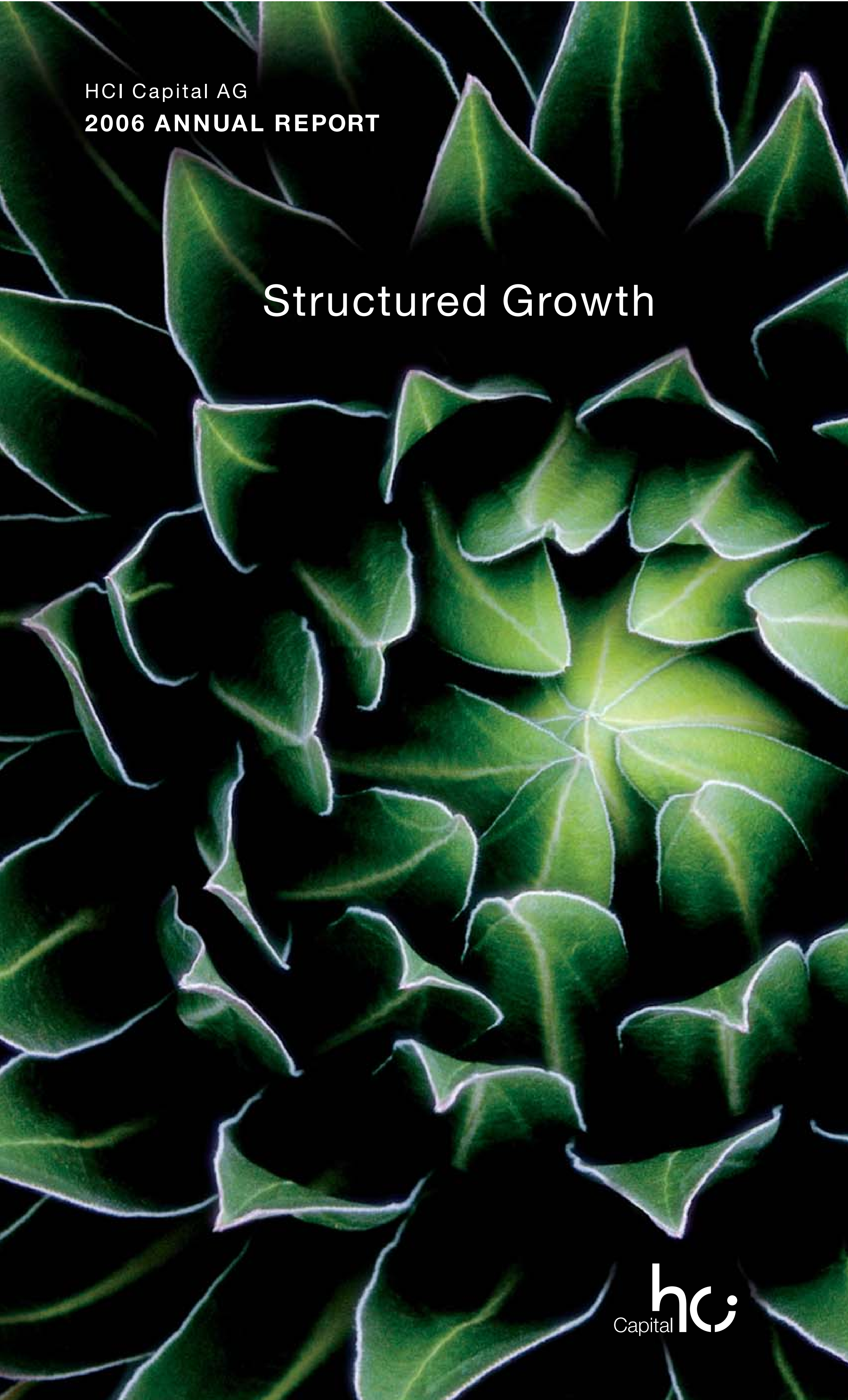
HCI Capital AG

2006 ANNUAL REPORT

Structured Growth



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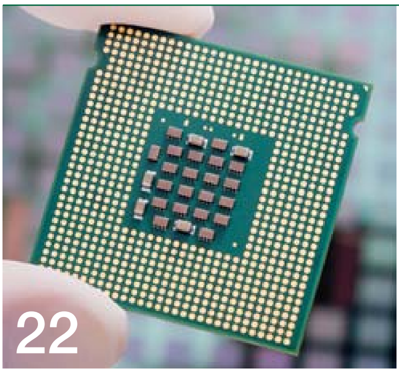


2006 / 2007

HCI Developments

Ship Funds: Long-Term Growth Unaffected

Global market growth is the driving force in the international shipping market. Placed equity capital in the ship fund segment dropped in Germany by approximately 14 % in 2006 due to the impression that charter rates for certain ship types were on the decline, however, by excluding a special item in 2005, placement volume in HCI ship funds remained consistent to a large extent. Given the favorable current market conditions a stable development is expected for 2007.

HCI Ship Funds

In EUR million	2006	2005	Change in %
Placed equity capital	384.0	510.5	-24.78
Revenues/internal revenues	101.3	119.3	-15.00
Gross profit	53.6	64.4	-16.77
EBIT	54.2	52.6	3.04
Segment assets	70.2	51.3	36.84

Real Estate Funds: Innovative Product Concepts

The market for closed-end real estate funds in Germany developed very positively during 2006 with placed equity capital increasing by 24 %. In this market segment, HCI more than doubled fund sales. Innovative fund concepts, for example, with an increase in value potential based on flexible real estate portfolio management, are gaining in importance. In 2007, HCI is planning to launch more innovative products.

HCI Real Estate Funds

In EUR million	2006	2005	Change in %
Placed equity capital	80.5	38.0	111.84
Revenues/internal revenues	14.4	11.9	21.01
Gross profit	9.1	8.3	9.64
EBIT	2.5	2.9	-13.79
Segment assets	14.0	4.2	233.33

Private Equity Funds of Funds: Positive Environment

A favorable market environment led to a large number of sales or IPOs of companies in the private equity investment portfolio during 2006, creating a surge of sales of closed-end investments in private equity funds, which grew by 65 % during 2006. With an increase of approximately 150 % this, too, is a segment where HCI clearly grew faster than the market itself.

HCI Private Equity Funds of Funds

In EUR million	2006	2005	Change in %
Placed equity capital	43.2	17.3	149.71
Revenues/internal revenues	5.3	2.3	130.43
Gross profit	1.4	0.8	75.00
EBIT	0.4	0.2	100.00
Segment assets	2.6	2.2	18.18

Secondary Life Insurance Market Funds: A Shift in the Market

The volume of investment offers in the secondary life insurance market dropped by 44 % during 2006 with the focus in the basic markets shifting from U.S. to British and German policies. HCI recognized this trend at an early stage, consequently increasing sales in the secondary life insurance market by 62 %. In addition, HCI designed a certificate reproducing the developments in the British and German markets.

HCI Secondary Life Insurance Market Funds

In EUR million	2006	2005	Change in %
Placed equity capital	132.8	81.9	62.15
Revenues/internal revenues	24.6	16.7	47.31
Gross profit	12.4	8.9	39.33
EBIT	5.6	4.5	24.44
Segment assets	7.9	5.4	46.30

Key Figures

Operating Profit

	Unit	2006	2005	Change in %
Revenues	EUR mill.	145.6	150.2	-3.06
Total operating performance	EUR mill.	166.9	163.0	2.39
Earnings before interest and taxes (EBIT)	EUR mill.	51.1	48.0	6.46
Earnings before taxes (EBT)	EUR mill.	55.2	56.1	-1.60
Consolidated annual net profit	EUR mill.	39.5	37.8	4.50
EBIT margin	%	35.1	32.0	3.10 %-Pts.

Assets

	Unit	2006	2005	Change in %
Total assets	EUR mill.	227.1	199.2	14.01
Equity capital	EUR mill.	123.3	117.7	4.76
Equity ratio	%	54.3	59.1	-4.80 %-Pts.

Employees

	Unit	2006	2005	Change in %
Employees (average)	Number	238	202	17.82
Personnel costs	EUR mill.	23.9	21.7	10.14
Personnel costs ratio	%	16.4	14.5	1.90 %-Pts.

Stock

	Unit	2006	2005
Earnings per share*	EUR	1.64	1.80
Dividend per share (proposal for 2006)	EUR	1.40	1.40

* based on the weighted average of 24,000,000 shares or 20,956,000 shares (2005)

Company operating figures

	Unit	2006	2005	Change in %
Clients	Number	87,700	74,500	17.72
New issues	Number	26	27	-3.70
Investment volume (accumulated)	EUR mill.	11,960	10,270	16.46
Administrated trust assets	EUR mill.	3,970	3,501	13.40
Trust assets remunerations	EUR mill.	22.7	21.0	8.10

Structured Growth.

For over 20 years HCI has been designing and selling top-quality investment products featuring attractive risk-return profiles. By supplementing these with product-related services we create system solutions for clients and business associates alike. As a system provider the HCI value chain comprises Financial Engineering, Sales and Marketing, After-Sales Services and Asset Management. Together these form a diversified business model which generates sustained and profitable growth – structured growth.

There are countless examples of structured growth in nature, particularly in the plant world. In adopting this idea, the 2006 Annual Report reveals surprising and unusual perspectives.

Dear Shareholders and Business Friends of HCI Capital AG,

The title of our 2006 Annual Report is "Structured Growth." This motto expresses the HCI Group's concept for success which stands for a systematic, consistent development of business activity. It illustrates the HCI Group's transformation from an issuing house to a system provider of financial products and services on the basis of diversified structures. Not only was 2006 another successful financial year in HCI's 20-year history as a company, but also a pivotal year in terms of the Group's future.

The 2006 financial year was one of consolidation and restructuring for HCI's principal area of business, the market for closed-end investment products. A degree of incertitude in the market was noticeable throughout the year with regard to the omission of loss allocation pursuant to Article 15 b of the German Income Tax Act. The occasional fall in charter rates for certain types of vessels, although still on a high level, triggered a discussion on the sustainability of increase in value in the ship fund segment. Contrary to doubts in the industry at the outset of 2006, the market volume of closed-end investment funds in Germany slacked off very moderately by approximately 5 %, whereas the latter half of 2006 showed a strong rise in sales. HCI evaluates this development as proof of the fact that closed-end investment products, which feature good risk-return profiles and only marginal correlation to traditional asset classes, i.e. stocks and bonds, continue to interest and appeal to a wide range of investors.

For years, HCI has been looked upon as a leading initiator of ship funds for private investors. However, this assessment does only partial justice to the diversified character and strategic focus of our business activities:

- In 2006, 40 % of the equity capital placed by HCI went into real estate funds, secondary life insurance market funds and private equity funds of funds.
- A large percentage of the funds designed and developed by HCI are no longer based upon the buy-and-hold strategy, but rather geared to the innovative concept of financial engineering.
- In 2006, HCI forged ahead in the expanding market for certificates and structured financial products and will continue to focus on development of this business area.
- Beginning with the real estate market, HCI pushed ahead in investments by institutional investors.
- HCI is increasingly linking products with supplementary services, e.g. in the administration and management of investments. The result is a gradual increase in recurring revenues and, in turn, ongoing business development.

A major strategic decision during the 2006 financial year was the joint venture between HCI and the U.S. real estate investor Behringer Harvard, who over the course of three years, are targeting a total investment sum of up to EUR one billion

Harald Christ
- Since 2005 Chairman of the Management Board of HCI Capital AG
- 2004 – 2005 Managing Partner, HCI Holding GmbH
- 2002 – 2003 Management Board spokesman, HCI Holding GmbH
- 1999 – 2002 Director, Private Customers and Business Clients, Deutsche Bank AG
- 1992 – 1999 Director, Sales & Marketing, BHW Holding AG

Wolfgang Essing
- Since 2007 Member of the Management Board of HCI Capital AG
- 2003 – 2006 Acting partner with consulting group zeb/rolfes.schierenbeck.associates
- 2000 – 2002 Founder and acting partner of zeb/sales.consult GmbH
- 1989 – 2000 MLP Finanzdienstleistungs AG

Dr. Ralf Friedrichs
- Since 2005 Member of the Management Board of HCI Capital AG
- 2003 – 2004 Managing Director, HCI Holding GmbH
- 1995 – 2003 Positions with various audit and accounting firms
- 1999 Successfully passed tax consultant exam

Dr. Rolando Gennari
- Since 2005 Member of the Management Board of HCI Capital AG
- 2000 – 2004 Board member, Bankhaus Hesse Newman & Co.
- 1991 – 2000 Executive positions with Bankhaus Hesse Newman & Co.
- 1987 – 1991 Employed with Banca Nazionale del Lavoro SpA

with HCI being in charge of acquisition, optimization and management of the properties. This pattern, which involves using the market experience and competence gained in designing and developing new products for custom-tailored services in investments geared to institutional investors, is one HCI wishes to amplify and transfer to other areas of business during the next few years.

Another far-reaching decision during the 2006 financial year was the acquisition of a strategic 25 % share in the financial-services group Aragon AG. This cooperation specifically aims at reinforcing HCI's plans for developing certificates and structured products, for which Aragon offers an ideal technical platform and, in addition, primarily establishes HCI in the independent sales partner segment, which generated roughly 40 % of HCI product sales during 2006. This sales channel is currently undergoing major restructuring; HCI wishes to use this transitional phase to its advantage.

The creation of the independent executive division Sales and Marketing as of January 1, 2007 underscores HCI's commitment to marketing. By consolidating all marketing functions under one roof, HCI aims at strengthening its position in this area and generating a steadily growing and diversified marketing performance throughout all sales channels.

The HCI Group revenues dropped slightly by 3.1 % against 2005, totalling EUR 145.6 million in 2006. Due to market circumstances and a special item in the 2005 financial year, the revenue in the ship fund segment generated by the design and marketing of product concepts dropped by 15.1% to EUR 101.3 million, whereas all other segments increased significantly. Revenues generated by account management rose by 8.1 % to a total of EUR 22.7 million. Hence, the percentage of recurring revenues with reference to total corporate proceeds reached 15.6 %. Other income from the sale or chartering of ships supported the consolidated annual net profit to rise by EUR 1.7 million to a total of EUR 39.5 million for the 2006 financial year. Based on these figures, HCI will propose a dividend distribution equal to that of the previous year at the upcoming Annual General Meeting. The 85.1 % payout ratio stresses the significance HCI places in the interests of its corporate shareholders.

Following the company's IPO in the autumn of 2005, several transactions involving blocks of shares altered HCI Capital AG's shareholder structure during the first few weeks of 2007. The senior shareholder HCI Sicar A.G. withdrew from the body of shareholders, three long-term-oriented financial investors acquired considerable shares in the Group's equity capital. HCI welcomes the new shareholder structure, particularly as it lays the cornerstone for stable conditions and further company development.

The competence, commitment and creativity of HCI employees constitute the foundation for the Group's success and represent its most valuable resources. HCI is proud of the performance attained during the 2006 financial year and expresses its sincere thanks to the entire HCI team.

HCI also sees the need for the business community to commit itself to social issues and has been fostering youth, educational and cultural projects for years, receiving various awards for its contribution. Social commitment and the creation of a positive social environment are top-priority issues at HCI.

To HCI shareholders and business associates alike we wish to say: The future has only just begun. En route from an issuing house to becoming a system provider of financial products and services it is our aim to create lasting values based on the superior quality of our corporate activities. HCI expresses its sincere thanks for the trust you have placed in our work and looks forward to the successful continuation of our partnership in the coming years.

Hamburg, March 2007

Harald Christ
Chairman of the
Management Board

Wolfgang Essing
Member
of the Board

Dr. Ralf Friedrichs
Member
of the Board

Dr. Rolando Gennari
Member
of the Board

Broadening the business foundation.

For over 20 years HCI has been designing and selling top-quality investment products featuring attractive risk-return profiles. By broadening this core competence of financial engineering we are creating a financial-services system house.

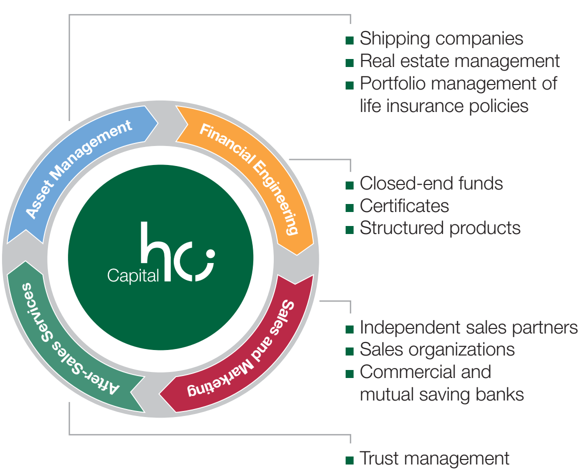
The dandelion is a pioneer species native to many countries all over the world. The flower matures into a globe of fine filaments. Dandelion seeds, hanging from "parachutes" are dispersed by the wind, travelling as far as 10 kilometers before settling on the ground.

Strategic Alignment.

From issuing house to financial products and services system provider – sustained growth based on diversified structures.

For over 20 years, the HCI Group has been a provider of top-quality financial products and services in a business environment marked by constant change. HCI recognizes and seizes the myriad market opportunities resulting from these changes, harnessing them for company and client benefit alike. The HCI Group value chain is made up of the divisions Financial Engineering, Sales and Marketing, After-Sales Services and Asset Management. The Financial Engineering Division designs and develops attractive, customized financial instruments in the closed-end funds and structured products segment which are both flexible and highly innovative. The Sales and Marketing Division acts as an interface between sales partners and investors. After-Sales Services attends to investors' market- and fund-related questions and manages accounts. Asset Management performs supplementary services in portfolio management and administration, as well as the operation of investment objects. These four elements dovetail, thus enhancing one another to create a diversified business model, the result being sustained and profitable growth, that is structured growth. Products and services are related in such a manner as to generate system solutions which provide comprehensive coverage of the needs and requirements of sales partners, as well as private and institutional investors. As the HCI Group's transformation to a system provider progresses, it gradually enlarges the percentage of recurring revenues with reference to total corporate proceeds, thus ensuring a steady revenue stream for the HCI Group.

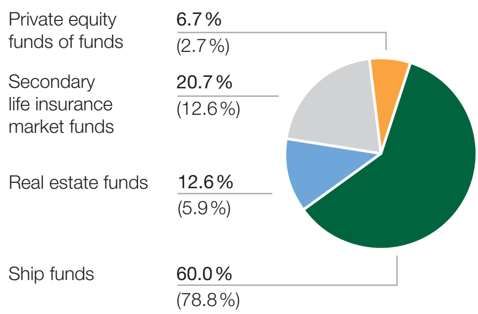
The HCI business model



Multi-dimensional diversification

Since its founding the HCI Group has continuously developed and expanded business activities. HCI will continue to pursue this strategy of growth and diversification in the future, too. By steadily broadening the range of products and services it offers, HCI is building the foundation necessary for opening up new target groups and developing new sales markets. As an initiator of closed-end funds, HCI diversifies both the investment products as well as the fund structures in its portfolio. Measured by the distribution of equity capital placement in the various target markets, HCI was never as widely positioned as it is today: in 2006, just 60 % of the total equity capital was placed in HCI ship funds (as opposed to 79 % in 2005), while 40 % was paid into real estate funds, secondary life insurance market funds, and private equity funds of funds. Two fund structures in particular are gaining ground among investors, the fund of funds, as it offers a wide distribution of risk, and the opportunity fund, as appreciation in value is based on the flexible management of asset portfolios. In the design and development of fund concepts, the HCI Group will continue to prove its innovative strength.

Placement of equity capital 2006 by market segment



2005 percentage figures in parentheses

In addition to the market for closed-end funds, HCI foresees major growth potential in the market for certificates and structured products. In late 2006, the HCI Group designed a certificate representing the developments in the British and German secondary life insurance markets. In 2007, HCI plans to press ahead in developing the dynamic, expanding market for certificates whereby HCI's joint venture with Aragon AG (purchase of a strategic share by HCI in December 2006) will play a major role. In its cooperation with this financial-services provider, however, considerable focus will be placed on strengthening sales and marketing: one of Aragon AG's associated companies is a major German brokerage pool. In marketing its products and services the HCI Group relies on the entire range of various sales channels, i.e. independent sales partners, sales organizations, commercial and mutual savings banks. Further growth measures include coverage and development of institutional investors, a high-potential target group, and systematic expansion of select foreign markets.

Quality creates value

The HCI Group's business activities must stand up to high standards. Quality creates value for clients, partners in sales and marketing, and for shareholders. True to hanseatic tradition, HCI stresses the middle- and long-term success of all its participants, without neglecting new opportunities which may open up on short notice. For example, the quality of an investment in a HCI ship fund depends on prime access to procurement markets, the overall concept of contracting newbuildings while ensuring long-term charter contracts for current ships, the realistic calculation of operating costs, high technical operating standards, and, when the investment object is sold, an attractive price. In diversifying its business activities, HCI applies the same high quality standards and overall concept solutions to each new activity, the result being lasting profitable growth.

Financial Engineering.

Recognizing market opportunities, translating ideas into products and services, creating value.

Flexibility and innovative strength in financial engineering are essential to the corporate success of the HCI Group. The quality of the products and services designed and developed by HCI is not the only crucial factor for short-term success in the sales market. Financial engineering develops new product areas, provides impetus for enhancing the company's value chain, and is the key to entering new target group segments. Indeed, HCI has been proving its high competence in developing custom-tailored and profitable investment products in the market for closed-end funds and structured products since 1985. Financial engineering has been decisive in the company's trendsetting transformation from an issuing house to a system provider of financial products and services.

Flexibility is the key

A large number of factors influence the design and implementation of up-market financial products and services, ranging from the needs and requirements of the end client or sales partner to the current condition of procurement markets for investment products, that is not just long-term trends but short-term opportunity openings as well. The success of financial engineering at HCI is based on the timely recognition of sustained structural changes and putting such changes to profitable use while simultaneously making use of short-term opportunities which, for instance, occur when financial markets are volatile.

Financial engineering develops new product areas. It provides impetus for enhancing the company's value chain and is the key to entering new target group segments.

Satisfying the needs of private and institutional investors is the dominating factor in designing and developing products and services. Consequently, in developing new products, HCI was among the first to make allowance for the private investor's partial loss of tax benefits in investment models by launching investment offers focusing on return on investment. HCI also complies with the increased demand for investment security among a wide group of investors by issuing funds of funds whose multistage investment process guarantee a broad distribution of risk. Greater flexibility in product design, for example, by offering shorter terms and variable one-time payments, also accommodates the individual needs of clients.

The HCI Group's strategic policy focuses on developing new client groups and sales markets. Financial engineering has the task of bringing attractive products and services to market that correspond to the specific requirements of HCI's target groups. In launching asset creation products HCI targets young, high-potential target groups, for example, who on the basis of monthly payments over a prolonged period of time accumulate a well-diversified investment portfolio. HCI places its competence and experience in the real estate sector at the disposal of institutional investors, thereby enabling them to enter the European market. Financial engineering makes the necessary adjustments to established product concepts in Germany so that they comply to the requirements of foreign sales markets.

Keeping a finger on procurement markets
One of the fundamental pillars of the HCI Group's business model is its ability to correctly assess changes and cycles in the procurement markets. HCI has a great deal of experience when it comes to purchasing ships, real estate, prematurely cancelled insurance policies and other asset classes, thereby often providing its products with a competitive advantage. In-house expertise is complemented by an international network of reputed partners. The company's long-standing and close relations to a large number of medium-sized shipping companies have played a crucial role in HCI's access to procurement markets involving the ship market. In the real estate sector, rising prices for top properties have made it difficult to generate acceptable returns for years. Here, financial engineering has been instrumental in setting up an opportunity fund, a joint venture between HCI and the U.S.-based Townsend Group. The source of this fund's appreciation potential is the quick development of real estate in the United States. Currently, the tough market situation in the U.S. secondary life insurance market has caused HCI to transfer investment focus to the British and German markets, where there is still considerable room for growth.

Sustained level of high innovative strength across the board
A number of the HCI Group's more recent strategic decisions have a direct impact on the Financial Engineering Division, in some cases even boosting its activities. HCI Capital AG's going public had a strong and lasting influence on the company's financial strength. The improved equity capital resources put HCI in a position to negotiate with international partners on their level, to implement joint projects, pre-finance investment projects, thus enlarging HCI's margin for product development.

The acquisition of a significant share in the financial-services group Aragon AG in late 2006 and, with it, a platform for implementing innovative product ideas developed by the financial engineering division – specifically structured products and certificates –, infused HCI with an additional boost in sales and marketing. Structured products and certificates may be tailored to the specific, individual needs of sales partners or institutional investors, easily duplicated and allow for combining various elements and targets. For example, financial engineering is working on developing concepts for structured products which guarantee preservation of the investor's capital placement. Innovations throughout all segments of closed-end funds, in certificates and structured products, and in services, will make 2007 the “year of the product” for HCI.

Sales and Marketing.

Sizable investments in sales and marketing open up new perspectives.

As an integral part of the HCI Group value chain, Sales and Marketing profits from the high product quality and availability generated by Financial Engineering as well as from the extensive range of services provided by After-Sales Services. Furthermore, as an interface to the market it assimilates the needs and requirements of both sales partners and clients, forwarding crucially important information to other divisions immediately involved. A strong sales and marketing division and a large, tightly connected sales network increase sales opportunities and, hence, corporate success. In 2006, HCI undertook several measures to further expand this division and will continue to intensify them during the course of 2007.

