Half-year Report 2008

Consolidated key figures of Zapf Creation (IFRS)

in € million	Q2/2008	Q2/2007	H1/2008	H1/2007	H1 +/– in %	FY/2007
Adjusted earnings situation (without restructuring costs and one-off effects)						
Continuing operations						
EBITDA	0.2	– 4.1	– 2.4	– 6.3	63	10.2
EBIT	– 0.7	– 5.1	– 4.2	– 8.4	50	6.0
EBIT margin (in %)	– 5.3	– 52.0	– 14.8	– 36.4	—	5.5
EBT	– 1.7	– 6.4	– 7.1	– 10.4	31	2.6
Result from continuing operations	– 1.1	– 5.6	– 5.3	– 8.7	40	– 2.2
Discontinued operations						
Result from discontinued operations	– 0.5	0.2	– 0.6	0.2	—	– 0.1
Group						
Net profit or loss for the period	– 1.5	– 5.3	– 5.8	– 8.5	32	– 2.4
Earnings per share (in €) 1)	– 0.09	– 0.65	– 0.36	– 1.03	65	– 0.27
Earnings situation according to the income statement (including restructuring costs and one-off effects)						
Continuing operations						
Net sales	14.1	9.8	28.4	23.1	23	110.5
Gross margin (in %)	38.9	33.5	39.7	40.1	—	43.7
EBITDA	0.3	– 4.0	– 2.2	– 6.4	66	9.8
EBIT	– 0.6	– 5.0	– 4.0	– 8.5	52	5.7
EBIT margin (in %)	– 4.2	– 51.0	– 14.2	– 36.8	—	5.2
EBT	– 1.5	– 6.3	– 7.0	– 10.5	34	2.2
Result from continuing operations	– 0.9	– 5.5	– 5.1	– 8.8	42	– 2.6
Included restructuring costs and one-off effects	– 0.2	– 0.1	– 0.2	0.1	—	0.4
Included depreciation and amortization	0.9	1.0	1.8	2.1	– 12	4.1
Discontinued operations						
Result from discontinued operations	– 0.5	0.2	– 0.6	0.2	—	– 0.1
Included restructuring costs and one-off effects	0.0	0.0	0.0	0.0	—	0.0
Included depreciation and amortization	0.0	0.0	0.0	0.0	—	0.0
Group						
Net profit or loss for the period	– 1.4	– 5.2	– 5.6	– 8.6	34	– 2.7
Earnings per share (in €) 1)	– 0.08	– 0.63	– 0.35	– 1.04	66	– 0.31

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

Consolidated key figures of Zapf Creation (IFRS)

in € million	Q2/2008	Q2/2007	H1/2008	H1/2007	H1 +/– in %	FY/2007
Balance sheet						
Total assets	—	—	88.8	69.7	27	115.1
Non-current assets	—	—	21.0	26.3	– 20	19.5
Investments	1.2	0.4	1.4	0.7	99	1.7
Current assets	—	—	67.8	43.4	56	95.6
Equity	—	—	25.8	– 4.9	—	14.4
Equity ratio (in %)	—	—	29.0	– 7.0	—	12.5
Liabilities to banks and loans granted by shareholders	—	—	35.2	44.5	– 21	56.2
Net debt (including shareholder loans)	—	—	13.1	40.6	– 68	32.9
Cash flow						
Cash flow from operating activities	– 1.8	1.5	8.8	16.0	– 45	28.8
Cash flow from operating activities per share (in €)	– 0.10	0.17	0.55	1.94	– 72	3.26
Net cash flow	– 8.9	– 1.2	– 1.2	– 7.8	– 84	11.6
Employees						
Number as at the closing date [2)]	—	—	244	226	8	226

2) excluding Management Board and trainees

Interim management report of the Group as of June 30, 2008

- Satisfactory development of business in line with expectations
- Consolidated sales up 22.8 %
- Consolidated operating result significantly improved yet again
- Solid balance sheet ratios; equity ratio increased to 29.0 %
- Guidance for the full 2008 financial year confirmed

1. Summary

The operating business of Zapf Creation AG developed satisfactorily and in line with expectations in the first half of 2008. While the market for play and functional dolls developed at varying rates in the most important European countries, the Zapf Creation Group was able to increase its sales by 22.8 %. Increased demand for Zapf Creation's branded products, particularly the BABY born® play concept, contributed to this development, along with the successfully completed restructuring measures, including the realignment of sales operations in Spain and France, as well as a low comparison base in the previous year. Product availability also improved through the strategic cooperation with US toy manufacturer MGA Entertainment, so that some shipments could be invoiced in June of this year, whereas last year they would not been included in revenues until July.

As a result of the positive response from the trade, the Zapf Creation Group expanded its share in the German market for play and functional dolls in the first half of 2008 by 3.1 percentage points to 58.3 % (H1/2007: 55.2 %). In Spain, market share improved from 18.3 % to 19.1 % in the same period.

Consolidated earnings were positively affected by further decreases in key cost items, such as marketing and administrative expenses. Considerable price hikes in some Asian procurement markets had a dampening effect, however. Overall, consolidated earnings before interest and taxes (EBIT) improved significantly compared to the same period last year, though they remained negative as is usual for the season.

Following the implementation of its long-term financing concept, the Zapf Creation Group was able to report solid balance sheet ratios at the end of the first half of 2008, with drastically improved equity and very moderate net liabilities.

With its satisfactory development of business in the first half of 2008, the Group continued its upward trend that had begun in 2007. The positive development forms a good basis for the Zapf Creation Group to achieve its goals for the full 2008 financial year. However, growth in consolidated sales can be expected to slow down noticeably in the second half of 2008 for a variety of reasons. Since revenues in the first half of 2007 were negatively affected by the restructuring measures, this period offers a low basis of comparison. Furthermore, the half-year figures were influenced by the effect of recognizing revenues in the second quarter rather than the third, as mentioned earlier. Additionally, the market for play and functional dolls in the key European toy markets will remain difficult due to the declining economy. And finally, negative currency effects are expected to impact consolidated sales in the second half of 2008 as well.

In light of this, the Management Board confirms its previous statements regarding the goals for the current financial year. The Management Board specifies its sales forecast for 2008 by stating that it expects a single-digit increase in revenues. Group EBIT should continue to improve year on year. The Group expects earnings after taxes to return to the black in 2008.

