



---

**ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES**  
**Annex to Financial Information. June 2014. Forecast updating and**  
**compliance report**

Translation of Financial Statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Notes 1 and 32) in the event of discrepancy the Spanish language version prevails.



**FORECAST UPDATING**

ZINKIA Entertainment, S.A. (hereinafter, "ZINKIA", "Parent Company" or "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 shareholders. ZINKIA's administrators have considered the transmission of shares as the most favourable option mainly vis-à-vis the Group treasury.

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.

The Parent Company has analysed the economic and financial impact of said corporate operation, reviewing the estimates for 2014 and 2015 published for the market last month of April 2014.

ZINKIA's Group (hereinafter, "Group") reviewed Business Plan for 2014 and 2015 is detailed as follows.

Last April 30<sup>th</sup> 2014, in view of the changes that the industry has experienced in recent years, driven primarily by the global crisis, and which are especially linked to the delays in the signing of commercial and production contracts, ZINKIA considered suitable to review its business plan until 2015 by adjusting the timing of new productions and the commercial exploitation of new markets.

In the last review of ZINKIA's Business Plan for 2014-2015 it was deemed necessary to temporarily suspend some of the expected productions and to the adapt the production schedule to the current market situation and to the funding sources available.

Consequently, both the strategic and economic goals set by the Group at the time of its incorporation to the Market, have been deferred or had to be changed in time.

However, the Group has always believed in value creation and has therefore sacrificed, whenever necessary, its economic goals in the short term in order to secure a greater future value. During these years ZINKIA has succeeded, among others, in the following self-set goals:

- Recovering the international distribution of POCOYO™, which grants the Group operating and managing freedom which ensures a future growth of incomes in different territories over the poor outcome achieved to date. This shall afford a direct relation with all agents and licensees in every country. Since the actual reversion of the commercial management (2011) facts show revenue coming from different territories that is higher to that of the previous.
- Entering into the United States market from the three most important television platforms. With the support of a commercial agent in the territory and the good audience figures reached both in televisions, where the POCOYO™ is present, and in digital broadcast platforms, lead to the expectation of a very positive outcome in this market in the coming years.
- Entering into the Italian, British, Turkish, Russian and South East Asia, by means of the signing of new trade agency agreements that will represent our interests in those markets.
- Full cover of the Latin American market with a new structure of commercial agents.

## FORECAST UPDATING AND COMPLIANCE REPORT



The general trend in the sector was another important factor that has resulted in the lowering of the estimates over those published in previous versions of the Business Plan.

In the current review of the Business Plan for the years 2014 and 2015, Cake's exit from the ZINKIA Group was taken into account, and projections reflect the estimates of that impact, which shall be detailed further on.

As a consequence of the above, and in compliance with Rule 9/2010 from MAB on information to be provided by entities incorporated in small cap trading on the Mercado Alternativo Bursátil, the present document updates the business forecasts presented in section 1.14.1. of the Information Memorandum of Incorporation ZINKIA ENTERTAINMENT SA in July 2009, reviewed at April 2010, April 2011, April 2012, April 2013 and April 2014.

Thus section 1.14.1. of said document is modified as follows.



**1.14 In the event that, pursuant to the regulations of the Mercado Alternativo Bursátil or the Issuer's will, quantification of forecasts or figures estimations on future income and expenses (incomes or sales, costs, general expenses, financial expenses, amortisations and profit before tax).**

The adoption of this type of forecasts and estimations implies the Company's commitment to inform the market, via the MAB, as soon as revenue and costs are likely to differ significantly from expected.

Pursuant to Rule 2/2014 from MAB, ZINKIA's Board of Directors approved on 28<sup>th</sup> August 2014, with no votes against, a new consolidated Business Plan with the changes in forecasts and estimations for the coming year shown as follows:

1.14.1 2014-2015 Projected Data

This heading shows the financial statements projected for the Group in 2014 y 2015.

**1.14.1.1 Projected Income (2014-2015)**

<i>Euro</i>	<b>2014e</b>	<b>2015e</b>
<b>TOTAL REVENUE</b>	<b>11,473,514</b>	<b>11,702,984</b>
<b>SALES</b>	<b>10,309,870</b>	<b>10,516,067</b>
<b>Pocoyó</b>	<b>10,302,428</b>	<b>10,508,476</b>
Content	2,705,326	2,759,433
Licensing	4,468,500	4,557,870
Advertising	3,128,601	3,191,173
<b>Shuriken School</b>	<b>7,442</b>	<b>7,591</b>
Content	7,442	7,591
<b>Otros</b>	<b>-</b>	<b>-</b>
Content	-	-
Licensing	-	-
Advertising	-	-
Other revenue	-	-
<b>OTHER OPERATIVE REVENUE</b>	<b>1,163,644</b>	<b>1,186,917</b>

The ZINKIA Group aims at developing and exploiting entertaining brands, through the creation, production, distributions and commercialization of audiovisual and interactive animated content.

The 3 sources of cash generation of the ZINKIA Group are as follows:

- Production and exploitation of audiovisual and interactive content: the Group mainly produces and distributes series, movies, video games and applications, distributed and exploited via multi-platform and type of device.
- Exploitation of brands: by means of signing license agreements in exchange for a payment based on royalties.
- Advertising business: ZINKIA Group proceeds to selling the advertising space available both in ZINKIA's digital platforms as well as in third parties' platforms distributing ZINKIA's content.



### STRATEGIC POSITIONING

The main lines in the strategic positioning of the ZINKIA Group are:

- Producing audiovisual and interactive family content, focused on children aged up to 14. Underlining the relevance of entertainment combined with educative elements and with universal values.
- Developing international content.
- Integrating audiovisual and interactive content together with developing brands all of them conceived as part of a single entrepreneurial and commercial planning.
- Producing own content, prioritising within its own catalogue, value and quality over quantity.
- Registration trademarks and designs at national and international level, within the operating classes, and intellectual property rights in the different administrative registries in those countries where business is focused.

