GARRIDO
AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Report on Limited Review,
Interim Consolidated Financial Statements
and Consolidated Director´s Report
at June 30, 2015

Translation of a report originally issued in Spanish based on our work performed in accordance with the International Standard on Review Engagements 2410, in force in Spain and of interim 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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REPORT ON LIMITED REVIEW OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Zinkia Entertainment, S.A., at the request of the Directors:

Report on the interim consolidated financial statements

Introduction

We have carried out audited a limited review of the accompanying interim consolidated financial statements of Zinkia Entertainment, S.A., (hereinafter the parent company) and its subsidiaries (hereinafter the group) comprising the statement of financial position at June 30, 2015, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and explanatory notes thereto for the six months period ended on this date. The Parent Company's directors are responsible for the preparation of said interim financial statements in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union to prepare complete interim financial statements. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our limited review.

Scope of the review

We have performed our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity." A limited review of interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim consolidated financial statements.

Basis for Qualified Conclusion

The financial expenses included under “Net financial expenses” in the accompanying interim consolidated income statement for the six month period ended June 30, 2014, which is presented only for comparative purposes, does not include an amount of financial expenses of euro 188.000 which were not recognized because of the company had been declared in voluntary arrangement with creditors on April 7th, 2014. As consequence, in the comparative figures at June 30 2014 which are presented only for comparative purposes, financial expenses and financial liabilities must be augmented, and the equity must be reduced, in the said amount. These financial expenses were already recognized in the consolidated financial statement at December 31 2014, and also in the accompanying Interim Consolidated Financial Statements for the six months period ended on June 30 2015. Additionally it is noted the fact that on July 24, 2015 the Commercial Court of Madrid nº8 judicially approved the Creditors' Arrangement. Our audit opinion on the interim consolidated financial statements at June 30, 2014 contained a qualification with this respect.

Conclusion

During the course of our limited review, which under no circumstances can be considered an audit of accounts, except for the effects of the fact described in the in the preceding paragraph about the comparative figures at June 30 2014, no matter came to our attention which would lead us to conclude that the accompanying interim consolidated financial statements for the six-month period ended June 30, 2015 have not been prepared, in all significant respects, the equity and financial position of Zinkia Entertainment, S.A. and its subsidiaries at June 30, 2015 and the results of its operations and cash flows for the 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.

Emphasis paragraphs

We draw attention to what is indicated in accompany explanatory note 2.f), 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 company´s ability to continue its operations. Nevertheless, the parent company´s directors have prepared the accompanying interim consolidated financial statements on a going concern basis, because they believe that the adoption of a number of measures, and the judgment of the Commercial Court No. 8 in Madrid on July 24, 2015 under which the Creditor´s arrangement is judicially approved, described in the note will allow to obtain financial resources and the required agreements to accomplish all the parent company´s commitments. This matter does not change our opinion.

We draw attention to what is indicated in note 21 of the accompanying explanatory notes, which indicates that during the first half of 2015 has been initiated a process of resolving a dispute regarding a contract with an US customer to develop educational applications. The evolution of the outstanding balance at June 30, 2015 which amounts to euro 2.672.267, as well as the caption "Current accruals and deferred income" amounting to euro 2.055.590 could be affected by the above mentioned process which is in a very early stage. This matter does not change our opinion.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for the six months period ended June 30, 2015 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 directors' report is consistent with that contained in the interim consolidated financial statements for the six month period ended June 30, 2015. Our work 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.

Paragraph on other issues

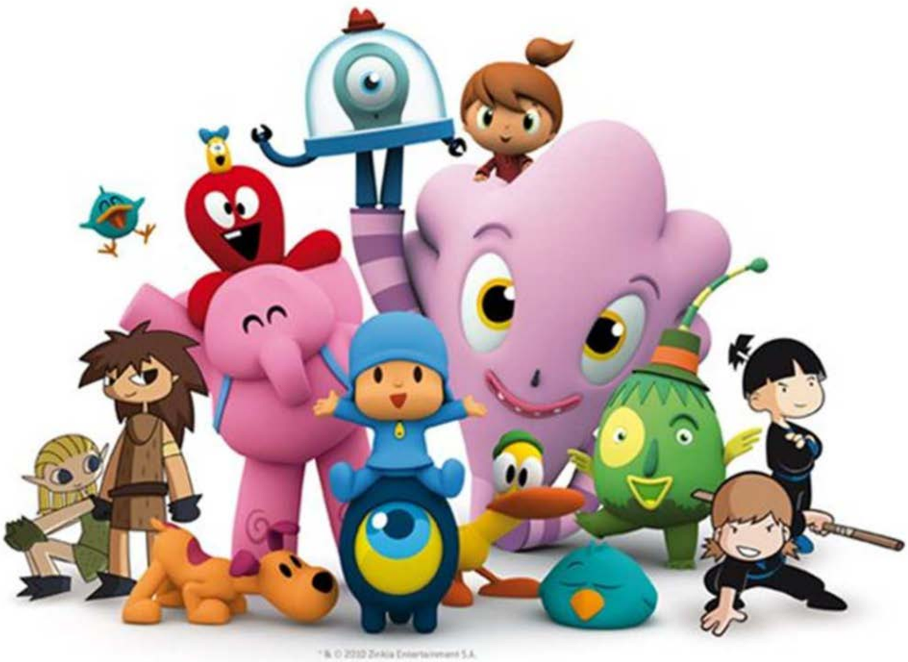
This report has been prepared at the request of the Board of Directors with regard to the publication of the semi-annual financial report required by article 35 of Securities Market Law 24/1988, of July 28, further developed by Royal Decree 1362/2007, of October 19.

Garrido Auditores, S.L.

David Jiménez Matías
August 26, 2015

ZINKIA ENTERTAINMENT, S.A. and SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIODO ENDED JUNE 30th, 2015



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ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30th 2015 (In EUR)

ASSETS	Note	6/30/2015	12/31/2014
Intangible Assets	7	8,147,424	8,404,571
Property, plant and equipment	8	38,612	37,135
Non-current financial liabilities		300	300
Deferred tax assets	16	6,127,764	6,165,463
Non-current trade and other receivables	10	283,866	1,565,282
NON-CURRENT ASSETS		**14,597,966**	**16,172,750**
Trade and other receivables	10	3,590,483	3,332,878
Corporate income tax assets		-	-
Other tax receivables	16	986	4,005
Current financial assets	9	1,120,988	1,115,996
Cash and cash equivalents	11	2,875,614	1,840,980
Other current assets	9, 18	5,823	3,393
CURRENT ASSETS		**7,593,894**	**6,297,251**
TOTAL ASSETS		**22,191,861**	**22,470,001**

EQUITY AND LIABILITIES	Note	6/30/2015	12/31/2014
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	964,622	964,622
Treasury shares	12	(403,841)	(403,841)
Translation differences	12	-	-
Retained earnings	12	(7,541,452)	(3,504,172)
Profit attributable to the equity holders of the parent		84,703	(4,037,280)
TOTAL EQUITY OF THE PARENT		**5,120,621**	**5,035,919**
Profit attributable to minority interest		-	-
Minority interest	12	-	-
EQUITY		**5,120,621**	**5,035,919**
Deferred income	13	138,573	138,573
Non-current financial liabilities	14	3,838,738	4,027,867
Deferred tax liabilities	16	53,660	53,660
Non-current accruals and deferred income	13	-	1,262,675
NON-CURRENT LIABILITIES		**4,030,972**	**5,482,775**
Other liabilities and expenses accruals	22	100,000	100,000
Current financial liabilities	14	8,340,055	7,846,269
Current trade and other payable	17	2,368,849	2,424,083
Corporate income tax payable	16	-	-
Other tax payable	16	175,773	193,098
Current accruals and deferred income	13	2,055,590	1,387,859
CURRENT LIABILITIES		**13,040,268**	**11,951,308**
TOTAL EQUITY AND LIABILITIES		**22,191,861**	**22,470,001**

Notes 1-27 are an integral part of the consolidated statement of financial position at June 30th 2015

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED INCOME STATEMENT AT JUNE 30th 2015 (In EUR)

