Quarterly Report 3 / 2007

Consolidated key figures

in € million	Q3/ 2007	Q3/ 2006	Q1–Q3/ 2007	Q1–Q3/ 2006	Q1–Q3/ +/–in %	FY/ 2006
Adjusted earnings situation (without restructuring costs and one-off effects)						
Continued operations						
EBITDA	9.4	9.2	3.1	8.2	–62	10.7
EBIT	8.4	7.8	0.0	4.0	–100	5.4
EBIT margin (in %)	24.3	20.5	0.0	5.7	—	4.7
EBT	7.2	6.8	–3.3	0.8	—	–0.9
Result from continued operations	4.7	7.2	–4.0	0.2	—	–0.6
Discontinued operations						
Result from discontinued operations	–0.2	0.2	0.0	–0.9	100	–4.9
Group						
Net profit or loss for the period	4.6	7.4	–3.9	–0.7	—	–5.6
Earnings per share (in €)[1]	0.55	0.89	–0.48	–0.19	—	–0.74
Earnings situation according to the income statement (including restructuring costs and one-off effects)						
Continued operations						
Net sales	34.5	38.0	57.6	70.2	–18	116.1
Gross margin (in %)	47.9	47.7	44.8	46.7	—	45.4
EBITDA	9.1	8.4	2.7	4.5	–40	4.8
EBIT	8.1	7.0	–0.4	0.4	—	–0.5
EBIT margin (in %)	23.5	18.4	–0.7	0.6	—	–0.4
EBT	6.9	6.0	–3.7	–2.9	–28	–6.8
Result from continued operations	4.4	6.4	–4.4	–3.5	–26	–6.5
Included restructuring costs and one-off effects	0.3	0.8	0.4	3.7	–89	5.9
Included depreciation and amortization	1.0	1.4	3.1	4.1	–24	5.3
Discontinued operations						
Result from discontinued operations	–0.2	–0.5	0.0	–1.6	100	–6.1
Included restructuring costs and one-off effects	0.0	0.7	0.0	0.7	–100	1.2
Included depreciation and amortization	0.0	0.0	0.0	0.0	—	0.0
Group						
Net profit or loss for the period	4.3	5.9	–4.3	–5.1	16	–12.7
Earnings per share (in €)[1]	0.51	0.79	–0.53	–0.68	22	–1.67

1) undiluted = diluted
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.

Consolidated key figures

in € million	Q3 / 2007	Q3 / 2006	Q1–Q3 / 2007	Q1–Q3 / 2006	Q1–Q3 / +/– in %	FY / 2006
Balance sheet (as at the closing date)						
Total assets	—	—	96.5	115.3	–16	115.6
Non-current assets	—	—	23.9	25.3	–6	26.3
Investments	0.4	0.6	1.1	1.1	0	1.8
Current assets	—	—	72.6	90.0	–19	89.3
Equity	—	—	–0.8	5.5	—	3.6
Equity ratio (in %)	—	—	–0.8	4.8	—	3.1
Liabilities to banks	—	—	44.9	72.3	–38	65.1
Net debt	—	—	39.5	63.0	–37	53.3
Cash flow						
Cash flow from operating activities	2.3	–0.4	18.3	15.0	22	20.3
Cash flow from operating activities per share (in €)[1)]	0.28	–0.05	2.23	2.02	10	2.68
Net cash flow	1.5	–2.6	–6.3	0.0	—	2.4
Employees						
Number as at the closing date[2)]	—	—	225	334	–33	322
Share						
Share price, high (Xetra) in €	5.66	10.13	10.50	10.13	—	11.00
	(Aug. 6)	(July 7)	(Jan. 30)	(July 7)		(July 7)
Share price, low (Xetra) in €	4.25	6.49	4.25	6.49	—	7.11
	(Sep. 28)	(Aug. 18)	(Sep. 28)	(Aug. 18)		(Aug. 18)
Share price at the end of the period (Xetra) in €	4.25	7.37	4.25	7.37	—	8.90
	(Sep. 28)	(Sep. 28)	(Sep. 28)	(Sep. 28)		(Dec. 29)
Average share price (Xetra) in €	4.50	8.13	6.71	8.14	—	—
Average daily trading volume (Xetra), number of shares	46,837	67,680	35,594	65,575	–46	53,774
Number of shares at the end of the period	8,799,998	8,799,998	8,799,998	8,799,998	0	8,799,998
Market capitalization (base: end of period, Xetra) in € million	37	65	37	65	–43	78

1) undiluted = diluted
2) excluding Management Board and trainees
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.

Financial report on the first nine months of 2007

- **Restrained development of business overall**
- **As of September 30, 2007, orders on hand up 28.9 % year-on-year**
- **At € 57.6 million, consolidated sales down 17.9 % from a year earlier**
- **Operating income (EBIT) at the end of the third quarter breakeven**
- **Third-quarter EBIT improved by 7.4 % versus the same period the previous year**
- **Reduced cost base due to successful restructuring measures**
- **Additional income through strategic cooperation with MGA Entertainment, Inc.**
- **Significant improvement of earnings remains goal for 2007 as a whole**

Summary

The business of the Zapf Creation Group, Europe's leading manufacturer of play and functional dolls, showed a restrained development in the first nine months of 2007.

In a market environment for play and functional dolls dominated by the uneven development of key European countries, consolidated sales at the end of the third quarter remained below the prior year's level. Aside from the reasons already explained in the half-year report – for example, the restructuring of our marketing approach in important countries such as France and Spain, as well as product changes – both the partially delayed availability of products caused by the reorganization of procurement activities in Asia and the rising trend toward short-term order placement dampened sales. But we succeeded nonetheless in reducing the percentage decline in sales compared to the end of the second quarter.

