



Zapf Creation AG

ISIN DE0007806002 / German Securities Identification Number (WKN) 780 600

Subscription Offer

The following offer for the purchase of shares of Zapf Creation AG does not represent a public offer.

It is intended solely for the shareholders of Zapf Creation AG.

By resolution of the Annual Shareholders' Meeting of Zapf Creation AG, Roedental, Germany (hereinafter referred to as the "Company"), dated May 07, 2003, amending the Company's Articles of Incorporation, the Annual Shareholders' Meeting authorized the Management Board of Zapf Creation AG, with the approval of the Supervisory Board, to increase the share capital until May 06, 2008 (inclusive) by issuing new no-par shares in exchange for contributions in cash or in kind, once or several times, up to a maximum of EUR 4,000,000 ("Authorized Capital I"). The provisions of the Articles of Incorporation regarding Authorized Capital I authorize the Management Board of Zapf Creation AG, with the approval of the Supervisory Board, to exclude subscription rights, among other things, for fractional amounts. Based on this authorization, the Company's share capital of EUR 8,000,000.00 was increased by a resolution of the Management Board dated September 27/28, 2006, with the approval of the Supervisory Board dated September 27/28, 2006, by EUR 799,998.00 to EUR 8,799,998.00 in return for cash contributions by issuing 799,998 new no-par bearer shares with full profit participation for the 2006 financial year.

On October 02, 2007, the Management Board resolved, with the approval of the Supervisory Board on October 07, 2007, to fully utilize the remaining Authorized Capital of EUR 3,200,002.00 and to increase the share capital from EUR 8,799,998.00 by up to EUR 3,200,002.00 to no more than EUR 12,000,000.00 in return for cash contributions by issuing 3,200,002 new no-par bearer shares with full profit participation for the 2007 financial year (hereinafter referred to as the "New No-Par Shares") and to offer the New No-Par Shares for subscription to the shareholders of Zapf Creation AG at a ratio of 13 to 5. Shareholders' subscription rights are excluded with respect to the fractional amount of EUR 35,648.15. Authorized Capital I will have been utilized in full following execution of this capital increase.

The New No-Par Shares will be offered to the Company's shareholders for subscription in accordance with the subscription offer by way of an indirect subscription right pursuant to Section 186 para 5 German Stock Corporation Act (*Aktiengesetz*). Pursuant to an agreement with two of the current major shareholders, i.e. MGA Entertainment, Inc. and Mr. Nicolas Mathys (hereinafter jointly referred to as the "Major Shareholders"), these Major Shareholders have undertaken vis-à-vis Zapf Creation AG, subject to the occurrence of specified conditions, to ensure that the capital increase is executed at the subscription price in a scope of up to 3,200,002 New No-Par Shares and that they will acquire, at a purchase price that corresponds to the subscription price ("Private Placement"), New No-Par Shares, if any, not subscribed under this subscription offer — either themselves or via one of their subsidiaries as defined in Section 290 German Commercial Code or an affiliate as defined in Section 15 German Stock Corporation Act. Both the New No-Par Shares subscribed to in connection with the statutory subscription right and the New No-Par Shares issued to the Major Shareholders in connection with the Private Placement will be subscribed to and taken over by Bankhaus Neelmeyer AG, Bremen, Germany, with the obligation to transfer them to the shareholders in accordance with the exercise of subscription rights or the allocation under the Private Placement, respectively, at a subscription or purchase price of EUR 3.16 per New No-Par Share.

The recording of the execution of the capital increase in the Commercial Register (*Handelsregister*) at the Coburg District Court (*Amtsgericht*) is planned for the end of October/beginning of November 2007 following the end of the subscription period.

To avoid being excluded, the shareholders are requested to exercise their subscription rights to the New No-Par Shares during normal business hours from

October 12, 2007, to October 26, 2007, inclusive,

via their depositary bank at Bankhaus Neelmeyer AG, Bremen, Germany, as the subscription agent.

