Quarterly Report 1/2008

Zapf Creation®

Consolidated key figures (IFRS)

in € million	Q1/2008	Q1/2007	+/– in %
Adjusted earnings situation (without restructuring costs and one-off effects)			
Continued operations			
EBITDA	– 2.5	– 2.2	– 17
EBIT	– 3.5	– 3.3	– 6
EBIT margin (in %)	– 24.2	– 24.6	–
EBT	– 5.4	– 4.0	– 37
Result from continued operations	– 4.2	– 3.1	– 36
Discontinued operations			
Result from discontinued operations	– 0.1	0.0	–
Group			
Net profit or loss for the period	– 4.3	– 3.1	– 37
Earnings per share (in €) [1]	– 0.32	– 0.38	15
Earnings situation according to the income statement (including restructuring costs and one-off effects)			
Continued operations			
Net sales	14.3	13.3	7
Gross margin (in %)	40.5	45.0	–
EBITDA	– 2.5	– 2.4	– 5
EBIT	– 3.5	– 3.5	–
EBIT margin (in %)	– 24.2	– 26.4	–
EBT	– 5.4	– 4.2	– 29
Result from continued operations	– 4.2	– 3.3	– 26
Included restructuring costs and one-off effects	0.0	0.2	– 100
Included depreciation and amortization	0.9	1.1	– 16
Discontinued operations			
Result from discontinued operations	– 0.1	0.0	–
Included restructuring costs and one-off effects	0.0	0.0	–
Included depreciation and amortization	0.0	0.0	–
Group			
Net profit or loss for the period	– 4.3	– 3.4	– 27
Earnings per share (in €) [1]	– 0.32	– 0.41	22

Consolidated key figures (IFRS)

in € million	Q1/2008	Q1/2007	+/– in %
Balance sheet			
Total assets	96.0	76.3	26
Non-current assets	20.0	25.3	– 21
Investments	0.2	0.3	– 45
Current assets	76.0	51.0	49
Equity	23.5	0.3	–
Equity ratio (in %)	24.4	0.4	–
Liabilities to banks and loans granted by shareholders	43.3	45.1	– 4
Net debt (including shareholder loans)	12.4	40.0	– 69
Cash flow			
Cash flow from operating activities	10.6	14.5	– 27
Cash flow from operating activities per share (in €)	0.80	1.77	– 55
Net cash flow	7.6	– 6.6	–
Employees			
Number as at the closing date[2)]	230	244	– 6

The key figures are based on rounded values in € million. The calculation of sums and ratios can therefore result in differences when compared to the annual financial statements.
1) undiluted = diluted
2) excluding Management Board and trainees

Report on the first three months of 2008

- **Satisfactory development of operations**
- **Consolidated sales up 7.4 percent**
- **Market share in Germany expanded by 2.7 percentage points**
- **Earnings impacted by higher costs due to external procurement and exchange rate effects**
- **Equity ratio improved to 24.4 percent**
- **Outlook for 2008 financial year confirmed**

1. Summary

The operating business of Zap Creation AG developed satisfactorily and in line with expectations in the first quarter of 2008. Consolidated sales increased by 7.4% to € 14.3 million (Q1/2007: € 13.3 million) in the first quarter, which is the industry's weakest quarter of the year.

Market share in Germany in the segment of play and functional doll rose by almost three percentage points in a market environment that displayed slight growth. Zapf Creation was thus able to expand its market leadership in its home market.

Consolidated earnings were impacted both by positive effects of efficiency gains and numerous external factors including higher wages on the procurement side or currency effects, which the Company could not influence and which resulted in increased costs overall. As a result, earnings before interest and taxes (EBIT) after the first three months of 2008 were € –3.5 million, which is on par with the previous year.

Nonetheless, the Management Board is confirming its guidance for the 2008 financial year.

2. Significant events during the reporting period

2.1. Equity increased again

Zapf Creation AG obtained subordinated shareholder loans from its major shareholders – MGA Entertainment, Inc. and/or shareholders of MGA Entertainment, Inc. (the "Trusts"), as well as Mr. Nicolas Mathys – in the second half of 2007 as part of the Group's long-term financing. As of December 31, 2007, these loans (including accrued interest) totaled € 16.9 million. The Management Board of Zapf Creation AG resolved on February 22, 2008, with the approval of the Supervisory Board, to convert a total of € 12.9 million of these subordinated shareholder loans into equity by means of a non-cash capital increase. To this end, 4.8 million new shares were issued in full utilization of the remaining authorized capital still existent at the time. An amount of € 2.69 in shareholder loans was contributed per share.

This transaction raised the share capital of Zapf Creation AG from € 13.2 million by € 4.8 million to € 18.0 million. The conversion of the shareholder loans will substantially reduce the Group's future interest expense. Plans are to convert the remaining amount of the shareholder loans into equity as quickly as possible and to obtain the corresponding authorizations at the upcoming regular Annual Shareholders' Meeting.

2.2. New products spell trade show success

Zapf Creation AG used the Nuremberg Toy Fair – the industry's largest trade show – from February 7 to 12, 2008, to present numerous product innovations. They included innovative accessories for our BABY born® and Baby Annabell® toy concepts; the new CHOU CHOU doll, "Mommy, my first tooth"; as well as new accessories for the My Model make-up and hairstyling heads. The international toy trade's positive reactions throughout show that the Zapf Creation brand remains highly attractive and underscore that conventional brand elements such as high play value and excellent product quality offer substantial market potential worldwide.

3. Economic conditions

3.1. Business environment

Leading German economic research institutes believe that the crisis in the US real estate sector and the resulting distortions in the international financial markets are having an increasingly negative impact on the global economy. While the US economy is facing a looming recession, the economy in Western European has cooled down somewhat and aggregate demand in Japan has slowed considerably.