### MAIN ACTIVITIES

#### **Production and exploitation of audiovisual and interactive content:**

The department of audiovisual production in the ZINKIA Group is focused on the development of children animated content. The type of formats exploited by the ZINKIA Group within the line of production of children animated content range from television series to long movies both for cinema and television.

The implementation of this line of business in the production of children animated content has led the ZINKIA Group to count on 4 teams: development, preproduction, production and postproduction. There is always a basic team covering all these needs, and, when a new production starts, teams grow in order to get adapted to each project.

The stages that all audiovisual projects have to go through start with a development stage wherein the object of the project is identified, and the visual and story basic lines of the project are outlined. Later on, during the preproduction stage, work is focused on the plot and script as well as on the development all the elements in detail that are part of the content and that will be used in the stage of production, which is the longest, depending on the type of project, and which includes the biggest team of workforce. Finally, the postproduction stage results in the final product by gathering together and synchronising all the pieces of the work: image, sound, effects, etc.

The Group uses the most advanced technology to produce its audiovisual projects, which affords obtaining a quality that has positioned ZINKIA as a worldwide reference in the animation sector and granted the most important prizes. Also, the ZINKIA is developing its own tools to help its artists and creatives reaching the best results possible.

The business models based on audiovisual productions are mainly:

- Distribution through television chains: both pay channels (pay television) as open television channels (free television), by means of licenses agreements to broadcast the content. There are different broadcast windows, ranging from pay television license firstly, to the open television window, later on.
- Home Video: by means of distributors and licenses of content distribution in the most usual formats (DVD, Blue Ray, etc.) in exchange of a royalty per unit sold.
- Pay per view (PPV) and Video on demand (VOD): the emergence of new formats and supports for the distribution of audiovisual content can be exploited through a new window by means of license agreements with platform distributing content.

As for the distributions and commercialisation of audiovisual content, the ZINKIA counts on the collaboration of agents specialised in the sales of this type of products, agents who perceive a fee representing a percentage on the amount of the closed operations.



With the aim of granting productions a global presence or 360 degrees, and in order to make available to the public contents where they are actually consumed, the ZINKIA Group is also creating, developing, producing and distributing interactive products for consoles, mobile telephones (smartphones), tablets, PCs, Smart TVs or websites, mainly interactive applications (interactive books, games, educational content, etc.) as well as video games and online communities.

Currently, the Group is developing the original design of such products and implements their production via collaboration agreements with companies developers of this type of content, sharing with them the tasks of production.

The distribution and monetization models of this type of products are as follows:

- Free: no income is perceived in exchange of the downloading or acquisition. Application acquisition: one single payment is perceived in exchange of the download or acquisition of the application. Advertising: the application is downloaded or acquired for free but it contains advertisements.
- Freemium or acquisition of contents and additional functionalities from inside the application, which is downloaded for free.

The Group uses all the distributions means for this type of content, all applications are distributed under all these modalities

The impact of CAKE's exit from the Group in ZINKIA's sales estimates for 2014 and 2015 concentrates completely in the commercial exploitation of this business line.

The business of the CAKE Group is the production and distribution of infantile audiovisual content to television channels. CAKE was distributing both content from ZINKIA's Group and content from third parties. ZINKIA's own business does not contemplate, for the time being, the commercial exploitation of third parties' content as CAKE used to. That is the reason why, as a part of reviewing the figures resulting from CAKE's exit, ZINKIA has erased from its turnover the heading "Other Contents Revenues", for this was CAKE's exclusive activity.

It should be mentioned that, in spite of the consequent reduction in the Groups sales, expenses are also lower than expected because of the reduction in the variable costs related to sales under this concept. The expenses impact shall be analysed further ahead in more detail.

As it has been stated above, CAKE used to distribute content of POCOYO™ which is property of the Group, to different television platforms. At date of the preparation of the present document, ZINKIA's Directors is analysing and evaluating different alternatives in order to restructure the commercial strategy of this business line. ZINKIA has experience in the commercial exploitation and sales to television platforms regarding its own content and, for the time being, it is managing its content independently and does not consider it necessary to revise the item under the heading "Content" downwards.

### **Exploitation of brands**

The business line of exploitation of brands has not been harmed by the exit of CAKE from the ZINKIA Group, and therefore the estimate figures have not been modified.

Communication platforms through which audiovisual content is distributed, and prominently "open" television, are the vehicle through which the visibility of productions is generated, resulting in the possibility to exploit them commercially as trademarks. Therefore, brand development is the fundamental aim of the production of animation content, since it is through the commercial exploitation of the brand that Group obtains the vast majority of its income.

ZINKIA grants trademark licenses all over the world, relating to different categories of products among which we can name: toys; books and publishing; clothes; accessories; electronic devices; food; care and hygienic products, etc.



Licenses are granted for a given country or geographical area, for a limited period of time and for a particular category of product. All those terms are established and signed under license agreements which are completed to that aim. The standard type of trademark license has an average duration of 1 to 3 years, and renovation entails the payment of new minimum royalty guarantees.

With the aim of managing the worldwide exploitation of its trademarks, the Group relies on commercial agents who help, in some territories, managing those licenses given their greater knowledge of the local market and stopping the Group from becoming a larger structure. Those agents are paid a fee over the income obtained by the ZINKIA in their territories.

The regular model of income is the payment by licensees of royalties over the net sales, ranging according to the type of product from 4% to 20%. Licensees are granted the exploitation of a trademark regarding a particular type of product, in a given country or geographical area and for a specific period of time. In almost all cases there is a forwarded payment offset against the future revenue, called "minimum royalty guarantee". This minimum guarantee is set as a percentage over the income detailed in the business plan presented by the licensee and annexed to the license agreement. It usually ranges from 20% to 40%. Licensee shall make the effective payment at once or in instalments. The minimum guarantee serves as effective payment forwarded and as guarantee of the licensee's commitment.

