GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Interim Consolidated Financial Statementsand Consolidated 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 consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group. In the event of a discrepancy, the Spanish-language version prevails.

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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 consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group. In the event of a discrepancy, the Spanish-language version prevails.

STATUTORY AUDITOR´S REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the interim consolidated financial statements

We have audited the interim consolidated financial statements of Zinkia Entertainment, S.A., (hereinafter the parent company) and its subsidiaries (hereinafter the group) comprising the consolidated statement of financial position at June 30, 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 consolidated financial statements

The board of directors of the Parent Company are responsible for the preparation of the accompanying Interim consolidated financial statements accordingly, so they can provide a fair presentation of the equity, the financial position and the consolidated results of the group, in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union to prepare complete interim financial statements, and the other provisions of the regulatory financial reporting framework applicable to the group in Spain, and for such internal control as the board of directors determines is necessary to enable the preparation of interim consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement of the interim consolidated 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 parent company preparation and fair presentation of the interim consolidated 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 group´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 consolidated 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

Financial expenses with third parties included under "Net financial expense" in the accompanying interim consolidated income statement corresponding to the first six-month period ended at 30 June 2014 amounting to euro 205.182 attached. On April, 7th 2014, date of declaration of the voluntary arrangement with creditors of the parent company, has been left to recognize the interests expenses accrued due to the financial liabilities affected by the arrangement with creditors of the parent company. According to the regulatory financial reporting framework applicable the group should record additional financial expenses amounting to approximately euro 188,000, as consequence, the net 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 present fairly, in all material respects, the equity and financial position of the group at June 30, 2014 and the results of its operations and cash flows for the six month period then ended, in accordance with the requirements set out in the International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, to prepare complete interim financial statements, and other provisions of the regulatory financial reporting framework which are applicable in Spain.

Emphasis paragraphs

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

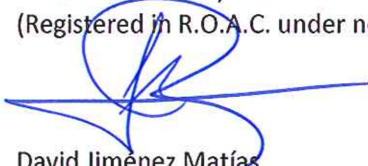
We draw attention to what is indicated in note 10 of the accompanying explanatory notes to the Interim consolidated financial statements, where is indicated that the parent company has a long-term account receivable amounting to euro 3.308.694, corresponding to an account receivable to CaRears Diapers, LLC, which also has a current asset amounting to euro 704.841 corresponding to the minimum royalty guarantee under a license agreement with this licensee. 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.

GARRIDO
AUDITORES

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for the six months period ended June 30, 2014 contains the explanations that the parent company's directors consider appropriate regarding important events of this period and their impact on the interim consolidated 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 consolidated directors' report is consistent with that contained in the interim consolidated financial statements for the six month period ended June 30, 2014. Our work as auditors was confined to check the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Zinkia Entertainment, S.A. and its subsidiaries.

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



David Jiménez Matías
September 3rd, 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS, FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2014

Translation of interim consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the group (see Notes 1 and 27). In the event of a discrepancy, the Spanish- language version prevails.

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ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30th 2014 (In EUR)

Euro

ASSETS	Note	6/30/2014	12/31/2013
Intangible assets	7	9,424,123	9,389,636
Goodwill	7.1	913,652	878,364
Other intangible assets	7.2	8,510,471	8,511,271
Property, plant and equipment	8	72,807	83,210
Non-current financial liabilities	9	135,793	128,005
Deferred tax assets	16	4,968,020	5,319,202
Non-current trade and other receivables	10	3,819,673	4,069,891
NON-CURRENT ASSETS		**18,420,415**	**18,989,944**
Trade and other receivables	10	5,755,667	5,290,496
Corporate income tax assets		1,792	4,343
Other tax receivables	16	114,776	51,788
Current financial assets	9, 18	1,007,093	1,489,327
Cash and cash equivalents	11	1,071,066	1,158,146
Other current assets	16	35,724	83,028
CURRENT ASSETS	16	**7,986,118**	**8,077,128**
TOTAL ASSETS		**26,406,533**	**27,067,072**

EQUITY AND LIABILITIES	Note	6/30/2014	12/31/2013
Issued capital attributable to equity holders of the parent	12	2,445,677	2,445,677
Share premium	12	9,570,913	9,570,913
Reserves	12	521,947	510,517
Treasury shares	12	(403,841)	(403,841)
Translation differences	12	72,854	43,072
Retained earning	12	(3,028,398)	(2,042,822)
Profit attibutable to the equity holders of the parent		(529,676)	(1,002,467)
TOTAL EQUITY OF THE PARENT		**8,649,476**	**9,121,049**
Profit attributable to minority interest		(163,726)	16,891
Minority interest	12	354,790	321,262
EQUITY		**8,840,539**	**9,459,202**
Deferred income	13	154,515	154,515
Non-current financial liabilities	14	6,815,587	6,900,181
Deferred tax liabilities	16	63,994	63,994
NON-CURRENT LIABILITIES		**7,034,096**	**7,118,690**
Other liabilities and expenses accruals	21	100,000	100,000
Current financial liabilities	14	4,362,216	4,378,173
Current trade and other payable	17	5,187,410	5,126,084
Corporate income tax payable	16	15,703	113,009
Other tax payable	16	490,786	462,452
Current accruals and deferred income		375,784	309,462
CURRENT LIABILITIES		**10,531,899**	**10,489,180**
TOTAL EQUITY AND LIABILITIES		**26,406,533**	**27,067,072**

Notes 1-27 are an integral part of the consolidated statement of financial position at June 30th 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED INCOME STATEMENT AT JUNE 30th 2014 (In EUR)

Euro	**Note**	**6/30/2014**	**6/30/2013**
Revenue from operations	19	4,641,945	4,100,592
Other operating income	19	498,358	605,768
Total Revenue		**5,140,303**	**4,706,359**
Cost of goods sold	19	(68,606)	(34,156)
Cost of employees	19	(1,659,078)	(1,326,542)
Other operating expenses	19	(2,715,721)	(3,754,065)
Amortizations and depreciations	19	(513,066)	(715,421)
Total expenses		**(4,956,471)**	**(5,830,184)**
Operating income		**183,832**	**(1,123,825)**
Net financial expense	19	(597,846)	(431,794)
Impairment and gain/losses on sales of assets	7 y 8	(5,413)	(2,370)
Profit before tax		**(419,427)**	**(1,557,988)**
Corporate income tax	16	(273,974)	285,610
Profit for the period		**(693,402)**	**(1,272,379)**
Profit attributable to minority interest		(163,726)	(208,544)
Profit attributable to the equity holders of the parent		**(529,676)**	**(1,063,835)**
Basic and diluted earnings per share	24	(0.02)	(0.04)

Notes 1-27 are an integral part of the interim consolidated income statement corresponding to the first six month period of 2014

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT JUNE 30th 2014 (In EUR)

Euro	6/30/2014		6/30/2013	
	Equity holders of the parent	Minority interest	Equity holders of the parent	Minority interest
Profit (loss) for the period	(529,676)	(163,726)	(1,063,835)	(208,544)
Income and expenses recognized directly in equity	29,780	-	(54,861)	-
Reclassification included in the income statement		-		-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**(499,896)**	**(163,726)**	**(1,118,695)**	**(208,544)**

Notes 1-27 are an integral part of the interim consolidated statement of comprehensive income corresponding to the first six month period of 2014

B) INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT JUNE 30th 2014 (in EUR)

		Euro											
	Notes	ISSUED CAPITAL	SHARE PREMIUM	RESERVES PARENT	RESERVES SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2013		**2,445,677**	**9,570,913**	**918,423**	**(403,959)**	**43,072**	**(403,841)**	**(2,042,822)**	**(1,002,467)**	**(3,947)**	**9,121,049**	**338,153**	**9,459,202**
Adjustments due to mistakes 2013		-	-	-	-	-	-	-		-	-		-
ADJUSTED POSITION AT JANUARY, 01.01.2014		**2,445,677**	**9,570,913**	**918,423**	**(403,959)**	**43,072**	**(403,841)**	**(2,042,822)**	**(1,002,467)**	**(3,947)**	**9,121,049**	**338,153**	**9,459,202**
Total comprehensive income recognized						**29,783**			**(529,676)**	**(3)**	**(499,896)**	**(163,726)**	**(663,622)**
Transactions with shareholders		**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**		**-**
Capital increases													-
Trading in treasury shares	12										-		-
Other movements in equity					**11,433**			**(985,576)**	**1,002,467**		**28,324**	**16,636**	**44,960**
FINANCIAL POSITION AT JUNE 06.30.2014		**2,445,677**	**9,570,913**	**918,423**	**(392,526)**	**72,855**	**(403,841)**	**(3,028,398)**	**(529,676)**	**(3,950)**	**8,649,477**	**191,063**	**8,840,540**

		Euro											
	Notes	ISSUED CAPITAL	SHARE PREMIUM	RESERVES PARENT	RESERVES SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2012		**2,445,677**	**9,570,913**	**994,353**	**(190,440)**	**57,785**	**(403,841)**	**(3,131,606)**	**1,019,289**	**(4,003)**	**10,358,128**	**364,361**	**10,722,489**
Adjustments due to mistakes 2012				16,650							16,650		
ADJUSTED POSITION AT JANUARY, 01.01.2013		**2,445,677**	**9,570,913**	**1,011,003**	**(190,440)**	**57,785**	**(403,841)**	**(3,131,606)**	**1,019,289**	**(4,003)**	**10,374,777**	**364,361**	**10,739,138**
Total comprehensive income recognized						**(55,012)**			**(1,063,835)**	**151**	**(1,118,695)**	**(208,544)**	**(1,327,239)**
Transactions with shareholders		**-**	**-**	**93,213**	**-**	**-**	**(404,187)**	**-**	**-**	**-**	**(310,974)**		**(310,974)**
Capital increases													-
Trading in treasury shares	12			93,213			(404,187)				(310,974)		(310,974)
Other movements in equity					**(221,655)**			**1,088,784**	**(1,019,289)**		**(152,160)**	**(50,915)**	**(203,075)**
FINANCIAL POSITION AT JUNE 06.30.2013		**2,445,677**	**9,570,913**	**1,104,216**	**(412,094)**	**2,774**	**(808,027)**	**(2,042,822)**	**(1,063,835)**	**(3,852)**	**8,792,947**	**104,902**	**8,897,849**

Notes 1-27 are an integral part of the interim consolidated statement of changes in equity corresponding to the first six month period of 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED CASH FLOW STATEMENT AT JUNE 30th 2014 (In EUR)

