<b>VI. Current accruals and deferred income</b>		<b>375,784</b>	<b>309,463</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,086,858</b>	<b>23,070,829</b>

Notes 1-32 are an integral part of the Interim Financial Statements at June 30th' 2014.

**ZINKIA ENTERTAINMENT, S.A.**
**INTERIM INCOME STATEMENT FOR THE PERIOD ENDED AT JUNE 30<sup>th</sup> 2014 (In EUR)**

	Note	6/30/2014	6/30/2013
1. Revenue	22.b	2,922,776	1,752,240
3. Own work capitalised	5	493,527	605,768
4. Raw materials and consumables	22.c	(68,606)	(16,289)
6. Staff expenses	22.e	(1,212,918)	(992,484)
7. Other operating expenses	22.d	(1,064,689)	(1,226,678)
8. Fixed assets amortisation	5 , 6	(506,442)	(705,255)
9. Allocation of grants and other non-financial assets	20	4,831	-
11. Impairment and profit/(loss) on fixes assets disposals		1,460	-
a) Impairment and losses	5		-
b) Profit/(loss) on disposals and other		1,460	-
12. Other results		(6,873)	(2,370)
<b>A) OPERATING PROFIT/(LOSS)</b>		<b>563,067</b>	<b>(585,068)</b>
13. Financial income		100,524	15,871
14. Financial expense		(193,098)	(495,338)
16. Exchange differences	22.a	38,147	(15,340)
17. Impairment losses on disposal of financial instruments		(491,824)	-
<b>B) FINANCIAL PROFIT/(LOSS)</b>		<b>(546,252)</b>	<b>(494,807)</b>
<b>C) PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>16,815</b>	<b>(1,079,875)</b>
18. Corporate income tax	23	(380,145)	229,719
<b>D) PROFIT/(LOSS) FOR THE YEAR</b>		<b>(363,330)</b>	<b>(850,156)</b>

Notes 1-32 are an integral part of the Interim Income Statement corresponding to the first six month period of 2014



**ZINKIA ENTERTAINMENT, S.A.**

**STATEMENT OF CHANGE IN EQUITY AT THE INTERIM PERIOD ENDED AT JUNE 30<sup>th</sup> 2014 (In EUR)**

**A) INTERIM STATEMENT OF RECOGNIZED INCOME AND EXPENSE (In EUR)**

	6/30/2014	6/30/2013
<b>A) Profit/(loss) for the year</b>	<b>(363,330)</b>	<b>(850,156)</b>
Income and expense recognised directly in equity		
I. Change in value of financial assets	-	-
1. Available-for-sale financial assets	-	-
2. Other income/expense	-	-
II. Cash-flow hedges	(3)	151
III. Grants, donations and bequests received	-	-
IV. Arising from actuarial gains and losses and other adjustments	-	-
V. Tax effect	-	-
<b>B) Total income and expense recognised directly in equity</b>	<b>(3)</b>	<b>151</b>
Transfers to income statements		
VI. Change in value of financial assets	-	-
1. Available-for-sale financial assets	-	-
2. Other income/expense	-	-
VII. Cash-flow hedges	-	-
VIII. Grants, donations and bequests received	-	-
IX. Tax effect	-	-
<b>C) Total transfers to income statements</b>	<b>-</b>	<b>-</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)</b>	<b>(363,333)</b>	<b>(850,005)</b>

Notes 1-32 are an integral part of the Interim Recognised Income and Expenses corresponding to the first six month period of 2014



## B) INTERIM STATEMENT OF TOTAL CHANGES IN EQUITY (In EUR)

	NOTES	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
<b>D. 2013, ADJUSTED STARTING BALANCE</b>										
		2,445,677	9,570,913	994,353	(403,841)	(3,520,530)	932,131	(4,003)	130,978	10,145,677
I. Total recognised income and expense	18	-	-	-	-	-	(1,020,297)	55	23,537	(996,706)
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17			(185,793)						(185,793)
III. Other movements in equity	18	-	-	109,863	-	838,918	(932,131)	-	-	16,649
<b>E. 2013, ENDING BALANCE</b>										
		2,445,677	9,570,913	918,423	(403,841)	(2,681,613)	(1,020,297)	(3,947)	154,515	8,979,828
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
<b>D. 2014, ADJUSTED STARTING BALANCE</b>										
		2,445,677	9,570,913	918,423	(403,841)	(2,681,613)	(1,020,297)	(3,947)	154,515	8,979,828
I. Total recognised income and expense	18	-	-	-	-	-	(363,330)	(3)	-	(363,333)
III. Other movements in equity	18	-	-	-	-	(1,020,297)	1,020,297	-	-	-
<b>E. BALANCE AT 06/30/2014</b>										
		2,445,677	9,570,913	918,423	(403,841)	(3,701,910)	(363,330)	(3,950)	154,515	8,616,496

  

	NOTES	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
<b>B. 2012, ADJUSTED STARTING BALANCE</b>										
		2,445,677	9,570,913	1,151,523	(950,560)	(3,389,611)	(130,920)	(6,000)	105,542	8,796,564
I. Total recognised income and expense	18						932,131	1,996	25,436	959,563
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17			(157,170)	546,719					389,549
III. Other movements in equity	18					(130,919)	130,919			-
<b>C. 2012, ENDING BALANCE</b>										
		2,445,677	9,570,913	994,353	(403,841)	(3,520,530)	932,131	(4,003)	130,978	10,145,677
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
<b>2013, ADJUSTED STARTING BALANCE</b>										
		2,445,677	9,570,913	994,353	(403,841)	(3,520,530)	932,131	(4,003)	130,978	10,145,677
I. Total recognised income and expense	18	-	-	-	-	-	(850,156)	151	-	(850,005)
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17	-	-	16,650	(404,187)	-	-	-	-	(387,538)
III. Other movements in equity	18	-	-	93,213	-	838,918	(932,131)	-	-	-
<b>BALANCE AT 06/30/2013</b>										
		2,445,677	9,570,913	1,104,216	(808,029)	(2,681,613)	(850,156)	(3,852)	130,978	8,908,133

Notes 1-32 are an integral part of the Statement of Total Changes in Equity corresponding to the first six month period of 2014

**ZINKIA ENTERTAINMENT, S.A.**  
**INTERIM CASH FLOW STATEMENT AT JUNE 30<sup>TH</sup> 2014 (In EUR)**

A) CASH FLOWS FROM OPERATIONS	NOTES	6/30/2014	6/30/2013
<b>1. Profit before taxes</b>		<b>16,815</b>	<b>(1,079,875)</b>
<b>2. Adjustments to profit (loss)</b>		<b>1,053,275</b>	<b>1,202,433</b>
a) Fixed asset depreciation	5, 6	506,442	705,255
b) Value corrections	5, 8	491,824	-
d) Profit(loss) from fixed asset disposals		(1,460)	2,370
e) Financial Income		(100,524)	(15,871)
f) Financial expenses		193,098	495,338
g) Exchange differences		(38,147)	15,340
h) Allocation of grants		(4,831)	-
i) Other incomes and expenses		6,873	-
<b>3. Change in working capital</b>		<b>(316,210)</b>	<b>326,818</b>
b) Other current assets and liabilities	7, 11	(1,088,663)	(596,018)
c) Creditors and other payables		15,266	15,013
c) Creditors and other payables	7, 13	306,330	(726,056)
d) Other current liabilities	7, 11, 21	66,321	-
d) Other non-current assets and liabilities	7, 11, 21	384,535	1,633,879
<b>4.- Other cash flows from operations</b>		<b>(125,815)</b>	<b>(272,236)</b>
a) Interest paid		(89,980)	(232,275)
c) Collections ( payments) for corporate income tax		(28,964)	(40,250)
d) Other payments (collections)		(6,873)	-
e) Collections for interests		2	289
<b>5.- Cash flows from operations (1+2+3+4)</b>		<b>628,065</b>	<b>177,140</b>
<b>B) CASH FLOWS FROM INVESTMENTS</b>			
<b>6. Paid on investments (-)</b>		<b>(548,273)</b>	<b>(1,449,768)</b>
a) Group companies and associates	7, 8	(14,965)	-
b) Intangible assets	5	(494,307)	(688,774)
c) Property, plant and equipment	6	(5,110)	(1,121)
e) Other financial assets		(33,891)	(759,873)
<b>7. Amounts collected from divestments (+)</b>		<b>9,214</b>	<b>15,069</b>
e) Other financial assets		9,214	15,069
<b>8. Cash flows from investments (7-6)</b>		<b>(539,059)</b>	<b>(1,434,699)</b>
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>9. Collections and payments on equity instruments</b>		-	<b>(404,187)</b>
c) Acquisition of equity instruments		-	(404,187)
<b>10. Collections and payments on financial liability instruments</b>		<b>(31,913)</b>	<b>(653,892)</b>
a) Issues		-	308,129
2. Bank borrowings		-	18,528
3. Other payables		-	289,601
b) Return and amortisation of		(31,913)	(962,021)
1. Bank borrowings		(4,128)	(511,129)
2. Other payables		(27,785)	(450,892)
<b>12. Cash flows from financing (9+10+11)</b>		<b>(31,913)</b>	<b>(1,058,079)</b>
<b>D) Effect of exchange rate fluctuations</b>		<b>5,369</b>	<b>5,394</b>
<b>E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)</b>		<b>62,462</b>	<b>(2,310,243)</b>
Cash and cash equivalents at January, 1st		903,578	2,532,549
Cash and cash equivalents at June, 30th		966,040	222,306

Notes 1-32 are an integral part of the Cash Flow Statement corresponding to the first semester in 2014.

## ZINKIA ENTERTAINMENT, S.A.

### NOTES TO THE INTERIM FINANCIAL STATEMENTS AT JUNE 30<sup>TH</sup> 2014 (In EUR)

#### 1. General information

The Company was founded as a limited liability company under the name of Junk & Belavsky, S.L. on April, 27<sup>th</sup> 2000. On December, 27<sup>th</sup> 2001, the name was changed to Zinkia Sitement, S.L. and the company's registered offices were established at Calle Infantas, 27 in Madrid.

On June, 11<sup>th</sup> 2002, the name of the company was once again changed to ZINKIA ENTERTAINMENT, S.L.

On July, 20<sup>th</sup> 2007, the General Meeting of Shareholders agreed to transform the company into a public limited company, which was formalised in the public deed executed before the notary public of Madrid, Miguel Mestanza Iturmendi, on October, 24<sup>th</sup> 2007.

The corporate purposes of the Company, which are governed by the terms of the Capital Companies Act, are as follows:

- a) Business activities related to the production, promotion, development, management, exhibition and commercialisation of cinematographic, audiovisual and musical works as well as the activities related to publishing of musical works.
- b) Rendering services related to the development of interactive software, hardware and consulting in the field of telecommunications.
- c) Buying and selling shares and debentures which may or may not be traded in domestic or foreign stock markets, and other negotiable securities and real estate. By law, the Company's business activities exclude those activities reserved for stockbrokers, collective investment institutions and property leasing.
- d) Managing and administering all kinds of companies including industrial, commercial and service companies and holding interests in existing or newly-created companies, either by participating in their governing bodies or by holding shares or financial interests in them. These activities may also be performed on behalf of third parties.
- e) Providing the companies in which it holds interests with advisory, technical assistance and similar services in relation to their administration, financial structure or their productive or commercial processes.

The Company's activities are focused primarily on those described in items a) and b).

According to article 6.1 of the Royal Decree 1159/2010 of September 17<sup>th</sup>, which approves of the Rules for the Preparation of Consolidated Financial Statements, the Company is the parent of a group of companies (Note 8), and as such, and since the Company has issued securities which are traded on a regulated market in a Member State of the European Union, the Company is presenting its interim financial statements under the EU-IFRS financial statements standards.

## 2. Basis of presentation

### a) Regulatory framework of financial information

These annual financial statements have been prepared by the Directors in accordance with regulatory framework of financial information applicable to the Company:

- Spanish Commercial Code and the rest of mercantile laws.
- General Chart of Accounts approved by the Royal Decree 1514/2007 and its Sector adaptations.
- Accounting mandatory rules approved by the ICAC (Spanish Accounting and Audit Institute) developing the General Chart of Accounts and related rules.
- The rest of the applicable Spanish accounting regulations.

### b) True and fair view

These interim financial statements have been prepared on the basis of the Company's accounting records and they are presented in accordance with regulatory framework of financial information and related accounting rules so as to present fairly the Company's equity, financial situation and results and accurately cash flow in the cash flow statement, during this period.

### c) Accounting principles

These interim financial statements were prepared by applying generally-accepted accounting principles. No accounting principles with significant effects on the financial statements were omitted.

### d) Critical measurement issues and estimates of uncertainty

The preparation of the financial statements requires the use by the Company of certain estimates and judgements in relation to the future that are assessed constantly and are based on historical experience and other factors, including expectations of future events considered reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom match the actual results. The estimates and assumptions might cause a material adjustment to the carrying amounts of assets and liabilities.

#### *d.1) Fair value of derivatives or other financial instruments*

The fair value of financial instruments that are not traded on an active market is calculated using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Company has carried out the analysis using the discounted cash flow method of various held-for-sale financial assets that are not traded on active markets.

#### d.2) Useful lives property, plant and equipment

The Company management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the estimated life cycles of the products in the high technology segment. This could change considerably as a consequence of technical innovations and the actions of competitors as a reaction to the sector hard cycles. The Management will increase the depreciation charge where useful lives are shorter than previously estimated, and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Although these estimates were made based on the best information available at the end of this first semester, it is possible that events may occur in the future, requiring therefore adjustments (upwards or downwards) in coming years, to be held, if applicable prospectively.

#### e) Comparability of information

The Company has included in these financial statements the figures from the previous year as there is no reason why the figures from both years would not be compared.

#### f) Grouping of items

For clarity purposes, the items presented in the balance sheet, income statement, statement of changes in equity and cash flow statement are grouped together in these financial statements and, where necessary, a breakdown is included in the relevant notes to the interim financial statements.

#### g) Changes in accounting policies

During this interim period, the Company has not applied changes in accounting policies following its usual accounting policy.

#### h) Correction of errors

There were no corrections of prior period errors.