Changing sales markets

Traditionally, the German HCI sales and marketing division has always worked well with independent sales partners, most of whom primarily work as one-man consultants or in brokerage firms. This sales channel, counting more than 1,000 active partners, accounted for 40.3 % of HCI product sales for the period under review. Due to a tightening of the regulatory and technical requirements regarding to a large extent the implication of EU regulations on a national level, this sales channel is presently undergoing major changes. Independent financial consultants are joining big organizations in growing numbers in order to carry out the necessary administrative work while complying with federal supervisory regulations. Here is where HCI sees its chance of launching custom-tailored products and positioning itself as a preferred partner for independent sales partners by offering a broad range of sales support services.

In 2006, financial-services providers accounted for 17.8 % of all HCI product sales. Even this area is affected by tighter legal regulations, e.g. the EU broker directive, thus leading to a greater concentration of sales partners. The availability of exclusive, large-volume products is crucial for expanding HCI product sales by means of sales organizations. The HCI Group is well prepared for performance.

In the future, banks will gain in sales importance, in fact, in 2006, this sales channel already accounted for 41.9 % of HCI product sales. HCI aims at responding more distinctly to the specific requirements of the three banking categories – private banks, savings and state banks, and *Volks- and Raiffeisenbanken* (cooperative banks in Germany and Austria).

Sales and marketing will also focus on developing new international markets. HCI successfully entered the Austrian market in 2004, with Switzerland and Hungary following in 2006. HCI aims at developing product sales significantly in these three markets.

Massive strengthening of sales and marketing

The marketing success of financial products and services depends to a large extent on knowledgeable individuals, their commitment and creativity. In 2006, the HCI Group boosted the number of employees in this division considerably, both sales as well as marketing services staff. The staff serving savings and state banks was strengthened, a separate unit was set up focusing on business with cooperative banks, and international sales was expanded. Moreover, HCI upped the number of staff employees providing support services to independent sales partners. HCI Capital AG accounted for the crucial importance of sales and marketing by creating an independent executive division, Sales and Marketing, effective from January 1, 2007.

In 2007, HCI plans to broaden sales and marketing activities with existing partners while also developing new sales markets.

The HCI Group's purchase of a 25 %-plus-one share in the financial-services provider Aragon AG in late 2006 took the expansion of its sales and marketing division yet one step further. One of the Group's major associated companies is Jung, DMS & Cie., a brokerage pool comprising over 8,000 broker firms and individual consultants managing close to 500,000 private clients. In addition to providing a greater foothold in the independent sales partner segment, cooperation with Aragon AG offers HCI major potential in developing and marketing structured products and certificates.

New targets, new opportunities

With a record-high placement volume of EUR 264.8 million in the last quarter of 2006, the HCI Group's sales and marketing division gave strong proof of its performance. Sales partners are well aware of this commitment, too, as shown by the Audience Award presented to HCI for its exceptional sales team and strong service division during the *funds and finance* trade fair in Cologne in the autumn of 2006. Achievements of this kind acknowledge achievement while providing motivation. HCI intends to strengthen sales and marketing activities with its team of service partners while also developing new sales markets.

In 2007, HCI plans on expanding its after-sales support for independent sales partners while simultaneously developing new markets. HCI has also strengthened its sales and marketing staff in the banking business segment with the objective of implementing one-time, high-volume projects as well as generating steady-growth, diversified projects involving as large a number of individual banks as possible. Further, the HCI Group will focus on foreign markets which play a major role in the long term, continuing the development and growth course already introduced. The HCI Group foresees great business development potential among institutional investors and will be focusing on this area during the next few years. Specific projects are scheduled for development in 2007.

After-Sales Service and Asset Management.

Custom-tailored services enhance product range and secure income.

After-Sales Services and Asset Management fulfill an essential function in the range of HCI product offerings and open up new opportunities for increasing the HCI Group's value chain. The three subsidiaries in the area of After-Sales Services, HCI Hanseatische Schiffstreuhand GmbH, HCI Hanseatische Immobilien Treuhand GmbH and HCI Hanseatische Beteiligungstreuhand GmbH together manage almost 88,000 investors from the planning phase through dissolution of the fund and sale of the investment objects therein. The account volume managed totalled EUR 4.0 billion by the end of 2006. Controlling and after-sales services of the three management companies comprised 436 funds. Given the volume increase of equity capital in managed accounts, revenues in this division rose by 8.1 % from EUR 21.0 million in 2005 to EUR 22.7 million in 2006.

Setting standards with quality service

The quality of an investment account is not measured in terms of after-tax yield alone, but also by the standard of its management which investors learn by asking business- and fund-related questions. This is where the HCI Group sets standards. Based either on the articles of association of the investment fund companies or the service and account management contracts, investors receive extensive support right from the start. Depending on a fund's maturity term, after-sales services issues or monitors each fund company's financial statement, distributes dividends and monitors tax returns filed by the fund companies as well as statements issued to the investors for tax purposes. Finally, this division is also involved in the divestiture of the investments and is in charge of phasing out and liquidating the fund under corporate law aspects. In 2006, clients were particularly interested in advice on registering personally in the commercial register, triggered by legal amendments to the inheritance tax. Another after-sales service involves current reports on the business development of a fund based on annual and semi-annual reports as well as on the balance of current accounts. Further, account managers are always available to answer the questions of individual clients.

After-Sales Services:

- *87,700 investors*
- *EUR 4.0 billion trust volume*
- *436 funds*
- *EUR 22.7 million earnings*

Apart from the services rendered by this division for the investor, the after-sales services employees act as trust officers, managing certain aspects of the fund accounts, and are valuable contacts in supporting the sales activities of independent financial consultants and sales organizations.

Systematic development of asset management

On a systematic basis, the HCI Group has been developing the Asset Management division for years, building a broader basis for product concepts and procurement in the Financial Engineering Division for one while extending the group's value chain on the other. One of the first steps in this direction was the formation of HAMMONIA Reederei GmbH & Co. KG in 2003, a joint venture between HCI and Peter Döhle Schiffahrts-KG, specialized in the operation and management of container ships and bulk carriers. In the same year, the real estate management company HCI Vastgoed Management B.V. was established in the Netherlands, in order to be present in this attractive market and offer professional property management. Also in 2003, HCI set up the HSC Hanseatische Management GmbH, which, among other things, deals with the portfolio management of life insurance policies. In 2005, the joint venture HELLESPONT HAMMONIA GmbH & Co. KG was formed, focusing on the charter operation of tanker vessels. And in 2006, finally, HCI entered into a joint venture with Behringer Harvard, a U.S. real estate investor based in Dallas, Texas. Revenue for HCI will be generated by the acquisition, optimization and ongoing administrative management of the properties within this cooperation. And the revenue generated by these asset management activities will flow into the HCI Group's income statement on several levels: earnings from real estate management flow into Revenue Earnings, the share of results from the joint venture companies in the ship segment are disclosed separately, whereas the earnings generated by the portfolio management of life insurance polices are entered under Other Financial Results.

The revenue generated by asset management flows into the income statement on several levels.

Services generate additional, recurring revenues

One of the HCI Group's primary goals is to strengthen After-Sales Services and expand the range of services offered by Asset Management, thus generating additional earnings on the basis of its broad, existing competence. By linking products and services, system solutions may be created featuring extensive coverage of sales partners', and private and institutional investors' requirements while securing a competitive edge in sales markets. Moreover, earnings from service activities depend to a large extent on medium- and long-term contracts and are generally calculated as a percentage of a fixed or often growing reference value, as, for example, the trust capital. As recurring revenues they act as a stabilizing element in the HCI Group's income statement.

A wide diversity of opportunities for our clients.

Supplementing the range of HCI products with related services creates valuable perspectives for clients and partners alike. Together, we use the potential of ideas and market opportunities.

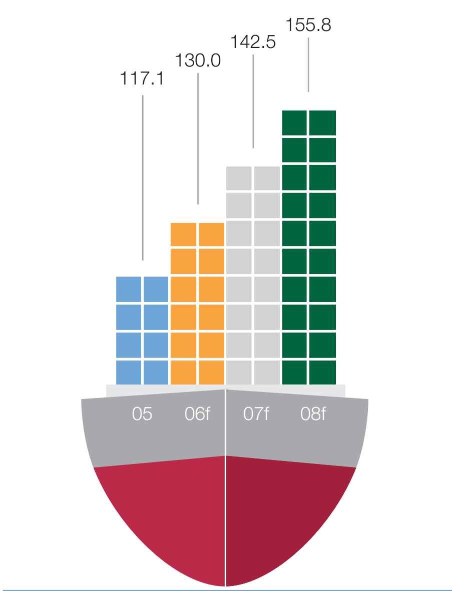
Trained tree-climbers pick unripe pinecones on conifers when they are still green. Certification ensures that the highest quality seeds are used for reforestation. Certified spruce seeds may cost up to EUR 400 per kilogram, an amount capable of producing some 50,000 seedlings.

Ship Funds – Product Quality Determines Market Success.

Ship investments have been a primary product market for the HCI Group for over 20 years with 381 closed-end funds and an equity capital totalling over EUR 3.43 billion placed.

The HCI fleet consists of ships from virtually every market segment, i.e. container vessels, tankers and bulk carriers as well as special vessels. As a result of a broad network of long-standing partnerships to a number of medium-sized shipping companies HCI has excellent access to procurement markets. Together with Peter Döhle Schiffahrts-KG, HCI founded HAMMONIA Reederei GmbH & Co. KG as a joint venture as early as 2003 for the management of ships. The year 2005 witnessed the start-up of HELLESPONT HAMMONIA GmbH & Co. KG, a joint venture designed to expand product availability in the tanker segment. Based on its broad market competence the HCI Group is in a position to offer investors a number of realistically calculated high-yield ship investments with the added feature of the flat tax charge on tonnage tax profits. Another very important factor in determining the return on a ship investment is the sale of the vessel. Here, the HCI Group's track record is unmatched. The number of ships sold by year-end 2006 totalled 132.

Global container shipping 2005–2008 in TEU million[1)]



[1)] Standard 20-ft. container
f = forecast
Source: *The Drewry Container Market Quarterly*, December 2006

The shipping market – long-term growth trend unaffected

The driving force behind the development of the shipping market is the global economy. With a growth rate of approximately 5.1 % in 2006 and an estimated 4.9 % for the current year, the global economy continues to move on a high level. China and India both record high growth rates of 10 % and approximately 8 % respectively. Their steady demand for natural resources and energy are supplied to a great extent by means of ocean transport. This alone has led to a substantial expansion in tanker and bulk shipping compounded by the effects of globalization. Whereas the U.S. and European economies increasingly focus on the provision of services, the production of manufactured and consumer goods is shifting more and more to the emerging markets of Asia, a particularly profitable development for the container shipping industry. Global container traffic rose by an estimated 11.0 % in 2006; the growth rate for 2007 is estimated at 9.6 %, i.e. a steady high growth rate.

The positive business outlook led to the contracting of a large number of new vessels, particularly large container ships. The above-average increase in new tonnage caused a drop in container and tanker charter rates during 2006, however, the price of ships

"In the interest of HCI investors we tend to calculate our products on the safe side. In so doing, the investors benefit and so does HCI's long-term business development."

Christian Freiherr von Oldershausen

Managing Director, HCI Hanseatische Capitalberatungsgesellschaft mbH (since 2006)

Excerpt from resumé:

Since 2004
with HCI Group, initially as Managing Director of HCI Hanseatische Schiffsconsult GmbH

1990 – 2004
Ferrostaal AG, last position Managing Director Commercial Shipbuilding

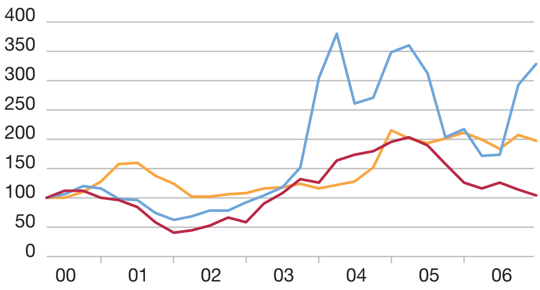
1984 – 1990
German Navy, last grade Lieutenant Commander

remained at a very high level, hence reflecting the sustained bright prospects for development of the shipping market. Experts expect a slight drop in charter rates at high asset prices for 2007.

HCI ship funds – market position asserted

Influenced by the development in the international shipping market the volume of placed equity capital for ship investments in Germany in 2006 dropped by approximately 14 % while the HCI Group sales in this market dropped by 24.8 % to EUR 384.0 million. Total placement volume in 2005 was influenced by a special fund. Exclusion of this special item brings the 2006 financial year's sales almost up to par with ship fund sales for the 2005 financial year. By and large, in 2006, HCI profited from a product pipeline consisting of relatively low ship prices and cautiously calculated investment products.

Development of charter rates in different shipping markets 2000-2006 (indexed)



Source: Clarkson SIN Database

During 2006, the HCI Group placed a range of 19 ship funds varying in design and central focus, sold by independent sales partners or set up as exclusive funds and sold by specific sales partners. A good example is HCI Shipping Select XVII. This fund was offered to potential investors through savings banks and by independent sales partners. As a fund of funds it invests in a portfolio of five ships which focus on shipping natural resources. As an exclusive fund for a select group of sales partners, the HCI Shipping Select XXI fund of funds focuses on container shipping. This fund invests in four smaller- and medium-sized container vessels, so-called feeders, which service large container ships. There is great demand in this market as the need for feeders grows with every new large container ship put into service. Revenue from charter operation of the ships within the fund is managed in a pool, which not only stabilizes the revenue but also reduces the influence of possible market fluctuation.

Building a basis for future growth

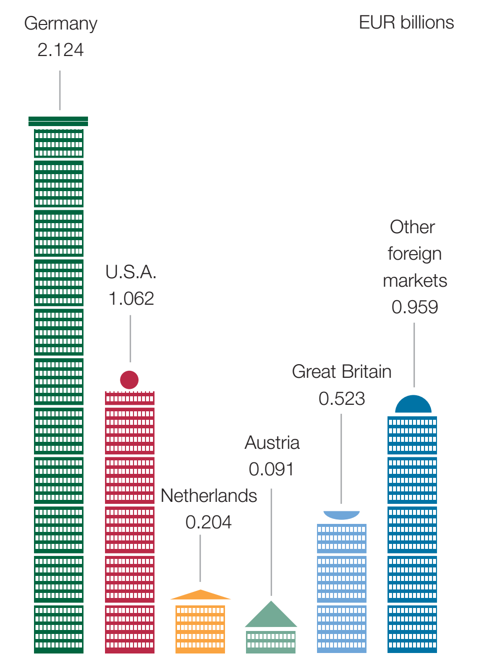
HCI Group market experts are continually watching the development of the various shipping markets, checking and evaluating the cost and financial feasibility of individual projects and securing the availability of ships. In this context a truly outstanding transaction and the first for a German issuing house was the partial financing of 14 ships by the Export-Import Bank of China (CEXIM), signed in 2006, thereby securing long-term stable and favorable conditions. The total project volume amounts to USD 620 million, includes eight container ships and six tankers, all contracted out to Chinese shipyards between 2004 and 2006. The charter operation of the container ships has already been guaranteed by a revenue pool and a Japanese shipping company has already signed a long-term charter for the tankers. This overall concept, which comprises the chartering of ships at the time of their purchase, emphasizes the conservative approach employed by the HCI Group in the interest of its investors.

Real Estate Funds – On the Way to Becoming a Full-Service Real Estate Company.

The HCI Group has been in the real estate sector since 1997, with activities focused on three markets, the Netherlands, Austria and the United States.

By the end of 2006, HCI had placed a total of 36 real estate funds. The portfolio included 76 office and commercial properties and accounted for a total investment volume of EUR 1.07 billion. In addition to the traditional closed-end funds, in recent years, a growing number of innovative fund concepts came to the fore, the first being the HCI Developmentsfonds I in 2003, investing in a portfolio of real estate project developments in major German cities, thereby providing private investors the opportunity to participate in the most profitable share of a real estate investment's value chain. The next milestone of this type was the opportunity funds HCI Real Estate Growth I USA, a fund of funds investing in seven target funds with varying management approaches, launched in 2006. For 2007, a novel mezzanine fund is in the offing. Simultaneously, the HCI Group is expanding its service portfolio in the real estate segment, which currently ranges from property management to structuring investment portfolios for institutional investors.

Closed-end real estate funds – equity capital placed by target markets 2006



Total: EUR 4.963 billion
Source: Stephan Loipfinger, *fondstelegramm*, February 1, 2007.

Market conditions call for new concepts
The international real estate markets which are of interest to closed-end funds have been and continue to be characterized by a high and, in part, increasing demand for first-class core investment objects. In 2006, a number of closed-end funds divested properties and entire portfolios prematurely in order to cash in on considerable appreciation in value. HCI also sold off a number of properties in the Netherlands and dissolved the funds Holland I through VI at the end of 2006/beginning of 2007. Nevertheless, HCI will remain true to the classic closed-end real estate fund approach of focusing on top-rate real estate. This requires in-depth knowledge of the target markets, either by being well represented in the market where HCI collaborates with a staff of company sales partners in real estate management as in the case of HCI Vastgoed Management B.V. or by cooperating closely with noted and strong partners as is successfully done in the United States.

A new issue in joint partnership with the largest U.S. real estate investment consultant, Townsend Group, was launched in 2006. HCI also launched the new fund of funds HCI Real Estate Growth I USA in the latter half of

"Intelligent, innovative concepts and the increased networking of products and services are the two factors propelling our business forward in the real estate segment."

Oliver Georg

Managing Director, HCI Immobilien Consult GmbH (since 2001)

Excerpt from resumé:

Since 1999
with HCI Group among others, as Managing Director of HCI Hanseatische Immobilien Treuhand GmbH

1983–1998
worked for a number of real estate companies in the U.S.A. and Germany as manager/managing director/partner

2006, which invested in seven real estate opportunity funds with a total placement volume of USD 30 billion. These opportunity funds focus on real estate investments in the U.S. market with short-term potential for value appreciation by developing the properties, i.e. carrying out necessary remodelling and renovation work, then adjusting the lease structure to prevailing market conditions. The seven target funds differ in investment strategy in terms of type of real estate, the real estate market itself and management approach, thereby ensuring a high risk distribution.

Development of institutional investor market

HCI institutional funds are a product category targeted to international institutional investors whereby the latter profit from the experience and real estate knowledge of the HCI Group, thus easing their entrance into the German market. By concluding a joint venture with U.S. real estate investor partner and Dallas-based Behringer Harvard, the HCI Group performed a quantum leap in developing business activities with institutional investors in 2006. An accumulated sum of up to EUR one billion are slated for investment in real estate, primarily in Western European countries, during the next three years. HCI is in charge of purchasing, optimization and property management, thus opening up new sources of additional, steady revenue.

Since the HCI Group operates a subsidiary in Holland, knowledge of and experience in this attractive market are existent. Together with Behringer Harvard, HCI purchased the UPC Building in Amsterdam/Schiphol-Rijk for close to EUR 10.7 million in spring of 2006. the HCI Group was put in charge of overall project coordination (i.e. due diligence, purchase and financing) as well as management and administration. In November 2006, a portfolio comprising seven commercial properties was launched, also in the Netherlands, with a total investment volume of EUR 24 million.

Sights set on expansion

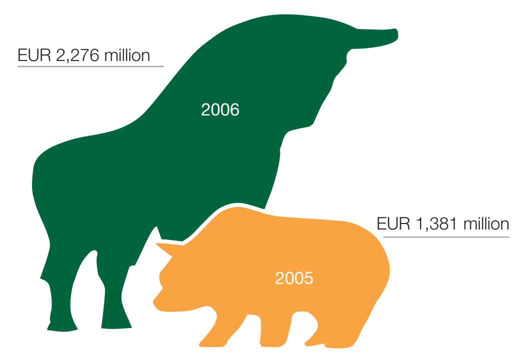
The HCI Group's real estate activities were crowned with success during 2006. The sale of closed-end real estate funds among private investors in Europe rose by EUR 42.5 million to EUR 80.5 million, a 112 % increase. Focus was also placed on expanding services in the real estate segment. HCI plans to maintain this momentum during 2007, designing and launching more closed-end public funds in real estate in the core markets U.S.A., the Netherlands, Austria and Germany. Exclusive products (private placements) and fundamentally innovative products are also on the planning agenda. One example of the latter is the HCI Real Estate Finance Fund, to be launched in 2007. This fund is a first as it will provide German investors the opportunity to act as loan creditors for structured, high-interest commercial real estate financing in the U.S. market. Growth fund products will be extended by the launch of HCI Real Estate Growth II Global, an opportunity fund for investments on an international scale.

Private Equity Funds of Funds – Excellence in Corporate Capital Financing Generated by Time-Tested Fund of Funds Structures.

Every company requires capital resources to develop and grow. In addition to credit institutions and capital markets private equity and venture capital have become a third source of corporate financing.

A professional investor provides equity capital, receiving stock in the company in return. A venture capitalist is a professional investor who invests in the high-risk, start-up phase of a young company whereas private equity denotes the provision of equity capital by a professional investor during the initial growth phase and up until it goes public, or possibly even longer. In addition to increasing its equity capital base, the company also profits from the corporate investor's expertise while having sustained access to the capital without the necessity of providing securities or paying interest on the borrowed capital. Conversely, investors frequently sell their shares in the company in the mid-term to cash in on the profit.

Equity capital placement in private equity public funds in Germany



Source: Stephan Loipfinger, *fondstelegramm*, February 1, 2007.

Opportune environment

Private equity is not only used increasingly for capital financing in an environment of economic development, it is also commensurate with a basic economic need. Tighter supervisory regulations for credit allocation by banks across national borders (Basel II), make credit financing expensive for young companies in need of borrowed capital. With the growing importance of private retirement provisions, institutional investors are finding it increasingly necessary to seek out supplementary high-yield asset categories, such as private equity, as a means of investing the rising swell of monies. The currently favorable economic climate has increased overall corporate earnings as well. These positive factors are reflected by the rising stock market, which, in turn, spurs the divestiture of equity investment companies. The rise of IPOs in Germany, as well as and particularly of companies from the investment portfolios of private equity investors, underscores this trend.

Funds of funds cushion risk

As a rule of thumb, private investors are unable to invest directly in private equity funds for the simple reason that the investment volume required is too high. HCI, by contrast, bundles investment capital, acting then as a single, major investor. Together with highly experienced partners who work on an international scale, HCI experts carefully select target funds on the basis of very strict quality criteria, which then invest

"The bullish market favors the profitable sale of interest shares in private equity target fund portfolios, which, in turn, is a direct profit for HCI funds of funds."

Christian Kuppig

Managing Director, HCI Hanseatische Capitalberatungsgesellschaft mbH (since 2004)

Excerpt from resumé:

Since 1998
with HCI Group
among others, in Sales and Marketing

1990 – 1998
Holsten Brauerei AG,
last position as District Sales Manager

in a large number of companies. For the investor, this multistage procedure ensures a broad and in many respects diversified portfolio (i.e. differing industrial sectors or businesses, regional origin, size and stage of development) of indirect corporate investments. HCI places 60 % of its investments in the private equity sector and about 40 % is invested in the venture capital segment.

Overview of HCI private equity funds of funds

As at December 2006	Closing date	Volume of fund	Number of target funds	Call for funds	Number of companies [1]	Dividends to date
HCI Private Equity I	12/2000	EUR 52 million	11	93 %	308	50 %
HCI Private Equity II	06/2002	EUR 25 million	11	89 %	241	45 %
HCI Private Equity III	03/2004	EUR 15 million	14	60 %	150	20 %
HCI Private Equity IV	09/2005	EUR 16 million	15	30 %	69	--
HCI Private Equity V	12/2006	EUR 50 million	13	25 %	64	--

[1] As per September 30, 2006.

Dynamic business development

Since 2000 and up through the end of 2006 the HCI Group has launched five private equity funds of funds in this market with a total placement volume of EUR 159 million in equity capital. As an example, the closed-end HCI Private Equity I fund of funds, launched in December 2000, holds indirect interests in over 300 companies and has already paid out dividends amounting to 50 % of the invested capital amount. Given the agreeable stock market climate, investors took an active interest in HCI private equity funds of funds during 2006. The volume of paid-in equity capital rose sharply by 150 % from EUR 17.3 million in 2005 to EUR 43.2 million.

As a result of the brisk funds inflow, the HCI private equity fund of funds V closed in December 2006. As early as January 2006, this fund of funds had already applied for four target funds of reputed financial investors, among them a share in Apax Europe VI, a fund launched by the British investment company Apax Partners. Apax Partners proceeded to take over the Tommy Hilfiger fashion group for approximately USD 1.6 billion in May 2006. This example is clear evidence of how HCI investors with comparatively small investments participate in transactions of international import and high value creation potential.