	6/30/2014	6/30/2013
A) CASH FLOWS FROM OPERATING ACTIVITIES		
1. Profit before tax	**(419,427)**	**(1,557,988)**
2. Non cash adjustments for	**1,110,033**	**1,149,585**
a) Depreciation and amortisation charge	513,066	715,421
b) Non-current assets provisions	476,666	-
c) Results in non-current assets operations	(1,460)	2,370
d) Financial income	(100,524)	(15,877)
e) Financial costs	205,305	521,702
f) Exchange differences	16,399	(74,031)
g) Recognition of grants	(4,831)	-
h) Other income and costs	5,413	-
3. Changes in working capital	**61,918**	**774,977**
a) Trade and other receivables	(528,135)	865,450
b) Other current assets	47,280	1,215
c) Trade and other payables	91,917	(1,372,399)
d) Other current liabilities	66,321	(353,167)
e) Other non-current assets and liabilities	384,535	1,633,878
4. Other cash flows from operating activities	**(159,215)**	**(375,991)**
a) Interest paid	(105,217)	(258,836)
c) Collections (payments) for corporate income tax	(48,588)	(117,451)
d) Other payments (collections)	(5,413)	-
e) Interest collect	2	295
5. Net cash flows from operating activities (1+2+3+4)	**593,309**	**(9,417)**
B) CASH FLOW FROM INVESTING ACTIVITIES		
6. Investments payments (-)	**(534,627)**	**(1,456,265)**
c) Investments in intangible assets	(494,307)	(688,774)
d) Investments in property, plant and equipment	(6,429)	(7,618)
e) Investments in other financial assets	(33,891)	(759,873)
7. Investments proceeds (+)	**9,214**	**15,069**
b) Proceeds on other financial investments	9,214	15,069
8. Net cash flows from investing activities (7-6)	**(525,413)**	**(1,441,196)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	**-**	**(404,187)**
a) Treasury shares acquisition	-	(404,187)
10. Finance liabilities	**(138,577)**	**(653,891)**
a) Issue	-	308,129
2. Proceeds from loans and borrowings	-	18,528
3. Proceeds from other liabilities	-	289,601
b) Repayments	(138,577)	(962,021)
1. Repayments of loans and borrowings	(110,792)	(511,129)
2. Repayments of other liabilities	(27,785)	(450,892)
11. Dividends and other equity instruments payments	**-**	**-**
12. Net cash flows from financing activities (9+10+11)	**(138,577)**	**(1,058,078)**
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(16,399)	(8,700)
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	**(87,080)**	**(2,517,391)**
Cash and cash equivalents at January, 1st	1,158,146	2,913,279
Cash and cash equivalents at June, 30th	1,071,066	395,888

Notes 1-27 are an integral part of the interim consolidated cash flow statement corresponding to the first six month period of 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30th 2014 (In EUR)

1. General information and business activity

The parent Company was founded as a limited liability company under the name of Junk & Beliavsky, S.L. at 27thApril 2000. On December, 27th 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, 11th 2002, the name of the parent Company was once again changed to ZINKIA ENTERTAINMENT, S.L.

On July, 20th 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, 24th 2007.

The corporate purposes of the parent 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 trade on domestic or foreign stock markets and other negotiable securities and real estate. By law, the Company's business activities exclude those 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 parent Company’s activities are focused primarily on those described in points a) and b).

Zinkia is the parent company of the Group of companies listed in these Interim Consolidated Financial Statements. According to article 6.1 of the Royal Decree 1159/2010 of September 17th, which approves of the Rules for the Preparation of Consolidated Financial Statements, 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.

The subsidiaries' business activities include distributing, producing and marketing audiovisual and interactive products and musical recordings, all at the international level.

Jomaca 98, S.L. holds a 64.71% Stake in Zinkia Entertainment, S.A.

The information on the companies in the consolidated Group as of the date of these Interim Consolidated Financial Statements is as follows:

				06/30/2014				06/30/2013			
				% Interest held		Voting rights		% Interest held		Voting rights	
Name and address	Legal status	Activity	Auditor	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	Music publisher	No	100%	-	100%	-	100%	-	100%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Variable capital firm	Explotation and management of audiovisual rights	No	100%	-	100%	-	100%	-	100%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	51%	-	51%	-	51%	-	51%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	51%	-	51%	-	51%	-	51%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	51%	-	51%	-		-	
HLT Productions Bv Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	Explotation and management of audiovisual rights	No	-	51%	-	51%	-	51%	-	51%

All subsidiaries have been consolidated using the full consolidation method.

In 2013, the Company has impaired 100% of the investment in Producciones y Licencias Plaza de España, S.A. de C.V. At June 30th 2014 Producciones y Licencias Plaza de España, S.A. de C.V. is under liquidation.

The company Cake Entertainment, Ltd. is the parent Company of the group of three subsidiary companies: Cake Distribution, Ltd., Cake Productions, ltd., and HLT Productions BV.

We should stress that, in July 2014, the Parent Company has transmitted the whole of its shares in Cake Entertainment, Ltd. to those who up to then were the minority share holders (see note 26 of Events after the end of the Interim Financial Statement date).

2. Basis of presentation of the Interim Consolidated Financial Statements

a) Basis of presentation

These Interim Consolidated Financial Statements of the Zinkia Entertainment Group for the first semester of 2014 have been formulated:

- By the directors of the Parent Company, Zinkia Entertainment, S.A., at the Board of Directors' meeting held on August, 28th 2014.

- Pursuant to the terms of International Accounting Standard and International Financial Reporting Standards (IFRS), as approved by the European Union, in accordance with (EC) Law 1606/2002 of the European Council and Parliament.

- So as to show a true image of the equity and financial position of the consolidated Group at June 30th 2014, of the results of its operations, changes in equity and cash flows, consolidated, operated in the Group in the period ended on the said date.

- Based on the accounting records of the Parent Company and the Group's subsidiaries.

- The Interim Consolidated Financial Statements were prepared on the historical-cost basis, with the exception of the derivative financial instruments, which are shown at fair value.

b) Accounting policies applied

The Group's Interim Consolidated Financial Statements at June 30th 2014 were prepared in accordance with International Financial Reporting Standards and International Accounting Standards applicable at that date.

At June 30th 2014, the following International Standards have not been applied by the Group because they have not yet been adopted by the European Union and/or because they might result applicable in future years:

- IFRS 9: Financial Instruments. It will be effective 1.1.2015
- IFRS 14: Regulatory Deferral Accounts. It will be effective 1.1.2016
- Modification IAS 19: Defined plans of benefits: Employers costs. It will be effective 1.1.2015

The Group will apply these International Standards when they will be effective. The Group considers that there will be not a significant effect on the financial statements.

In order to reconcile the value of net equity and consolidated income statement with national and international regulations as of the date of the first application of IFRS, it should be noted that, pursuant to IAS 20, deferred income from government capital grants is not carried directly to equity but rather to non-current liabilities. These grants are carried to the income statement as the assets subsidised by the grants are amortised.

c) Responsibility for information and estimates made

The information contained in these Interim Consolidated Financial Statements is the responsibility of the directors of the Parent Company.

The senior managements of the Group and consolidated companies have used certain estimates and hypotheses to prepare these Interim Consolidated Financial Statements based on the best information available at the time on the events analysed. Events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements. These estimates and hypotheses basically refer to:

- Impairment of assets:

At the closing date of each period, the Group evaluates whether there are indications of asset impairment, reviewing the carrying values of non-current assets. If there is objective evidence of impairment loss, the value of the loss is the difference between the carrying value of the asset and the recoverable value, calculated as the current value of the future estimated cash flows discounted at an appropriate discount rate to obtain the current value of those cash flows.

- Useful lives of PPE and intangible assets:

The Directors of the Group determine the estimated useful lives of PPE and intangible assets. These estimates are based on expected life cycles and may be modified due to technological innovation or strategic changes within the Group. If the estimated useful life would change, the funding of the depreciation allowance is adjusted accordingly.

- Tax credits:

The Group has certain tax credits and reviews the estimates of taxable bases for the coming years at the closing date of each period in order to evaluate the probability of recovering the capitalised tax credits. If there are reasonable doubts regarding the ability to recover the tax credits, the pertinent corrections are made.

- Corporate tax expense:

According to IAS 12, corporate tax expense is recognised in each accounting period based on the best estimate of the average weighted tax rate for the accounting year in question. It may be necessary to make adjustments to the amounts calculated in the future.

d) Consolidation principles

The subsidiaries controlled by the Zinkia Entertainment Group are fully consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are companies where the Group controls the financial and operational policies, generally accompanied by a shareholding involving more than half of the voting rights.

Associates are entities over which the Group exercises significant influence but not control, which is generally accompanied by a shareholding of 20 to 50% of voting rights.

The operations of Zinkia Entertainment and consolidated subsidiaries were consolidated in accordance with the following basic principles:

- On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition of the subsidiary, including acquisition costs, over the fair value of the aforementioned assets and liabilities relating to the Parent's ownership interest in the subsidiary is recognised as goodwill.

  Any negative difference is credited to the consolidated income statement.

  The results of the subsidiaries acquired or disposed during the fiscal year are included in the Consolidated Income Statement from the effective date of the acquisition or until the effective date of the sale.

- The enclosed Interim Consolidated Financial Statements include certain adjustments to standardise the accounting principles and procedures applied by the subsidiaries and the parent company.

- The value of the interest of minority shareholders in the equity and results of the fully consolidated subsidiaries is presented under "Equity - Minority Interests" in the accompanying consolidated statement of financial position and "Minority Interests" in the consolidated income statement.

- All balances and transactions between fully or proportionately consolidated companies were eliminated on consolidation.

e) Functional currency

The items included in the interim individual financial statements of each of the Group companies are measured using the currency of the principal economic environment in which the group operates («functional currency»). All Group companies use the functional currencies of the countries where they are located.

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

The interim financial statements of foreign companies were converted to Euros using the year-end exchange rate method. This method consists of converting all assets, rights and obligations to euro at the exchange rate in effect on the closing date of these Interim Consolidated Financial Statements, while the items of the Interim Consolidated Income Statement are converted at the monthly average exchange rate. All resulting exchange differences are recognised as a separate component of equity.

f) Reasons for uncertainly - Negative Working Capital

The Interim Consolidated Statement of Financial Position shows a negative Working Capital of EUR 2,545,781 at June 30th 2014 (EUR 2,412,052 at December, 31st 2013) caused mainly by the maturity of the two largest debts that the Parent Company hold with a private entity and with the Bondholders.

Additional information regarding the deeds carried out by the Group in order to solve this situation is further detailed as follows:

f.1. - Situation of the Company and Renegotiation process

As noted in the previous year-end, the Group, despite its business growth, contemplated difficulties in order to meet part of its payment obligations expected. Therefore, during 2013, and among the different alternatives considered by the parent Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18th 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 4th 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 4th, partially developing Law 24/ 1988 of 28th 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 EUR 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 6th 2013, in accordance with Article 24 and following of the Real Decree 1310/2005, of 4th November, partially developing Law 24/1988 of 28th 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 7th 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 amortization 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 Parent Company to continue with business as usual under the umbrella of legal protection, Zinkia requested, on October 31st 2013, the legal procedure under art. 5 bis of the Insolvency Act, in order to continue negotiating 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 31st 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 1st Issue" of 2010, which took place on December 9th 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), and more specifically:

Modification of the Final Terms for the "Zinkia's Simple Debentures 1st 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 12th 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12th 2015.*

- *Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12th 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 Parent 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 Parent 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 26th 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 20).