#### i) Going concern principle-Negative Working Capital

The interim financial balance sheet shows a negative Working Capital of EUR 3,018,182 at June 30<sup>th</sup> 2014 (EUR 3,278,798 at December 31<sup>st</sup> 2013), mainly due to the maturity of the two largest financial debts pointed in the balance of the Company. The following summarizes additional information regarding the steps taken by the Company in order to offset such situation:

##### i.1) Position of the Company and negotiation processes

As noted at the end of the previous year, the Company, despite its business growth, contemplated difficulties in order to meet part of its payment obligations at their expected maturity. Therefore, during 2013, and among the different alternatives considered by the Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18<sup>th</sup> 2013, Zinkia began before the CNMV the process of enrolment in the official records of the relevant Registration Document of the Company, following Article 92 of the Law 24/1988 on the Securities Market. The Registration Document was approved nearly three months after its submission, on July 4<sup>th</sup> 2013, date of its official registration by Decision of the CNMV.



Following to the approval of the Registration Document, Zinkia prepared the corresponding Admission Paper in order to launch a Bond Issue aimed at institutional investors, which supposedly was unlimited as to the amount of bonds to be issued, and for which Law did not set any standard minimum face value for each Bond but a minimum subscription of €100,000 per investor.

For this purpose Zinkia together with its advisers designed and prepared the transaction (with the corresponding Securities Note concerning the Admission of Zinkia's Simple Bond Issue) considering an issue of Bonds among investors with a minimum subscription of €100,000 per investor and therefore not considering the public offer of Bonds for the purposes provided in art. 38 of Royal Decree 1310/2005, of November 4<sup>th</sup>, partially developing Law 24/ 1988 of 28<sup>th</sup> July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, and with a unit nominal value of € 1,000 per bond. This operation was not authorized by the CNMV under the conditions proposed by Zinkia in contrast the Commission finally required the unit value of each Bond to be set at the amount of € 25,000 for which one of them, in the opinion of the Directors of the Company, resulted in no titles being placed.

After these events, Zinkia considered to aim the bond issue at the retail public with the issue limitations established by law, and so proceeded to present on September 6<sup>th</sup> 2013, in accordance with Article 24 and following of the Real Decree 1310/2005, of 4<sup>th</sup> November, partially developing Law 24/1988 of 28<sup>th</sup> July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, a first draft of the Securities Note that was finally approved by the CNMV on October 7<sup>th</sup> 2013.

Given this lengthy process, and the changing of approaches, the Company does not consider the securities placed are enough and decides to renounce to the Issue.

Given the manifest impossibility to meet the next milestones in the pay back of the financial debt, such as was the amortisation to maturity of the debenture bond issue "Simple Debentures Zinkia 1st issue", and the final redemption or repayment of the loan made by a private Foundation, both reaching up to about 5,000,000 € and which were maturing in November 2013 and February 2014, respectively.

Given this situation, and in order to protect both the assets and interests of Zinkia, as well as to enable the Company to continue with business as usual under the umbrella of legal protection, Zinkia requested, on October 31<sup>st</sup> 2013, the legal procedure under art. 5 bis of the Insolvency Act in order to continue negotiations with the different creditors of the Company.

From the date of the application for the procedure, the Company had a three month period (that is, until January 31<sup>st</sup> 2014) to achieve a refinancing agreement with its main creditors in order to (once process 5 Bis is ended) continue with its business and activity. Throughout this process, there have been endless numbers of procedures, negotiations and agreements summarized as follows:

- Renegotiation of debt with the bondholders, at the General Meeting of Bondholders of the "Zinkia's Simple Debentures 1<sup>st</sup> Issue" of 2010, which took place on December 9<sup>th</sup> 2013 on second call, where they agreed, among other things, on the modification of the Final Terms of the issue (such as the market was informed by communication of the corresponding Relevant Facts in both the official pages of MAB and CNMV, as well as on the official website of the Company ([www.zinkia.com](http://www.zinkia.com)), and more specifically:

Modification of the Final Terms for the "Zinkia's Simple Debentures 1<sup>st</sup> Issue" in the following terms:

- Change of the writing-off date to maturity, originally scheduled for the third anniversary from the Date of issue, subscription and payment, that is to say November 12<sup>th</sup> 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12<sup>th</sup> 2015.
- Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12<sup>th</sup> 2014, who will therefore proceed to pay the corresponding coupon until that date.
- Modification of the fixed rate annually payable in the coupons to be paid in 2014 and 2015. The fixed rate changed from 9.75% to 11%.

Since the above amendments were approved, the full amount of the coupon corresponding to the 2013 rates (9.75%) was paid. This coupon was paid to the holders of the bonds of the referred Issue in December 2013.

- The company INTEGRA CAPITAL PARTNERS, SA ("Integra") was hired in order to implement a Viability Plan including all the revenue estimates derived from the activity in the coming years, as well as all the payment obligations intended by the Company and, what is more important, that could actually be proposed by the Company, in order to have an impartial third party ensure that, if the forecasts of the Company in their most conservative scenario, and after the due sensitivity analysis, were fulfilled (and indeed, all scenarios were well behind the projections of real business of the Company, which are de facto much more optimistic), the Company could face the commitments reached under the so called 5Bis refunding procedure.

The Viability Plan is performed by means of a mathematical, computer program used to calculate, from some given premises and preset scenarios, the Income Statement, Balance Sheet and Statement of Treasury corresponding to the projected months and years and, according to those results, to estimate the conditions and payment schedules that can be offered to different creditors. All in order to confirm that the Company may afford all the payments and obligations offered to each creditor and therefore confirming that the company is viable in financial and economic terms, and that the Company has sufficient level of solvency based on the actual business assets, as well as sufficient structure as to afford the realistic and effective completion of its payment obligations to creditors within the proposed timeframe.

As a result of the Viability Plan, the Company approved the offer of certain payment terms that were negotiated with the main creditor groups.

- Zinkia held some interviews with its main trade creditors, as well as with all the financial institutions involved, in order to evaluate their bargain power and their will to reach the refinancing agreements that could lead to the end of procedure 5 Bis and the signing of the relevant refinancing agreements. Finally, after talks and interviews held by Zinkia individually with each of the financial institutions, Integra was charged also with the coordination of the negotiation and signing of the refinancing agreements with all entities, so as to reach the agreement of the whole banking "pool" under the same conditions.

Although the Company was successful in reaching a refinancing deal with the bondholders, with most of the commercial creditors, and although negotiations had been also successful with the different committees of banks which had already approved the refinancing operations, on the February 26<sup>th</sup> 2014 the Board of Directors of Zinkia decided to seek a declaration of voluntary arrangement with creditors due to the refusal of renegotiation by private lending institution regarding an amount of EUR 2,500,000 (Note 19).

On the 7<sup>th</sup> of April 2014 the judicial decision was finally issued. The Comisión Nacional del Mercado de Valores and the Mercantile court number 8 of Madrid itself appointed by virtue of such judicial decision ATTEST INTEGRAL S.L.P. as insolvency trustee of the Company.

Such as it was reported in the Annual Accountings of the prior year, the Company was already working at that time in the updating of the Viability Plan and the elaboration of a Payments Plan to be offered to each creditor group. Using both documents and considering the information obtained by the Company in the interviews held by the Company with its creditors during within the 5BIS procedure, the Board of Directors of the Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the mercantile court number 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it has been well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17<sup>th</sup> June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

For this reason, at June 30<sup>th</sup> 2014, the Company expects to achieve a positive solution to the APAC that was presented. The approval of the APAC would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Company's business.

#### *i.2) Overdue balances at the year end and actions taken.*

By means of the judicial decision dated 7<sup>th</sup> April 2014, the Company was officially declared in arrangement with creditors, and as a consequence, from that date on, and according to the insolvency rules, the Company cannot proceed to pay any amount whatsoever regarding the debts generated prior to the date of the judicial decision. Such debt amounts are considered insolvency debts. Such insolvency debts shall be subject to the approval of the creditors and the pertinent institutions through a proposal of arrangement with creditors that will establish the payments schedule. This situation of insolvency makes overdue balances at year end superfluous, since out of the total liabilities of the Company, some EUR 13,500,000 approximately are insolvency debt the maturity of which shall be determined by the arrangement finally approved.

#### *i.3) Actions to generate liquidity.*

As it has already made known to the market several times, the Company has been working for a long time in finding appropriate sources of funding, and has analysed all possible alternatives to generate additional liquidity, so that the necessary financial resources are generated in order to meet all the commitments of the Company and so that the investment projects of the Business Plan can be launched.

In order to solve the deficit revealed in the financial resources, other alternatives for generating additional liquidity are being analysed, while negotiations with potential investors are still being held. The Company, in spite of being subject to an insolvency procedure, is still growing and working on the development of its business, increasing the revenue from its business activities and minimizing as much as possible the costs derived from such procedure. Some of the actions taken to generate liquidity are as follows:

- Increased revenue derived from the international expansion of the brand POCOYO and the increase in the sales related to the online presence and the digital rights management, which thus diversify the cash generation coming from different countries and different lines of business areas.

We should point out that at June 30th 2014 the Company has increased its turnover in more than 60% compared to the turnover for the same period in the previous year.

- In order to analyse the business progress of the Company it is important paying attention to the evolution of the EBIDTA ratio, since such model isolates the results of the business from other series of elements included in the income statements which, even though they are part of the figures of the Company, they don't belong to the business activities. The evolution of the Company's EBIDTA shows an increase of 773% over the EBIDTA for the same period in the previous year.

Therefore, although the income statements of the Company at the end of the first semester shows losses of EUR 363,330, we should stress that these losses are the consequence of the record of the figures corresponding to the deterioration of a credit the Company had among its assets and to a fiscal adjustment (note 21), which shall be analysed later on. Such records, in spite of implying a loss for the Company's equity, have not entailed any cash-flow movement during the referenced period, and do not correspond either to the Company's activities in the current year.

- Zinkia is continuing its policy of cost reduction by binding costs to the generation of income to the possible extent. The Company is reviewing the terms of the agreements with its collaborating Commercial Agents with the aim of improving their economic conditions in favour of the Company. In particular, the costs deriving from the trade commissions have been reduced by replacing fixed fees with new agreements with success fees based exclusively on percentages on the sales actually achieved. This point will favour the generation of liquidity very positively.
- At present, and in spite of being subject to an insolvency procedure, the Company is still in the process of seeking funds to develop its business plan, analysing possible alternatives at its disposal.

However, it is important to stress that the Company has elaborated a viability plan based exclusively on its own capacity to generate income without considering external funding. This plan has been accepted by the insolvency administrator, which backs up the forecasts of cash-flow generation to comply with the payment milestones proposed, while backing up, as well, the accomplishment of the going concern principle.

The figures in these interim financial statements are in line with the said viability plan as well as with the Payments Plan implemented.

These activities are further detailed in the management report presented by the Company together with these Interim Financial Statements.

The Directors of the Company consider that, in case of achieving the necessary number of adherences in favour the Advanced Proposal of Arrangement, this, together with the rest of the activities that are being carried out, will lead the Company to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

### **3. Accounting policies**

#### **3.1 Intangible assets**

##### **a) Research and development expenses**

Research expenditure is recognised as an expense when incurred. Development costs incurred in projects are recognised as intangible assets when it is probable that the project will be carried out considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be measured reliably and a profit is likely to be generated.

If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.4).

If the circumstances favouring the project that permitted the capitalisation of the development costs should change, the unamortised portion is expensed in the year of change.

##### **b) Licenses and trademarks**

Licences and trademarks have defined useful lives and are carried at cost less accumulated amortisation and recognised value adjustments for impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3-5 years.

##### **c) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of five years.

Expenses associated with software maintenance are recognised when incurred. Costs directly related to the production of identifiable and unique computer programs controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include costs relating to employees developing the software and an appropriate percentage of general expenses.

Software development costs recognised as assets are amortised over the software's estimated useful life, which does not exceed 5 years.

### 3.2 Property, plant and equipment

Property, plant and equipment items are stated at acquisition price or production cost, less accumulated depreciation and accumulated impairment losses recognised.

Own work capitalised is measured by adding the direct or indirect costs of the asset to the price of the consumable materials.

The costs associated with expanding, upgrading or improving property, plant and equipment are carried as an increase in the asset's value only when they entail an increase in its capacity, productivity or the extension of its useful life and provided that in the case of assets written off from inventories owing to replacement, the carrying value can be known or estimated.

The cost of major repairs is capitalised and depreciated over the estimated useful life of the asset, while recurring maintenance costs are charged to the income statement in the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. Estimated useful lives are as follows:

Property, plant and equipment	Years
Machinery and tooling	4 - 8
Other equipment	8
Furnishings	10
Data-processing equipment	4 - 5
Other PPE	10

The residual values and useful lives of assets are reviewed and adjusted, if necessary, at each balance sheet date.

If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.4).

Gains and losses on the disposal of property, plant and equipment are calculated by comparing the sales revenue with the carrying amount and are recognised in the income statement.

### 3.3 Interest costs

Financial expenses directly attributable to the acquisition or construction of fixed assets that require more than one year before they become operational are included in the cost of the assets until they are ready for use.

### 3.4 Losses due to impairment of non-financial assets

Assets with indefinite useful lives, such as goodwill, are not amortised but rather tested annually for impairment. Depreciable assets are tested for losses due to impairment whenever there is an event or circumstance that indicates that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value less the higher of costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets other than goodwill, which are impaired, are reviewed at the balance sheet date for reversal of the loss.

### 3.5 Financial assets

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for those maturities dates longer than 12 months since the balance sheet date, which are classified as non-current assets. Loans and receivables are included in “Loans to companies” and “Trade and other receivables” in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. However, trade receivables falling due in less than one year are carried at their face value at both initially and subsequently, provided that the effect of not updating the cash flows is not significant.

At least once a year at the end of the year, the necessary value adjustments are made to account for impairment when there is objective evidence that no receivables will be collected.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognised in the income statement.

b) Held-to-maturity investments: Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturity, that are traded on an active market and that Company management has the positive intention and ability to hold to maturity. If the Company sells a material amount of held-to-maturity financial assets, the entire category would be reclassified as available for sale. These financial assets are included in non-current assets, except for those maturing in less than 12 months of the balance sheet date which are classified as current assets.