In April 2001, ZINKIA reached an agreement with ITV Global Entertainment Ltd., which ended their economic and commercial relation to the date, and so ZINKIA became the exclusive distributor of all rights and licenses regarding POCOYÓ™, which is an important milestone for the Group in the commercial exploitation the POCOYÓ™. From that moment on, the Group can implement worldwide strategies that will make it possible to meet the goals set in the business plans. It also results in the geographical diversification of the income, which affords facing the coming years with a less dependence from some geographical areas.

### **Advertising business**

The exploitation of the advertising business line has not been harmed by CAKE's exit from the Group, and therefore the estimated figures are not modified.

The emergence of new distribution supports for audiovisual and digital content, new formulas to generate income, which did not exist before, have emerged. The online advertising business is producing thousands of millions all over the world and has been growing very high for the last years, so such trend is expected to be maintained in the coming years.

The Group produces income via the advertising business in its own platform in the following ways:

- Own platforms: in its own websites, on-line communities, etc., some advertising space is made available directly, through media agencies and advertisers, to sell ads.
- Third parties platforms distributing audiovisual content from the ZINKIA: in those platforms where content can be visualised, income deriving from advertisements associated to those properties are shared between the platform and the Group.
- Apps for mobile devices: in those cases when advertisement is the option to distribute interactive applications, the income is generated by the different advertising actions inside the application.

The income generated via this means of exploitation is faster than the traditional means of income. This source of income represented in 2013 14% over the total consolidated income of the ZINKIA.



**Other income**

- Activations (Projects in progress). Activations correspond to staff expenses and other direct operating expenses incurred by ZINKIA in order to develop and produce products and content. This item is related to the development of educational apps.

**1.14.1.2 Projected Staff Expenses.**

The projected staff expenses establish a difference between the Group's fixed team and the production team, which varies depending on the development of some new product.

The staff expenses have been adjusted taking into consideration CAKE's exit from the Group.

The team estimated for 2014-2015 is as follows:

<b>Average number of employees</b>	<b>2014e</b>	<b>2015e</b>
<b>Regular Staff</b>	33	33
<b>Production Team</b>	25	28
<b>TOTAL</b>	<b>58</b>	<b>61</b>

<b>COST OF EMPLOYEES</b>	<b>2014e</b>	<b>2015e</b>
<b>Regular Staff</b>	2,021,571	2,062,003
<b>Production Team</b>	832,895	939,553
<b>TOTAL COST OF EMPLOYEES</b>	<b>2,854,466</b>	<b>3,001,555</b>

- The staff cost related to the estimated production teams for 2014-2015 is related to the project of educational apps development for the United States.
- Given the current situation, there is a basic operating team reduced as much as possible both in number of people as in cost, in 2015 the latter shall be increased according to the projected model and cautiously in order to cover for a possible increase in salary costs (social security, etc.). As to the production team, it is estimated at its minimum necessary to comply with the production of the educational apps above-mentioned.
- Projects in progress are not abandoned, even if they fall out of the time scope, yet their starting date is deferred to years to come when the economic and financial situation shall be suitable.





### 1.14.1.3 Projected Other Expenses

Other expenses are projected in detail as follows. Commercial fees vary depending on sales.

The estimates in this item have been projected considering CAKE's exit from the Group.

<b>Cost of goods sold</b>	<b>2014e</b>	<b>2015e</b>
Cost of goods sold	446,390	453,390
<b>TOTAL</b>	<b>446,390</b>	<b>453,390</b>
<b>Other Operating Expenses</b>		
	<b>2014e</b>	<b>2015e</b>
Independent professional services	1,392,026	1,367,361
Other general expenses	3,476,216	3,743,210
<b>TOTAL</b>	<b>4,868,242</b>	<b>5,110,571</b>

### 1.14.1.4 Projected Amortisation

Depreciation and amortisation of fixed assets have been projected according to the current depreciation policy of the Group; thereby the current depreciation rates used depending on the item of property in question are maintained.

<b>Amortization</b>	<b>2014e</b>	<b>2015e</b>
Research and development	893,830	979,490
Intellectual Property	18,901	18,292
<b>Total</b>	<b>912,731</b>	<b>1,000,203</b>



## 1.14.1.5 Projected Income Statements

<b>Zinkia</b>	<b>2014e</b>	<b>2015e</b>
(€)		
<b>Total Revenue</b>	<b>11,473,514</b>	<b>11,702,984</b>
Sales	10,309,870	10,516,067
Other Operating Income	1,163,644	1,186,917
Cost of goods sold	446,390	453,390
<b>Gross Profit</b>	<b>11,027,124</b>	<b>11,249,594</b>
<i>% Gross Profit / Revenue</i>	<i>96.11%</i>	<i>96.13%</i>
Cost of Employees	2,854,466	3,001,555
Other Operating Expenses	4,868,242	5,110,571
<b>EBITDA</b>	<b>3,304,417</b>	<b>3,137,467</b>
<i>% EBITDA / Revenue</i>	<i>28.80%</i>	<i>26.81%</i>
Amortizations and Depreciations	912,731	1,000,203
<b>EBIT</b>	<b>2,391,685</b>	<b>2,137,264</b>
<i>% EBIT / Revenues</i>	<i>20.85%</i>	<i>18.26%</i>
Financial Income	-	-
Financial Expense	203,653	-
<b>Financial P/L</b>	<b>- 203,653</b>	<b>-</b>
Impairment and losses on disposals of assets	841,565	-
<b>Gains/losses on disposals of assets</b>	<b>- 841,565</b>	<b>-</b>
<b>EBT</b>	<b>1,346,468</b>	<b>2,137,264</b>
<i>% EBT / Revenue</i>	<i>11.74%</i>	<i>18.26%</i>
Taxation	403,940	769,415
<b>EAT</b>	<b>942,527</b>	<b>1,367,849</b>
	<b>- 332,887</b>	<b>-</b>

The net turnover, reflecting the Group's commercial activity increases significantly in the projected figures compared to historical period, mainly due to increased exploitation of the brand POCOYO™ in other countries and to the increased weight in the turnover of the income deriving from the online presence and digital rights management of the brands generated.