Zapf Creation managed to cut significant cost items considerably as a result of its successful restructuring. Furthermore, the Company generated additional income from the implementation of the strategic cooperation with MGA Entertainment, Inc. Thanks to these cost savings and this additional income, earnings before interest and taxes (EBIT), adjusted for restructuring costs for the first nine months of the year was breakeven. The loss for the period (earnings after taxes) was lower than the loss a year earlier.

The retail's response to our product innovations for the Christmas business has been positive throughout. Before the onset of the fourth quarter, which is traditionally the strongest quarter by far, orders on hand as of September 30, 2007, were € 43.5 million, up 28.9 % compared to a year earlier (€ 33.7 million).

The Group's Management Board wishes to emphasize against this backdrop that it continues to aim for a substantial improvement in consolidated earnings after taxes for 2007 compared to the previous year. The Management Board still expects earnings after taxes to be slightly negative. We also plan to reduce the downturn in consolidated sales before the year is out. Compared to the previous year, the Management Board expects a mid single-digit drop in sales.

Industry environment in Europe

The toy markets in Germany, the UK, France, and Spain – the Zapf Creation Group's core markets in Europe – developed along positive trajectories overall in the first three quarters of 2007 even though each market followed its own dynamic. While the markets in the UK (+ 0.6 %), Germany (+ 2.8 %), and France (+ 3.6 %) showed rather moderate growth, the market volume in Spain climbed 11.5 % year-on-year.

Business developed unevenly in the play and functional doll segment (our core business) in the European main markets. The market volume in the first nine months of 2007 fell in Germany (– 7.7 %) and the UK (– 7.9 %) while the markets in France (+ 11.2 %) and Spain (+ 9.2 %) experienced high growth year-on-year.

Development of consolidated sales

In the first nine months of 2007, the Zapf Creation Group posted sales of € 57.6 million, down 17.9 % compared to the same period the previous year (€ 70.2 million). Given that sales had fallen by 28.2 % in the first six months of 2007, the Q3 figures show that the decline slowed down in the third quarter.

The dip in sales is largely due to the measures implemented in the first six months of 2007 to improve the sales structure that continued to depress revenues in the third quarter. These include the reorganization of sales in France and Spain – the most dynamic growth markets in Europe in the areas of play and functional dolls – and the discontinuation of the Missy Milly® mini doll line.

Consolidated sales were also impacted by the partially delayed availability of products caused by the reorganization of purchasing activities in Asia.

Moreover, the trade's changing purchasing pattern is also leading to shifts in sales. Increasingly, orders are being placed ever closer to the date on which the product is expected to be sold, thus minimizing inventory risks. As a result, inventories for the Christmas business are being set up later and later. For the Zapf Creation Group this means that sales are increasingly being shifted from the third into the fourth quarter.

Consolidated sales in the third quarter of 2007 were € 34.5 million, down 9.2 % from € 38.0 million in the prior-year period.

Development of sales by region

The factors delineated above dampened the Group's revenue in the first nine months of 2007 in almost all sales regions.

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

	Q1–Q3/2007 K€	Q1–Q3/2006 K€	+/– in %
Europe	**55,995**	**67,769**	**– 17**
Central Europe	19,694	24,979	– 21
Northern Europe	16,552	20,695	– 20
Southern Europe	7,014	12,603	– 44
Eastern Europe	12,735	9,492	34
Asia/Australia	**1,611**	**2,414**	**– 33**
Total sales	56,606	70,183	– 18

* In accordance with IFRS 5, without sales region North, Central and South America, previous year's figure adjusted

In Europe, overall consolidated sales during this period were € 56.0 million, a decline of 17.4 % from € 67.8 million in the same period the previous year.

In the Central European sales region, consolidated revenues at the end of the first nine months of 2007 were € 19.7 million, down from € 25.0 million a year earlier. In Northern Europe – Great Britain, Ireland, and Scandinavia – the Zapf Creation Group posted sales of € 16.6 million for the first three quarters of 2007, down from € 20.7 million a year earlier. Sales in Southern Europe after the first nine months of 2007 were € 7.0 million (compared to € 12.6 million the previous year); this substantial decline is mainly due to the restructuring of our marketing organization in France and Spain. While the measures introduced in Spain are already showing a positive effect, the Management Board is working intensively on developing a new marketing concept for the French market, if necessary with the help of external partners, given the unsatisfactory development of sales in France.

But Zapf Creation continues to gain ground in Eastern Europe. Here, sales rose substantially from € 9.5 million in the first nine months of 2006 to € 12.7 million in the first nine months of 2007.

Consolidated sales for the first three quarters of 2007 in Asia/Australia were € 1.6 million (Q1–Q3/2006: € 2.4 million).

Development of sales by product line

In the first three quarters of 2007, sales in the play and functional doll segment (the core business of the Zapf Creation Group) were € 54.2 million, down 16.7 % year-on-year (Q1–Q3/2006: € 65.1 million).

*Breakdown of sales by product line**

	Q1–Q3/2007 K€	Q1–Q3/2006 K€	+/– in %
Play and functional dolls	**54,172**	**65,063**	**– 17**
BABY born®	32,701	33,398	– 2
Baby Annabell®	14,855	21,143	– 30
CHOU CHOU	6,568	10,148	– 35
Other play and functional dolls	48	394	– 88
Mini dolls	**355**	**2,413**	**– 85**
Other products	**3,079**	**2,687**	**15**
Total sales	57,606	70,183	– 18

* In accordance with IFRS 5; without sales region North, Central and South America, previous year's figure adjusted

Sales from the BABY born® concept were € 32.7 million in the first nine months of 2007 and thus only 2.1 % less than a year earlier (Q1–Q3/2006: € 33.4 million), compared to a decline of 17 % year-on-year at the end of the first six months of 2007.