2. Significant events during the reporting period

2.1. Conversion of shareholder loans completed

As planned and previously announced, the Management Board resolved to convert into equity all outstanding subordinate shareholder loans, including accrued interest, amounting to € 5.0 million by way of a capital increase against in-kind contributions. The Management Board's decision was made on May 29, 2008, and approved by the Supervisory Board on June 5, 2008. The capital increase was recorded in the commercial register on June 11, 2008.

For more details regarding the capital measure, please the notes to these interim consolidated financial statements.

All of the shareholder loans have by now been fully converted into equity following the resolution on February 22, 2008, to convert portions of the shareholder loans. This completes the implementation of the Group's long-term financing concept that was agreed between Zapf Creation AG, its major shareholders and an international consortium of banks on July 20, 2007. As a result, the Zapf Creation Group now possesses a solid financial basis from which to pursue opportunities for growth worldwide.

2.2. Successful Annual Shareholders' Meeting

The proposals that the Management Board and the Supervisory Board jointly submitted to the regular Annual Shareholders' Meeting on May 27, 2008, regarding the creation of new authorized capital and the acquisition of treasury shares by the Company met with the shareholders' broad approval. The resolution created Authorized Capital 2008 with an aggregate value of € 9.0 million. It is limited until May 26, 2013, and gives the Zapf Creation Group additional room for maneuvering. The authorization to purchase own shares, which the Annual Shareholders' Meeting granted to the Company until November 26, 2009, serves the same aims.

Please see the notes to these interim consolidated financial statements for further details in regards to these and other resolutions of the regular Annual Shareholders' Meeting.

3. Economic conditions

3.1. Business environment

The global economy lost its momentum in the first six months of 2008. According to the experts, this is due to rising inflationary pressures resulting, in particular, from rising prices for commodities, energy, and foodstuffs. But the continued uncertainty on the international financial markets in the wake of the subprime crisis has also put a damper on global economic growth. This is the backdrop against which share prices – especially those of financial companies – were adjusted. The euro's gains caused the export industry in the euro zone to cool down, and high consumer prices reduced consumers' real purchasing power.

Yet the economic fundamentals of the euro zone are still considered solid, notwithstanding the signs pointing to a downturn. The global economy is benefiting from the up-and-coming countries' robust growth, which continues unabated. While growth is expected to weaken according to the experts, it will remain robust for the year as a whole.

Sources:
Association of German Banks, Monthly Report, June 2008
European Central Bank, Monthly Report, July 2008

3.2. Industry environment in Europe

Overall, the toy market in Europe developed unevenly in the first six months of 2008. While the market volume as measured by sales prices declined in both Germany (– 1.6 %) and the United Kingdom (– 0.1 %), both France (+ 1.8 %) and Spain (+ 6.4 %) posted gains.

Countervailing trends also characterized the market for play and functional dolls that is relevant to Zapf Creation. In both Germany and Spain, the first quarter's upward trend did not continue in the second quarter, and the market volume in both of these countries decreased by 2.2 % in the first half of the year. In contrast, the UK posted growth of 10.8 % in the first six months of 2008. In France, revenues stabilized after a weak start into the year, growing slightly by 0.7 % year on year as of the end of June.

The Zapf Creation Group developed along a positive trajectory during the reporting period in this market environment.

Source: NPD Retail Panel

4. Development of consolidated sales

The Zapf Creation Group posted sales of € 28.4 million in the first half of 2008, an increase of 22.8 % compared to the previous year (H1/2007: € 23.1 million). Adjusted for currency effects (i. e. based on unchanged currency relations year on year), revenue rose by 34.5 % in the first six months of 2008. At € 14.1 million, consolidated sales in the second quarter of 2008 were 43.6 % higher than the previous year (Q2/2007: € 9.8 million).

4.1. Development of sales by region

In Europe, consolidated sales in the first six months of 2008 increased by 22.0 % to € 27.3 million (H1/2007: € 22.4 million).

Revenue growth was particularly strong in the Central Europe sales region, in which sales were up 36.5 % to € 10.0 million, compared to € 7.3 million in the same period of the previous year. In Northern Europe, consolidated sales after the first six months of the year reached € 6.2 million, up 9.7 % from the first half of 2007 (€ 5.6 million). In Southern Europe, the restructuring of the Spanish and French sales organizations had a distinctly positive effect: Consolidated sales in the first half of 2008 were € 3.7 million, compared with € 3.1 million in the same period of the previous year (+ 20.8 %). In Eastern Europe, sales rose by 16.8 % to € 7.4 million (H1/2007: € 6.4 million).

In Asia/Australia, the Zapf Creation Group lifted its sales to € 1.1 million after sales of € 0.8 million in the previous half-year.

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

	H1 2008 K€	H1 2007 K€	+/– in %
Europe	**27,285**	**22,361**	**+ 22**
Central Europe	9,983	7,315	+ 36
Northern Europe	6,153	5,607	+ 10
Southern Europe	3,705	3,068	+ 21
Eastern Europe	7,444	6,371	+ 17
Asia/Australia	**1,114**	**762**	**+ 46**
Total sales	28,399	23,123	+ 23

* In accordance with IFRS 5

4.2. Development of sales by product line

The Zapf Creation Group recorded sales of € 24.7 million in the first six months of 2008 in its core business of play and functional dolls, which represents an increase of 14.6 % compared to the first half of 2007 (€ 21.5 million).

This growth is essentially the result of the positive performance of the BABY born® product line, which lifted its sales by 30.2 % to € 17.3 million. This development was due not just to the strong demand for the classic BABY born® doll but also to the market's positive response to my little BABY born® "Mommy, I can swim."

In contrast, sales of the Baby Annabell® doll concept in the first six months of 2008 declined to € 4.1 million, compared with € 5.7 million in the same period of the previous year. This doll is in its second year of production in 2008, which is generally weaker than the first. It will be replaced by a successor model in 2009.

At € 3.1 million, sales of the CHOU CHOU doll series in the first half of 2008 were up 24.9 % year on year (H1/2007: € 2.5 million).

The "other products" segment, which essentially comprises the My Model make-up and hairstyling heads, logistics sales and revenue from the distributor business in Poland, more than doubled sales, from € 1.4 million in the first half of 2007 to € 3.8 million in the reporting period.