We request that our shareholders issue appropriate instructions to their depositary bank regarding the subscription to the New No-Par Shares in order to exercise their subscription right. Any unexercised subscription rights will expire in full following the expiration of the subscription period; there will be no cash compensation.

Five New No-Par Shares may be acquired for every 13 no-par shares of Zapf Creation AG in accordance with the subscription ratio of 13 to 5. Shareholders may acquire one New No-Par Share.

The aforementioned subscription ratio is calculated based on the number of no-par shares with subscription rights. Zapf Creation AG's share capital is divided into 8,799,998 no-par shares, of which Zapf Creation AG holds 572,678 shares as treasury shares. Zapf Creation AG has no subscription rights from these treasury shares. Rather, the corresponding subscription rights accrue to the other shareholders in accordance with their equity interest in the Company's share capital. The number of shares with subscription rights is thus 8,227,320 no-par shares (8,799,998 no-par shares less 572,678 treasury shares).

Clearstream Banking AG, Frankfurt, Germany, will automatically post the subscription rights (ISIN DE000A0TGNR2 / WKN A0T GNR) for no-par shares held in collective custody (ISIN DE0007806002 / WKN 780 600) to shareholders' account via their depository bank based on the balance as of Thursday, October 11, 2007, following the close of the stock exchange. Each shareholder shall receive one subscription right per share.

Subscription Price

The subscription price for each New No-Par Share subscribed is EUR 3.16 and is payable upon exercise of the subscription right, but no later than October 26, 2007.

No Trading in Subscription Rights

Neither Zapf Creation AG nor Bankhaus Neelmeyer AG will organize any trading in subscription rights (ISIN DE000A0TGNR2 / WKN A0T GNR). There has also been no request for price fixing on a stock exchange. However, the subscription rights are freely transferable. The price for the no-par shares of Zapf Creation AG will be fixed in the Official Market (Prime Standard) of the Frankfurt/Main Stock Exchange "ex subscription right" from October 12, 2007, onward.

Delivery and Approval

Delivery via credit memo to a securities account of the New No-Par Shares with the ISIN DE000A0TGNS0 / WKN A0T GNS, which are not initially authorized for exchange trading, will not be made until after the execution of the capital increase has been recorded in the Commercial Register. The New No-Par Shares will likely be credited to shareholders' securities accounts on a date that precludes registering these shares for the Annual Shareholders' Meeting scheduled for November 20 and 21, 2007.

The approval of the New No-Par Shares by the Frankfurt/Main Stock Exchange, as well as their introduction to trading at the existent price fixing of the no-par shares of Zapf Creation AG, is planned for a later date.

Delays in the recording of the capital increase and thus in the delivery cannot be excluded, nor delays regarding both the approval of the New No-Par Shares by the exchange and their introduction to trading at the existent price fixing of Zapf Creation shares.

Securitization of the New No-Par Shares

The New No-Par Shares will be securitized in a global certificate and deposited with Clearstream Banking AG, Frankfurt/Main, Germany, once the execution of the capital increase has been recorded in the Commercial Register maintained at the Coburg District Court. Pursuant to Article 6 (3) of the Articles of Incorporation of Zapf Creation AG, the shareholders have no claim to securitization of their shares and profit shares.

Commissions

Customary bank commission will be charged for the subscription.

Sale of Unsubscribed New No-Par Shares

Zapf Creation AG and the Major Shareholders have agreed to the acquisition of up to 3,200,002 New No-Par Shares from the capital increase in exchange for payment of the subscription price. Unsubscribed New No-Par Shares will be taken over by the Major Shareholders.

