Half-year Report 2007

Zapf Creation®

Consolidated key figures

in € million	Q2/2007	Q2/2006	H1/2007	H1/2006	H1 +/− in %	FY/2006
Adjusted earnings situation (without restructuring costs and one-off effects)						
Continued operations						
EBITDA	−4.1	0.9	−6.3	−1.1	—	10.7
EBIT	−5.1	−0.5	−8.4	−3.8	−121	5.4
EBIT margin (in %)	−52.0	−3.0	−36.4	−11.8	—	4.7
EBT	−6.4	−1.9	−10.4	−6.0	−73	−0.9
Result from continued operations	−5.6	−2.6	−8.7	−7.0	−24	−0.6
Discontinued operations						
Result from discontinued operations	0.2	−0.8	0.2	−1.1	—	−4.9
Group						
Net profit or loss for the period	−5.3	−3.3	−8.5	−8.0	−6	−5.6
Earnings per share (in €)[1]	−0.65	−0.46	−1.03	−1.08	5	−0.74
Earnings situation according to the income statement (including restructuring costs and one-off effects)						
Continued operations						
Net sales	9.8	16.8	23.1	32.2	−28	116.1
Gross margin (in %)	33.5	48.0	40.1	45.4	—	45.4
EBITDA	−4.0	−1.4	−6.4	−4.0	−60	4.8
EBIT	−5.0	−2.8	−8.5	−6.7	−27	−0.5
EBIT margin (in %)	−51.0	−16.7	−36.8	−20.8	—	−0.4
EBT	−6.3	−4.2	−10.5	−8.9	−18	−6.8
Result from continued operations	−5.5	−4.9	−8.8	−9.9	11	−6.5
Included restructuring costs and one-off effects	−0.1	2.3	0.1	2.9	−97	5.9
Included depreciation and amortization	1.0	1.4	2.1	2.7	−22	5.3
Discontinued operations						
Result from discontinued operations	0.2	−0.8	0.2	−1.1	—	−6.1
Included restructuring costs and one-off effects	0.0	0.0	0.0	0.0	—	1.2
Included depreciation and amortization	0.0	0.0	0.0	0.0	—	0.0
Group						
Net profit or loss for the period	−5.2	−5.6	−8.6	−10.9	21	−12.7
Earnings per share (in €)[1]	−0.63	−0.75	−1.04	−1.47	29	−1.67

1) undiluted = diluted; average number of shares outstanding in H1/2007: 8.23 million, H1/2006: 7.43 million.
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	Q2/2007	Q2/2006	H1/2007	H1/2006	H1 +/– in %	FY/2006
Balance sheet (as at the closing date)						
Total assets	—	—	69.7	89.3	–22	115.6
Non-current assets	—	—	26.3	26.4	0	26.3
Investments	0.4	0.2	0.7	0.5	40	1.8
Current assets	—	—	43.4	62.9	–31	89.3
Equity	—	—	–4.9	–0.3	—	3.6
Equity ratio (in %)	—	—	–7.0	–0.3	—	3.1
Liabilities to banks	—	—	44.5	67.9	–34	65.1
Net debt	—	—	40.6	61.1	–34	53.3
Cash flow						
Cash flow from operating activities	1.5	–7.6	16.0	15.4	4	20.5
Cash flow from operating activities per share (in €)[1]	0.17	–1.03	1.94	2.07	–6	2.71
Net cash flow	–1.2	–3.5	–7.8	–2.6	—	2.4
Employees						
Number as at the closing date[2]	—	—	226	340	–34	322
Share						
Share price, high (Xetra) in €	9.12	11.00	10.50	11.00	—	11.00
	(Apr. 4)	(Mar. 2)	(Jan. 30)	(June 30)		(July 7)
Share price, low (Xetra) in €	5.20	7.80	5.20	7.39	—	7.11
	(June 27)	(May 15)	(June 27)	(Jan. 30)		(Aug. 18)
Share price at the end of the period (Xetra) in €	5.55	11.0	5.55	11.00	—	8.90
	(June 29)	(June 30)	(June 29)	(June 30)		(Dec. 29)
Average share price (Xetra) in €	7.68	9.19	7.96	8.93	—	—
Average daily trading volume (Xetra), number of shares	21,644	83,435	36,487	58,877	–38	53,774
Number of shares at the end of the period	8,799,998	8,000,000	8,799,998	8,000,000	10	8,799,998
Market capitalization (base: end of period, Xetra) in € million	49	88	49	88	–44	78

1) undiluted = diluted; average number of shares outstanding in H1/2007: 8.23 million, H1/2006: 7.43 million.
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.