The measurement criteria applied to these investments are the same as for loans and receivables.

c) Financial assets held for trading: All those assets held for trading, purchased for sale in the short term or that form part of an instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract and have not been designated as a hedge.

d) Other Financial assets at fair value through profit or loss: are considered financial assets at fair value through profit or loss those financial assets designated by the Company upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these assets are included in a group whose performance is measured at fair value according to an informed strategy.

e) Equity investments in group companies, jointly-controlled entities and associates: They are stated at cost less, where appropriate, accumulated value adjustments for impairment. Nonetheless, when there is an investment prior to its classification as a group company, jointly-controlled entity or associate, its carrying value prior to that classification is regarded as the investment cost. Previous value adjustments accounted for directly in equity are held under this heading until they are written off.

If there is objective evidence that the carrying value cannot be recovered, adjustment are made as necessary to reflect the difference between the carrying value and the recoverable amount, this being understood as the fair value less the cost of the sale and the current value of the cash flows derived from the investments, whichever is greater. Unless there is better evidence of the recoverable value, when estimating the impairment of these investment the net equity of the investee company corrected by the tacit surpluses existing on the valuation date is taken into account. The value adjustment and, if appropriate, its reversal, are reflected in the income statement for the year in which they arise.

f) Available-for-sale financial assets: This category includes debt securities and equity instruments that have not been classified in any of the preceding categories. They include non-current assets unless management intends to sell the investment within 12 months of the balance sheet date.

They are measured at fair value and any changes are recorded in equity until the asset is disposed of or is impaired, which shall be the time when the accumulated gains and losses are taken to the income statement provided that such fair value can be determined. Otherwise, they are reflected at cost less impairment.

Impairment is considered permanent whenever there is a drop of more than 40% in the market value of the asset, or if it has declined for over one year and a half period with no recovering.

The fair values of quoted investments are based on the prevailing bid prices. If the market is not active for a financial asset (and for unlisted securities), the Company establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis methods and option pricing models, making a maximum use of observable market data and relying as little as possible on the Company's subjective considerations.

Financial assets are written off when substantially all the risks and rewards attached to ownership of the asset are transferred. For accounts receivable in particular, this situation is generally understood to arise if the insolvency and default risks have been transferred.

Assets designated as hedged items are subject to the measurement requirements of hedge accounting (Note 3.6).



### 3.6 Financial derivatives and hedge accounting

Financial derivatives are measured at fair value at both initial recognition and subsequent measurement. Resulting gains and losses are recognised depending on whether the derivative is designated as a hedging instrument or not and, if so, the nature of the item being hedged. The Company designates certain derivatives as:

a) Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reflected in the income statement together with any changes in the fair value of the asset or liability hedged that are attributable to the hedged risk.

b) Cash flow hedges: The part of the change in the fair value of the derivatives designated as cash flow hedges is tentatively recognised in equity. It is taken to the income statement in the years in which the forecast hedged transaction affects results unless the hedge relates to a forecast transaction ending in the recognition of a non-financial asset or liability, in which case the amounts reflected in equity are included in the cost of the asset when it is acquired or of the liability when it is assumed.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

c) Hedges of a net investment in foreign operations: For hedges of net investments in joint ventures without a separate legal personality and foreign branches, changes in the value of the derivatives attributable to the hedged risk are recognised temporarily in equity and taken to the income statement in the year when the investment in the foreign operation is disposed of.

Hedges of net investments in foreign operations in subsidiaries, jointly-controlled entities and associates are treated as fair value hedges with respect to the exchange component.

Hedging instruments are measured and accounted for by nature insofar as they are not or are no longer effective hedges.

For derivatives not qualifying for hedge accounting, any gains or losses in fair value are recognised immediately in the income statement.

### 3.7 Equity

Share capital consists of ordinary shares.

The cost of issuing new shares or options is charged directly against equity, as a reduction in reserves.

In the event that the Company's acquires treasury shares, the price paid, including any directly attributable incremental cost, is deducted from equity until the treasury shares are redeemed, reissued or sold. When treasury shares are subsequently sold or reissued, any amount received is taken to equity net of directly attributable incremental costs.

### **3.8 Financial liabilities**

#### **a) Creditors and payables**

This includes trade and non-trade payables. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

Payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Nonetheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

In the event of the renegotiation of existing debts, the financial liability is not deemed to change significantly when the lender of the new loan is the same as the initial lender and the present value of cash flows, including net fees, is not more than 10% higher or lower than the present value of cash flows payable on the original liability, calculated using the same method.

For convertible bonds, the Company determines the fair value of the liability component by applying the interest rate for similar non-convertible bonds. This amount is recorded as a liability on an amortised cost basis until it is settled on conversion or maturity of the bonds. Other income obtained is assigned to the conversion option that is recognised in equity.

#### **b) Financial liabilities held for trading**

All those held-for-trading liabilities issued to be repurchased in the short term or that are part of a financial instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract (i.e. securities) and have not been designated as a hedge.

#### **c) Other Financial liabilities at fair value through profit or loss**

Are considered financial liabilities at fair value through profit or loss those financial liabilities designated by the Company management upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these liabilities are included in a group whose performance is measured at fair value according to an informed strategy.

### **3.9 Grants received**

Repayable grants are recognised as liabilities until the conditions for the grants to be treated as non-repayable are fulfilled. Non-repayable grants are recognised directly in equity and are taken to income on a systematic and rational basis in line with grant costs. Non-repayable grants received from shareholders are recognised directly in equity.

A grant is deemed to be non-repayable when it is awarded under a specific agreement, all stipulated conditions for obtaining the grant have been met and there are no reasonable doubts that the funds will be received.

Monetary grants are carried at the fair value of the amount granted and non-monetary grants are carried at the fair value of the asset received, at the recognition date in both cases.

Non-repayable grants used to acquire intangible assets; property, plant and equipment, and investment property are recognised as income for the period in proportion to the amortisation or depreciation charged on the relevant assets or, if applicable, upon their sale, value adjustment or write-off. Non-repayable grants related to specific costs are recognised in the income statement in the period in which the relevant costs accrue, and non-repayable grants awarded to offset an operating deficit are recognised in the year they are awarded, unless they are used to offset an operating deficit in future years, in which case they are recognised in those years.

### **3.10 Current and deferred taxes**

Income tax expense (income) is the amount of income tax that accrues during the period. It includes both current and deferred tax expense (income).

Both current and deferred tax expense (income) is recognised in the income statement. However, the tax effect of items recorded directly in equity is recognised in equity.

Current tax assets and liabilities are carried at the amounts that are expected to be payable to or recoverable from the tax authorities, in accordance with prevailing legislation or regulations that have been approved and are pending publication at the year end.

Deferred income tax is calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred tax arises from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on reported or taxable results, they are not recognised. The deferred tax is determined applying tax regulations and rates approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised insofar as future tax profits will probably arise against which to offset the temporary differences.

Deferred taxes on temporary differences arising on investments in subsidiaries, associates and joint ventures are recognised, except where the Company is able to control the reversal date of the temporary differences and such differences are unlikely to reverse in the foreseeable future.

### **3.11 Severance pay**

Under current legislation, the Company is obliged to pay severance to employees who terminated their employment relationship under certain conditions.

Therefore, severance pay can be reasonably quantified and recognised in the year in adopting the decision to terminate the employment relationship that creates the right to receive such compensation. Benefits which are not going to be paid within twelve months of the balance sheet date are discounted at present value.

### 3.12 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, an outflow of funds will probably be necessary to settle the obligation, and the amount may be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. Adjustments to the provision deriving from restatements are recognised as financial expenses as they accrue.

Provisions maturing in one year or less with no significant financial effect are not discounted.

When it is expected that a portion of the payment necessary to settle the provision will be reimbursed by a third party, the reimbursement is recognised as an independent asset, provided that receiving the reimbursement is practically certain.

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Company. These contingent liabilities are not recorded in the accounts but are described in the notes presenting the financial statements.

### 3.13 Revenue recognition

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Company's activities, net of returns, rebates, discounts and value added tax.

In the licensing and merchandising there are two kinds of incomes which are accounted as follows:

Guaranteed minimum incomes: The minimum guaranteed are fixed amounts agreed with the client who will be paying them on the dates specified in the agreement. The amounts agreed are not refundable by the Company, but the client is allowed to deduct these amounts from future sales. With these guaranteed minimum amounts the company ensures the business and the license as signing the agreement with client the company will receive the agreed amounts without fulfilling any obligation.

In accordance with BOICAC 80/2009, which details how to account incomes by audiovisual and cinematographic companies, the accrual of the amounts agreed with the client by guaranteed minimum arrives when agreement is signed so these incomes are recorded at the agreement date. The balancing entry of this income will be an asset in which it reflects the guaranteed minimum which the accrue has occurred. This account will diminish according to the billing of quantities by the agreed dates.

Royalties: The Company gives a license to the client by a fixed amount as explained above and a percentage of product sales. Monthly or quarterly client will report the amount of the sales and the company will invoice based on this information.

The Company recognises royalty's revenues when they arise if it is possible.

In both cases, the company recognises incomes according to the accrual principle either by agreement date or by income generation period.

The Company recognises revenues when the amount can be reliably measured, future economic benefits are likely to flow to the entity and the specific conditions for each of the Company's activities are met. A reliable calculation of the amount of revenue is not deemed possible until all sale-related contingencies have been resolved. The Company's estimates are based on historical results, taking into account customer type, transaction type and specific terms.

### **3.14 Leases**

#### **a) When the Company is lessee – Finance leases**

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company holds substantially all the risks and rewards of ownership are classed as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Present value is calculated using the interest rate implicit in the lease agreement and, if this rate cannot be determined, the interest rate applied by the Company on similar transactions.

Each lease payment is distributed between the liability and financial charges. The total financial charge is apportioned over the lease term and taken to the income statement in the period of accrual using the effective interest rate method. Contingent instalments are expensed in the year they are incurred. Lease obligations, net of financial charges, are recognised in "Finance lease liabilities". Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

#### **b) When the Company is the lessee – Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the income statement in the period of accrual on a straight-line basis over the term of the lease.

### **3.15 Foreign currency transactions**

#### **a) Functional and presentation currency**

The Interim Financial Statements are presented in euro, which is the Company's functional and presentation currency.

#### **b) Transactions and balances**

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in fair value of monetary instruments denominated in foreign currency classified as available for sale are analysed for translation differences resulting from changes in the amortised cost of the instrument and other changes in its carrying value. Translation differences are recognised in results for the year while other changes in fair value are recognised in equity.

Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss are presented as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

### **3.16 Transactions between related parties**

In general, transactions between group companies are initially recognised at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognised based on the economic reality of the transaction. Transactions are subsequently measured in accordance with applicable standards.

In spite of the above, in company mergers transactions, spin-off procedure or non-monetary investment, the company applies the following criteria:

- a) For transactions between related parties involved in the parent company or its subsidiary directly or indirectly, business items are valued by the amount after transaction and so are reflected in consolidated financial statements.
- b) For transactions between other related parties, business assets are valued at book value before transaction and so are reflected in individual financial statements.

If there is a difference it will be included in reserves.

### **3.17 Share-based payment transaction**

The Company has committed to certain senior management employees, a plan for long-term variable remuneration consisting of the delivery of shares. At the time that will occur the necessary conditions to execute that plan, the Company will recognize this fact in equity.

The Company has established, by loan agreement with a private institution, a share-based payment of a portion of the amount financed. Upon maturity of the loan, the company will deliver shares in the amount agreed cancelling them from equity, particularly under the heading "Treasury Stock".

For transaction with employees to be settled with equity instruments, both goods or services as the increase in equity to recognize, will be valued according to the fair value of the equity instruments granted, referring to the date of the concession agreement. Those transactions settled with equity instruments that do result in goods or services other than those rendered by employees are valued, if it can be estimated reliably, the fair value of the goods or services on the date they are received. If the fair value of the goods or services received cannot be estimated reliably, goods and services received and the increase in equity will be valued at fair value of the equity instruments granted, referring to the date on which the company obtains the goods or the counterpart renders service.

## 4. Financial risk management

### 4.1 Factors of financial risk

The Company's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on unpredictability of financial markets and seeks to minimise the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's Treasury Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides guidelines for overall risk management and written policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

#### a) Market risk

##### (i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk from currency exposures, particularly, in relation to the US dollar and the pound sterling. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

At June 30<sup>th</sup> 2014, approximately 58% of the Company's turnover is generated in countries whose local currency is not euro, 57% represents U.S. dollar and the remaining 1% represents other currencies. At June 30<sup>th</sup> 2013 the percentage of revenue from countries whose local currency is not euro raised to 74%, out of which 73% represented U.S. dollar. Zinkia has a bank account in U.S. Dollars used to receive receipts and order payments in that currency. The Company currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Company maintains its commercial debt. If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase.

Since the Company's operating currency is euro, the operating income and the Company's own comparison of its financial results between periods could be adversely affected as the result of the conversion of those currencies into Euros at the exchange rate existing at the closing balance of items, income and expenses. By contrast, where the Company provides services outside Spain (offshore) to customers and, therefore, the revenue is received in Euros, an appreciation of the currency of that country could lead to an increase in the costs due to fluctuations in the exchange rates.

The exchange rate between the currency of the various countries where the Company operates and the euro has been subject to substantial fluctuations in recent years and, in the future, they could continue oscillating. At June 30<sup>th</sup> 2014, the impact of the exchange rates on the net financial income was a gain of 38,147 euros representing a totally irrelevant percentage of the net financial income of the Company at the end of the present period. At June 30<sup>th</sup> 2013, the impact of the exchange rate on the net financial income was a loss of 115,340 euros, which represented approximately 3% of the financial income.

(ii) Price risk

The Company is not exposed to equity instrument price risk because of the investments held and classified on the balance sheet either as available for sale or carried at fair value through profit or loss. The Company is not exposed to commodity price risk.

(iii) Interest rate, cash flow and fair value risk

Since the Company does not hold significant interest-bearing assets, the income and cash flows generated by operating activities are relatively protected from fluctuations in market interest rates.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. Fixed interest rate borrowings expose the Company to fair value interest rate risks.

At June 30<sup>th</sup> 2014, as we have mentioned above, the whole of the Company's debt is awaiting the positive outcome of an arrangement with its creditors, be it the Advanced Proposal of Arrangement presented by the Company or be it a different proposal presented by the creditors, and which will establish the new conditions to which the debt shall be subject, reason why the Company cannot, at June 30<sup>th</sup> 2014, classify its debt according to the different types of interest rates. At the end of the previous year, 82% of the total debt of the Company was referred to fixed interest rates. At the end of the previous year, the average rate of the debt was 6.51%.