The income statement shows very positive operating margins, which is explained by the turnover and by the lower costs associated to new developments. Also, an important factor is that the marketing strategy for contents and products developed by the Group is focused on the direct negotiation of trademarks with licensees who generate most of the revenue (sales of books, DVDs and toys) and negotiating through agents, for the other licensees. Such business model is based on the collection of royalties which requires a reduced structure and marginal incremental costs once the investment is made. This allows ZINKIA to have a very light staff sales structure and to increase its margins, in exchange for losing turnover.



ZINKIA, in the current revision of its projections has decided to include in the estimates for 2014 its asset's impairments and losses.

The Group, considering its annual projections, is analysing at every year-end, the estimates of future flows in order to be able to estimate its assets. In case its asset's book value is lower than the estimates of future flows, value is impaired. Notwithstanding all this, the detailed analysis of the future flows shall be made at 2014 year-end at the time of the estimation of the annual figures, in an extreme prudent move, ZINKIA has decided to record the impairment of its financial asset. Among its assets, ZINKIA has a receivable from Jomaca 98, S.L. Derived from a loan. The Group, prudently and because of Jomaca's insolvency, has decided to record the impairment of this item for the whole amount of the receivable.

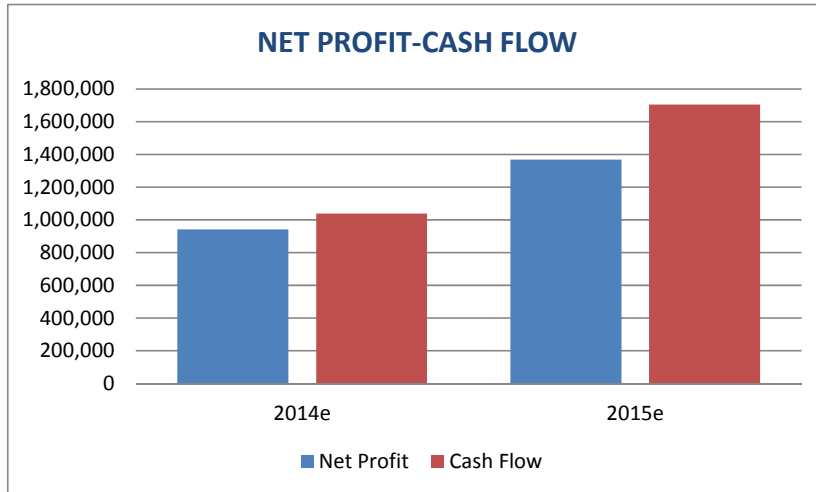
The Group has among its assets a goodwill derived from the acquisition of Cake Entertainment, Ltd. ZINKIA has included a loss in the 2014 projections related to this asset, as a consequence of the transmission of the shares in CAKE during the second semester in 2014, which shall be reflected at the year-end balance. As it has been stated before, the transmission of those shares is the consequence of a process launched by the minority shareholders of Cake under the title of "Deadlock Notice", according to English law and to the Shareholders Agreement; the process is binding and cannot be stopped. Such process could only end by the acquisition or sale of the shares held by the other shareholders. ZINKIA, 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. Later on, the situation was analysed and both ZINKIA and its Insolvency Administrator considered that accepting the offer launched by the minority share holders guaranteed the treasury, ZINKIA's other assets and the rights of ZINKIA's creditors.

The heading "Profit from discontinued operations" corresponds to the margin CAKE brought to the Group during the first semester of 2014. During the first semester of 2014, CAKE was part of the ZINKIA Group, and the present projections are estimated annually and so, at year-end 2014, the figures brought by CAKE will be out of the Group and, according to the accounting regulations, they will have to be showed separately in the Financial Statements.



**1.14.1.6 Cash-flow forecasts**

Both the activation costs as the offset in the transfer of investments to income through depreciation imply that the income of ZINKIA shows important differences to the actual cash flow generation.



FORECAST UPDATING AND COMPLIANCE REPORT



Cash Flow (€)	2014e	2015e
<b>EBIT</b>	<b>2,391,685</b>	<b>2,137,264</b>
Taxation	403,940	769,415
Tax credit applied	403,940	769,415
Amortizations	912,731	1,000,203
	-	1,374,837
<b>Operations Cash-Flow</b>	<b>3,304,417</b>	<b>4,512,304</b>
Intangible Assets	1,163,644	1,186,917
Tangible Assets	60,000	60,000
<b>Capex Investment</b>	<b>1,223,644</b>	<b>1,246,917</b>
Increase / decrease in accounts receivable	1,865,540	67,791
Increase / decrease in accounts payable	620,880	- 717,289
<b>Changes in working capital</b>	<b>1,244,661</b>	<b>785,080</b>
	625,000	-
<b>CF debt service</b>	<b>1,461,112</b>	<b>2,480,307</b>
Debenture payment	227,105	681,315
Bank borrowing payment	-	-
Loan payment	195,480	93,452
Financial P&L	-	-
<b>Financing cash-flow</b>	<b>- 422,585</b>	<b>- 774,767</b>
<b>FCF</b>	<b>1,038,527</b>	<b>1,705,540</b>
	903,578	1,942,105
<b>Cash and cash equivalents - end of year</b>	<b>1,942,105</b>	<b>3,647,645</b>