Euro	Note	6/30/2015	06/30/2014**
Revenue from operations	19	3,062,166	2,925,541
Other operating income	19	428,147	498,358
Total revenue		**3,490,313**	**3,423,899**
Cost of goods sold	19	(158,049)	(68,606)
Cost of employees	19	(1,183,146)	(1,212,918)
Other operating expenses	19	(1,031,691)	(1,063,720)
Amortizations and depreciations	19	(694,055)	(506,442)
Total expenses		**(3,066,941)**	**(2,851,686)**
Operating Income		**423,372**	**572,213**
Net financial expense	19	(275,684)	(544,675)
Impairment and gains/losses on sales of assets	7, 8	-	(5,413)
Profit before tax		**147,688**	**22,125**
Corporate income tax	16	(62,985)	(380,145)
Profit from continued operations		**84,703**	**(358,020)**
Net profit from discontinued operations	2g	-	**(335,383)**
Profit for the period		**84,703**	**(693,403)**
Profit attributable to minority interest		-	-
Profit attributable to the equity holders of the parent		**84,703**	**(693,403)**
Basic and diluted earnings per share	24	0.0035	(0.0287)

** (see note 2g)

Notes 1-27 are an integral part of the interim consolidated income statement at June 30th 2015

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT JUNE 30th 2015 (In EUR)

Euro	6/30/2015		06/30/2014**	
	Equity holders of	Minority	Equity holders of	Minority
Profit (loss) for the period	84,703		(693,403)	-
Income and expenses recognized directly in equity	-	-	29,780	-
Reclassification included in the income statement	-	-	-	-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**84,703**	**-**	**(663,623)**	**-**

** (See note 2g)

Notes 1-27 are an integral part of the interim consolidated income statement for the first semester of 2015

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT JUNE 30th 2015 (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 2014		**2,445,677**	**9,570,913**	**918,423**	**50,149**	**-**	**(403,841)**	**(3,504,172)**	**(4,037,280)**	**(3,950)**	**5,035,919**	**-**	**5,035,919**
Adjustments due to mistakes 2014		-	-	-	-	-	-	-	-	-	-	-	-
ADJUSTED POSITION AT JANUARY 2015		**2,445,677**	**9,570,913**	**918,423**	**50,149**	**-**	**(403,841)**	**(3,504,172)**	**(4,037,280)**	**(3,950)**	**5,035,919**	**-**	**5,035,919**
Total comprehensive income recognized		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,703**	**-**	**84,703**	**-**	**84,703**
Transactions with shareholders		**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital increases													-
Trading in treasury shares	12	-	-	-	-	-	-	-	-	-	-	-	-
Other movements in equitly		**-**	**-**	**-**	**-**	**-**	**-**	**(4,037,280)**	**4,037,280**	**-**	**-**	**-**	**-**
FINANCIAL POSITION AT JUNE 2015		**2,445,677**	**9,570,913**	**918,423**	**50,149**	**-**	**(403,841)**	**(7,541,452)**	**84,703**	**(3,950)**	**5,120,621**	**-**	**5,120,621**

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 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 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**	**-**	**-**	**(693,403)**	**(3)**	**(663,623)**	**-**	**(663,623)**
Transactions with shareholders		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital increases													-
Trading in treasury shares	12	-	-	-	-	-	-	-	-	-	-	-	-
Other movements in equitly		**-**	**-**	**-**	**11,433**	**-**	**-**	**(985,576)**	**1,002,467**	**-**	**28,324**	**16,637**	**44,961**
FINANCIAL POSITION AT JUNE 2014		**2,445,677**	**9,570,913**	**918,423**	**(392,526)**	**72,855**	**(403,841)**	**(3,028,398)**	**(693,403)**	**(3,950)**	**8,485,750**	**354,790**	**8,840,540**

** (See note 2g)

Notes 1-27 are an integral part of the interim consolidated income statement for the first semester of 2015

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED CASH FLOW STATEMENT AT JUNE 30th 2015 (In EUR)

	6/30/2015	6/30/2014
A) CASH FLOWS FROM OPERATING ACTIVITIES		
1. Profit before tax	**147,688**	**(419,427)**
2. Non cash adjustments for	**969,739**	**1,110,034**
a) Depreciation and amortisation charge	694,055	513,066
b) Non-current assets provisions	-	476,666
c) Results in non-current assets operations	-	(1,460)
d) Financial income	(79,776)	(100,524)
e) Financial costs	373,315	205,305
f) Exchange differences	8,376	16,399
g) Recognition of grants	-	(4,831)
h) Other income and costs	(26,231)	5,413
3. Changes in working capital	**346,102**	**61,918**
a) Trade and other receivables	(265,381)	(528,135)
b) Other current assets	(2,430)	47,280
c) Trade and other payables	(72,558)	91,917
d) Other current liabilities	667,731	66,321
e) Other non-current assets and liabilities	18,741	384,535
4. Other cash flows from operating activities	**945**	**(159,215)**
a) Interest paid	-	(105,217)
c) Collections (payments) for corporate income tax	(25,286)	(48,588)
d) Other payments (collections)	26,231	(5,413)
e) Interest collect	-	2
5. Net cash flows from operating activities (1+2+3+4)	**1,464,475**	**593,309**
B) CASH FLOW FROM INVESTING ACTIVITIES		
6. Investments payments (-)	**(438,385)**	**(534,627)**
c) Investments in intangible assets	(430,097)	(494,307)
d) Investments in property, plant and equipment	(8,288)	(6,429)
e) Investments in other financial assets	-	(33,891)
7. Investments proceeds (+)	**-**	**9,214**
b) Proceeds on other financial investments	-	9,214
8. Net cash flows from investing activities (7-6)	**(438,385)**	**(525,413)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	**-**	**-**
a) Trasury shares acquisition	-	-
b) Proceeds from disposals of treasury shares	-	-
10. Finance liabilities	**-**	**(138,577)**
a) Issue	-	-
1. Proceeds from issue of debentures and bonds		-
2. Proceeds from loans and borrowings	-	-
3. Proceeds from other liabilities	-	-
b) Repayments	-	(138,577)
1. Repayments of loans and borrowings	-	(110,792)
2. Repayments of other liabilities	-	(27,785)
12. Net cash flows from financing activities (9+10+11)	**-**	**(138,577)**
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	8,544	(16,399)
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	**1,034,634**	**(87,080)**
Cash and cash equivalents at January 1st	1,840,980	1,158,146
Cash and cash equivalents at June 30th	2,875,614	1,071,066

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30th 2015 (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 creation, production, promotion, development, management, distribution, exhibition and exploitation or commercialisation by any means, including the granting licences of trademark, designs, works (cinematographic or audiovisual, interactive or musical) as well as educational and training projects as well as the publishing of musical works and the purchase of products, be it by means of the traditional channels or by means of digital platforms.

b) Rendering services related to the creation, development, training and exploitation or commercialisation of interactive software, hardware and consulting in the field of telecommunications.

c) Buying and selling shares and debentures which may or may not traded in domestic or foreign stock markets, and other negotiable securities and real estate. By law, the Company's business activities exclude those activities reserved for stockbrokers, collective investment institutions and property leasing.

d) Managing and administering all kinds of companies including industrial, commercial and service companies and holding interests in existing or newly-created companies, either by participating in their governing bodies or by holding shares or financial interests in them. These activities may also be performed on behalf of third parties.

e) Providing the companies in which it holds interests with advisory, technical assistance and similar services in relation to their administration, financial structure or their productive or commercial processes.

f) Any other operation or industrial, commercial and credit activities that might complement or enhance the previous activities or that might be linked to them.

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

Zinkia is the parent company of the Group of companies listed in these Interim Consolidated Financial Statements. 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 as well as compared to the same period the previous year is as follows:

				6/30/2015				6/30/2014			
				% 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	0%	-	0%	-	100%	-	100%	-
Zinkia Educational, Inc República de Panamá	Incorported company	Explotation and management of audiovisual rights	No	100%	-	100%	-	0%	-	0%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	0%	-	0%	-	51%	-	51%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-	51%	-	51%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-		-	
HLT Productions Bv Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-	51%	-	51%

All subsidiaries in the Group have been consolidated at the end of the first semester 2015 by using the full consolidation method.