Outlook 2007

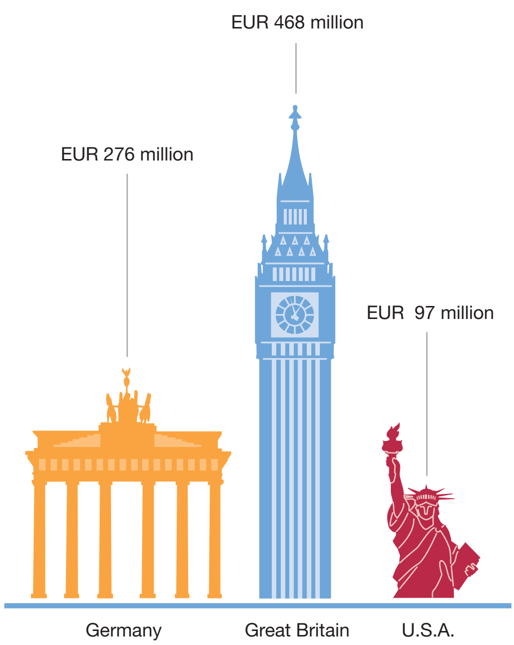
Given the economic, business and stock market forecast and positive business environment for the current year, the prospects for the development of the private equity market are good. HCI investors may participate in the recently issued HCI private equity fund of funds VI, which corresponds to the basic concept of its successful forerunner.

Secondary Life Insurance Market Funds – Market Access and Expertise Are Crucial for Portfolio Performance

HCI has been marketing investments in secondary life insurance market funds through its subsidiary HSC Hanseatische Sachwert Concept GmbH since 2003.

By investing in a fund, investors acquire a share in a company which buys life insurance polices cancelled prior to maturity in the secondary market, either retaining them until their due date or selling them at profit. Whereas in 2003 and 2004 the focus was on U.S. secondary life insurance market funds, late 2004 witnessed the launch of the first British secondary market for life insurance funds. In 2006, the first fund was issued which invested in the German secondary life insurance market, thus making the HSC the only supplier active in all three relevant markets. As one of the leading fund initiators in this market, HSC has launched a total of seven closed-end funds with a total placement volume of invested equity capital amounting to approximately EUR 420 million and more than EUR 550 million in policies belonging to over 170 different insurance companies since 2003.

Basic markets in the market for secondary life insurance funds 2006



Source: Stephan Loipfinger, *fondstelegramm,* February 1, 2007.

Diverse basic markets

Considerable differences, such as general state of the market, market structure, and conceptual design, characterize the secondary life insurance market. In the United States, the principal type of policy sold is term life insurance, which is held until it is needed. The market conditions for investing in the U.S. secondary life insurance market have changed for the worse since 2004. Whereas the supply of policies continues to increase greatly, an even faster growing demand has led to a tense market situation which will presumably relax somewhat during 2007.

By contrast, the British secondary life insurance market is dominated primarily by insurance polices used to create capital assets. British life insurance companies are noted for a more favorable cost structure and the insurance industry is, by comparison, subject to fewer constraints when it comes to investing, hence the high-yield prospects have stimulated the demand for British secondary life insurance policies. On the other hand, the leading British market makers are systematically promoting the equally large supply volume in the life insurance market. As a result, 2006 continued to be a buyer's market for British policies.

The German market for secondary life insurance policies has been developing since 1999 and generated a significant increase in trading volume during the past financial year. Added to a guaranteed minimum rate of return and comparatively restrictive

"The size of the German life insurance market on the one hand and the consistently high cancellation rate of so-called *Kapitallebensversicherung* policies (used as a source of creating capital assets) on the other, create an enormous potential for the secondary life insurance market for years to come."

Dr. Oliver Moosmayer

**Managing Director,
HCI Hanseatische Sachwert GmbH
(since 2003)**

Excerpt from resumé:
Since 2000
with HCI Group
Director Marketing/PR/
Business Development
1990 – 2000
Hamburger Sparkasse
worked in several branch
offices and divisions

investment regulations, German life insurance policies offer, among other things, a high degree of financial stability. The size of the German life insurance market in itself and the consistently high cancellation rate of so-called *Kapitallebensversicherungen* (endowment life insurance policies) leave plenty of room for further market exploitation in this market segment.

Outstanding business development in 2006

In 2006, the British secondary life insurance market was the driving growth force for business with a total of EUR 110 million in equity capital placed. In addition, the successful launch of HSC Optivita IV Deutschland was the first HSC fund to invest in the German secondary life insurance market. Similar to the British funds, the German product offers investors a cancellation right, should the unforeseen need or wish arise for the investor to discontinue the fund investment. Furthermore, the fund concept features a very low charge for related expenses. In the autumn of 2006, the second fund issue, HSC Optivita IX Deutschland, followed, enabling investors the possibility to invest in German life insurance policies. Equity capital totalling EUR 23 million was placed in the German secondary life insurance market segment during the 2006 financial year. Placement volume of equity capital in the overall secondary life insurance market segment totalled EUR 132.8 million for 2006, equalling 62 % growth against the previous year, thereby advancing this market segment to the second strongest pillar in the HCI Group.

Entrance into the market for certificates

Based on the Federal Financial Supervisory Authority (BaFin) granting the provision of financial services in the latter half of 2006, HSC began opening up the dynamic growth market for certificates. December 2006 saw the placement of HSC Optivita Europe LV-Index certificates, second-hand life insurance-based certificates, which provide investors the opportunity to invest in the British and German secondary life insurance market simultaneously. This investment product offers a number of advantages, among them easy tax filing, a short term of 10 years compared to closed-end funds, and the possibility to return the certificate to the issuer, in this case the Dresdner Bank AG, on a quarterly basis as of 2010. While the primary sales channel for this product are commercial and savings banks, as of autumn 2006 HCI's strategic cooperation with Aragon AG opens the door to selling comparable products through independent financial-services providers as of 2007.

Developing in-house and external expertise

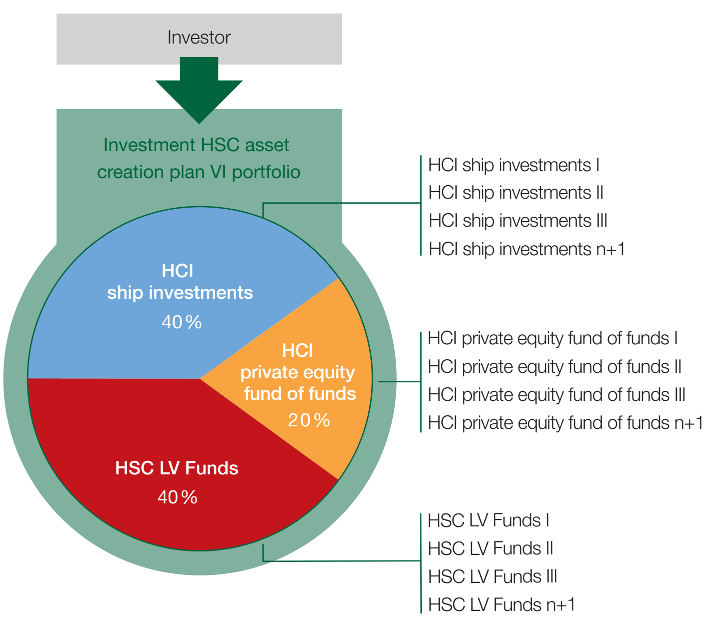
The considerable business development of the two business segments secondary life insurance market funds and certificates requires an increase in in-house expertise and the integration of additional strong outside partners. HSC already employs mathematicians for the purpose of defining purchase criteria, funds administration and controlling. HSC works together with Great Britain's largest policy provider, "absolute assigned policies Ltd." (aap) as well as with reputable actuaries. The European Policy Exchange Limited (EPEX) has been commissioned with purchasing policies in the German secondary market. Staff in the certificate division was also increased. The combined know-how of in-house and external experts is a guarantee for the quality of HSC products.

Asset Creation Plans – High Flexibility and Broad Risk Distribution Draw New Client Groups to Fund Investments.

In 2004, the HCI Group introduced asset creation plans, an innovative concept targeted to young, high-income investors who are just beginning to accumulate assets.

The fund of funds concepts designed and marketed by the HCI subsidiary HSC Hanseatische Sachwert Concept GmbH invest in a wide range of closed-end funds issued by the HCI Group, thus combining the various economic and tax advantages of each individual target fund. As the payment phase extends over a number of years the investments are distributed over a longer period of time and various market cycles, the result being a broadly diversified investment portfolio with an optimal distribution of risk and with little or no correlation to traditional investment forms such as stocks and bonds.

Structure of the HSC asset creation plan VI portfolio



Increased flexibility

The introduction of the HSC asset creation plan IV ships in 2006 marked a noted change towards greater flexibility in the concept of the fund. Whereas the first three asset creation plans focused on a payment period of eight years, the revised concept has reduced the pay-in period to five years with a one-time payment amounting to 20 % of the investment capital at the beginning. Moreover, investors have the opportunity to make special payments at the beginning or during the term of the fund without being charged extra setup fees. Low additional expenses on the fund of funds and subscription to the target fund without premium on capital make the acquisition of ship investments by means of special payments more reasonable than directly investing in ship funds.

Investment range enlarged

As the flexibility of the HSC asset plan IV ships was well-received in the market, HSC employed this novel concept for the HSC asset plan VI portfolio, which also features a broader range of investment possibilities for investors, including HCI Group ship funds, secondary life insurance market funds and private equity funds of funds, thus giving a new quality to the diversification of asset creation.

Increasing acceptance and market penetration

The concept of asset creation plans is based on making business investments which are linked to certain risks, however, offer very attractive returns. By virtue of their diversification and flexible design HSC asset creation plans are well suited to investor target groups with lower investment volume and lower inclination towards risk. To date, over 4,000 investors from Germany and Austria have participated in these fund issues. Within the spectrum of investors there is a predominance of young, high-income clients with a long-term investment horizon who are drawn to the asset creation plans. Asset creation plans are an ideal instrument for HCI to introduce this attractive and financially strong target group to the entire HCI Group product range. In addition to private investors, a growing number of companies are investing in asset creation plans, undoubtedly for the purpose of the company pension scheme.

Outlook 2007

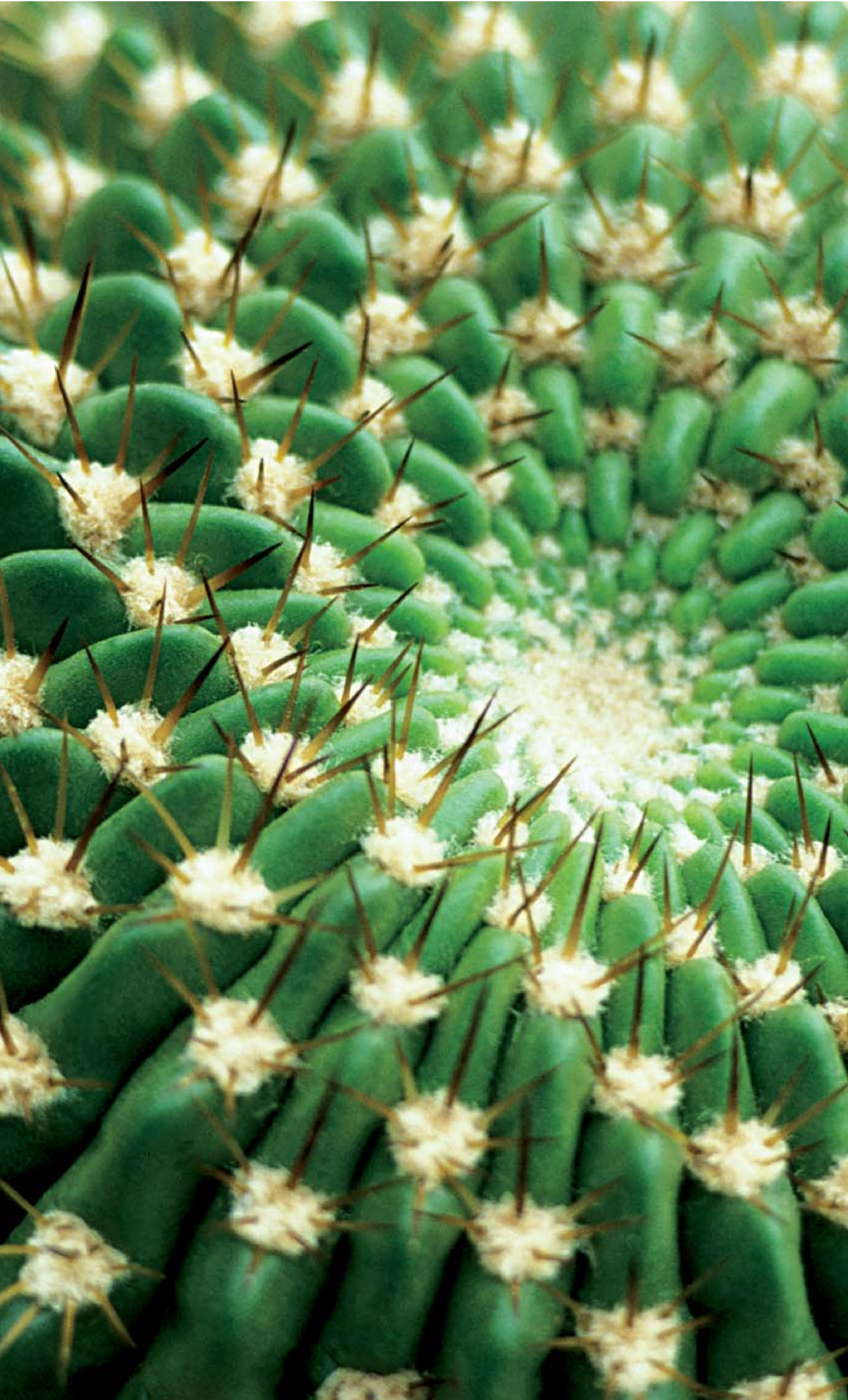
HSC currently has two asset creation plan products in the market: the HSC asset creation plan IV ships and HSC asset creation plan VI portfolio. The concept changes and considerable increase in flexibility provide a sound basis for good placement results in 2007.

Whereas initially HSC asset creation plans were primarily sold by independent sales partners, commercial and savings banks are increasingly selling this innovative instrument to their clients. The high risk distribution featured by this concept has contributed to its acceptance among sales partners. The HSC asset creation plan I ships, for example, has already invested in 48 different HCI Group ship funds although the plan's investment phase just started two years ago.

Recognizing values.

Shareholders appreciate HCI Capital AG stock because of its high dividend yield. Its principal value is based on company perspectives.

Cacti store water in times of plenty, a means of adapting for drought tolerance. Some species grow to be 15 meters tall, however, young plants grow no more than 10 centimeters.



HCI Stock and Investor Relations – An Intensive Dialogue with the Capital Market.

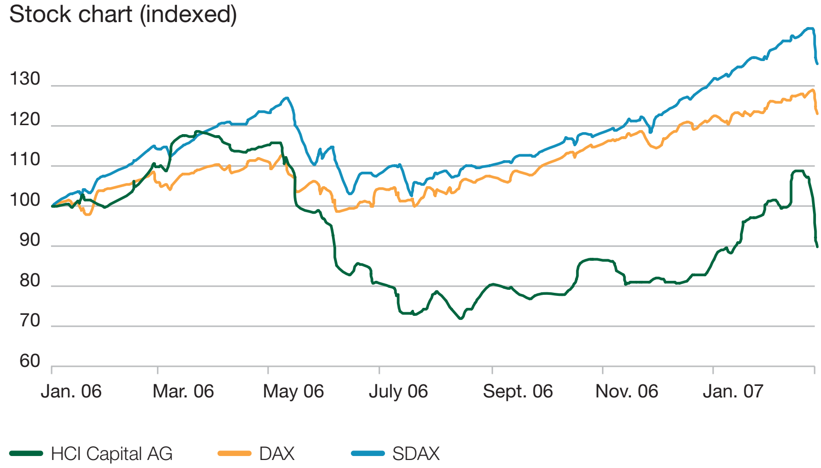
HCI stock bounced back at beginning of new year after developing below market in latter 2006.

Despite strong fluctuations the German stock market developed very positively on an overall basis over the course of 2006. The DAX, MDAX and SDAX closed with a plus of 22 %, 28 % and 30 % respectively for the period under review. The performance of HCI stock initially followed the market trend, closing at an all-time high of EUR 20.89 (XETRA) on March 20, 2006. During the second quarter, stock market trading slowed considerably across the board. By July 2006, the market rallied and trading continued to be strong up through the first weeks of 2007. Whereas HCI stock was not able to elude the market downswing in early summer of 2006, it recovered only gradually during the latter half of the same year, i.e. rising from an annual low of EUR 12.20 on July 14, 2006 to EUR 14.90 by year- end. Compared to HCI's stock market price of EUR 17.35 at the beginning of 2006, the price dropped by 14.1 % for the year under review.

Lagging stock price development

The principle causes for HCI stock's lagging performance during the latter half of the 2006 financial year were a decline in sales during the financial year and a reduction of equity capital placement in the ship fund segment whereby the operative results were stable. As is often the case, the financial community focused excessively on the close correlation between business development at HCI and business outlook for the ship market segment. Good news as to the group's business development and its strategic measures during the last quarter gave HCI stock new momentum at the end of 2006 and on into 2007, with the stock market price rising from EUR 14.95 on the first day of trading in the current year to a high of probably EUR 18.80, closing, however, on February 28, 2007 at EUR 15.68.

Stock chart (indexed)



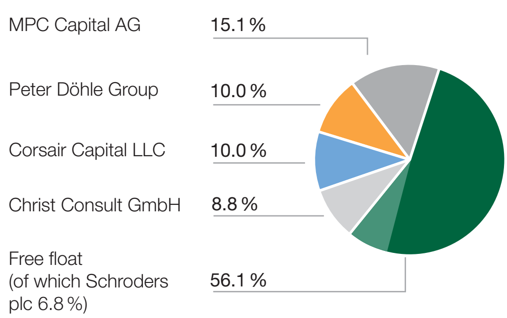
Admission to SDAX increases liquidity

Acceptance in the SDAX, effective mid-December 2005, increased trading volume and, hence, the liquidity of HCI stock. Whereas daily trading averaged at 25,000 shares in 2005 prior to HCI's acceptance in the SDAX, the daily trading volume increased to a daily average of 81,000 shares in 2006 with the majority of shares (89 %, or 72,000) traded electronically on the XETRA system and the remaining 11 % (9,000) traded on the floor.

Sustained high dividends

HCI Capital AG's corporate strategy focuses on benefiting shareholders with high dividend distribution as a way of participating in the company's annual returns. As in the previous year, the proposed dividend per share for the 2006 financial year is EUR 1.40, thus corresponding to a 85.1 % dividend on the distributable annual profit. Compared to the annual final quotation this amounts to a 9.4 % dividend yield and places HCI stock among the top German dividend-bearing securities.

Shareholder structure
(as per February 28, 2007, rounded off)



Changes in shareholder structure

There were no relevant changes in the shareholder structure during the period under review, however, effective as of January 17, 2007, HCI Sicar A.G. sold 29.5 % of its shares to MPC Capital AG. Then, as per February 1, 2007, the Hamburg-based Peter Döhle Group and the investment company Corsair Capital LLC acquired 10 % of HCI stock each off-exchange. In the context of this transaction MPC Capital AG reduced its investment in HCI by 14.4 percentage points to 15.1 %, however, MPC Capital AG is entitled to the voting rights which Corsair Capital LLC acquired through purchase of the shares. An additional 2.2 % voting shares originated from HCI Sicar A.G., which has now completely withdrawn its commitment from HCI, and 3.4 % equity capital were placed by Christ Capital GmbH, bringing its total HCI stock to 8.8 %. As a result, the number of free-floating shares once again totals 56.1 %. These transactions served to reduce the high percentage of shares held by foreign investors since the IPO. The initial 64 % of equity capital held by foreign investors has thus been reduced to 42.3 %, with 57.7 % now held by German investors. The share of equity capital held by private investors rose from 18.5 % to approximately 27 % against the previous financial year.

Intensive dialogue with the capital market

Openness and transparency, a high degree of credibility and service-oriented investor relations are the keywords in HCI Capital AG's ongoing dialogue with the capital market. During the 2006 financial year, HCI Capital AG held 17 in-depth meetings with institutional investors in Hamburg, went on nine road shows in Europe and the U.S.A., each lasting several days and during which company management held a total of 117 talks with individual investors, and attended six international capital market conferences:

- Deutsches Eigenkapitalforum (Frankfurt am Main)
- Dresdner Kleinwort Midcap Conference (New York)
- HVB German Capital Market Conference (Munich)
- Stock Day Financial Services (Frankfurt am Main)
- Kepler Equities Investor's Day (London)
- Citigroup Investor Jour Fixe (London)

Guidelines for dialogue with capital market focus on openness, transparency and high degree of credibility.

In 2006, HCI stock was positioned more aggressively in the analysts' line of focus. Currently (as per January 2007) thirteen leading banks and investment companies (as opposed to seven in 2005 financial year) report regularly on HCI Capital AG. For a detailed listing of analysts' evaluations please go to the HCI web site at www.hci.de/ir.

HCI Capital AG held the first Annual General Meeting as a company listed on the stock exchange on May 18, 2006. Attendance was high with 68 % of all equity capital shareholders present. The next AGM is scheduled to take place in Hamburg on May 10, 2007.

Contact:

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HCI stock data

Stock category	No-par-value registered stock (no-par shares)
Stock market tier	Prime standard / official market
Stock exchange	Frankfurt Stock Exchange, Official market Hamburg Stock Exchange
Index listings	SDAX, HASPAX
First day of trading / issue price	October 6, 2005 / EUR 20.50
ISIN	DE000A0D9Y97
WKN	A0D9Y9
Exchange identification code	HXCI
Reuters	HXCIGn.DE
Bloomberg	HXCI:GR
Common code	022854488

HCI stock operating figures

	2006	2005
Total stock as per December 31 (in million shares)	24.0	24.0
Principal as per December 31 in EUR million	24.0	24.0
Year-end closing price in EUR (Xetra)	14.90	16.89
High price in EUR (Xetra)	20.89	20.50
Low price in EUR (Xetra)	12.20	14.85
Market capitalization* in EUR million	358	405
Earnings per share in EUR (undiluted)**	1.64	1.80
Dividend per share in EUR (2006 proposal)	1.40	1.40
Total dividend in EUR million	33.6	33.6
Dividend yield* in %	9.4	8.2
Price-earnings ratio*	7.4	9

* at year-end closing price
** based on the weighted average of 24,000,000 shares or 20,956,000 shares (2005)

Appreciating people, ideas and potential.

The HCI team recognizes market opportunities and translates ideas into products and services, thereby creating value for clients and partners.

It is likely that the cultivation of roses dates back to the gardens of China. Confucius (551 – 479 B.C.) spoke of the Chinese Emperor's rose gardens in Peking. The creativity of rose cultivators is boundless, producing over 30,000 rose breeds.

Employees – The Central Driving Force towards Creating Corporate Value.

Our appreciation and esteem of human resources, ideas and potential creates valuable perspectives for all who are involved.

The success of the HCI Group is based on the competence, commitment and performance of all its employees. And the only way to create a winning team for the future is by setting one mutual target for HCI's future. Based on this idea, the company introduced a concept called HCI dialogue focused on continued improvement and intensification of personnel management at the beginning of 2006.

Goal-oriented leadership, development based on challenges
Focusing employees' skills, performance and achievements on the goals of the HCI Group is fundamental to overall company success. By the same token, HCI executives must establish a fertile basis for and nurture HCI employee motivation in order for it to develop and thrive. As a management tool HCI dialogue which supports executives in this function and develops their individual potential.

The success of the HCI Group is based on the competence, commitment, and performance of its employees.

Setting goals
Goals may be set with employees on an individual basis. Setting and assessing/evaluating goals is an integral part of the management process for employees who have variable salary components, i.e. receive a bonus. Goals are set in accordance with an employee's scope of influence and focus particularly on corporate goals.

Performance and behavior
Employee assessment generally takes place once a year. In addition to evaluating an employee's job skills, “in-house/external client orientation,” “social competence” and “performance behavior” are also assessed. Executives are also evaluated for their leadership behavior. Based on the results of the evaluation superiors and employees define new, individual goals as well as training and development measures.

Training and development
Every employee at HCI has the opportunity to apply for specific training and development courses which might be directly connected to HCI dialogue elements or entirely independent thereof. It is a means for HCI to train and develop employees in reference to overall needs and requirements, to improve in-house continuity and retain employees.

Management by dialogue

The more HCI employees are involved in the corporate strategy and goals the better they are able to implement steps and measures leading towards achieving those company goals. HCI dialogue is a systematic form of target-oriented management support and improved in-house communication.

Strengthening and supporting sales and marketing

The number of HCI Group employees rose from an average 202 in 2005 to an average 238 in 2006. In fact, the year-end number of employees was 261 for the year under review as opposed to 221 as per December 31, 2005. Personnel was mainly increased in the sales and marketing division, particularly in sales partner services and sales support. With 57 employees by the end of 2006, over 22 % of all company employees work in sales and marketing.

HCI Capital AG is an attractive employer. The company received just short of 1,400 job applications in 2006 alone. Due to strong company growth in the past few years, coupled with a considerable increase in personnel, average job tenure totalled three years in 2006, a slight increase against the previous year.