The cash-flow projected by ZINKIA for the coming years depends mainly on the estimates of the three variables:

- Gross operating profit expected by ZINKIA (See Income Statement)
- Investments in the development of new products and amortisation. This Business Plan includes the development of educational apps. The development of other productions is postponed to later years when the economic and financial situation is appropriate, and so they are beyond the forecast period.
- Investment needs in working capital: Investment in working capital of the Group depends on the evolution of two items: debtors and trade creditors. The projection made by ZINKIA discussed as follows:
  - **Receivables.** This item is conditioned by ZINKIAS accounting policy, which, pursuant to the relevant regulation, recognises as income the minimum royalty guarantee paid in exchange of the license agreements at the time of the signing of the agreement.
  - **Trade receivables.** The evolution of this item is conditioned by the stages in the production of content, since such stages increase the exploitation expenses of the company, and is also partly conditioned by the fees of the trade agents which depend on sales. The evolution of this item is additionally conditioned by the evolution of the insolvency procedure of ZINKIA and the payments plan to be approved in the procedure. In these projections the payment plan proposed in the Advanced Proposal of Arrangement with Creditors is estimated.

Changes in working capital	2014e	2015e
Debtors and receivables	1,865,540	67,791
Creditors and payables	620,880	- 717,289
<b>Total</b>	<b>1,244,661</b>	<b>785,080</b>



**1.14.1.7 Consolidated Balance Sheet**

The estimated projections for the balance, take into consideration both the business evolution and the payment plan proposed by ZINKIA during the insolvency procedure in the Advanced Proposal of Arrangement with Creditors.

<b>Balance Sheet (euros)</b>	<b>2014e</b>	<b>2015e</b>
(€)		
<b>Intangible Assets</b>	<b>8,780,439</b>	<b>8,987,157</b>
<b>Tangible Assets</b>	<b>96,461</b>	<b>136,457</b>
<b>Financial Assets</b>	<b>128,005</b>	<b>128,005</b>
<b>Deferred Taxation Assets</b>	<b>4,915,261</b>	<b>4,145,846</b>
<b>Debtors and receivables</b>	<b>4,124,510</b>	<b>2,749,673</b>
<b>Non Current Assets</b>	<b>18,044,677</b>	<b>16,147,139</b>
<b>Debtors and receivables</b>	<b>3,389,546</b>	<b>3,457,337</b>
<b>Financial Assets</b>	<b>997,835</b>	<b>997,835</b>
<b>Cash</b>	<b>1,942,105</b>	<b>3,647,645</b>
<b>Period Adjustements</b>	<b>12,387</b>	<b>12,387</b>
<b>Current Assets</b>	<b>6,341,873</b>	<b>8,115,204</b>
<b>Total Assets</b>	<b>24,386,550</b>	<b>24,262,343</b>
<b>Issued Capital</b>	<b>2,445,677</b>	<b>2,445,677</b>
<b>Share premium</b>	<b>9,570,913</b>	<b>9,570,913</b>
<b>Own shares held</b>	<b>- 403,841</b>	<b>- 403,841</b>
<b>Reserves</b>	<b>914,476</b>	<b>914,476</b>
<b>Retained Earnings</b>	<b>- 3,701,910</b>	<b>- 2,759,383</b>
<b>Profits and losses</b>	<b>942,527</b>	<b>1,367,849</b>
<b>Shareholders Equity</b>	<b>9,767,842</b>	<b>11,135,691</b>
<b>Deferred income</b>	<b>154,515</b>	<b>154,515</b>
<b>Long Term Debt</b>	<b>10,167,506</b>	<b>8,645,145</b>
<b>Deferred taxation liabilities</b>	<b>63,994</b>	<b>63,994</b>
<b>Long Term Liabilities</b>	<b>10,386,014</b>	<b>8,863,653</b>
<b>Short Term Debt</b>	<b>774,767</b>	<b>1,522,361</b>
<b>Creditors</b>	<b>3,148,463</b>	<b>2,431,173</b>
<b>Deferred income</b>	<b>309,464</b>	<b>309,464</b>
<b>Current Liabilities</b>	<b>4,232,693</b>	<b>4,262,998</b>
<b>Total Shareholders Equity and Liabilities</b>	<b>24,386,550</b>	<b>24,262,343</b>



COMPLIANCE OF FORECAST FOR THE YEAR 2014

This annex to the financial information provided by the Group offers a comparative view of the financial statements estimated for 2014 with the Interim Financial Statements at June 30<sup>th</sup> 2014, by analyzing the possible deviations regarding the same period in the previous year.

1. INCOME STATEMENT

The main deviations in the comparative analysis of the figures in the first semester of 2014 over the figures for same period in the previous year are detailed as follows. The compliance of the new business plan revised by ZINKIA after the transmission of the sale of its stake in CAKE, as included in this document, is equally analyzed.

ZINKIA, in spite of its insolvent position keeps on growing and working in the development of its business lines, considerably increasing its revenues from its activities and minimizing as much as possible the costs derived from such activities.

The great increase in the sales compared to last year (67% without considering the figures provided by CAKE) together with the cost-containment measures, have led ZINKIA to obtaining an EBIDTA nine times larger than the one obtained last year in the same period. This model and its evolution clearly show the excellent business development, in line with the business plan projections.

At June 30<sup>th</sup> 2014, the ZINKIA Group included the company CAKE. ZINKIA's Directors have considered it important to show, together with the figures of the Group at that date, the figures for the same period the previous year without including the figures provided by CAKE, to the end of analyzing the business evolution and the compliance with the forecasts for 2014 in line with the new business plan revised after the transmission of ZINKIA's stake in CAKE (event already mentioned above in this document).