In the first semester of 2015 a change took place in the consolidated information, since at 07th April 2015, the Company incorporated a 100% owned subsidiary company. The parent Company has subscribed the total of the shares of Zinkia Educational, Inc. for a value of US$ 10,000. This subsidiary has its address outside the Spanish national territory, in Panama, which currency is the Balboa. However, Zinkia Educational, Inc. is likely to make all the transactions in U.S. Dollars since the subsidiary will operate internationally.

At 30th June 2015 the disbursement by the parent Company of the shares of Zinkia Educational, Inc. is still pending.

2. Basis of presentation of the Interim Consolidated Financial Statements

a) <u>Basis of presentation</u>

These Interim Consolidated Financial Statements of the Zinkia Entertainment Group for the first semester in 2015 have been formulated:

- By the directors of the Parent Company, Zinkia Entertainment, S.A., at the Board of Directors' meeting held on August, 26th 2015.

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 2015, of the results of its operations and of the changes in the Group's consolidated equity during 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 2015 were prepared in accordance with International Financial Reporting Standards and International Accounting Standards applicable at that date.

At June 30th 2015, the following International Standards have not been applied by the Group, together with lesser changes in the existing rules, since they were not required to the date of financial position statement for they had not been adopted yet by the European Union or because they might result applicable in future years:

- IFRS 9: Financial Instruments. It will be effective 1.1.2018
- IFRS 14: Regulated deferred statements. It will be effective 1.1.2016
- IFRS 15: Income derived from clients' agreements. It will be effective 1.1.2016 (deferred to 1/1/ 2018)

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 management 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 of 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.

- 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 company 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 Consolidated Interim financial balance sheet shows a negative Working Capital of EUR 5,446,374 at June 30th 2015 (EUR 5,654,057 at December 31st, 2014), mainly due to the maturity of the largest financial debts pointed at short-term in the balance of the Group.

On the other hand, the Consolidated Interim Financial Balance shows at June 30th 2015 a gain of EUR 84,703, (a loss of EUR 4,037,280 at December 31st 2015). Additional information is detailed as follows:

f.1) Situation of the Company and Renegotiation process

As noted in the Annual Financial Statements of the previous year, as the Company voluntarily entered the Arrangement with Creditors procedure on the 7th April 2014, the Board of Directors decided in May 2014 presenting an Advanced Proposal of Arrangement with Creditors (hereinafter, APAC) before the courts.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it was 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.

At July 11th 2014 and within the term granted by the court, the Insolvency Administration filed its favourable report on the content of the APAC that was presented by the Company regarding the Payments Schedule and the Plan of Viability.

Since that date and up to the preparation of the present Interim Financial Statements, the Company has been awaiting the positive decision of the court on the APAC which has been delayed due to circumstances until on the 29th July 2015 the Company was notified about the Sentence issued by the Madrid Court number 8 of the mercantile on the 24th July 2015 and by virtue of which the court approves the Arrangement with Creditors presented by the Company (see note 28). The approval of the APAC by the court will allow the Company to overcome its situation and satisfy its creditors under the terms established in the APAC, and relaunch the Company's business.

f.2) <u>Overdue balances at the year end and actions taken.</u>

By means of the judicial decision dated 7th April 2014, the Company was officially declared in arrangement with creditors, and as a consequence, from that date on, and according to the insolvency rules, the Company cannot proceed to pay any amount whatsoever regarding the debts generated prior to the date of the judicial decision. Such debt amounts are considered insolvency debts. This situation of insolvency means that a very important part of the liabilities of the Company, amounting to some EUR 13,500,000 approximately are is considered as insolvency debt the maturity of which shall be determined by the arrangement finally approved by the court.

f.3) <u>Actions to generate liquidity</u>

The Parent Company, in spite of being subject to an insolvency procedure, is still growing and working on the development of its business, increasing the revenue from its business activities and minimising as much as possible the costs derived from such procedure. Some of the actions taken to generate liquidity are as follows:

- Voluntary application by the Company of entering the procedure of arrangement with creditors and the alter approval issued by the court. As it has been mentioned before, all the debts that are previous to the declaration of Insolvency (7th April 2014) are considered insolvency debts and they shall be satisfied according to the proposed payments schedule. This has permitted the Company to continue in business, facing the recurrent costs (the essential costs) allowing thus savings in the cash flow generation which shall afford the payment of the future payments derived from the arrangement with creditors.

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

- Launching of a new international project by means of which the income from the licensing line of business is expected to increase notably.

- Zinkia is continuing its policy of cost reduction by binding costs to the generation of income to the possible extent. This point will favour the generation of liquidity very positively.

- The Company is still in the process of seeking funds to develop its business plan, while analysing possible alternatives at its disposal.

These activities are further detailed in the management report of the Company.

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

g) Comparative information

Such as it is described in Note 19 of the Consolidated Annual Financial Statements 2014 on discounted operations, the parent Company sold in July 2014 all the shares it had over Cake Entertainment Limited. According to the accounting variable rules in force, Zinkia Entertainment, S.A has modified the comparative figures in the Consolidated Interim Balance sheet at June 30th 2014 by recording the resulting net amount after tax corresponding to the Cake Group with the aim of homogenising figures so that they can be compared. As a consequence, the Consolidated Interim Balance sheet at June 30th 2014 included for comparative purposes under the Consolidated Interim Financial Statements at June 30th 2015, differs from the one included in the Consolidated Interim Financial Statements in that period as formulated by the Board of Directors at August 28th 2014.

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 2015 pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force at June 30th 2015.

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 stated 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 criteria 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.

At June 30th 2015, no good will is recorded under the consolidated figures.

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	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 asst 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 period.

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 interim 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 interim consolidated income statement.

3.8 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.

3.9 Treasury stock

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

3.10 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.

3.11 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 Consolidated Interim balance sheet date are discounted at present value.

Some employees in the Parent Company have special exit clauses in private agreements that complement their labour agreements.

In this regards, the severance pay of those employees could amount to 24 additional monthly payments regardless of their corresponding legal indemnity for each working year if any of the events in the private agreement were ever to take place. Those indemnities shall be recognised in the foreseen year or whenever such event might take place.

The Group has no other obligations to employees.

3.12 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 interim 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 interim 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.

3.13 Revenue recognition

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the 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 grants a license to the client by a fixed amount as explained above and a percentage of product sales. Monthly or quarterly client will report the amount of the sales and the company will invoice based on this information.

In accounting terms, 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.

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's estimates are based on historical results, taking into account customer type, transaction type and specific terms.

3.14 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 period between the recorded exchange rate and the rate in force on the payment or receipt date are recorded on the interim 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 interim 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 interim consolidated income statement.

3.15 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.

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.

3.16 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.

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

At June 30th 2015, approximately 80,69% of the Group's turnover is generated in countries whose local currency is not euro, 80,32% represents U.S. dollar and the remaining 0,37% represents other currencies. At June 30th 2014 the percentage of revenue from countries whose local currency is not euro raised to 61%, out of which 55% represented U.S. dollar. 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, Group 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 Group 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 adversely affected as the result of the conversion of those currencies into Euros at the exchange rate existing at the closing balance of items, income and expenses. By contrast, where the 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, they could continue oscillating. At June 30th 2015, the impact of the exchange rates on the net financial income was a loss of 8,376 euros representing a totally irrelevant percentage of the net financial income of the Group at the end of the present period. At June 30th 2014, the impact of the exchange rate on the net financial income was a loss of 16.399 euros, which represented approximately 3% of the financial balance.

Assets and liabilities in foreign currency are specified respectively in Notes 10 and 17.

(ii) *Price risk*

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

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

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.

The whole of the Group's financial liabilities are originated in the Parent Company. At June 30th 2015, Zinkia awaits the positive outcome of the arrangement with creditors, and therefore it is still not possible at the end of the semester to classify the debt according to their rate interests. At the end of the period in the previous year the situation was the same.

The last average credit rate of the Group calculated according to the original conditions of the debt that is now considered as insolvent debt 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, 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.

The Group considers there is no significant credit risk over its financial assets.

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 2015, net financial debt (total financial debt minus "Cash and equivalents") of the Company amounted to EUR 9,303,179. At December 31st 2014, this amount raised to EUR 10,033,155.

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

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

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

c) Liquidity risk

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

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.