On the 07th 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 Parent 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 Parent Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Parent 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 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

For this reason, at June 30th 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.

f.2) Overdue balances at the year end and actions taken.

By decision of the court issued on the 7th April 2014, the Parent Company has been formally declared insolvent under arrangement with creditors, and therefore, from that date on and according to the insolvency regulations, the Parent Company cannot pay any debt whatsoever that was generated prior to the date of the court decision, for those debts are considered insolvency amounts. Such insolvent debt shall be subject to the approval by creditors and pertinent entities in a proposal of arrangement that is to fix the payment terms. This insolvency situation makes it impossible to speak of outstanding amounts at balance end, since out of the total of the Group, about EUR 13,500,000 amount to the insolvent debt of the Parent Company, the maturity of which shall be fixed in the arrangement with the creditors finally approved.

f.3) Actions to generate liquidity

As it has already made known to the market several times, the Parent Company has been working for long 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 Group, in spite of the insolvent situation of its Parent Company, is still growing and working on the development of its business, and keeps increasing the income deriving from its business activities and minimising as much as possible the costs derived from those activities. Some of the actions implemented to generate liquidity are pointed as follows:

- Increased revenue derived from the international expansion of the brand POCOYO and from the increase in the sales related to online presence and the management of digital rights, thus the cash generation is diversified since it comes from different countries and different lines of business.

In order to analyse the business progress of the Group 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 Group, they don't belong to the business activities. The evolution of the Group's EBIDTA at the end of the present Interim Consolidated Financial Statements amounts to EUR 696,898 compared to the Group's negative EBIDTA of EUR 408,404 for the same period in the previous year.

Therefore, although the income statements of the Group at the end of the first semester shows a loss of EUR 693,402, we should stress that these losses are the consequence of the record of the figures corresponding to the impairment of a credit the Parent Company had among its assets and to a fiscal adjustment which shall be analysed later on. Such records, in spite of implying a loss for the Parent 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.

- The Group 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 Group. 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 even though the Parent Company is subject to an insolvency procedure, the Group is still in the process of seeking funds to develop its business plan, considering many alternatives within reach.

However, it is important to stress that the Parent 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.

These activities are fully detailed in the management report presented by the Group together with these Interim Consolidated Financial Statements.

The Directors of the Group consider that, if the Parent Company achieves the number of adherences necessary to implement the Advanced Proposal of Arrangement with Creditors that was presented, this, together with the rest of the other activities that are being carried out, will lead the Group to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

3. Accounting principles and policies and measurement criteria applied

The following accounting principles and measurement criteria were used to formulate these Interim Consolidated Financial Statements of the Zinkia Group for the first semester in 2014 pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force at June 30th 2014.

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3.1 Intangible assets

These are identifiable non-monetary assets arising as a consequence of the company's legal business or developed by consolidated companies. Only the assets whose cost can be reliably estimated and for which the Group deems it is likely to obtain future profits or economic returns are recognised on the books.

Intangible assets are initially recorded at cost and/or cost of production and are later stated at cost less accumulated depreciation and/or any losses due to impairment they have experienced.

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 a success 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 3.5).

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, trademarks and intellectual property

Licences and trademarks have defined useful lives and are carried at cost less accumulated amortisation and recognised value adjustments for impairment (according to the criterion described in note 3.5). 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 Group 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 Goodwill

The difference between the cost of the stakes in consolidated companies and the carrying value of those companies at the time of acquisition or on the date of the first consolidation, provided that the acquisition does not occur later than the assumption of control over the company, is recorded as follows:

- If attributable to specific equity items of the acquired companies, by increasing the value of the assets whose fair market values are higher than the net carrying values shown on the statement of financial position, which are treated similarly to the rest of the Group's assets from an accounting perspective.
- If attributable to non-contingent liabilities, by recognising those on the consolidated statement of financial position if it is likely that the outflow of resources to settle the obligation will incorporate economic benefits and the fair value can be reliably measured.
- If attributable to specific intangible assets, by explicitly recognising them on the consolidated statement of financial position as long as the fair value on the acquisition date can be reliably determined.
- Any remaining differences are recognised as goodwill.

Goodwill arising from the acquisition of companies with functional currencies other than the euro is converted to euro at the exchange rate in effect on the date of the Consolidated Statement of financial position.

Goodwill is not depreciated. However, at the end of each year the Group assessed whether there has been any impairment that reduces the recoverable value and, if so, makes the pertinent adjustments.

3.3 Property, plant and equipment

These are the tangible assets used by the Group for production or to provide goods and services or for administrative purposes and which are expected to be used longer than one fiscal year.

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

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

The cost of enlarging, modernising or enhancing property, plant and equipment is carried as an increase in the asset's value only when it entails an increase in its capacity, productivity or the extension of its useful life. Maintenance and repair costs that do not lengthen the useful life of the assets are charged to the consolidated income statement for the year in which they are incurred.
Property, plant and equipment acquired under financial leases are carried in the corresponding asset category and are depreciated over their useful lives using the same method as for other assets owned by the Group.

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	Term (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 interim consolidated statement of financial position date.

If an asset's carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount (Note 3.5).

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 consolidated income statement.

3.4 Interest costs

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

3.5 Losses due to impairment of non-financial assets

Each year on the closing date or as necessary, Zinkia Entertainment Group reviews the carrying value of non-current assets to determine whether there are indications of a loss of value due to impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, at each statement of financial position date, the Group analyses possible impairment of intangible assets which have not yet come into operation or which have an indefinite useful life is analysed, such as goodwill.

The recoverable amount is the higher of fair value less cost to sell and value in use, which is taken to be the present value of the estimated future cash flows. In assessing value in use, the assumptions used in making the estimates include discount rates, growth rates and expected changes in selling prices and costs. The directors estimate discount rates which reflect the time value of money and the risks specific to the cash-generating unit. The growth rates and the changes in selling prices and costs are based on in-house and industry forecasts and experience and future expectations, respectively.

If it is estimated that the recoverable amount of an asset or a cash-generating unit is less than the carrying value, the value of the asset or the cash-generating unit is reduced to the recoverable amount, recognising the differences as an impairment loss in the consolidated income statement.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset. The reversal may not exceed what would have been the carrying value of the asset had the impairment and reversal not been necessary. The reversal of the impairment loss is immediately recognised as income on the income statement. Impairment losses on goodwill are non-reversible.

3.6 Leases

a) When the Group is lessee – Finance leases

Leases of property, plant and equipment where the Group 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 Group 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 consolidated 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 lesser – Operating leases

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

3.7 Financial instruments

Financial assets

The Group classifies its current and non-current financial assets in the following categories:

- Loans and accounts 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 maturities longer than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are included in "Loans to companies" and "Trade and other receivables" in the consolidated statement of financial position. 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.

Notwithstanding the above, 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 year end, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not 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 interim consolidated income statement.

- Financial assets held for trading: Financial assets held for trading are assets acquired with the intention of selling in the short term or those who are part of a portfolio for which there is evidence of a recent actual target. This category also includes financial derivatives which are not agreements of financial guarantees or have been designated as hedging instruments.

- Other financial assets at fair value with changes in profit and loss: Included in this category are financial assets considered by the company at the time of initial recognition, due to such designation write off or significantly reduces accounting mismatches, or such assets form a Group whose performance is evaluated by the Company's management, based on fair value and in accordance with established and documented strategy.

- Held-to-maturity investments: Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturities that are traded on an active market and that Group management has the intention and ability to hold to maturity. If a Group company sells an immaterial 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 consolidated statement of financial position date which are classified as current assets. The measurement criteria applied to these investments are the same as for loans and receivables.

- Available-for-sale financial assets: Any others not included in the other financial asset categories, most of which are capital investments. These investments are also shown on the consolidated statement of financial position at market value which, for unlisted companies, is obtained using alternative methods such as comparisons with similar transactions or by updated expected cash flows, if there is sufficient information to do so. The profits and losses from changes in fair value are recognised directly in equity until the asset is disposed of or becomes impaired, at which the accumulated profits or losses previously recognised in equity are included in the net profits (losses) for the period. If the fair value cannot be reliably determined, they are recognised at cost or a lower amount if there is evidence of impairment. They are classed as non-current unless the maturity date is within 12 months of the statement of financial position date or Group management intends to dispose of the investment within that amount of time.

Cash and cash equivalents

"Cash and cash equivalents" in the interim consolidated statement of financial position includes cash, demand deposits and other highly liquid short-term investments that can be realised in cash quickly and are not subject to a risk of changes in value.

Financial liabilities

Financial liabilities are initially recognised for the amount actually received, net of transaction costs, and are later recognised at amortised cost using the effective interest rate 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. Finance costs are recognised on an accrual basis in the consolidated income statement using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the year in which they arise.

On the enclosed consolidated statement of financial position, the payables are classified by maturity, i.e., those maturing within twelve months are classified as current and those maturing in more than twelve months are classified as non-current.

No-interest or subsidised interest loans are recognised at face value, which is not believe to different significantly from fair value.

Suppliers and other short-term payables do not accrue interest and are stated at fair value.

Financial derivatives and accounting hedges

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 Group designates certain derivatives as:

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

- 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 consolidated 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 inefficient part is recognised immediately in the consolidated income statement.

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 consolidated income statement.

3.8 Inventories

The heading of the consolidated statement of financial position covers the non-financial assets held for sale by the consolidated entities in the course of their ordinary business, in the process of being produced for sale or to be consumed in the production or service provision process.
Inventories are measured at the lower of cost or net realisable value. The net realizable value represents the estimated sale price less all estimated termination costs and the marketing, sales and distribution costs that will be incurred.

The Group adheres to a policy of setting up provisions to cover the risk of obsolescence, deducting these from inventories for the purposes of the consolidated statement of financial position.

3.9 Equity instruments

Capital instruments and other equity instruments issued by the Group are shown at the amount received in equity, net of direct issuing costs.

3.10 Treasury stock

Treasury stock is recognised at cost, less net equity and the proceeds from the sale of shares are recognised against equity.

3.11 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group 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 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 Group. Such contingent liabilities are not reflected for accounting purposes and a breakdown is presented in the notes to the Interim Consolidated Financial Statements.

3.12 Severance pay

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

Therefore, severance pay can be reasonably quantified are 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.