Important Notice for Shareholders

Zapf Creation AG is in a difficult situation, financially speaking, and the Company initiated extensive restructuring measures in financial year 2005. The restructuring measures extend across all corporate operating activities and essentially entail optimizing procurement and sales, increasing cost efficiency through staff reductions, and improving working capital management — all with the aim of both stabilizing revenues at the Zapf Creation Group and increasing its profitability. The strategic cooperation with the American toy manufacturer, MGA Entertainment, Inc. is also aimed at implementing the restructuring of the Zapf Creation Group. In so doing, Zapf Creation Group's processes and structures were adjusted yet again in the fall of 2006. The Company's continued existence depends on the extent to which the restructuring measures it has executed take effect and have a positive effect on recently declining revenues and/or significantly improve the weak earnings performance of the Zapf Creation Group. As there is no guarantee of this, subscribing to and/or purchasing shares of Zapf Creation AG entails high risks and shareholders should do so only if they knowingly accept all attendant risks.

In an ad hoc release dated July 20, 2007, Zapf Creation AG reported that it had reached an agreement with both an international syndicate of banks and the Major Shareholders of Zapf Creation AG regarding the Company's long-term follow-up financing with a volume of EUR 65 million. The infusion of equity capital totaling approximately EUR 30 million by November 30, 2007 — alternatively by means of subordinated shareholder loans — is a requirement for this follow-up financing. Two of the Major Shareholders have already assured the Company, in writing, subject to the occurrence of specified conditions, that they guarantee the infusion of equity capital or subordinated shareholder loans totaling approximately EUR 30 million. The previous banking syndicate of Zapf Creation AG has agreed to grant a grace period until November 30, 2007 for repayment of the loan due since June 30, 2007, approximately EUR 45 million of which have been utilized as credit lines. 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 provide interim financing of no more than EUR 20 million until November 30, 2007. These funds may be utilized as defined and depending on the equity infusion already made at such a time (alternatively via subordinated shareholder loans). All agreements are subject to the proviso that no material adverse change in the economic situation of the Zapf Creation Group occurs until November 30, 2007, and that the final loan documents must have been signed. Approximately EUR 10.1 million in funds will flow to the Company as a result of this capital increase and thus roughly EUR 19.9 million less than the amount of

equity required by the syndicate of banks. Subordinated yet interest-bearing shareholder loans from the Company's major shareholders are to make up for this shortfall. The Company has undertaken vis-à-vis its Major Shareholders in this connection to convert these shareholder loans, in whole or in part, into equity by issuing new shares. A decision of the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* - "BaFin") dated September 14, 2007, exempts MGA Entertainment, Inc., among others, from the duty to make a takeover offer as soon as its stake exceeds the control threshold of 30%.

In addition, it is possible that the Company's liquidity may not be sufficient even after the bank loans have been granted — despite the infusion of equity or the subordinated shareholder loans of EUR 30 million from the Major Shareholders — if the covenants stipulated in the loan agreement with the syndicate of banks are broken and if the latter cancels the loans in full or in part. There is the risk, therefore, that the Company might lack the funds necessary for future operations and that it might no longer be able to fulfill its payment obligations already outstanding. In this case, the Company's Management Board would be obligated by law to report the insolvency of Zapf Creation AG due to an inability to pay. For investors, this would result in the total loss of the funds they have invested in the no-par shares of Zapf Creation AG.

Shareholders are advised to read the Company's 2006 annual report, which has been available on the Company's website as of October 02, 2007; its half-year financial report as of June 30, 2007, which has been available on the Company's website since October 02, 2007; as well all current reporting available on the Company's website (<http://www.zapf-creation.com>), before filing their declaration of subscription to the New No-Par Shares.

Sales Restriction

The New No-Par Shares and the subscription rights are not and will not be registered pursuant to the regulations of the United States Securities Act of 1933 (the "Securities Act"), nor are and will they be registered with the securities regulatory authorities of the individual states of the United States. Therefore, they are neither being offered nor sold there, nor delivered there, directly or indirectly, except in exceptional cases based on an exemption from the registration requirements of the Securities Act.

Roedental, Germany, October 2007

Zapf Creation AG

The Management Board