Germany's economy developed along a positive trajectory until the spring of 2008 despite a few difficult events. The indicators of economic sentiment are holding steady at a high level, and the key demand and production figures are tending upward. Given the euro's strong gains, massive increases in the price of both crude oil and foodstuffs, as well as the ramifications of the crisis in the financial markets, the German economy thus remains remarkably robust.

3.2. Industry environment in Europe

In the first three months of 2008, sales to end consumers in Europe's most important toy markets were positive. The unusually early Easter season fell in the first quarter this year and thus had a noticeable impact on this result.

For the most part, the play and functional doll segment, including accessories – the core business of Zapf Creation AG – also grew throughout Europe in the first quarter of 2008. In Germany, sales in this segment were 4.8 % higher than in the same period the previous year. At growth of 9.9 %, the Zapf Creation Group outperformed the market. Year-on-year sales of play and functional dolls rose 18.7 % in the United Kingdom and 1.2 % in Spain but declined 2.7 % in France.

4. Development of sales

The Zapf Creation Group posted sales of € 14.3 million in the first quarter of 2008. This corresponds to an increase of 7.4 % compared to the previous year (Q1/2007: € 13.3 million).

4.1. Development of sales by region

In Europe, consolidated sales had risen overall by 6.0 % to € 14.0 million at the close of the first three months of 2008, up from € 13.2 million at the end of the same period the previous year.

In Central Europe (Germany, Austria, Switzerland, the Netherlands and Luxemburg), sales climbed to € 6.1 million, up from € 5.7 million in the first quarter of 2007 (+8.0 %). Thanks to the satisfactory development of sales, the Zapf Creation Group succeeded in lifting its market share in the play and functional doll segment in its core German market by 2.7 % to 59.5 % (Q1/2007: 56.8 %). The Group thus remains the number one by far in its domestic market.

At € 3.0 million, in Northern Europe (UK, Ireland and Scandinavia) revenue at the close of the first three months of 2008 was roughly at the previous year's level.

Business in Eastern Europe developed along a similar trajectory, yielding first-quarter sales of € 3.2 million in line with the first-quarter results in 2007.

In Southern Europe (Spain, France, Belgium and Italy), the Zapf Creation Group posted strong year-on-year sales growth to € 1.7 million (Q1/2007: € 1.3 million). Aside from overall market growth, this was due, in particular, to the Group's new sales organization in Spain.

Our sales organization in France was fully repositioned and streamlined during the first three months of 2008 in connection with a comprehensive restructuring. The Zapf Creation Group's marketing power will rise substantially in the course of the year following initial positive effects in the first quarter.

In Asia/Australia, revenue rose in the first quarter of 2008 to € 0.3 million, up from € 0.1 million in the same period the previous year.

*Breakdown of sales (external sales) by region**

	Q1/2008 K€	Q1/2007 K€	+/– in %
Europe	**13,967**	**13,175**	**+ 6**
Central Europe	6,098	5,651	+ 8
Northern Europe	2,967	3,024	– 2
Southern Europe	1,688	1,307	+ 29
Eastern Europe	3,214	3,193	+ 1
The Americas	**0**	**0**	**—**
Asia/Australia	**319**	**121**	**+164**
Total sales	14,286	13,296	+ 7

* In accordance with IFRS 5

4.2. Development of sales by product line

At € 12.7 million, first-quarter sales in the Group's core play and functional doll business corresponded to the previous year's level.

Sales of the BABY born® toy concept climbed 14.0 % to € 9.0 million, especially due to the marketing success of the "Mommy, I can swim" doll in the my little BABY born® line.

The Baby Annabell® toy concept generated sales of € 2.0 million. The previous year's higher result (€ 3.2 million) resulted from special sales ahead of the market launch of the new Baby Annabell® doll, especially in Great Britain.

At € 1.5 million, the CHOU CHOU toy concept stayed just under the previous year's sales of € 1.6 million.

There were no sales in the mini doll segment in the first three months of 2008 because the Missy Milly® brand had previously been discontinued.

The "Other products" segment posted robust sales growth, due mainly to the My Model series but also to the distributor business in Poland. Sales rose to € 1.6 million in the first quarter of 2008, up from € 0.5 million in the first quarter of 2007, especially as a result of higher sales from the Polish distributor business.

*Breakdown of sales by product line**

	Q1 2008 K€	Q1 2007 K€	+/− in %
Play and functional dolls	**12,726**	**12,757**	**0**
BABY born®	8,993	7,920	+ 14
Baby Annabell®	2,035	3,188	− 36
CHOU CHOU	1,533	1,601	− 4
Other	165	48	+ 243
Mini dolls	**0**	**2**	**—**
Other	**1,560**	**537**	**+ 191**
Total sales	14,286	13,296	+ 7

* In accordance with IFRS 5

5. Development of earnings

At 40.5 % of sales, the gross profit margin of the first quarter of 2008 was down year on year (Q1/2007: 45.0 %). This figure was impacted by considerable price increases for procurement in China due to higher wages and commodity costs. Rising transport and logistics expenses, especially as a result high fuel costs, also had a negative impact on margins.

Further efficiency gains arising not least from our cooperation with MGA Entertainment, Inc., which began in 2007, helped to lower administrative expenses by 19.4 % to € 3.9 million (Q1/2007: € 4.8 million). Likewise, marketing expenses fell from € 1.6 million in the first quarter of 2007 by 20.4 % to € 1.3 million in the first quarter of 2008.