At 30th June 2015 the Parent Company is still in Arrangement with Creditors, and therefore until the entry into force of the Arrangement liabilities are shown in the balance such as it would correspond to their contractual maturity but these maturities are not detailed because such contracts are left void and depend on the approval of the Advances Proposal of Arrangement with Creditors.

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 interim 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

The details and changes in the items under the Intangible Assets caption during the first semester in 2015 and 2014 were as follows:

Euro	Balance at 12/31/2014	Additions	Disposals or reductions	Transfers	Balance at 06/30/2015
Cost					
Research and development	5,209,145	428,147	-	(580,114)	5,057,179
Intellectual property	15,252,692	-	-	580,114	15,832,806
Computer software	565,319	1,950	-	-	567,269
Total	**21,027,157**	**430,097**	**-**	**-**	**21,457,254**
Accumulated Amortisation					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(11,411,517)	(677,520)	-	-	(12,089,037)
Computer software	(528,240)	(9,723)	-	-	(537,963)
Total	**(12,186,743)**	**(687,243)**	**-**	**-**	**(12,873,986)**
Impairment					
Development	(435,843)	-	-	-	(435,843)
Total	**(435,843)**	**-**	**-**	**-**	**(435,843)**
Total	**8,404,571**	**(257,146)**	**-**	**-**	**8,147,424**

Euro	Balance at 12/31/2013	Additions	Disposals or reductions	Transfers	Balance at 06/30/2014
Cost					
Research and development	5,775,021	493,527	-	(485,815)	5,782,734
Intellectual property	13,662,680	-	-	485,815	14,148,495
Computer software	564,539	780	-	-	565,319
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**

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

During the first semester in 2015 Industrial Property transactions were made amounting to EUR 580,114 corresponding to the finishing of applications (*apps*).

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 under intangible assets 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 recognised 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:

	Euro
SHURIKEN DEVELOPMENT	304,638
MOLA NOGURU DEVELOPMENT	1,617,384
FISHTAIL DEVELOPMENT	603,984
POCOYO DEVELOPMENT	1,346,254
OTHER DEVELOPMENT	19,668
PLAYSET DEVELOPMENT	150,257
ZINKIA CROUPIER DEVELOPMENT	332,166

For these developments the Group has considered, at year-end, 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 estimates as the weighted average rate of the different debts of the Group; this average rate, as we have stated above, is 4% since all the debt of the Parent Company is awaiting the outcome of the arrangement with creditors which establishes the new conditions of such debt. At June 30th 2015 the Group cannot classify the debt by their interest rate since the conditions of those agreements are void of any effect. 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.

In the first semester of 2015 the Group has not impaired any projects. At year-end 2014 the situation was the same.

Fully-amortised intangible assets

At June 30th 2015, there are fully depreciated intangible assets valued at EUR 10,824,325 still in use which correspond to software and audiovisual projects.

At June 30th 2014, there were fully depreciated intangible assets valued at EUR 10,581,111 still in use which correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At June 30th 2015 and 2014, no intangible assets were subject to ownership restrictions or had been pledged to secure liabilities.

Grants received in relation to intangible assets

The Group has not received during the first semester of 2015 any capital grants to develop its intangible assets.

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 12/31/2014	Additions	Disposals or reductions	Transfers	Translations Differences	Balance at 06/30/2015
Cost						
Machinery	31,689	-	-	-		31,689
Other equipment	38,198	-	-	-		38,198
Furnishings	76,297	-	-	-	-	76,297
Data-processing equipment	163,801	8,288		-		172,089
Other PPE	28,444	-	-	-		28,444
Total	**338,428**	**8,288**	**-**	**-**	**-**	**346,717**
Accumulated Amortisation						
Machinery	(31,640)	(49)	-	-		(31,689)
Other equipment	(33,662)	(687)	-	-		(34,349)
Furnishings	(61,267)	(1,749)	-	-	-	(63,016)
Data-processing equipment	(155,762)	(2,946)	-	-		(158,708)
Other PPE	(18,962)	(1,380)	-	-		(20,342)
Total	**(301,293)**	**(6,812)**	**-**	**-**	**-**	**(308,105)**
Impairment	-	-	-	-		-
Total	**37,135**	**1,477**	**-**	**-**	**-**	**38,612**

Euro	Balance at 12/31/2013	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**

Given that the functional currency of the Parent Company is Euro, and all the amounts under "Property, plant and equipment" are derived from the parent company, there are no net exchange differences derived from converting to this currency the financial statements.

Impairment losses

At June 30th 2015 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 2015 the Group had fully depreciated assets valued at EUR 251,353 still in use.

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

Property, plant and equipment subject to guarantees

At June 30th 2015, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. Same situation at June 30th 2014.

Commitments to purchase tangible fixed assets

At June 30th 2015 and 2014 the Group had assumed no commitments to acquire tangible fixed assets.

Assets under operating leases

The interim consolidated income statement includes operating leases on the rental offices for the Group and computer rentals, all of which total EUR 86,184 (EUR 143,945 for the same period the previous year).

At June 30th 2015 and 2014, the Group has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

In the first semester of 2015 and 2014 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	6/30/2015	12/31/2014
Non-current financial investments		
Equity instruments	300	300
Derivades assets	-	
Total	**300**	**300**
Current financial investments		
Equity instruments	141	149
Other financial assets	1,120,847	1,115,847
Total	**1,120,988**	**1,115,996**

At June 30th 2015 and at the previous year-end long-term the non-current financial investments include the minority equity shares held by the parent company.

On the other hand, among other current financial assets we find the EUR 748,198 that the Parent Company has deposited in cash 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 the Society of Information", 2012 annuity, within the sub-programme "Strategic Action of Economy and Digital Society" (Plan Avanza). The rest of the item includes the short-term securities, deposits and guarantees of the Group.

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 2015, as at the previous year-end, the Group has a deposit of restricted availability related to the bonds issuance of the parent company. The amount is EUR 209,937.

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 2015 and December, 31st 2014 is as follows:

Euro	6/30/2015	12/31/2014
Trade receivables	6,594,251	4,488,037
Trade receivables, long term	2,764,389	5,361,716
Accounts receivables	34,408	41,069
Bad debt provision	(5,518,700)	(4,992,662)
Total	**3,874,349**	**4,898,160**

Both under the head of current and non-current trade debtors there is an impaired amount corresponding to the Careers agreement at depreciated cost which, at June 30th 2015, amounts to EUR 2,613,567 in the first case, and to EUR 2,480,523 in the second case. These impaired amounts are found under the total balance of "Provisions" together with the rest of the impaired balances.

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

	6/30/2015	12/31/2014
Euro	699,064	1,653,489
Us dólar	3,175,285	3,218,654
Australian dolar	-	26,017
Total	**3,874,349**	**4,898,160**

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 other countries, at June 30th 2015 and at year-end 2014:

Market	**6/30/2015**	**12/31/2014**
Domestic	23%	5%
International	77%	95%
Total	**100%**	**100%**

The most relevant country in non-current assets is China which amounts to EUR 185.494 At year-end 2014 the USA were a significant country whose non-current assets amounted to EUR 1,262,675.

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 4,034. At the previous year-end this valuation amounted to a net increase in this item of EUR 2,365.

The rest of the impaired amounts under this item correspond mainly to liabilities from clients whose payments maturity are already over 6-month.

The amount of these impaired balances from trade debtors at June 30th 2015 has increased to EUR 5,518,700 (EUR 4,992,661 in 2014). The net variation corresponds, on the one hand, to an additional increase of EUR 36,784 that the Company has recorded as doubtful during the first semester of 2015, and, on the other hand, which corresponds mainly to the valuation of the CareersDiapers Llc. agreement at year-end interest rate which means an increase of EUR 420,477 in this item as well as at amortised cost, which increased in EUR 68.778. Ay the previous year-end the agreement was impaired as a precaution because although the commercialisation and management of the agreement is actually being executed, the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At present, Zinkia does not have the capacity to to estimate when the payments deriving from such agreement shall be received. This is reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

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

The fair value of financial assets does not differ substantially from the book value. On the other hand, the Company had been granted a stay by the General Treasury of the Social Security amounting to EUR 433,465, which has been secured with the economic rights of three customers. At the year-end, there is an amount of EUR 3,400 within the receivable accounts balance sheet related to these customers.