With regards to certain employees of the Parent Company, their labour contracts are complemented with private agreements containing special exit clauses.

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 assumptions contained in those documents should occur. These allowances are to be recorded in the financial year wherein such circumstances are expected to take place or do actually take place.

The Group has no other type of obligations to employees besides the aforementioned.

3.13 Deferred income

The heading of the consolidated statement of financial position covers grants received by the Group.

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

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.

3.14 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 Group’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 paying on the dates specified in the agreement. The amounts agreed are not refundable by the Group, but the client is allowed to deduct these amounts from future sales. With these guaranteed minimum amounts the Group ensures the business and the license as signing the agreement with client the Group will receive the agreed amounts without fulfilling any obligation.

From an accounting perspective 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 the said income will be an asset in which is shown the guaranteed minimum which the accrual has occurred. This account will be decreasing when the company goes invoicing in the agreed dates.

-Royalties: The Group 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 Group will invoice based on this information.

The Group recognises royalty’s revenues when they arise if it is possible.

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

- Incomes and supplies provided by Cake: Incomes provided by Cake Entertainment to the consolidated figures come from the granting of licenses to broadcast TV children content in accordance with the parent company´s business. The supplies are costs incurred for work performed by other companies for the implementation of children´s series in different territories. The main expense of this item is dubbing costs.

The Group 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 Group’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 Group companies’ estimates are based on historical results, taking into account customer type, transaction type and specific terms.

3.15 Foreign currency transactions

Transactions in foreign currencies are recorded in the Group's functional currency (euro) calculated using the interest rate on the transaction date. The differences that occur during the year between the recorded exchange rate and the rate in force on the payment or receipt date are recorded on the consolidated income statement.

The accounts receivable or payable of the consolidated companies which are denominated in a currency other than the functional currency of the financial statements are converted to the euro at the exchange rate on the closing date. Any differences on exchange are recorded as financial gains (losses) on the consolidated income statement.

3.16 Income tax

The income tax expense or income for the year is calculated by adding the current and deferred income tax. The current tax expense is determined by applying the current tax rate to the fiscal earnings, less any tax credits and deductions, which gives the amount payable to the tax authorities.

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Deferred tax assets and liabilities arise from temporary differences, which are defined as the amounts that will presumably be paid or received in the future as a result of differences between the carrying value of assets and liabilities and the taxable base. These amounts are recorded at the tax rate at which they are expected to be paid or received.

Deferred tax assets also arise as a consequence of tax loss carry forwards and tax deducted generated but not yet applied.

Deferred tax liabilities are recognised for all temporary tax differences unless they arose out of the initial recognition of goodwill or the initial recognition of other assets and liabilities (except business combinations) from a transaction that has no effect on either the tax results or the book results.

Deferred tax assets associated with deductible temporary differences are only recognised if it is deemed probable that there will be sufficient future fiscal earning against which to make them effective and they do not arise from the initial recognition (except a business combination) of other assets and liabilities in operations that do not affect the tax results or the accounting results. All other deferred tax assets (tax loss carry forwards and deductions pending compensation) are only recognised if it is considered likely that the consolidated company will have sufficient tax earnings in the future to actually liquidate them.

At every year-end, the deferred taxes are reviewed (both tax assets and liabilities) to see whether they are still valid and correcting them accordingly based on the results of those analyses.

3.17 Environmental Information

Expenses deriving from business actions taken to protect and improve the environment are recorded as expenses in the year incurred.

When they involve the addition of tangible fixed assets whose purpose is to minimise the environmental impact or to protect or enhance the environment, they are carried as an increase in the value of the asset.

3.18 Earnings per share

The basic earnings per share are calculated as the quotient between the net profit for the period attributable to the parent company and the weighted average number of ordinary shares in circulation during the period, without including the averaging number of shares of the parent company in the portfolios of Group companies.

The diluted earnings per share are calculated as the quotient between the net profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares in circulation during the period, adjusted by the weighted average number of ordinary shares that will be issued if all potential ordinary shares are converted into ordinary shares of the Parent Company.

4. Segment information

According to IFRS 8, the only identified segment of the Group’s business activities consists of the intellectual property licenses held by the company’s consolidated in these Interim Consolidated Financial Statements.

5. Seasonality

The Group's net turnover and profit are not significantly influenced by the seasonality of its operations.

Historically, Zinkia Entertainment, S.A., the Group's Parent Company, earns approximately 60% of its turnover in the second half of the year.

6. Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on uncertainty in financial markets and seeks to minimise the potential adverse impact on its financial profitability. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is controlled by the parent 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 Group 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 30th 2014, approximately 61% of the Group's turnover is generated in countries whose local currency is not euro, 55% represent U.S. dollar and the remaining 6% represents other currencies. At June 30th 2013 the percentage of revenue from countries whose local currency is not euro amounted to 79%, out of which 60% represented U.S. dollar. The Group has a bank account in U.S. Dollars used to receive receipts and order payments in that currency. The Group 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 Group maintains its commercial debt. If the Company's turnover in other currencies grows, the Group's exposure to exchange rate fluctuations shall increase.

Since the Group's operating currency is euro, the operating income and the Group's own comparison of its financial results between periods could be negatively 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 Group 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 Group operates and the euro has been subject to substantial fluctuations in recent years and, in the future, it could continue oscillating. At June 30th 2014, the impact of the exchange rates on the net financial income was a loss of EUR 16,399 representing approximately 3% of the net financial income. At June 30th 2013 the impact of the exchange rate on the net financial income was a gain of EUR 74,031, which represented approximately 17% of the net financial income of the Group.

(ii) *Price risk*

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

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

As the Group has no significant interest-bearing assets, operating income and cash flows are not seriously affected by fluctuations in market interest rates.

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

Most of the Group's financial liabilities are originated in the Parent Company (99% approximately). At June 30th 2014, Zinkia awaits the positive outcome of the arrangement with creditors, be it the Advanced Proposal of Arrangement with Creditors presented by the Parent Company, be it another Arrangement with creditors might present, which shall establish the new terms and conditions to which the debt will be subject. Therefore, the Group, at June 30th 2014 cannot classify the debt by interest rates since under the current conditions the contracts are void and null. At the previous year-end, 82% of the total debt of the Group was fixed-rated.

At December 31st, 2013 the debt average rate was 6.66%.

The Group analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account, the refinancing, and renewal of current positions, alternative funding and hedging. On the basis of these scenes, the Group 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 Group only works with reputable banks and financial institutions.

In order to carry out its business, the Group requires raising the necessary financial resources to ensure its projects implementation and its business growth. The Group has financed its investments primarily through credits and loans from financial institutions, capital and debt securities issues.

At June 30th 2014 the net financial debt (total financial debt less "Cash and equivalents") of the Group amounted to EUR 10,106,737. At December 31st 2013 this amount amounted to EUR 10,120,208.

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).

For the Group in particular, this situation has worsened even further due to the difficulties in the production of the cash flows required to pay its debts in the short term. The negative working capital of the Group interferes with obtaining the financing for the business development and reduces the chances of refinancing.

If the restriction on credit markets continues or worsens, the financing costs of the Group 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 Group.

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.

Given the current climate of credit restriction above mentioned, lack of liquidity is a looming problem for the Group that hampers the development of new projects that should ensure future cash flows.

Such as indicated in Note 2f), the Parent Company is currently facing a procedure of arrangement with creditors and the actions described in Note 2f) herein are underway.

6.2 Fair value estimation

The fair value is defined as the amount by an asset is available or a liability can be settled between interested parties duly informed which make a transaction with independence position without any deduction for transaction costs in the possible transfer.

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 interim statement of financial position 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 Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position 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 consolidated statement of financial position 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.

7. Intangible assets

7.1 Goodwill

On June 1st, 2011 a 51% stake in the company Cake Entertainment, Ltd. was acquired by the parent company. The amount agreed between both companies was EUR 989,158. This amount is considered the fair value of the asset as it has been agreed by the parties with independence position and it is based on market research about asset value and estimates of future cash flows.

At the acquisition date, the items in the asset and liability of the Cake Group balance sheet are mostly payable and receivable related to Group business with no assets and liabilities to apply the surcharge paid by the 51% stake in the company Cake if it is compared the amount paid with company´s equity. No adjustments have been made to the book value and there are not items which apply surcharge. It is considered that the amount paid and therefore goodwill is due to intangibles (management expertise, portfolio...) also estimates of future cash flows.

The amount of the minority interests recognized at the acquisition date is EUR 143,562. This item has been estimated according to the global integration method. So this item is 49% Cake Group value that is not part of the Zinkia Group and it belongs to third parties.

Accounting for the business combination was not provisional at December 2011.

At June 30th 2014 Cake Entertainment, Ltd is the head of a Group of four companies in and in 2013, such as it is detailed in Note 1 herein. Its business is focused on the international distribution of series for children and family audience.

On June 1st, 2011 is performed takeover.

The percentage ownership was 51% of the equity with vote right

Through 51% stake in Cake Group, the Parent Company seeks to increase its international expansion as well as get synergies in the field of children´s animation for distribution, brands management and content production. The parent company acquired Cake Group control with 51% subscribed stock and voting rights.

At the acquisition date, the fair value of the assets is shown in the Cake Group balance sheet as the fair value of assets and liabilities other than cash on which is taken control.

The goodwill changes in the first semester of 2014 compared to 2013 are as follows:

Euro	06/30/2014
Net value at 12.31.2013	878,364
Net changes effect of exchange rates	35,288
Impairment of goodwill from Cake	-
Total	**913,652**

Euro	12/31/2013
Net value at 12.31. 2012	897,307
Impairment of goodwill from Cake	
Goodwill	897,307
Net changes effect of exchange rates	(18,943)
Total	**878,364**

Exchange differences: The Group functional currency is euro. The dependent subgroup of the parent company makes transactions in pound sterling. The addition of the financial position of Cake subgroup to the parent company the balances have been translated to the exchange rate at June 30th 2014. As provided by the rules, goodwill of consolidation is considered as an element of the acquired company and it must be converted at the exchange rate at year-end. The difference recorded amounts to EUR 35,288.

No goodwill impairment has been recorded because the analysis at June 30th 2014 is based on the business evolution expected by the Group in the coming years. The parameters used in this analysis are described as follows:

Zinkia Group considers each company as a cash generating unit. Although Zinkia has identified different assets as industrial property and development projects due to its small size is considered the total of the company as a cash generating unit. Development costs are allocated in Zinkia as a cash generating unit and the goodwill is allocated in Cake as a cash generating unit too. The asset impairment test is made for individualised asset based on estimates of the asset fair value.

The basis on which the Zinkia cash generating unit fair value is calculated for development expenses is the value in use.

The basis on which the Cake cash generating unit fair value is calculated for goodwill is the fair value less selling cost considering third party valuations of this company.