High-level job training and development

HCI Capital places great importance on training young adults and considers it not only a business necessity but a social obligation. In 2006, the group created an additional six training jobs, totalling 19 all together by the end of 2006. The job training rate rose to 8 %. In the scope of the dual system of vocational training, HCI Capital works together with the HSBA Hamburg School of Business Administration and the Bremen Academy of Economy.

The HCI Groups sponsors training courses, either qualified in-house or external training and development seminars, based on individual requirement. The number of days employees spent at training seminars rose sharply from 122 in 2005 to 527 in 2006. The HCI Academy, also open to the employees of HCI's sales partners, is the main source of in-house training and development. The range of topics include current developments in the shipping sector, capital investments in closed-end funds, liability of personnel selling investment products, and other legal, tax- and product-related topics.

Thanks and recognition

The HCI Group wishes to express its thanks and recognition to all company employees for their commitment to the company and creativity in laying the foundation for the Group's financial success. You constitute the driving force in creating corporate success and enhancing corporate value.

Insight and outlook.

2006 was a year characterized by challenges, achievements and reorientation. HCI focused on new strategic directions in various areas for HCI Capital AG's future success course.

A lily growing by the road-side catches the photographer's eye. The leaf appears to be guiding the drop of water on its surface, causing changes in color beginning with the dark-green dot the water left in the middle of the leaf. This photograph won the first prize at the internationally renowned Shell Wildlife Photographer of the Year, the Academy Award of wildlife photography.

Group management report of HCI Capital AG for the financial year 2006

A. Economic environment in the reporting year

1. Development of the economy

The global economy grew at a rate of about 4 % in 2006 compared with the preceding year. This growth was driven to a substantial degree by the development of economies in Asia. China again recorded double-digit economic growth, while the Indian economy grew by more than 8 %. Growth in the United States in 2006 came in at around 3.4 %, thus outpacing the euro zone (2.6 %).

In the past twelve months, Germany recorded its strongest economic growth since 2000. The German Federal Statistics Office put the general economic growth rate at 2.7 %. This trend was no longer due exclusively to exports, which again developed at the rapid rate of 15.9 % compared to 2005, but was also supported by increased investments, the revival of the construction industry, and a pick-up in consumer spending.

The US Federal Reserve Bank raised its prime rate from 4.25 % to 5.25 % during the course of the year. In the euro zone, the primary refinancing rate rose by 125 basis points, from 2.25 % to 3.5 %.

The most important stock markets set new records in 2006. The Dow Jones Index rose above 12,500 points in 2006, thus achieving an all-time high. The leading German index DAX reached an all-time high in 2000 followed by a slump over several years. With an increase to more than 6,600 points in 2006, the DAX was once again headed towards this record level set.

Compared to the US dollar, the euro fluctuated between USD 1.18 to USD 1.32 during 2006. After reaching a high for the year in December, the key European currency fell back slightly. At year end, the euro stood at USD 1.29.

Due to geopolitical unrest during the course of the year, the price of Brent crude oil rose to a high of around USD 78 per barrel. The situation on the oil markets has eased significantly since August 2006, not least due to the mild weather for the season. As of year end, oil was trading at less than USD 53 per barrel.

2. Development of the sector[1]

In 2006 investors placed about EUR 11.6 billion equity capital with initiators of closed-end fund models. This represents a moderate drop of approximately 5 % compared to the figure last year. Now that loss offsets are prohibited under Article 15 b of the German Income Tax Act (EStG), which has eliminated certain investment models (e.g. media funds), placement results were expected to decline even more dramatically. Closed-end fund offerings grew particularly during the second half of the year, with placements of EUR 7.36 billion or 63.2 % of equity capital solicited in fiscal year 2006. At EUR 4.59 billion or 39.4 %, the last quarter in particular stands out, thus underscoring the seasonality of placement success.

1 Source for the market data given in the following: Stefan Loipfinger, Market Analysis of Investment Models 2007.

Closed-end real estate funds performed well, with growth of 24 % over 2005. At EUR 4.96 billion equity capital placed (EUR 4.0 billion in 2005), this sector recorded a market share of about 42.8 %.

After record numbers in the preceding two years, the ship investment funds sector fell by 13.8 %, placing equity capital of EUR 2.55 billion (EUR 2.96 billion in 2005). Ship funds, with a market share of around 22 %, hold second place in the overall market, after closed-end real estate funds.

Private equity funds grew by 65.2 % compared to the preceding year, to EUR 2.28 billion. This development was all the more remarkable since investors placed just EUR 252 million equity capital in 2003. Its overall market share grew to 19.7 %, which meant third place.

Clear reductions at the overall market level were apparent in investment offerings in the secondary market for life insurance. Here investors placed about EUR 846 million in 2006, which represents a drop of 44.1 % compared to 2005 (EUR 1.52 billion). This sector thus achieved a market share of only about 7.3 %.

B. Business activity

The HCI Group is one of the leading non-bank-affiliated initiators and providers of closed-end funds in Germany. The portfolio of investment concepts of the HCI Group ranges from closed-end ship and real estate funds to secondary life insurance market funds and private equity funds. HCI Group offers risk diversification in the individual product categories as well as across the product range with funds of funds and asset accumulation plans. The value chain of the HCI Group in these areas focuses on the development of new product ideas, the conceptual design of funds and their placement (sale) as well as the partial after-sales management of fund investments, e.g. for ship and/or property management, fund management in the secondary life insurance market, and as ship operators for third parties through the shipping company HAMMONIA Reederei GmbH & Co. KG.

The product range of the HCI Group in the core product lines through the group brands HCI and HSC is directed mainly at the investment requirements of wealthy private clients. Due to the numerous product developments in these areas, it is possible to offer the clients of the HCI Group an extensive product portfolio characterized by very competitive yields.

Please refer to the Notes to the consolidated financial statements of HCI Capital AG for the 2006 financial year for details on important subsidiaries and their locations.

C. Business development

1. Development of placement volume

1.1 Sales

In fiscal year 2006, the HCI Group succeeded in stabilizing its 2005 growth.

The equity placed by the HCI Group in the reporting year was distributed among the segments as follows:

In EUR million	2006	2005
Ship funds	384.0[2]	510.6[3]
Real estate funds	80.5[4]	37.9[5]
Private equity	43.2[6]	17.3[5]
Secondary life insurance market funds	132.8	81.9
	640.5	**647.7**

2 incl. HSC asset creation plans in the amount of EUR 10.2 million in the ship segment.
3 incl. HSC asset creation plans in the amount of EUR 14.3 million in the ship segment.
4 incl. HSC asset creation plan in the amount of EUR 0.6 million in the real estate segment.
5 incl. HSC asset creation plan in the amount of EUR 0.9 million in the real estate segment and EUR 0.3 million in the private equity segment.
6 incl. HSC asset creation plan in the amount of EUR 0.2 million in the private equity segment.

As in the previous year, the HCI Group's main business in 2006 consisted of the design and marketing of ship funds. With its placement volume in the ship segment, the HCI Group maintained its market position in Germany.[7]

In fiscal year 2006, tonnage tax funds were the exclusive focal point of concept development and sales activities. They are designed purely as income funds and do not make allowance for negative operating results.

The HSC wealth accumulation plan (Aufbauplan), an innovative and complementary product launched under the HSC brand in early 2004 and designed as a product targeted to the classical HCI clientele of wealthy private investors featuring products for investors interested in creating and accumulating assets, declined in the fiscal year 2006 to a total sales volume of EUR 10.2 million (preceding year: EUR 14.3 million).

The real estate segment was characterized again in the fiscal year 2006 by restructuring and alignment measures in product acquisition and design introduced in preceding years. These measures continue to be aimed at gearing products to the requirements of financial institutions and large-scale sales organizations. Here the HCI Group focused on securing attractive investment properties. Placements were made in the target markets U.S.A. with a placement volume of EUR 43.7 million, the Netherlands with EUR 28.5 million, plus institutional investors' investments of EUR 7.7 million.

7 Source: Stefan Loipfinger, Market Analysis of Investment Models 2007.

The positive development of the stock market resulted in an increase of placement volume in the private equity segment by 149.8 % against the previous year.

In the secondary life insurance market, placement in the German secondary life insurance was successfully initiated in fiscal year 2006. The placement volume for fiscal year 2006 in the amount of EUR 132.8 million was divided between British life insurance funds at EUR 109.1 million and German life insurance funds at EUR 23.7 million.

1.2 Trust and service sector

In the fiscal year 2006, the increase in placement volume also had a positive impact on activities in the HCI Group's trust and service sector. The placement of fund equity capital in the ship, real estate, private equity and secondary life insurance market segments and the deduction of disposals of equity held in trust in the ship segment amounting to EUR 140 million, the latter due to the sale of ships and ensuing liquidation of the funds involved, generated a net addition of EUR 500 million. In so doing, the HCI Group broadened its base for generating steady income throughout the terms of the individual fund companies.

In the service area, the HCI Group brokered real estate sales for the first time during the 2006 fiscal year. In addition, we also established a successful business joint venture with institutional investors in the asset management.

2. Result of operations of the HCI Group

Below, the key Group operating figures for fiscal year 2006 as compared to fiscal year 2005:

In EUR million	2006	2005
Revenues	145.6	150.2
Other operating income	21.3	12.8
Cost of purchased services	-69.1	-68.1
Personnel expenses	-23.9	-21.7
Other operating expenses	-21.1	-22.2
Earnings before interest and taxes (EBIT)	**51.1**	**48.0**
Financial result	4.1	8.1
Earnings before taxes (EBT)	**55.2**	**56.1**
Income taxes	-15.7	-18.3
Consolidated net income for the year	**39.5**	**37.8**

As a result of the increase in the volume of equity placed, particularly in the low-margin segments such as the secondary life insurance market, the HCI Group was forced to take a 3.1 % reduction in revenues, thus totalling a drop of EUR 4.6 million to EUR 145.6 million.

Services rendered by the HCI Group were divided as follows:

In EUR million	2006	2005
Fund design and sales revenues	117.8	126.8
Trust and service fees	22.7	21.0
Management revenues	2.8	2.4
Other operating revenue	2.3	0.0
	145.6	**150.2**

The increase of EUR 1.0 million in **cost of purchased services** from EUR 68.1 million to EUR 69.1 million resulted primarily from the diversification that continued during the 2006 financial year. Furthermore, the cost of purchased services for the 2005 financial year in connection with the placement of the tonnage tax fund Ocean Shipping I were not debited as only the corresponding net margin for this fund appeared as a revenue item in 2005. This type of sales was engaged in only to a limited extent in the financial year 2006.

The sum of the **gross profit** from the segments ship funds, real estate funds, private equity funds and secondary life insurance market funds decreased from EUR 82.4 million to EUR 76.5 million as a result of the implementation of HCI's diversification strategy and the increase of sales and marketing activities in all lower-margin segments with the exception of the ship segment.

Other operating income for financial year 2006 includes EUR 18.6 million in revenues generated by the brokerage of ships and VAT refunds for the 2005 financial year totalling EUR 0.6 million. Revenues generated from the brokerage of ships amounted to EUR 9.4 million for the financial year 2005.

The increase in **personnel expenses** by EUR 2.2 million (10.1 %) in 2006 reflects the steady growth of personnel necessary to keep pace with the growth of the HCI Group. The rise in personnel expenses also results from the increase in performance-related compensation payments reflecting the HCI Group's positive development. The personnel expense ratio increased from 14.5 % to 16.4 %.

The development of **other operating expenses** following adjustment of the financial year 2005 for costs incurred in connection with HCI Capital AG's public offering in October 2005 reflects the expansion of business activities in 2006. Whereas expenses totalled EUR 22.2 million for the previous year (including costs of EUR 3.2 million for the public offering), they decreased to EUR 21.1 million during the 2006 financial year.

In the financial year under review, the Group generated **EBIT** of EUR 51.1 million (previous year: EUR 48.0 million).

Apart from the increased EBIT, the EUR 4.1 million **financial result** also had a positive impact on earnings before taxes, due mainly to guaranteed returns from secondary life insurance market funds totalling EUR 4.0 million (previous year: EUR 3.2 million). The decline of the financial result by EUR 4.0 million to EUR 4.1 million for the 2006 financial year is due primarily to the exchange rate-related result which dropped from EUR 3.4 million in 2005 to EUR -1.5 million in 2006.

At 28.5 % the HCI Group's effective tax rate declined by 4.1 percentage points against last year. The low effective tax rate resulted from the relatively high share of income from ship intermediate trade and from the relationship of ship funds launched to other fund types and the trade tax effects resulting therefrom.

The **consolidated net income** totalled EUR 39.5 million, a 4.5 % increase over the previous year's figure of EUR 37.8 million, a result exceeding expectations.

3. Net assets of the HCI Group

The structure of net assets of the HCI Group is as follows:

Assets	December 31, 2006 in EUR m	in %	December 31, 2005 in EUR m	in %
Intangible assets, property, plant and equipment, and non-current financial assets	64.7	`28.5	27.5	13.8
Non-current receivables and other assets	0.6	0.3	0.0	0.0
Work in progress and unfinished services	2.0	0.9	2.0	1.0
Current receivables and other assets	92.3	40.6	73.9	37.1
Cash and cash equivalents	58.6	25.8	94.6	47.5
Assets held for sale	7.5	3.3	0.0	0.0
Deferred taxes	1.4	0.6	1.2	0.6
Total assets	**227.1**	**100.0**	**199.2**	**100.0**
Equity and liabilities				
Consolidated equity	123.3	`54.3	117.7	59.1
Non-current provisions and liabilities	0.6	0.2	0.6	0.3
Current provisions	2.4	1.1	1.3	0.6
Current liabilities	96.8	42.6	77.1	38.7
Deferred taxes	4.0	1.8	2.5	1.3
Total equity and liabilities	**227.1**	**100.0**	**199.2**	**100.0**

The change in **intangible assets, property, plant and equipment, and in non-current financial assets** amounting to EUR 2.4 million was due to the amortization of capitalized trust and service contracts. The acquisition of a 25 % plus one share interest acquired in Aragon AG in December 2006 led to an increase in the book value of associated and joint venture companies of EUR 29.6 million computed on the basis of the equity method. Furthermore, the book value of associated and joint venture companies computed on the basis of the equity method rose by EUR 5.0 million due to the prorated share of the HAMMONIA Reederei GmbH & Co. KG results amounting to EUR 2.4 million, the EUR -0.1 million of HELLESPONT HAMMONIA GmbH & Co. KG, the EUR -0.3 million of BH & HCI Real Estate Holding B.V. and the payment of a capital reserve in the amount of EUR 3.0 million in connection with the purchase of a ship by HAMMONIA Reederei GmbH & Co. KG.

Work in progress and finished services, which involve the capitalized services associated with the design and development of funds, remain unchanged at EUR 2.0 million during the year under review.

The increase in current receivables and other assets results largely from the increase in current accounts receivable by 130.2 %, rising from EUR 25.5 million as per December 31, 2005 to EUR 58.7 million as per December 31, 2006. The increase in current accounts receivable is linked to the expansion of HCI Group's operational business during the fourth quarter of the financial year 2006.

Assets held for sale refer to the share acquired in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG totalling EUR 7.5 million, which due to the resale intention and pursuant to IFRS 5 are to be presented under current assets.

The decrease in the HCI Group's cash and cash equivalents resulted from investments in the area of financial assets and the dividend payment of EUR 33.6 million resolved and implemented in May 2006.

The positive change in consolidated equity in the amount of EUR 5.6 million is based on consolidated results of EUR 39.5 million in 2006 reduced by dividend payments of EUR 33.6 million. The equity ratio declined as of December 31, 2006 to 54.3 %, as against 59.1 % at December 31, 2005.

Current provisions rose by EUR 1.1 million in comparison to the previous year from EUR 1.3 million to EUR 2.4 million. This increase resulted mainly from the increase in management bonus obligations and the recognition of an interest risk from the integrated tax inter-company relationship for the years 2002 and 2003 in the amount of EUR 0.9 million.

Current liabilities rose in 2006 by EUR 19.7 million to EUR 96.8 million, from EUR 77.1 million in 2005. The underlying reason was a EUR 22.7 million increase in liabilities to banks in connection with the interim financing bank loan for the purchase of stock in Aragon AG amounting to EUR 22.0 million and the bank loan for financing the purchase of stock in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG amounting to EUR 7.5 million. The decrease in taxes on income and profits had a contrary effect. Trade payables rose by EUR 8.3 million due to HCI Group business activities in the fourth quarter of 2006. The reduction of liabilities to related parties totalling EUR 3.3 million, to a major extent the repayment of loans to the initial shareholders, had a contrary effect.

4. Financial situation of the HCI Group

In EUR million	2006	2005
Consolidated net income for the year	39.5	37.8
Non-cash income and expenses	2.8	4.8
Change in net working capital	-17.4	-9.2
Cash flow from operating activities	**24.9**	**33.4**
Cash flow from investing activities	**-47.4**	**-5.4**
Cash flow from financing activities	**-13.5**	**41.7**
Net cash inflow/outflow	**-36.0**	**69.7**
Cash and cash equivalents at the beginning of the period	94.6	24.9
Cash and cash equivalents at the end of the period	**58.6**	**94.6**

During financial 2006, the HCI Group's cash flow from operating activities was again positive. Cash flow from operating activities fell by 25.4 % from EUR 33.4 million in 2005 to EUR 24.9 million in 2006, due principally to the increase in funds tied up in working capital.

The increase in cash flow from investing activities by EUR 42.0 million from EUR 5.4 million in the 2005 financial year to EUR 47.4 million in the 2006 financial year was due to the acquisition of the 25 %-plus-one-share interest in Aragon AG for EUR 29.6 million as well as the EUR 3.0 million payment into the capital reserve of HAMMONIA Reederei GmbH & Co. KG. Further, EUR 7.5 million were paid for the acquisition of shares in the Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG.

The cash flow from financing activities in the reporting year showed a EUR 55.2 million reduction in cash inflow from EUR 41.7 million in 2005 to EUR -13.5 million in the 2006 financial year. Whereas the 2005 financial year was particularly affected by HCI Capital AG's IPO in October 2005 and generated a gross inflow of cash and cash equivalents totalling EUR 78.9 million, less the cash used to pay dividends of EUR 23.0 million for the financial year 2004, the outflow of funds for dividend payments for 2005 in the 2006 financial year totalled EUR 33.6 million and payments on liabilities to banks and loans from shareholders totalled EUR 13.1 million. A contrary effect had the borrowing of funds to finance the acquisition of a share interest in Aragon AG and in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG totalling EUR 29.5 million.

The balance of cash and cash equivalents on December 31, 2006 was EUR 58.6 million, and therefore EUR 36.0 million lower than on December 31, 2005.

5. Performance of the segments

5.1 Ship

The HCI Group ship segment saw a 24.8 % reduction of placed equity capital to EUR 384.0 million (including HSC asset creation plans). The placement volume for the previous financial year was particularly influenced by the launch of the special fund Ocean Shipping I with a placement volume totaling USD 138.4 million. By adjusting the placement volume for this special item for the 2005 financial year, the total placement volume of the 2005 and 2006 financial years differ only minimally.

Below, the results in the ship segment:

In EUR million	2006	2005
Fund design and sales revenues	81.3	103.2
Trust and service fees	17.8	16.1
Other revenues	2.3	0.0
Revenues	101.4	119.3
Cost of purchased services	-47.8	-55.0
Changes in inventories	0.0	0.1
Gross profit	53.6	64.4
Other operating income and expenses	0.6	-11.8
Earnings before interest and taxes (EBIT)	**54.2**	**52.6**

In the year under review only yield-oriented tonnage tax funds were placed. The placement volume was divided among 66 ships with investments in more than 11 funds of funds and 17 individual funds. Placement volume in the tonnage tax funds for the year under review slightly exceeded the previous financial year's level, rising from EUR 381.0 million to EUR 384.0 million. The special fund Ocean Shipping I, launched during the 2005 financial year and totalling USD 138.4 million, accounted for a significant share of the placement volume.

The purpose of the funds of funds was to respond to the specific needs of target clients aiming for a combination of security and high yield. With the single ship company fund concepts the HCI Group was able to respond to the specific needs of individual, wealthy investors, and also to the individual needs of independent sales partners or sales groups. By targeting independent financial-services providers placement success grew considerably during the last quarter of 2006.

The selection of the tangible assets was based on strict internal quality criteria. Placements have been done exclusively with partners who have extensive knowledge of the market and sound business concepts. In addition to this, we expect shipping companies to make financial contributions to the funds, thus proving their own commitment to the success of an investment.

In the year under review other operating revenues totalling EUR 2.3 million and generated by the HCI Group's agreement to participate in the performance of funds in the event that a predefined yield parameter is exceeded. The HCI Group incurred costs for purchased services totaling EUR 1.2 million from the revenues generated by the sale of two tankers and the liquidation of the ship fund involved as a result of the agreements with sales partners who are entitled to a percentage of the performance-related fees.

Further, during the year under review, the HCI Group generated earnings for the placement or intermediary trade of ships totaling EUR 18.6 million. In this case, the HCI Group profits from opportunities in the ship market arising from ship projects initiated jointly with shipping companies.

Together, HAMMONIA Reederei GmbH & Co. KG and HELLESPONT HAMMONIA Reederei GmbH & Co. KG generated EUR 2.3 million in profits for the HCI Group, computed according to the equity method, against EUR 1.0 million for the previous financial year. Equity capital investments for nine ships in both companies took place.

5.2 Real estate

The result of operations of the real estate segment was as follows:

In EUR million	2006	2005
Fund design and sales revenues	8.8	6.3
Trust and service fees	2.7	3.2
Management revenues	2.8	2.4
Revenues	14.3	11.9
Cost of purchased services	-5.0	-4.0
Change in inventories	-0.2	0.4
Gross profit	9.1	8.3
Other operating income and expenses	-6.6	-5.4
Earnings before interest and taxes (EBIT)	**2.5**	**2.9**

In 2006, the HCI Group upped equity capital investment in the real estate segment, regardless of asset creation plans, to EUR 79.9 million (previous year: EUR 37.1 million), thus corresponding to an increase of approximately 115 %.

Over half of the equity capital was raised through fund companies with properties in the U.S.A.

During the first quarter of 2006 the new HCI Real Estate Growth I USA fund of funds was launched with an equity capital volume totalling USD 100 million, which in turn invests in seven real estate opportunity funds with an overall placement volume totalling more than USD 30 billion. The seven target funds in CB Richard Ellis, Blackstone, AEW, Capmark, the two target funds in RECAP, and Walton Street, all differ in their investment strategy in terms of property use, real estate market and management approach, thus ensuring a high spread of risk. The HCI Group acquired a USD 2 million interest in the fund company. In addition to this activity, placement of the HCI real estate fund USA II was completed.

Furthermore, the two real estate funds Hanseatische Immobilienfonds Holland XXV GmbH & Co. KG and Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG, both designed in 2005 and characterized by tenants with high credit ratings and long-term lease contracts, were placed, with the HCI Group subscribing to an equity placement of EUR 7.5 million in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG during the 2006 financial year.

The cooperation with the U.S. investment fund provider and REIT manager Behringer Harvard opened up an entirely new business area for HCI during the second quarter of 2006. In cooperation with Behringer Harvard, the UPC Building in Amsterdam/Schiphol-Rijk was purchased by a company in which Behringer Harvard, through Behringer Harvard Amsterdam I LLC, owns a 90 % stake and the HCI Group, through HCI Institutional Funds GmbH, owns a 10 % stake. The entire investment volume of this project amounts to approximately EUR 10.7 million. The HCI Group is in charge of overall project coordination as well as the day-to-day operation and management of the UPC Building. On the basis of this cooperation a portfolio comprising seven commercial properties in the Netherlands and a total investment volume of EUR 24 million was acquired in November 2006. The purchase was made by a company in which Behringer Harvard has a 55 % interest and HCI a 45 % interest.

Despite a rise in sales revenues in the real estate segment, EBIT dropped by 13.8 % in the financial year 2006, due mainly to an increase in other operating expenses of approximately EUR 1.2 million as a result of increased legal and consultancy fees for new projects and the sale of real estate funds, thus reducing the EBIT margin to 17.5 % from the previous year's 24.4 %.

At the end of 2006, agreements were concluded for the sale of properties from six of the real estate funds initiated and managed by the HCI Group (Hanseatische Immobiliensfonds Holland I-VI) to a real estate investor. Delivery of the properties to the new owner took place in early 2007. The investors in the real estate funds received an average reflux of capital of 140 %.

5.3 Private equity

The result of operations of the private equity segment was as follows:

In EUR million	2006	2005
Fund design and sales revenues	4.8	2.0
Trust and service fees	0.5	0.3
Revenues	5.3	2.3
Cost of purchased services	-3.8	-1.4
Change in inventories	-0.1	-0.1
Gross profit	1.4	0.8
Other operating income and expenses	-1.0	-0.6
Earnings before interest and taxes (EBIT)	**0.4**	**0.2**

Placement volume in the private equity segment increased considerably against the previous year, thus reflecting the positive market development. Excluding asset creation plans, the placement of equity capital rose by 152.9 % to EUR 43.0 million.

The HCI private equity V fund was closed with a placement volume of EUR 50.7 million equity capital as per December 31, 2006.

In 2006, design and sales revenues totalling EUR 4.8 million were generated, offset by EUR 3.9 million for the cost of purchased services and changes in inventories.