Earnings before interest and taxes (EBIT) were € −3.5 million, which is on par with the previous year. EBIT includes a non-cash currency loss of around € 0.9 million from the measurement of a euro-denominated loan extended by Zapf Creation AG to its English subsidiary as a result of the strong increase of the euro. The loan is a long-term working capital loan.

First-quarter net finance income of € −2.0 million (Q1/2007: € −0.7 million) reflected large interest expenses related to the subordinated shareholder loans granted in 2007. These loans were largely converted into equity during the first three months of 2008 as planned and announced such that interest expenses will decline considerably in subsequent quarters (see item 2.1).

The Zapf Creation Group reports a result after taxes of € −4.3 million for the first three months of 2008 (Q1/2007: € −3.4 million). This corresponds to basic and diluted earnings per share of € −0.32 based on an average of 13.3 million shares outstanding (Q1/2007: € −0.41 based on an average of 8.2 million shares outstanding).

6. Assets

As of March 31, 2008, total assets of the Zapf Creation Group amounted to € 96.0 million after € 115.1 million at the end of the 2007 financial year. This decline of € 19.2 million is in line with the lower business volume in the first quarter.

Cash and cash equivalents rose substantially to € 31.0 million, up from € 23.3 million at the close of 2007 (March 31, 2007: € 5.1 million). This reflects the inflow of borrowings and equity capital in connection with the long-term financing which the Group put in place in 2007.

Trade receivables were € 25.1 million and thus € 24.8 million below the level at the end of 2007 (€ 49.9 million), given the seasonal nature of our business. However, the fact that receivables at the end of the first quarter of 2007 (€ 29.8 million) were € 4.7 million higher than at the end of the first quarter of 2008 clearly documents the progress we have made in receivables management.

Inventories were € 14.0 million, slightly surpassing the level as of December 31, 2007 (€ 13.5 million). In particular, the increase in inventories serves to ensure our ability to make deliveries, given the expected rise in sales.

7. Finances

At € 12.4 million, the Group's net liabilities (including € 4.4 million in remaining subordinated shareholder loans plus interest) as of the first-quarter reporting date of March 31, 2008, had declined substantially compared to the level at the end of 2007 (€ 32.9 million) and was considerably lower than at the end of the first quarter of the previous year (€ 40.0 million). The reduction during the reporting quarter was due to the conversion of a large portion (€ 12.9 million) of the shareholder loans into equity.

This caused a sharp increase in equity as of March 31, 2008, to € 23.5 million, up from € 14.4 million at the close of 2007 and € 0.3 million as of March 31, 2007. The resulting equity ratio is 24.4 % (December 31, 2007: 12.5 %).

Consolidated cash flow from operating activities in the first quarter of 2008 was € 10.6 million, compared to € 14.5 million in the same quarter the previous year. Both the reduction in receivables (+ € 25.7 million) and the change in other assets (+ € 3.0 million) are significant.

Funds of € 0.1 million were used in connection with investing activities (Q1/2007: € −0.2 million). Funds used for financing activities were € 2.0 million, especially due to the discharge of non-current liabilities (Q1/2007: € −20.9 million).

In sum, as of the end of the first quarter of 2008 cash and cash equivalents had risen by € 7.6 million over the start of the quarter.

8. Employees

As of the reporting date of March 31, 2008, the Zapf Creation Group had a total of 230 employees (excluding both the Management Board and trainees), compared to 226 at the close of 2007. Staffing levels now ensure efficient structures and processes and, at the same time, make it possible to exploit the growth potential of the Zapf Creation brand worldwide.

9. Events after the close of the reporting period

There were no events of particular significance to the Zapf Creation Group after the March 31, 2008 reporting date.

10. Outlook

Regardless of the difficult environment both on the procurement side and in terms of currency effects, the Management Board confirms its previous guidance for the 2008 financial year as a whole. From an operational point of view, the development of the first quarter is a solid foundation for achieving the goals set for the 2008 financial year.

Given the considerably increased procurements costs, Zapf Creation has decided to adjust prices effective June 1, 2008. This decision has already been communicated to the trade.

During the course of the year, the Group will also benefit increasingly from the efficiency gains derived from the restructuring and from the effects of the strategic cooperation with US toy manufacturer MGA Entertainment, Inc. in sales, procurement and logistics.

The Management Board therefore continues to expect consolidated sales to turn around and rise again, consolidated EBIT to improve further, and consolidated earnings after taxes to return to the black in the 2008 financial year.

Roedental, Germany, May 15, 2008

The Management Board

Jens U. Keil Member of the Management Board	Thomas Pfau Member of the Management Board

Consolidated notes to the interim financial statements as of March 31, 2008

1. General information

1.1. Information on the Company

Zapf Creation AG – hereinafter also referred to as "the Company" or "Zapf Creation" – is Europe's leading brand manufacturer of play and functional dolls including accessories.

The Company markets branded play concepts that consist of a doll and a world of matching accessories that are developed to a high standard of quality, design, safety and play value. The Company's most popular brands include BABY born®, Baby Annabell® and CHOU CHOU. These globally successful play concepts have been conceived particularly for the Company's core target group – girls between three and eight years of age.

Zapf Creation AG, as the Company is currently known, was originally established in 1932 by Max Zapf and his wife Rosa as "Max Zapf Puppen- und Spielwarenfabrik". The Company went public on April 26, 1999. Zapf Creation AG is listed on the Official Market of the Frankfurt Stock Exchange. Its shares are traded in the Prime Standard segment.

Zapf Creation AG is headquartered in Moenchroedener Strasse 13, 96472 Roedental, Germany.

1.2. Principles of preparation

The consolidated interim financial statements of Zapf Creation AG as of March 31, 2008 were prepared on the basis of IAS 34 ("Interim Financial Reporting"). They were not reviewed or audited in accordance with Section 317 German Commercial Code.