Interim management report as of June 30, 2007

- **Business is developing as expected**
- **Orders on hand for the second half-year up 26 % year-on-year**
- **Consolidated sales and earnings before interest and taxes (EBIT) after six months down from previous year**
- **Improvement in key cost accounts due to our cooperation with MGA Entertainment, Inc.**
- **Improving earnings for the overall year remains our goal**

Summary

In the first half of 2007, the business of the Zapf Creation Group – Europe's leading manufacturer of play and functional dolls – developed in line with the expectations of the Management Board. Consolidated sales remained substantially below the previous year's level in an environment that was marked by a downturn in sales of play and functional dolls, and as a result of product changes and structural measures. However, we did succeed in significantly reducing the main cost items year-on-year. This reflects positive effects both from the restructuring measures that have been concluded and our strategic cooperation with MGA Entertainment, Inc.

Incoming orders showed a pleasing development in the first six months of the year. As a result of the trade's positive response to the new Zapf Creation products, orders on hand as of the end of June 2007 totaled € 48.8 million, up 26 % compared to the same date the previous year (€ 38.6 million).

This development will help the Management Board meet its objective to improve overall Group sales and earnings for 2007 compared to the previous year.

Industry environment in Europe

The European toy market as a whole posted slight gains in the first six months of 2007. However, sales in the play and functional doll segment declined in important countries. Measured in relation to sales prices, the market volume in both Germany and Great Britain fell by 10 %. While in Germany the second quarter of 2007 was even weaker than the first quarter, the markets in France (+ 10 %) and Spain (+ 15 %) posted significant growth in the first six months of the year. After shrinking in the first quarter, the Spanish market experienced a complete reversal in the second quarter.

Development of consolidated sales

Consolidated sales of the Zapf Creation Group generally developed as expected in the first half of 2007, reaching € 23.1 million, down 28.2 % from € 32.2 million in the prior-year period). Aside from some weak demand, the decline was due to changes in the product portfolio (e. g. elimination of the mini doll line, Missy Milly®), as well as to the restructuring of the Group's sales organization in both France and Spain.Consolidated sales were € 9.8 million in the second quarter, down from € 16.8 million in the same quarter the previous year.

Development of sales by region

In Europe, the Zapf Creation Group recorded consolidated sales of € 22.4 million for the first half of 2007. This corresponds to a decline year-on-year by 27.9 % (first half of 2006: € 31.0 million)

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

	H1/2007 K€	H1/2006 K€	+/– in %
Europe	**22,361**	**31,026**	**– 28**
Central Europe	7,315	10,451	– 30
Northern Europe	5,607	9,682	– 42
Southern Europe	3,068	5,701	– 46
Eastern Europe	6,371	5,192	23
Asia/Australia	**762**	**1,178**	**– 35**
Total sales	23,123	32,204	– 28

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

Sales in the Central European sales region were € 7.3 million, compared to € 10.5 million in the first six months of the previous year. In addition to weak demand in some markets, this downturn particularly reflects the discontinuation of the Missy Milly® mini doll line.

In Northern Europe, consolidated sales in the first six months of 2007 were € 5.6 million. The decline compared to the prior-year period (€ 9.7 million) was essentially due to weak demand and a lack of product availability.

In Southern Europe, the Zapf Creation Group posted sales of € 3.1 million, down from € 5.7 million in the same period the previous year, especially due to the restructuring of its French and Spanish sales organization.

In Eastern Europe, sales continued to develop along a positive trajectory. Revenues in the first half of 2007 rose from € 5.2 million the previous year by 22.7 % to € 6.4 million.

In Asia/Australia, sales were € 0.8 million (first half of 2006: € 1.2 million).

Development of sales by product line

Sales in the play and functional doll segment – the core business of the Zapf Creation Group – in the first six months of 2007 were € 21.5 million, a decline of 26.0 % from € 29.1 million the previous year.

*Breakdown of sales by product line**

	H1/2007 K€	H1/2006 K€	+/– in %
Play and functional dolls	**21,509**	**29,061**	**– 26**
BABY born®	13,252	15,996	– 17
Baby Annabell®	5,743	9,060	– 37
CHOU CHOU	2,471	3,840	– 36
Other play and functional dolls	43	165	– 74
Mini dolls	**176**	**1,731**	**– 90**
Other products	**1,438**	**1,412**	**2**
Total sales	23,123	32,204	– 28

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

Sales of BABY born® were € 13.3 million, 17.2 % less than in the prior-year period (first half of 2006: € 16.0 million).

Sales for Baby Annabell® were € 5.7 million, down from € 9.1 million in the first half of 2006. The launch of the new Baby Annabell® in Great Britain had a positive impact on results in the prior-year period.

The Group posted sales of € 2.5 million from CHOU CHOU dolls in the first half of 2007. The decline compared to the previous year's figure of € 3.8 million resulted from a less than satisfactory market response to the interactive CHOU CHOU doll that was launched in 2006.