*Breakdown of sales by product line**

	H1 2008 K€	H1 2007 K€	+/– in %
Play and functional dolls	**24,647**	**21,509**	**+ 15**
BABY born®	17,250	13,252	+ 30
Baby Annabell®	4,129	5,743	– 28
CHOU CHOU	3,086	2,471	+ 25
Other play and functional dolls	182	43	+ 323
Mini dolls	**0**	**176**	**– 100**
Other products	**3,752**	**1,438**	**+ 161**
Total sales	28,399	23,123	+ 23

* In accordance with IFRS 5

5. Development of earnings

The gross profit margin of the Zapf Creation Group was 39.7 % at the end of the current year's first half, down slightly from 40.1 % year on year. This slight decline is essentially due to higher prices on the procurement markets – in particular, higher wages and commodity prices – as well as increased transportation and logistics expenses.

However, there were substantial reductions in important cost items. The decline in administrative expenses by 17.3 % to € 7.0 million (H1/2007: € 8.5 million) reflects the efficiency gains from the restructuring, as well as our strategic cooperation with MGA Entertainment, Inc. The increase in sales and distribution expenses by 9.6 % to € 6.6 million, however, was due, among other things, to the increase in staff costs related to our efforts to build powerful sales teams. Income of € 1.0 million from the offsetting of negative currency translation effects in connection with the loan to our British subsidiary was recognized in the Company's other expenses for the second quarter of 2008.

Consolidated earnings before interest and taxes (EBIT) in the first half of 2008 improved by 52.4 % to € –4.0 million. This compares to EBIT of € –8.5 million in the prior-year period. At € –0.6 million, EBIT for the second quarter of 2008 was almost in the black (Q2/2007: € –5.0 million).

Finance costs of € 3.7 million (H1/2007: € 2.2 million) primarily comprise large interest payments on the subordinated shareholder loans that the Company received from its major shareholders, MGA Entertainment, Inc. and/or trusts related to it, as well as Mr. Nicolas Mathys. The conversion of the shareholder loans into equity, which was completed during the reporting period, will result in significantly reduced interest payments for the Zapf Creation Group in subsequent periods. The finance costs were offset by finance income of € 0.8 million (H1/2007: € 0.2 million) from current financial assets, as well as the fair value measurement of derivative financial instruments used to hedge interest rates pursuant to IFRS requirements.

The Zapf Creation Group posted a loss of € 7.0 million from continuing operations before taxes for the first half of the year, compared to a loss of € 10.5 million in the same period the previous year. At € 1.9 million, the tax result is positive (H1/2007: € 1.7 million) due to the use of loss carryforwards, as well as the recognition of deferred tax assets.

Earnings from discontinued operations in the first six months of 2008 were negative (€ −0.5 million), down from € +0.2 million year on year. This loss is due to the writedowns of receivables from customers in North America in connection with the Company's US business activities, which were discontinued as of December 31, 2006. This means that all receivables from previously existing customers in North America have now been written down.

The Zapf Creation Group posted a net loss of € 5.6 million for the first six months of 2008. This corresponds to a year-on-year improvement of 34.4 % (H1/2007: net loss of € 8.6 million). Earnings per share were € −0.35, up from € −1.04 as of the first half of 2007. The Group's loss dropped to € 1.4 million in the second quarter of 2008, down from € 5.2 million in the same period the previous year. Earnings per share were € −0.08 (Q2/2007: € −0.63).

5.1. Development of earnings by segment

The Zapf Creation Group reports on the development of earnings by sales region based on earnings before interest, taxes, depreciation, and amortization (EBITDA). In Central Europe, EBITDA climbed substantially to € 4.9 million in the first six months of 2008, up from € 1.0 million as of the first six months of 2007. In Northern Europe, we succeeded in reducing the loss for the period to € 2.7 million (H1/2007: loss of € 4.7 million). In Southern Europe, too, the loss in the first half of 2008 declined to € 0.3 million from € 1.7 million in the same period the previous year. EBITDA in Eastern Europe improved to € 2.0 million, up from € 1.2 million in the first six months of 2007. In Asia/Australia, EBITDA for the first half of 2008 was € −6.1 million (H1/2007: € −2.0 million). This is solely due to an internal offsetting model that does not have any effect on consolidated earnings.

6. Assets

As of the June 30, 2008 reporting date, the Zapf Creation Group had total assets of € 88.8 million. This compares to total assets of € 115.1 million as of the close of the previous year and € 69.7 million as of June 30, 2007. This year-on-year growth resulted from the considerable increase in shareholders' equity, as well as from the expansion of the Group's activities.

Current assets declined from € 95.6 million as of December 31, 2007, by € 27.8 million to € 67.8 million, essentially reflecting the cyclical nature of the Company's business. In the first six months of the year – which is traditionally the weaker season – trade receivables were € 21.3 million, down from € 49.9 million as of the close of 2007 (a decline of € 28.6 million).

The year-on-year increase in cash and cash equivalents by € 18.1 million to € 22.1 million (June 30, 2007: € 3.9 million; December 31, 2007: € 23.3 million) reflects the proceeds from the Group's substantially improved capital base following the execution of its long-term financing concept.

Inventories rose to € 17.4 million as of the reporting date, up from € 13.5 million at the end of the previous year and € 12.6 million as of June 30, 2007. This increase underscores the ongoing normalizing of the Zapf Creation Group's supply chain management, given the uneven availability of its products in the 2007 financial year, which dampened sales.

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

7. Financial position

Current liabilities fell substantially to € 31.4 million from € 67.2 million as of December 31, 2007.

Current liabilities to banks declined from € 5.9 million at the close of the 2007 financial year by € 2.3 million to € 3.6 million as of June 30, 2008. The other current liabilities fell to € 2.0 million as of June 30, 2008 (December 31, 2007: € 19.4 million). This account contained the subordinated shareholder loans that have been converted into equity in the meantime. The net liabilities of the Zapf Creation Group (including shareholder loans) dropped to € 13.1 million as of the first half of 2008. At the end of 2007, net liabilities had been € 32.9 million.

Non-current liabilities as of June 30, 2008, were € 31.6 million, down from € 33.5 million as of December 31, 2007.

Equity rose to € 25.8 million as of the reporting date (December 31, 2007: € 14.4 million; June 30, 2007: € −4.9 million) following the completion of all capital measures that were an integral part of the Zapf Creation Group's long-term financing concept. The equity ratio increased to 29.0 %, up from 12.5 % at the end of December 2007.

This means that the successful execution of the Zapf Creation Group's long-term financing strategy enabled it to return to sound balance sheet ratios by the end of the reporting period.