The Zapf Creation Group posted sales of € 14.9 million from Baby Annabell® in the first nine months of the year. The sales of € 21.1 million a year earlier had been influenced positively by the launch of a new Baby Annabell® in Great Britain.

Sales for CHOU CHOU dolls in the first nine months of 2007 were € 6.6 million, down from € 10.1 million a year earlier. This figure reflects the fact that this play concept so far failed to meet expectations.

Discontinuing the Missy Milly® line had a strong impact on the decline in sales in the mini doll segment to € 0.4 million in the first three quarters of the year (Q1–Q3/2006: € 2.4 million).

Sales in the other products segment, which mainly comprises the My Model play concept, rose from € 2.7 million to € 3.1 million in the first nine months of 2007.

Earnings

The gross profit margin of the Zapf Creation Group in the first nine months of 2007 was 44.8 %, compared to 46.7 % in the same period the previous year. This decrease is mainly attributable to structural effects, notably a higher proportion of clearance sales with inadequate contribution margins. However, at 47.9 %, the gross profit margin at the end of the third quarter was once again slightly above the level achieved in 2006 (47.7 %) and substantially above the level achieved at the end of the second quarter of 2007 (40.1 %).

Operating income (EBIT) adjusted for restructuring costs broke even at the end of the third quarter of 2007 despite lower sales. A year earlier, adjusted EBIT had been € 4.0 million.

The lowering of key cost items in the reporting period had a positive impact on EBIT. Administrative expenses were reduced to € 12.7 million (Q1–Q3/2006: € 16.6 million). Miscellaneous earnings of € 2.8 million resulted primarily from cooperation agreements with MGA Entertainment, Inc. in connection with our strategic partnership. On the whole, the cost reductions resulting from the restructuring measures and the additional revenue generated by the strategic cooperation with MGA Entertainment, Inc. were unable to fully compensate for the decline in consolidated income during the period under review.

Expenses related to the restructuring in the reporting period were € 0.4 million (Q1–Q3/2006: € 3.7 million) and largely concerned the restructuring of our marketing organizations in France and Spain. EBIT thus was € -0.4 million, down from € 0.4 million the previous year.

However, EBIT just for the third quarter of 2007 rose from € 7.0 million to € 8.1 million.

The Group posted earnings before taxes (EBT) of € – 3.7 million for the first nine months of 2007, down from € – 2.9 million a year earlier. But EBT just in the third quarter alone rose from € 6.0 million to € 6.9 million.

The after-tax result from continuing operations at the end of the third quarter of 2007 was € – 4.4 million, compared to € – 3.5 million a year earlier. This was essentially due to the decline in sales and the lower gross profit margin.

Taking the loss from discontinued operations into account – i. e. the US business which was closed at the end of 2006 – the Group posted a net loss of € 4.3 million for the period, compared to a net loss of € 5.1 million in the same period the previous year. Earnings per share were € – 0.53 (Q1–Q3/2006: € – 0.68).

The Group recorded net income of € 4.3 million (Q3/2006: € 5.9 million) for the third quarter of 2007. The decline year-on-year is due especially to the reduction in deferred taxes in the wake of the German Corporate Tax Reform Act 2008 (€ 0.8 million) and to valuation allowances on deferred taxes of the French subsidiary (€ 0.6 million).

Assets

Total assets of the Zapf Creation Group as of September 30, 2007, were € 96.5 million, compared to € 115.6 million as of December 31, 2006, and € 115.3 million at the end of the third quarter of 2006. The reduction arises, for one thing, from the smaller business volume and, for another, from the improved management of working capital due to the restructuring.

Current assets declined to € 72.7 million as of the reporting date, down from € 89.3 million at the end of 2006 and € 90.0 million as of September 30, 2006. This was due mainly to the substantial reduction in the level of committed funds resulting from the reduction in trade receivables to € 36.4 million (December 31, 2006: € 57.4 million; September 30, 2006: € 50.7 million).

Cash and cash equivalents as of September 30, 2007, were € 5.4 million, down from € 11.7 million as of December 31, 2006 and € 9.4 million as of September 30, 2006. The decline is chiefly due to the repayment of financial liabilities.

Other assets rose to € 8.9 million as of the reporting date, up from € 3.7 million at the close of 2006, primarily due to existing receivables from the strategic partnership with the affiliates of MGA Entertainment, Inc., as well as due to advance payments on advertising for the fourth quarter of 2007.

There were no substantial changes year-on-year in regards to non-current assets.

Financial position

The main focus in the third quarter was on securing the long-term follow-up financing for the Zapf Creation Group.

After long and complex negotiations, on July 20, 2007, Zapf Creation AG came to an agreement with an international syndicate of banks and three major shareholders on essential cornerstones of the Company's long-term follow-up financing.

The new financing concept calls for a new, long-term syndicated € 65 million loan. This loan was initially based on the condition precedent that an equity contribution of € 30 million was made by October 31, 2007, in a way to be determined by the major shareholders. The Group's three major shareholders undertook in an agreement with the Company ("Financing Agreement I") to guarantee an infusion of equity. A portion of this equity infusion was to be contributed through capital increases, among others by utilizing the remaining existent authorized capital. But the loan was also tied to the condition that the Company's auditors issue the auditor's opinion for the single-entity and consolidated financial statements for 2006.

The previous syndicate of banks of Zapf Creation AG agreed to allow repayment of the previous syndicated loan with credit lines used in the amount of approx. € 45 million, which was due since June 30, 2007, to be deferred until October 31, 2007.

To finance peak capital needs in the course of the company's operations, the lead manager of the new syndicate of banks, Commerzbank AG, also agreed to providing interim financing of up to € 20 million until October 31, 2007. These funds could be utilized as defined and depending on the equity contributions made at such a time.