The sales decline in the mini doll segment from € 1.7 million in the previous year to € 0.2 million in the first six months of 2007 was due to the discontinuation of the Missy Milly® product line.

At € 1.4 million, sales in the "Other products" segment, which mainly comprises the My Model play concept, were on par with the previous year.

Earnings

The gross profit margin of the Zapf Creation Group in the first half of 2007 was 40.1 %, compared to 45.4 % in the prior-year period. The decline is due to price and structural effects, such as low-price clearance sales of products that failed to achieve a satisfactory market response.

But we did succeed in reducing significant cost items, to some extent even substantially. The reduction in administrative expenses by 20.7 % to € 8.5 million (first half of 2006: € 10.7 million) reflects, in particular, the positive effects from the restructuring measures that were undertaken in prior years and have been completed in full, as well as the efficiency gains arising from our strategic cooperation with MGA Entertainment, Inc. The slight increase in selling and distribution costs (increase of 6.3 % to € 6.0 million) stems, among other things, from additional transitional costs related to the reorganization of our sales networks in Spain and France.

Consolidated EBIT developed as expected, reaching € – 8.5 million at the end of the second quarter of 2007, a decline of 27.4 % from € – 6.7 million in the first half of 2006. EBIT was influenced especially by the substantial reduction in sales, which we were able to offset only in part by cutting our cost base. EBIT for the first half of 2007 contains restructuring and one-off expenses of € 0.1 million (prior-year period: € 2.9 million). In the second quarter of 2007, EBIT was € – 5.0 million, compared to the previous year's level of € – 2.8 million.

The Group posted a loss of € 10.5 million from continued operations before taxes for the first half of the year, compared to a loss of € 8.9 million in the same period the previous year.

At € 1.7 million, the tax result is positive, due chiefly to the capitalization of deferred taxes. In contrast, tax expense in the prior-year period was € 1.0 million.

At € 0.2 million (prior-year period: € – 1.1 million), earnings from discontinued operations – i.e. the US business that was closed as of the end of 2006 – was positive due to the sale of inventories to MGA Entertainment, Inc.

The Zapf Creation Group posted a net loss for the period of € 8.6 million for the first half of 2007. This represents an improvement of 21.3 % compared to the same period the previous year (net loss of € 10.9 million). Earnings per share were € – 1.04 compared to € – 1.47 in the first half of 2006. In the second quarter of 2007, the net loss for the period was € 5.2 million (Q2/2006: net loss of € 5.6 million). Earnings per share for the quarter were € – 0.63, up from € – 0.75 as of the second quarter of 2006.

The Zapf Creation Group reports on the development of earnings by region based on EBITDA (earnings before interest, taxes, and depreciation/amortization). Overall EBITDA for Europe in the first half of 2007 was € – 4.3 million, compared to € – 1.1 million the prior year. In Central Europe, EBITDA rose to € 1.0 million, up from a loss of € 5.7 million the previous year. EBITDA was € – 4.7 million (first half of 2006: € 2.9 million) in Northern Europe and € – 1.7 million (first half of 2006: € 0.7 million) in Southern Europe. In the Eastern European sales region, EBITDA rose in the first six months of 2007 to € 1.2 million, up from € 1.0 million the prior year. In Asia/Australia, EBITDA was € – 2.0 million (first half of 2006: € 0.3 million).

Assets

Total assets of the Zapf Creation Group were € 69.7 million as of June 30, 2007, compared to € 115.6 million at the end of the 2006 financial year and € 89.3 million as of June 30, 2006. The decline compared to June 30, 2006 is due to the reduced business volume and to efficiency gains, e.g. in working capital management, that were achieved in connection with the restructuring and the cooperation with MGA Entertainment, Inc.

Current assets fell from € 89.3 million as of December 31, 2006, by € 45.9 million to € 43.4 million. This resulted mainly from the substantial decline in trade receivables to € 19.2 million, compared to € 57.4 million at the close of the 2006 financial year and € 26.9 million as of June 30, 2006. We succeeded in substantially reducing the level of committed funds by reducing accounts receivable which, in turn, reflects a substantial improvement in the management of working capital. At € 12.6 million, inventories were also clearly below the level on June 30, 2006 (€ 18.9 million).

Cash and cash equivalents declined to € 3.9 million (December 31, 2006: € 11.7 million). This figure reflects the improvements in international cash pooling that were achieved in the previous year.

There were no material changes in non-current assets compared to the prior-year period.

Financial position

In terms of equity and liabilities, current liabilities to banks fell to € 44.5 million, down from € 65.1 at the close of 2006 and € 50.4 million as of June 30, 2006. This item includes the syndicated loan that was obtained in April 2006, the repayment of which was deferred until October 31, 2007, by the participating banks under the financing package stipulated in July 2007. The Group's net liabilities fell from € 53.3 million as of December 31, 2006, to € 40.6 million as of June 30, 2007. Overall, current liabilities at the close of the second quarter of 2007 were € 74.5 million, compared to € 111.8 million at the close of the 2006 financial year.