The voluntary entry of the Parent Company in the Arrangement with Creditors procedure has led the Social Security Treasury to end such delay which is not in force anymore at June 30th 2015. However, the guarantee bound to such delay is still in force.

Classification of financial assets (Notes 9 and 10)

	Euro					
	Non current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	06/30/2015	12/31/2014	06/30/2015	12/31/2014	06/30/2015	12/31/2014
Available for sale assets	300	300	-	-	-	-
Loans and accounts receivables	-	-	-	-	283,866	1,565,282
Total non current	**300**	**300**	**-**	**-**	**283,866**	**1,565,282**

	Current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	06/30/2015	12/31/2014	06/30/2015	12/31/2014	06/30/2015	12/31/2014
Assets held for trading	141	149	-	-	-	-
Loans and accounts receivables	-	-	-	-	4,711,331	4,448,726
Total current	**141**	**149**	**-**	**-**	**4,711,331**	**4,448,726**
Total	**441**	**449**	**-**	**-**	**4,995,197**	**6,014,008**

11. Cash and other cash equivalents

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

Euro	**6/30/2015**	**12/31/2014**
Cash	2,875,604	1,840,807
Cash equivalent	10	173
Total	**2,875,614**	**1,840,980**

These reserves are freely available for distribution.

Total cash-flow and other cash equivalents are included under the effective cash-flow account.

This item includes Company's cash ledger amounts. The amounts of the cash and cash equivalent ledger denominated in the following currencies:

	6/30/2015	12/31/2014
Euro	1,589,385	1,065,519
Dólar US	1,285,930	775,144
Libra esterlina	39	50
Yuan	78	75
Otras monedas	182	193
Total	**2,875,614**	**1,840,980**

Euro

12. Equity

<u>Share capital</u>

At June 30th 2015, 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 2015 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	6/30/2015	12/31/2014
Non-current financial liabilities	3,838,738	4,027,867
Current financial liabilities	8,340,055	7,846,269
Cash and cash equivalents	(2,875,614)	(1,840,980)
Net Debt	**9,303,179**	**10,033,156**
Equity of the parent	5,120,621	5,035,919
Equity of the parent	**5,120,621**	**5,035,919**
Leverage	**182%**	**199%**

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 2015 totalled EUR 330,475, the same as at the previous year-end.

Other reserves

These include the reserves of the Parent Company which stood at EUR 587,948 at June 30th 2015, the same amount as in 2014, and those of the subsidiaries which totalled EUR 50,149 at June 30th 2015 same amount at December, 31st 2014.

Treasury shares

At June 30th 2015, the Parent Company did not carry out any transactions with its own shares.

At the previous year-end the situation was the same.

The treasury stock held by the Parent Company at June 30th 2015 represented approximately 1.15% (same value as at year-end 2014) of the share capital with a nominal value of EUR 28,150 (EUR 28,150 at December, 31st 2014) and an average acquisition price of EUR 1.09 (EUR 1.09 at December, 31st 2014) per share. Also, the average selling price of the treasury stock held by the Company at June 30th 2015 is 1.75 euros per share (1.75 euros at 31 December 2014).

Dividends

The Group did not pay any dividends in the first semester of 2015 nor does it intend to do so. The same is true for 2014.

Minority interests

At June 30th 2015, the same as at 31st December 2014, there are no minority shareholders.

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
Ministry of Culture	35,750	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2013	9/11/2014

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

During the first semester there are no changes in this item. The detail of the movements at the end of the first semester in 2015 compared to the previous year is as follows:

		Euro
	06/30/2015	**12/31/2014**
Balance at January, 1st	138,573	154,515
Additions	-	35,750
Comprehensive p&l recognized	-	(57,005)
Other decrease	-	5,313
Balance at June, 30th	**138,573**	**138,573**

During the previous year, the Company was officially informed by the Ministry of Education, Culture and Sports that the grant the Company had received in 2013 and which amounted to EUR 35,750 had been recognised as definitive. And so it is finally considered as non returnable and is included as the Company's equity herein.

Current accruals derived from deferred incomes.

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, every annuity is invoiced including the amount corresponding to the agreed blocks of apps developed. In accordance with the accounting standards applied by the Company, incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. In the first semester of 2015 revenues were registered in the profit and loss account amounting to EUR 855,098 which correspond to the delivery of several applications (EUR 338,702 at the same period in 2014) (see note 21).

14. Financial liabilities

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

Euro	06/30/2015		12/31/2014	
	Current	**Non-current**	**Current**	**Non-current**
Debentures and bonds	2,640,319	-	2,517,229	-
Bank loans	1,585,084	268,831	1,536,404	317,511
Other payables to banks	109,282	-	92,889	-
Participating loans	-	416,857	-	500,190
Other borrowings	4,005,370	3,153,050	3,699,746	3,210,166
Total	**8,340,055**	**3,838,738**	**7,846,269**	**4,027,867**

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.

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

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11%
Amortisation of securities	11/12/2015
Amortisation system	Par

Finally, with the application for voluntary arrangement with creditors, these conditions are left null and void and the payments to the bondholders will be as scheduled in the Advanced Proposal of Arrangement with Creditors submitted by the Company once such arrangement enters into force.

The procedure of the arrangement with creditors makes it impossible to analyse the liabilities above specified by their maturity since 100% correspond to the Parent Company.

Given the fact that 100% 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.
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 2015 and at the previous year-end, the parent Group 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 year has a positive assessment of EUR 0. The notional principal of the interest rate on swaps outstanding at June 30th 2015 and at year-end 2014 amounted to EUR 200,000. This contract, just like all the others, is temporarily suspended.

The conditions of this agreement were a fixed interest rate of 1.95%. The floating interest rate was 12M Euribor.

No change in values is to be recognised under the income statement since there is no variation regarding the last year.

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	Balance at 12/31/2014	Additions	Reductions	Balance at 06/30/2015
Tax credits for tax-loss carryforwards	1,604,152	-	(37,699)	1,566,453
Other tax credits	4,561,312	-	-	4,561,312
Deferred tax assets	**6,165,463**	**-**	**(37,699)**	**6,127,764**
Temporary differences - amortisation	19,443	-	-	19,443
Reversal temporary differences - amortisation	(15,042)	-	-	(15,042)
Temporary differences-deferred income	49,260	-	-	49,260
Tax effect expense recognized in equity	-	-	-	-
Deferred tax liabilities	**53,660**	**-**	**-**	**53,660**

The decrease due to tax credits arising from tax loss carry-forwards correspond to the tax provisions at the end of the semester, and therefore the decrease it totally temporary.

- Outstanding tax loss carry forwards from previous years

DESCRIPTION	TO OFFSET	TERM
Tax loss carryforward FY 2014	7,984	2031/2032
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	1,345,699	2027/2028
TOTAL	**6,416,402**	

- Outstanding double tax deductions from previous years

YEAR	DESCRIPTION	OUTSTANDING DED.	DEADLINE
2014	International (art. 31 C.I.T.)	68,325	2021
2013	International (art. 31 C.I.T.)	89,693	2020
2012	International (art. 31 C.I.T.)	66,520	2019
2011	Intercompany (art. 30.1 and 3 C.I.T.)	1.14	2018
2011	International (art. 31 C.I.T.)	95,048	2021
2010	Intercompany (art. 30.1 and 3 C.I.T.)	1.50	2017
2010	International (art. 31 C.I.T.)	76,978	2020
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		**530,392**	

- Outstanding investment deductions from previous years

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

- Deductions from temporary differences pending from application to previous years.

DESCRIPTION	OUTSTANDING DED.
Tax loss carryforward FY 2014	5,149,713
Tax loss carryforward FY 2013	333,861
TOTAL	**5,483,574**

The item Other Tax Credits included double tax deductions, investment deductions and assets due to temporary differences 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.

The Group considers recoverable tax credits in accordance with forecast figures submitted to the market, which have been calculated according to the meeting of some goals during the last years, which grant the future increase in value:

- Recovery of the trademark international distribution.
- Complete commercial cover of Latin America with a new structure of commercial agents.
- Reactivation of the Chinese markets.
- Launch of a new commercialisation business line with merchandising license by means of the Company's own catalogue of products.
- International expansion.