This represents an EBIT margin of 7.6 % (previous year 8.7 %) taking into account other operating expenses and revenues.

5.4 Secondary life insurance market

The result of operations of the secondary life insurance market was as follows:

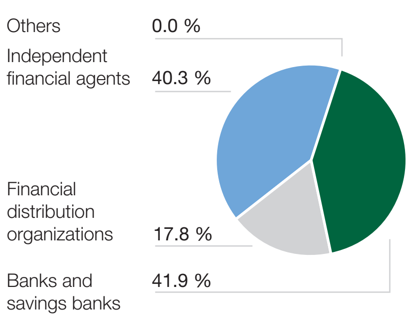
In EUR million	2006	2005
Fund design and sales revenues	23.0	15.4
Trust and service fees	1.6	1.3
Revenues	24.6	16.7
Cost of purchased services	-12.4	-7.6
Change in inventories	0.2	-0.2
Gross profit	12.4	8.9
Other operating income and expenses	-6.8	-4.4
Earnings before interest and taxes (EBIT)	**5.6**	**4.5**
Result from investments in funds	4.0	2.3

The placement of secondary life insurance market funds continued to be very successful during the 2006 financial year. The total placement volume of EUR 132.8 million in 2006 was primarily generated by British life insurance funds, which accounted for EUR 109.1 million. EUR 23.7 million in equity capital was raised by funds in the German secondary life insurance market which were offered to HCI Group investors for the first time in 2006.

In total, this segment generated an EBIT of EUR 5.6 million (previous year: EUR 4.5 million) and an EBIT margin of 22.8 % (previous year: 26.9 %). The margin decline is due primarily to the slightly above-average rise in costs for purchased services.

The HCI Group generates annual fees with the placed secondary life insurance market funds which are classified as guaranteed returns on the basis of contractual stipulations and therefore recognized as investment income outside EBIT in the financial result. Investment income in the aforementioned funds totals EUR 4.0 million (previous year: EUR 2.3 million) for the 2006 financial year.

Revenue per distribution channel 2006



Revenue per distribution channel 2005

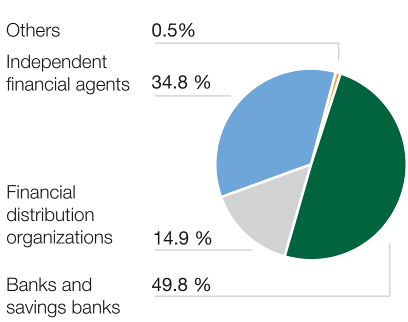


Figure: Percentage distribution of revenues per distribution channel

6. Sales organizations

The distribution of HCI Group sales revenues among distribution channels in 2006 and 2005 is shown in the graphs.

The diversification of distribution channels was maintained during the 2006 financial year, focusing on three channels, i.e. banks and savings banks, financial distribution organizations and independent financial agents. Compared to the last financial year there was a definite shift in favor of independent sales agents and sales organizations.

Sales organizations were further reinforced by the HCI Group's purchase of a 25 %-plus-one share interest in Aragon AG in December 2006. As a diversified financial-services provider with retail sales, institutional sales and banking services divisions, Aragon AG offers the HCI Group an ideal sales platform, particularly in view of a considerable tightening of regulatory and technical requirements. With the acquisition of stock in Aragon AG, the HCI Group as an investor may now participate in the development of the financial-services market.

7. Procurement and fund design

Investment objects are selected by a product committee made up of representatives from the HCI Group's main operating areas (sales, fund design, management). In order to assure product quality and innovation, the HCI Group has a highly qualified team in the fund design department, supported by specialist lawyers, qualified auditors and tax consultants in developing new products. The purpose of this approach is to further develop existing products while adapting them to changing requirements on short notice, should the need arise (e.g. the varying requirements of foreign European markets).

7.1 Ship segment

As a rule, product procurement in the ship segment is implemented in collaboration with shipping companies, which have cooperated with the HCI Group for years. When ships are built, the lapse of time between order and delivery is approximately two to three years.

The equity volume required to cover the investment amounts listed above, which total EUR 2.16 billion, amounts to approximately EUR 600 – 700 million in the years 2007 until 2010. In addition, HCI plans on purchasing more newbuildings or pre-owned ships through brokers or shipping companies, depending on the offers made.

The acquisitions in the ship segment in the currently high-priced market for ships will largely be carried out on the basis of preferably long-term commitments with international charterers with high credit-ratings or by pooling activities.

7.2 Real estate segment

In the real estate segment, the focus for product procurement has shifted away from the classic core markets towards properties offering a greater opportunity range. This is done by selecting reputed target funds for investment purposes; this procedure is in the hands of Townsend Group, our U.S.-based partner. Other opportunity property funds and fund packages are being purchased in Western Europe with our joint venture partner, the U.S. investment provider and REIT manager Behring Harvard. The pre-commitments made in the Dutch real estate market during the 2006 financial year for new construction projects were put on the market for sale.

7.3 Secondary life insurance market

In the secondary life insurance market, the policies offered on the market by independent brokers (policy providers) are acquired through cooperation partners on the basis of the investment guidelines stipulated by the investors. The investment capital from the 2006 financial year was almost entirely invested at the time the financial statements were prepared.

7.4 Private equity segment

In the private equity segment the investment objects are not acquired until the equity capital for the fund has been raised. In the case of the private equity funds, an external cooperation partner assumes the selection and acquisition of the target fund.

8. Investments

In the 2006 financial year, a 25 %-plus-one-share interest was acquired for EUR 29.6 million in Aragon AG which constitutes a crucial investment in the reinforcement of our sales organization.

In connection with the purchase of a ship by HAMMONIA Reederei GmbH & Co. KG, a payment of EUR 3.0 million was made into the capital reserves.

Furthermore, EUR 7.5 million were invested in the real estate fund company Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG, and EUR 2 million in the HCI Real Estate Growth I USA GmbH & Co. KG. It should be noted that the investment in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG was carried out with the intention of reselling the shares within one year's time.

In the 2006 financial year, investments in intangible assets and in operating and office equipment totalling EUR 0.8 million were undertaken by the HCI Group.

9. Financing

In connection with the purchase of an interest share in Aragon AG, the HCI Group took out an intermediate loan of EUR 22.0 million which will be repaid by long-term financing in the 2007 financial year. In addition, a short-term loan of EUR 7.5 million was taken out to finance the purchase of an interest share in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG.

Due to the long initiation period of some products, particularly in the ship and real estate segments, the HCI Group resorts to joint intermediate loans with medium-sized shipping companies in the ship segment. HCI Group companies issued guarantees and placement guarantees for intermediate loans for construction projects, equity capital, as well as for transactions securing foreign exchange and interest. Guarantees and guarantee-like commitments on behalf of the HCI Group totalled EUR 94.1 million and USD 857.8 million as per December 31, 2006, which include loan amounts already valued at EUR 82.3 million and USD 555.0 million respectively. Placement guarantees were issued totalling EUR 186.0 million and USD 128.7 million, of which EUR 55.4 million and USD 48.8 million respectively are part of the funds not yet included in the equity raised for the funds.

10. Personnel

The average number of employees working for the HCI Group developed as follows as compared to the previous year:

	2006	2005
Number of employees	238	202
Personnel expenses in EUR million	23.9	21.7

The HCI Group’s success depends on the performance of its employees. In financial 2006, the Group continued to expand its staff of highly qualified and committed employees whose dedication and creativity form the basis for the economic achievements of the HCI Group.

Strong growth during the 2006 financial year was a challenge to the HCI Group's ability to adapt organizational structures and its underlying increment value processes. For future development, the HCI Group places great emphasis on the creation and maintenance of flat corporate hierarchies and individual scope for its employees, in order to retain strengths such as flexibility, creativity and promptness in the market.

In addition to fixed salaries, all HCI executives and certain employees are contractually entitled to bonuses, which depend on the attainment of annual targets. Executive managers, division managers and sales staff participate either in profit- and/or revenue-sharing plans. Because of the positive earnings in the 2006 financial year a budget was made available for all employees who are only entitled to a fixed salary without any contractual provision for a bonus. Our executives will use this budget during the first quarter of 2007 for special payments to employees to reward outstanding individual performances during the financial year 2006.

D. Risik report

The HCI Group has a centrally organized risk management system that covers all Group activities. Systematic risk identification and evaluation as well as measures to avert, reduce or limit risks are an integral part of the system.

The early detection of risks threatening the HCI Group is pursued by a risk management system, which continues to be developed on a regular basis. The risk management approach of the Group is based on an ongoing analysis of relevant information and opinion markets, on quarterly reporting by the business units as well as on permanent communication among those responsible for risk management and between them and the Management Board. Regular reporting by all divisions provides the Management Board with an effective set of instruments for risk control and prevention.

The risk manager is responsible for updating and compiling all relevant information and for maintaining and developing the risk management system. The risk manager reports directly to the company CFO.

For the purpose of updating information, those responsible for risk management meet regularly to examine the status, treatment and assessment of known risks, and to examine specific business operations for new risks. Risk analysis is supplemented by indicators that make it possible to detect potential risks in advance. Updated information is compiled in a database. Regular updates take place each quarter, major amendments, however, are carried out as considered necessary between reporting periods. These reports are, analogously, also published every quarter, with major changes being communicated outside this cycle.

1. Market and environment-related risks

1.1 Competition in the investment product sector

The investment opportunities offered by the HCI Group compete with a large number of other investment products such as investments in open funds, the purchase of securities, stocks and bonds, taking out life insurance or purchasing real estate. The entire market is in a constant state of flux and subject to the influence of external events. These different forms of investment vary considerably from one another, particularly in terms of yield and risk profile, taxation and salability.

For instance, a rise in the general interest rate could, given the present low interest level, reduce the attractiveness of closed-end funds vis-à-vis investment products bearing direct interest. The decision of an investor to accept or reject a certain form of investment can also depend on the general mood of the market, rendering certain types of investment temporarily or permanently more preferable to others.

With its innovative ability the HCI Group is able to maintain a steady high level of product appeal thanks to the increasing fungibility of products in growing secondary markets.

1.2 Dependence on product availability for investment purposes

When designing their products, the companies of the HCI Group are dependent on the availability of suitable objects such as ships, property or life insurance policies. If general market conditions lead to a limited availability of such investment objects and, consequently, a rise in market prices, this may imply less profitability of the fund structures relying on this investment object.

Particularly in the ship segment, the HCI Group has a well-stocked and highly diversified product pipeline that counteracts this risk.

1.3 Dependence on the markets influencing the development of investments and in particular their cyclical behavior

The essential yield factors for fund products are the purchase price paid for the acquisition of said investments, the returns that may be generated by their operation, and the sales price realized once the fund comes to maturity. Certain markets which are the focus of HCI Group funds, proved to be highly cyclical in the past, e.g. in the case of ships and real estate. Cyclical movements in the markets concerned may have an effect on the realizable purchase price for certain investments. Similar developments are possible in other product areas in which the funds initiated by the HCI Group are invested.

Further diversification of the range of products offered in product areas which are not strongly correlated with one another make it possible to reduce the dependence on individual asset groups. Diversification within the product areas reinforces this effect.

1.4 Competition between closed-end fund providers

Apart from the HCI Group, a large number of other providers offer closed-end funds on the market. Individual competitors have become specialized in certain product categories or fund structures and have, as a result, acquired a leading position on the market, while others have gained an advantage through a broader range of products or through a more effective presence in the market.

With its reliable brand and high-quality products the HCI Group has managed to gain an outstanding position in the market, a position protecting the HCI Group against the risks of market consolidation or competitors entering the market.

1.5 A change in the tax provisions applicable to fund products

The profitability of closed-end funds depends to a considerable degree on the tax provisions governing them. If the attractiveness of the funds launched by the HCI Group depends on a favorable tax rate on the returns (tonnage tax), a tax law amendment can lead to a deterioration of post-tax earnings in such fund products, reducing their appeal versus other forms of investment. In the case of funds designed by HCI Group companies, if an investment is in another country, there is the possibility of additional tax risks as a result of the legal situation in that country. Changes in the tax environment in Germany and abroad can, therefore, have a negative impact on the economic success of already placed funds and on the design of future funds. In the case of already placed fund products, a decline in post-tax returns, in particular if forecasts are not met, can have a negative effect on the market mood.

1.6 A change in the legal conditions governing the structure and sales of fund products

By entering the new business area certificates, the HSC Hanseatische Sachwert Concept GmbH, as a subsidiary of the group, is subject to the tight regulations imposed by the German Banking Act (KWG) for the first time during the 2006 financial year. An application for the provision of financial services was duly submitted to the Federal Financial Supervisory Authority (BaFin) and approved by the same.

The market for closed-end funds and certificates continues to be characterized by greater efforts on the part of legislator to protect investors, most specifically in this context the Markets in Financial Instruments Directive (MiFID) from 2004, which as of 2007 must be transferred to national law by the EU member countries. The draft Act Implementing the Financial Market Directive, scheduled to go into effect on November 1, 2007, provides for additional regulatory requirements for independent financial-services companies selling certificates. Should they not be authorized by the German Banking Act, they are required to obtain liability coverage.

The cooperation created by the acquisition of an interest in Aragon AG provides independent sales partners with this coverage, thus enabling financial consultants to sell certificates and structured bank products within integrated consultancy models.

This has increased the time and expense involved in structuring and sales of closed-end funds. Additional or tighter regulations or another increase in market standards could result in further increases in the time and expense required for the design and sales of funds.

However, it is unlikely that any changes in the legal rules will have much influence on experienced companies that are well established in the market.

1.7 Dependence on general economic conditions

Apart from the economic conditions with a decisive influence on investment objects, a number of other factors also have a direct or indirect impact on the economic success of the funds initiated by the HCI Group. These include the development of the general rate of interest and foreign exchange fluctuations in the case of funds with payment flows in foreign currencies.

The HCI Group takes this into consideration by implementing an active interest rate and foreign exchange management policy.

2. Company-related risks

2.1 Responsibility as initiator of the fund, liability risks

The HCI Group companies which have developed the economic and legal structure of investment offers in-house, are liable for the flawless design of the funds. As a rule, a contract is signed on the services to be rendered, particularly in connection with sales, between the fund company concerned and the initiator of the fund. From this and from the fact that individual companies of the HCI Group can act as fund initiator and publisher of the prospectus, the following risks result for the HCI Group:

- Prospectuses are prepared for the investment offers of the HCI Group which form the basis for the decisions taken by potential investors. The companies and individual persons directly responsible for the content are liable vis-à-vis the investors for the completeness, clarity and correctness of the prospectus on the fund. The legal basis of this liability, in the case of investment offers is the Sale of Securities Prospectus Law (Wertpapier-Verkaufsprospektgesetzes), hereinafter referred to as "VerkProspG."

  The HCI Group has more than 20 years of experience in this field. The highest quality standards are applied in the design phase. These are supported by a wide-spread network of qualified external advisors, ensuring that the requirements of the VerkProspG are complied with at all times.

- Individual companies in the HCI Group act as the trustees of the investors in the fund structures of the HCI Group. In this business area due diligence is required, and a violation of this duty can lead to the liability of the trust companies depending on the provisions of the trust contracts.

  In this area too the HCI Group has many years of experience.

2.2 The reputation of the HCI Group with investors and market observers

The success of the HCI Group also depends on its reputation and the trust placed by the investors in the expertise of its employees and the quality of its products. The economic failure of any single fund or product line, irrespective of whether this is due to deficient design or to unforeseeable changes in the economic and legal environment and, in particular, tax regulations, could damage our reputation.

The HCI Group counters this by expanding product innovation, guaranteeing good fund performance through qualified management in accordance with the description in the prospectus, and reacting promptly to changes in the environment. These measures are made transparent and communicated in the market.

2.3 Risks arising from contractual commitments in fund structures, pre-financing and placement guarantees

In a number of funds, particularly at present in ship and real estate funds, the fund company acquires the investment object at a point in time when the investors have not yet joined the fund and when the fund does not yet have the equity required for the financing of the investment. That is why, as a rule, pre-financing by borrowing capital, e.g. in the form of bank loans, is required for a certain period depending on the structure of the fund concerned until the placement has been completed. These bank loans are only granted if some sort of guarantee is provided. As the fund company does not yet have the necessary assets, various companies of the HCI Group, in addition to other participating cooperation partners, offer the financing banks security, e.g. through guarantees.

The HCI Group has entered into a number of contracts concerning the placement of funds. As collateral for the claims arising from these contracts the Group had guarantees and guarantee-like commitments amounting to EUR 94.1 million and USD 857.8 million on December 31, 2006, which include loan amounts valued at EUR 82.3 million and USD 555.0 million respectively. Placement guarantees amounting to EUR 186.0 million and USD 128.7 million still exist, of which EUR 55.4 million and USD 48.8 million respectively are part of the funds not yet included in the equity raised for the funds. If the loans cannot be repaid according to plan, there is a risk that the HCI Group company providing the guarantee will be held liable for non-fulfillment of commitments.

The HCI Group counters this risk through a diversified, not mutually correlated range of products. Furthermore, there is also strong diversification within the different product groups (different types and sizes of ships, different types of ship funds, several foreign markets for the real estate funds, e.g. Austria, USA or the Netherlands) and a suitable quality strategy for the selection of objects and the design of funds. Through a balanced distribution of the placement volume between the different sales channels, the HCI Group endeavors to attain a stable level of product sales.

2.4 Dependence on company employees with proficient knowledge of the sector
The success of the HCI Group's business activities is influenced to a great extent by quick access to attractive investment objects for its funds. This access is often obtained through the business relations that individual employees of the different HCI Group companies have acquired in their long years of experience.

By continuously expanding personnel marketing, it is possible to recruit and retain the human resources needed by the HCI Group for its further growth on a long-term basis. Dependence on key persons is to be reduced by extending and improving the documentation of corporate processes and know-how.

2.5 Dependence on sales partners
The HCI Group has only a very limited number of distribution channels with direct links to end consumers. It is therefore dependent on efficient sales partners outside the Group. If individual or particularly important sales partners or a large number of them simultaneously, were to become unavailable, either temporarily or permanently, this would have a negative impact on the sales of the products offered by the HCI Group. In order to counteract that, the HCI Group has an effective diversification strategy in the form of a multi-channel sales platform that uses the distribution channels of independent financial agents, banks and other sales organizations. Access to independent sales was significantly strengthened through the investment in Aragon AG.

2.6 Risks arising from growing globalization and possible acquisitions
The HCI Group intends in future to progressively offer its products and to expand its sales structures or build up new ones in other European countries apart from Germany, Austria, Switzerland and Hungary. In addition to business relations with new sales partners, this could also be done through participation in suitable sales organizations or through the founding of subsidiaries or branches in other countries. Experience has shown that the search for partners and employees in other countries, the establishment of a sales organization and the ongoing control of operations and compliance with the legal regulations in the countries concerned, involves costs and ties up management capacities. Therefore foreign experts are integrated in international activities. Partnerships are established with partners who have the technical qualifications and a good reputation in order to achieve optimal capacity for action in foreign markets.

2.7 IT risks
In order to minimize the risks of system failures the HCI Group has introduced numerous safety measures. These include, among other things, data mirroring of all server systems, the use of backup strategies that include external tape storage, and emergency plans that include disaster recovery concepts. Access control systems, encryption software, firewall systems, and virus protection programs are used to protect IT systems and data.

3. Overall risk

The assessment of risks confronting the HCI Group in the last fiscal year did not produce any significant risks posing a threat to the existence or continued existence of the Group, or have a crucial effect on the net assets, financial position and results of the Group. The risk management of the Group is monitored regularly by the Management Board.

The Supervisory Board receives a risk management report on a quarterly basis.

E. Supplementary report

The Management Board will propose that a dividend of EUR 33,600,00.00 be paid from HCI Capital AG's net profit for the 2006 financial year totalling EUR 35,600,105.55, as determined in accordance with the provisions of the German Commercial Code, and that the remaining profit of EUR 2,000,105.55 be carried forward.

In January and February 2007, a number of stock transactions took place at shareholder level, during the course of which MPC Capital AG acquired 15.1 %, Corsair Capital LLC 10.0 % and the Peter Döhle Schiffahrts KG 10.0 % of the outstanding stock in HCI Capital AG. MPC Capital AG is entitled to the voting rights acquired by Corsair Capital LLC. In connection with these transactions, Christ Capital GmbH disposed of a 3.3 % share bundle, retaining 8.8 % of the outstanding stock in HCI Capital AG, and HCI SICAR A.G. withdrew completely as a shareholder.

No significant events other than those described above have occurred during the 2007 financial year to date.

F. Forecast report

1. Development of business and strategy

According to the estimates of the International Monetary Fund (IMF), the global economy is expected to develop in an overall positive manner during 2007 with major growth impulses coming from Asia, as well as some from Europe. Experts meanwhile expect the U.S. economy to come in for a gentle landing. Just recently, the EU Commision raised its forecast for economic growth in the euro zone and the entire European Union by 0.3 percentage points for each, thus raising figures for the 2007 gross domestic product (GDP) in the euro zone to 2.4 percent and in the entire European Union to just over 2.7 percent respectively. In Germany, the forecast for GDP growth has been increased by 0.6 percentage points to 1.8 percent.

Following receipt of the placement results for 2006 and carrying out his own survey of funds initiators, business and funds analyst Stefan Loipfinger sees a realistic chance of equity capital placements totalling approximately EUR 11.5 billion for closed-end investment models in 2007.

Given this basis, HCI Capital AG estimates raising equity capital amounting to approximately EUR 700 million and generating an annual net profit of approximately EUR 31 million in 2007. This would result in earnings of approximately EUR 1.29 per share. In 2007, HCI Capital AG intends to continue its current policy of distributing high dividends.

The reduced profit forecast compared to the 2006 financial year is essentially based on the implementation of the diversification strategy, the intention of stabilizing recurrent revenues and a conservative estimate of revenues from brokerage of ships, intermediary ship trade and the sale of real estate.

By diversifying the product portfolio the HCI Group reduces its dependence on the development of individual markets and product segments. HCI Capital AG will continue to sell closed-end investments in the market segments ship, real estate, private equity, secondary life insurance and asset creation plans in Germany as well as selected HCI products in the group's already established foreign markets. Further diversification of the product portfolio is planned for 2007, in terms of investment objects as well as product structures. Certificate sales by the group brand HSC provides an opportunity for the group to participate in the positive development of the market for structured products.

The continual broadening of the range of HCI Capital AG products and services throughout all product segments enlarges the value chain while developing additional sources of income. Earnings are further stabilized by increasing management activities in the segments ship, real estate and secondary life insurance in 2007, thereby increasing the forecast reliability of the HCI Group's business success.

To a growing extent, HCI Capital AG is placing its management competence and broad network at the disposal of international institutional investors, thus expanding another very promising area of business, asset management. Within the scope of its cooperation with Behringer Harvard, an estimated EUR 250 million will be invested in office and commercial properties in the West European market during 2007.

Within the diversification strategy the structure of sales and marketing activities ranks top priority with HCI Capital AG's wide sales network consisting of independent sales partners, commercial and mutual savings banks and sales organizations creating the foundation for future sales success. Independent sales partners play a major role for HCI Capital AG's sales concept. Its recent acquisition of 25 %-plus-one share in the financial-services provider Aragon AG affords access to a large number of potential independent sales partners, thus ideally positioning HCI Capital AG to accommodate for the structural changes in the fast-growing financial-services sector. Certificates, a new area of business currently being developed, will particularly profit from the close cooperation with Aragon AG's sales force. The cooperation with Aragon AG also ensures independent sales partners presently working for HCI liability coverage for the entire range of authorized financial products on the market.

HCI Capital AG's targets for 2007 include developing new product areas, stabilizing business success and laying a secure foundation for sustained growth.

2. Business development in the segments
The following business development is expected in the ship, real estate, private equity and secondary life insurance market segments.

2.1 Ship segment
As in previous years, development of the international shipping charter markets will be determined by global economic growth estimated at 4.9 % in 2007, a figure which is greatly influenced by the booming growth rates in China (+ 10 %) and India (+ 8 %). Although in 2006 charter rates dropped somewhat in comparison to the boom in 2005, they continue to lie above the long-term average of the past years. Market experts estimate a minimal decline in charter rates for 2007, a development underscored by the ongoing high price of ships. Based on slightly declining charter rates yet a generally sound market development in shipping in 2007, the HCI Group plans to place an equity volume in the retail area of approximately EUR 335 million, hence slightly below the previous year's level. The gross profit margin will more or less match that of the 2006 financial year.

Placement volumes in 2007 will continue to increase the income from trust and service activities, in turn, increasing the term-related annual recurring revenues.

Further, equity capital will be placed with institutional investors for the first time during the current financial year with a specially created ship corporation being placed in charge of marketing activities.

Finally, the expansion of shipping business in the associated and joint venture companies HAMMONIA Reederei GmbH & Co. KG and HELLESPONT HAMMONIA GmbH & Co. KG will lead to higher investment income in 2006.

2.2 Real estate segment
The overall global increase in demand for top-rate properties led to a general decline in the rate of return on real estate. Based on long-standing contacts in its core markets Germany, the Netherlands, Austria and the U.S.A., the HCI Group is in a position to design sustainable first-rate real estate fund products adapted to a changing economic environment. Apart from that, other real estate markets are being studied as prospective investment possibilities.