The Group did not have any non-current liabilities to banks as of June 30, 2007, given the reclassification of the syndicated loan in the fall of 2006. Total non-current liabilities were € 0.1 million, comparable to the level at the close of the 2006 financial year (€ 0.2 million). They had been € 18.1 million as of June 30, 2006.

Due to its losses for the first half of 2007, the equity of the Zapf Creation Group as of June 30, 2007, was negative at € – 4.9 million (December 31, 2006: € 3.6 million; June 30, 2006: € – 0.3 million). However, on the consolidated balance sheet this does not have any consequences under insolvency law. The equity of Zapf Creation AG (in accordance with the German Commercial Code) is € 11.4 million, which corresponds to an equity ratio of 16 %.

Liquidity

Cash inflows from operating activities in the first half of 2007 were € 16.0 million (first half of 2006: € 15.4 million) despite the net loss for the period, due primarily to the reduction in working capital. This is offset by cash outflows from investing activities (€ – 0.5 million) and from financing activities (€ – 23.2 million). Among other things, short-term loans in the amount of € 14.2 million were paid off in the first six months of the year.

Employees

As of June 30, 2007, the Zapf Creation Group had a total of 226 employees (excluding the Management Board and trainees). This represents a reduction by 96 employees compared to the end of 2006, and by 114 employees compared to the end of the second quarter of 2006. The decline stems from the restructuring measures that were adopted in 2006 and completed during the quarter under review.

Events after the close of the reporting period

On July 20, 2007, Zapf Creation AG announced that it had reached agreement regarding the Company's long-term follow-up financing with an international banking syndicate and the major shareholders of Zapf Creation AG (MGA Entertainment, Inc. and its chief executive officer, Mr. Isaac Larian, as well as Messrs. Nicolas Mathys and Gustavo Perez).

On September 21, 2007, the existing financing agreement of July 20, 2007, was modified and replaced to the extent that the deadline agreed as a prerequisite to the agreements was changed from October 31, 2007 to November 30, 2007. Furthermore, on September 4/5, 2007, the existing financing agreement of July 20, 2007 had already been modified and replaced to the extent that the share of the capital contribution to be made by the major shareholders that was to be provided by Mr. Gustavo Perez will now also be provided by MGA Entertainment, Inc., or its chief executive officer, Mr. Isaac Larian, or companies affiliated with him. This modification was contingent upon the Federal Financial Supervisory Authority (BaFin) exempting MGA Entertainment, Inc. from the obligation to submit a takeover bid. This condition has been fulfilled in the meantime.

The financing concept calls for a new, long-term syndicated € 65 million loan. This loan is based on the condition precedent that an equity contribution of € 30 million is made by November 30, 2007 in a way to be determined by the shareholders named above (MGA Entertainment, Inc., or its chief executive officer, Mr. Isaac Larian, or companies affiliated with him, and Mr. Nicolas Mathys). Alternatively, and in part, such contribution may also be effected by way of subordinated shareholder loans. The Company's major shareholders have assured the Company in writing that they guarantee this equity contribution. For this purpose, it is initially planned to fully utilize the existing authorized capital of up to € 3.2 million. The gap between the amount thus raised and the guaranteed amount of € 30 million, which is expected to arise due to the low share price, is to be closed by way of another capital increase of the Company, which is to be carried out until November 30, 2007 by utilizing authorized capital to be approved by the next Annual Shareholders' Meeting. In addition, the possibility of utilizing treasury shares as part of the planned capital measures is also taken into consideration.

Already on July 25, 2007, the Management Board of Zapf Creation AG, with the approval of the Supervisory Board, adopted a basic resolution regarding the pending capital increase. According to the resolution, up to 3.2 million new shares are to be issued from authorized capital at an issue price of € 4.50, and shareholders will be granted a subscription right. The infusion of new equity capital is part of the concept to secure the long-term financing of the Company that has been agreed with the banks and the Company's major shareholders.

Furthermore, the shareholders mentioned above undertake to provide a bridging loan of up to € 10 million, € 7.5 million of which have already been drawn down.

The previous syndicate of banks of Zapf Creation AG has agreed to allow repayment of the loan with credit lines used in the amount of approx. € 45 million, which has been due since June 30, 2007, to be deferred until November 30, 2007. To finance peak capital needs in the course of the Company's operations, the lead manager of the new syndicate of banks has also agreed to providing interim financing of up to € 20 million until November 30, 2007. These funds can be utilized as defined and depending on the equity contributions made at such a time. All agreements are subject to the proviso that there is no material adverse change to the economic situation of the Group until November 30, 2007. Furthermore, they are subject to signature of the final documents.