As detailed above, the Group considers tax credits for tax-loss carry forwards based on estimates 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 recognised deferred tax assets.

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

Euro	6/30/2015	6/30/2014
Consolidated profit before taxes	147,688	22,125
Non-deductible expenses and non-computable income	-	-
Adjusted accounting profit	**147,688**	**22,125**
Corporate income tax		
Withholding taxes from income earned abroad	(25,286)	(28,964)
Deferred tax	(36,498)	(351,181)
Application of tax credit to offset tax loss carryforwards	(1,201)	-
Income tax expense	**(62,985)**	**(380,145)**

The details of the debit and credit tax balances with tax authorities at June, 30th 2015, as well as its comparative with the previous year are as follows:

Euro	6/30/2015	12/31/2014
Deferred tax assets	1,370,893	1,370,893
Tax credtis for tax-loss carryforwards	4,756,871	4,794,569
Corporate income tax assets	-	-
Other tax receivable	986	4,005
Tax receivables	**6,128,750**	**6,169,468**
Deferred tax liabilities	53,660	53,660
Corporate income tax payable	-	-
Other tax payable	175,773	193,098
Tax payables	**229,434**	**246,758**

At June 30th 2015, the Parent Company has been granted an insolvent debt in favour of the Social Security amounting to EUR 363,689. Such figure corresponds mainly to the deferral granted to the Parent Company and to the social contributions corresponding to March 2014.

As stated in note 10 herein, the Group has pledged as security for such postponement, the economic rights of three clients. At the end of the semester there is an amount of EUR 3,400 in the account of receivables related to these customers.

The Parent Company has not paid the amounts due to the Public Administration in accordance to the insolvency legislation in force, since such amounts are considered as insolvent debt and they will be paid according to the payment schedule to be approved in the coming months

17. Trade and other payables

Accounts payable include the outstanding balances due for purchases, services rendered and related costs.

Euro	6/30/2015	12/31/2014
Suppliers of services provided	2,331,852	2,387,086
Other	36,997	36,997
Total	**2,368,849**	**2,424,083**

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

Euro	6/30/2015	12/31/2014
Euro	1,551,066	1,638,519
US dolar	796,611	750,581
Pound sterling	19,763	33,574
Yuan	1,409	1,409
Total	**2,368,849**	**2,424,083**

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 2015 and its comparative with 2014 are as follows:

	06/30/2015		12/31/2014	
Euro	**Receivables**	**Payables**	**Receivables**	**Payables**
Trade payables				
José Mª Castillejo Oriol	-	28,058	-	28,058
Roatán Comunicaciones SL	-	76,907	-	76,907
Armialda, S.A	-	250,444	-	250,444
Jomaca 98, S.L.	-	2,020	-	-
Total	**-**	**357,429**	**-**	**355,409**

The terms and conditions for the recovery of outstanding amounts with related parties are 100% derived from the Parent Company and are considered insolvency debt, therefore they are all submitted to the approval of the Arrangement that will establish the payments.

At June 30th 2014 the Group has decided to recognise 100% impairment on the guarantee granted by Jomaca, since the loan matured December 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.

The related-party transactions were as follows:

	6/30/2015		6/30/2014	
Euro	**Expenses**	**Incomes**	**Expenses**	**Incomes**
Jomaca 98, S.L.	12,000	-	-	-
José Mª Castillejo Oriol	102,000	-	115,000	-
José Carlos Solá Ballester	12,000	-	-	-
Roatán Comunicaciones SL	-	-	59,183	-
Armialda	-	-	25,000	-
HLT, Bv	-	-	91,481	-
Other related parties	-	-	123	-
Total	**126,000**	**-**	**290,787**	**-**

The expenses related to Mr. José María Castillejo are derived from his remuneration as Director and the payment of allowances for his assisting to the meetings of the Board of Directors held in the first semester of 2015 (note 22).

The expenses derived from Jomaca 98, S.L., and José Carlos Solá correspond to the to their payment of allowances for assisting to the meetings of the Board of Directors held in the first semester of 2015 (Note 22).

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

19. Income and expense

Net sales

The breakdown of this account for this period and its comparative to last year is as follows:

Euro	06/30/2015	06/30/2014**
Content	1,297,733	804,708
Licensing	281,892	1,239,222
Advertising	1,482,542	881,611
Total	**3,062,166**	**2,925,541**

** (see note 2g)

The breakdown by geographic area is as follows:

Market	06/30/2015	06/30/2014**
Domestic	17%	24%
Abroad	83%	76%
Total	**100%**	**100%**

The USA is mong the most relevant country in the item of revenues totalling EUR 1,083,991 focused mainly in one client.

At the same period the previous year, Spain and the USA were the most significant countries totalling respectively EUR 615,335 and EUR483,077. In the case of the USA also focused on just one client.

Other operating revenues

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

Euro	06/30/2015	06/30/2014**
Own work capitalized	428,147	493,527
Release to Income Statement-deferred income	-	4,831
Total	**428,147**	**498,358**

The amounts recognised in the item "own work capitalised" 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	06/30/2015	06/30/2014**
Wages and salaries	933,820	961,108
Compensations	-	330
Employer social security costs	246,138	250,323
Other expenses	3,188	1,157
Total	**1,183,146**	**1,212,918**

The breakdown by professional category and gender is as follows:

CATEGORY	06/30/2015		6/30/2014	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	8	15	6	16
3-YR DEGREE HOLDER	4	1	3	1
SR.MANAGER	1	-	3	-
MANAGER 1	-	-	-	-
MANAGER 2	2	1	2	1
OFFICIAL 1	8	1	7	1
OFFICIAL 2	1	-	1	-
ASSISTANT	-	2	-	2
PROGRAMMER	-	2	-	-
PRODUCTION ASSISTANT	-	0	-	-
OPERATOR	5	2	6	2
GRANT HOLDER	-	0	1	-
CHARWOMAN	-	1	-	1
Total	**30**	**25**	**29**	**23**

The average number of employees at the consolidated level was determined based on the total number of employees of the parent Company.

External services

The composition of this caption is as follows:

Euro	06/30/2015	06/30/2014**
Operating leases	86,184	89,331
Independent professional services	628,241	694,524
Other expenses	280,483	219,195
Impairment losses on commercial transactions	36,784	60,670
Total	**1,031,691**	**1,063,720**

Depreciation and provisions

The composition of this caption is as follows:

Euro	06/30/2015	06/30/2014**
Intangible asset depreciation charge	687,243	495,108
Property, plant and equipment depreciation charge	6,812	11,334
Total	**694,055**	**506,442**

Financial income and expense

The specifics of this item are as follows:

Euro	06/30/2015	06/30/2014**
Other financial income	106,007	100,524
Exchange profit	816,222	24,066
Finance Income	**922,230**	**124,590**
Debts to third parties	(373,315)	(192,599)
Exchange losses	(824,599)	-
Impairment financial assets	-	(476,666)
Finance Cost	**(1,197,914)**	**(669,265)**
Net financial expense	**(275,684)**	**(544,675)**

As to the financial expense due to creditors and payables, they correspond mainly to the provisions for the financing interest payable of the insolvency debt calculated since the Company's entrance in voluntary arrangement with creditors was declared, because, although the insolvency rules the accrual of interests is mandatorily stalled, according to the accounting rules the Company is obliged to record such expense even though this amount might not be paid in the future. The amount of the payable for the first semester in 2015 is EUR 304,522.

This item also recognises the correction at amortised cost of the Careers agreement. Likewise, this change is the main component of the amount recognised as “Others” under the heading “Financial Income” since it is an impaired income and its correction affects an item both in assets and in liabilities.

The impairment in the comparative caption corresponds to the guarantee granted by the Group to Jomaca 98, S.L. The Group has decided to recognise a100% impairment on the guarantee 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.

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.

On June 29th 2015 the Shareholders Meeting approved a new long-term variable compensation plan as proposed by the Board of Directors of the Company. This new plan will replace the former and provides also the delivery of shares to senior management and members of the Board of Directors. The characteristics and conditions are as follow:

- The aggregate number of shares that all beneficiaries of the plan shall be entitled to will be of 1,200,000 shares.

- The plan will be 5 year-long or will have Annual Periods, and its beneficiaries will be entitled to receive annually 20% of total shares to which they were entitled.