In relation to Zinkia cash generating unit the hypothesis to estimate cash flows, derived from its three main sources of revenues, are as follows:

- **Production and exploitation of audiovisual and interactive content:** Zinkia mainly produces and distributes series, movies, video games and applications, which subsequently are licensed to television, etc., normally in return for a payment. Work in this direction is expected to go on.

- **Exploitation of brands:** audiovisual content is registered as trademark with the aim of signing license agreements with third parties for the production and development of derivative or merchandising products in exchange for a payment based on royalties. Zinkia has taken the necessary steps to launch the exploitation of the U.S. and Canada, and therefore a significant increase in the cash flows is expected to arise from the signing of new agreements resulting from the exploitation of this source of income in these large territories.
- **Advertising business:** Upon broadcast and dissemination of its audiovisual content across different platforms, Zinkia proceeds to directly selling the advertising space available both in ZInkia's digital platforms as well as in third parties' platforms distributing Zinkia's content. This revenue source is currently providing cash flow almost instantly, so Zinkia is working in enhancing this business line.

The past experience the exploitation of other territories has been used in order to allocate a value to each key hypothesis.

Projection period is five years.

The discount rate applied is the weighted average interest rate which Zinkia gets external long-term financing without real guarantees as it shows the market valuation of the risks associates with the assets operated by Zinkia. This discount rate is 6.51%, the same rate as the previous year.

There are not projections beyond five years so it has not been necessary to use growth rate.

In relation to Cake cash generating unit the methodology used was the valuation of the audiovisual rights portfolio managed by itself. For this valuation no account is taken comparable market prices since each production is different. The hypothesis used is that the management commission received by cake applied to the amount of signed agreements is an appropriate estimation of the fair value. It has been used the past experience in order to allocate value to this key hypothesis.

As stated in Note 2 f.1) herein, the parent Company is currently insolvent and subject to arrangement with creditors procedure and the Group's Directors estimate that, if the Parent Company achieves the number of adherences necessary to carry out the Advanced Proposal of Arrangement with Creditors, this, together with other activities that are being carried out, will lead to obtaining the financial resources and the necessary agreements in order to fulfil all the commitments of the Group.

That said, the Parent Company intends to solve the cash difficulties and expects to continue working in the business growth as projected, so that no reasonable change is expected in this key hypothesis that might lead to a lower assets value in the cash generating unit compared to assets book value. The difference between assets book value and assets fair value ranges from 140% to 500%.

7.2. Other Intangible Assets

The details and changes in the items under the Intangible Assets caption other than goodwill were as follows during first six month period of 2014 and 2013:

Euro	Balance at 12/31/2013	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 06/30/2014
Cost						
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	-	-	-	-	-	-
Total	20,002,240	-	494,307	-	-	20,496,547
Accumulated Amortisation						
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)
Total	(11,055,125)	-	(495,108)	-	-	(11,550,233)
Impairment						
Development	(435,843)					(435,843)
Total	(435,843)	-	-	-	-	(435,843)
Total	**8,511,271**	**-**	**(800)**	**-**	**-**	**8,510,471**

Euro	Balance at 12/31/2012	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 06/30/2013
Cost						
Research and development	6,351,594	-	679,878	(74,110)	(828,833)	6,128,529
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
Total	18,782,756	-	688,774	(74,110)	-	19,397,420
Accumulated Amortisation						
Research and development	(246,985)	-	-	-	-	(246,985)
Intellectual property	(9,237,576)	-	(675,373)	-	-	(9,912,949)
Computer software	(465,533)	-	(17,169)	-	-	(482,702)
Total	(9,950,094)	-	(692,542)	-	-	(10,642,637)
Impairment	-	-	-	-	-	-
Total	**8,832,662**	**-**	**(3,768)**	**(74,110)**	**-**	**8,754,783**

The additions in the first semester of 2014 and 2013 refer primarily to work developed for the Playset and the Zinkia Croupier projects.

The amount in the item *research and development* refer to parent company internal developments.

As parent company´s functional currency is Euro, and all the monies come from that company, there is not exchange difference for the conversion of the financial statements to the submission currency.

The main assets of the Group, particularly the Shuriken School project and Pocoyo, have recognized a residual value about 10% and their depreciation is calculated systematically using the straight-line method over these assets' estimated useful lives 5 and 8.5 years respectively. At present Shuriken School is fully amortised.

In the Shuriken School project, recognition of residual value is based on historical estimated revenues of the Group. Although this project is fully amortised the series could be sold to international television companies for amounts over 10% of the residual value so this percentage is considered a prudent estimate figure.

In the Pocoyo project, recognition of residual value and useful life is based both on the project revenues, which today has surpassed already five years long, and on the offers made to the Group, which make the asset exceed its book value.

Significant intangible assets

The amounts in this item included costs of new audiovisual projects until the moment that these projects are completed and transferred to the item intellectual property. They are detailed below:

SHURIKEN DEVELOPMENT	304,638
MOLA NOGURU DEVELOPMENT	1,617,384
POCOYO DEVELOPMENT	2,434,775
FISHTAIL DEVELOPMENT	603,984
OTHER DEVELOPMENT	139,124

For these developments the Group has considered the possibility of an impairment of the book value over fair value. In order to evaluate such possibility, the Group relied both on internal and external information sources. In relation to the external information sources, the Group has calculated the assets fair value applying a discount rate on their estimations as the weighted average rate of the different debts of the Group; this average rate, as we have stated above, is 6.51% just like at year-end 2013 since all the debt of the Parent Company is awaiting the outcome of the arrangement with creditors. As there is not comparable market price because each production is different, the Group has taken on a value for their forecasts based on past experience and discussion with television companies. Therefore there are internal reports which support that the economic performance of these assets will meet the projected expectations.

At June 30th 2014 the Group has not impaired any projects. At year-end 2013 the Group has deteriorated some projects since it cannot determine whether they will be able to generate future cash flows and thus be economically successful.

Fully-amortised intangible assets

At June 30th 2014, there are fully depreciated assets valued at EUR 10,581,111 still in use which correspond to EUR 456,063 in software, EUR 246,985 in developments and EUR 9,878,063 in intellectual property.

At June 30th 2013, there are fully depreciated intangible assets valued at EUR 10,124,855 still in use which correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At June 30th 2014, no intangible assets were subject to ownership restrictions or had been pledged to secure liabilities. The same was true at June 30th 2013.

Grants received in relation to intangible assets

The Group has not received during the first semester of 2014 any capital grants to develop its intangible assets.

The situation was the same for the same period last year.

8. Property, plant and equipment

Set out below is an analysis of the details and movements in property, plant and equipment on the Interim Consolidated Statement of Financial Position:

Euro	Balance at 12/31/2013	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Translations Differences	Balance at 06/30/2014
Cost							
Machinery	31,689	-	-	-	-		31,689
Other equipment	38,198	-	-	-	-		38,198
Furnishings	186,403	-	1,319	-	-	5,861	193,583
Data-processing equipment	189,444	-	5,110		-		194,554
Other PPE	35,203	-	-	-	-		35,203
Total	**480,937**	**-**	**6,429**	**-**	**-**	**5,861**	**493,227**
Accumulated Amortisation							
Machinery	(31,530)	-	(54)	-	-		(31,584)
Other equipment	(32,137)	-	(714)	-	-		(32,851)
Furnishings	(130,439)	-	(9,082)	-	-	(4,736)	(144,257)
Data-processing equipment	(167,266)	-	(6,689)	-	-		(173,955)
Other PPE	(36,356)	-	(1,417)	-	-		(37,773)
Total	**(397,727)**	**-**	**(17,957)**	**-**	**-**	**(4,736)**	**(420,420)**
Impairment	-	-	-	-	-		-
Total	**83,210**	**-**	**(11,528)**	**-**	**-**	**1,126**	**72,807**

Euro	Balance at 12/31/2012	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Translations Differences	Balance at 06/30/2013
Cost							
Machinery	31,689	-	-	-	-		31,689
Other equipment	38,198	-	-	-	-		38,198
Furnishings	186,403	-	6,497	-	(11,911)	(6,841)	174,148
Data-processing equipment	186,834	-	1,121	-	-		187,955
Other PPE	28,444	-	-	-	-		28,444
Total	**471,567**	**-**	**7,618**	**-**	**(11,911)**	**(6,841)**	**460,434**
Accumulated Amortisation							
Machinery	(31,405)	-	(60)	-	-		(31,465)
Other equipment	(29,923)	-	(1,386)	-	-		(31,309)
Furnishings	(125,626)	-	(12,605)	-	-	4,897	(133,334)
Data-processing equipment	(153,103)	-	(7,411)	-	-		(160,514)
Other PPE	(13,084)	-	(1,419)	-	-		(14,503)
Total	**(353,142)**	**-**	**(22,881)**	**-**	**-**	**4,897**	**(371,125)**
Impairment	**-**	**-**	**-**	**-**	**-**		**-**
Total	**118,425**	**-**	**(15,263)**	**-**	**(11,911)**	**(1,944)**	**89,309**

Impairment losses

At June 30th 2014 the Interim Consolidated Financial Statements do not include any fixed asset impairment losses. The same was true for the year before. (Note 3.5)

Fully-depreciated assets

At June 30th 2014 the Group had fully depreciated assets valued at EUR 270,146 still in use.

At June 30th 2013, the Group had fully depreciated tangible assets valued at EUR 255,058 still in use.

Property, plant and equipment subject to guarantees

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

Commitments to purchase tangible fixed assets

At June 30th 2014 and 2013 the Group had assumed no commitments to acquire tangible fixed assets.

Assets under operating leases

The interim income statement includes operating leases on the rental offices for the Group and computer rentals, all of which total EUR 143,945 (EUR 170,607 for the same period of the previous year).

At June 30th 2014 and 2013, the Group has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

At June 30th 2014 and 2013 the Group has not received capital grants in relation to property, plant and equipment.

9. Financial assets

The carrying value of each one of the financial instrument categories on the Interim Consolidated Statement of financial position is as follows:

Euro	6/30/2014	12/31/2013
Non-current financial investments		
Equity instruments	300	26,383
Derivades assets	135,493	101,622
Total	**135,793**	**128,005**
Current financial investments		
Loans to Relative parties	-	476,666
Equity instruments	157	164
Other financial assets	1,006,936	1,012,497
Total	**1,007,093**	**1,489,327**

At June 30th 2014 the non-current financial investments include the minority equity shares held by the parent company as well as EUR 135,493 that the Parent Company has deposited in cash in the General Deposit Financial Entity (Caja General de Depósitos) as a guarantee for the Ministry of Industry, Energy and Tourism, required in order to obtain the corresponding grant in the call for the "Strategic Action for Telecommunications and Information Society" , 2013 annuity, within the sub-programme "Strategic Action for Digital Economy and Society".