This comprehensive refinancing will sustainably secure the solvency of the Zapf Creation Group.

Regarding other events after the balance sheet date, we refer to the 2006 annual financial statements. No noteworthy changes have occurred since that date.

Disclosures under Section 289 para 4 and Section 315 para 4 German Commercial Code

The share capital of Zapf Creation AG as of June 30, 2007, is € 8,799,998.00 and it is denominated in 8,799,998 no-par bearer shares of common stock, each with a mathematical interest in capital of € 1.00 per share.

The remaining authorized capital is € 3,200,002.00, for which an equivalent number of no-par shares may be issued.

Zapf Creation AG was notified of an equity interest that exceeds 10 % of all voting rights. As of December 31, 2006, 22.98 % of the voting shares were attributable to MGA Entertainment, Inc., Van Nuys, California, USA, in accordance with Section 22 para 2 German Securities Trading Act (Wertpapierhandelsgesetz – WpHG); this corresponds to 2,022,318 voting shares.

Furthermore, the company received notifications in accordance with Section 15 a German Securities Trading Act, which are listed in the notes under "Directors' dealings." As a result, the share held by MGA Entertainment, Inc. as of July 31, 2007, was 24.42 % (corresponding to 2,148,643 voting shares).

Related party relationships

There were no changes in the related party relationships compared to the 2006 consolidated financial statements.

Opportunities and risks

The combined management report and the consolidated management report for the 2006 financial year contain a detailed description of the risks and opportunities of the Zapf Creation Group, as well as of its risk management system. With the exception of disclosures related to the Group's financing, there have been no substantial changes in regards to the information provided in the aforementioned reports on the company's risk and opportunities profile. Insofar, we refer to our statements in the management report, which was published as part of the annual report for 2006.

However, the financing risk remains particularly significant to the Zapf Creation Group. Zapf Creation Group currently has a negative equity ratio and high borrowings. The financing package that was stipulated on July 20, 2007, and modified on September 21, 2007, and that must be implemented by November 30, 2007, provides for increasing equity by € 30 million with the aim of ensuring that both Zapf Creation AG and the Group once again have a sufficient equity base.

The current banking syndicate has promised that it will ensure that both the Zapf Creation Group and Zapf Creation AG remain solvent until November 30, 2007. However, a capital increase or shareholder loans will be needed by November 30, 2007, to ensure the follow-up financing. These requirements are essential to the new financing package offered by the new banking syndicate from November 30, 2007.

The Management Board expects the described financing concept, which, among others, includes a new long-term syndicated € 65 million loan, to be implemented as planned. Essentially, this requires that the funds of € 30 million to be raised through the planned equity measures are made available to the Company by November 30, 2007. If the planned equity measures are delayed beyond November 30, 2007, the two major shareholders of the Company have promised subordinated shareholder loans to bridge any such gap. It the equity infusion does not take as planned, the Company's existence to continue as a going concern will be jeopardized.

Furthermore, to secure the existence of Zapf Creation AG it is necessary that the key financial figures (covenants) agreed with the banks are met as any failure to meet these figures as a result of a significant deterioration of the Company's development could lead to financing problems because the banks would then be entitled to call in the loan.

Outlook

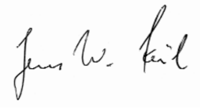
The Management Board expects sales of the Zapf Creation Group to surpass current levels in the medium term. Brand sales will become increasingly significant; besides consolidated sales, this also includes income from licensed products generated by licensees. There is above-average growth potential for the company in the Eastern European markets, primarily in Russia. Furthermore, growth opportunities are seen in Southern European markets such as Spain, Portugal, and Italy, as well as in the Scandinavian countries. Additional profitable opportunities for growth will arise from the licensing business that we plan to establish in cooperation with MGA Entertainment, Inc. However, we do not expect any significant effects from this business until the 2008 financial year.

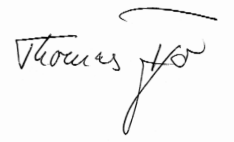
Incoming orders showed a pleasing development in the first six months of 2007. Due to the trade's positive response to the new Zapf Creation products, orders on hand as of the end of June 2007 totaled € 48.8 million, up 26 % compared to the same date the previous year (€ 38.6 million).

Given the improved order situation, the generally positive economic development in Europe and the ongoing recovery of private consumption, the Management Board is confident that earnings will continue to improve in the 2007 financial year, enabling the Group to complete the final turnaround in terms of earnings.

Roedental, Germany, October 2, 2007

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

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.

Since the end of 2006, Zapf Creation AG and companies of the MGA Group that are related parties to Zapf Creation AG have been cooperating closely in several areas, and both parties expect their collaboration to bring about synergy effects in procurement and intensified penetration of the respective markets:

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 %. 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. The Zapf Creation Group expects this activity to improve the utilization of its sales team and of its logistics center 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. 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 Rödental headquarters.