8. Liquidity

In the first six months of 2008, the Zapf Creation Group posted an inflow of funds from operating activities of € 8.8 million (H1/2007: € 16.0 million). Essentially, this reflects the normalizing of the Company's working capital management. This was offset by an outflow of funds of € 1.3 million due to investing activities (H1/2007: € 0.5 million). The outflow of funds for financing activities was € 8.1 million, especially as a result of payments on non-current liabilities to banks, as well as interest payments. The previous year's figure of € 23.2 million largely comprised loan payments.

9. Employees

The Zapf Creation Group had 244 employees overall (excluding both the Management Board and trainees) as of June 30, 2008, an increase of 18 employees over the total of 226 as of the close of the 2007 financial year. Current staffing levels are appropriate to the Zapf Creation Group's business volume and allow it to efficiently work its core markets.

10. Events after the close of the reporting period

There were no events of particular significance to the Zapf Creation Group after the June 30, 2008 reporting date.

11. Opportunities and risks

The management report of both the Company and the Group for the 2007 financial year contains detailed disclosures on the Zapf Creation Group's opportunities and risks, as well as its risk management system. With the exception of disclosures concerning the Group's financing, there have been no significant changes in the Company's opportunity and risk profile compared to the aforementioned disclosures. Therefore, please see the management report in the 2007 annual report.

The financing of the Zapf Creation Group continued to normalize during the reporting period in tandem with the full execution of its long-term financing concept, as stipulated between Zapf Creation AG, its major shareholders, and an international banking syndicate on July 20, 2007. The Company's share capital rose to € 19.3 million once the remainder of the subordinated shareholder loans still outstanding (including total accrued interest in the amount of € 5.0 million) had been converted into equity by means of a non-cash capital increase, as planned. The equity ratio climbed to 29.0 % as of June 30, 2008, and the Group's future interest expense fell significantly at the same time.

As a result, the capitalization of the Zapf Creation Group has once again returned to a satisfactory level.

12. Outlook

The overall positive development of the Zapf Creation Group's business in the first six months of 2008 created a solid basis from which to achieve its objectives for the year overall. By and large, all internal processes are now running smoothly, following the completion of all restructuring measures and the execution of the strategic cooperation with MGA Entertainment, Inc. We expect the substantial improvement in the availability of the Group's products, in turn, to substantially enhance our ability to make deliveries in the high-volume third and fourth quarters. The Management Board is thus generally confident in regards to the Group's development in the second half of 2008.

However, we do expect sales growth to level off substantially during the remainder of the year compared to the robust first half. For one, this is due to the aforementioned one-time early and base effects that had a positive impact on the growth rate in the first six months of 2008 but will not occur in the second half. For another, we do not expect any additional demand for toys because the economy is weakening. Moreover, the euro's high external value continues to affect sales.

All of this is in line with the Management Board's previous forecasts for the current financial year. It expects the Zapf Creation Group to post a single-digit increase in sales in the 2008 financial year. Consolidated earnings before interest and taxes should continue to improve year on year. The Group expects earnings after taxes to return to the black in 2008.

Roedental, Germany, August 12, 2008

The Management Board

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

Interim consolidated financial statements as of June 30, 2008

Consolidated income statement	Q2/2008 K€	Q2/2007 K€	H1/2008 K€	H1/2007 K€	FY/2007 K€
Revenue	14,113	9,827	28,399	23,123	110,457
Cost of sales	– 8,617	– 6,539	– 17,118	– 13,857	– 62,149
Gross profit	**5,496**	**3,288**	**11,281**	**9,266**	**48,308**
Selling and distribution expenses	– 3,203	– 3,122	– 6,590	– 6,015	– 14,250
Marketing expenses	– 1,735	– 2,321	– 3,014	– 3,928	– 14,423
Administrative expenses	– 3,173	– 3,716	– 7,044	– 8,518	– 17,137
Other income	646	1,000	1,368	1,182	4,686
Other expenses	1,381	– 109	– 44	– 483	– 1,504
Operating result	**– 588**	**– 4,980**	**– 4,043**	**– 8,496**	**5,680**
(Restructuring costs included therein	*160*	*131*	*160*	*– 113*	*– 645)*
(One-off costs, mainly consultancy, included therein	*0*	*0*	*0*	*0*	*280)*
(Adjusted operating result derived therefrom	***– 748***	***– 5,111***	***– 4,203***	***– 8,383***	***6,045)***
Finance income	574	77	772	166	863
Finance costs	– 1,509	– 1,375	– 3,700	– 2,183	– 4,393
Result from continuing operations before income taxes	**– 1,523**	**– 6,278**	**– 6,971**	**– 10,513**	**2,150**
Taxes on income	589	782	1,880	1,708	– 4,799
Result from continuing operations	**– 934**	**– 5,496**	**– 5,091**	**– 8,805**	**– 2,649**
Result from discontinued operations before income taxes	– 449	255	– 545	210	– 147
Income taxes on discontinued operations	– 5	0	– 5	0	48
Net profit or loss for the period	– 1,388	– 5,241	– 5,641	– 8,595	– 2,748

Average number of shares outstanding (in thousands)	17,715	8,227	15,938	8,227	8,840
Earnings per share, continuing operations (in €)	– 0.05	– 0.67	– 0.32	– 1.07	– 0.30
Earnings per share, discontinued operations (in €)	– 0.03	0.04	– 0.03	0.03	– 0.01
Earnings per share (basic/diluted) in €	– 0.08	– 0.63	– 0.35	– 1.04	– 0.31

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

Breakdown of staff costs	Q2/2008 K€	Q2/2007 K€	H1/2008 K€	H1/2007 K€	FY/2007 K€
Sales & distribution	2,091	1,882	4,217	3,275	7,138
Marketing	285	338	533	621	987
Other administration	1,359	746	2,487	2,929	4,617
Discontinued operations	0	– 7	0	0	0
Total	3,735	2,959	7,237	6,825	12,742