The Company analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenes, the Company calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenes are only simulated for liabilities representing the most significant interest-bearing positions.

**b) Credit risk**

Credit risk is managed by groups. The credit risk results from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions also wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Company only does business with reputable banks and financial institutions.

To carry out its business activities, the Company requires the raising the necessary financial resources to ensure the development of its projects and the growth of its business. The Company has financed its investments primarily through credits and loans from financial institutions, capital and debt securities issues. At June 30<sup>th</sup> 2014, net financial debt (total financial debt minus "Cash and equivalents") of the Company amounted to 10,101,250 euros. At December 31<sup>st</sup> 2013, this amount raised to 10,157,628 euros.



However, the global economic crisis and the current adverse market situation have resulted, in recent years, in a very restricted and more burdensome access to credit for any operator (higher financing costs and higher interest expenses).

To the Company in particular, this situation has worsened further due to the difficulties in generating the cash flows required for the payment of its debts in the short term. The current situation of insolvency of the Company interferes to a large extent with obtaining funds for its business development.

If the restriction on credit markets continues or worsens, the financing costs of the Company could be so high that access to this type of financing could be restricted, almost entirely. This could cause a material adverse impact on the activities, in the result of the operations or in the financial position of the Company.

### **c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions.

Such as indicated in Note 2i), the Company is currently facing an arrangement with creditors, and the actions described in Note 2i) are being implemented.

## **4.2 Fair value estimation**

The fair value of financial instruments traded on active markets (such as publicly traded instruments and available for sale securities) is based on market prices at the balance sheet date. The listed price used for financial assets is the ordinary buyer's price.

The fair value of financial instruments not listed on active markets is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. For long-term debt market prices or agent quotation prices are used. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future flows. The fair value of exchange rate forward contracts is determined using future rates listed on the market at the balance sheet date.

It is assumed that the carrying value of trade receivables and payables approximate their fair value. The fair value of financial liabilities for the reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that the Company has for similar financial instruments.

## 5. Intangible assets

The details and movements of the items included in intangible fixed assets are as follows:

<i>Euro</i>	Balance at 12/31/2013	Additions	Disposals or reductions	Transfers	Balance at 06/30/2014
<b>Cost</b>					
Research and development	5,775,021	493,527	-	(485,815)	5,782,733
Intellectual property	13,662,680	-	-	485,815	14,148,495
Computer software	564,539	780	-	-	565,319
Intangible assets advances	-	-	-	-	-
<b>Total</b>	<b>20,002,240</b>	<b>494,307</b>	-	-	<b>20,496,547</b>
<b>Accumulated amortisation</b>					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(10,306,691)	(481,482)	-	-	(10,788,173)
Computer software	(501,449)	(13,626)	-	-	(515,075)
<b>Total</b>	<b>(11,055,125)</b>	<b>(495,108)</b>	-	-	<b>(11,550,233)</b>
<b>Impairment</b>					
Research and development	(435,843)	-	-	-	(435,843)
<b>Total</b>	<b>(435,843)</b>	-	-	-	<b>(435,843)</b>
<b>Total</b>	<b>8,511,271</b>	<b>(800)</b>	-	-	<b>8,510,471</b>

<i>Euro</i>	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 06/30/2013
<b>Cost</b>					
Research and development	6,351,594	679,878	(74,110)	(828,833)	6,128,528
Intellectual property	11,877,019	-	-	828,833	12,705,852
Computer software	516,370	8,896	-	-	525,266
Intangible assets advances	37,773	-	-	-	37,773
<b>Total</b>	<b>18,782,756</b>	<b>688,774</b>	<b>(74,110)</b>	-	<b>19,397,419</b>
<b>Accumulated amortisation</b>					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(9,237,576)	(675,373)	-	-	(9,912,950)
Computer software	(465,533)	(17,169)	-	-	(482,702)
<b>Total</b>	<b>(9,950,094)</b>	<b>(692,542)</b>	-	-	<b>(10,642,637)</b>
<b>Impairment</b>					
<b>Total</b>	<b>8,832,662</b>	<b>(3,769)</b>	<b>(74,110)</b>	-	<b>8,754,783</b>

The additions and disposals registered during the first semester of 2014 and 2013 are mainly based on fixed assets operations for the projects Playset and Zinkia Croupier.

### Research and development expenses

Development costs capitalised relate to the following projects:

<b>Project</b>	<b>Cost</b>	<b>Amortisation Accumulated</b>	<b>Impairment Losses</b>	6/30/2014
				<b>Net value</b>
Developed by the company				
Work in progress	5,535,748	-	(435,843)	5,099,905
Completed projects	246,985	(246,985)	-	-
	<b>5,782,732</b>	<b>(246,985)</b>	<b>(435,843)</b>	<b>5,099,905</b>

During the first semester of 2014, the Company has not deteriorated any projects. At the end of the previous year, the Company had deteriorated the amount in the table since it was not possible to determine whether it was going to be able to generate future cash flows and thus be economically successful.

	6/30/2013			
<b>Project</b>	<b>Cost</b>	<b>Amortisation Accumulated</b>	<b>Impairment Losses</b>	<b>Net value</b>
Developed by the company				
Work in progress	5,881,543	-	-	5,881,543
Completed projects	246,985	(246,985)	-	-
	<b>6,128,528</b>	<b>(246,985)</b>	-	<b>5,881,543</b>

The total amount of research and development costs that are recorded as income in the profit and loss account during the first semester of 2014 amounts to 493,527 euros (605,768 euros for the same period in the previous year).

#### Industrial property rights

Recorded under this caption are the operating licences for the following projects: Pocky and the Shuriken School project.

During the first semester of 2014, transfers to Industrial Property have amounted to 485,815 euros, which correspond to the completion of new delivery of educational applications.

#### Capitalised financial expenses

No financial expenses were capitalised during the first semester of 2014. The same situation as in the same period of the previous year.

#### Intangible assets located abroad

At June 30<sup>th</sup> 2014, the Company had no intangible asset investments located outside of Spain. The same situation as in the same period of the previous year.

#### Fully-amortised intangible assets

At June 30<sup>th</sup> 2014, there are intangible fixed assets, with an accounting cost of EUR 10,581,111 still in use and fully amortised. These intangible assets correspond to EUR 456,063 in software, to EUR 246,985 in developments and EUR 9,878,063 in Industrial Property.

At June 30<sup>th</sup> 2013, there were intangible fixed assets with an accounting cost of EUR 10,124,855 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

#### Assets subject to guarantees and ownership restrictions

At June 30<sup>th</sup> 2014, no intangible assets are subject to ownership restrictions or have been pledged to secure liabilities. At June 30<sup>th</sup> 2013 the situation was the same.

#### Insurance

The Company has taken out a number of insurance policies to cover risks relating to intangible assets. The coverage provided by these policies is considered to be sufficient.

## Grants received in relation to intangible assets

The Company has not received during the first semester of 2014 any amount as exploitation grant related to the development of its intangible assets. The same situation for the same period in the previous year.

## 6. Property, plant and equipment

Set out below is an analysis of property, plant and equipment showing movements:

<i>Euro</i>	Balance at 12/31/2013	Additions	Disposals or reductions	Transfers	Balance at 06/30/2014
<b>Cost</b>					
Machinery	31,689	-	-	-	31,689
Furnishings	76,062	-	-	-	76,062
Data-processing equipment	158,690	5,110	-	-	163,800
Other PPE	28,444	-	-	-	28,444
<b>Total</b>	<b>333,079.61</b>	<b>5,110</b>	<b>-</b>	<b>-</b>	<b>338,193</b>
<b>Accumulated amortisation</b>					
Machinery	(31,530)	(54)	-	-	(31,584)
Other equipment	(32,137)	(714)	-	-	(32,851)
Furnishings	(56,419)	(2,460)	-	-	(58,880)
Data-processing equipment	(142,356)	(6,689)	-	-	(149,046)
Other PPE	(15,922)	(1,417)	-	-	(17,339)
<b>Total</b>	<b>(278,364)</b>	<b>(11,334)</b>	<b>-</b>	<b>-</b>	<b>(289,700)</b>
<b>Impairment</b>	-	-	-	-	-
<b>Total</b>	<b>54,716</b>	<b>(6,224)</b>	<b>-</b>	<b>-</b>	<b>48,493</b>

<i>Euro</i>	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 06/30/2013
<b>Cost</b>					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198	-	-	-	38,198
Furnishings	76,062	-	-	-	76,062
Data-processing equipment	156,080	1,121	-	-	157,201
<b>Total</b>	<b>330,470</b>	<b>1,121</b>	<b>-</b>	<b>-</b>	<b>331,594</b>
<b>Accumulated amortisation</b>					
Machinery	(31,405)	(60)	-	-	(31,465)
Other equipment	(29,923)	(1,386)	-	-	(31,309)
Furnishings	(51,606)	(2,439)	-	-	(54,045)
Data-processing equipment	(128,193)	(7,411)	-	-	(135,604)
Other PPE	(13,084)	(1,419)	-	-	(14,503)
<b>Total</b>	<b>(254,212)</b>	<b>(12,715)</b>	<b>-</b>	<b>-</b>	<b>(266,926)</b>
<b>Impairment</b>	-	-	-	-	-
<b>Total</b>	<b>76,258</b>	<b>(11,594)</b>	<b>-</b>	<b>-</b>	<b>64,667</b>

### Impairment losses

During the first semester of 2014, the company did not record any losses due to the impairment of its property, plant and equipment.

### Restatements under RD-Law 7/1996 of 7<sup>th</sup> June.

During the first semester of 2014, no revaluations of fixed assets have been recorded.

### Property, plant and equipment located abroad

At June 30<sup>th</sup> 2014, and also for the same period in 2013, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

	6/30/2014			
<b>Fixed assets</b>	<b>Cost</b>	<b>Accumulated amortisation</b>	<b>Impairment</b>	<b>Carrying value</b>
Furnishings	7,001	(5,896)	-	1,105
Data-processing equipment	10,571	(10,571)	-	-
	<b>17,572</b>	<b>(16,467)</b>	<b>-</b>	<b>1,105</b>

	6/30/2013			
<b>Fixed assets</b>	<b>Cost</b>	<b>Accumulated amortisation</b>	<b>Impairment</b>	<b>Carrying value</b>
Furnishings	7,001	(5,112)	-	1,889
Data-processing equipment	10,571	(10,486)	-	85
	<b>17,572</b>	<b>(15,599)</b>	<b>-</b>	<b>1,974</b>

### Capitalised financial expenses

At June 30<sup>th</sup> 2014, no financial expenses associated to property, plant and equipment were capitalised.

### Fully-depreciated assets

At June 30<sup>th</sup> 2014, the Company had fully depreciated assets still in use. Here follows a comparative table for the same period in the previous year.

	6/30/2014	6/30/2013
Machinery	30,811	30,559
Data-processing equipment	110,539	102,852
Furnishings	36,811	31,258
Other PPE	26,367	23,664
	<b>204,528</b>	<b>188,333</b>

### Property, plant and equipment subject to guarantees

At June 30<sup>th</sup> 2014 no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities.

### Assets under operating leases

The income statement includes operating leases on the rental offices in Madrid and Beijing and computer rentals, all of which total EUR 89,331 (EUR 112,719 for the same period in the previous year). At June 30<sup>th</sup> 2014, the Company has not non-cancellable operating leases.

### Insurance

The Company has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

## Grants received in relation to property, plant and equipment

In the first semester of 2014, the company has not received capital grants in relation to property, plant and equipment. The same is true for the same period in the previous year,

## 7. Analysis of financial instruments

### 7.1 Analysis by category

The carrying value of each category of financial instruments set out in the standard on accounting and measurement of “financial instruments”, except for investments in the equity of group companies, jointly-controlled entities and associates (Note 8), is as follows:

		Euro					
		Non-current financial assets					
		Equity instruments		Debt securities		Credit facilities, derivatives, other	
		6/30/2014	12/31/2013	6/30/2014	12/31/2013	6/30/2014	12/31/2013
Available-for-sale financial assets		300	26,383	-	-	-	-
Loans and receivables (Note 11)		-	-	-	-	3,975,990	4,226,132
		-	-	-	-	-	3
<b>Total non-current financial assets</b>		<b>300</b>	<b>26,383</b>	<b>-</b>	<b>-</b>	<b>3,975,990</b>	<b>4,226,135</b>
		Current financial assets					
		Equity instruments		Debt securities		Credit facilities, derivatives, other	
		6/30/2014	12/31/2013	6/30/2014	12/31/2013	6/30/2014	12/31/2013
Assets held for trading		157	164	-	-	-	-
Held to maturity (Note 9)		-	-	-	-	-	-
Loans and receivable (Note 11)		-	-	-	-	3,566,426	2,970,564
<b>Total current financial assets</b>		<b>157</b>	<b>164</b>	<b>-</b>	<b>-</b>	<b>3,566,426</b>	<b>2,970,564</b>
<b>Total</b>		<b>457</b>	<b>26,547</b>	<b>-</b>	<b>-</b>	<b>7,542,416</b>	<b>7,196,699</b>
		Euro					
		Non-current financial liabilities					
		Bank borrowings		Debentures an other marketable securities		Derivatives, other	
		6/30/2014	12/31/2013	6/30/2014	12/31/2013	6/30/2014	12/31/2013
Borrowings and payables (Note 13)		555,917	555,917	2,238,000	2,238,000	4,002,850	4,013,422
<b>Total non-current financial liabilities</b>		<b>555,917</b>	<b>555,917</b>	<b>2,238,000</b>	<b>2,238,000</b>	<b>4,002,850</b>	<b>4,013,422</b>
		Current financial liabilities					
		Bank borrowings		Debentures		Derivatives, other	
		6/30/2014	12/31/2013	6/30/2014	12/31/2013	6/30/2014	12/31/2013
Borrowings and payables (Note 13)		1,294,497	1,296,397	98,472	33,049	5,244,897	5,075,666
<b>Total current financial liabilities</b>		<b>1,294,497</b>	<b>1,296,397</b>	<b>98,472</b>	<b>33,049</b>	<b>5,244,897</b>	<b>5,075,666</b>
<b>Total</b>		<b>1,850,414</b>	<b>1,852,315</b>	<b>2,336,472</b>	<b>2,271,049</b>	<b>9,247,747</b>	<b>9,089,088</b>

At June 30<sup>th</sup> 2014 the Company has a deposit of restricted availability related to the issuance of bonds amounts to EUR 208,937.