The interim consolidated financial statements do not include all notes and disclosures required for consolidated financial statements and must thus be read in connection with the consolidated financial statements as of December 31, 2007, which were prepared in accordance with Section 315a German Commercial Code ("Consolidated Financial Statements According to International Accounting Principles") and in compliance with both the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – all of them as applicable within the European Union under Article 4 of EC Directive 1606/2002 dated July 19, 2002, of the European Parliament and the European Council. The provisions of Section 315a para 1 German Commercial Code were also observed in preparing the consolidated financial statements. All IFRS, as well as all attendant Interpretations, applicable to the financial year were used in the preparation of the consolidated financial statements of Zapf Creation AG as of December 31, 2007, inasmuch as they were adopted by the EU.

1.3. Consolidation

The interim consolidated financial statements as of March 31, 2008 follow the same consolidation methods as the consolidated financial statements as of December 31, 2007. Reference is also made to the existing consolidated financial statements as of December 31, 2007.

In addition to Zapf Creation AG, the Group's parent company, all direct and indirect subsidiaries of the Group are included in the basis of consolidation. The were no changes in the group of consolidated companies in the first three months of the 2008 financial year.

1.4. Accounting methods

The interim consolidated financial statements as of March 31, 2008 follow the same accounting methods as the consolidated financial statements as of December 31, 2007. Reference is also made to the existing consolidated financial statements as of December 31, 2007.

In addition to reporting its operating income, the Zapf Creation Group therefore also reports "adjusted operating income" in its consolidated income statement in the interim consolidated financial statements as of March 31, 2008. The adjusted operating income is based on the Group's internal key performance indicators and adjusts the Group's operating income by the restructuring costs and one-off items shown in the income statement. Showing this item in the presentation of the consolidated income statement serves to increase transparency with regard to the sustainability of the earnings generated by the Company through its ongoing operating process. Expenses from the restructuring of the Zapf Creation Group, as well as other extraordinary one-off expenses, are shown in the income statement under the operational areas giving rise to such expenses.

1.5. Use of estimates

The preparation of interim consolidated financial statements requires management to make assumptions and perform estimates, which might affect the application of accounting standards in the Group, as well as both the amount and the disclosure of recognized assets, liabilities, income, expenses, and contingent liabilities.

The Company's management regularly reviews both the estimates and the underlying assumptions. Although the estimates are made to the best of management's knowledge based on current events and measures, actual amounts may deviate from these estimates. Adjustments related to the estimates relevant to the accounting are considered in the period in which the adjustment was made if it concerns only the period in question. If an adjustment concerns both the reporting period and later periods, then it is accounted for in both.

2. Explanations of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of March 31, 2008 follows the same structure as the consolidated financial statements as of December 31, 2007.

The development of the individual items of the interim consolidated financial statements in the first three months of the 2008 financial year, specifically revenue, is characterized by the typical, seasonal nature of the Company's business; In this context, we also refer to the consolidated financial statements as of December 31, 2007, and the interim management report of the Group as of the end of the first quarter of 2008.

The segment report is attached to these notes as an appendix.

2.2. Discontinued operations

As in the previous year, income and expenses that are attributable to the Group subsidiary Zapf Creation (U.S.) Inc. are reported separately under the result from discontinued operations in accordance with IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations").

The income and expenses attributable to discontinued operations are as follows:

	Q1/2008 K€	Q1/2007 K€
Revenue	– 10	1,933
Cost of sales	0	– 1,798
Selling and distribution expenses	0	– 183
Marketing expenses	0	– 1
Administrative expenses	0	– 50
Other income	0	54
Other expenses	– 86	0
Result from discontinued operations	– 96	– 45

All expenses from discontinued operations in the 2008 financial year resulted from exchange rate effects. The revenue disclosed separately in the previous year is directly related to the discontinuation of the operations of Zapf Creation (U.S.) Inc. as of the end of December 31, 2006. This essentially concerned income from the sale of the remaining inventories of the US subsidiary to MGA Entertainment, Inc., Van Nuys, California, USA, which has been responsible for the American market under a strategic partnership since January 1, 2007.

The cash flow from operating, investing and financing activities attributable to discontinued operations, is as follows:

	Q1/2008 K€	Q1/2007 K€
Cash flow from operating activities	– 146	2,821
Cash flow from investing activities	0	0
Cash flow from financing activities	0	– 3,001
Effects of exchange rate changes	– 5	– 5
Cash flow from discontinued operations	– 151	– 185

2.3. Equity

Zapf Creation AG announced on February 28, 2008, that the Management Board had resolved on February 22, 2008, with the approval of the Supervisory Board on February 27, 2008, to convert € 12.9 million of the subordinated shareholder loans into equity by means of a non-cash capital increase, as planned and previously announced. The Company issued 4.8 million new shares to this end, fully utilizing authorized capital. For more details, please see the consolidated financial statements as of December 31, 2007. The amount in shareholder loans contributed per new share was € 2.69. This non-cash capital further enhanced the Company's equity base. As a result, the share capital of Zapf Creation AG rose from € 13.2 million by € 4.8 million to € 18.0 million; it was recorded in the commercial register on March 19, 2008. This measure significantly reduces the Group's future interest expense.

3. Related party relationships

Disclosures of relationships and business transactions with related parties are made in accordance with IAS 24 ("Related Party Disclosures"), taking into account IAS 34 ("Interim Financial Reporting").

IAS 24 defines a related party as a person capable of controlling or significantly influencing another person, either alone or together with a third party, or as a person on whom such control or significant influence can be exercised. This definition of related parties covers companies and natural persons. In our case, the Company's Management Board and Supervisory Board and the companies of the MGA Group that are related parties of the Company have been identified as related parties.