- The referred shares shall be delivered to the beneficiaries under the condition that at the time, or different times, of the execution of the Plan, the value of the stock has been appreciated by at least 30% of the value of share price as of June, 29th, 2015. In case the referred appreciation is equal o higher than 20% per year but does not reach 30% per year, the beneficiaries shall have the right to receive 50% of the shares to which they would have been entitled had the appreciation reached 30% per year as described above.

- 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.

b) Other share based payment

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

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

Concerning this operation, the number of shares purchased amounts to 206,881, and their market value at the end of the first semester 2015 was EUR 99,303, same value as at the previous year-end-

However, as stated in the contract, the Company will cover the difference in shares or cash at the time of payment according to the schedule established in the Advanced Proposal of Arrangement, when it finally enters into force.

21. Contingencies and guarantees

At June 30th 2015 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 Statements, it is not as yet possible to estimate the economic impact, if any, deriving from those events.

Likewise, it should be noted that during the first semester in 2015 a dispute resolution process started with regards to an agreement signed by a USA client aimed at developing educational apps (Note 13d). The pending balance to be collected at June 30th 2015 amounts to EUR 2,672,267. The provision recorded under “short- term current liabilities” is related to this particular client. The evolution of both items could be affected by the above-mentioned process. However, such process is still at a very early stage and therefore at the end of this semester no other information is available.

At year-end 2013, the Group had recognised a provision of EUR 100,00 corresponding to the administrative decision of the CNMV by virtue of the penalty procedure. At June 30th 2015 this provision is maintained since it has been published during the previous year.

At the end of the semester the Company has a guarantee with a financial entity amounting to EUR 748,198, whose funds to pledge have been deposited by the Company. This guarantee was required by the Ministry of Industry, Energy and Tourism in order to obtain funds from the call for “Strategic Action Plan for Telecommunications and Information Society”, 2012 annuity, within the sub-program “Competitivity R+D” (Avanza programmeNote 13).

Also, the Company has deposited 101,619 euros in cash, at the General Deposit Bank as a guarantee for the Ministry of Industry, Energy and Tourism who required it in order for the Company to obtain the grant for the call "Strategic Action Plan for Telecommunications and Information Society "2013 annuity, within the sub-program" Strategic Action Plan for Digital Economy and society (Note 13).

22. Director and senior management compensation

Remuneration of the members of the Board of Directors

In the first semester of 2015 the remuneration of the members of the Board of Directors for sitting on the Board amounted to 126.000€

In the same period last year, the members of the Board of Directors received no remuneration for sitting on the Board.

In the first semester of 2015, as for the same period in the previous year, 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 period 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

In the first semester of 2015 the remuneration received by Senior Management Personnel of the Parent Company amounted to EUR 101,326. The remuneration received last year in the period totalled EUR 100,994.

The Company has engaged with the staff considered as senior management personnel a long-term variable compensation plan consisting in the delivery of shares (note 21).

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

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

Article 229 of the Spanish Capital Companies Act in force (the consolidated text of which was ratified by Royal Decree Law 1/2010 of 2 July.) as worded in Law 31/2014 (December 3rd), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies and improve corporate government, 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 sole Manager of the company Sonocrew, S.L. and President of Zinkia Educational, Inc. These positions in the Company were 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. as well as manager and shareholder in Traveltrain TV Spain, S.L. and member of the Board of Directors of Zinkia Educational, Inc. This last position was unremunerated.

The other members of the Board of Directors have no participation in other companies engaged in activities that are the same as or similar or complementary to the corporate purposes of the companies in the Group.

The members of the Board of Directors have not communicated any direct or indirect conflict situation they might hold against the Company, such as established in article 229,3 in the Spanish Capital Companies Act.

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 2015, 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	**6/30/2015**	**6/30/2014**
Profit Attributable to the equity holders of the parent	84,703	(693,403)
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(281,503)	(281,503)
Average number of shares outstanding	24,164,174	24,164,174
Basic earning per share (euros)	**0.0035**	**(0.0287)**

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 charged by Garrido Abogados y Asesores Fiscales, S.L. for their revising services limited to the Interim individual and consolidated financial statements at June 30th 2015 totalled EUR 4,054.

The professional auditing fees for the Interim individual and consolidated financial statements charged by Garrido Abogados y Asesores Fiscales, S.L. In 2014 for the same period amounted to EUR 8,072.

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. amounted to EUR 17,008 in the same period. These fees amounted to EUR 17,008 in the previous year.

26. Events after the Financial Statement date

As to the insolvency procedure of the Parent Company, in July 29th 2015 the Parent Company was served the sentence issued by the mercantile court nº 8 of Madrid which approved the Arrangement with the Creditors that was presented by the Company.

The Company awaits the court to rule on the time the arrangement approved will entry into force so as to comply with the payments schedule established therein

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 99% of the trade credits recorded in the balance of the Company at June 30th 2015 correspond to the insolvency debt, the payment of which must await the entry into force 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 1% 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 does not exceed the legal term.

In the first semester of 2015 the Parent Company has paid trade creditors up to EUR 1,189,321, out of which 1% exceeded the legal term established. The weighted average term of exceeded payment is 92 days.

The Company at the same period of the year made payments to suppliers amounting to EUR 976.056 out of which 28% exceeded the legal limit. The weighted average term of payment amounts to 183 days.

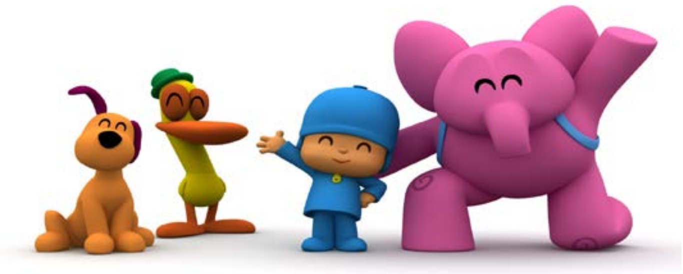
Issuance of American Depositary Receipts (ADRs) on shares of the Parent Company

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

Signed Interim Consolidated Financial Statements

These Interim Consolidated Financial Statements are signed by the members of the Board of Directors at the meeting of the Board of Directors held in Madrid at June 26th August 2015.

THANK YOU



ZINKIA ENTERTAINMENT, S.A. and SUBSIDIARIES
DIRECTORS' CONSOLIDATED REPORT CORRESPONDING TO THE SIX-MONTH PERIOD ENDED AT JUNE 30th 2015

Business Performance and Company Situation

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

Zinkia has been working for more than three 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 authorised by the National Securities Market Commission in 2013, in July and October. In absence of alternative sources of funding and given the outcome of the above referred debt issues, the Company was not capable of facing the milestones of the debt repayment at the end of 2013 and early 2014.

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

During the process of debt negotiation with creditors, a refinancing agreement was reached with Bondholders, and main Financial Institutions and Trade creditors, yet ultimately no satisfactory agreement was reached with a private entity, holder of a loan to the Company amounting to 2.5 million euros.
Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors at February 26th, 2014.

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

The Company prepared a Viability Plan and a Payments Plan for each group of creditors. Based on both documents and considering the information achieved in the interviews the Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the court of the Mercantile nº 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it was 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. At 17thJune 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

At July 11th 2014 and within the term granted by the court, the Insolvency Administration filed its positive report on the content of the APAC presented by the Parent Company regarding the Payments Schedule and the Viability Plan.

From that date on and until the preparation of the Interim Financial Statements the Company has awaited a positive resolution from the court regarding the APAC, which due to circumstances was delayed until July 29th 2015, when the Company was served the sentence issued on the 24th July 2015 by the mercantile court nº 8 of Madrid which approved the Arrangement with the Creditors (see note 28). The approval of the APAC by the court will allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC as soon as the court rules on the entry into force of such Arrangement. All this will afford relaunching the Company's business.

In spite of being subject to an insolvency procedure since last April 07th 2014, the Company's business keeps growing as the figures of this period show when compared to those of the previous period.

During the first semester of 2015 the great increase in the Group's sales raised 5% compared to the same period last year. This increase in the sales is the consequence of the business evolution and growth.