Principles of preparation

The consolidated interim financial statements of Zapf Creation AG as of June 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 financial statements do not include all notes and disclosures required for annual financial statements and must thus be read in connection with the annual financial statements as of December 31, 2006, which were prepared in accordance with Section 315 a 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 315 a 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, in as much as they were adopted by the EU.

Consolidation

The consolidated interim financial statements as of June 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 following changes occurred:

In June 2006, the elimination of Zapf Creation (CZ) s.r.o., Prague, Czech Republic, from the commercial register became effective. The company was therefore deconsolidated in the consolidated financial statements as of June 30, 2006. The Group subsidiary is included in the comparative figures for the previous year until the date of deconsolidation.

In September 2006, Zapf Creation Auslandsholding GmbH, Roedental, Germany, was included in the group of consolidated companies for the first time. The company, which is wholly owned by Zapf Creation AG, holds all of the shares in each of the sales subsidiaries, Zapf Creation (U.K.) Ltd., Corby, Northants, Great Britain, and Zapf Creation (España) S.L., Alicante, Spain.

As of December 31, 2006, the Group subsidiary, Zapf Creation (Central Europe) GmbH & Co. KG, was reintegrated into the Group's parent company, Zapf Creation AG, by means of accrual. Zapf Creation AG has been directly responsible for carrying out the activities of Zapf Creation (Central Europe) GmbH & Co. KG effective January 1, 2007. The Group subsidiary, Zapf Creation (Central Europe) GmbH & Co. KG, was no longer included in the group of consolidated companies as of this date.

The Group subsidiary, Zapf Creation (U.S.) Inc., whose operations were discontinued at the end of December 31, 2006, because the entire American market has been the sole responsibility of MGA Entertainment, Inc., Van Nuys, California, USA, since January 1, 2007, is still included in the group of consolidated companies.

Accounting methods

The consolidated interim financial statements as of June 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, in its consolidated income statement in the interim financial statements as of June 30, 2007, the Zapf Creation Group therefore also reports "adjusted operating income." 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.

Explanations of items in the consolidated financial statements

General

The consolidated interim financial statements as of June 30, 2007 follow the same structure as the consolidated financial statements as December 31, 2006, when reporting the items in the consolidated financial statements.

The development of the individual items of the consolidated financial statements in the first half of the 2007 financial year, specifically sales revenue, is characterized by the typical, seasonal nature of the company's business. Regarding the significant contents of the individual items of the consolidated financial statements, we also refer to the existing consolidated financial statements as of December 31, 2006, and the interim management report for the first half 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:

	H1/2007 K€	H1/2006 K€
Revenue	1,950	2,791
Cost of sales	−1,740	−2,241
Selling and distribution expenses	0	−310
Marketing expenses	0	−67
Administrative expenses	0	−277
Other income	0	15
Other expenses	0	−430
Finance income	0	0
Finance costs	0	−532
Result from discontinued operations before income taxes	210	−1,051
Income taxes on discontinued operations	0	0
Result from discontinued operations	**210**	**−1,051**

The 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:

	H1/2007 K€	H1/2006 K€
Cash flow from operating activities	4,224	2,557
Cash flow from investing activities	0	−24
Cash flow from financing activities	−4,509	−251
Effects of exchange rate changes	−1	−120
Cash flow from discontinued operations	**−286**	**2,162**

Events after the close of the reporting period

Regarding significant events after the close of the reporting period, we refer to the disclosures made in the interim management report for the first half of 2007.

Directors' dealings

During the period from January 1 to June 30, the officers and directors of the company reported the following securities dealings as defined by Section 15 a of the German Securities Trading Act (WpHG).

Dealings requiring disclosure
Isaac Larian, Member of the Supervisory Board
Purchase of 2,000 shares at a price of € 9.00 through Xetra on March 5, 2007
Purchase of 751 shares at a price of € 8.95 through Xetra on March 19, 2007
Purchase of 3,586 shares at a price of € 9.05 through Xetra on March 20, 2007
Purchase of 119,988 shares at a price of € 4.59 through Xetra on July 18, 2007

Treasury shares

Zapf Creation AG owns two separate securities deposit accounts, which are used in different ways:

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 June 30, 2007, presented below do not differ from those reported as of December 31, 2006.