Loans and long-term receivables relate mainly to an account receivable from Carears Diapers, LLC regarding the amount of the EUR 3,308,694, and another account receivable from Goldlock Toys Holdings regarding the amount of EUR 272,936, both amounts established as minimum guaranteed in the respective licensing agreements of these two licensees.

As to the amounts corresponding to the minimum guaranteed in the license agreement between the Company and Carears Diapers, LLC, such amounts are recorded in the non-current financial assets of the Company amounting to EUR 3.308,694 and in the current financial assets of the Company amounting to EUR 704,541, according to their maturity. We have to stress that the license agreement was initially signed on June 24, 2012 the deadline date of the first payment was on June 23, 2013. However, because of the delay in product marketing, both parties have agreed in November 18<sup>th</sup> 2013 on the modification of the original contract so the next maturity is due in 2015.

At 30<sup>th</sup> June 2014 the Company finds itself in an arrangement with creditors procedure, and therefore, as discussed in note i2) herein, nearly almost the whole of the Company's liabilities is subject to the arrangement with creditors procedure and so the Company hopes for a positive outcome of the APAC it presented in order to face the payment of the whole of the debt.

## 7.2 Analysis by maturity

The procedure of the arrangement with creditors makes it impossible to analyse liabilities by their maturity since, as it has been mentioned above, out of the total liabilities of the Company, approximately EUR 13,500,000 represents the Company's debt subject to the arrangement with the creditors, the maturity of which shall be determined by the arrangement finally approved.

As to the financial assets they are analysed by maturity as follows:

	Euro							Total
	Financial Assets							
	6/30/2014	12/31/2014	6/30/2015	12/31/2015	2016	2,017	There After	
<b>Investments in group companies and associates</b>								
-Loans and receivables		64,428	61,033	3,591	-			129,052
<b>Total</b>	-	<b>64,428</b>	<b>61,033</b>	<b>3,591</b>	-	-		<b>129,052</b>
<b>Other financial investments</b>								
-Loans and receivables	233,686	1,872,249	1,333,983	299,629	1,906,118	1,745,325	22,374	7,413,364
<b>Total</b>	<b>233,686</b>	<b>1,872,249</b>	<b>1,333,983</b>	<b>299,629</b>	<b>1,906,118</b>	<b>1,745,325</b>	<b>22,374</b>	<b>7,413,364</b>
<b>Total</b>	<b>233,686</b>	<b>1,936,677</b>	<b>1,395,016</b>	<b>303,219</b>	<b>1,906,118</b>	<b>1,745,325</b>	<b>22,374</b>	<b>7,542,416</b>

## 8. Shares in group companies, jointly-controlled entities and associates

### a) Shareholdings in Group companies

The information on group, jointly-controlled and associate companies is detailed below:

Name and address	Legal status	% Interest held		Voting rights	
		Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	100.00%	-	100.00%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Public limited company	100.00%	-	100.00%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	51.00%	-	51.00%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	-	51.00%	-	51.00%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company		51.00%		51.00%
HLT Productions Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	-	51.00%	-	51.00%

On August, 9<sup>th</sup> 2010, the Company made an investment in a group company with the creation of the subsidiary Producciones y Licencias Plaza de España, S.A. de C.V. This subsidiary is located abroad, in Mexico, and its operating currency is the Mexican peso.

A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2<sup>nd</sup> 2011. The company is headquartered in England and its functional currency is the pound sterling.

None of the Group companies in which the Company has an interest is listed on the stock exchange.

Set out below are the figures for capital, reserves, results and other information at June 30<sup>th</sup> 2014:

Equity							
Company	Capital	Reserves	Other	Operating results	FY profit (loss)	Carrying value of the investment	Dividends received
Sonocrew, S.L.	3,006	50,149	-	11,804	8,874	3,006	-

Equity								
Company	Mexican peso					Euro		
	Capital	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the investment	Value adjustments for impairment	Dividends received
Producciones y Licencias Plaza de España, S.A. de C.V.	2,050,000	-	(1,014,276)	(14,366)		72,933	(72,933)	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the investment	Value adjustments for impairment	Dividends received
Cake Entertainment, Ltd	1,230	148,476		(148,850)	26,587	20,206	989,158		-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the investment	Value adjustments for impairment	Dividends received
Cake Distribution, Ltd	222	-	739,769		(415,792)	(356,413)	-	-	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the investment	Value adjustments for impairment	Dividends received
Cake Productions, Ltd	1	-		(67,607)			-	-	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the investment	Value adjustments for impairment	Dividends received
HLT Productions Bv	18,000	-		(8,551)	2,071	2,071	-	-	-

During 2013, the Company has deteriorated 100% of its investment in Producciones y Licencias Plaza de España SA de C.V. At June 30<sup>th</sup> 2014 Producciones y Licencias Plaza de España, S.A. De C.V. is under liquidation.

The company Cake Entertainment Ltd. is the head of a group of companies consisting of three subsidiaries, Cake Distribution Ltd, Cake Productions Ltd. and HLT Productions BV.

It should be stressed that in July 2014 the Company has transferred the whole of its shares in Cake Productions Ltd. to the up to then minority shareholders (see note 28 regarding deeds after the closure.)



## 9. Held-to-maturity investments

At June 30<sup>th</sup> 2014, the Company has not held-to-maturity investments. The same was true for the same period in the previous year.

## 10. Financial Assets at a reasonable value with changes in Income Statement

This heading includes the following items and amounts:

	<i>Euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
Held for trading-listed securities		
SCH bank shares (Note 7)	157	164

The fair value of all equity securities is based on current asking prices on an active market.

The changes to the fair value of assets at fair value with changes in profit and loss during the year are recorded under financial profit/loss on the income statement.

Maximum exposure to the credit risk at the reporting date is the fair value of the assets.

## 11. Loans and receivables

	<i>euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
<b>Non-current loans and receivables</b>		
-Clients, non-current	3,819,673	4,069,891
-Clients, subsidiaries	20,825	54,619
-Non-current deposits	135,493	101,619
<b>Total non-current loans and receivables</b>	<b>3,975,990</b>	<b>4,226,129</b>
<b>Current loans and receivables</b>		
-Loans to associates (Note 26)	-	413,218
-Current account with subsidiaries (Note 26)	-	332
-Current account with related parties	21,491	20,688
-Trade receivables	2,429,639	1,369,027
-Trade receivables subsidiaries	108,227	112,021
-Employees	-	21
-Debtors	24,457	
-Interest in current investments (Note 26)	-	63,448
-Current deposits	234,412	243,609
-Fixed-term deposit	748,200	748,200
<b>Total current loans and receivables</b>	<b>3,566,426</b>	<b>2,970,564</b>
<b>Total</b>	<b>7,542,416</b>	<b>7,196,694</b>

The carrying amounts of loans and receivables are denominated in the following currencies:

	<b>6/30/2014</b>	<b>12/31/2013</b>
Euro	2,434,402	2,429,437
US dolar	4,904,843	4,624,478
Pound sterling	122,915	121,482
Australian dolar	3,486	404
Yuan	9,415	17,467
Other	67,354	3,426
<b>Total</b>	<b>7,542,416</b>	<b>7,196,694</b>

Overdue trade receivables which are less than three months old are not considered to be impaired.

Also, non-current trade receivables item in the interim balance sheet shown client balances with maturity exceeding 12 months from the end of the semester at June 30<sup>th</sup> 2014.

This item of non-current trade receivables includes the valuation at amortised cost balances with a maturity of over one year. This valuation represents a net increase of this caption, and income before taxes of EUR 73,458 compared to the decrease of EUR 452,687 at the end of 2013.

At June 30<sup>th</sup> 2014 the Company has written off receivable accounts since they are considered non-collectable in EUR 7,937. These accounts had been recorded as doubtful at the end of the previous year. At December 31<sup>st</sup> 2013 the Company had written off receivable accounts since they were considered non-collectable in EUR 64,032. These receivables had been provisioned for as doubtful debts in 2012.

The amount of these impaired balances from trade debtors at June 30<sup>th</sup> 2014 has increased to EUR 172,464 (EUR 119,916 at the end of the previous year). The net variation in EUR 52,548 corresponds, on the one hand, to an additional increase of EUR 60,485 that the Company has recorded as doubtful at June 30<sup>th</sup> 2014, and on the other, to a decrease of EUR 7,937 that the Company has considered as non-collectable at the end of this first semester.

The maximum exposure to credit risk at the reporting date is the fair value information for each of the categories of receivables mentioned above. The Company does not hold any guarantee as insurance.

The fair value of financial assets does not differ substantially from the book value.

The Company has been granted a deferment by the General Treasury of the Social Security amounting to EUR 433, 465 euros, which has been secured with the economic rights of three customers. At the year-end, there is an amount of EUR 3,401 within the receivable accounts balance sheet related to these customers.

## 12. Derivative financial instruments

	<i>euro</i>	
	6/30/2014	12/31/2013
Interest rate swaps-clash flow hedges	-	
CAP	-	3
<b>Total</b>	-	<b>3</b>
Less non-current portion	-	3
<b>Non-current</b>	-	<b>3</b>
<b>Current</b>	-	-

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months.

At June 30<sup>th</sup> 2014 the outstanding notional principal from the contracts of rates swap amounted to 200,000 euros.

At June 30<sup>th</sup> 2014 the Company entered into a C.A.P. agreement with a EUR 3,950 premium. This CAP showed a valuation of EUR 0 at that date.

At June 30<sup>th</sup> 2014, the fixed interest rate was 1.95% and the floating rate was 12M Euribor. Gains or loss recorded in equity under "Adjustments for changes in value" on interest rate swaps at June 30<sup>th</sup> 2014 have been transferred to the income statement.

## 13. Creditors and payables

	<i>Euro</i>	
	6/30/2014	12/31/2013
<b>Non-current creditors and payables</b>		
-Bank loans	555,917	555,917
-Participating loans	500,000	500,000
-Other loans	3,135,127	3,145,698
-Debentures and bonds	2,238,000	2,238,000
-Payables transformable into grants	367,724	367,724
<b>Total non-current creditors and payables</b>	<b>6,796,767</b>	<b>6,807,339</b>
<b>Current creditors and payables</b>		
-Bank loans	1,249,860	1,254,490
-Interest debt with banks	44,637	41,906
-Debentures and bonds	98,472	33,049
-Trade creditors	1,918,056	1,360,994
-Trade creditors subsidiaries	412,290	741,382
-Fixed assets creditors	42,904	44,229
-Current account with related parties	25,377	53,096
-Interest debt with related parties	4,003	3,586
-Other debts	2,500,000	2,500,021
-Interest debt	334,650	352,266
-Wages and salaries pending of payment	7,616	20,092
<b>Total current creditors and payables</b>	<b>6,637,866</b>	<b>6,405,111</b>
<b>Total</b>	<b>13,434,633</b>	<b>13,212,450</b>

It should be noted that the classification regarding the long and the short-term debt balance corresponds to the different contracts recorded in the balance of the Company before the voluntary declaration of arrangement with creditors. By the judicial decision dated 7<sup>th</sup> April 2014 this classification is without effect until an arrangement is approved establishing the new maturity dates to the debt.

As discussed in note 2 herein, at June 30<sup>th</sup> 2014, the Company hopes to reach in the coming months a positive solution to the APAC presented. The approval of the APAC will allow the Company overcoming the present circumstances it is going through and thus satisfy its creditors according to the conditions in the said APAC (note 28).

The carrying value of non-current loans is close to fair value, given that the future cash flows derived from the repayment of the loans includes market rate interest.

The carrying amounts of current payables approximate their fair values, since the effect of discounting is immaterial.

Maturity of bank borrowings as it has been above-mentioned are subject to the arrangement to be approved by the creditors. At the end of the previous year the interest rates were between 2% and 6%.

Under the caption “Other loans” are mainly found the funds from the Ministry of Industry, Energy and Tourism regarding the grants corresponding to the call for the “Strategic Action for Telecommunications and Information Society”, annuity 2012, within the sub-Programme “Competitiveness, R+D”, and to the call “Strategic Action for Telecommunications and Information Society”, annuity 2013, under the sub-programme “Strategic Action for Digital Economy and Society”.

The carrying amounts of the Company’s payables are denominated in the following currencies:

	<i>Euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
Euro	12,773,310	12,645,723
US dolar	639,034	545,812
Pound sterling	16,278	14,944
Yuan	6,011	5,971
<b>Total</b>	<b>13,434,633</b>	<b>13,212,450</b>

a) Bank borrowings

The details of the Company's balances with credit institutions at June 30<sup>th</sup> 2014 are as follows:

	<i>Euro</i>		
	<b>Non-current balance</b>	<b>Current balance</b>	<b>Total</b>
Loans	555,917	1,249,860	1,805,777
<b>Total loans</b>	<b>555,917</b>	<b>1,249,860</b>	<b>1,805,777</b>

	<i>Euro</i>		
	<b>Non-current balance</b>	<b>Current balance</b>	<b>Total</b>
Interest on current bank borrowings	-	44,637	44,637
<b>Total interest on current bank borrowings</b>	<b>-</b>	<b>44,637</b>	<b>44,637</b>
<b>TOTAL</b>	<b>555,917</b>	<b>1,294,498</b>	<b>1,850,414</b>

Among the bank borrowings there is a mortgage loan that the Company holds with a bank, which amounts to EUR 310,000 guaranteed by a land plot owned by Finantip, S.L. The sole shareholder of Finantip, S.L. is Jomaca 98, S.L.

b) Participating loans

The Company has a participative loan agreement amounting to 500,000 euros that generates an annual interest rate which is calculated on an annual nominal rate basis resulting from the percentage of before-tax results on the average shareholders' equity for the year, both referred to the year in which interest rate is to be settled; once such percentage has been determined, the percentage points expressing the first tranche will be subtracted; the difference will result in the annual nominal rate to be applied in the settlement of the interest payable on the second tranche. In the event of a negative percentage, the variable rate is 0%. Once the Company is under the procedure of arrangement with creditors, and according to the insolvency regulations, the accrual of interest rates of any debt prior to the date of judicial decision has been suspended.