Consolidated balance sheet	June 30, 2008 K€	Dec. 31, 2007 K€	June 30, 2007 K€
Assets			
Current assets	**67,784**	**95,589**	**43,444**
Cash	22,051	23,282	3,919
Trade receivables	21,281	49,904	19,174
Inventories	17,367	13,473	12,640
Income tax receivables	141	341	3,454
Other assets	6,944	8,589	4,257
Non-current assets	**20,985**	**19,548**	**26,269**
Property, plant and equipment	15,904	15,883	16,392
Intangible assets	2,973	3,545	4,174
Other assets	10	10	20
Deferred tax assets	2,098	110	5,683
Total assets	**88,769**	**115,137**	**69,713**
Equity and liabilities			
Current liabilities	**31,391**	**67,242**	**74,515**
Liabilities to banks	3,620	5,874	44,477
Trade payables	23,568	37,686	24,374
Income tax liabilities	441	701	1,247
Other liabilities	2,029	19,394	2,647
Provisions	1,733	3,587	1,770
Non-current liabilities	**31,598**	**33,465**	**135**
Liabilities to banks	31,566	33,381	0
Deferred tax liabilities	32	84	135
Equity	**25,780**	**14,430**	**– 4,937**
Issued capital	19,296	13,200	8,800
Capital reserve	33,122	21,703	12,875
Net profit or loss for the period and retained earnings brought forward	– 15,498	– 9,857	– 15,704
Other recognized income and expense	218	742	450
Treasury shares	– 11,358	– 11,358	– 11,358
Total equity and liabilities	**88,769**	**115,137**	**69,713**

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

Consolidated statement of changes in equity

	Shares outstanding (thsds.)	Issued capital K€	Capital reserves K€	Net profit/loss for the period and retained earnings brought forward K€	Other recognized income and expense: Adjustments from currency translations K€	Other recognized income and expense: Derivative financial instruments K€	Treasury shares K€	Total equity K€
Balance at January 1, 2007:	8,227	8,800	12,961	– 7,109	284	0	– 11,358	3,578
Net profit or loss for the period				–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
Balance at January 1, 2008:	12,627	13,200	21,703	– 9,857	742	0	– 11,358	14,430
Net profit or loss for the period				– 5,641				– 5,641
Change in other recognized income and expense					– 524	0		– 524
Total net income or loss for the period				– 5,641	– 524	0		– 6,165
Issuance of treasury shares	6,096	6,096	11,419					17,515
Balance at June 30, 2008:	18,723	19,296	33,122	– 15,498	218	0	– 11,358	25,780

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

Consolidated cash flow statement	H1/2008 K€	H1/2007 K€
Cash flow from operating activities:		
Earnings before income taxes	– 7,516	– 10,303
Depreciation of non-current assets	1,844	2,118
Losses/gains from the disposal of non-current assets	– 8	79
Finance costs/income	2,928	2,017
Other non-cash income/expenses	0	15
Increase/decrease in assets and liabilities:		
Trade receivables	28,491	38,202
Inventories	– 3,792	– 6
Other assets	1,864	– 578
Liabilities and reserves	– 14,803	– 15,430
Income tax payments	– 218	– 130
Cash flow from operating activities	8,790	15,984
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	83	138
Cash payments for investments in property, plant and equipment and intangible assets	– 1,395	– 673
Cash flow from investing activities	– 1,312	– 535
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	0	0
Cash payments for non-current bank borrowings	– 1,035	0
Cash payments for the repayment of non-current bank borrowings	– 3,000	– 6,377
Change in liabilities due to current borrowings	– 989	– 14,201
Interest paid	– 2,837	– 2,770
Interest received	401	155
Cash payments for the issuance of treasury shares	– 623	– 6
Cash flow from financing activities	– 8,083	– 23,199
Effects of exchange rate changes	– 626	– 41
Net change in cash and cash equivalents	– 1,231	– 7,791
Cash and cash equivalents at the beginning of the period	23,282	11,710
Cash and cash equivalents at the end of the period	22,051	3,919

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

Segment reporting

H1/	Central Europe 2008 K€	Central Europe 2007 K€	Northern Europe 2008 K€	Northern Europe 2007 K€	Southern Europe 2008 K€	Southern Europe 2007 K€	Eastern Europe 2008 K€	Eastern Europe 2007 K€	The Americas 2008 K€	The Americas 2007 K€	Asia/Australia 2008 K€	Asia/Australia 2007 K€
External sales	9,983	7,315	6,153	5,607	3,705	3,068	7,444	6,371	– 7	1,950	1,114	762
Internal sales	1,769	704	283	1,267	599	585	329	201	0	0	0	0
Segment sales, total	11,752	8,019	6,436	6,874	4,304	3,653	7,773	6,572	– 7	1,950	1,114	762
Earnings before interest, taxes, depreciation and amortization (EBITDA)	4,899	952	– 2,662	– 4,696	– 265	– 1,718	1,957	1,176	– 545	210	– 6,128	– 1,979

H1/	Other 2008 K€	Other 2007 K€	Consolidation 2008 K€	Consolidation 2007 K€	Group total 2008 K€	Group total 2007 K€	Discontinued operations 2008 K€	Discontinued operations 2007 K€	Continuing operations 2008 K€	Continuing operations 2007 K€
External sales	0	0	0	0	28,392	25,073	– 7	1,950	28,399	23,123
Internal sales	0	0	– 2,980	– 2,757	0	0	0	0	0	0
Segment sales, total	0	0	– 2,980	– 2,757	28,392	25,073	– 7	1,950	28,399	23,123
Earnings before interest, taxes, depreciation and amortization (EBITDA)	0	– 113	0	0	– 2,744	– 6,168	– 545	210	– 2,199	– 6,378

The segment reporting is part of the notes.

Notes to the
interim consolidated financial statements as of June 30, 2008

1. General information

1.1. Information on the Company

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

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

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

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

1.2. Principles of preparation

The interim consolidated financial statements of Zapf Creation AG as of 30 June 2008 were prepared on the basis of IAS 34 ("Interim Financial Reporting"). They were not reviewed or audited in accordance with Section 317 German Commercial Code.

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

1.3. Consolidation

The interim consolidated financial statements as of June 30, 2008 follow the same consolidation methods as the consolidated financial statements as of December 31, 2007. Reference is also made to the existing consolidated financial statements as of December 31, 2007.

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

1.4. Accounting methods

The interim consolidated financial statements as of June 30, 2008 follow the same accounting methods as the consolidated financial statements as of December 31, 2007. Reference is also made to the existing consolidated financial statements as of December 31, 2007.