	Number of shares	Carrying amount K€	Capital share in %
Account No. 1	569,593	11,262	7.12
Account No. 2	3,085	96	0.04
Total	572,678	11,358	7.16

Roedental, Germany, October 2, 2007

Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

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, October 2, 2007

Jens U. Keil
Member of the
Management Board

Thomas Pfau
Member of the
Management Board

Consolidated income statement	Q2/2007 K€	Q2/2006 K€	H1/2007 K€	H1/2006 K€	FY/2006 K€
Revenue	9,827	16,824	23,123	32,204	116,106
Cost of sales	−6,539	−8,756	−13,857	−17,570	−63,348
Gross profit	**3,288**	**8,068**	**9,266**	**14,634**	**52,758**
Selling and distribution expenses	−3,122	−2,657	−6,015	−5,660	−14,768
Marketing expenses	−2,321	−2,077	−3,928	−4,376	−15,878
Administrative expenses	−3,716	−5,771	−8,518	−10,742	−23,573
Other income	1,000	199	1,182	277	1,524
Other expenses	−109	−544	−483	−802	−559
Operating result	**−4,980**	**−2,782**	**−8,496**	**−6,669**	**−496**
(Restructuring costs included therein	*131*	*−435*	*−113*	*−963*	*−3,357)*
(One-off costs, mainly consultancy, included therein	*0*	*−1,816*	0	*−1,932*	*−2,576)*
(Adjusted operating result derived therefrom	***−5,111***	***−531***	***−8,383***	***−3,774***	***5,437)***
Finance income	77	58	166	104	655
Finance costs	−1,375	−1,392	−2,183	−2,289	−6,961
Result from continued operations before income taxes	**−6,278**	**−4,116**	**−10,513**	**−8,854**	**−6,802**
Taxes on income	782	−799	1,708	−1,015	276
Result from continued operations	**−5,496**	**−4,915**	**−8,805**	**−9,869**	**−6,526**
Result from discontinued operations before income taxes	255	−720	210	−1,051	−6,093
Income taxes on discontinued operations	0	0	0	0	−54
Net profit or loss for the period	−5,241	−5,635	−8,595	−10,920	−12,673

Earnings per share, continued operations (in €)	−0.67	−0.65	−1.07	−1.33	−0.86
Earnings per share, discontinued operations (in €)	0.04	−0.10	0.03	−0.14	−0.81
Average number of shares outstanding, in thousands	—	—	8,227	7,427	7,586
Earnings per share (basic/diluted) (in €)	−0.63	−0.75	−1.04	−1.47	−1.67

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

Breakdown of staff costs	Q2/2007 K€	Q2/2006 K€	H1/2007 K€	H1/2006 K€	FY/2006 K€
Sales & distribution	1,882	1,420	3,275	2,966	6,066
Marketing	338	381	621	857	1,733
Other administration	746	1,483	2,929	3,284	7,047
Discontinued operations	−7	131	0	338	661
Total	2,959	3,415	6,825	7,445	15,507

Consolidated balance sheet	June 30, 2007 K€	Dec. 31, 2006 K€	June 30, 2006 K€
Assets			
Current assets	**43,444**	**89,300**	**62,885**
Cash	3,919	11,710	6,720
Trade receivables	19,174	57,375	26,878
Inventories	12,640	12,663	18,926
Income tax receivables	3,454	3,824	3,692
Other assets	4,257	3,728	6,669
Non-current assets	**26,269**	**26,260**	**26,449**
Property, plant and equipment	16,392	17,475	18,591
Intangible assets	4,174	4,785	5,724
Other assets	20	20	137
Deferred tax assets	5,683	3,980	1,997
Total assets	69,713	115,560	89,334
Equity and liabilities			
Current liabilities	**74,515**	**111,806**	**71,542**
Liabilities to banks	44,477	65,055	50,396
Trade payables	24,374	35,616	16,405
Income tax liabilities	1,247	1,718	1,636
Other liabilities	2,647	3,044	2,137
Provisions	1,770	6,373	968
Non-current liabilities	**135**	**176**	**18,104**
Liabilities to banks	0	0	17,460
Deferred tax liabilities	135	176	644
Equity	**−4,937**	**3,578**	**−312**
Issued capital	8,800	8,800	8,000
Capital reserve	12,875	12,961	8,052
Net profit or loss for the period and retained earnings brought forward	−15,704	−7,109	−5,356
Other recognized income and expense	450	284	350
Treasury shares	−11,358	−11,358	−11,358
Total equity and liabilities	69,713	115,560	89,334

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 December 31, 2005:	**7,427**	**8,000**	**8,052**	**5,564**	**−66**	**47**	**−11,358**	**10,239**
Net profit or loss for the period				−10,920				−10,920
Change in other recognized income and expense					71	298		369
Total net income or loss for the period				**−10,920**	**71**	**298**		**−10,551**
Balance at June 30, 2006:	**7,427**	**8,000**	**8,052**	**−5,356**	**5**	**345**	**−11,358**	**−312**
Net profit or loss for the period				−1,753				−1,753
Change in other recognized income and expense					279	−345		−66
Total net income or loss for the period				**−1,753**	**279**	**−345**		**−1,819**
Issuance of treasury shares	800	800	4,909					5,709
Balance at December 31, 2006:	**8,227**	**8,800**	**12,961**	**−7,109**	**284**	**0**	**−11,358**	**3,578**
Net profit or loss for the period				−8,595				−8,595
Change in other recognized income and expense					166	0		166
Total net income or loss for the period				−8,595	**166**	**0**		**−8,429**
Issuance of treasury shares			−86					−86
Balance at June 30, 2007:	8,227	8,800	12,875	−15,704	450	0	−11,358	−4,937