Opportunity funds will play a major role in the market in 2007. The product line introduced last year beginning with the launch of the HCI Real Estate Growth I USA fund of funds will be continued in 2007. A follow-up product focusing on investments in emerging markets is presently in the planning phase. Previously launched similar funds focusing on investments in India and Brazil also fall into this segment. Further fund investments are currently being negotiated. An initial equity capital volume of USD 55 million is planned for this fund.

Another product innovation in 2007 is a U.S. mezzanine fund with an equity capital volume of approximately USD 55 million, a fund which provides German investors the opportunity to act as loan creditors together with institutional partners in the U.S. for structured, high-interest commercial real estate financing.

As part of its cooperation with Behringer Harvard further real estate investments totalling approximately EUR 250 million in Europe are planned for 2007 with Behringer Harvard's equity capital share amounting to approximately EUR 25 million, and the HCI Group's to approximately EUR 10 – 15 million on the basis of a three to five year investment term.

In the real estate segment, the placement of equity capital volume totalling EUR 125 million is planned in 2007.

2.3 Private equity segment
A clear recovery of the market in 2006 led to a 149.7 % increase in raised equity against the previous year in this segment. The good economic outlook and corresponding product availability offer additional possibilities for growth. A placement volume of approximately EUR 50 million is estimated for 2007.

After the HCI Private Equity V fund was closed on December 31, 2006, a follow-up product which has already made investments in some target funds prior to raising equity capital, is presently being designed. Design completion and sales launch are scheduled for the second quarter of 2007.

Furthermore, a newly designed asset creation plan with investments focusing on ship funds as well as secondary life insurance funds and private equity funds of funds was launched in late 2006. The growing acceptance, market penetration and continued development of asset creation plans offer fine growth opportunities for 2007 and 2008.

2.4 Secondary life insurance market
In the opinion of the HCI Group secondary life insurance market funds offer investors good opportunity-risk profiles and will continue to establish themselves in its product range as a reliable form of investment, with an estimated volume of EUR 100 million in 2007.

The sales potential, particularly in the British market for secondary life insurance, tends to be limited because of the availability of suitable investment objects in the secondary markets. This is due essentially to the rising demand of German fund initiators. Consequently, the British secondary life insurance market funds launched in the latter half of 2006 will be closed during the first quarter of 2007 in spite of high demand. After reaching a specified level of investment other funds will be launched during the latter half of 2007. Another German secondary life insurance market fund is planned for the second half of 2007 after a fund which was designed and launched in 2006 has reached full placement.

Due to the tight market situation U.S. secondary life insurance market funds will very likely not be included in the range of HCI products in 2007.

As of 2008, the future development of all three product versions in this segment will depend on the development of the secondary life insurance market as a whole.

Compared to British products, German secondary life insurance market funds have a smaller sales margin. The revenue-specific differences between the individual secondary life insurance market funds depend on a number of factors such as the market situation, the estimated yields and the reward-to-risk profiles of the individual life insurances.

2.5 Structured products

During the latter half of 2006, the HCI Group subsidiary HSC began developing the market for certificates. At the time, HSC was granted approval for carrying out financial services by the Federal Financial Supervisory Authority (BaFIN). The placement of the first certificate has started in early 2007, which investors may simultaneuously use to invest in the British and German secondary life insurance markets. In addition to certificates, capital investment products are also offered as closed-end funds featuring the qualities of structured products, for example guarantees. As part of a new segment, this very product concept is scheduled for introduction to the sales market during 2007: an innovative fund of funds concept combining investments in ship funds with a capital guarantee provided by a major German bank.

The HCI Group plans to establish and develop the new Structured Products segment, most specifically certificates as a new type of investment during the 2007 financial year. A placement of approximately EUR 90 million is planned.

3. Business development in the regions

In 2006, placement of equity capital in Austria through HCI's Austrian subsidiary increased from EUR 21.7 million in the previous year to EUR 26.6 million.

Sales activities in Switzerland began in the fourth quarter of 2006 through the subsidiary, HCI Swiss AG, Zürich-Kloten (Schweiz), acquired in the 2005 financial year. HCI Swiss AG's activities cover the real estate segment with focus on placement of the Dutch funds, investments in ships and British secondary life insurance market funds.

In the 2007 financial year, 8 % to 10 % of the total equity capital placement is to be sold outside the German market.

G. Net assets, financial position and result of operations of the parent company HCI Capital AG

The annual financial statements of HCI Capital AG are drawn up in accordance with the German Commercial Code (HGB) and German Stock Corporation Act (AktG) regulations as opposed to the consolidated financial statements which are drawn up in accordance with IFRS.

1. Result of operations

The following table itemizes the key figures relating to the results of HCI Capital AG for the 2006 financial year in comparison to the financial year 2005.

In EUR million	2006	2005
Other operating income	20.4	12.1
Personnel expenses	-4.9	-5.1
Other operating expenses	-5.3	-10.1
Investment income	34.3	52.0
Other financial result	1.0	0.3
Income taxes	-9.9	-12.5
Net profit for the year	**35.6**	**36.7**

In the 2006 financial year **other operating income** mainly comprises revenues from the resale of ships amounting to EUR 18.6 million (previous year: EUR 8.3 million). Furthermore, it includes rebates on VAT (value-added tax) for the 2005 financial year of EUR 0.6 million.

The **personnel expenses** for 2006 include the remuneration of the HCI Group executive management.

The **investment income** consists of the dividends or in-phase profit transfers during the same period amounting to EUR 9.5 million (previous year: EUR 11.5 million) and income from control and transfer-of-profits agreements totalling EUR 24.9 million (previous year: EUR 40.5 million) as well as from expenses from transfer of losses totalling EUR 0.1 million (previous year: EUR 0.0 million). In the 2006 financial year the company received income from control and transfer-of-profits agreements with HCI Hanseatische Capitalberatungsgesellschaft mbH amounting to EUR 16.3 million (previous year: EUR 34.4 million), with HSC Hanseatische Sachwert Concept GmbH amounting to EUR 8.6 million (previous year: EUR 6.0 million) and with HCI Asset GmbH amounting to EUR -0.1 million (previous year: EUR 0.1 million). The income from dividends or in-phase profit transfers during the same period amounted to EUR 8.0 million (previous year: EUR 8.3 million) for HCI Hanseatische Schiffstreuhand GmbH, and EUR 1.5 million (previous year: EUR 2.4 million) for HSC Hanseatische Management GmbH.

Other financial results contain EUR 1.5 million in interest income and EUR 0.5 million in interest expenses, accrued primarily as liabilities to affiliated companies as a result of cash poolings.

The drop in the tax ratio from 25.4 % in the 2005 financial year to 21.8 % in the 2006 financial year results primarily from the proportionately high share of other operating income from the sale of ships which for tax purposes were essentially treated as investment income with the corresponding trade tax specifics.

2. Net assets

The following table itemizes data from the HCI Capital AG financial statement.

Assets	December 31, 2006 in EUR m	in %	December 31, 2005 in EUR m	in %
Investments	63.6	33.8	30.2	17.9
Receivables from associated companies and joint ventures	72.5	38.6	41.3	24.4
Receivables and other assets	9.9	5.3	12.3	7.3
Cash and cash equivalents	42.0	22.3	85.3	50.4
Total assets	**188.0**	**100.0**	**169.1**	**100.0**
Equity and liabilities				
Equity	143.6	76.4	141.5	83.7
Provisions	10.6	5.6	10.6	6.3
Liabilities to banks	25.5	13.6	2.5	1.5
Trade payables	0.2	0.1	0.6	0.3
Payables to affiliated companies	1.6	0.8	2.8	1.7
Other liabilities	6.5	3.5	11.1	6.5
Total equity and liabilities	**188.0**	**100.0**	**169.1**	**100.0**

The increase in **investments** as per December 31, 2006 by EUR 33.4 million to EUR 63.6 million (previous year: EUR 30.2 million) is in an amount of EUR 29.5 million due to the acquisition of 25 %-plus-one-share in Aragon AG. Further, HCI Capital AG founded the HCI Institutional GmbH with a nominal capital and capital reserves totalling EUR 3.5 million.

The **receivables from affiliated companies** consist of dividends or transfer of revenue from affiliated companies in the 2006 financial year, plus EUR 1.2 million from transferred service costs originating from a management contract with HCI Hanseatische Capitalberatungsgesellschaft mbH.

Other assets contain receivables from loans totalling EUR 8.7 million.

The reduction in **cash and cash equivalents** mainly results from investments made in financial assets and the distribution of the dividend agreed on during the Annual General meeting on May 18, 2006.

The positive change in **equity** was generated by the annual net income for the 2006 financial year of EUR 35.6 million. The dividends paid by HCI Capital AG to its shareholders totalling EUR 33.6 million have a contrary effect.

Provisions contain tax provisions amounting to EUR 5.6 million (previous year: EUR 5.9 million), comprising current income taxes for the year under review and deferred taxes amounting to EUR 0.2 million for future tax payments. Furthermore, provisions have been set aside for bonuses (EUR 2.9 million) and profit-sharing (EUR 1.5 million).

The rise in **bank debts** from EUR 2.5 million as per December 31, 2005 to EUR 25.5 million as per December 31, 2006 is due primarily to the intermediate loan taken out for EUR 22.0 million for the acquisition of an interest in Aragon AG.

Other liabilities contain liabilities for VAT payments for the years 2005 and 2006 amounting to EUR 6.4 million. The VAT payments for 2005 are covered by the assignment of VAT and the corresponding receivables to HCI Hanseatische Capitalberatungsgesellschaft mbH, while the VAT for 2006 was paid in full.

H. Disclosure requirements pursuant to Article 289, paragraph 4 and Article 315, paragraph 4 of the German Commercial Code (HGB)

Pursuant to the legislation for the implementation of the EU Takeover Bids Directive (2004/25/EC), adopted by the European Parliament and Council on April 21, 2004, the disclosure requirements for the management reports of companies whose stock has been accepted by a Member State of the EU for trading in a regulated market have been amplified.

1. The company's subscribed capital amounts to EUR 24,000,000.00, divided into 24,000,000 no-par-value registered shares. All of the stock is common stock, there are no different stock categories. All stock is voting stock and entitled to dividends. Each share is entitled to one vote during the Annual General Meeting.

2. To the best of the knowledge of the Management Board there are no restrictions on the voting power or transferral of stock, including stock from agreements between shareholders.

3. Direct or indirect interests in the equity capital of HCI Capital AG exceeding 10 percent of the voting rights existed as per December 31, 2006 in favor of HCI SICAR A.G., Munsbach, Luxembourg, with an interest of 31.73 %; Chase Nominees Ltd., London, England, with an interest of 12.63 %; and Christ Capital GmbH, Hamburg, Germany, with an interest of 12.08 %. Within the context of a reorganization of the HCI Capital AG shareholder structure in early 2007, only MPC Capital AG, Hamburg, Germany, retains over 10 % of voting rights. MPC Capital AG announced on February 9, 2007 that it is entitled to a 25.12 % share of voting rights.

4. Special shares with controlling powers do not exist.

5. Voting right control based on the amount of share capital held by employees does not exist.

6. The members of the Management Board are appointed and their membership terminated pursuant to Article 84 f of the German Companies Act (AktG). According to this, the Supervisory Board is responsible for appointing and dismissing or terminating the membership of a member of the Management Board based on majority of votes.

   Amendments to the articles of association (Articles 133 and 179 of the German Companies Act [AktG]) shall be carried out at the Annual General Meeting. The Annual General Meeting exercised its option to transfer authority to the Supervisory Board to carry out changes in the amendments of the articles of association only, pursuant to Article 16, subparagraph 3 of the Articles of Association as stated in Article 179, paragraph 1, section 2 of the German Companies Act (AktG). Resolutions arising at the Annual General Meeting and involving an amendment to the articles of association are generally passed by majority vote pursuant to Article 16, subparagraph 1 of the Articles of Association. In cases where controlling interest is required, such resolutions shall be passed with capital majority unless otherwise mandatory by law or articles of association.

7. The Management Board shall be entitled to issue new stock based on resolutions passed at the Annual General Meeting.

   The Management Board is authorized to obtain approval from the Supervisory Board to raise the sum of subscribed capital by issuing new stock against cash or non-cash contribution one or more times until a total of EUR 6,000,000.00 is attained and by the latest August 20, 2010 pursuant to Article, subparagraph 3 of the Articles of Association, thereby granting subscription rights to shareholders. The Management Board is entitled to except the shareholders from subscription rights one or more times provided the Management Board has the approval of the Supervisory Board.

   There are no regulations in the Articles of Association pertaining to stock buyback.

8. Material agreements subject to the condition of change of control for HCI Capital AG do not exist.

9. Agreements for compensation of board members or employees in the event of a takeover offer entered into by the company do not exist.

Success in numbers.

Annual financial statements are momentary images of long-term corporate development. Only after a number of years does a whole picture result. The HCI Capital AG results for 2006 merge with the preceding years' road of success.

Bamboo is a superlative plant, growing up to one meter a day and eventually reaching a full height of as much as 38 meters, with stems, or culms, attaining a diameter of 80 centimeters. In the Andes of South America, this perennial evergreen may be found as high as 4,700 meters above sea level.

Consolidated income statement

in EUR '000	Note	2006	2005
Revenues	*(19)*	**145,611**	**150,193**
Other operating income	*(20)*	21,286	12,799
Change in inventories		-35	236
Cost of purchased services	*(21)*	-69,088	-68,068
Personnel expenses	*(22)*	-23,861	-21,746
Depreciation on property, plant and equipment and amortization of intangible assets	*(23)*	-3,838	-4,133
Other operating expenses	*(24)*	-21,054	-22,217
Results of associated companies and joint ventures accounted for using the equity method	*(25)*	2,037	980
Earnings before interest and taxes (EBIT)		**51,058**	**48,044**
Interest income	*(26)*	2,419	1,618
Interest and similar expenses	*(26)*	-1,484	-855
Other financial result	*(26)*	3,210	7,299
Earnings before taxes (EBT)		**55,203**	**56,106**
Income taxes	*(27)*	-15,727	-18,285
Consolidated net income for the year		**39,476**	**37,821**
Consoldiated net income for the year attributable to the group		39,473	37,807
Consolidated net income for the year atributable to minority shareholders		3	14
Earnings per share (basic) in EUR	*(28)*	1.64	1.80
Earnings per share (diluted) in EUR	*(28)*	1.64	1.80

Consolidated balance sheet

Assets

in EUR '000	Note	Dec. 31, 2006	Dec. 31, 2005
Non-current assets		**65,314**	**27,484**
Intangible assets and property, plant and equipment	*(5),(6)*	11,768	14,909
Investments in joint ventures accounted for using the equity method	*(7)*	39,979	2,224
Other investments	*(7)*	12,966	10,342
Other financial assets	*(11)*	601	9
Current assets		**160,391**	**170,531**
Work in progress and finished services	*(8)*	2,010	2,043
Trade receivables	*(9)*	58,678	25,456
Receivables from related parties	*(10)*	1,355	4,174
Income tax receivables		147	35
Other current assets	*(11)*	32,088	44,260
Other financial assets		31,709	42,382
Other miscellaneous assets		379	1,878
Liquid funds		58,613	94,563
Assets held for sale	*(12)*	7,500	0
Deferred taxes	*(27)*	**1,381**	**1,223**
Total assets		**227,086**	**199,238**

Equity and Liabilities

in EUR '000	Note	Dec. 31, 2006	Dec. 31, 2005
Equity	*(13)*	**123,347**	**117,654**
Subscribed capital		24,000	24,000
Capital reserve		76,016	76,016
Consolidated retained earnings		38,006	32,133
Currency translation		-143	0
Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions		-14,532	-14,596
Minority interests		0	101
Non-current provisions and liabilities		**626**	**649**
Pension provisions	*(14)*	16	14
Liabilities to banks	*(16)*	591	635
Other financial liabilities	*(18)*	19	0
Current provisions and liabilities		**99,155**	**78,402**
Other provisions	*(15)*	2,402	1,250
Liabilities to banks	*(16)*	33,023	10,298
Trade payables		26,394	18,078
Payables to related parties	*(17)*	4,263	7,610
Income tax payables		20,224	32,118
Other current liabilities	*(18)*	12,849	9,048
Other financial liabilities		4,563	8,019
Other miscellaneous liabilities		8,286	1,029
Deferred taxes	*(27)*	**3,958**	**2,533**
Total equity and liabilities		**227,086**	**199,238**

Consolidated cash flow statement

in EUR '000	2006	2005
Consolidated net income for the year	39,476	37,821
Depreciation, amortization and impairment/ write-ups of non-current assets	3,838	4,133
Gains(-) /losses(+) from joint ventures	-2,037	-980
Gains(-) / losses(+) from the disposal of non-current assets	-27	-128
Increase in pension provisions and other long-term obligations	2	2
Changes in deferred taxes	1,268	688
Other non-cash income and expenses	-241	1,056
Increase/ decrease in working capital	-17,349	-9,255
Increase/ decrease in inventories	33	-312
Increase in trade receivables	-32,547	-7,950
Increase/ decrease in pre-financing of limited liability partner contributions	1,668	-1,250
Increase/ decrease in other assets	9,798	-12,976
Increase in current provisions	1,155	-6,591
Increase in trade payables	8,318	5,826
Increase/ decrease in receivables from and payables to related parties	2,274	-1,003
Increase/ decrease in other liabilities	-8,042	15,126
Other movements in operating activities	-6	-125
Cash flow from operating activities	**24,930**	**33,337**
Proceeds from disposals of intangible assets and property, plant and equipment	39	262
Net cash outflow from the disposal of consolidated companies	66	0
Proceeds from disposal of investments	538	2,086
Payments for investments in intangible assets and in property, plant and equipment	-800	-2,855
Net cash inflow (+)/ outflow (-) for the acquisition of shares in companies under common control	-40	-1,737
Payments for subscribed shares in associated companies	-35,852	-350
Payments for other investments	-11,316	-2,864
Cash flow from investing activities	**-47,365**	**-5,458**
Dividends paid to shareholders of HCI Capital AG	-33,600	-23,000
Proceeds from capital contributions	0	78,879
Proceeds from additions to other financing liabilities	33,220	103
Repayments of other financing liabilities	-10,298	-5,925
Repayments of acquisition price deferrals in business combinations	-2,837	-8,321
Cash flow from financing activities	**-13,515**	**41,736**
Changes in cash and cash equivalents	**-35,950**	**69,615**
Cash and cash equivalents at the beginning of the period	94,563	24,948
Cash and cash equivalents at the end of the period	**58,613**	**94,563**

Consolidated statement of changes in equity

in EUR '000	Subscribed capital	Capital reserve	Consolidated retained earnings	Foreign currency translation adjustment	Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions	Total	Minority interests	Consolidated equity
Balance at 01/01/2005	**20,000**	**0**	**17,326**	**0**	**- 11,573**	**25,753**	**87**	**25,840**
Consolidated net income for the year (consolidated comprehensive income)	--	--	37,807	--	--	37,807	14	37,821
Capital increase as part of the initial public offering of HCI Capital AG	4,000	76,016	--	--	--	80,016	--	80,016
Acquisition of shares in companies under common control	--	--	--	--	- 3,023	- 3,023	--	- 3,023
Distributions to shareholders		--	-23,000	--	--	- 23,000	--	- 23,000
Balance at 12/31/2005	**24,000**	**76,016**	**32,133**	**0**	**- 14,596**	**117,553**	**101**	**117,654**
Consolidated net income for the year	--	--	39,473	--	--	39,473	3	39,476
Change of currency translation differences	--	--	--	-143	--	- 143	--	- 143
Consolidated comprehensive income	--	--	39,473	-143	--	39,330	3	39,333
Successive acquisition of shares	--	--	--	--	64	64	-104	- 40
Distributions to shareholders	--	--	- 33,600	--	--	-33,600	--	- 33,600
Balance at 12/31/2006	**24,000**	**76,016**	**38,006**	**-143**	**- 14,532**	**123,347**	**0**	**123,347**

Segment reporting

Business segments

in EUR '000	Shipping 2006	Shipping 2005	Property 2006	Property 2005	Private equity 2006	Private equity 2005
Revenues to external customers	101,351	119,343	14,353	11,913	5,259	2,283
Change in inventories	20	115	-201	379	-82	-45
Cost of purchased services	-47,783	-55,063	-5,005	-3,988	-3,791	-1,442
Gross profit	**53,588**	**64,395**	**9,147**	**8,304**	**1,386**	**796**
Other operating income	22,032	11,954	848	840	57	42
Personnel expenses	-7,462	-7,353	-3,387	-2,998	-535	-180
Depreciation, amortization and impairment losses	-2,999	-3,558	-101	-113	-22	-23
Other operating expenses	-13,285	-13,853	-3,964	-3,108	-493	-420
Results of joint ventures accounted for using the equity method	2,317	980	0	0	0	0
Earnings before interest and tax (EBIT)	**54,191**	**52,565**	**2,543**	**2,925**	**393**	**215**
Results from investments in funds	525	442	2	3	156	47
Segment assets	**70,217**	**51,306**	**13,961**	**4,201**	**2,558**	**2,208**
Investments in funds	**11,073**	**9,244**	**1,043**	**905**	**7**	**7**
Segment liabilities	**30,697**	**19,972**	**2,580**	**1,877**	**528**	**108**
Significant non-cash expenses and income	**-2,057**	**-3,623**	**-101**	**-113**	**-22**	**-23**
Capital expenditures on non-current segment assets	**293**	**555**	**101**	**137**	**0**	**0**
Capital expenditures on investments in funds	**2,343**	**2,660**	**585**	**152**	**0**	**2**

Segment reporting

Geographical segments

in EUR '000	Germany 2006	Germany 2005	Foreign 2006	Foreign 2005
Revenues to external customers	142,776	149,134	2,835	1,059
Segment assets	129,951	68,045	2,443	504
Investments in funds	12,883	10,309	0	2
Capital expenditure on non-current segment assets	757	4,533	43	22
Capital expenditure on investments in funds	3,141	2,852	0	2

	Life insurance		Total segments		Other/holding		Consolidation		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	24,614	16,654	145,577	150,193	34	0	0	0	145,611	150,193
	228	-213	-35	236	0	0	0	0	-35	236
	-12,443	-7,575	-69,022	-68,068	-66	0	0	0	-69,088	-68,068
	12,399	**8,866**	**76,520**	**82,361**	**-32**	**0**	**0**	**0**	**76,488**	**82,361**
	103	289	23,040	13,125	2,065	2,993	-3,819	-3,319	21,286	12,799
	-2,247	-1,429	-13,631	-11,960	-10,230	-9,786	0	0	-23,861	-21,746
	-614	-364	-3,736	-4,058	-102	-75	0	0	-3,838	-4,133
	-4,048	-2,887	-21,790	-20,268	-3,083	-5,247	3,819	3,298	-21,054	-22,217
	0	0	2,317	980	-280	0	0	0	2,037	980
	5,593	**4,475**	**62,720**	**60,180**	**-11,662**	**-12,115**	**0**	**-21**	**51,058**	**48,044**
	4,032	3,233	4,715	3,725	0	0	0	0	4,715	3,725
	7,938	**5,369**	**94,674**	**63,084**	**41,050**	**6,280**	**-2,691**	**-1,371**	**133,033**	**67,993**
	226	**77**	**12,349**	**10,233**	**534**	**78**	**0**	**0**	**12,883**	**10,311**
	2,363	**5,226**	**36,168**	**27,183**	**11,364**	**6,293**	**-2,698**	**-1,278**	**44,834**	**32,198**
	-1,335	**-399**	**-3,515**	**-4,158**	**-415**	**-88**	**0**	**0**	**-3,930**	**-4,246**
	104	**3,322**	**498**	**4,014**	**302**	**541**	**0**	**0**	**800**	**4,555**
	150	**30**	**3,078**	**2,844**	**63**	**10**	**0**	**0**	**3,141**	**2,854**

Consolidated statement of changes in non-current assets Development of intangible assets

in EUR '000

2006	01/01/2006	Additions	Reclassifi-cations
Purchased intangible assets	27,378	182	217
Goodwill	2,264	0	0
On-account payments for intangible assets	49	237	-217
Total	**29,691**	**419**	**0**

in EUR '000

2005	01/01/2005	Additions	Reclassifi-cations
Purchased intangible assets	23,753	3,625	0
Goodwill	2,264	0	0
On-account payments for intangible assets	0	49	0
Total	**26,017**	**3,674**	**0**

Consolidated statement of changes in non-current assets Development of investment properties and property, plant and equipment

in EUR '000

2006	01/01/2006	Changes in companies consolidated	Additions	Reclassifi-cations
Land, land rights and buildings	3,361	0	22	1
Other equipment, furniture and fixtures	3,307	0	359	-1
Total	**6,668**	**0**	**381**	**0**

in EUR '000

2005	01/01/2005	Changes in companies consolidated	Additions	Reclassifi-cations
Land, land rights and buildings	3,088	43	234	0
Other equipment, furniture and fixtures	2,760	176	647	0
Total	**5,848**	**219**	**881**	**0**

	Historical costs	Cumulative amortization and impairment losses				Carrying value	
Disposals	12/31/2006	01/01/2006	Amortization and impairment losses	Disposals	12/31/2006	12/31/2006	01/01/2006
-1,324	26,453	-18,348	-3,162	1,293	-20,217	6,236	9,030
0	2,264	-68	0	0	-68	2,196	2,196
0	69	0	0	0	0	69	49
-1,324	**28,786**	**-18,416**	**-3,162**	**1,293**	**-20,285**	**8,501**	**11,275**

	Historical costs	Cumulative amortization and impairment losses				Carrying value	
Disposals	12/31/2005	01/01/2005	Amortization and impairment losses	Disposals	12/31/2005	12/31/2005	01/01/2005
0	27,378	-15,093	-3,255	0	-18,348	9,030	8,660
0	2,264	-68	0	0	-68	2,196	2,196
0	49	0	0	0	0	49	0
0	**29,691**	**-15,161**	**-3,255**	**0**	**-18,416**	**11,275**	**10,856**

Historical costs		Cumulative depreciation and impairment losses					Carrying value	
Disposals	12/31/2006	01/01/2006	Changes in companies consolidated	Depreciation and impairment losses	Disposals	12/31/2006	12/31/2006	01/01/2006
-22	3,362	-1,112	0	-289	22	-1,379	1,983	2,249
-140	3,525	-1,922	0	-387	68	-2,241	1,284	1,385
-162	**6,887**	**-3,034**	**0**	**-676**	**90**	**-3,620**	**3,267**	**3,634**

Historical costs		Cumulative depreciation and impairment losses					Carrying value	
Disposals	12/31/2005	01/01/2005	Changes in companies consolidated	Depreciation and impairment losses	Disposals	12/31/2005	12/31/2005	01/01/2005
-4	3,361	-764	-24	-326	2	-1,112	2,249	2,324
-276	3,307	-1,382	-146	-553	159	-1,922	1,385	1,378
-280	**6,668**	**-2,146**	**-170**	**-879**	**161**	**-3,034**	**3,634**	**3,702**

Proximity makes details accessible.