In addition to reporting its operating income, the Zapf Creation Group therefore also reports "adjusted operating income" in its consolidated income statement in the interim consolidated financial statements as of June 30, 2008. The adjusted operating income is based on the Group's internal key performance indicators and adjusts the Group's operating income by the restructuring costs and one-off items shown in the income statement. Showing this item in the presentation of the consolidated income statement serves to increase transparency with regard to the sustainability of the earnings generated by the company through its ongoing operating process. Expenses from the restructuring of the Zapf Creation Group, as well as other extraordinary one-off expenses, are shown in the income statement under the operational areas giving rise to such expenses.

1.5. Use of estimates

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

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

2. Explanations of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of June 30, 2008 follows the same structure as the consolidated financial statements as of December 31, 2007.

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

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

2.2. Discontinued operations

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

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

	H1/2008 K€	H1/2007 K€
Revenue	– 7	1,950
Cost of sales	0	– 1,740
Selling and distribution expenses	– 162	0
Administrative expenses	4	0
Other expenses	– 380	0
Income taxes on discontinued operations	– 5	0
Result from discontinued operations	– 550	210

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

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

	H1/2008 K€	H1/2007 K€
Cash flow from operating activities	– 174	4,224
Cash flow from investing activities	0	0
Cash flow from financing activities	0	– 4,509
Effects of exchange rate changes	– 10	– 1
Cash flow from discontinued operations	– 184	– 286

2.3. Equity

Capital measures

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

On May 27, 2008, the Annual Shareholders' Meeting resolved to create new authorized capital (Authorized Capital 2008) and amend Article 5 of the Articles of Incorporation (Amount and breakdown of share capital). As a result of this resolution, Article 5 of the articles of incorporation of Zapf Creation AG authorizes the following capital increases:

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital until May 26, 2013, once or repeatedly, by up to € 9,000,000.00 in return for cash or in-kind contributions by issuing new no-par bearer shares (Authorized Capital 2008).

The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription right in the following cases:

a) In connection with fractional shares;

b) If the capital increase is executed in return for cash contributions and if the pro rata amount of the share capital allocable to the new shares in regards to which shareholders' subscription right has been excluded does not exceed the lesser of (1) of € 1,800,000.00 or (2) 10 % of the Company's share capital extant at the time the new shares are issued and if the issue price for the new shares is not substantially lower – in the sense of Section 203 para 1 and 2 and Section 186 para 3 sentence 4 German Stock Corporation Act – than the exchange price of previously listed shares of the same class at the time the Management Board finally fixes the issue price; the authorized volume is reduced by the pro rata interest in the share capital allocable to those shares that are issued or sold starting on May 27, 2008, subject to the exclusion of shareholders' subscription right, in connection with the direct or analogous application of Section 186 para 3 sentence 4 German Stock Corporation Act;

c) In the event of capital increases in return for in-kind contributions that are executed for the purpose of issuing shares in connection with the acquisition of companies, business units, or stakes in companies; or

d) In the event of capital increases in return for in-kind contributions that are executed for the purpose of issuing shares in return for the transfer to the Company of loan and/or interest payables under loans granted to it.

The Management Board is authorized, subject to the approval of the Supervisory Board, to determine additional details pertaining to the execution of the capital increases under Authorized Capital 2008. The Supervisory Board is authorized to amend the Articles of Incorporation subsequent to the full or partial execution of such capital increase under Authorized Capital 2008 or following the expiration of the authorization deadline in accordance with the scope of the capital increase under Authorized Capital 2008.

On June 5, 2008, Zapf Creation AG announced that its Management Board, as planned and previously announced, resolved to convert into equity all outstanding subordinate shareholder loans, including accrued interest, amounting to € 5.0 million by way of a capital increase against in-kind contributions. The Management Board's decision was made on May 29, 2008, and approved by the Supervisory Board on June 5, 2008. For this purpose, a total of 1,295,853 new shares were issued by utilizing part of the new authorized capital (Authorized Capital 2008) created at the Annual Shareholders' Meeting on May 27, 2008. The amount in shareholder loans contributed per new share was € 3.86. The non-cash capital increase lifted the share capital of Zapf Creation AG by € 1,295,853, from € 18.0 million to approximately € 19.3 million. The capital increase was recorded in the commercial register on June 11, 2008. The amendment of Article 5 of the Articles of Incorporation (Amount and breakdown of share capital) became effective through the resolution of the Supervisory Board on June 10, 2008. The full conversion of the shareholder loans into equity completes the implementation of the Group's long-term financing concept that was agreed between Zapf Creation, its major shareholders and an international consortium of banks on July 20, 2007. This measure significantly reduces the Group's future interest expense. After partial utilization, the remaining authorized capital from May 27, 2008 (Authorized Capital 2008) is € 7,704,147.00.

As a result of the conversion, the percentage of the share capital held by the Group's major shareholders MGA Entertainment, Inc. or its shareholders ("Trusts") and Mr. Nicolas Mathys increased to 44.44 % and 19.45 %, respectively. As a result of additional share purchases, their share has increased to 44.54 % and 20.05 %, respectively, by August 12, 2008.

Treasury shares

By resolution of the Annual Shareholders' Meeting dated May 27, 2008, the Company is authorized to purchase treasury shares in order to:

a) be able to offer such shares as consideration or part of the consideration in connection with business combinations or the acquisition of companies, business units or participating interests in companies; or

b) issue such shares in return for the transfer to the Company of one or more loan and/or interest payables under loans granted to it; or

c) offer such shares as employee shares to employees of the Company or companies considered its affiliates under Section 15 German Stock Corporation Act for purchase or, if employee shares were acquired by way of loans to purchase securities or loans of securities, for purposes of satisfying obligations thereunder; or

d) sell repurchased treasury shares in ways other than on the stock exchange or by means of an offering to all shareholders in return for cash at a price that is not substantially lower than the exchange price of the Company's shares of the same class at the time of the disposal; or

e) retire such shares.

The authorization is limited to the purchase of treasury shares having a pro rata share of 10 % in the Company's share capital existing on May 27, 2008, the day on which the Annual Shareholders' Meeting adopts the resolution (€ 18,000,000.00). The treasury shares so acquired – along with other treasury shares that are in the Company's possession or are allocable to it under Section 71a et seq. German Stock Corporation Act – may not, at any time, exceed 10 % of the share capital.