Equity instruments includes the value of a small interest in a publicly listed companies while the short term deposits and bonds set up by Group companies are listed under Other Financial Assets.

At June 30th 2014 the Group has a deposit of restricted availability related to the bonds issuance of the parent company. The amount is EUR 209,937.

Current liabilities include a guarantee, by another financial institution, amounting to EUR 748,198; the funds for its pledging have been deposited by the parent company in that bank. This Guarantee has been required by the Ministry of Industry, Energy and Tourism in order to obtain the aid for the call on "Strategic Action for Telecommunications and Information Society", 2012 annuity, within the sub-program "Competitiveness R & D" (Plan Avanza).

The heading *Equity Instruments* is considered a financial asset at fair value. The fair value of equity securities is based on current prices in an active market buyer.

The maximum exposure to credit risk at the time of presenting the information is the fair value of assets.

10. Trade and other accounts receivable

The detail of this caption on the Interim Consolidated Statement of financial position at June 30th 2014 and December, 31st 2013 is as follows:

Euro	6/30/2014	12/31/2013
Trade receivables	3,208,804	5,410,094
Trade receivables, long term	3,819,673	4,069,891
Accounts receivables	2,546,863	-
Bad debt provision		(119,916)
Total	**9,575,340**	**9,360,068**

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

	6/30/2014	12/31/2013
Euro	2,133,134	1,601,736
Us dólar	5,848,052	5,924,427
Pound sterling	1,350,772	1,623,266
Australian dolar	151,327	150,719
Yuan	9,415	
Other currencies	82,641	59,920
Total	**9,575,340**	**9,360,068**

The amounts included in the item non-current assets are all domestic less the amount of the long-term trade receivables which are detailed below by geographic areas, Spain and Abroad, for the first semester in 2014 and at year-end 2013:

Market	6/30/2014	12/31/2013
Domestic	5%	3%
International	95%	97%
Total	**100%**	**100%**

The most relevant country in non-current assets is USA which amounts to EUR 3,308,694 (EUR 3,897,977 at December 31st 2013).

The directors of the Parent Company believe that the carrying value of trade receivables and other accounts receivables are close to fair market value.

Furthermore, non-current trade receivables on the asset side include the customer balances with a maturity date longer than one year. This valuation involves a net increase of this item and of the profit before taxation that amounts to EUR 73,458 (EUR 452,687 at year-end 2013).

At June 30th 2014, the Group has abandoned non-collectable accounts amounting to EUR 7,937. These receivables had been registered as doubtful debts at year-end 2013.

At December 31st 2013, the Group had abandoned non-collectable accounts amounting to EUR 64,032. These receivables had been registered as doubtful debts in 2012.

The amount of trade receivables balance deteriorated at 30 June 2014 amounted to 172,464 euros (119,916 euros at the end of the previous year). The net movement of 52,548 euros corresponds, on the one hand, to an increase of 60,485 additional euros that the Group provided for as doubtful on June 30, 2014 and , on the other hand, a decrease of 7,937 euros was written off by the Group as uncollectible at the end of the first half 2014.

The Group has been granted by the Social Security Treasury a delay on the amount of EUR 433,465 which has been guaranteed with the transfer of the economic rights of three clients. At year-end there is a receivable of EUR 3,401 corresponding to such clients is registered.

The maximum exposure to the credit risk at the reporting date is the fair value of each of the categories of the aforementioned receivables. The Group does not maintain any guarantee as insurance.

The fair value of financial assets is not substantially different from book value.

Classification of financial assets (Notes 9 and 10)

	Euro					
	Non current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	6/30/2014	12/31/2013	6/30/2014	12/31/2013	6/30/2014	12/31/2013
Available for sale assets	300	26,383	-	-	-	-
Loans and accounts receivables	-	-	-	-	3,955,166	4,171,510
						3
Total non current	**300**	**26,383**	**-**	**-**	**3,955,166**	**4,171,513**

	Current financial assets					
	Equity instruments		Debt securities		Credits, 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 investments	-	-	-		-	-
Loans and accounts receivables	-	-	-	-	6,762,603	6,779,680
Total current	**157**	**164**	**-**	**-**	**6,762,603**	**6,779,680**
Total	**457**	**26,547**	**-**	**-**	**10,717,769**	**10,951,193**

11. Cash and other cash equivalents

The details of this heading in the accompanying Consolidated Statement of financial position are as follows:

Euro	6/30/2014	12/31/2013
Cash	1,070,788	1,158,007
Cash equivalent	278	139
Total	**1,071,066**	**1,158,146**

These reserves are freely available for distribution.

12. Equity

Share capital

At June 30th 2014, the registered capital of the parent Company, Zinkia Entertainment, S.A. 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.

All of the shares representing the capital of the parent Company have traded on the Mercado Alternativo Bursátil Empresas en Expansión (MAB) since July, 15th 2009.

At June 30th 2014 the share capital was broken down as follows:

Shareholder	% Interest
Jomaca 98, S.L.	64.71%
D. Miguel Valladares	11.20%
Stock market and others	22.94%
Treasury shares	1.15%
Total	**100%**

The parent Company is governed by the terms of the Capital Companies Act which establishes a minimum capital of EUR 60,000 for public limited companies.

The main capital management objectives of the Zinkia Entertainment Group are to ensure the long and short term financial stability of the Group, the positive evolution of its shares, the proper financing of its investments and the reduction of debt levels. This capital management policy is designed to optimise the financial structure by creating value for shareholders through access to financial markets at competitive costs that allow the Group to cover the financing needs of its business plan and investments which cannot be covered through self-funding. The table below shows the leveraging, understood as the ratio between financial debt and net equity:

Euro	6/30/2014	12/31/2013
Non-current financial liabilities	6,815,587	6,900,181
Current financial liabilities	4,362,216	4,378,173
Cash and cash equivalents	(1,071,066)	(1,158,146)
Net Debt	**10,106,737**	**10,120,208**
Equity of the parent	8,649,476	9,121,049
Equity of the parent	**8,649,476**	**9,121,049**
Leverage	**117%**	**111%**

Share premium account

The revised Text of the Spanish Capital Companies Act expressly permits the use of the balance of the share premium to increase capital and places no specific restrictions on the availability of said balance.

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.

The legal reserve at June 30th 2014 and December 31st 2013 totalled EUR 330,475.

Other reserves

These include the reserves of the Parent Company which stood at EUR 587,948 at December, 31st 2013 and June 30th 2014, and those of the subsidiaries which totalled EUR 1,105,851 at June 30th 2014 and EUR 403,959 at December, 31st 2013.

Treasury shares

This year, the Group carried out certain transactions with its own shares, recording the transactions as changes in the Group's equity.

No changes under the heading of "Treasury Stock" on the Interim Consolidated Statement of financial position were recorded.

The changes during the same period of previous year were as follows:

Euro	**Number of shares**	**Euro**
Balance at January, 1st 2013	281.503	403.841
Additions	347.554	404.187
Disposals	(347.554)	(404.187)
Balance at 12/31/2013	**281.503**	**403.841**

The treasury stock in the Parent Company's possession at June 30th 2014, represent approximately 1.15% (1.15% at December, 31st 2013) of the share capital with a nominal value of EUR 28.150 (EUR 28.150 at December, 31st 2013) and an average acquisition price of EUR 1.09 per share (EUR 1.09/share at December, 31st 2013). The average sale price of the Company's treasury stock at June 30th 2014 was EUR 1.75 per share (EUR 1.75 per share at December, 31st 2013).

Dividends

The Group did not pay any dividends in the first semester of 2014 nor does it intend to do so. The same is true for 2013.

Minority interests

At June 30th 2014, the minority shareholders of Cake Entertainment Ltd. controlled 49% of the company's share capital.

13. Deferred income

This heading on the liability side of the Interim Consolidated Statement of financial position includes the capital grants received by the Group not yet charged to income.

The details are as follows:

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

The Group satisfies the requirements to be considered as non-repayable grants.

The detail of the movements at the end of the first semester in 2014 compared to the previous year is as follows:

	6/30/2014	12/31/2013
		Euro
Starting balance	154,515	130,978
Increases	-	64,086
Allocation to profit	-	(16,342)
Other decreases	-	(24,207)
Ending balance	**154,515**	**154,515**

Current accruals

This amount arises in 2012 as a result of the agreement signed for development of content in educational *apps* concept. In accordance with the agreement, in October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the Group, incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. At June 30th 2014 revenues were registered in the profit and loss account amounting to EUR 338,702 (EUR 1,248,256 at year-end 2013).

14. Financial liabilities

The following table shows the details of the financial debt of the Zinkia Entertainment Group:

	6/30/2014		12/31/2013	
Euro	**Current**	**Non-current**	**Current**	**Non-current**
Debentures and bonds	98,472	2,238,000	33,049	2,238,000
Bank loans	1,294,497	555,917	1,296,396	555,917
Other payables to banks	134,597	18,820	168,679	92,842
Participating loans	190	500,000	-	500,000
Other borrowings	2,834,460	3,502,850	2,880,049	3,513,422
Total	**4,362,216**	**6,815,587**	**4,378,173**	**6,900,181**

On November, 11th 2010, the parent Company issued debt securities pursuant to the terms of Stock Market Act 24/1988 of July, 28th 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.f.1) in these statements, after the new bond issue failed for the reasons explained, and given the manifest impossibility to meet the next milestones in the pay back of the financial debt, such as the amortisation to maturity in November 2013 of the debenture bond issue "Simple Debentures Zinkia 1st issue", the parent Company requested, on October 31st 2013, the legal procedure under art. 5 bis of the Insolvency Act in order to renegotiate the payment conditions and reach an agreement that would afford the total repayment of obligations.
And as consequence, at the General Meeting of Bondholders of the "Zinkia's Simple Debentures 1st Issue" of 2010, which took place on December 9th 2013, it was agreed the modification of the Final Terms of "Zinkia's Simple Debentures 1st Issue" as follows:

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, such as it was stated in note 2.f.1) the parent Company decided to file for the declaration of voluntary arrangement with creditors. The submission of voluntary arrangement with creditors made the negotiation process with the main creditors null and void, until the arrangement is finally approved. The Company has presented an Advanced Proposal of Arrangement that Bond holders have adhered. And if such Proposal is approved by the majority required by Law, it shall be approved by the insolvency administrator and by the competent judge, as required.

The procedure of the arrangement with creditors makes it impossible to analyse the liabilities above specified by their maturity since 99% correspond to the Parent Company.

The maturity of the credit of sub-group Cake is as follows:

Euro		
Maturity	**6/30/2014**	**12/31/2013**
2014		168,679
2015	134,597	92,842
2016	18,820	
Total	**153,417**	**261,522**

Except for the credit corresponding to the Sub-group Cake, which is in Sterling pounds, the rest of the debt is referenced in Euros.