Sound judgment of business development requires in-depth examination beyond operating and performance figures. Quality is detected in the details.

The genus of the true lily comprises about 110 species, with new species still being discovered, particularly in Asia. The black markings on the flower are genetic, however not the pattern of the markings itself. This is what makes each lily flower unique.

Notes to the consolidated financial statements of HCI Capital AG as at December 31, 2006 in accordance with IFRS

General

HCI Capital AG, Hamburg, was created from HCI Holding GmbH ("HCI Holding (new)") by converting that company's legal form pursuant to a conversion resolution dated January 25, 2005 and amended March 8, 2005. The conversion was registered in the commercial register of the local court of Hamburg on March 30, 2005. The share capital of the company of EUR 24,000,000 is divided into 24,000,000 no-par value registered shares. At December 31, 2006, 7,614,646 shares (31.73 %) were held by HCI SICAR A.G., 2,900,000 shares (12.08 %) by Christ Capital GmbH, 1,620,000 shares (6.75 %) by Schroders plc and 1,302,000 (5.43 %) shares by the Bank of New York Brussels Branch. The remaining 10,563,212 shares (44.01 %) have been widely held since the company's IPO in October 2005. HCI Capital AG and its legal predecessor, HCI Holding (new), are referred to jointly as "HCI Capital AG" below.

HCI Capital AG and its subsidiaries ("HCI Group") together constitute a service group operating mainly in Germany. The Group primarily designs, develops and initiates closed-end funds in the product segments ships, real estate, secondary life insurance market, and private equity and subsequently places the related limited partnership interests with investors. In addition, the Group manages the equity placed and the fund assets on a fiduciary basis (after-sales services).

(1) Principles of preparation of the financial statements

As required by the regulations of Directive (EC) No. 1606/2002 of the European Parliament and of the Council dated July 19, 2002 regarding the adoption of International Financial Reporting Standards, the consolidated financial statements of HCI Capital AG as at December 31, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and Article 315 a (1) of the German Commercial Code (HGB). The IFRS requirements were fully complied with, leading to a fair presentation of the net assets, financial position and results of operations of the HCI Group.

Certain items in the income statement and balance sheet have been aggregated to improve clarity of presentation. These items are explained in the notes to the financial statements. The income statement was prepared using the nature of expense method.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties held by associated companies and derivative financial instruments, which are stated at fair value as at the balance sheet date.

The consolidated financial statements are prepared in Euro. Unless otherwise noted all amounts are in thousands of Euro ('000 EUR).

The consolidated financial statements and the Group management report are published in the electronic German Federal Gazette [Bundesanzeiger].

(2) Consolidation

(a) Consolidation group

The consolidation group of the HCI Group is as follows:

	December 31, 2006	December 31, 2005
Fully consolidated companies		
Domestic	26	26
Foreign	4	4
Investments in associated companies accounted for using the equity method		
Domestic	3	2
Foreign	1	--
Joint ventures accounted for using the equity method (all domestic)	2	2

A detailed list of companies consolidated and accounted for using the equity method in these financial statements is provided in Note (35).

During the financial year 2006, two newly formed companies (2005: 3) and associated companies (2005: 2) were included for the first time. Two companies were deconsolidated as at March 31, 2006. For changes in the consolidation group, please refer to the transactions described under (c), (d) and (e) of this section.

Sixty-one subsidiaries (2005: 49) have not been included in the consolidated financial statements for this financial year because, in the aggregate, they are insignificant to the net assets, financial position and results of operations of the Group. The investments in these companies, which act as general partners in fund companies, are reported at cost as investments in affiliated companies. Joint ventures set up for the acquisition or construction of ships and dissolved following the sale and delivery of the ships are not accounted for using the equity method because they are insignificant.

(b) Consolidation principles

The consolidated financial statements of the HCI Group include all significant domestic and foreign subsidiaries for which HCI Capital AG has the power to directly or indirectly control their financial and operating policies.

Companies acquired from third parties are consolidated beginning on the acquisition date using the purchase method. Under the purchase method the cost of the investment acquired is eliminated against the proportional fair value of the subsidiary's assets and liabilities acquired at the time of acquisition. Any resulting positive difference is recognized as goodwill. Negative differences arising from initial consolidation are immediately recognized in income. The acquisition date is the date at which control over the net assets and the financial and operating activities of the acquired company is transferred to the Group.

In subsequent periods, any fair value step-ups on assets and liabilities recognized as part of the initial consolidation are either reported at cost, depreciated, amortized or written-off depending on the development of the assets and liabilities they relate to. Goodwill is tested for impairment at least annually subsequent to the acquisition. If an impairment is found to exist, the asset is written down to the lower recoverable amount.

Step acquisitions of subsidiaries where the HCI Group has previously obtained control of the company are accounted for as transactions between shareholders. Any difference between the purchase price and the minority shareholder's share of net equity at acquisition is recognized under "Net cost in excess of net assets acquired through acquisitions of companies under common control and step acquisitions" within consolidated equity. For these transactions, assets and liabilities are not recognized at fair value and no goodwill is recognized.

Business combinations involving the acquisition of shares from HCI SICAR A.G., HCI Trust AG or from companies controlled by HCI SICAR A.G., HCI Trust AG or its parent company are accounted for as transactions between entities under common control. The cost of the investment acquired is eliminated against the proportional net assets of the subsidiary at their IFRS carrying amounts at the time of acquisition. Any resulting positive or negative difference is recognized under “Net cost in excess of net assets acquired through acquisitions of companies under common control and step acquisitions”. Assets and liabilities are not recognized at fair value and no goodwill is recognized.

Funds initiated by the HCI Group are included in the consolidated financial statements as special purpose entities provided the HCI Group, due to the lack of substantive participating rights of the limited partners, controls the financial and operating policies of the company through the general partners, and is able to obtain corresponding economic benefits from the operations of the fund. Due to the classification of the limited partner's interest in the funds as liabilities in accordance with IAS 32, the limited partner's interests in equity and net income or loss are reported as liabilities and expenses or income, respectively.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intercompany profits are eliminated where material.

Companies which the Group operates jointly with other partners and associated companies in which the Group has a significant influence on the financial and operating policies without, however, the ability to control these policies, are included in the consolidated financial statements using the equity method. Goodwill and the proportional fair value of assets and liabilities are determined based on the principles underlying full consolidation. In the consolidated financial statements, these companies are accounted for using the equity method based on their IFRS financial statements as at the Group’s balance sheet date. Losses from associated companies or joint ventures exceeding the carrying amount of the investment and other long-term receivables related to the financing of these companies are not recognized provided there is no obligation to fund these losses. Intercompany profits are not eliminated as these are not material. Where the HCI Group has acquired investments in associated companies and is holding them for sale, these investments are not accounted for using the equity method in accordance with IFRS 5.

The financial statements of HCI Capital AG, its consolidated subsidiaries, associated companies and joint ventures are all prepared using uniform accounting policies. The financial statements of the consolidated subsidiaries were prepared at the balance sheet date of HCI Capital AG. The financial statements of HAMMONIA Reederei GmbH & Co. KG, HELLESPONT HAMMONIA GmbH & Co. KG and their general partners, which are accounted for as associated companies and joint ventures in the consolidated financial statements as at December 31, 2006, were prepared as at September 30, 2006, since the financial statements of these companies as at December 31, 2006 were not available when the consolidated financial statements of the Group were prepared, due to the business volume and the type of operations of these companies. All other associated companies were included based on a balance sheet date of December 31, 2006.

(c) Significant newly founded companies

On September 1, 2005, the HCI Group entered into an agreement with Peter Döhle Schiffahrts-KG and Hellespont (Deutschland) GmbH, a subsidiary of the Hellespont Group, based in Greece, to subscribe for a limited partner's interest of EUR 250,000 in HELLESPONT HAMMONIA GmbH & Co. KG. The object of this company is to plan and manage tanker construction projects and to subsequently charter the tankers. The HCI Group has a 25 % limited partners’ interest in HELLESPONT HAMMONIA GmbH & Co. KG.

Under a purchase and transfer agreement dated September 1, 2005 the HCI Group acquired a 25 % interest in the nominal capital of Verwaltung HELLESPONT HAMMONIA GmbH, the general partner of HELLESPONT HAMMONIA GmbH & Co. KG, at its nominal value of EUR 6,000.

In addition, the HCI Group and Behringer Harvard Holland B.V. co-founded BH & HCI Real Estate Holding B.V. under articles of incorporation dated October 24, 2006. The HCI Group holds a 45 % interest in the share capital of BH & HCI Real Estate Holding B.V. The purpose of this joint venture is the acquisition of real estate with high potential for capital appreciation, as well as the management and subsequent sale of these properties after they have been restructured as necessary. The properties will be placed in individual property companies in accordance with Dutch law, with the shares belonging 100 % to BH & HCI Real Estate Holding B.V. At the reporting date, the shares of seven property companies were held. The properties held by the subsidiaries are measured at fair value.

(d) Acquisitions

(I) Acquisitions between companies under common control

HCI Hanseatische Capitalberatungsgesellschaft mbH acquired all of the shares of HCI Swiss AG, a company under the control of HCI SICAR A.G., under a share purchase and assignment agreement dated September 1, 2005. The purchase price amounted to EUR 1,950,000 and was paid on September 22, 2005. Because the shares were acquired from HCI SICAR A.G., this acquisition is accounted for as a transaction between entities under common control. Therefore, the difference between the purchase price and the equity of the company of EUR 3,023,000 is recognized in “Net cost in excess of net assets acquired through acquisitions of companies under common control and step acquisitions”.

(II) Other acquisitions

On May 5, 2006, the HCI Group subscribed for a 31.28 % interest in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG, a fund initiated by the HCI Group. The HCI Group's total interest amounts to EUR 7,501,000. The HCI Group intends to dispose of EUR 7,500,000 of this interest. It is considered to be highly probable that the disposal will take place within twelve months. As a result, the EUR 7,500,000 interest has been classified as assets held for sale in accordance with IFRS 5 and presented within current assets. At December 31, 2006, there were no indications that the carrying value will not be realised in the intended disposal process.

Under a share purchase and assignment agreement dated December 13, 2006, HCI Capital AG acquired 25 % plus one share of Aragon AG, Wiesbaden, a company listed in the Entry Standard of the Frankfurt Stock Exchange. The business of Aragon AG and its subsidiaries consists of placing financial products and providing related services. The acquisition of the shares, which results in the HCI Group gaining significant influence, is thus intended to strengthen the HCI Group’s distribution activities. The purchase price for the shares amounted to EUR 29,450,000 and was paid on December 21, 2006. In addition, the HCI Group incurred EUR 167,000 in incidental acquisition costs. The shares acquired were transferred on December 21, 2006. The shares are not transferable until November 27, 2010, except that, with prior permission, they may be sold off the stock exchange to institutional or strategic investors.

In addition, the share purchase and assignment agreement grants the HCI Group the right to purchase a further 5 % of the shares. This right is exercisable up to and including December 31, 2011. Further, the HCI Group was given the right of first refusal for another 41.95 % of the shares of Aragon AG, exercisable when the seller disposes of these shares.

Since no consolidated financial information for Aragon AG was available at the time these consolidated financial statements were prepared, the purchase price has not yet been allocated.

(III) Step acquisitions after control has been obtained

Under an agreement dated October 2, 2006, HCI Capital AG acquired a 20 % interest in Grundstücksverwaltungsgesellschaft Koch’sche Scheune mbH from outside shareholders for a purchase price of EUR 40,000. As HCI Capital AG already had control over the financial and operating policies of the company at the time of the acquisition, the transaction represents a step acquisition after control has been obtained. Therefore, the difference of EUR 64,000 between the purchase price of EUR 40,000 and the acquired proportion of the company’s equity of EUR 104,000 was recognized in “Net cost in excess of net assets acquired through acquisitions of companies under common control and step acquisitions”.

(IV) Effects of acquisitions

The fair values of the assets and liabilities acquired in the acquisition of HCI Swiss AG in 2005 described above, including the reconciliation of the cash outflow or inflow from acquisitions, are as follows:

EUR '000	
Property, plant and equipment	49
Accounts receivable and other assets	66
Cash and cash equivalents	213
Payables to related parties	-667
Other liabilities	-734
Net assets excluding	**-1,073**
Net cost in excess of net assets acquired through acquisitions of companies under common control	3,023
Cost	**1,950**
Less cash and cash equivalents acquired	213
Net cash outflow from acquisitions	**1,737**

Had the shares in HCI Swiss AG been acquired on January 1, 2005, net income for the year would have increased by EUR 147,000. There would have been no change in consolidated revenues in this case as the revenues of HCI Swiss AG consist mainly of sales commissions received from the HCI Group which would have been eliminated on consolidation.

(e) Disposal

The HCI Group sold its interests in HCI Weser Trader Schiffstreuhand GmbH & Co. KG and HCI Jade Trader Schiffstreuhand GmbH & Co. KG under an agreement dated February 14, 2006. HCI Weser Trader Schiffstreuhand GmbH & Co. KG and HCI Jade Trader Schiffstreuhand GmbH & Co. KG were included in the ship segment. The disposal resulted in a gain of EUR 15,000. The proceeds of EUR 117,000 were offset against certain of the HCI Group's liabilities due to the sold companies. The effect of the disposal of the assets and liabilities of the sold companies on the financial position of the HCI Group was insignificant.

(f) Translation of foreign currency financial statements

The assets and liabilities of subsidiaries whose functional currency is not the Euro are translated at the closing exchange rate on the balance sheet date. Income statement amounts are translated at the weighted average exchange rate for the year. Components of shareholders' equity of subsidiaries are translated at the corresponding historical exchange rate. The resulting currency translation differences are recognized in the foreign currency translation adjustment in consolidated shareholders' equity.

The Swiss subsidiary of HCI Capital AG, HCI Swiss AG, is currently responsible for sales support to funds set up by the HCI Group in southern Germany. The services it provides and significant components of expenses in the form of sales commissions are mostly invoiced in Euros, so that the Euro was determined to be the functional currency of HCI Swiss AG. Therefore, in accordance with IAS 21, all transactions denominated in the local currency, the Swiss franc, or in other currencies are translated at the exchange rate prevailing at the time of the transaction. Monetary assets and liabilities are translated at the balance sheet date exchange rate.

The exchange rates for the translation of significant foreign currency financial statements have developed as follows in relation to the Euro:

	Average rate		Closing rate	
Foreign currency for EUR 1	**2006**	**2005**	**December 31, 2006**	**December 31, 2005**
U.S. dollar	1.2557	1.2040	1.3200	1.1843

(3) Accounting policies

(a) Recognition of revenue and expenses

Sales revenues are recognized when services are rendered if the amount of revenues can be reliably measured and it is probable that economic benefits will flow to the Group. Services in connection with the placement of the funds are deemed to be rendered when the limited partner signs the subscription form and the statutory cancellation term or, if longer, the contractual cancellation term has expired.

Trust and service fees are recognized over the term the particular service is rendered. Upfront fees payable by the limited partners or the funds when the respective trust or service agreements are entered into are recognized in income at fair value at that time, provided an identifiable service is rendered by the HCI Group and direct costs can be allocated to that service.

Commissions for services provided by partners in connection with the placement of limited partnership interests in the funds are recognized as cost of purchased services at the time the corresponding revenues are recognized. As the material risks and rewards arising from the distribution of funds are attributed to the HCI Group, distribution revenues and sales commissions are reported gross in the consolidated financial statements.

Work in progress, which represents costs incurred during the preparation of the prospectus, is expensed in proportion to limited partnership interest placements.

Other operating expenses are charged to income as incurred or as the goods or services are consumed.

Interest expense and interest income is recognized as incurred. The Group does not capitalise interest incurred in connection with the acquisition, construction or production of certain assets.

Income and expenses from profit and loss transfer agreements are measured based on the profit or loss determined in accordance with German accounting principles (HGB) and recognized at the end of the financial year. Dividend income is recognized when received. Dividends are normally received in the same period in which the shareholder's right to receive payment is established.

(b) Intangible assets

Purchased intangible assets are recognized at cost.

Purchased intangible assets having a definite useful life are amortized over their expected economic useful lives on a straight-line basis beginning when they are ready for use as follows:

	Useful life in years
Trust and service agreements	1 – 12
Sales partner list	10
Software	3 – 10

Other than goodwill, the HCI Group has no intangible assets with an indefinite useful life. The carrying amount of goodwill is tested for impairment at least annually.

The Group does not have any internally generated intangible assets.

(c) Property, plant and equipment

Property, plant and equipment is capitalized at historical cost and depreciated on a straight-line basis over its estimated economic useful life. Gains or losses on the disposal of property, plant and equipment are reported as other operating income or other operating expense.

Depreciation is charged over the following useful lives used group-wide:

	Useful life in years
Buildings	40
Leasehold improvements	Lease term, max. 5 – 15
Other equipment, furniture, and fixtures	3 – 14

Minor-value assets in property, plant and equipment are expensed in the year of addition.

(d) Impairment losses on intangible assets and property, plant and equipment

HCI Capital AG tests non-current assets for impairment.

For purposes of the impairment tests, goodwill is allocated to the same reporting unit as for internal reporting purposes. These reporting units usually correspond to the individual Group companies. The cash flows of the reporting units are discounted at a cost of capital rate derived from that of peer companies. Impairment losses are recognized if the present value of the cash flows is lower than the carrying value of the reporting unit's non-current assets and working capital including the allocated goodwill.

Impairment losses on other intangible assets and property, plant and equipment are recognized if, due to certain events or developments, the carrying amount of the assets exceeds both the expected disposal proceeds (fair value less cost to sell) and the discounted expected cash flows from continued use of the asset (value in use). The cash flows are also discounted at a cost of capital rate derived from that of peer companies. If the recoverable amount for an individual asset cannot be determined, cash flows are determined for the next higher group of assets for which such cash flows are determinable.

Impairment losses are reversed in subsequent periods if the reasons for the impairment no longer exist. The carrying amount of an asset, increased due to a reversal of an impairment loss, cannot exceed the carrying amount that would have been determined had no impairment loss been previously recognized for the asset. Impairment losses recognized on goodwill are not reversed.

The impairment test is performed at the end of the financial year. The rate used to discount reporting unit cash flows in 2006 was 10.7 % (previous year: 11.8 %). The net cash flow is determined on the basis of projects planned in the individual reporting periods with a forecast horizon of three years. Anticipated growth for the period following the detailed three-year planning phase is accounted for by an interest rebate of 1.5 %.

(e) Non-current financial assets and securities
The HCI Group recognises financial assets on the date received, i.e. on the settlement date.

For measurement purposes, interests in subsidiaries not consolidated due to their immateriality and fund interests held by the HCI Group and reported under securities and other non-current financial assets are classified as "available for sale financial assets" in accordance with IAS 39. Other securities and non-current financial assets are also considered "available for sale financial assets" in accordance with IAS 39. Available for sale financial assets are measured at fair value at the balance sheet date or, if this cannot be determined at all or not reliably, at amortized cost. Since the fair values of the fund interests held by the HCI Group cannot be derived either from price quotations on the secondary market due to the lack of trading volume or by appropriate valuation techniques, these fund interests are valued at amortized cost.

(f) Work in progress and finished services
Work in progress and finished services include services incurred during the prospectus preparation phase in connection with fund conception and development. Capitalized work in progress and finished services are measured at historical costs including all the direct costs and overheads attributable to the service. Costs to be capitalized include the personnel and overhead costs which have arisen since the beginning of the prospectus preparation phase, as well as allocable external costs, in particular consultancy costs for the conception of funds and costs for valuation reports as part of the preparation of the prospectus. Capitalization ceases at the point in time the fund is marketable.

At balance sheet date, work in progress and finished services are measured at the lower amount of historical cost and net realizable value. The net realizable value represents the estimated sales proceeds less the expected costs to be incurred until the start of the placement.

If the reasons for impairment of work in progress and finished services cease to exist, the impairment loss is reversed accordingly.

(g) Accounts receivable and other assets
Trade receivables and other assets are measured initially at their fair values plus transaction costs. Subsequently, they are measured at cost.

Default risks are accounted for using appropriate allowances which are determined based on historical loss rates and individual risk evaluation.

(h) Cash and cash equivalents
Cash and cash equivalents comprise bank and cash balances.

(i) Assets held for sale
Assets classified as held for sale must be disclosed as assets held for sale provided that sale is highly probably within 12 months of classification as held for sale. An IFRS 5 classification is required only if the assets are available for sale and are being actively marketed for sale. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(j) Pension provisions
Provisions for pension obligations are calculated in accordance with IAS 19 using the projected unit credit method. The measurement of the pension obligations is based on actuarial reports. The defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on high-quality corporate bonds which, with respect to currency and term, correspond to the underlying pension obligations.

If the actuarial gains and losses resulting from changes in the actuarial assumptions exceed 10 % of the pension obligations at the beginning of the financial year, the amount exceeding the 10 % limit is recognized as income or expense over the remaining service period of the employees participating in the plan (corridor method).

Service cost and actuarial gains and losses recognized are recorded in personnel expenses. The interest portion included in pension expenses is reported as interest expense.

(k) Other provisions
Other provisions account for all recognizable legal and constructive obligations of the Group to third parties provided that the settlement of these is probable and the amount can be reliably estimated. Provisions are measured in accordance with IAS 37 at the amount expected to settle them. Non-current provisions are measured at their discounted settlement amounts at the balance sheet date based on appropriate market interest rates.

(l) Liabilities
Liabilities are initially recognized at their fair values under consideration of transaction costs as well as premiums and discounts. Subsequently, they are measured at cost applying the effective interest method.

(m) Deferred taxes
Deferred taxes are recognized to account for the future tax effects of temporary differences between the tax bases of assets and liabilities and their carrying amount in the IFRS financial statements as well as on tax losses carried forward. Deferred taxes are measured on the basis of the tax laws enacted by legislators at the end of the appropriate financial year and applicable to the financial years in which the differences reverse or in which tax losses carried forward can be utilized. Deferred tax assets for temporary differences or tax losses carried forward are only recognized to the extent that the ability to utilize them in the near future appears to be reasonably certain.

Deferred taxes are recognized for temporary differences resulting from the fair value measurement of assets and liabilities as part of business combinations. Deferred taxes are only provided on temporary differences relating to goodwill if the goodwill can be utilized for tax purposes.

Deferred tax assets and liabilities are only offset where deferred taxes are related to income taxes levied by the same tax authority and the current taxes can be netted.

(n) Derivative financial instruments
Derivative financial instruments are entered into by HCI Group to secure the interest risks of the real estate funds.

Derivative financial instruments are accounted for at fair value. Changes in fair values are recognized in income. To the extent that, based on contractual agreements, the effects on the derivatives are to be taken over by the funds, receivables or payables corresponding to the fair value of the derivative financial instrument are recognized.

(o) Transactions in foreign currency
Purchases and sales in foreign currency are converted at the exchange rate at the date of the transaction. Assets and liabilities in foreign currency are converted into the functional currency at the exchange rate prevailing on the balance sheet date. The foreign exchange gains and losses arising from these conversions are recognized in the income statement.

(p) Fair value of financial instruments
The fair values of the financial instruments are determined on the basis of appropriate market values or valuation methods. For liquid funds and other non-derivative financial instruments, the fair values correspond to the carrying values at balance sheet dates.

For non-current receivables and other assets as well as for non-current provisions and liabilities, the fair value is determined based on expected cash flows by applying reference interest rates effective at balance sheet date. The fair values of derivative financial instruments are determined based on reference interest rates in effect at balance sheet date.