The authorization to acquire treasury shares shall remain in effect until November 26, 2009 (inclusive). The authorization to purchase treasury shares that was adopted by the Company's Annual Shareholders' Meeting on November 20, 2007, and that was not exercised – as well as the authorizations, which were issued as part of this resolution to use the treasury shares that the Company is already holding at the time the Annual Shareholders' Meeting adopts its resolutions on November 20, 2007 – expire at the time this new authorization takes effect. The authorizations contained in the aforementioned resolution of the Company's Annual Shareholders' Meeting on November 20, 2007, regarding the utilization of treasury shares repurchased pursuant thereto remain in place.

The buyback pursuant to this new authorization may also be executed by Group entities dependent on the Company within the meaning of Section 17 German Stock Corporation Act, or for the account of the Company or a Group entity dependent on it within the meaning of Section 17 German Stock Corporation Act.

As of June 30, 2008, the new authorization granted by the Annual Shareholders' Meeting on May 27, 2008, to acquire treasury shares had not been exercised.

3. Related party relationships

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

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

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

3.1. Management Board

The total compensation of K€ 267 (previous year: K€ 234) 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 one-time consideration paid to former members of the Management Board.

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

The compensation system based on phantom shares that was launched in 2006 for the members of the Company's Management Board remained in place in the first six months of the 2008 financial year; Regarding details, please also see the consolidated financial statements as of December 31, 2007. Between January 1 and June 30, 2008, a total of 10,000 phantom options at a base price of € 3.59 were granted to a member of the Management Board. During the same period in the previous year members of the Management Board were granted 30,000 phantom options at a base price of € 8.60 and 15,000 phantom options at a base price of € 9.16. Due to the development of the share price, until June 30, 2008, as in the previous year, an addition to the provision for obligations under phantom shares had to be recognized in income only with regard to options that were newly granted during the first six months of the respective financial year.

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

One former member of the Management Board was granted a variable credit line in the maximum amount of K€ 625 until December 31, 2007. As of June 30, 2008, the loan continued to be fully utilized; as in the previous year, no repayments were made. The interest rate agreed for the loan was 4.25 %. It was fixed until December 31, 2007, the loan's due date. Because of interest receivables totaling K€ 60, the total amount due to the Company as of June 30, 2008 increased to K€ 685 (previous year: K€ 658). The loan is secured by a land charge in the amount of K€ 200 (previous year: K€ 200); as in the previous year, it was written off including interest receivables as of June 30, 2008.

3.2. Supervisory Board

The following change with regard to the composition of the Supervisory Board occurred during the period under review: Effective at the end of the Company's Annual Shareholders' Meeting on May 27, 2008, Mr. Francesc Robert, who had been vice chairman of the Supervisory Board since July 28, 2006, and a member of the Supervisory Board since May 11, 2005, resigned from the Supervisory Board. For the remainder of Mr. Robert's term of office, Mr. Nicolas Mathys, Baar, Switzerland, was elected to the Supervisory Board. Mr. Mathys has also been serving as vice chairman of the Supervisory Board since May 27, 2008.

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 June 30, 2008 was made pro rata temporis.

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

As in the previous year, there were no loans to members of the Supervisory Board as of the balance sheet date. The subordinate shareholder loans included in the Company's financing concept, including pro rated interest owed, were fully converted into equity upon entry in the commercial register on June 11, 2008. insofar please also see Section 2.3, item.

3.3. Related companies of the MGA Group

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

Since the beginning of 2007, MGA Entertainment, Inc., Van Nuys, California, USA, has been solely responsible as a licensee for selling Zapf Creation's products in the Americas (North, Central and South); MGA guarantees that the sales volume exceeds 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"). Zapf Creation Logistics GmbH & Co. KG provides logistics services for the MGA Group (Agreement 3: "Logistics Service Agreement"). Furthermore, in 2007 MGA took over the entire process of selecting and monitoring the Asian suppliers of Zapf Creation products, the coordination and handling of merchandise shipments to the sales units, and technical product development (Agreement 4: "Hong Kong/China Services

Agreement"). Also, Zapf Creation AG granted MGA Entertainment Inc., Van Nuys, California, USA, against payment of a license fee, the exclusive right and the exclusive license to utilize and exploit both the products and the intellectual property of Zapf Creation AG, including the right to grant sublicenses (Agreement 5: "Merchandising Licence Agreement"). Effective April 1, 2008, the partnership was extended through another agreement (Agreement 6: "UK Services Agreement"). Since this date, MGA Entertainment UK Ltd. has been providing full sales services for Zapf Creation (U.K.) Ltd. in that company's sales areas for an appropriate fee. In return, Zapf Creation (U.K.) Ltd. provides administrative services to MGA Entertainment UK Ltd. for an appropriate fee.

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

Cooperation agreements	H1/2008 K€	H1/2007 K€
Agreement 1: "Distribution Agreement"		
Income from Agreement 1	399	415
Agreement 2: "Consignment and Services Agreement"		
Income from Agreement 2	619	416
Agreement 3: "Logistics Service Agreement"		
Income from Agreement 3	916	664
Agreement 4: "Hong Kong / China Services Agreement"		
Expenses from Agreement 4	1,010	1,160
Agreement 5: "Merchandising Licence Agreement"		
Income from Agreement 5	0	0
Agreement 6: "UK Services Agreement"		
Income from Agreement 6	231	0
Expenses from Agreement 6	44	0

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

Cross charges	H1/2008 K€	H1/2007 K€
Income from cross charges	1,060	703
Expenses from cross charges	1,629	1,575

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

Merchandise procurement	H1/2008 K€	H1/2007 K€
Merchandise procurement in the reporting period	13,217	10,492

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	H1/2008 K€	H1/2007 K€
Income from direct services	0	1,887

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

Other business transactions were as follows:

The subordinate shareholder loans included in the Company's financing concept, including pro rated interest owed, were fully converted into equity upon entry in the commercial register on June 11, 2008. insofar please also see Section 2.3, item.

The receivables and liabilities of the Zapf Creation Group that result from the partnership with related parties of the MGA Group as of June 30, 2008 are as follows:

Balances as of the balance sheet date	June 30, 2008 K€	June 30, 2007 K€
Receivables from related parties	3,825	3,709
Liabilities to related parties	8,820	6,989

4. Events after the close of the reporting period

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

5. Directors' dealings

During the period from January 1 to August 12, 2008, the officers and directors of the Company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

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

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

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

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

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

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

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

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

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

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

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on June 4, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on May 29, 2008, he had purchased a total of 5,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.98 per share for a total transaction volume of € 19,900.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, it had purchased a total of 238,936 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 922,295.65.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, it had purchased a total of 472,217 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 1,822,760.08.