All transactions involving deliveries and services from and to related parties that occur in the ordinary course of Zapf Creation's business are executed at market rates.

3.1. Management Board

The total compensation of K€ 126 (previous year: K€ 174) paid to the Management Board comprises all cash compensation due, as well as all monetary benefits from in-kind compensation. It includes both fixed and variable components but excludes the one-time consideration paid to former members of the Management Board.

In addition to the monetary base compensation, the fixed compensation granted to the members of the Company's Management Board also comprises benefits such as the use of company cars and allowances for accident insurance, individual pension plan, and other insurance policies.

The compensation system based on phantom shares that was launched in 2006 for the members of the Company's Management Board remained in place in the first three months of the 2008 financial year. Regarding details, please also see the consolidated financial statements as of December 31, 2007. Due to the development of the share price, in the 2008 financial year no addition to the provision for obligations under phantom shares had to be recognized (previous year: K€ 88). As of March 31, 2008, no phantom options were granted to members of the Management Board in the 2008 financial year (previous year: 30,000 phantom options at a base price of € 8.60).

As in the same period the previous year, no one-off compensation was paid to former Board members in the first three months of the 2008 financial year.

One former member of the Management Board was granted a variable credit line in the maximum amount of K€ 625 until December 31, 2007. As of March 31, 2008, the loan continued to be fully utilized; as in the previous year, no repayments were made. The interest rate agreed for the loan was 4.25%. It was fixed until December 31, 2007, the loan's due date. Because of interest receivables totaling K€ 53, the total amount due to the Company as of March 31, 2008 increased to K€ 678 (previous year: K€ 652). The loan is secured by a land charge in the amount of K€ 200 (previous year: K€ 200); as in the previous year, it was written off including interest receivables as of March 31, 2008.

3.2. Supervisory Board

The compensation of the Supervisory Board is determined by the Annual Shareholders' Meeting, on recommendation of the Management Board and the Supervisory Board. It is regulated by Article 20 of the Articles of Incorporation of Zapf Creation AG. The cash compensation includes a fixed and a dividend-based component, as well as compensation linked to the long-term success of the Company.

According to the Articles of Incorporation, the fixed compensation component for the full financial year is K€ 35 net for the chairman of the Supervisory Board, K€ 26.25 for the vice chairman of the Supervisory Board, and K€ 17.50 net each for all other members of the Supervisory Board. The compensation paid to Supervisory Board members who were not in office for a full financial year is pro rated in accordance with the duration of their membership on the Supervisory Board. As in the previous year, the addition to the provision for the fixed component of the Supervisory Board compensation as of March 31, 2008 was made pro rata temporis.

Also as in the previous year, in the financial year just ended no provisions for the variable component of the compensation were recognized because no payment obligation arises from the Company's performance. Regarding the details of the variable compensation component, please also see the consolidated financial statements as of December 31, 2007.

As in the previous year, there were no loans to members of the Supervisory Board.

3.3. Related companies of the MGA Group

The inclusion of MGA Group companies into the group of related parties of Zapf Creation AG is due to the close partnership that has been implemented on an operational level in several areas since the beginning of the 2007 financial year. The details of this partnership are as follows:

Since the beginning of 2007, MGA Entertainment, Inc., Van Nuys, California, USA, has been solely responsible as a licensee for selling Zapf Creation's products in the Americas (North, Central and South); MGA guarantees that the sales volume will exceed the revenue generated by Zapf Creation's own subsidiaries in this region by more than 50% (Agreement 1: "Distribution Agreement"). In return, the parties agreed that the Zapf Creation Group will sell MGA products in particular European markets in exchange for payment of a distribution fee (Agreement 2: "Consignment and Services Agreement"). The Zapf Creation Group expects this activity to improve the utilization of its sales team and of its logistics center; Zapf Creation Logistics GmbH & Co. KG provides logistics services for the MGA Group (Agreement 3: "Logistics Service Agreement"). Furthermore, in 2007 MGA took over the entire process of selecting and monitoring the Asian suppliers of Zapf Creation products, the coordination and handling of merchandise shipments to the sales units, and technical product development (Agreement 4: "Hong Kong/China Services Agreement"). For this purpose, essential elements of the respective procurement organization of the Zapf Creation Group in Hong Kong were transferred to MGA Entertainment (HK) Ltd. The Zapf Creation Group has bundled the design operations for its products at its Roedental headquarters. Furthermore, Zapf Creation AG granted MGA Entertainment Inc., Van Nuys, California, USA, against payment of a license fee, the exclusive right and the exclusive license to utilize and exploit both the products and the intellectual property of Zapf Creation AG, including the right to grant sublicenses (Agreement 5: "Merchandising Licence Agreement").

The following income and expenses resulted from this partnership in the first three months of the 2008 financial year:

Cooperation agreements	Q1/2008 K€	Q1/2007 K€
Agreement 1: "Distribution Agreement"		
Income from Agreement 1	179	112
Agreement 2: „Consignment and Services Agreement"		
Income from Agreement 2	373	0
Agreement 3: „Logistics Service Agreement"		
Income from Agreement 3	582	384
Agreement 4: „ Hong Kong/China Services Agreement"		
Expenses from Agreement 4	516	589
Agreement 5: „Merchandising Licence Agreement"		
Income from Agreement 5	0	0

In addition to the business transactions resulting from the cooperation agreements mentioned above (in the narrow sense), the following services were provided between the companies of the Zapf Creation Group and the related parties belonging to the MGA Group:

Cross charges	Q1/2008 K€	Q1/2007 K€
Income from cross charges	633	235
Expenses from cross charges	1,249	484

Cross charges are charges between the companies of the Zapf Creation Group and the related companies belonging to the MGA Group that arise from the mutual provision of services – above and beyond the cooperation agreements mentioned above (in the narrow sense); this essentially concerns income and expenses from shared company resources (staff, offices etc.).