Amortisation shall be recorded in the arrangement with creditors that will be finally approved (note 28).

c) Fixed income securities issue

On November, 11<sup>th</sup> 2010, the Company issued debt securities pursuant to the terms of Stock market Act 24/1988 of July, 28<sup>th</sup> and the regulations that developed the law.

The conditions of the issue are as follows:

Number of securities	2.238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	9.75%
Amortisation of securities	11/12/2013
Amortisation system	Par

As stated in note 2.I.1) herein, after the failure of the new debt issue, for the explained reasons, and given the manifest impossibility to meet the coming debt repayment milestones, as the amortization to maturity of the debenture bond issue "Debentures Simple Zinkia 1st issue" was to mature in November 2013, the Company requested, in October 31, 2013, the legal procedure under art. 5bis of the Insolvency Act in order to renegotiate these conditions and reach a new agreement that would allow the full repayment of the bonds.

Thus, on December 9, 2013, the General Assembly of Bondholders "Debentures Simple Zinkia 1st issue" approved the modification of the Final Payment Conditions for the "Debenture Simple Zinkia 1st Issue" according to the following terms:

Number of securities	2.238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11.00%
Amortisation of securities	11/12/2015
Amortisation system	Par

Finally, and such as it has been stated in note 2i.1) the Company has submitted an application for voluntary arrangement with creditors. And therefore these conditions are left void and null, and shall depend on the conditions established in the arrangement to be approved. The Company has submitted an Advanced Proposal of Arrangement with Creditors that bondholders have adhered when the majorities required by law were achieved, the Proposal must be approved, as appropriate, by the Insolvency Administrator and the competent judge (Note 28).

#### **Current accruals and deferred income**

This amount arises in 2012 following the contract signed for development of content in educational *apps* concept. In October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the company incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. At June 30<sup>th</sup> 2014 revenues were recorded in the income statement amounting to EUR 338,702 (EUR 1,248,256 at 2013 year end).

#### **14. Cash and cash equivalents**

At June 30<sup>th</sup> 2014, the Company's cash situation was as follows:

	<i>euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
Cash at bank and in hand	965,761	903,439
Other cash equivalents	279	139
<b>Total</b>	<b>966,040</b>	<b>903,578</b>

## 15. Capital and share premium

### a) Capital

	<i>Euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
Registered capital (Uncalled capital)	2,445,677	2,445,677
<b>Total</b>	<b>2,445,677</b>	<b>2,445,677</b>

At June 30<sup>th</sup> 2014 the registered capital consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

At June 30<sup>th</sup> 2014, the share capital was broken down as follows:

<u>Shareholder</u>	<u>% Interest</u>
Jomaca 98, S.L.	64.71%
Miguel Fernando Valladar	11.20%
Stock market and other	22.94%
Treasury shares	1.15%
<b>Total</b>	<b>100.00%</b>

The Company's shares are listed on the Alternative Investment Market (Mercado Alternativo Bursátil- MAB). Once the Company is under the procedure of arrangement with creditors, this quotation was suspended temporarily.

### b) Share premium account

This reserve is freely available for distribution.

	<i>Euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
Share premium	9,570,913	9,570,913
<b>Total</b>	<b>9,570,913</b>	<b>9,570,913</b>

This caption also reflects, both in 2013 as at 30<sup>th</sup> June 2014, the merger premium generated in 2004 as a result of the merger by absorption of the companies Gamecrew, S.L. and Motioncrew, S.L. in the amount of EUR 118,100.25

## 16. Reserves and prior-year results

### a) Reserves

	<i>Euro</i>	
	6/30/2014	12/31/2013
<b>Legal and statutory</b>		
-Legal reserve	330,475	330,475
<b>Total legal reserve</b>	<b>330,475</b>	<b>330,475</b>
<b>Other reserves</b>		
-Voluntary reserve	1,689,018	1,689,018
-Reserves for other adjustments	(1,101,070)	(1,101,070)
<b>Total other reserves</b>	<b>587,948</b>	<b>587,948</b>
<b>Total</b>	<b>918,423</b>	<b>918,423</b>

### b) Legal reserve

The legal reserves are funded in compliance with Article 274 of the Spanish Companies Act, which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

## 17. Treasury shares

At June 30<sup>th</sup> 2014, the Company has not carried out any transactions with its own shares.

At the end of 2013 the movements were as follows:

	<i>Euro</i>	
	12/31/2013	
	Number of shares	Euro
Starting balance	281,503	403,841
Additions	347,554	404,187
Disposals	(347,554)	(404,187)
<b>Ending balance</b>	<b>281,503</b>	<b>403,841</b>

The treasury stock held by the Company at At June 30<sup>th</sup> 2014, represented approximately 1.15% (1.15% at December, 31<sup>st</sup> 2013) of the share capital with a nominal value of EUR 28,150 (EUR 28,150 at December, 31<sup>st</sup> 2013) and an average acquisition price of EUR 1.09 (EUR 1.09 at December, 31<sup>st</sup> 2013) per share. Also, the average selling price of the treasury stock held by the Company at June 30<sup>th</sup> 2014 was 1.75 euros per share (1.75 euros at 31 December 2013).



## 18. Profit/(loss) for the period

### a) Profit /(loss) for the period

The profit/loss for the interim period corresponding to the first semester of 2014, compared to the same period in the previous year is as follows:

	<i>Euro</i>	
	6/30/2014	6/30/2013
<b>Available for distribution</b>		
Profit/(loss) for the year	(363,330)	(850,156)
<b>Total</b>	<b>(363,330)</b>	<b>(850,156)</b>

## 19. Based payment transactions in equity instruments

### a) Transactions with senior management and members of the Board of Directors

On October 10<sup>th</sup>, 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo Bursatil–MAB) which reported on the Long-term Variable Compensation Plan according to resolution of the Board of Directors.

This plan provides delivery of shares to senior management and members of the Board of Directors. The characteristics and conditions are as follow:

- The aggregate number of shares that all beneficiaries of the plan shall be entitled to will be of 1,200,000 shares.
- The plan will be 5 year-long, and its beneficiaries will be entitled to receive annually 20% of total shares to which they were entitled.
- Shares shall be delivered under the condition that at the time of execution of the plan, the value of the stock has been appreciated by at least 30% of the value of share price as of June, 30th, 2011. In addition, the Company shall have obtained during the previous year distributable profits that will afford by exclusively charging 30% thereof and subject to the availability of sufficient liquidity at that time, responding to the acquisition of shares. The delivery of shares corresponding to each beneficiary in terms of compliance with the established indicators can be made, in the opinion of the Board, by delivery of shares and delivery of the monetary equivalent of the combined value of trading for same at the time of execution.

At June 30<sup>th</sup> 2014, there were no conditions mentioned above to implement the plan, so no need to record both the good or services received as an increase in equity.

## b) Other share based payment

On March 11<sup>th</sup> 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo Bursatil –MAB) which reported signing a loan with a private institution for amount of euro 2,500,000. In the loan agreement signed by both parties set out the compulsory purchase of own shares by the Company amounting to euro 300,000, must provide, upon maturity of the loan- February 14<sup>th</sup> 2014- the amount of euro 2,200,000 plus shares acquired with the above euro 300,000.

In the event that the value of the shares, at that date, is less than that amount, the Company undertakes to cover the difference in share or cash.

The Company bought own shares amounting to EUR 300,000 in accordance with the agreement. These own shares are registered in a separate account decreasing company net equity. In the balance sheet are valued at weighted average price. In the event that the value of the shares, at that date, is less than that amount, the Company undertakes to cover the difference in share or cash.

Concerning this operation, the number of shares purchased amounts to 206,881, and their market value at June 30<sup>th</sup> 2014 was EUR 99,303 and EUR 148,954 at year-end 2013.

However, as stated in the contract, the Company will cover the difference in shares or cash.

## 20. Capital grants received

Below is a breakdown of the non-repayable capital grants included in the balance sheet item "Grants, donations and bequests received":

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	11/6/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	60,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2012	11/7/2012

Movements of these grants were as follows:

	<i>Euro</i>	
	<b>6/30/2014</b>	<b>12/31/2013</b>
<b>Opening balance</b>	154,515	130,978
Increases		64,086
Release to income		(16,342)
Other decreases		(24,206)
<b>Closing balance</b>	<b>154,515</b>	<b>154,515</b>

The Company has not received any capital grants during the first semester of 2014.

The Company has received in 2013 capital grants for the development of Moving Pocoyo project amounting to EUR 35,750 and for the development of the Croupier Zinkia project amounting to EUR 48,777. These grants are subject to compliance with certain requirements imposed to the Company by the corresponding Ministry granting each aid, so as a precaution, no such amounts are charged to equity until these requirements are not met and may be therefore be considered as non-refundable. On the other hand, the Company has received notification of the full recognition as subsidy from the Ministry of Education, Culture and Sport, of a grant amounting to EUR 60,000 that had been granted in 2012 to the Company for the development of the project Zinkia family & Kids IPTV. Thus this grant is now considered non-refundable, so this is the only sum charged to the assets of the Company during the year, net of the tax effect.

The Company meets the requirements to be considered as non-repayable grants. Grants are transferred to the profit and loss account according to the amortisation of the projects funded.

## 21. Balance with the Public Administration and Deferred taxes

Set out below is an analysis of balance with the Public Administration:

<i>Euro</i>	6/30/2014		12/31/2013	
	Debtors	Creditors	Debtors	Creditors
<b>Tax Authorities Balance</b>				
VAT	50,344	78,185	42,935	-
Withholding	2	232,058	2	128,467
Grants	-	8,449	-	152,597
Other	-	2,083	-	-
<b>Social Security Balance</b>				
Operating expenses	-	114,151	-	43,059
Short term deferment	-	61,025	-	80,970
<b>Total</b>	<b>50,346</b>	<b>495,951</b>	<b>42,937</b>	<b>405,093</b>

The credit balance with the tax office (Agencia Tributaria) regarding VAT corresponds to the amendment invoices issued by our creditors in order to recover the VAT when those debts had not been paid by the Company at the date of the Judicial decision of voluntary arrangement with creditors. Those amendment invoices received by the Company have generated a balance in favour of the Agencia Tributaria amounting to EUR 78,185 subject to the arrangement with the creditors.

As to withholding taxes, the credit balance in favour of Agencia Tributaria amounts to EUR 118,587 regarding those withholding taxes generated during the first semester in 2014, which the Company has not been allowed to pay to the tax office in accordance with the insolvency regulations since such amount was generated prior to the declaration of voluntary arrangement with creditors by the Company. The rest of the amount corresponds to the withholding taxes generated during the second quarter of 2014, which were paid in July 2014.

As to the current social security costs, the credit with the Social Security amounts to EUR 64,311 generated during the first quarter in 2014, which the Company has not been allowed to pay to the Social Security in accordance with the insolvency regulations since such amount was generated prior to the declaration of voluntary arrangement with creditors by the Company. The rest of the amount corresponds to the social security costs taxes generated during the second quarter of 2014, which were paid in July 2014.

## a) Deferred taxes

Deferred taxes are detailed as follows:

<i>Euro</i>	Additions and disposals 06/30/2014	Additions and disposals 2013	Prior years	Total
Tax credits for tax-loss carryforwards	(349,154)	701,564	1,393,360	1,745,770
Other tax credits	(2,028)	191,879	3,032,400	3,222,251
<b>Deferred tax assets</b>	<b>(351,182)</b>	<b>893,443</b>	<b>4,425,759</b>	<b>4,968,021</b>
Temporary differences related to income recognized directly in equity	-	(10,915)	(43,660)	(54,575)
Temporary differences-amortisation	-	(2,386)	(18,627)	(21,013)
Reversal of temporary differences-amortisation	-	4,894	6,698	11,592
<b>Deferred tax liabilities</b>	<b>-</b>	<b>(8,407)</b>	<b>(55,588)</b>	<b>(63,995)</b>
<b>Deferred tax</b>	<b>(351,182)</b>	<b>885,036</b>	<b>4,370,171</b>	<b>4,904,026</b>

Deferred tax assets and liabilities are offset if at the time the Company has an enforceable right to offset the amounts recognised and intends to settle the net amount, or to realise the asset and settle the liability simultaneously.

Movement of deferred taxes has been as follows:

	<i>Euro</i>	
	6/30/2014	12/31/2013
<b>Opening balance</b>	<b>5,255,208</b>	<b>4,370,171</b>
Tax effect on income recognizes directly in equity	-	(10,915)
Charged to the income statement (Note 23)	(351,182)	895,951
<b>Closing balance</b>	<b>4,904,026</b>	<b>5,255,208</b>

Deferred tax assets arising from tax loss to carry-forwards are recorded to the extent that the realisation of the related tax benefit through future taxable profits is probable. The business evolution and the present Financial Interim Statements are in line with both the Viability Plan elaborated by the Company, and with the business expectations for the coming years. In this sense, the Company is accomplishing with its forecasts, and therefore there is no evidence whatsoever that might call the Company into question as to its capacity to create the future profits necessary to afford the recovery of the said tax credits.

As a consequence of the explanation in note 28 herein, which refers to the events after the date of presentation of the present Interim Financial Statements, at June 30<sup>th</sup> 2014 the basis recorded at the previous year-end at 25% have reverted to 30%, which means an additional negative adjustment of EUR 349,154 in order to record at 25% the tax credits, as it was previously recorded because the exit of Cake of the group represents a change in the forecasts of the taxable rates of the Company, which leads the Company to estimate that this 25% tax rate will be compensated in the future. This adjustment in the rates brings on a loss of EUR 2,028 on the deferred assets which is caused by the pending tax deductions and credits which should be applied in order to record this asset at 25%. The taxable bases pending of compensation at June 30<sup>th</sup> 2014 totalled EUR 6,983,072.

b) Other tax receivables and payables

At June 30<sup>th</sup> 2014, the Company has been granted a deferment by the Social Security General Treasury, related to social security contributions. The pending receivable amounts to EUR 300,788 and they are classified in the balance as non-current liabilities or current liabilities depending on their date of maturity being longer or shorter than one year according to the original conditions of deferment. However, since the Company started the arrangement with creditor procedure, such conditions are null and void until the arrangement with the creditors establishes the new conditions (Note 28).