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

Consolidated cash flow statement	H1/2007 K€	H1/2006 K€
Cash flow from operating activities:		
Earnings before income taxes	−10,303	−9,905
Depreciation of non-current assets	2,118	2,686
Losses/gains from the disposal of non-current assets	79	−1
Finance costs/income	2,017	2,717
Other non-cash income/expenses	15	80
Increase/decrease in assets and liabilities:		
Trade receivables	38,202	42,571
Inventories	−6	−1,911
Other assets	−578	−2,823
Liabilities and reserves	−15,430	−18,791
Income tax payments	−130	755
Cash flow from operating activities	15,984	15,378
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	138	96
Cash payments for investments in property, plant and equipment and intangible assets	−673	−529
Cash flow from investing activities	−535	−433
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	0	400
Cash payments for the repayment of non-current bank borrowings	−6,377	−3,600
Change in liabilities due to current borrowings	−14,201	−11,270
Interest paid	−2,770	−2,944
Interest received	155	104
Cash payments for the issuance of treasury shares	−6	0
Cash flow from financing activities	−23,199	−17,310
Effects of exchange rate changes	−41	−268
Net change in cash and cash equivalents	−7,791	−2,633
Cash and cash equivalents at the beginning of the period	11,710	9,353
Cash and cash equivalents at the end of the period	3,919	6,720

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

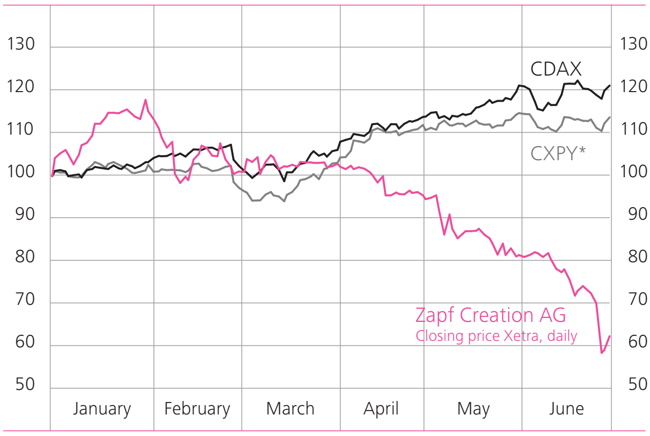
Segment reporting

	Central Europe		Northern Europe		Southern Europe		Eastern Europe		The Americas		Asia/ Australia	
H1/	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	K€	K€	K€	K€	K€	K€	K€	K€	K€	K€	K€	K€
External sales	7,315	10,451	5,607	9,682	3,068	5,701	6,371	5,192	1,950	2,791	762	1,178
Internal sales	704	6,501	1,267	4,500	585	3,879	201	561	0	862	0	18
Segment sales, total	8,019	16,952	6,874	14,182	3,653	9,580	6,572	5,753	1,950	3,653	762	1,196
Earnings before interest, taxes, depreciation and amortization (EBITDA)	952	−5,665	−4,696	2,883	−1,718	683	1,176	1,003	210	−758	−1,979	247

	Other		Consolidation		Group total		Discontinued operations		Continued operations	
H1/	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	K€	K€	K€	K€	K€	K€	K€	K€	K€	K€
External sales	0	0	0	0	25,073	34,995	1,950	2,791	23,123	32,204
Internal sales	0	0	−2,757	−16,321	0	0	0	0	0	0
Segment sales, total	0	0	−2,757	−16,321	25,073	34,995	1,950	2,791	23,123	32,204
Earnings before interest, taxes, depreciation and amortization (EBITDA)	−113	−2,895	0	0	−6,168	−4,502	210	−490	−6,378	−4,012

The segment reporting is part of the notes.

The share



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

The Zapf Creation 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 ongoing financing negotiations. At the end of the first six months, the share closed at € 5.20, down 37.64 %, while the CDAX and the Consumer Performance Index gained 21.35 % and 13.87 %, respectively, compared to the start of the year. The daily trading volume decreased to 36,487 shares (previous year. 58,877 shares).

Financial calendar

Date	Event	Place
October 2, 2007	Results Q2 / half-year	Roedental
November 8, 2007	Results Q3 / 9 months	Roedental
November 12, 2007	German Equity Forum	Frankfurt / Main
November 2007	8th Annual Shareholders' Meeting	Roedental

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