Merchandise procurement	Q1/2008 K€	Q1/2007 K€
Merchandise procurement in the reporting period	5,805	3,059

Merchandise procurement in the reporting period results from the purchase of goods at MGA Entertainment (HK) Ltd. made by the sales subsidiaries of the Zapf Creation Group.

Other services received directly	Q1/2008 K€	Q1/2007 K€
Income from direct services	0	1,914

The income of the Zapf Creation AG from other services received directly from or delivered directly to the related companies of the MGA Group in the previous year resulted from the sale of remaining inventories of the Company's US subsidiary to MGA Entertainment, Inc. Van Nuys, California, USA, which has been responsible for serving the American market under a strategic partnership since January 1, 2007; insofar please also see the disclosures regarding discontinued operations.

Other business transactions were as follows:

Following the conversion into equity of some of the subordinated shareholder loans including pro rated interest owed, which are part of the Company's financing concept, the remaining subordinated shareholder loans as of March 31, 2008, amounted to € 4.4 million. Please also see section 2.3. The share attributable to related parties is € 2.9 million. It is subject to interest 22 %, which is commensurate with market conditions. The remaining interest owed as of March 31, 2008, amounts to € 0.3 million.

The receivables and liabilities of the Zapf Creation Group that result from the partnership with related parties of the MGA Group as of March 31, 2008 are as follows:

Balances as of the balance sheet date	March 31, 2008 K€	March 31, 2007 K€
Receivables from related parties	3,855	2,606
Liabilities to related parties	10,158	1,744

Total liabilities to related parties in the amount of K€ 10,158 as of March 31, 2008 (previous year: K€ 1,744) contain a loan of € 3.2 million including outstanding interest utilized by the Company as part of the aforementioned financing component (previous year: K€ 0).

4. Events after the close of the reporting period

For information regarding significant events after the close of the reporting period, with the exception of directors' dealings, please see the disclosures in the interim management report of the Group as of the end of the first quarter of 2008.

5. Directors' dealings

During the period from January 1 to May 15, 2008, the officers and directors of the Company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on January 21, 2008, it had purchased a total of 63,335 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.73 per share for a total transaction volume of € 172,619.54.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on January 22, 2008, it had purchased a total of 29,938 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.59 per share for a total transaction volume of € 77,539.42.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on January 23, 2008, it had purchased a total of 29,730 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.61 per share for a total transaction volume of € 77,654.76.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 28, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on January 25, 2008, it had purchased a total of 3,568 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.70 per share for a total transaction volume of € 9,633.60.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 13, 2008, it had purchased a total of 10 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.65 per share for a total transaction volume of € 26.50.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 29, 2008, it had purchased a total of 891,583 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 2,398,358.27.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 29, 2008, it had purchased a total of 1,762,065 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 4,739,954.85.

Attorneys for the Jahangir Eli Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 29, 2008, it had purchased a total of 194,934 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 524,372.46.

Attorneys for the Shirin and Jahangir Eli Makabi Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 29, 2008, it had purchased a total of 156,484 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 420,941.96.

Attorneys for the Shirin Larian Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on February 29, 2008, it had purchased a total of 194,934 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 524,372.46.

The Company was not notified of any other transactions requiring disclosure made by members of the Management Board or the Supervisory Board, their spouses or immediate relatives. All members of the Management Board and the Supervisory Board have been informed in detail regarding the disclosure requirement.

Roedental, Germany, May 15, 2008

Jens U. Keil Member of the Management Board	Thomas Pfau Member of the Management Board

Consolidated income statement	Q1/2008 K€	Q1/2007 K€
Revenue	14,286	13,296
Cost of sales	– 8,501	– 7,318
Gross profit	**5,785**	**5,978**
Selling and distribution expenses	– 3,387	– 2,893
Marketing expenses	– 1,279	– 1,607
Administrative expenses	– 3,871	– 4,802
Other income	722	182
Other expenses	– 1,425	– 374
Operating result	**– 3,455**	**– 3,516**
(Restructuring costs included therein	*0*	*– 244)*
(One-off costs, mainly consultancy, included therein	*0*	*0)*
(Adjusted operating result derived therefrom	***– 3,455***	***– 3,272)***
Finance income	198	89
Finance costs	– 2,191	– 808
Result from continued operations before income taxes	**– 5,448**	**– 4,235**
Taxes on income	1,291	926
Result from continued operations	**– 4,157**	**– 3,309**
Result from discontinued operations before income taxes	– 96	– 45
Income taxes on discontinued operations	0	0
Net profit or loss for the period	– 4,253	– 3,354
Earnings per share, continued operations	– 0.32	– 0.41
Earnings per share, discontinued operations	– 0.31	– 0.40
Average number of shares outstanding, in thousands	– 0.01	– 0.01
Earnings per share (basic/diluted)	13,298	8,227

The included notes are an integral part of the consolidated financial statements.