The detailed Income Statement is as follows:

Zinkia	06/30/13	06/30/14	Variation	%	2014e
(€)					
<b>Total Revenue</b>	<b>4,706,360</b>	<b>5,140,303</b>	<b>433,943</b>	<b>9.22%</b>	<b>11,473,514</b>
Sales	4,100,592	4,641,945	541,353	13.20%	10,309,870
Other revenue	605,768	498,358	-107,410	-17.73%	1,163,644
Cost of goods sold	34,156	68,606	34,450	100.86%	446,390
<b>Gross Profit</b>	<b>4,672,204</b>	<b>5,071,698</b>	<b>399,494</b>	<b>8.55%</b>	<b>11,027,124</b>
% Gross Profit / Revenue	99%	99%			96%
Cost of Employees	1,326,542	1,659,078	332,536	25.07%	2,854,466
Other Operating Expenses	3,754,065	2,715,721	-1,038,344	-27.66%	4,868,242
<b>EBITDA</b>	<b>- 408,403</b>	<b>696,898</b>	<b>1,105,301</b>	<b>270.64%</b>	<b>3,304,417</b>
% EBITDA / Revenue	-9%	14%			29%
Amortizations and Depreciations	715,421	513,066	-202,355	-28.28%	912,731
<b>EBIT</b>	<b>- 1,123,824</b>	<b>183,832</b>	<b>1,307,656</b>	<b>116.36%</b>	<b>2,391,685</b>
% EBIT / Revenues	-24%	4%			21%
<b>Financial P/L</b>	<b>- 431,794</b>	<b>- 121,180</b>	<b>310,614</b>	<b>-71.94%</b>	<b>- 203,653</b>
<b>Gains/losses on disposals of assets</b>	<b>- 2,370</b>	<b>- 482,079</b>	<b>- 479,709.00</b>	<b>20240.89%</b>	<b>- 841,564.90</b>
<b>EBT</b>	<b>- 1,557,988</b>	<b>- 419,427</b>	<b>1,138,561</b>	<b>73.08%</b>	<b>1,346,468</b>
% EBT / Revenue	-33%	-8%			12%
Taxation	285,610	273,974	-11,636	-4.07%	403,940
<b>EAT</b>	<b>- 1,272,378</b>	<b>- 693,402</b>	<b>578,976</b>	<b>-45.50%</b>	<b>942,527</b>



FORECAST UPDATING AND COMPLIANCE REPORT



Zinkia	06/30/13 (without Cake figures)	06/30/14 (without Cake figures)	Variation	% (without Cake figures)	2014e
(€)					
<b>Total Revenue</b>	<b>2,358,008</b>	<b>3,421,134</b>	<b>1,063,126</b>	<b>45.09%</b>	<b>11,473,514</b>
Sales	1,752,240	2,922,776	1,170,536	66.80%	10,309,870
Other revenue	605,768	498,358	-107,410	-17.73%	1,163,644
Cost of goods sold	16,289	68,606	52,317	321.18%	446,390
<b>Gross Profit</b>	<b>2,341,719</b>	<b>3,352,529</b>	<b>1,010,810</b>	<b>43.17%</b>	<b>11,027,124</b>
% Gross Profit / Revenue	99%	98%	-1.31%		96%
Cost of Employees	992,484	1,212,918	220,434	22.21%	2,854,466
Other Operating Expenses	1,226,678	1,064,689	-161,989	-13.21%	4,868,242
<b>EBITDA</b>	<b>122,557</b>	<b>1,074,921</b>	<b>952,364</b>	<b>777.08%</b>	<b>3,304,417</b>
% EBITDA / Revenue	5%	31%	26.22%		29%
Amortizations and Depreciations	705,255	506,442	-198,813	-28.19%	912,731
<b>EBIT</b>	<b>- 582,698</b>	<b>568,480</b>	<b>1,151,178</b>	<b>-197.56%</b>	<b>2,391,685</b>
% EBIT / Revenues	-25%	17%	41.33%		21%
Financial P/L	- 494,807	- 54,428	440,379	-89.00%	- 203,653
Gains/losses on disposals of assets	- 2,370	- 482,079	- 479,709.00	20240.89%	- 841,564.90
<b>EBT</b>	<b>- 1,079,875</b>	<b>31,973</b>	<b>1,111,848</b>	<b>102.96%</b>	<b>1,346,468</b>
% EBT / Revenue	-46%	1%	46.73%		12%
Taxation	229,719	- 380,145	- 609,864	-265.48%	403,940
<b>EAT</b>	<b>- 850,156</b>	<b>- 348,173</b>	<b>501,983</b>	<b>59.05%</b>	<b>942,527</b>

1.1. REVENUE

In the following tables the turnover is specified by business line and compared to the first semester of 2013 and to the projections for 2014:

€	6/30/2013	6/30/2014	% var	2014e	%
Content	3,093,404	2,521,112	-19%	2,712,769	93%
Licensing	271,072	1,239,222	357%	4,468,500	28%
Advertising	736,116	881,611	20%	3,128,601	28%
<b>Total</b>	<b>4,100,592</b>	<b>4,641,945</b>	<b>13.20%</b>	<b>10,309,870</b>	<b>45%</b>

€	30/6/13 (without Cake figures)	30/6/14 (without Cake figures)	% var (without Cake figures)	2014e	% (without Cake figures)
Content	745,052	801,943	8%	2,712,769	30%
Licensing	271,072	1,239,324	357%	4,468,500	28%
Advertising	736,116	881,509	20%	3,128,601	28%
<b>Total</b>	<b>1,752,240</b>	<b>2,922,776</b>	<b>66.80%</b>	<b>10,309,870</b>	<b>28%</b>

€	6/30/2014
Content	54%
Licensing	27%
Advertising	19%
<b>Total</b>	<b>4,641,945</b>