Given the fact that 99% of the financial liabilities of the Group belong to the Parent Company, and because of its insolvency situation, it is not possible to establish an average debt rate updated for the Group. Taking this into consideration, the weighted average rate shall be the same as the rate in the financial liabilities of the Group at the year-end of 2013, which is 6, 66%.

Financing Sources	Rate
Bonds issue	11.00%
Private Loan	9.75%
Financial entities and other	4.00%
Average weighted rate	**6.66%**

For the same reason it is not possible to distribute the debt of the Group according to their referenced interest rate since the conditions of the contracts are null and void. For the credit of the sub-group Cake, the interest rate is variable.

At the end of the previous year, 82% of the debt was fixed-rated and the remaining 18% was variable.

15. Derivative financial instruments

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 30th 2014 and 2013 the parent Company has signed a C.A.P. swap contract with an issue premium of EUR 3,950. This C.A.P., at the end of the first semester in 2014 has a positive assessment of EUR 3. The notional principal of the interest rate on swaps outstanding at June 30th 2014 and at year-end 2013 amounted to EUR 200,000. This contract, just like all the others, is temporarily suspended.

At year-end 2013 fixed interest rate was 1.95%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under “Adjustments due to change in values” for interest rate swaps contracts at June 30th 2014 will be transferred to the income statement.

16. Deferred taxes, income tax and other taxes

The changes under the heading of “Deferred tax assets" and "Deferred tax liabilities" on the Interim Consolidated Statement of financial position are as follows:

Euro	12/31/2013	Additions	Reductions	6/30/2014
Tax credits for tax-loss carryforwards	2,094,924		(349,154)	1,745,770
Other tax credits	3,224,279	-	(2,028)	3,222,251
Deferred tax assets	**5,319,203**	**-**	**(351,182)**	**4,968,021**
Temporary differences - amortisation	21,013	-	-	21,013
Reversal temporary differences - amortisation	(11,592)	-	-	(11,592)
Temporary differences-deferred income	54,574	-		54,574
Tax effect expense recognized in equity		-		-
Deferred tax liabilities	**63,994**	**-**	**-**	**63,995**

The recognition of deferred tax assets is detailed as follows;

- Outstanding tax loss carry forwards from previous years

DESCRIPTION	TO OFFSET	TERM
Tax loss carryforward FY 2013	1,343,042	2030/2031
Tax loss carryforward FY 2011	704,683	2029/2030
Tax loss carryforward FY 2010	3,014,994	2028/2029
Tax loss carryforward FY 2009	1,920,359	2027/2028
TOTAL	**6,983,078**	

- Outstanding double tax deductions from previous years

YEAR	DESCRIPTION	TERM	OUTSTANDING DED.	DEADLINE
2011	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.14	2018
2011	International (art. 31 C.I.T.)	-	95,048	2021
2009	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.61	2016
2009	International (art. 31 C.I.T.)	-	60,455	2019
2008	Intercompany (art. 30.1 and 3 C.I.T.)	-	2.11	2015
2008	International (art. 31 C.I.T.)	-	40,693	2018
2007	International (art. 31 C.I.T.)	-	32,672	2017
TOTAL			**462,068**	

- Outstanding investment deductions from previous years

YEAR	DESCRIPTION	TERM	OUTSTANDING DED.	DEADLINE
2012	Foment AE´S	25	6,630	2027
2012	Research and development expenses	25	101,695	2027
2011	Film productions	25	312,295	2026
2011	Non-profit entities donation	-	158	2026
2010	Technology, information and comunication investment	25	222	2028
2010	Exporting entities	25	5,002	2025
2010	Professional training expenses	25	34	2025
2010	Non-profit entities donation	-	2,392	2025
2009	Technology, information and comunication investment	25	12,427	2027
2009	Exporting entities	25	1,945	2024
2009	Professional training expenses	25	43	2024
2009	Non-profit entities donation	-	8,049	2024
2008	Research and development expenses	25	57,288	2026
2008	Technology, information and comunication investment	25	633	2026
2008	Film productions	25	61,859	2023
2008	Exporting entities	25	5,968	2023
2008	Professional training expenses	25	350	2023
2008	Non-profit entities donation	-	13,843	2023
2007	Research and development expenses	25	95,680	2025
2007	Technology, information and comunication investment	25	1,435	2025
2007	Film productions	25	317,823	2022
2007	Exporting entities	25	2,363	2022
2006	Research and development expenses	25	89,859	2024
2006	Technology, information and comunication investment	25	13,759	2024
2006	Film productions	25	614,160	2021
2006	Exporting entities	25	6,952	2021
2006	Professional training expenses	25	990	2021
2005	Research and development expenses	25	198,897	2023
2005	Technology, information and comunication investment	25	8,477	2023
2005	Film productions	25	591,521	2020
2005	Exporting entities	25	21,676	2020
2005	Professional training expenses	25	937	2020
2004	Research and development expenses	25	104,663	2022
TOTAL			**2,660,025**	

The item Other Tax Credits included double tax deductions and investment deductions which have been detailed above.

The deferred tax assets for outstanding tax loss carry-forwards are registered to the extent that it is probable that the Group's future taxable profits shall enable their implementation. The Group, despite its current situation, trusts its ability to generate future benefits, so it has not changed the accounting policy for this item.

As a consequence of what is stated in the note of events after the date of presentation of the present Interim Consolidated Financial Statements at June 30th2014, 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 30th 2014 totalled EUR 6,983,072.

The Group considers recoverable tax credits in accordance with forecast figures submitted to the market.

As detailed above, the Group considers tax credits for tax-loss carry forwards based on estimations for the coming years and always taking into account tax credits deadlines set by tax regulations as a recovery term of not more than 10 years.

The Group has not tax credit for which have not been recognized deferred tax assets.

The consolidated "Corporate tax expense" was determined as shown on the following table:

Euro	6/30/2014	6/30/2013
Consolidated profit before taxes	(419,427)	(1,557,988)
Non-deductible expenses and non-computable income	-	
Adjusted accounting profit	**(419,427)**	**(1,557,988)**
Corporate income tax		
Withholding taxes from income earned abroad	28,964	119,163
Deferred tax	245,010	(404,773)
Application of tax credit to offset tax loss carryforwards	-	
Income tax expense	**273,974**	**(285,610)**

Re-conciliation between profit before tax and income tax expense at rate applicable is as follows:

Euro	6/30/2014	6/30/2013
Consolidated profit before taxes	**(419,427)**	**(1,557,988)**
Effective rate	-65%	18%
Accrual expense C.I.T.	**273,974**	**(285,610)**
Non-deductible expenses effective rate effect		-
Reductions pending to apply	-	-
C.I.T.	**273,974**	**(285,610)**

Due to the Group has revenues in different jurisdictions, the applicable rate is determined by the ratio between the income tax expense (excluding the tax credits effect) and adjusted consolidated profit before taxes.

The details of the debit and credit tax balances with tax authorities at June 30th 2014, compared to last year's are as follows:

Euro	6/30/2014	12/31/2013
Deferred tax assets	-	-
Tax credtis for tax-loss carryforwards	4,968,021	5,319,202
Corporate income tax assets	1,792	4,343
Other tax receivable	114,776	51,788
Tax receivables	**5,084,589**	**5,375,333**
Deferred tax liabilities	63,995	63,994
Corporate income tax payable	15,703	113,009
Other tax payable	490,786	462,452
Tax payables	**570,484**	**639,455**

At June 30th 2014, the Group has been granted a deferment from the Social Security 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 the creditor procedure, such conditions are null and void until the arrangement with the creditors establishes the new conditions.

As stated in note 10 herein, the Company has pledged as security for such deferment, the economic rights of three clients. At June 30th 2014 there is an amount of EUR 3,401 in the account of receivables related to these customers.

17. Trade and other payables

Accounts payable include the outstanding balances due for purchases, services rendered and related costs. This caption also includes the payables derived from the acquisition of fixed assets.

Euro	6/30/2014	12/31/2013
Suppliers of services provided	5,179,440	5,101,232
Other	7,970	24,852
Total	**5,187,410**	**5,126,084**

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

	6/30/2014	12/31/2013
Euro	2,640,736	2,506,678
US dolar	2,291,884	2,151,248
Pound sterling	249,276	462,187
Yuan	5,330	5,971
Other currencies	185	5,971
Total	**5,187,410**	**5,126,084**

It is the opinion of the directors of the Parent Company that the carrying value of these balances is close to the fair market value.

18. Balances and transactions with related parties

The transactions between the Parent Company and its related-party subsidiaries were eliminated in the process of preparing these Interim Consolidated Financial Statements. The transactions between the Parent Company and its subsidiaries are detailed in the respective Interim individual financial statements.

The balances maintained with related parties at June 30th 2014 are as follows:

	06/30/2014		12/31/2013	
Euro	Receivables	Payables	Receivables	Payables
Trade payables				
José Mª Castillejo Oriol		44,858		-
Roatán Comunicaciones SL		76,907		59,926
Armialda, S.A (Yeguada Floridablanca, S.A.)		250,444		333,287
Current account with related parties	*21,491*		*20,688*	
Loans, long term				
Other related parties				
Loans short term				
Other related parties				27,927
Short-term loans				
Jomaca 98, S.L.	-		476,666	
Total	**21,491**	**372,210**	**497,354**	**421,140**

The terms and conditions for the payment of the outstanding amounts with related parties, since they belong 100% to the Parent Company and to its insolvent debt, are subject to the approval of the arrangement with the creditors that will establish the payment terms.

The Group has decided to recognise 100% impairment on the guarantee granted by Jomaca, since the loan matured last December 31st 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.

The related-party transactions were as follows:

	06/30/2014		06/30/2013	
Euro	**Expenses**	**Incomes**	**Expenses**	**Incomes**
Jomaca 98, S.L.	-	-	-	15,582
José Mª Castillejo Oriol	115,000	-	-	-
Roatán Comunicaciones SL	59,183	-	-	-
Armialda (Yeguada)	25,000	-	100,000	-
HLT, Bv	91,481	-	76,320	-
Other related parties	123	-	2,348	-
Total	**290,787**	**-**	**178,668**	**15,582**

Transactions with related parties are equivalent to those that were at arm's length transaction.

The related parties incomes and expenses are detailed as follows: expenses of Roatán, Armialda, José María Castillejo, and HLT, Bv, correspond to advising services in communication, the former, and to consulting services, the rest of them.

Other related parties expenses correspond to financial expenses of the short-term loans.