Attorneys for the Jahangir Eli Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, it had purchased a total of 52,240 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 201,649.96.

Attorneys for the Shirin and Jahangir Eli Makabi Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, it had purchased a total of 41,935 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 161,872.30.

Attorneys for the Shirin Larian Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, it had purchased a total of 52,240 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 201,649.96.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 10, 2008, he had purchased a total of 438,285 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 1,691,780.65.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on June 13, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 13, 2008, he had purchased a total of 50,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.98 per share for a total transaction volume of € 199,236.00.

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on June 25, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on June 17, 2008, he had purchased a total of 4,600 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.95 per share for a total transaction volume of € 18,170.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on July 17, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on July 15, 2008, it had purchased a total of 20,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.12 per share for a total transaction volume of € 62,400.00.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on July 23, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on July 22, 2008, he had purchased a total of 50,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.37 per share for a total transaction volume of € 168,320.00.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on July 23, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on July 22, 2008, it had purchased a total of 1,125 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.12 per share for a total transaction volume of € 3,510.00.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on July 28, 2008, in accordance with Section 15a German Securities Trading Act (Wertpapierhandelsgesetz) that on July 25, 2008, he had purchased a total of 15,000 shares of Zapf Creation AG stock (ISIN

DE 0007806002) at a price of € 3.20 per share for a total transaction volume of € 47,986.50.

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

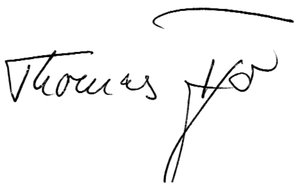
Roedental, Germany, August 12, 2008

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."

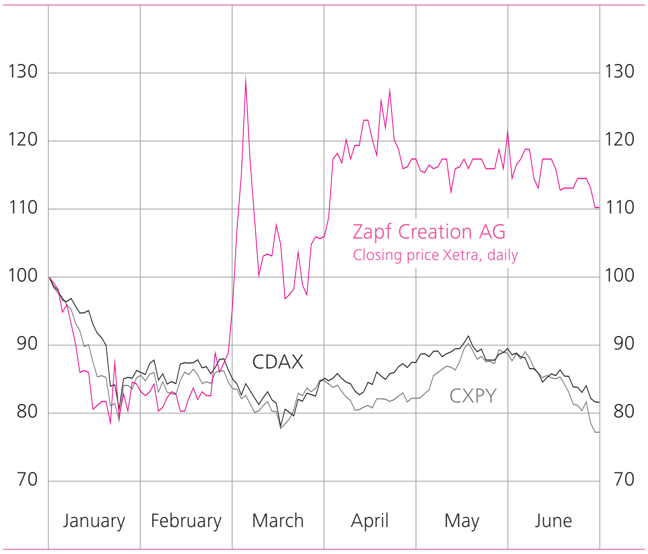
Roedental, Germany, August 12, 2008



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

The share

Indexed share price performance, December 31, 2007 = 100



The shares of Zapf Creation AG opened the 2008 financial year at a price of € 3.36. By January 31, 2008, however, the shares had fallen by 18% from the year's opening price to € 2.78, largely paralleling both the CDAX Performance Index and the CXPY Consumer Performance Index. The share price then hovered around € 2.80 until the end of February 2008, rising to € 3.00 after the preliminary, unaudited figures for the 2007 financial year were announced on February 25, 2008. Registering high trading volumes on the most important stock exchanges, the share price gained substantially in the first week of March, reaching € 4.40 on March 5, 2008, its high for the quarter. From this high, it fell to € 3.28 on March 18, 2008, only to rise yet again to € 3.60 on March 31, 2008. The share price quickly rose to € 4.00 in the first week of April, thus clearly distancing itself from the weak performance of the benchmark indexes. Despite the capital increase, the share price remained stable at approximately € 4.00 before it fell slightly to € 3.75 on June 30, 2008, reflecting the general performance of the stock exchanges. As a result, the share price closed the first half-year with a gain of more than 10% compared to the start of the year.

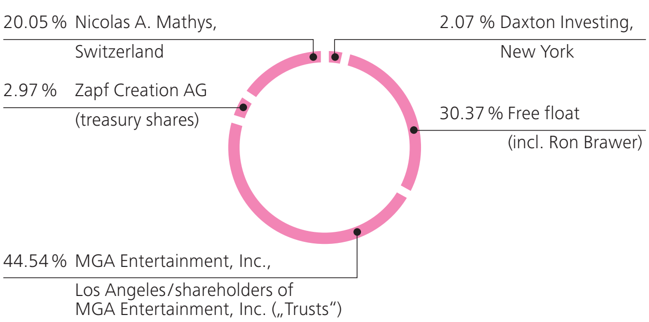
Financial calendar

Event	Activity	Place
August 25–27, 2008	SCC Small Cap Conference of DVFA	Frankfurt am Main
November 7, 2008	Publication of the Q3/nine-month results	Roedental
November 10–12, 2008	German Equity Forum 2008	Frankfurt am Main

Capital measures

A non-cash capital increase under authorized capital pursuant to Article 5 para 1 a of the Company's Articles of Incorporation, subject to the exclusion of shareholders' subscription right, was executed by resolution of the Management Board dated May 29, 2008, with the approval of the Supervisory Board dated June 10, 2008, and recorded in the commercial register at the Coburg Local Court on June 11, 2008. The subordinated shareholder loans still outstanding, which the shareholders of MGA Entertainment, Inc. (the "Trusts"), as well as Mr. Nicolas Mathys, had made to the Company, plus the remaining accrued interest of € 5.0 million were converted into equity by means of this non-cash capital increase. For this conversion, the authorized capital created during the Annual Shareholders' Meeting on May 27, 2008, was partially utilized to issue 1,295,853 new shares. The amount in shareholder loans contributed per new share was € 3.86. This capital increase boosted the Company's share capital from € 18.0 million to approximately € 19.3 million.

Shareholder structure*



* The figures are based on the notifications under Sections 15a and 21 German Securities Trading Act received by Zapf Creation AG until August 12, 2008.

Zapf Creation AG
Moenchroedener Strasse 13
96472 Roedental
GERMANY

Phone: +49 (0) 9563 / 72 51 - 0
Fax: +49 (0) 9563 / 72 51 - 116
E-mail: investor.relations@zapf-creation.de
Internet: www.zapf-creation.de