



Declaration of Conformity of Zapf Creation AG for 2007

Declaration of the Management Board and the Supervisory Board of Zapf Creation AG regarding the German Corporate Governance Code as amended on June 14, 2007, pursuant to Section 161 German Stock Corporation Act

Both the Management Board and the Supervisory Board of Zapf Creation AG declare pursuant to Section 161 German Stock Corporation Act that the Company, after having issued last year's declaration of conformity on December 12, 2006, has been and is in compliance with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 14, 2007, and as published by the German Ministry of Justice on July 20, 2007, in the official section of the electronic Federal Gazette, with the exception of the following:

- "If the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed." (Item 3.8, para 2)

The D&O insurance purchased by Zapf Creation AG does not require the members of the Company's Management and Supervisory Boards to pay a deductible. Deductibles are usually unsuitable for preventing losses and thus are generally taken into account by the insurance industry only in the calculation of premiums.

- "The Management Board shall be comprised of several persons and have a Chairman or Spokesman." (Item 4.2.1, sentence 1)

From December 20, 2006 and February 28, 2007, the Management Board of Zapf Creation AG had just one member. The Management Board has had two members since March 1, 2007. The Company currently does not have a Management Board chairman or spokesman. Both Management Board members jointly manage the Company in accordance with Section 77 German Stock Corporation Act. The appointment of a chairman of a two-person Management Board was not considered necessary.

- "By-Laws shall govern the work of the Management Board, in particular the allocation of duties among individual Management Board members, matters reserved for the Management Board as a whole, and the required majority for Management Board resolutions (unanimity or resolution by majority vote." (Item 4.2.1, sentence 2)

The Management Board's by-laws currently do not specify an allocation of duties for individual members of the Management Board. Neither do they contain regulations regarding decision-making if there is a tie vote on the two-person Management Board without chairman. However, the Supervisory Board by resolution has defined the duties of the Management board members outside the by-laws.

- "Stock options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed for by the Supervisory Board." (Item 4.2.3, para 3, sentence 2 ff.)

A share-based compensation system involving phantom options is in place for the Management Board of Zapf Creation AG. Exercising the phantom options is not tied to the fulfillment of specific performance targets. This did not seem necessary given the limited number of phantom options. Furthermore, demanding, relevant performance targets were defined in connection with the variable compensation of the Management Board members. At the time they exercise their phantom stock options, beneficiaries are paid the difference per exercised option between the closing price of the share on its issue date and on the date the phantom stock option is exercised. There is no explicit regulation excluding the retroactive change of the comparison parameters. A cap for extraordinary, unforeseen developments is currently not in place.

- "The compensation report shall also include information on the nature of the fringe benefits provided by the company." (Item 4.2.5, para 3, sentence 2)

The compensation report published as part of the Corporate Governance Report does not yet include information on the nature of the fringe benefits provided by the Company. We will follow this recommendation in the future.

- "Together with the Management Board [the Supervisory Board] shall ensure that there is a long-term succession planning." (Item 5.1.2, para 1, sentence 2)

No long-term succession planning exists within the Company because such planning is not necessary yet.

- "An age limit for members of the Management Board shall be specified." (Item 5.1.2, para 2, sentence 3)

No age limit for members of the Management Board has been set because we do not believe that the age of a Management Board member is a key criterion for his or her qualification.

- "The chairman of the Audit Committee shall have specialist knowledge and experience in the application of accounting principles and internal control processes." (Item 5.3.2, sentence 2)

The Company currently does not follow this recommendation because no such person is available on the Supervisory Board.

- "The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting." (Item 5.3.3)

Given the size of the Company and its Supervisory Board, the formation of a nomination committee is not appropriate.

- "... an age limit to be specified for the members of the Supervisory Board shall be taken into account." (Item 5.4.1, sentence 2)

No age limit for members of the Supervisory Board has been set because we do not believe that the age of a Supervisory Board member is a key criterion for his or her qualification.

- "Elections to the Supervisory Board shall be made on an individual basis. An application for the judicial appointment of a Supervisory Board member shall be limited in time up to the next annual general meeting. Proposed candidates for the Supervisory Board chair shall be announced to the shareholders." (Item 5.4.3)

Given the Company's special circumstances, most members of the current Supervisory Board were appointed by a court. To ensure continuity on the Supervisory Board, the judicial appointments are not limited in time. The prior announcement of candidates to the shareholders in connection with the election of the current chairman was not possible because the election took place shortly after a judicial appointment.

- "Beyond the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately according to Management Board and Supervisory Board. The aforesaid disclosures shall be included in the Corporate Governance Report." (Item 6.6)

Until now, the aforesaid disclosures have not been included in the Corporate Governance Report. We will follow this recommendation in the future.

- "The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period." (Item 7.1.2, sentence 3)

The Company was unable to make its consolidated financial statements for the 2006 financial year, its financial report on the first quarter of 2007 and its half-yearly financial report as of June 30, 2007, publicly accessible within the required periods because the negotiations with the banking syndicate regarding the Company's long-term financing were not concluded in time. The Company met the deadline for the publication of its interim financial report on the third quarter of 2007.

Zapf Creation AG

Rödental, Germany, December 12, 2007

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