19. Income and expense

Net sales

The breakdown of this account for this period is as follows:

Euro	**06/30/2014**	**06/30/2013**
Content	2,521,112	3,093,404
Licensing	1,239,222	271,072
Advertising	881,611	736,116
Total	**4,641,945**	**4,100,592**

The breakdown by geographic area is as follows:

Market	**6/30/2014**	**6/30/2013**
Domestic	15%	10%
Abroad	85%	90%
Total	**100%**	**100%**

The most relevant country in the item of revenues is USA which totalling EUR 1,375,607 at the end of the first semester in 2014. For the same period, last year it was still the USA the most relevant country with an amount of EUR 2,198,590

Other operating revenues

The breakdown of this account for this period is as follows:

Euro	6/30/2014	6/30/2013
Own work capitalized	493,527	605,768
Release to Income Statement-deferred income	4,831	-
Totales	**498,358**	**605,768**

The amounts recognized in the item "own work capitalized" corresponds to the costs incurred in the production of audiovisual projects of the Group.

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".

Staff expenses

The composition of "Staff expenses" on the Interim Consolidated Income Statement is as follows:

Euro	06/30/2014	06/30/2013
Wages and salaries	1,372,615	1,073,664
Compensations	330	3,257
Employer social security costs	284,626	248,328
Other expenses	1,507	1,293
Total	**1,659,078**	**1,326,542**

The breakdown by professional category and gender is as follows:

CATEGORY	06/30/2014		06/30/2013	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	6	16	9	13
3-YR DEGREE HOLDER	3	1	3	1
SR.MANAGER	5	1	4	1
MANAGER 1	-	-	1	3
MANAGER 2	2	1	2	-
OFFICIAL 1	9	4	7	1
OFFICIAL 2	1	-	1	-
ASSISTANT	1	4	1	4
PROGRAMMER	-	-	2	0
OPERATOR	6	2	0	0
GRANT HOLDER	1	0	-	-
CHARWOMAN		1	-	-
Total	**34**	**30**	**30**	**24**

The average number of employees at the consolidated level was determined based on the total number of employees of the fully consolidated companies.

External services

The composition of this caption is as follows:

Euro	06/30/2014	06/30/2013
Operating leases	143,945	170,607
Independent professional services	2,099,284	2,883,130
Other expenses	411,823	700,305
Impairment losses on commercial transactions	60,669	23
Total	**2,715,721**	**3,754,065**

Depreciation and provisions

The composition of this caption is as follows:

Euro	06/30/2014	06/30/2013
Intangible asset depreciation charge	495,108	692,542
Property, plant and equipment depreciation charge	17,958	22,879
Total	**513,066**	**715,421**

Financial income and expense

The specifics of this item are as follows:

Euro	06/30/2014	06/30/2013
Finance income due to credits to related parties	-	15,582
Other	100,524	295
Finance Income	**100,524**	**15,877**
Finance and similar costs	(205,182)	(519,354)
Exchange profit/losses	(16,399)	74,031
Finance expense due to debts to related parties	(123)	(2,348)
Impairment financial assets	(476,666)	-
Finance Cost	**(698,370)**	**(447,671)**
Net financial expense	**(597,846)**	**(431,794)**

Regarding the financial expenses, they correlate mainly to correction at amortised cost included under the heading of non-current clients.

Financial incomes are mainly due to the financial debts of the Group classified under the heading Loans and receivables.

The impairment in the table corresponds to the loan that the Group had granted to Jomaca 98, S.L. The Group has decided to recognise 100% impairment because of Jomaca's insolvency. 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 Group's balance result of EUR 476,666.

20. Based payment transactions in equity instruments

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

On October 10th, 2011, the parent 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 shall be entitled to all beneficiaries of plan will be of 1,200,000 shares.

-The plan will last 5 years having the beneficiaries entitled to receive annually 20% of total shares to which they were entitled.

-The delivery of shares is conditional on at the time of execution of the plan, the value of the stock has appreciated by at least 30% of the value of share price as at June, 30th, 2011. In addition, the parent Company shall have obtained in the previous year distributable profits, fee only 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 30th 2014, there were no conditions mentioned above to implement the plan, so no need to recognize both the good or services received as an increase in equity.

b) Other share based payment

On March 11th 2011, the parent 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 parent Company amounting to euro 300,000, must provide, upon maturity of the loan- February 14th 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 parent Company undertakes to cover the difference in share or cash.

The Parent Company acquired treasury shares amounting to 300,000 Euros as reflected in the funding agreement. Such treasury shares are listed in a ledger account and in a separate securities account, and dimes the company's equity. The endpoint in the Balance Sheet is the same as in the rest of the treasury shares, valued at weighted average price. In the event that the value of the shares at that date is less than such amount, the Company agrees to cover the difference in shares or cash.

Concerning this operation, the number of shares acquired amounted to 206,881, and their market value at June 30th 2014 was EUR 99,303 and EUR 148,954 at year-end 2013.

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

21. Contingencies and guarantees

At June 30th 2014 the Group has not registered any provision. This is due to the advice both of our legal department and our external law firm representing the Company, since they all estimate that the risk taken by the Group is low. On the date of preparation of these Interim Consolidated Financial Statements, it is not as yet possible to estimate the economic impact, if any, deriving from those events.

At 31st December 2013, the Group has registered a provision amounting to EUR 100.000 corresponding to the administrative decision issued by the CNMV by virtue of a penalty process. At the time of presentation of these Interim Consolidated Financial Statements, there are no modifications on this matter.

At June 30th 2014, the Group has the following guarantees:

Two guarantees granted by Avalmadrid SGR amounting to EUR 200,000 and EUR 2,000,000, both of them aimed at guaranteeing two loans for the same amounts.

The third guarantee amounts to EUR 748,198, granted by another entity whose funds for the pledge were deposited by a private entity at the parent Company's name. This guarantee has been required by the Ministry of Industry in order to obtain funds corresponding to the call for “Strategic Action for Telecommunications and Information Society”, 2012 annuity, within the Subprogram “Competitiveness, R+D”(Avanza programme).

Also, the parent Company has deposited EUR 135,493 in cash at the General Deposit as a guarantee in favour of the Ministry of Industry, as required in order to obtain the corresponding aid of the call for “Strategic Action for Telecommunications and Information Society”, 2013 annuity, within the Subprogram “Strategic Action for Digital Economy and Society”.

22. Director and senior management compensation

Remuneration of the members of the Board of Directors

In the first semester of 2014, as in 2013, the members of the Board of Directors received no remuneration for sitting on the Board.

In the first semester of 2014, as in 2013, no contributions have been made to pension plans or funds for former or current members of the parent Company’s Board of Directors. No such obligations were incurred during the period.

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 parent Company is committed to the members of the Board, a plan for long-term variable remuneration consisting of the delivery of shares (Note 20).

Compensation and loans to senior management personnel

During the first semester of 2014, the remuneration received by members of the Board of Directors to carry out tasks of senior management in the Group amounted to EUR 241,385 (EUR 394,623, in 2013). On the other hand, the remuneration received by other senior management personnel different than the members of the Board of Directors of the Group has earned gross wages totalling EUR 45,000 (for the same period at year-end 2013 EUR 48,069). Number of senior management staff has decreased compared to the same period in 2013.

It should be noted that their labour contracts are complemented by private agreements containing special exit clauses. The compensation of said employees could amount to a 24 month worth salary, additional to the corresponding legal compensation per year worked, in the event some of the conditions in those agreements should take place.

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

Article 229, paragraph 2 of the Spanish Capital Companies Act, as worded in Law 26/2003 (July 18th), 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 Castillejo 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 of the Parent Company, Mr. José Carlos Solá Ballester is manager and main shareholder of an audiovisual producer called Cien por Cien Cine, S.L.

The other members of the Board of Directors hold no shares in companies having the same, similar or complementary type of activity to that which is the social aim of the Companies within the Group.

23. 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.

24. Earnings per share

Basic earnings per share

The basic earnings per share are calculated as the quotient between the net profit for the period attributable to the parent company and the weighted average number of ordinary shares in circulation during the period, without including the average number of shares of the Parent Company in the portfolios of Group companies.

Euro	6/30/2014	6/30/2013
Profit Attributable to the equity holders of the parent	(529,676)	(1,063,835)
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(281,503)	(455,280)
Average number of shares outstanding	24,164,174	23,990,397
Basic earning per share (euros)	**(0.02)**	**(0.04)**

Diluted earnings per share

The calculation is similar for diluted earnings per share, except that the weighted average number of shares in circulation is adjusted to account for the potentially diluting effects of stock options, warrants and convertible debt at the end of the year. The Group Zinkia Entertainment has not issued any instruments of this kind, so the basic earnings per share match the diluted earnings per share.

25. Auditors' fees

The professional fees of Garrido Auditores, S.L. for auditing individual and consolidated interim financial statements for the Company at June 30th 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).

26. Events after the Financial Statement date

The Parent 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.

Cake's minority shareholders, considered the Parent 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 Parent 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 14th 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.

27. Other disclosures

Information on deferred payments to suppliers. Third additional provision of Law 15/2010 of July 5th 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 30thJune 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 Parent 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.

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

On November 10th 2011, the parent 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 parent Company bound for placement among U.S. investors. Each ADR representing 5 shares of the parent Company .This transaction did not increase in capital or increase funding for the parent Company to be made with shares already issued.

Signed Interim Consolidated Financial Statements

These Interim Consolidated Financial Statements are signed by the members of the Board of Directors, at the time of the preparation of such statements during the Board of Directors meeting held in Madrid on August, 28th 2014.

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

Business Performance and Group 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 Group 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 have made it very difficult and burdensome for any operator to access credit. For the Group, 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 Group and in order to allow it 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 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 Parent 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 07th 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 Group 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 Group 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 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Parent Company.

For this reason, at June 30th 2014, the Group 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 Group's business.

In spite of being subject to an insolvency procedure, the Group 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 increase in the sales over the previous period (13%) and the containment of expenditure items lead to an increase in the EBITDA ratio of over 270%. 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 Group itself to develop and produce its interactive audiovisual projects.

The Group 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 25% 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 28% compared to the previous period.

The Group's Working Capital presents a negative figure amounting to approximately EUR 2.4 million at June 30th 2014. The Parent Company, as it has been stated, is subject to an insolvency procedure since last 7th 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 these Financial Statements

The Parent 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 Parent 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.

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 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, the Parent Company 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 Parent Company a loss.

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 14th 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 Parent 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 years 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 30th 2014, and as it has been above-mentioned, almost all of the Group's debt belongs to the Parent Company. At June 30th 2014, Zinkia 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 30th 2014 the Group 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 6.66%.

Acquisition of treasury shares

At June 30th 2014, the Group has not made any transaction with its treasury shares.

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

DECLARATION OR RESPONSIBILITY FOR INTERIM FINANCIAL STATEMENTS (JUNE 30th 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 28th 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 28th 2014

Mr. José María Castillejo Oriol

Mr. José Carlos Solá Ballester

JOMACA 98, S.L., represented by
Mr. Julio Covacho López