Given that Betham Ltd., the company represented by Supervisory Board member, Gustavo Perez, was unable to fulfill its commitments under Financing Agreement I on formal grounds, after arduous negotiations MGA Entertainment, Inc. declared on September 5, 2007, that it would be prepared to take over the obligations of Betham Ltd. ("Financing Agreement II"). For this agreement to take effect, however, MGA Entertainment required that it be granted a release from the obligation to submit a takeover offer for all of the shares of Zapf Creation AG if it exceeded the control threshold of 30 % of the voting rights in connection with the execution of Financing Agreement II. The Federal Financial Supervisory Authority (Bundesanstalt fuer Finanzdienstleistungsaufsicht – "BaFin") issued such a release on September 14, 2007, in accordance with Section 37 para 1 German Securities Acquisition and Takeover Act (Wertpapieruebernahmegesetz) in conjunction with Section 9 sentence 1 no. 3 of the attendant Offer Regulation (Wertpapieruebernahmegesetz-Angebotsverordnung).

Given the delays, all participants declared that they were willing to extend by one month – i. e. until November 30, 2007 – the deadline for the contribution of € 30 million in equity capital, the grace period for the extant syndicated loan, the interim financing, as well as the closing of new financing.

In terms of liabilities and equity, current liabilities of the Zapf Creation Group at the end of the third quarter of 2007 were € 97.2 million, a decline of € 14.6 million from € 111.8 million as of December 31, 2006. The decline is primarily attributable to the reduced use of existing credit lines. As of the reporting date, current liabilities toward banks were € 44.9 million, compared to € 65.1 million as of the close of 2006 and € 56.7 million at the end of the third quarter of 2006. This item contains the syndicated loan granted in April 2006, in regards to which the participating banks have granted a grace period until November 30, 2007, subject to the agreements regarding the Group's long-term financing.

As of September 30, 2007, net liabilities fell substantially to € 39.5 million, down from € 53.3 million at the end of 2006.

Other liabilities of € 10.5 million as of September 30, 2007 (December 31, 2006: € 3.0 million) comprise shareholder loans of € 7.5 million from the Company's major shareholders that were granted in connection with Financing Agreement II.

As of September 30, 2007, the Group's non-current liabilities, which resulted from deferred tax liabilities, were only € 0.1 million (December 31, 2006: € 0.2 million; September 30, 2006: € 15.9 million). A year earlier, this item was mainly characterized by long-term liabilities towards banks.

Due to the net loss for the period, equity as of September 30, 2007, was negative at € – 0.8 million, compared to € 3.6 million at the close of the 2006 financial year and € 5.5 million at the end of the third quarter of 2006.

Liquidity

The Zapf Creation Group had cash inflows of € 18.3 million from operating activities in the first nine months of 2007 despite the net loss for the period (prior-year period: € 15.0 million). The substantial reduction in receivables resulting from improved working capital management had a substantial impact on this figure. Cash outflows from investing activities were € 0.9 million and thus at the previous year's level. Cash outflows from financing activities were € 23.6 million. The increase relative to the previous year (Q1–Q3/2006: € 13.8 million) resulted, in particular, from a reduced utilization of credit lines.

Net assets and results of operations of Zapf Creation AG

The single-entity financial statements of Zapf Creation AG as of September 30, 2007, which were prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB), show a loss of € 6.3 million. This loss was mainly due to allowances for doubtful accounts related to our French subsidiary in the amount of € 5.8 million in consequence of its unsatisfactory performance in the first nine months of 2007. This loss in turn reduced the equity of Zapf Creation AG as of the reporting date to € 7.8 million (December 31, 2006: € 14.1 million).

The Company received additional proceeds of € 10.1 million before transaction costs from the cash capital increase that was successfully concluded on October 31, 2007 (see the section, Events after the close of the reporting period). As a result, Zapf Creation AG once again has sufficient equity.

Personnel

As of September 30, 2007, the Zapf Creation Group had a total of 225 employees (not counting the Management Board and trainees). This means that there has been almost no change in personnel compared to June 30, 2007 (226 employees). As of September 30, 2006, the Group had 334 employees. The number of employees is on target.

Events after the close of the reporting period

The Company announced on October 1, 2007, that its Supervisory Board had adopted the single-entity annual financial statements of Zapf Creation AG for the 2006 financial year. Previously, the auditing firm, KPMG, had issued an unqualified auditor's report for both the single-entity annual financial statements and the consolidated financial statements for 2006.

According to the certified consolidated financial statements, the Zapf Creation Group incurred a loss of € 12.7 million in the 2006 financial year (previous year: loss of € 27.7 million). The difference compared to the preliminary result of € – 11.3 million for the 2006 financial year that was announced on March 8, 2007, is due to expenses arising from a tax audit of the period from 1999 through 2002, which has been completed in the meantime, as well as allowances for receivables related to the company's U.S. activities, which were discontinued as of the end of 2006.

The issuing of the unqualified auditor's opinion fulfilled a material requirement regarding the continued execution of the long-financing concept.

The Company announced on October 31, 2007, that it had carried out a successful cash capital increase. The Company's shareholder were offered a total of 3,200,002 no-par bearer shares ("new no-par shares") from extant authorized capital at a cash price of € 3.16 per share. The shareholders of Zapf Creation AG exercised approximately 75 % of the subscription rights. The remaining 25 % of the new no-par shares were acquired by the Company's major shareholders. This capital increase boosted the Company's share capital from € 8,799,998 to € 12,000,000. The total proceeds for the Company before deducting transaction-related expenses were € 10.1 million.

The major shareholders of Zapf Creation AG – MGA Entertainment, Inc., as well as companies and individuals affiliated with MGA, and Mr. Nicolas Mathys – had agreed in advance, in accordance with Financing Agreement II and subject to fulfillment of certain conditions, to guarantee that the cash capital increase could be executed in full. The major shareholders promised to take over any unsubscribed shares at a purchase price equivalent to the subscription price, if necessary.