€	30/06/2014 (without Cake figures)
Content	27%
Licensing	42%
Advertising	30%
<b>Total</b>	<b>2,922,776</b>

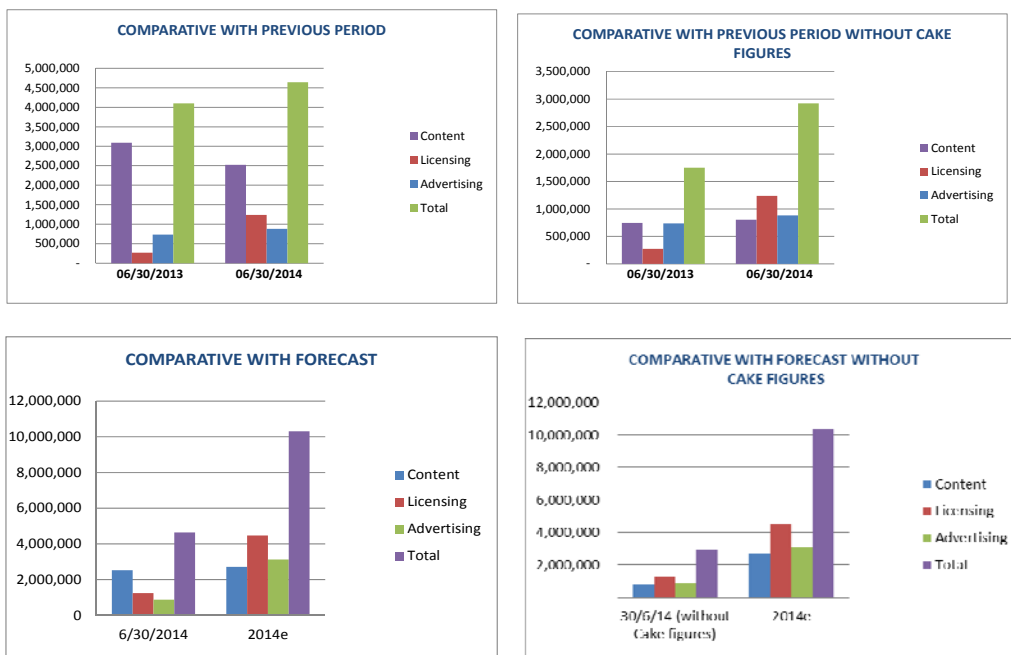
FORECAST UPDATING AND COMPLIANCE REPORT



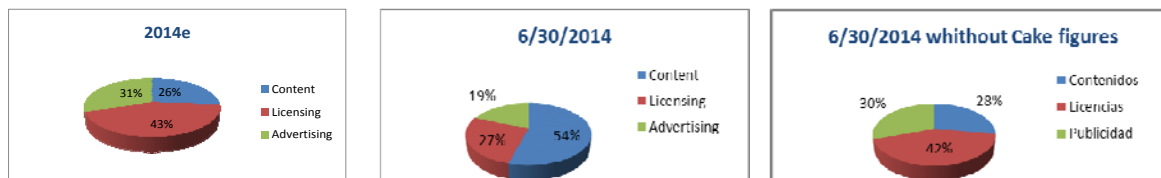
Next tables show the breakdown of revenue by geographic area:

	6/30/2014	6/30/2013	30/06/2014 (without Cake figures)	30/06/2013 (without Cake figures)
Domestic	15%	10%	24%	26%
Abroad	85%	90%	77%	74%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Next tables contain different graphics showing the evolution in the revenue of the Group:



Next tables contain graphics showing the breakdown of revenue by business line:



ZINKIA'S business keeps growing in spite of being subject to an insolvency procedure since last April 7<sup>th</sup> 2014, as show the figures of this period compared to those of the previous period.

During the first semester of 2014, the Group sales have increased 67% over the same period last year (13% including figures provided by CAKE). This outstanding increase in the sales is the result of the business development and growth.



As to the compliance of the projections, it is important to recall that the Group's estimates are annual. It has to be stressed, in the same way that, 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.

ZINKIA has reached 28% of the estimated sales for 2014 and 45% if we take into consideration CAKE's figures. The first percentage is more adequate in order to analyse the compliance of the business plan, since it does not take into consideration the figures of a company that will not be part of the Group at the end of 2014.

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 without taking CAKE in consideration. 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. Considering the comprehensive figures at June 2014, this item is reduced in 19% as a result of CAKE's turnover being lower than to the previous period.

This business line represents a 30% of the total sales projected for 2014, in line with the expectations.

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™.

This business line represents a 28% of the total sales projected for 2014, in line with the expectations.

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

This business line represents a 28% of the total sales projected for 2014, in line with the expectations.

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

## 1.2. EXPENDITURES

ZINKIA is still controlling costs. We can observe an overall cost decrease compared to the previous period. Regarding the estimates for 2014, the evolution of this period has been coherent with the estimates.

The staff expenses have increased 22% (25% taking CAKE into consideration) 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.

Zinkia	06/30/13	2013	06/30/14	Variation	%	2014e	%
(€)							
Cost of Employees	1,326,542	2,763,145	1,659,078	332,536	25.07%	2,854,466	58.12%

Zinkia	06/30/13 (without Cake figures)	06/30/14 (without Cake figures)	Variation	%(without Cake figures)	2014e	%(without Cake figures)
(€)						
Cost of Employees	992,484	1,212,918	220,434	22.21%	2,854,466	42.49%

## FORECAST UPDATING AND COMPLIANCE REPORT



“Other exploitation expenses” has decreased a 13% compared to the previous period (28% taking CAKE into consideration). Under this heading we find the costs of consultants, assessors and, mainly, trade commissions. As it can be noticed in the following tables, the costs have been lower than those of the previous period. This reduction is the result of the cost-containment above-mentioned.