As to the degree of compliance with the projections published, it should be recalled that the Group prepares its estimates on a yearly-basis. Likewise it should be stressed that, historically, sales are not influenced significantly by seasonability, and yet 60% of the Company turnover is often generated in the second semester of every year. However, the results from the licensing area have not met the expectations.

As to the distribution by business lines, there is a notable growth in two of the three large business areas: Contents and Publicity, and a decrease in the area of Licensing.

Regarding the area of contents, this business line has increased 61% compared to the same period last year. This increase results from the commercial management in this income generation that includes digital and interactive content sales in different platforms and the delivery of content relating the project of developing educational apps. This business line amounts to 49% of the total sales projected for 2015.

Sales corresponding to publicity are exponentially increased up to 68% higher to the same period last year thanks to the good results from the exploitation of publicity in online platforms.

This business line amounts to 48% of the total sales projected for 2015.

And last, sales corresponding to Licensing & Merchandising have decreased 77% compared to the same period last year. In 2014 a certain number of agreements with important minimum guarantees were signed, and according to the accounting rules those sales were totally recorded at the time of signing (2014). Today those agreements are being executed and will generate new sales of royalties once the minimum guarantees in the agreements are exceeded. Likewise, it should be mentioned that a business plan was established with the aim of exiting the insolvency process. Since this did not happen at the estimated time, the Group sales were affected to the extent that many a negotiation was delayed until the positive resolution on the insolvency process. As to the exploitation of trademarks through merchandising licensing, the end consumer is not the direct client, contrary to what happens in other business such as with content download or the visualisation of associated publicity. This is the reason why this business line is the most affected by the financial situation of ZINKIA, since the different agents in the commercial negotiation (partners, great distribution chains, toy industry, etc.) are part of the chain of sales before the product reaches the end consumer and that chain requires an investment in publicity, marketing and so on that it is not possible to obtain now given the insolvency situation of ZINKIA, and as a consequence sales of this type of products are delayed. The estimates of this area counted on the recruitment of different international commercial profiles to their team in early 2015. Due to the insolvency process it was not possible recruiting any of those positions that are necessary to launch the business plan, and therefore this has greatly affected meeting the sales expectations for the year.

This business line amounts to 6% of the total sales projected for 2015.

Zinkia is still controlling costs. Regarding the estimates for 2015, the evolution in this period compared to the same period the previous year is as expected.

The staff expenses have kept unchanged regarding the same period in the previous year. Recruitments as established in the business plans have been deferred due to the insolvency situation.

Likewise, the item “Other exploitation expenses” has kept stable compared to the same period the previous year. This item represents the costs of assessors, consultants and, mainly, the trade commissions.

The Working Capital in the Balance presents a negative figure amounting to EUR 5.446.374 at June 30th 2015. The long and short-term debts are part of Zinkia's insolvent debt. Since the APAC has not been solved in 2015 the debt is recorded with the original maturity of each loan, be it at long or short term. The 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. On July 29th 2015 the Company was served the sentence issued on July 24th 2015 by the Mercantile court nº 8 of Madrid by virtue of which the Arrangement with the Creditors was approved. The Company awaits the court to rule on the time the arrangement approved will entry into force so as to comply with the payments schedule established therein. The evolution of the working capital will depend on the resolution of the APAC. The Company expects the court will rule on the entry into force of the arrangement in the coming months. This would allow the Company to overcome the circumstances it is currently going through, and pay its creditors in the terms of said APAC, while relaunching the Parent Company's business and improving the financial position in the short-term and carrying most of the debt to the long-term.

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

As to the insolvency procedure on July 29th 2015 the Company was served the sentence issued on July 24th 2015 by the Mercantile court nº 8 of Madrid by virtue of which the Arrangement with the Creditors was approved.

The Parent Company awaits the court to rule on the time the arrangement approved will entry into force so as to comply with the payments schedule established therein.

Outlook for the Company

The Company, taking into account the delays suffered during the insolvency procedure and after having analysed the economic and financial impact of such delays, has revised its projections for 2015 published last April 2015 (see document "Update of estimates and Report on the degree of compliance" annexed to these Interim Financial Statements).

The Parent Company estimates that the court's approval of the Advanced Proposal of Arrangement with Creditors, once the courts serves the date of entry into force of such Arrangement, will help relaunch the Parent Company's business in order to obtain the expected results for the coming years. However, the continuous delays in the resolution of the insolvency procedure have affected the evolution of business and the estimates for the coming months, since many a negotiation has been affected. A business plan was established with the aim of exiting the insolvency procedure. But since such situation remains unchanged, Zinkia's sales in the area of licensing, as mentioned above, have been affected.

Zinkia has revised the previous licensing 2015 sales and expenses forecasts downwards.

The impact projected in the commercial exploitation of ZINKIA's sales for 2015 is focused on the exploitation of trademarks through merchandising licensing, reducing the estimated figure for 2015 43%. ZINKIA established a business plan was established with the aim of exiting the insolvency process. Since this did not happen at the estimated time, the sales were affected to the extent that many a negotiation was delayed until the positive resolution on the insolvency process. Consequently ZINKIA's managers have analysed the impact of such situation in the present business plan, and have modified it taking into account that it is still possible that some negotiations are delayed and finally end once 2015 is over. As to the exploitation of trademarks through merchandising licensing, the end consumer is not the direct client, contrary to what happens in other business such as with content download or the visualisation of associated publicity. This is the reason why this business line is the most affected by the financial situation of ZINKIA, since the different agents in the commercial negotiation (partners, great distribution chains, toy industry, etc.) are part of the chain of sales before the product reaches the end consumer and that chain requires an investment in publicity, marketing and so on that it is not possible to obtain now given the insolvency situation of ZINKIA, and as a consequence sales of this type of products are delayed. The estimates of this area relied on the recruitment of different international commercial profiles to their team in early 2015. Due to the insolvency process it was not possible to recruit any of those positions that are necessary to launch the business plan, and therefore this has greatly affected meeting the sales expectations for the year.

The staff expenses have been controlled considering that, at the time of preparation of these statements, most of the recruitments estimated for 2015 have not taken place, and if they are to take place, this will happen at year-end.

Likewise, the item on supplies and other exploitation expenses have decreased taking into account the expenses control and the reduction of sales variable costs, since the sales have been inferior to what was expected previously, the associated costs will also be inferior.

For the year 2016 and the following, an 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 optimise our production processes and acquire technical skills that allow us to maintain ourselves as a leading company in the sector.

Financial Risk Hedging

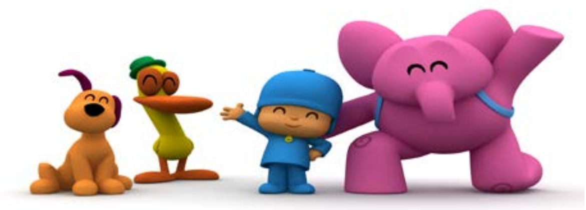
At June 30th 2015, and as it has been mentioned above, all of the Company's debt is awaiting the ruling of the court on the entry into force of the arrangement with the creditors, which shall establish the new conditions to which the debt shall be subject. And therefore the Parent Company cannot classify the debt by interest rates. At the previous year-end, at the date of declaration of the arrangement with the creditors procedure, 82% of the total amount of the debt of the Parent Company was fixed-rated and the previous year-end the average interest rate was 6.66%

Acquisition of treasury shares

At June 30th 2015, the Parent Company has not made any transaction with its treasury shares.

The treasury shares at June 30th 2015 represent approximately 1.15% (1.15 at year-end 2014) of the share capital with a total face value of EUR 28,150 (EUR 28,150 at December 31st 2014), and an average acquisition price of EUR1.09 per share (EUR1.09 at December 31st 2014). Also, the average sale price of the treasury shares at June 30th 2015 is EUR 1.75 per share (EUR 1.75 at December 31st 2014).

THANK YOU



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DECLARATION OR RESPONSIBILITY FOR INTERIM FINANCIAL STATEMENTS (JUNE 30TH, 2015)

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 2015, formulated by the Board of Directors at the meeting held on August 26th, 2015 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 26th, 2015

Mr. José María Castillejo Oriol	Mr. José Carlos Solá Ballester
JOMACA 98, S.L. represented by Ms. Maria J. Alonso Fernández	Mr. Jose Luis Urquijo Narvaez