The cash inflow from the cash capital increase is an important element of the long-term financing package of Zapf Creation AG.

Outlook for 2007 overall

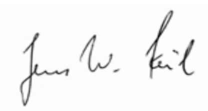
Consistent execution of the long-term financing concept stipulated on July 20, 2007, with an international syndicate of banks and major shareholders of Zapf Creation will have the highest priority in the final quarter of 2007. The central elements of this package comprise, among other things, the conclusion of a new, long-term syndicated loan agreement for € 65 million and a € 30 million increase in the Company's equity by November 30, 2007. The previous agreements are subject to the proviso that there is no material adverse change to the economic situation of the Group until November 30, 2007.

The Management Board believes – notwithstanding the downturn in sales in the first nine months of the year – that further progress has been made in regards to the reorientation of the Zapf Creation Group. Our cooperation with MGA Entertainment, Inc. in marketing, procurement, licensing, and logistics will already have a positive effect on this year's results and fully bear fruit the next year.

The good response from the retailers and end customers alike to the product innovations for the Christmas business such as, for instance, the new CHOU CHOU "Mommy Make Me Better", which is reflected in the substantial increase in orders on hand as of September 30, 2007, gives us reason to look forward to the important fourth quarter with optimism.

For the full year, the Management Board is confident – given the ongoing positive economic climate in Europe and continually rising consumer spending – that it will be able to further reduce the decline in consolidated sales compared to September 30, 2007. Compared to the previous year, the Management Board expects a mid single-digit drop in sales. It also aims to bring about a substantial year-on-year improvement in consolidated earnings after taxes. The Management Board still expects earnings after taxes to be slightly negative.

Roedental, Germany, November 8, 2007



Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

Consolidated notes to the interim financial statements

General information

Information on the company

Zapf Creation AG 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, 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.

The close cooperation agreed between Zapf Creation AG and companies of the MGA Group that are related parties to Zapf Creation AG in the 2006 financial year has been implemented operationally since the start of the 2007 financial year, and both parties expect their collaboration to bring about synergy effects in procurement and intensified penetration of the respective markets.

Principles of preparation

The interim consolidated financial statements of Zapf Creation AG as of September 30, 2007 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, 2006, 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 just ended were used in the preparation of the consolidated financial statements of Zapf Creation AG as of December 31, 2006, inasmuch as they were adopted by the EU.

Consolidation

The interim consolidated financial statements as of September 30, 2007 follow the same consolidation methods as the consolidated financial statements as of December 31, 2006. Reference is also made to the existing consolidated financial statements as of December 31, 2006.

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 nine months of the 2007 financial year.

Accounting methods

The interim consolidated financial statements as of September 30, 2007 follow the same accounting methods as the consolidated financial statements as of December 31, 2006. Reference is also made to the existing consolidated financial statements as of December 31, 2006.

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 September 30, 2007. 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. Reporting this accounting parameter in the consolidated income statement serves to increase transparency in terms of the sustainability of the income the Company achieves from its current operating processes. 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.

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.

Explanation of items in the consolidated financial statements

General

The presentation of items in the interim consolidated financial statements as of September 30, 2007 follows the same structure as the consolidated financial statements as of December 31, 2006.

The development of the individual items of the interim consolidated financial statements in the first nine months of the 2007 financial year, specifically sales 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, 2006, and the interim management report of the Group as of the end of the third quarter of 2007.

The segment report is attached to these notes as Appendix.

Discontinued operations

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"). Previous year's comparative figures were adjusted accordingly.

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

	Q1–Q3/ 2007 K€	Q1–Q3/ 2006 K€
Revenue	1,957	8,165
Cost of sales	–1,721	–6,667
Selling and distribution expenses	0	–955
Marketing expenses	0	–168
Administrative expenses	0	–787
Other income	0	12
Other expenses	–61	–394
Finance costs	–125	–794
Result from discontinued operations	**50**	**–1,588**

The sales revenue disclosed separately 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 concerns 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–Q3/ 2007 K€	Q1–Q3/ 2006 K€
Cash flow from operating activities	4,662	274
Cash flow from investing activities	0	–23
Cash flow from financing activities	–4,955	–48
Effects of exchange rate changes	–4	–46
Cash flow from discontinued operations	**–297**	**157**

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 party which, directly, or indirectly through a third party, can control or significantly influence the reporting entity, or is controlled or significantly influenced by the reporting entity. In our case, the Company's Management Board and Supervisory Board and the companies of the MGA Group that are related to the Company have been identified as related parties.

The Management Board

The total compensation of K€ 374 (previous year: K€ 829) 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.

A virtual share-price-based compensation system was established for the members of the Management Board of Zapf Creation AG in the 2006 financial year. Reference is also made to the consolidated financial statements as of December 31, 2006. In the first nine months of the 2007 financial year, a total of K€ 24 (previous year: K€ 118) was added to provisions for obligations under virtual options and recognized as an expense. In the 2007 reporting period, this expense results from the additional granting of 33,000 virtual options to a member of the Management Board.

As in the same period the previous year, no one-off compensation was paid to former Board members in the first nine months of the 2007 financial year.

One former member of the Management Board was granted a variable credit line in the maximum amount of K€ 625 (previous year: K€ 625) until December 31, 2007, of which K€ 625 was used as of September 30, 2007 (previous year: K€ 625). The agreed interest rate is 4.25 % and is fixed until December 31, 2007, the loan's due date. As in the previous year, no repayments were made and no new loans were extended in the 2007 financial year. Because of interest receivables totaling K€ 40, the total amount due to the Company as of September 30, 2007 was K€ 665. The loan is secured by a mortgage in the amount of K€ 200 (previous year: K€ 200). An appropriate valuation allowance including the interest receivables has been recognized.

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 September 30, 2007 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, reference is also made to the consolidated financial statements as of December 31, 2006.