€	6/30/2013	6/30/2014	% var	2014e	%
Independent professional services	2,316,872	1,445,273	-38%	1,392,026	104%
Other general expenses	1,437,193	1,270,448	-12%	3,476,216	37%
<b>TOTAL</b>	<b>3,754,065</b>	<b>2,715,721</b>	<b>-28%</b>	<b>4,868,242</b>	<b>56%</b>

€	30/6/13 (without Cake figures)	30/6/14 (without Cake figures)	% var (without Cake figures)	2014e	% (without Cake figures)
Independent professional services	259,379	151,338	-42%	1,392,026	11%
Other general expenses	967,299	913,351	-6%	3,476,216	26%
<b>TOTAL</b>	<b>1,226,678</b>	<b>1,064,689</b>	<b>-13%</b>	<b>4,868,242</b>	<b>22%</b>

The amounts represented under the heading “Impairment of assets” has increased considerably over the last period. The Group, on the basis of its yearly projections, analyses at each year-end the estimates of future cash-flows so as to be able to estimate the value of its assets. If the book value of the assets is lower than the estimate of the future cash-flows, assets are impaired. Although the detailed analysis of the future cash-flows shall be done at year-end 2014 because figures are estimated yearly, ZINKIA has prudently decided to record the impairment of its financial assets. ZINKIA counts in its assets with a receivable from the company Jomaca 98, S.L., derived from a loan agreement. The Group prudently has decided to record the impairment of the whole receivable given the insolvency procedure of Jomaca.

## 2. BALANCE

### 2.1. ASSETS

Zinkia	12/31/2013	6/30/2014	2014e
€			
<b>Intangible Assets</b>	<b>8,511,271</b>	<b>8,510,471</b>	<b>8,780,439</b>
<b>Goodwill</b>	<b>878,364</b>	<b>913,652</b>	<b>-</b>
<b>Tangible Assets</b>	<b>83,210</b>	<b>72,807</b>	<b>96,461</b>
<b>Financial Assets</b>	<b>128,005</b>	<b>135,793</b>	<b>128,005</b>
<b>Deferred Taxation Assets</b>	<b>5,319,202</b>	<b>4,968,020</b>	<b>4,915,261</b>
<b>Debtors and receivables</b>	<b>4,069,891</b>	<b>3,819,673</b>	<b>4,124,510</b>
<b>Non Current Assets</b>	<b>18,989,944</b>	<b>18,420,415</b>	<b>18,044,677</b>
<b>Debtors and receivables</b>	<b>5,346,650</b>	<b>5,872,235</b>	<b>3,389,546</b>
<b>Financial Assets</b>	<b>1,489,327</b>	<b>1,007,093</b>	<b>997,835</b>
<b>Cash</b>	<b>1,158,146</b>	<b>1,071,066</b>	<b>1,942,105</b>
<b>Period Adjustements</b>	<b>83,005</b>	<b>35,724</b>	<b>12,387</b>
<b>Current Assets</b>	<b>8,077,128</b>	<b>7,986,118</b>	<b>6,341,873</b>
<b>Total Assets</b>	<b>27,067,072</b>	<b>26,406,533</b>	<b>24,386,550</b>

The non-current customers of the Consolidated Balance Asset represent the value of the 12-month maturity balances from the date of the preparation of the Interim Consolidated Financial Statements. Such amount has decreased according to the different maturity dates of the amounts under this item; some of them even become short-term.

The current financial investments decrease as a result of the impairment recorded as above-mentioned.

The other non-current assets and current assets are not significantly modified during the first semester.



## 2.2. Liabilities

Zinkia	12/31/2013	6/30/2014	2014e
€			
Issued Capital	2,445,677	2,445,677	2,445,677
Share premium	9,570,913	9,570,913	9,570,913
Own shares held	- 403,841	- 403,841	- 403,841
Reserves	540,647	521,947	914,476
Retained Earnings	- 2,042,822	- 3,028,398	- 3,701,910
Profits and losses	- 985,576	- 529,676	942,527
Translation differences	- 3,947	72,855	-
Profit attributable to minority interest	16,891	- 163,726	-
Minority interest	321,262	354,790	-
<b>Shareholders Equity</b>	<b>9,459,202</b>	<b>8,840,540</b>	<b>9,767,842</b>
Deferred income	154,515	154,515	154,515
Long Term Debt	6,900,181	6,815,587	10,167,506
Deferred taxation liabilities	63,994	63,994	63,994
<b>Long Term Liabilities</b>	<b>7,118,689</b>	<b>7,034,096</b>	<b>10,386,014</b>
Short Term Debt	4,523,333	4,461,594	774,767
Creditors	5,656,384	5,694,521	3,148,463
Deferred income, short term	309,464	375,784	309,464
<b>Current Liabilities</b>	<b>10,489,181</b>	<b>10,531,899</b>	<b>4,232,693</b>
<b>Total Shareholders Equity and Liabilities</b>	<b>27,067,072</b>	<b>26,406,533</b>	<b>24,386,550</b>

Variations in the net equity are due to the results obtained.

The other items are not significantly changed during this first semester.

**Disclaimer**

Under no circumstances this document is to be understood as an offer to purchase, sell, subscribe for or trade ZINKIA's shares. Any investment decision thereon shall be taken according to the sole discretion of the investor and/or consultants that the investor deems appropriate.

The information contained herein relates primarily to historical data but it can also contain statements or future expectations that, as such, are subject to risks and uncertainties, known and unknown, that could cause the business development of the group to be different from what is hereby stated or inferred, and therefore conditioning their realization.

For a better understanding of the risks that could affect the business, the statements of future and the financial situation and equity, ZINKIA recommends consulting the Information Memorandum of Incorporation to the MAB and the subsequent periodical information sent to the Market.

Regards,

José María Castillejo Oriol  
Zinkia Entertainment, S.A.