Breakdown of staff costs	Q1/2008 K€	Q1/2007 K€
Sales & distribution	2,126	1,393
Marketing	248	283
Other administration	1,128	2,183
Discontinued operations	0	7
Total	3,502	3,866

Consolidated balance sheet	March 31, 2008 K€	Dec. 31, 2007 K€	March 31, 2007 K€
Assets			
Current assets	**76,015**	**95,589**	**50,968**
Cash	30,912	23,282	5,100
Trade receivables	25,077	49,904	29,819
Inventories	14,010	13,473	9,129
Income tax receivables	303	341	4,153
Other assets	5,713	8,589	2,767
Non-current assets	**19,955**	**19,548**	**25,305**
Property, plant and equipment	15,348	15,883	16,856
Intangible assets	3,244	3,545	4,451
Other assets	10	10	20
Deferred tax assets	1,353	110	3,978
Total assets	95,970	115,137	76,273
Equity and liabilities			
Current liabilities	**38,961**	**67,242**	**75,817**
Liabilities to banks	5,035	5,874	45,145
Trade payables	23,514	37,686	23,110
Income tax liabilities	463	701	1,252
Other liabilities	7,393	19,394	2,308
Provisions	2,556	3,587	4,002
Non-current liabilities	**33,546**	**33,465**	**173**
Liabilities to banks	33,469	33,381	0
Deferred tax liabilities	77	84	173
Equity	**23,463**	**14,430**	**283**
Issued capital	18,000	13,200	8,800
Capital reserve	29,693	21,703	12,961
Net profit or loss for the period and retained earnings brought forward	– 14,110	– 9,857	– 10,463
Other recognized income and expense	1,238	742	343
Treasury shares	– 11,358	– 11,358	– 11,358
Total equity and liabilities	95,970	115,137	76,273

The included notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Shares outstanding (thsds.)	Issued capital K€	Capital reserves K€	Net profit/loss for the period and retained earnings brought forward K€	Other recognized income and expense: Adjustments from currency translations K€	Other recognized income and expense: Derivative financial instruments K€	Treasury shares K€	Total equity K€
Balance at January 1, 2007:	8,227	8,800	12,961	– 7,109	284	0	– 11,358	3,578
Net profit or loss for the period				– 3,354				– 3,354
Change in other recognized income and expense					59	0		59
Total net income or loss for the period				– 3,354	59	0		– 3,295
Balance at March 31, 2007:	8,227	8,800	12,961	– 10,463	343	0	– 11,358	283
Balance at January 1, 2008:	12,627	13,200	21,703	– 9,857	742	0	– 11,358	14,430
Net profit or loss for the period				– 4,253				– 4,253
Change in other recognized income and expense					365	131		496
Total net income or loss for the period				– 4,253	365	131		– 3,757
Issuance of treasury shares	4,800	4,800	7,990					12,790
Balance at March 31, 2008:	17,427	18,000	29,693	– 14,110	1,107	131	– 11,358	23,463

The included notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement	Q1/2008 K€	Q1/2007 K€
Cash flow from operating activities:		
Earnings before income taxes	– 5,544	– 4,280
Depreciation of non-current assets	919	1,100
Losses/gains from the disposal of non-current assets	– 1	79
Finance costs/income	1,993	719
Other non-cash income/expenses	0	15
Increase/decrease in assets and liabilities:		
Trade receivables	25,657	27,654
Inventories	– 511	3,539
Other assets	3,005	917
Liabilities and reserves	– 14,809	– 15,348
Income tax payments	– 119	130
Cash flow from operating activities	10,590	14,525
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	41	43
Cash payments for investments in property, plant and equipment and intangible assets	– 157	– 288
Cash flow from investing activities	– 116	– 245
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	0	0
Cash payments for non-current bank borrowings	– 1,035	0
Cash payments for the repayment of non-current bank borrowings	– 1,000	– 1,275
Change in liabilities due to current borrowings	168	– 18,635
Interest paid	– 58	– 1,050
Interest received	178	91
Cash payments for the issuance of treasury shares	– 285	0
Cash flow from financing activities	– 2,032	– 20,869
Effects of exchange rate changes	– 812	– 21
Net change in cash and cash equivalents	7,630	– 6,610
Cash and cash equivalents at the beginning of the period	23,282	11,710
Cash and cash equivalents at the end of the period	30,912	5,100

The included notes are an integral part of the consolidated financial statements.

Segment reporting

Q1/	Central Europe 2008 K€	Central Europe 2007 K€	Northern Europe 2008 K€	Northern Europe 2007 K€	Southern Europe 2008 K€	Southern Europe 2007 K€	Eastern Europe 2008 K€	Eastern Europe 2007 K€	The Americas 2008 K€	The Americas 2007 K€	Asia/Australia 2008 K€	Asia/Australia 2007 K€
External sales	6,098	5,651	2,967	3,024	1,688	1,307	3,214	3,193	– 10	1,933	319	121
Internal sales	1,612	594	186	618	239	250	235	114	0	0	0	0
Segment sales, total	7,710	6,245	3,153	3,642	1,927	1,557	3,449	3,307	– 10	1,933	319	121
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2,369	1,387	– 2,418	– 2,333	– 412	– 830	828	1,002	– 96	– 45	– 2,903	– 1,398

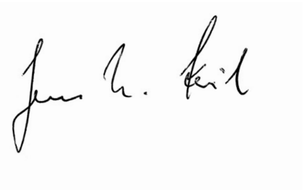
Q1/	Other 2008 K€	Other 2007 K€	Consolidation 2008 K€	Consolidation 2007 K€	Group total 2008 K€	Group total 2007 K€	Discontinued operations 2008 K€	Discontinued operations 2007 K€	Continued operations 2008 K€	Continued operations 2007 K€
External sales	0	0	0	0	14,276	15,229	– 10	1,933	14,286	13,296
Internal sales	0	0	– 2,272	– 1,576	0	0	0	0	0	0
Segment sales, total	0	0	– 2,272	– 1,576	14,276	15,229	– 10	1,933	14,286	13,296
Earnings before interest, taxes, depreciation and amortization (EBITDA)	0	– 244	0	0	– 2,632	– 2,461	– 96	– 45	– 2,536	– 2,416

The segment reporting is part of the notes.