As stated in note 11 herein, the Company has pledged as security for such postponement, the economic rights of three clients. At June 30<sup>th</sup> 2014, there is an amount of EUR 3,401 in the account of receivables related to these customers.

**22. Income and expense**

a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

<i>Euro</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Sales	1,689,858	1,330,380
Services rendered	176,756	202,113
<b>Total</b>	<b>1,866,614</b>	<b>1,532,493</b>

The breakdown of the exchange rate differences is as follows:

<i>Euro</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Arising during the year	(18,026)	(543)
Arising for closing balance	56,173	(14,797)
<b>Total</b>	<b>38,147</b>	<b>(15,340)</b>

b) Turnover

Revenues from the Company's ordinary activities may be analysed geographically as follows:

<i>Market</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Domestic	24%	26%
International	76%	74%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Similarly, net turnover can be analysed by product line as follows:

<i>Line</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Content	27%	43%
Licensing	42%	15%
Advertising	30%	42%
<b>Total</b>	<b>100%</b>	<b>100%</b>

c) Raw materials and consumables

All of the work done by other companies, particularly with regard to scriptwriting, recording, etc., is recognised under the heading of "raw materials and consumables":

<i>Euro</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Raw materials and consumables	68,606	16,289
<b>Total</b>	<b>68,606</b>	<b>16,289</b>

d) Other operating expenses

The caption titled "other operating expenses" comprises the following items:

<i>Euro</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Leases	89,331	112,719
Repairs	4,946	7,518
Independent professional services	694,455	827,704
Insurance	18,395	21,029
Bank fees	24,374	19,797
Advertising and public relations	69,472	77,456
Utilities	21,717	24,667
Other general expenses	78,189	135,405
Other taxes	3,141	360
Impairment losses on commercial transactions	60,467	23
Losses on commercial transactions	8,122	-
Reversal of impairment losses on commercial transactions	(7,919)	-
<b>Total</b>	<b>1,064,689</b>	<b>1,226,679</b>

e) Staff expenses

<i>Euro</i>	<b>6/30/2014</b>	<b>6/30/2013</b>
Wages, salaries and similar remuneration	961,438	777,071
Social Security	250,323	214,457
Other expenses	1,157	956
<b>Total</b>	<b>1,212,918</b>	<b>992,484</b>

The average number of employees by category during the period was as follows:

CATEGORY	Average number of employees	
	6/30/2014	6/30/2013
5-YR DEGREE HOLDER	22	19
3-YR DEGREE HOLDER	4	4
SR.MANAGER	2	5
MANAGER 2	3	2
OFFICIAL 1	8	8
OFFICIAL 2	1	1
ASSISTANT	2	2
OPERATOR	8	2
GRANT HOLDER	1	0
CHARWOMAN	1	
<b>Total</b>	<b>52</b>	<b>44</b>

The distribution of the Company's personnel at 30<sup>th</sup> June 2014 by gender and category is as follows:

CATEGORY	6/30/2014		6/30/2013	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	6	17	7	15
3-YR DEGREE HOLDER	3	1	4	1
SR.MANAGER	2		4	1
MANAGER 1		1		
MANAGER 2	2	1	2	
OFFICIAL 1	7	1	7	
OFFICIAL 2	1		1	
ASSISTANT		3		2
OPERATOR	6	2	3	1
GRANT HOLDER	1			2
CHARWOMAN		1		
<b>Total</b>	<b>28</b>	<b>27</b>	<b>28</b>	<b>22</b>

### 23. Corporate income tax and tax situation

The reconciliation between net income and expense at June 30<sup>th</sup> 2014 and the taxable base is set out below:

Income/expense for the year	Income statement		Income and expense recognised directly in equity		Euro
	Increases	Decreases	Increases	Decreases	
Corporate Income Tax	351,182		351,182		
Permanent differences	28,964	-	28,964		
Temporary differences:					
arising during the year	-	-	-	(3)	-
arising from previous years	-	-	-	-	-
Offsetting tax-loss carryforwards					
<b>Taxable base (tax result)</b>			<b>16,815</b>		

The permanent differences amount to EUR 28,964 and include the tax on profits paid abroad in the first semester of 2014. The rest of the variations correspond to deferred assets as explained in note 21 herein.

The reconciliation for the same period in the previous year was set out as follows:

Income/expense for the year	Income statement		Income and expense recognised directly in equity		Euro
	Increases	Decreases	Increases	Decreases	
Corporate Income Tax	40,250	(269,969)	(229,719)		
Permanent differences		-	-		
Temporary differences:					
arising during the year	-	-	-	151	151
arising from previous years	-	-	-	-	-
Offsetting tax-loss carryforwards					
<b>Taxable base (tax result)</b>			<b>(1,079,875)</b>		

Income tax expense in the first semester 2014 is analysed below:

	Current year tax	Income tax paid abroad	Change in deferred tax				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	Tax credits for tax-loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement	-	(28,964)	-	(349,154)	(2,028)	-	(380,145)
To continuing operations	-	(28,964)	-	(349,154)	(2,028)	-	(380,145)
<b>Total</b>	-	<b>(28,964)</b>	-	<b>(349,154)</b>	<b>(2,028)</b>	-	<b>(380,145)</b>

Income tax expense for the same period in the previous year was:

	Current year tax	Income tax paid abroad	Change in deferred tax				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	Tax credits for tax-loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement	-	(40,250)	-	269,969	-	-	229,719
To continuing operations	-	(40,250)	-	269,969	-	-	229,719
<b>Total</b>	-	<b>(40,250)</b>	-	<b>269,969</b>	-	-	<b>229,719</b>

At June 30<sup>th</sup> 2014 the Company capitalised deductions in the amount of EUR 7,954,808 (EUR 6,983,075 at December 31<sup>st</sup> 2013 (note 21a).



At June 30<sup>th</sup> 2014 the Company's corporate tax returns for the years 2009 to 2012 were open to inspection, as were its tax returns for VAT, withholding taxes, business tax, capital gains tax and non-resident tax returns for the years 2010 to 2013.

The Company estimates that tax credits will be recovered within a period not exceeding 10 years.

## **24. Risks**

At June 30<sup>th</sup> 2014 the Company has not recorded any amount under this caption. The reasons for this lack of record of such provisions is the advice of our legal department as well as that of the external law firm office in charge of the demands, since they estimate the risk taken by the Company is low. At the time of preparation of these interim financial statements, it is not possible to know the final economic consequences, if any, of these events.

## **25. Director and senior management compensation**

### **a) Remuneration of the members of the Board of Directors**

In the first semester of 2014, the members of the Board of Directors received no remuneration for sitting on the Board.

In the first semester of 2014, like for the same period in the previous year, no contributions were made to pension plans or funds for former or current members of the Company's Board of Directors. No such obligations were incurred during the year.

The members of the Company's Board of Directors have received no remuneration in respect of profit sharing or premiums. They received no shares or stock options during the year and nor have they exercised any options and nor do they have any options to be exercised. The Company has undertaken with the members of the Board, a plan for long-term variable remuneration consisting of the delivery of shares. (Note 19)

### **b) Compensation and loans to senior management personnel**

In the first semester of 2014, the compensation received by other senior management personnel different than the members of the Board of Directors of the Company has amounted to EUR 100,994. In 2013, and for the same period, their gross wages totalled EUR 177,403. The number of senior management staff has been significantly reduced compared to the previous year in the same period.

We must underline the existence of special exit clauses set out in a private agreement supplementary to the labour contract. In this regard, the compensation of such employees could amount to 24 months' salary, additional and regardless of the legal compensation due per year worked, if any of the conditions contained in these documents should occur.

c) Shareholdings and directorships held by board members in companies with identical or similar business activities

Article 229, paragraph 2 of the Spanish Capital Companies Act, as worded in Law 26/2003 (July 18<sup>th</sup>), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies, obliges Board directors to inform the company of any shareholdings in companies engaged in activities that are the same as or similar or complementary to the company's corporate purpose, any offices or duties performed in such companies, and any activities that are the same as or similar or complementary to the company's objects, carried out for their own account or for the account of third parties.

To this end it is noted that the positions held by the members of the Board of Directors on the governing bodies of other group companies are as follows: Mr. José María Castile Oriol is the Director of the company Sonocrew, S.L. and is also a member of the Board of Directors of Cake Entertainment Ltd, a Group company. These positions in Group companies are unremunerated. Additionally, the director Mr. José Carlos Solá Ballester is administrator and main shareholder of an audiovisual producer called Cien por Cien Cine, S.L.

The other members of the Board of Directors do not participate in other companies with similar or complementary type of activity that constitutes the object of the Company.

## 26. Other related-party transactions

The transactions set out below were carried out with related parties:

<i>Euro</i>	6/30/2014		6/30/2013	
	Expense	Income	Expense	Income
José María Castillejo Oriol	115,000	-	-	-
Jomaca 98, S.L.	-	-	-	15,582
Sonocrew, S.L.	511	11,062	-	21,618
Roatán Comunicaciones	59,183	-	-	-
Armialda, S.A.	25,000	-	100,000	-
Other related parties	123	-	2,348	-
Cake Distribution, Ltd	4,997	15,376	40,848	99,460
<b>Total</b>	<b>204,813</b>	<b>26,438</b>	<b>143,196</b>	<b>136,660</b>

The income invoiced by Sonocrew, S.L. (Company in charge of managing the musical contents of Zinkia's productions) and Cake Distribution (Company in charge of distributing content) are generated by their business activities.

On the other hand, the expenses amounting to EUR 511 accrued in favour of Sonocrew due to the reciprocal credit line agreement signed by and between the parties.

As for expenses breakdown in Roatan, Armialda and José María Castillejo, they correspond to advisory services in the field of communication, the former, and business consultancy, the latter.

Expenses amounting to EUR 4,997 accrued favour of Cake Distribution are derived from their commissions coming from their business activity.

Transactions with related parties are made on normal commercial terms and market conditions.

### Closing balances with related-parties

<i>Euro</i>	<b>6/30/2014</b>		<b>12/31/2013</b>	
	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b><i>Current account with subsidiaries</i></b>				
<i>Sonocrew, S.L.</i>	-		139	
<i>Producciones y Licencias Plaza de España, S.A. de C.V.</i>	-		193	-
<b><i>Current account with related parties</i></b>	<b>21,491</b>		<b>20,688</b>	
<b><i>Long-term trade receivable</i></b>				
<i>Cake distribution, Ltd</i>	20,825		54,619	-
<b><i>Trade receivable</i></b>				
<i>Sonocrew, S.L.</i>	13,103		25	
<i>Cake distribution, Ltd</i>	95,124		111,996	
<i>Cake Entertainment, Ltd</i>				
<b><i>Trade payable</i></b>				
<i>Roatán Comunicaciones</i>		44,858		-
<i>Roatán Comunicaciones</i>		76,907		59,926
<i>Armialda</i>		250,444		333,287
<i>Jomaca 98, S.L.</i>		-		-
<i>Cake Entertainment, Ltd</i>		11,711		11,634
<i>Cake Distribution,</i>		28,370		43,674
<b><i>Short-term credits</i></b>				
<i>Jomaca 98, S.L.</i>	-		476,666	
<b><i>Short-term loans</i></b>				
<i>Other related parties</i>				27,927
<b><i>Long-term loans</i></b>				
<i>Other related parties</i>		29,381		28,755

Jomaca 98, S.L, as majority shareholder, had granted guarantees to the Company against financial creditors. Such guarantees are null and void because Jomaca 98, S.L. Is currently under voluntary procedure of arrangement with creditors.

The Company has decided to recognise 100% impairment on the guarantee granted by Jomaca, since the loan matured last December 31<sup>st</sup> 2013, because of Jomaca's insolvency, and because the Company, in its turn, turned also insolvent under the procedure of arrangement with creditors. Such guarantee accrued a rate of 7,5% payable at maturity. The amount of the accrued interest was also 100% impaired. This impairment brings a lost on the Company's balance result of EUR 476,666.

## **27. Environmental information**

All operations designed mainly to minimise environmental impacts and protect and improve the environment are deemed to be environmental activities.

In the first semester of 2014, there were no major environmental expenditures.

## 28. Events after the balance sheet date

The Company, with the authorisation of the Insolvency Administrator, has transmitted the total of its shares in Cake Entertainment, Ltd. to the up to the minority shareholders of said Company. The transmission of those shares (which represented a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of “Deadlock Notice”, stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, Zinkia's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's share holders.

Cake's minority share holders, considered the Company's situation, had attempted previously to buy Zinkia's shares. That offer was rejected by the Company for it was considered to be completely out of the market.

The Company, considering such offer, and in order to protect the value of its assets, considered as a good option acquiring the remaining shares of Cake Entertainment from its minority share holders. Yet the Company's current situation made it impossible for it to offer a reasonable price to the minority share holders for their corresponding shares in Cake Entertainment. The acquisition offer that Zinkia was able to offer to Cake's minority share holders without risking its commitments of future payments was under the reasonable price of such shares. Given that this “Deadlock Notice” makes offers binding for the parties, the minority share holders of Cake Entertainment increased the value of the offer until it overpassed slightly the amount offered by the Company.

All things considered, the situation was analysed and both Zinkia and its Insolvency Administrator considered that accepting the offered launched by the minority share holders guaranteed in the best possible way the rights of Zinkia's creditors as well as those of the very insolvent Company, since:

- The increase in the offer of the minority share holders and the current insolvency situation together with the current insolvency situation and other considerations stated further on, it was considered that the income in the cash-flow of the amount offered by the minority share holders was less risky for the creditors of Zinkia and for Zinkia itself, of all possible scenarios and, as a consequence, the offer was accepted (the acceptance always subject to a possible judicial intervention).
- The “Deadlock” process could only end with the acquisition or a sale of the shares that day, according to the best offer. The process, according to English law it is binding and cannot be stopped.
- It was not possible matching the conditions of the offer launched by the minority shareholders.
- The non-acceptance of the minority shareholders offer would have led Zinkia to a scene of absolute uncertainty wherein its cash-flow could have been seriously at risk and so would its future viability.

Thus, Zinkia has transmitted the whole of its shares in Cake Entertainment, Ltd. to the up to then minority shareholders. The transmission of such shares (which represented a majority percentage of 51%) represents for the Company a loss of approximately EUR 360,000.