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

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 (Agreement 3; "Logistics Services 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.

The following business transactions resulted from this partnership in the first nine months of the 2007 financial year:

Cooperation agreements	**Q1–Q3/ 2007 K€**	**Q1–Q3/ 2006 K€**
Agreement 1: "Distribution Agreement" Revenue from Agreement 1	1,535	0
Agreement 2: "Consignment and Services Agreement" Revenue from Agreement 2	776	0
Agreement 3: "Logistics Services Agreement" Revenue from Agreement 3	1,252	0
Agreement 4: "Hong Kong / China Services Agreement" Expenses from Agreement 4	1,724	0
Agreement 5: "Merchandising Licence Agreement" Revenue from Agreement 5	0	0

No business transactions have resulted from the "Merchandising Licence Agreement" in the reporting period.

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–Q3/ 2007 K€**	**Q1–Q3/ 2006 K€**
Revenue from cross charges	1,661	0
Expenses from cross charges	694	0

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).

Merchandise procurement	**Q1–Q3/ 2007 K€**	**Q1–Q3/ 2006 K€**
Merchandise procurement in the reporting period	30,238	0

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–Q3/ 2007 K€**	**Q1–Q3/ 2006 K€**
Revenue from direct services	1,866	0

The revenue of the Zapf Creation AG from other services received directly from or delivered directly to the related companies of the MGA Group in the reporting period result 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. Reference in this context is made to the explanations regarding discontinued operations.

Other business transactions were as follows:
Of the bridging loan that was part of the financing package (please see also the consolidated financial statements as of December 31, 2006) and that, among others, MGA Entertainment, Inc. and/or its chief executive officer, Mr. Isaac Larian, or companies affiliated with him undertook to provide, a total of € 7.5 million has been drawn upon in the meantime. The share attributable to related parties is € 5 million. It is subject to interest of 22 %, which is commensurate with market conditions.

The receivables and liabilities of the Zapf Creation Group that result from the partnership with related parties of the MGA Group as of September 30, 2007 are as follows:

Balances as of the balance sheet date	Sep. 30, 2007	Sep. 30, 2006
	K€	K€
Receivables from related parties	4,855	0
Liabilities to related parties	19,866	0

The total amount of liabilities to related parties as of September 30, 2007 (K€ 19,866) includes the bridging loan of € 5 million mentioned above as well as the interest owed on this amount (K€ 106).

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.

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 third quarter of 2007.

Directors' dealings

During the period from January 1 to November 8, the officers and directors of the company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

Dealings requiring disclosure
Isaac Larian, member of the Supervisory Board
Purchase of 73,574 shares under the capital increase (private placement) at a price of € 3.16, purchased OTC on October 26, 2007
Purchase of 91,644 shares under the capital increase (private placement) at a price of € 3.16, purchased OTC on October 26, 2007
Purchase of 91,644 shares under the capital increase (private placement) at a price of € 3.16, purchased OTC on October 26, 2007
Purchase of 86,911 shares under the capital increase (private placement) at a price of € 3.16, purchased OTC on October 26, 2007
Purchase of 171,751 shares under the capital increase (private placement) at a price of € 3.16, purchased OTC on October 26, 2007
Purchase of 31,347 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007
Purchase of 39,052 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007
Purchase of 39,052 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007
Purchase of 249,258 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007
Purchase of 492,594 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007
Purchase of 67,769 shares at a price of € 4.50 through Xetra on October 11, 2007
Purchase of 11,500 shares at a price of € 4.25 through Xetra on October 10, 2007
Purchase of 10,487 shares at a price of € 4.23 through Xetra on October 8, 2007
Purchase of 119,988 shares at a price of € 4.59 through Xetra on July 18, 2007
Purchase of 3,586 shares at a price of € 9.05 through Xetra on March 20, 2007
Purchase of 751 shares at a price of € 8.95 through Xetra on March 19, 2007
Purchase of 2,000 shares at a price of € 9.00 through Xetra on March 5, 2007
Ron Brawer, member of the Supervisory Board
Purchase of 9,617 shares (exercise of the subscription rights under the capital increase) at a price of € 3.16, purchased OTC on October 24, 2007

Roedental, Germany, November 8, 2007

Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

Consolidated income statement	Q3/2007 K€	Q3/2006 K€	Q1–Q3/2007 K€	Q1–Q3/2006 K€	FY/2006 K€
Revenue	34,483	37,979	57,606	70,183	116,106
Cost of sales	–17,958	–19,863	–31,815	–37,433	–63,348
Gross profit	**16,525**	**18,116**	**25,791**	**32,750**	**52,758**
Selling and distribution expenses	–4,017	–4,140	–10,032	–9,800	–14,768
Marketing expenses	–1,366	–1,826	–5,294	–6,202	–15,878
Administrative expenses	–4,181	–5,876	–12,699	–16,618	–23,573
Other income	1,605	533	2,787	810	1,524
Other expenses	–474	230	–957	–572	–559
Operating result	**8,092**	**7,037**	**–404**	**368**	**–496**
(Restructuring costs included therein	*–283*	*–326*	*–396*	*–1,289*	*–3,357)*
(One-off costs, mainly consultancy, included therein	*0*	*–435*	*0*	*–2,367*	*–2,576)*
(Adjusted operating result derived therefrom	***8,375***	***7,798***	***–8***	***4,024***	***5,437)***
Finance income	333	68	499	172	655
Finance costs	–1,563	–1,136	–3,746	–3,425	–6,961
Result from continued operations before income taxes	**6,862**	**5,969**	**–3,651**	**–2,885**	**–6,802**
Taxes on income	–2,431	422	–723	–593	276
Result from continued operations	**4,431**	**6,391**	**–4,374**	**–3,478**	**–6,526**
Result from discontinued operations before income taxes	–160	–537	50	–1,588	–6,093
Income taxes on discontinued operations	0	0	0	0	–54
Net profit or loss for the period	4,271	5,854	–4,324	–5,066	–12,673