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Zapf Creation Group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

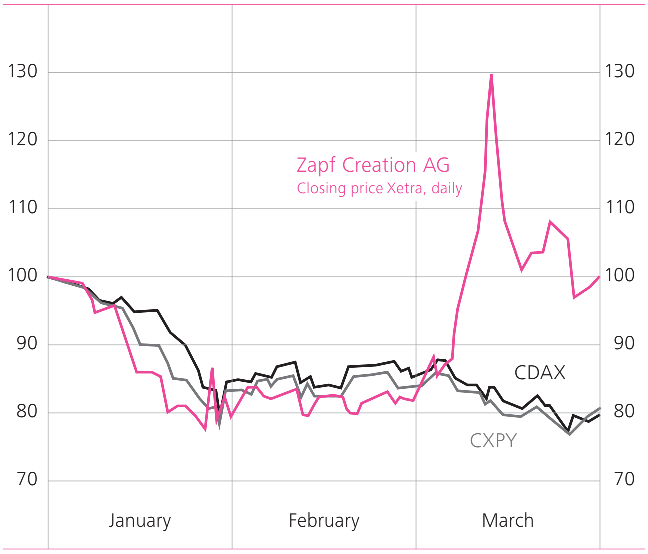
Roedental, Germany, May 15, 2008



Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

The share



The shares of Zapf Creation AG opened the 2008 financial year at a price of € 3.36. By January 31, 2008, however, it had fallen by 18 % from the year's opening price to € 2.78, largely paralleling both the CDAX Performance Index and the CXPY Consumer Performance Index. The share price then hovered around € 2.80 until the end of February 2008, rising to € 3.00 after the preliminary, unaudited figures for the 2007 financial year were announced on February 25, 2008. Registering high trading volumes on the most important stock exchanges, the share price gained substantially in the first week of March, reaching € 4.40 on March 5, 2008, its high for the quarter. From this high, it fell to € 3.28 on March 18, 2008, only to rise yet again to € 3.60 on March 31, 2008, the end of the quarter. The shares of Zapf Creation AG thus clearly outperformed the two performance indices, CDAX and CXPY, in March 2008. Both of these performance indices were down an average of 19 % in March from the reference price at the start of the year while Zapf Creation's shares had gained close to 6 % on average. The Company's shares closed the quarter up more than 6 %.

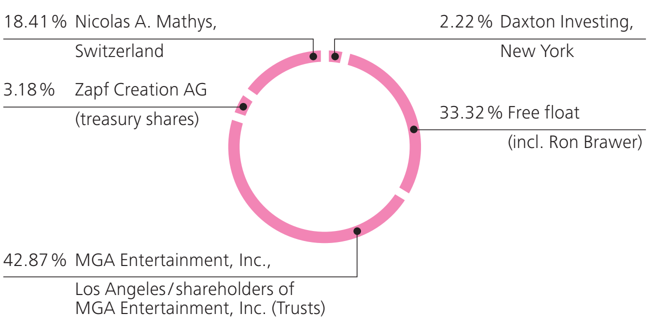
Financial calendar

Event	Activity	Place
May 15, 2008	Publication of the Q1 / three-month results	Roedental
May 27, 2008	9th Annual Shareholders' Meeting	Roedental
August 15, 2008	Publication of the Q2 / half-year results	Roedental
August 25–27, 2008	SCC Small Cap Conference of DVFA	Frankfurt/Main
November 7, 2008	Publication of the Q3 / nine-month results	Roedental
November 10–12, 2008	German Equity Forum 2008	Frankfurt/Main

Capital measures

A non-cash capital increase under authorized capital pursuant to Article 5 para 1 a of the Company's Articles of Incorporation, subject to the exclusion of shareholders' subscription right, was executed by resolution of the Management Board dated February 22, 2008, with the approval of the Supervisory Board dated February 27, 2008, and recorded in the commercial register at the Coburg Local Court on March 19, 2008; A total of € 12.9 million of the subordinated shareholder loans that the shareholders of MGA Entertainment, Inc. (the "Trusts"), as well as Mr. Nicolas Mathys, had made to the Company were converted into equity by means of this non-cash capital increase. The authorized capital of € 4,800,000 pursuant to Article 5 para 1 a of the Company's Articles of Incorporation remaining after the capital increase on December 10, 2007, was utilized in full to issue 4.8 million new shares that will fully participate in profits as of the 2008 financial year. An amount of € 2.69 in shareholder loans was contributed per share, raising Zapf Creation's share capital from € 13.2 million to € 18.0 million.

Shareholder structure*



* The figures are based on the notifications under Sections 15a and 21 German Securities Trading Act received by Zapf Creation AG until March 31, 2008.

Annual Shareholders' Meeting

Zapf Creation AG invites its shareholders to the 9th Annual Shareholders' Meeting on May 27, 2008, at the Franz-Gobel-Halle, Buergerplatz 1, in 96472 Roedental. The meeting will begin at 10:00 a.m. All information regarding the Annual Shareholders' Meeting can be found on the Website of Zapf Creation AG.

Treasury shares

Zapf Creation AG owns two separate securities deposit accounts. Account no. 1 serves to back the potential future issuance of stock options on the part of the Company. Account No. 2 serves to grant shares to employees based on special performance or based on a positive development of the company's business. The account balances as of March 31, 2008, presented below do not differ from those reported as of December 31, 2007. The capital share percentages as of the balance sheet date are as follows:

	Number of shares	Carrying amount acc. to IFRS K€	Percentage of share capital in %
Account no. 1	569,593	11,262	3.16
Account no. 2	3,085	96	0.02
Total	**572,678**	**11,358**	**3.18**

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