Having in consideration the insolvency situation of Zinkia, the Company, together with the Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

As relevant events after the date of the present Interim Financial Statements additional to the events above-mentioned to which refers this memoir, we should stress that at July 14<sup>th</sup> 2014 the Insolvency Administration has presented before the Court of Mercantile nº 8 of Madrid its own report as well as the report on the content of the Advanced Proposal of Arrangement with Creditors together with the Payments Plan and the Viability Plan which underpin the Advanced Proposal, and his opinion was positive on all of them.

### **29. Auditors' fees**

The professional fees of Garrido Auditores, S.L. for auditing individual and consolidated interim financial statements for the Company at June 30<sup>th</sup> 2014 totalled EUR 8,072 (EUR 9.347 for the same period in the previous year).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. amounted to EUR 17,008 (EUR 19,044 in the same period last year).

### **30. Other disclosures**

The Group is controlled by Jomaca 98, S.L., which owns 64.71% of the Company's shares, the largest amount possessed by any shareholder.

The parent company, which files its accounts with the Madrid Business Register, has claimed the exemption detailed in article 43 of the Commerce Code and does not file consolidated annual accounts.

JOMACA 98, S.L has filed for voluntary insolvency.

### **Impact of International Financial Reporting Standards in the Interim Financial Statements**

Article 537 of the of the Corporate Enterprises Act provides that, the companies which have issued securities admitted to trading on a regulated market of any Member State of the European Union and, according to current regulations, only publish Interim Financial Statements, must inform in the Notes of the main variations that would arise in equity and the profit and loss account if they had applied the International Financial Reporting Standards adopted by the European Union Regulations (IFRS-EU) indicating the evaluation criteria applied.

The Company, in the current period, is submitting interim consolidated financial statements, so all the above does not apply.

### **Information on the deferred payments to suppliers. Third additional provision of Law 15/2010 of July 5<sup>th</sup> on the “Duty to Inform”:**

Pursuant to the terms of this law, we should stress that approximately 87% of the trade credits recorded in the balance of the Company at 30<sup>th</sup> June 2014 correspond to the insolvency debt, the payment of which must await the approval of the arrangement with the creditors which is to fix the different maturities. For this reason we cannot apply the analysis of period payment required under this caption. As to the remaining 13% of the trade creditors that are part of the balance, we have to stress that they correspond to recurring services for the current period and aimed at the business of the Company and the payment of which shall not exceed the legal term.

During the first semester in 2014 the Company has paid trade creditors up to EUR 976,056, out of which 28% exceeded the legal term established. The weighted average term of exceeded payment is 183 days.

The Company at the previous year-end had a balance payable to suppliers in the amount of EUR 1,502,342. During that year, the Company made payments to suppliers amounting to EUR 3,192,890, out of which 48% exceeded the legal limit. The weighted average term of payment amounts to 293 days.

### **Issuance of American Depositary Receipts (ADRs) on shares of the Company**

On November 10<sup>th</sup> 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain’s Alternative Investment Market (Mercado Alternativo Bursatil–MAB) which reported on the approval by Securities Exchange Commission (SEC) of USA for the issuance of American Depositary Receipts (ADRs) on shares of the Company bound for placement among U.S. investors. Each ADR representing 5 shares of the Company. This transaction did not increase in capital or increase funding for the Company to be made with shares already issued.

### **31. Guarantees**

At June 30<sup>th</sup> 2014, the Company has the following guarantees:

Two from Avalmadrid SGR amounting each to EUR 200,000 and EUR 2,000,000, both are guaranteeing the loans taken with a financial entity for the same amounts (Note 13).

The third guarantee taken with another financial entity amounts to EUR 748,198, whose funds to pledge have been deposited by the Company. This guarantee was required by the Ministry of Industry, Energy and Tourism in order to obtain funds from the Avanza programme (Note 13).

Also, the Company has deposited EUR 135,493 in cash, at the General Deposit Bank as a guarantee for the Ministry of Industry, Energy and Tourism who required it in order for the Company to obtain the grant for the call "Strategic Action Plan for Telecommunications and Information Society "2013 annuity, within the sub-program" Strategic Action Plan for Digital Economy and society" (Note 13).

### **32. Signed Interim Financial Statements**

These Interim Financial Statements are signed by the members of the Board of Directors.

**ZINKIA ENTERTAINMENT, S.A.**  
**DIRECTORS' REPORT CORRESPONDING TO THE FIRST SEMESTER OF 2014**

**Business Performance and Company Situation**

The current tension in the financial markets resulting from the current economic downturn has adversely affected the economic activity around the world and Spain in particular. The Company is conditioned by some of the trends that have taken place in the Spanish and international economy in recent years and the revenue from most of its products depend essentially on the state of markets and economies. These trends, among which we must include the slowdown in consumption and the limited bank funding, have affected sales of the products on offer. The global economic crisis and the current adverse market situation in recent years has made it very difficult and burdensome for any operator to access credit. For the Company, this situation has worsened even further due to the existing difficulties in order to generate the cash flows necessary to meet the payment of its debts in the short term.

Zinkia has been working for more than two years in finding appropriate funding sources, analysing all possible alternatives to generate additional liquidity, so that the financial resources will be generated in order for the Company to be capable of meeting all of its commitments and of undertaking the investment projects in the Business Plan. Zinkia conducted the launch of two debt issues authorized by the National Securities Market Commission in 2013, in July and October. In absence of alternative sources of funding and given the outcome of the above referred debt issues, the Company was not capable of facing the milestones of the debt repayment at the end of 2013 and early 2014.

With the aim of protecting the assets of the company and in order to allow the Company to continue with business as usual under the legal umbrella of protection, Zinkia filed on October 31, 2013, the legal procedure under art. 5bis of the Insolvency Act in order to renegotiate and continue negotiations with all the different creditors of the parent company.

During the process of debt negotiation with creditors, a refinancing agreement was reached with Bondholders, and main Financial Institutions and Trade creditors, yet ultimately no satisfactory agreement was reached with a private entity, holder of a loan to the Company amounting to 2.5 million euros.

Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors last February 26, 2014.

On the 07<sup>th</sup> April 2014, the court issued finally the decision appointing the company ATTETS INTEGRA, S.L.P. as Insolvency Administration at the proposal of the Comisión Nacional del Mercado de Valores.

Such as it has been communicated in the Annual Accounts last year, the Company was already working in the update of the Viability Plan and in the elaboration of a Payments Plan to be offered to each group of creditors. Based on both documents and considering the information achieved in the interviews the Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the court of the Mercantile nº 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it has been well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17<sup>th</sup> June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

For this reason, at June 30<sup>th</sup> 2014, the Company expects to achieve a positive solution to the APAC that was presented. The approval of the APAC would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Company's business.

In spite of being subject to an insolvency procedure, the Company keeps growing and developing its business, considerably increasing the revenues generated out of its activities and minimising to the maximum the costs deriving from such business activities.

The great increase in sales compared to last year (67%) and the cost-containment measures, have led to achieving an EBITDA 9 times bigger than the EBITDA achieved last year for the same period. This evaluation model and its evolution clearly show the excellent business evolution, in line with the forecast of the business plan.

Historically, the sales figures follow a seasonal trend, and the second semester is more important as to the total yearly sales. This is why the percentages reached with regards to the total sales projected for 2014 are meeting the expectations in line with the projections, the business evolution being very positive.

Regarding the distribution by business lines, an important growth is noticed in all of them.

Regarding the content, there is an 8% increase compared to the previous period. This increase is the consequence of the commercial management of this line of revenue generation, which includes the sales of digital and interactive content in different platforms.

The largest increase in the different business lines is found in the category of Licensing & Merchandising, with an increase of 357% compared to the previous period. This amazing growth is in line with the projections of the business plan for 2014, and is the consequence of the commercial exploitation and the international expansion of the trade name POCOYO™.

And last, sales regarding publicity increased a 20% compared to the previous period, thanks to the good results of the publicity exploitation in online platforms.

In other revenues from the exploitation we find the activated amount of the works made by the Company itself to develop and produce its interactive audiovisual projects.

The Company is still controlling costs. Regarding the estimates for 2014, the evolution of this period has been coherent with the estimates.

The staff expenses have increased 22% because the staff was enlarged compared to the previous period. The recruitment was the minimum possible, based on business needs, and related mainly to the production department, regarding the necessary and indispensable resources to meet the time schedules in the production of the educational apps currently under development.

“Other exploitation expenses” has been reduced a 13% compared to the previous period.



The Company's Working Capital presents a negative figure amounting to approximately EUR 3 million at June 30<sup>th</sup> 2014. The Company, as it has been stated, is subject to an insolvency procedure since 7<sup>th</sup> April 2014. An Advanced Proposal of Arrangement with Creditors has been presented with the corresponding viability plan and payments plan. The evolution of the working capital shall depend on the outcome of the said APAC.

### **Events after the date of end of these year-end Financial Statements**

The Company, with the authorisation of the Insolvency Administrator, has transmitted the total of its shares in Cake Entertainment, Ltd. to the up to the minority shareholders of said Company. The transmission of those shares (which represented a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of "Deadlock Notice", stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, Zinkia's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's share holders.

Cake's minority share holders, considered the Company's situation, had attempted previously to buy Zinkia's shares. That offer was rejected by the Company for it was considered to be completely out of the market.

The Company, considering such offer, and in order to protect the value of its assets, considered as a good option acquiring the remaining shares of Cake Entertainment from its minority share holders. Yet the Company's current situation made it impossible for it to offer a reasonable price to the minority share holders for their corresponding shares in Cake Entertainment. The acquisition offer that Zinkia was able to offer to Cake's minority share holders without risking its commitments of future payments was under the reasonable price of such shares. Given that this "Deadlock Notice" makes offers binding for the parties, the minority share holders of Cake Entertainment increased the value of the offer until it overpassed slightly the amount offered by the Company.

All things considered, the situation was analysed and both Zinkia and its Insolvency Administrator considered that accepting the offer launched by the minority share holders guaranteed in the best possible way the rights of Zinkia's creditors as well as those of the very insolvent Company, since:

- The increase in the offer of the minority share holders and the current insolvency situation together with the current insolvency situation and other considerations stated further on, it was considered that the income in the cash-flow of the amount offered by the minority share holders was less risky for the creditors of Zinkia and for Zinkia itself, of all possible scenarios and, as a consequence, the offer was accepted (the acceptance always subject to a possible judicial intervention).
- The "Deadlock" process could only end with the acquisition or a sale of the shares that day, according to the best offer. The process, according to English law it is binding and cannot be stopped.
- It was not possible matching the conditions of the offer launched by the minority shareholders.
- The non-acceptance of the minority shareholders offer would have led Zinkia to a scene of absolute uncertainty wherein its cash-flow could have been seriously at risk and so would its future viability.

Thus, Zinkia has transmitted the whole of its shares in Cake Entertainment, Ltd. to the up to then minority shareholders. The transmission of such shares (which represented a majority percentage of 51%) represents for the Company a loss of approximately EUR 360,000.

Having in consideration the insolvency situation of Zinkia, the Company, together with the Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

As relevant events after the date of the present Interim Financial Statements additional to the events above-mentioned to which refers this memoir, we should stress that at July 14<sup>th</sup> 2014 the Insolvency Administration has presented before the Court of Mercantile nº 8 of Madrid its own report as well as the report on the content of the Advanced Proposal of Arrangement with Creditors together with the Payments Plan and the Viability Plan which underpin the Advanced Proposal, and the opinion was favourable for all of them.

### **Outlook for the Company**

The company estimates that, were the necessary adherences achieved regarding the Advanced Proposal of Arrangement with Creditors, the Company shall be capable of reaching the expected results for the coming years and this will afford to continue on with the Company's business and to accomplish all the payment commitments.

For the year 2014 and the following ones, a substantial increase is expected in the turnover of the Company based on the introduction of POCOYO™ into new markets, the increase of business lines regarding content and advertisements, as well as the developing of new audiovisual content and brands.

With regard to new projects, the Company is still working on their development and on the achievement of commercial and financial agreements that will afford the stage of production. Projects in progress shall not be abandoned, but their production is postponed to coming years when the economic and financial situation shall be adequate.

### **Research & Development**

Zinkia engages in ongoing research, development and technological innovation, always striving to optimize our production processes and acquire technical skills that allow us to maintain ourselves as a leading company in the sector.

### **Financial Risk Hedging**

At June 30<sup>th</sup> 2014, and as it has been above-mentioned, all of the Company's debt is awaiting the favourable outcome of the arrangement with the creditors, be it the Advanced Proposal of Arrangement with the Creditors, or be it some other arrangement creditors might propose, which shall establish the new conditions to which the debt shall be subject. And therefore, at June 30<sup>th</sup> 2014 the Company cannot classify the debt by interest rates. At the previous year-end, 82% of the total amount of the debt of the Company was fixed-rated. At the previous year-end the average interest rate was 6.51 %.

### **Acquisition of treasury shares**

At June 30<sup>th</sup> 2014, the Company has not made any transaction with its treasury shares.

The treasury shares at June 30<sup>th</sup> 2014 represent approximately 1.15% (1.15% at December 31<sup>st</sup> 2013) of the share capital with a total face value of EUR 28,150 (EUR 28,150 at December 31<sup>st</sup> 2013), and an average acquisition price of EUR1.09 per share (EUR1.09 at December 31<sup>st</sup> 2013). Also, the average sale price of the treasury shares at June 30<sup>th</sup> 2014 is EUR 1.75 per share (EUR 1.75 at December 31<sup>st</sup> 2013).



## **DECLARATION OR RESPONSIBILITY FOR INTERIM FINANCIAL STATEMENTS (JUNE 30<sup>th</sup> 2014)**

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the interim financial information for the Company, which includes the Individual and Consolidated Interim Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of June 2014, formulated by the Board of Directors at the meeting held on August 28<sup>th</sup> 2014 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and subsidiaries and that the Directors' Report includes an accurate analysis of the Company's business results and position, along with a description of the principal risks and uncertainties faced by the Company and subsidiaries.

Madrid, August 28<sup>th</sup> 2014

Mr. José María Castillejo Oriol

Mr. José Carlos Solá Ballester

JOMACA 98, S.L., represented by

Mr. Julio Covacho López