Earnings per share, continued operations (in €)	0.51	0.79	–0.53	–0.68	–1.67
Earnings per share, discontinued operations (in €)	0.53	0.86	–0.54	–0.47	–0.86
Average number of shares outstanding, in thousands	–0.02	–0.07	0.01	–0.21	–0.81
Earnings per share (basic/diluted) (in €)	—	—	8,227	7,427	7,586

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

Breakdown of staff costs	Q3/2007 K€	Q3/2006 K€	Q1–Q3/2007 K€	Q1–Q3/2006 K€	FY/2006 K€
Sales & distribution	2,067	1,694	5,342	4,660	6,066
Marketing	193	491	814	1,348	1,733
Other administration	677	1,885	3,606	5,169	7,047
Discontinued operations	0	188	0	526	661
Total	2,937	4,258	9,762	11,703	15,507

Consolidated balance sheet	Sep. 30, 2007 K€	Dec. 31, 2006 K€	Sep. 30, 2006 K€
Assets			
Current assets	**72,655**	**89,300**	**89,965**
Cash	5,395	11,710	9,347
Trade receivables	36,381	57,375	50,723
Inventories	18,839	12,663	20,386
Income tax receivables	3,162	3,824	3,836
Other assets	8,878	3,728	5,673
Non-current assets	**23,892**	**26,260**	**25,324**
Property, plant and equipment	16,017	17,475	18,057
Intangible assets	3,863	4,785	5,339
Other assets	20	20	107
Deferred tax assets	3,992	3,980	1,821
Total assets	96,547	115,560	115,289

Equity and liabilities			
Current liabilities	**97,176**	**111,806**	**93,870**
Liabilities to banks	44,875	65,055	56,668
Trade payables	38,057	35,616	27,840
Income tax liabilities	1,831	1,718	1,200
Other liabilities	10,491	3,044	6,500
Provisions	1,922	6,373	1,662
Non-current liabilities	**130**	**176**	**15,921**
Liabilities to banks	0	0	15,660
Deferred tax liabilities	130	176	261
Equity	**−759**	**3,578**	**5,498**
Issued capital	8,800	8,800	8,000
Capital reserve	12,469	12,961	8,052
Net profit or loss for the period and retained earnings brought forward	−11,433	−7,109	498
Other recognized income and expense	763	284	306
Treasury shares	−11,358	−11,358	−11,358
Total equity and liabilities	96,547	115,560	115,289

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

Consolidated statement of changes in equity

	Shares outstanding	Issued capital	Capital reserves	Net profit/loss for the period and retained earnings brought forward	Other recognized income and expense: Adjustments from currency translations	Other recognized income and expense: Derivative financial instruments	Treasury shares	Total equity
	(thsds.)	K€	K€	K€	K€	K€	K€	K€
Balance at January 1, 2006:	7,427	8,000	8,052	5,564	−66	47	−11,358	10,239
Net profit or loss for the period				−5,066				−5,066
Change in other recognized income and expense					75	250		325
Total net income or loss for the period				−5,066	75	250		−4,741
Balance at September 30, 2006:	7,427	8,000	8,052	498	9	297	−11,358	5,498
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				−4,324				−4,324
Change in other recognized income and expense					479	0		479
Total net income or loss for the period				−4,324	479	0		−3,845
Issuance of treasury shares			−492					−492
Balance at September 30, 2007:	8,227	8,800	12,469	−11,433	763	0	−11,358	−759

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

Consolidated cash flow statement	Q1–Q3/2007 K€	Q1–Q3/2006 K€
Cash flow from operating activities:		
Earnings before income taxes	–3,601	–4,473
Depreciation of non-current assets	3,102	4,073
Losses/gains from the disposal of non-current assets	89	28
Finance costs/income	3,372	4,047
Other non-cash income/expenses	15	110
Increase/decrease in assets and liabilities:		
Trade receivables	20,973	18,321
Inventories	–6,354	–3,291
Other assets	–4,933	–430
Liabilities and reserves	5,710	–3,795
Income tax payments	–67	389
Cash flow from operating activities	18,306	14,979
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	196	200
Cash payments for investments in property, plant and equipment and intangible assets	–1,077	–1,131
Cash flow from investing activities	–881	–931
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	0	600
Cash payments for the repayment of non-current bank borrowings	–6,377	–5,400
Change in liabilities due to current borrowings	–13,803	–5,198
Interest paid	–3,418	–4,005
Interest received	242	165
Cash payments for the issuance of treasury shares	–236	0
Cash flow from financing activities	–23,592	–13,838
Effects of exchange rate changes	–148	–216
Net change in cash and cash equivalents	–6,315	–6
Cash and cash equivalents at the beginning of the period	11,710	9,353
Cash and cash equivalents at the end of the period	5,395	9,347

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

Segment reporting

Q1–Q3/	Central Europe 2007 K€	Central Europe 2006 K€	Northern Europe 2007 K€	Northern Europe 2006 K€	Southern Europe 2007 K€	Southern Europe 2006 K€	Eastern Europe 2007 K€	Eastern Europe 2006 K€	The Americas 2007 K€	The Americas 2006 K€	Asia/Australia 2007 K€	Asia/Australia 2006 K€
External sales	19,694	24,979	16,552	20,695	7,014	12,603	12,735	9,492	1,957	8,165	1,611	2,414
Internal sales	1,011	12,933	1,638	10,776	999	8,825	264	1,114	0	4,611	0	63
Segment sales, total	20,705	37,912	18,190	31,471	8,013	21,428	12,999	10,606	1,957	12,776	1,611	2,477
Earnings before interest, taxes, depreciation and amortization (EBITDA)	13,949	2,378	−3,254	1,374	−8,561	1,005	3,636	3,331	175	−1,346	−2,676	1,265

Q1–Q3/	Other 2007 K€	Other 2006 K€	Consolidation 2007 K€	Consolidation 2006 K€	Group total 2007 K€	Group total 2006 K€	Discontinued operations 2007 K€	Discontinued operations 2006 K€	Continued operations 2007 K€	Continued operations 2006 K€
External sales	0	0	0	0	59,563	78,348	1,957	8,165	57,606	70,183
Internal sales	0	0	−3,912	−38,322	0	0	0	0	0	0
Segment sales, total	0	0	−3,912	−38,322	59,563	78,348	1,957	8,165	57,606	70,183
Earnings before interest, taxes, depreciation and amortization (EBITDA)	−396	−4,360	0	0	2,873	3,647	175	−794	2,698	4,441

The segment reporting is part of the notes.

Responsibility statement

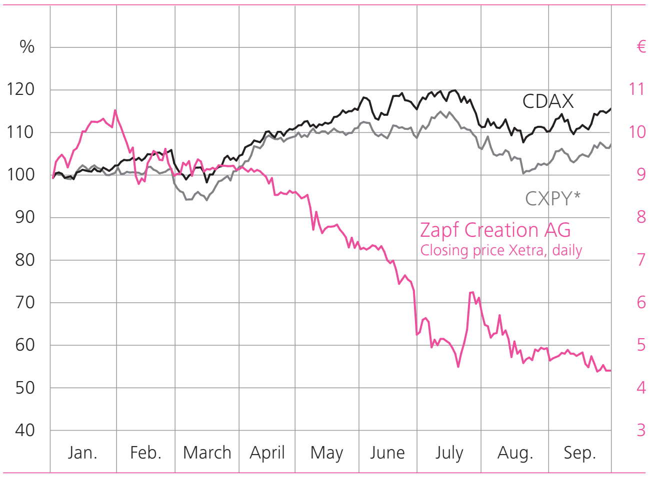
“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Zapf Creation Group, and the interim 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, November 8, 2007

Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

The share



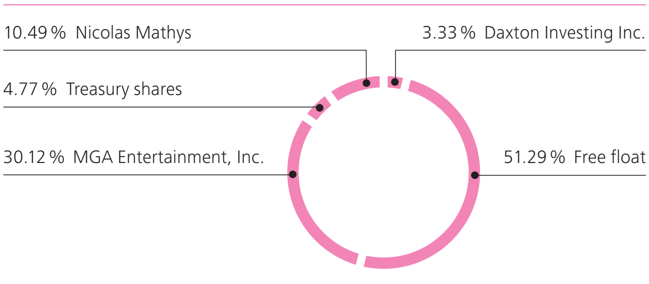
ISIN: DE 000 780 6002; Reuters code: ZPF.ETR; Bloomberg code: ZPF GR
*Consumer Performance Index

The year 2007 has been the most difficult year for the Zapf Creation share in the Company's history. The share started the year 2007 at a price of € 9.28. On January 30, it reached its high for the year at € 10.50, clearly outperforming both the CDAX and the Consumer Performance Index (CXPY). From mid-April, the trend reversed and the share price declined gradually. This decline was due to the expiration of follow-up financing on April 30, the postponement of the publication date for the annual report, and the financing negotiations. The share price recovered briefly following the announcement of the conclusion of the financing agreement on July 20, 2007, before continuing its downward trend. The Zapf Creation share ended the third quarter at a price of € 4.25. While the comparative indexes, the CDAX and the Consumer Performance Index, gained 18.65 % and 9.22 %, respectively, the share lost 52.24 % during the course of the year. The daily trading volume decreased to 35,594 shares (previous year. 65,575 shares).

Capital measures

Zapf Creation AG conducted a capital increase from October 12 to 26, 2007. The Company's shareholders were offered a total of 3,200,002 no-par bearer shares ("New No-Par Shares") from extant authorized capital at a cash price of € 3.16 per share. The shareholders of Zapf Creation AG exercised approximately 75 % of the subscription rights. The remaining 25 % of the New No-Par Shares were acquired for the subscription price by the Company's major shareholders. This capital increase boosted the Company's share capital from € 8,799,998 to € 12,000,000. The total proceeds for the Company before deducting transaction-related expenses were € 10.1 million. The cash capital increase was successfully completed when the new share capital was entered in the Commercial Register on October 31, 2007.

Shareholder structure*



* The figures are based on the notices in accordance with Sections 15a and 21 German Securities Trading Act as of November 2, 2007.

Annual Shareholders' Meeting

Zapf Creation AG invites its shareholders to the 8th Annual Shareholders' Meeting on November 20, 2007, at the Franz-Goebel-Halle, Buergerplatz 1, in 96472 Roedental. The meeting will begin at 10:00 a.m. If the Agenda cannot be discussed and settled on this day, the Annual Shareholders' Meeting will continue at 10:00 a.m. on Wednesday, November 21, 2007, in the same place. All information regarding the Annual Shareholders' Meeting can be found on the Internet.

Financial calendar

Date	Event	Place
November 8, 2007	Results Q3/9 months 2007	Roedental
November 12, 2007	German Equity Forum	Frankfurt/Main
November 20/21, 2007	8th Annual Shareholders' Meeting	Roedental

Treasury shares

Zapf Creation AG owns to separate securities deposit accounts. Account No. 1 exclusively serves to back the stock option plan. 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 November 2, 2007 presented below do not differ from those reported as of December 31, 2006. The capital share percentages have changed as follows as a result of the capital increase:

	Number of shares	Carrying amount K€	Capital share in %
Account no. 1	569,593	11,262	4.74
Account no. 2	3,085	96	0.03
Total	572,678	11,358	4.77

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