(q) Use of estimates
The preparation of the IFRS consolidated financial statements requires the use of estimates and assumptions that have an influence on the measurement of assets and liabilities, the disclosure of contingent liabilities at balance sheet date and the presentation of income and expenses. Material estimates and assumptions were made in particular with regard to the determination of fair values of the investment properties held by associated companies of the HCI Group, uniform group depreciation and amortization rates on current trust and service contracts (December 31, 2006: EUR 3,056 k; December 31, 2005: EUR 5,507 k), allowance rates for receivables and the utilization of deferred tax assets (December 31, 2006: EUR 8,030 k; December 31, 2005: EUR 3,051 k). The amounts actually arising in the future can deviate from the amounts resulting from these estimates and assumptions.

(4) Newly issued accounting standards by the IASB

The basis for the HCI Group's financial statements in accordance with IRFS and pursuant to the EU directive No. 1606/2002 in connection with Article 315 a, paragraph 1 of the German Commercial Code (HGB), are the IASB accounting principles for business financial statements endorsed and adopted by the Commission of the European Communities.

The HCI Group was not obliged to adopt the new IFRS and revised IFRS published by the IASB during the 2005 and 2006 financial years until a corresponding resolution was passed by the European Commission in the course of an endorsement proceeding.

In December 2004 the IASB published some partial changes to IAS 19 effective for annual periods beginning on or after January 1, 2006. An earlier application of these changes is permitted. The revised version of IAS 19 gives companies the option to account for the actuarial gains and losses of all pension plans within equity so that the present value of the pension obligation is recognized at the defined benefit obligation less the fair value of plan assets at balance sheet date. This additional accounting option was not exercised in the HCI Group.

Furthermore, the IASB published a change to IAS 39 in June 2005 which restricts the possibility to classify financial assets and liabilities in the category “at fair value through profit and loss.” The adoption of these changes did not have any effect for the 2006 financial year.

The changes to IAS 21 “The Effects of Changes in Foreign Exchange Rates” published by the IASB in June 2005 and changes to IFRS 6 “Exploration for and Evaluation of Mineral Resources” published in December 2005 effective for annual periods beginning on or after January 1, 2006 have no effect on the IFRS consolidated financial statements due to the nature of the business activities of the HCI Group.

In August 2005, the IASB published changes to IAS 32, IAS 39 and IFRS 4, effective for annual periods beginning on or after January 1, 2006. The changed standards prescribe the initial recognition of financial guarantees at fair value and a subsequent measurement of these guarantees at the higher value of (a) the original amount entered (if necessary, less the amortizations undertaken according to the rules of IAS 18 “Revenue”) and (b) the amount to be recognized according to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets.” The impact of the application of the changes in the standards on the HCI Group's net assets and results of operations was only minor, as the HCI Group grants no more than a limited number of financial guarantees in connection with the sale of shares in fund companies.

In addition to the IFRS 7 "Financial Instruments: Disclosures," published by the IASB in August 2005, the rules applying to the information on financial instruments to be given in the Notes to financial statements were revised and made uniform. IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the rules in IAS 32 "Financial Instruments: Disclosure and Presentation." IFRS 7 is effective for annual periods beginning on or after January 1, 2007, an earlier application is recommended. This standard was not applied by the HCI Group ahead of time. The company is presently in the process of determining what the impact of all these changes will be on its IFRS consolidated financial statements.

In accordance with the changes in IAS 1 as published by the IASB in August 2005, the financial statements shall present information in the public interest concerning the evaluation of goals, methods and processes of capital management. These changes are effective for annual periods beginning on or after January 1, 2007. First-time application will extend the information given in the Notes to financial statements. The company is presently in the process of determining what the impact of all these changes will be on its IFRS consolidated financial statements.

The IASB published IFRS 8 "Operating Segments" in December 2006, replacing IAS 14, effective for annual periods beginning on or after January 1, 2009. IFRS 8 is based on the management approach and requires reporting on operating segments to the chief operating decision maker. The company is presently in the process of determining what the impact of all these changes will be on its IFRS consolidated financial statements.

Furthermore, IFRIC issued the following interpretations, all passed or effective as of 2005 or 2006:

- IFRIC 4 "Determining whether an Arrangement Contains a Lease"
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 "Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"

The newly issued interpretations IFRIC 10, 11 and 12 have not yet been adopted by the Commission of the European Communities, however, it is doubtful that their application will have any significant effects.

IFRIC 4 standards for the classification of maintenance, service or other type of lease arrangement as defined in IAS 17 and effective for all annual periods beginning on or after January 1, 2006 was applied by the HCI Group for the first time for the 2006 financial year, however, did not have any effect on net assets or results of operations.

IFRIC 11 defines that impairment losses on non-current assets in interim financial statements may not be revoked in future interim financial statements nor in IFRS consolidated financial statements for the annual period referred to.

Due to the nature of its business activities, applications resulting from interpretations of IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 11 and IFRIC 12 are not relevant for the HCI Group.

Notes to the consolidated balance sheet

(5) Intangible Assets
The development of individual items of intangible assets of the Group is presented in the statement of changes in non-current assets.

Intangible assets acquired mainly arise from the capitalization of trust and service contracts with certain funds or limited partners. These contracts were acquired by HCI Hanseatische Schiffstreuhand GmbH as part of the acquisition of businesses in 1998 and 2001. The capitalized amounts in both years are amortized straight-line over the remaining terms of the relevant contracts. The remaining terms amounted to between one and five years as of December 31, 2006. On December 31, 2006 the carrying amounts of these contracts amounted to EUR 3,057 k (Dec. 31, 2005: EUR 5,507 k).

(6) Property, Plant and equipment
With regard to the development of property, plant and equipment, please refer to the statement of changes in non-current assets of the HCI Group.

As of December 31, 2006, intangible assets and property, plant and equipment with historical costs of EUR 1,638 k (Dec. 31, 2005: EUR 1,339 k) that have already been fully written off, are still being used.

(7) Investments
Joint ventures, accounted for using the equity method, generated a total result for the period October 1, 2005 to September 30, 2006 of EUR 4,856 k (previous year: EUR 1,832 k) and revenues of EUR 17,984 k (previous year: EUR 2,518 k). Non-current assets of these companies on September 30, 2006 amounted to EUR 43,419k (previous year: EUR 8,225 k), current assets EUR 7,127 k (previous year: EUR 2,000 k), non-current liabilities EUR 34,440 k (previous year: EUR 3,545 k) and current liabilities EUR 1,790 k (previous year: EUR 2,958 k). The functional currency of the subsidiary of the joint venture is USD resulting in an adjustment item for currency conversion of EUR 272 k based on use of the equity method.

The associated companies, accounted for using the equity method, generated a total result of EUR -1,066 k (previous year: EUR 7 k) and revenues of EUR 2,148 k (previous year: EUR 422 k). Non-current assets of these companies amounted to EUR 23,662 k (previous year: EUR 420 k), current assets EUR 2,190 k (previous year: EUR 448 k), non-current liabilities EUR 16,625 k (previous year: EUR 15 k) and current liabilities EUR 2,935 k (previous year: EUR 846 k).

Non-consolidated shares in subsidiaries and financial instruments of the category “available for sale” included in other securities and other non-current financial instruments are measured at fair value at balance sheet date or, if this value cannot be reliably determined due to the lack of an active market or other measurement methods, at amortized cost as follows:

EUR '000	December 31, 2006	December 31, 2005
Fair values	33	31
Amortized cost	12,933	10,311
Non-current financial instruments of the category “available for sale”	**12,966**	**10,342**

Non-current financial instruments of the category “available for sale” consist of transferable investment fund interests and shares.

(8) Work in progress and finished services

Work in progress and finished services consist of the following:

EUR '000	December 31, 2006	December 31, 2005
Work in progress	831	813
Finished services	1,179	1,230
Work in progress and finished services	**2,010**	**2,043**

In the financial years presented, allowances for work in progress and finished services were not required.

(9) Trade receivables

Trade receivables consist of the following:

EUR '000	December 31, 2006	December 31, 2005
Trade receivables, gross	58,787	25,565
Allowances for trade receivables	-109	-109
Trade receivables	**58,678**	**25,456**

(10) Receivables from related parties

Receivables from related parties consist of the following:

EUR '000	December 31, 2006	December 31, 2005
Receivables from HCI SICAR A.G., HCI Trust AG, its shareholders and from companies controlled by them	--	1,305
Receivables from Christ Capital GmbH	--	337
Receivables from non-consolidated subsidiaries	3	17
Receivables from joint ventures accounted for using the equity method	1,327	2,503
Receivables from associated companies accounted for using the equity method	25	12
Receivables from related parties	**1,355**	**4,174**

Allowances for recognizable default risks were not necessary at the respective year ends.

Further comments on transactions with related parties are described under note (36).

(11) Other current assets

Other current assets comprise the following:

EUR '000	December 31, 2006	December 31, 2005
Receivables from funds	12,199	27,452
Receivables from former Group companies	11,454	11,454
Receivables from loans	7,761	754
Deferred accrued interest	376	1
Pre-financing of limited partner contributions	212	1,880
Debit balances with suppliers	71	325
Receivables from employees	50	343
Miscellaneous	187	182
Other financial assets	**32,310**	**42,391**
Deferred items	164	278
Receivables from other taxes	215	1,600
Other miscellaneous assets	**379**	**1,878**
Other current assets	**32,689**	**44,269**

The receivables from former Group companies are due from HCI Holding (old) or its legal successor. The claims result from the integrated tax inter-company relationship of HCI Hanseatische Capitalberatungs-gesellschaft mbH with HCI Holding (old) in 2002 and 2003. See note (36).

The receivables from funds recognized on December 31, 2005 include bridge loans of the HCI Group for ship constructions with a nominal amount of USD 11,426 k. Following delivery of the ships during the 2006 financial year the borrowers paid back the loans. Recognized loans also include loans bearing interest rates from 0.0 % to 8.0 % depending on their terms. Receivables from funds as of December 31, 2006 also include claims arising from guaranteed returns from life insurance secondary market funds amounting to EUR 1,230 k (previous year: EUR 587 k).

In 2006, the HCI Group granted a loan amounting to EUR 5,000 k to a limited partner in a shipping company. This loan is to be paid back as follows: an annual EUR 325 k in 2006 and 2007, thereafter a monthly amount of EUR 54 k. The interest rate on this loan amounts to 4 % p.a. On December 31, 2006, the loan including accrued interest amounted to EUR 4,680 k.

Other financial assets have the following remaining terms as of December 31, 2006:

EUR '000	Remaining term up to one year	Remaining term over one year up to five years	Remaining term of over five years
Other financial assets	31,709	601	--

(12) Assets held for sale
In accordance with IFRS 5 the only assets held for sale are the shares in Hanseatische Immobiliensfonds Holland XXVI GmbH & Co. KG, as a decision to sell these shares was made on December 31, 2006, which in all probability will be sold within 12 months of that decision as they are presently being actively marketed.

(13) Shareholders' equity
The changes in the equity components are summarized in the consolidated statement of changes in equity.

(a) Subscribed capital
Based on a resolution of the Annual Shareholders' Meeting of January 25, 2005, and amended on March 8, 2005, HCI Capital AG was formed as part of a modifying conversion from HCI Holding (new). The conversion was recorded in the commercial register at the Hamburg district court on March 30, 2005. The nominal capital of the company of EUR 20,000,000 was split into 20,000,000 no-par value bearer shares with an imputed interest on the nominal capital of EUR 1 per share. Of the 20,000,000 no-par value shares 15.200.000 were subscribed by HCI Trust AG (76 %) and 4,800,000 shares by Harald Christ Consult GmbH (24 %).

Through the purchase and assignment agreement dated April 8, 2005 the no-par value shares of HCI Capital AG held up to then by the HCI Trust AG were transferred to HCI SICAR A.G., Luxembourg. The shareholders of HCI Trust AG are identical with the shareholders of HCI SICAR A.G.

Through a resolution of the Annual Shareholders' Meeting of August 25, 2005 the bearer shares were transformed into registered shares so that the subscribed capital of the company is now divided into 20.000.000 registered ordinary shares without par value (no-par value shares) with an imputed interest on the nominal capital of EUR 1 per share.

Furthermore, the Management Board was empowered, by the creation of authorized capital with the approval of the Supervisory Board, to increase the nominal capital of the company once or several times up to a total of EUR 10,000,000 up to August 20, 2010 by issuing new shares in exchange for contributions in cash or kind. The Management Board is authorized, with the approval of the Supervisory Board, to exclude the preemptive rights of the shareholders, as agreed, and to decide on the details for the increase of capital.

The conversion of bearer shares to registered shares and the empowerment to increase nominal capital from authorized capital was entered in the Commercial Register on August 31, 2005.

In connection with the IPO of HCI Capital AG the Management Board decided on September 30, 2005, with the authorization of the Supervisory Board, to use the authorized capital to increase the nominal capital of HCI Capital AG by EUR 4,000,000 to EUR 24,000,000 in exchange for cash contributions. The increase was achieved by the issue of 4,000,000 new, registered no-par value shares with an imputed interest on the nominal capital of EUR 1 per share. The new shares are entitled to profit from January 1, 2005.

The preemptive rights of the shareholders were excluded in accordance with the bylaws, in order to place shares as part of the IPO. The capital increase was registered in the Commercial Register on October 4, 2005.

On October 6, 2005 the shares of HCI Capital AG began to be traded on the official market of the Frankfurt Securities Exchange (Prime Standard) and the Hamburg Securities Exchange. In the IPO of HCI Capital AG 13,565,217 shares were placed, of these 4,000,000 shares came from the capital increase, 1,979,010 shares from Harald Christ Consult GmbH and 7,586,207 shares from HCI SICAR A.G.. Given the placement price of EUR 20.50 per share, the company received a gross income of EUR 82,000 k from the placement. After the issue was completed HCI SICAR A.G. held 31.72 % (7,613,793 shares) and Harald Christ Consult GmbH 11.75 % of the shares (2,820,990 shares). HCI SICAR A.G. and Harald Christ Consult GmbH have made a commitment to the consortium banks to keep their shares for a period of at least 12 months (lock-up).

As part of the preferential allocation a total of 4,000 shares were allocated to Management Board members of HCI Capital AG at a placement price of EUR

20.50 per share. Employees of HCI Capital AG and its subsidiaries purchased 41,410 shares from the preferential allocation at a placement price of EUR 20.50.

On December 31, 2006 HCI Capital AG had EUR 6,000,000 of the authorized capital created through the resolution of August 25, 2005 and registered on August 31, 2005 at its disposal.

(b) Additional paid-in capital
In connection with the capital increase undertaken as part of the IPO of HCI Capital AG (see note (a) of this section) additional paid-in capital as endowed with EUR 78,000 k of the total gross income of EUR 82,000 k.

The issue costs of EUR 3,327 k less the tax effect of EUR 1,343 k incurred in connection with the issue of 4,000,000 new no-par value shares on October 6, 2005 were deducted from the additional paid-in capital.

(c) Consolidated retained earnings
The consolidated retained earnings consist of the results of the companies included in the consolidation from past and current periods to the extent that these results were not distributed.

In 2006, dividends amounting to EUR 33,600 k (previous year:. EUR 23,000 k) were distributed.

According to the German Stock Corporation Act, the dividends to be paid to shareholders are derived from retained earnings as per December 31, 2006 as reported in the individual accounts of HCI Capital AG in accordance with the provisions of the German Commercial Code. A dividend of EUR 33,600 k from retained earnings has been proposed. This is equivalent to a dividend of EUR 1.40 per share. If the Annual Shareholders' Meeting adopts this dividend, 85.1 % of the consolidated net income of the Group will be paid as dividend.

(d) Net cost in excess of net assets acquired on the acquisition of companies under common control
The net cost in excess of net assets acquired on the acquisition of companies under common control resulting from the following share acquisitions:

	EUR '000
Acquisition of companies under common control	
Acquisition of 87.2 % of the shares of HCI Hanseatische Schiffstreuhand GmbH from HCI Trust AG or one of the companies belonging to HCI Trust AG in 2002	94
Acquisition of the shares of HCI Hanseatische Schiffstreuhand GmbH through HCI Holding (old) from a company controlled by HCI Trust AG in 2003	-8,063
Acquisition of limited partner's share in Schiffsbeteiligungsgesellschaft NAUTICA mbH & Co. KG and shares in their personally liable general partner NAUTICA Beteiligungs GmbH (without interest in the partnership) from a company controlled by the shareholders of HCI Trust AG in 2004	-53
Acquisition of shares of HCI Swiss AG through HCI Hanseatische Capitalberatungsgesellschaft mbH from HCI SICAR A.G.	-3,023
Successive purchases where control already exists	
Successive purchase of limited partner share in HCI Holding und Geschäftsführung GmbH & Co KG in 2002	-3,551
Net cost in excess of net assets as per December 31, 2005	**-14,596**
Acquisition of companies under common control	
Successive acquisition of remaining 20 % in shares of property management company Koch'sche Scheune GmbH in 2006	64
Net cost in excess of net assets as per December 31, 2006	**-14,532**

(e) Minority interests
Minority interests as per December 31, 2005 concerned the Grundstücksverwaltungsgesellschaft Koch'sche Scheune mbH.

(14) Pension provisions
Pension provisions are set up for obligations for future pensions of certain active employees and their dependents from the HCI Group. The pension plans are structured as defined contribution and defined benefit plans. Furthermore, there are defined contribution pension obligations which are financed by employees as part of a salary conversion.

The defined benefit pension obligations are based on individual commitments with fixed one-off payment amounts and these are completely financed from provisions. The calculation of pension provisions for defined benefit plans is performed in accordance with IAS 19 and is based on actuarial assumptions. For the financial years below the following parameters were used:

	2006	2005
Discount rate	4.70 %	4.25 %
Salary trend	n/a	n/a
Pension trend	n/a	n/a

With regard to life expectancy, the 2005 Dr. Klaus Heubeck mortality rates are used by HCI Group companies.

For defined benefit plans, expenses amounted to EUR 2 k in 2006 (previous year: EUR 2 k), they consist of the following:

EUR '000	2006	2005
Service cost	1	1
Personnel expenses	**1**	**1**
Interest cost	1	1
Pension expense	**2**	**2**

The present value of pension obligation recognized in the balance sheet developed as follows:

EUR '000	2006	2005
Present value of pension obligation as per January 1	18	16
Service cost	1	1
Interest cost	1	1
Present value of pension obligation as per December 31	**20**	**18**

The provision amount breaks down as follows:

EUR '000	December 31, 2006	December 31, 2005
Present value of pension obligation	20	18
Unrealized actuarial gains and losses	-4	-4
Provision	**16**	**14**

For defined contribution plans, contribution payments to the amount of EUR 283 k were expensed in 2006 (previous year: EUR 338 k).

(15) Other provisions

Other provisions comprise the following:

EUR '000	Balance January 1, 2006	Increases	Utilization	Release	Balance December 31, 2006
Earnings-based bonuses	1,250	1,543	-1,190	-60	1,543
Onerous contracts	--	859	--	--	859
Other provisions	**1,250**	**2,402**	**-1,190**	**-60**	**2,402**

Provisions for obligations to employees from bonus agreements are now recognized in other liabilities because of a change in the bonus agreements in the financial year 2006 and the resulting level of concretization.

The EUR 859 k provision for onerous contracts incurred by HCI Capitalberatungsgesellschaft mbH during the financial years 2002 and 2003 was made in the 2006 financial year.

With regard to provisions for earnings-based bonuses see note (36) (d).

(16) Liabilities to banks

The significant liabilities to banks are subject to the following conditions:

	2006 EUR '000	2005 EUR '000	Loan currency	Interest rate in %	Final due date
	22,000	-	EUR	EURIBOR+0.95 %	2007
	7,500	-	EUR	EURIBOR+1.10 %	2007
	3,477	-	EUR	4.93	2007
	-	7,139	USD	variable	
	-	3,000	EUR	variable	

The HCI Group took out a loan of EUR 22,000 k to finance the share purchase in Aragon AG as interim financing, due March 31, 2007. The interim loan will be redeemed by a five-year term loan.

The HCI Group took out a loan of EUR 7,500 k to finance the share purchase in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG. Advance redemption will be made on the loan when the shares are sold. As a resale of the shares is intended this will be accounted for under current liabilities.

A loan amounting to EUR 3,477 k was taken out in 2006 for the purpose of financing limited partnership interests and shall be paid back in February 2007.

The loan denominated in USD was taken up to refinance loans for bridge financing for ship constructions (see note 11). As collateral, the claims from the loans granted for bridge financing and the claims by HCI Hanseatische Schiffstreuhand GmbH from trust and service contracts were assigned. The loan was fully paid back in 2006.

In the previous year, short-term and long-term credit lines amounting to EUR 8,063 k which have not yet been utilized were confirmed to the HCI Group.

The liabilities to banks have the following remaining terms as of December 31, 2006:

EUR '000	Remaining term up to one year	Remaining term over one year up to five years	Remaining term of over five years
Liabilities to banks	33,023	117	474

(17) Payables to related parties

Payables to related parties consist of the following:

EUR '000	December 31, 2006	December 31, 2005
Payables to HCI SICAR A.G, its shareholders and companies controlled by them	120	2,813
Payables to non-consolidated subsidiaries	910	751
Payables to the managing bodies of HCI Group	3,233	3,276
Payables to joint ventures accounted for using the equity method	--	770
Payables to related parties	**4,263**	**7,610**

Further comments on transactions with related parties can be found under note (36).

(18) Other liabilities

Other liabilities comprise the following:

EUR '000	December 31, 2006	December 31, 2005
Liabilities due to employees	3,459	4,614
Miscellaneous liabilities	468	1,069
Debtors with credit balances	384	2,078
Loans	199	188
Liabilities to funds	53	70
Other financial liabilities	**4,563**	**8,019**
Payables for other taxes	7,200	650
Payables for fiscal charges	20	231
Deferred income	1,085	148
Other miscellaneous liabilities	**8,305**	**1,029**
Other liabilities	**12,868**	**9,048**

Liabilities due to employees relate to wages and salaries outstanding, bonuses due and vacation days not yet claimed.

Other financial liabilities have the following remaining terms as of December 31, 2006:

EUR '000	Remaining term up to one year	Remaining term over one year up to five years	Remaining term of over five years
Other financial liabilities	4,563	--	--

Notes to the consolidated income statement

(19) Revenues

Revenues comprise the following:

EUR '000	2006	2005
Sales revenues		
Ship	81,236	103,180
Real estate	8,813	6,310
Private equity	4,767	2,000
Secondary life insurance market	22,968	15,333
Total sales revenues	**117,784**	**126,823**
Trust and service contract fees		
Ship	17,835	16,157
Real estate	2,724	3,199
Private equity	492	283
Secondary life insurance market	1,646	1,321
Total trust and service contract fees	**22,697**	**20,960**
Management revenues	**2,815**	**2,410**
Other revenues	**2,315**	**--**
Total revenues	**145,611**	**150,193**

In the financial year 2006 performance-related revenues were generated by the liquidation of funds and depending on specific yield-based key figures as were revenues from the taking-up of brokerage activities.

(20) Other operating income

The other operating income comprises the following:

EUR '000	2006	2005
Income from the brokerage of ships	18,648	9,401
Income from allocating IPO costs to former shareholders	--	1,626
Income from the derecognition of liabilities	458	82
Income from other services to related parties	87	72
Miscellaneous operating income	2,093	1,618
Other operating income	**21,286**	**12,799**

(21) Costs of purchased services

Costs of purchased services mainly consist of agency commissions for the sale of funds and prospectus costs.

(22) Personnel expenses

Personnel expenses comprise the following:

EUR '000	2006	2005
Wages and salaries	21,606	19,850
Social security contributions	1,891	1,646
Other social expenses	364	250
Personnel expenses	**23,861**	**21,746**

In the financial years 2006 and 2005 the Group employed an average number of 238 and 202 employees respectively.

The employer's contributions to the social pension fund are included in social security contributions.

(23) Depreciation and amortization

This item consists of the following:

EUR '000	2006	2005
Amortization of intangible assets	3,163	3,254
Depreciation on property, plant and equipment	675	879
Depreciation and amortization	**3,838**	**4,133**

Write-offs on financial assets are part of the financial result. Impairment losses on intangible assets or on property, plant and equipment were not necessary in the financial years 2006 and 2005.

(24) Other operating expenses

Other operating expenses comprise the following:

EUR '000	2006	2005
Legal, audit and consultancy fees	6,908	7,905
Advertising costs	2,205	4,423
Lease expenses	2,854	2,524
General business costs	1,595	1,807
Postage, telecommunications and IT expenses	1,808	1,403
Travel, entertainment and representation expenses	1,766	1,327
Increase for losses incurred or provided for on loans and loss of accounts receivable	858	39
Training and incentive costs	645	891
Personnel recruitment	294	477
Maintenance and repairs	109	202
Miscellaneous expenses	2,012	1,219
Other operating expenses	**21,054**	**22,217**

Other operating expenses for the financial year 2005 include costs amounting to EUR 3,157 k incurred in connection with the IPO of HCI Capital AG. As these costs are allocated to the admission on the stock market of the issued 20,000,000 shares of HCI Capital AG, a deduction of these costs from the additional paid-in capital arising from the issue of new shares according to IAS 32 is not permitted.

Lease expenses relate to contracts for the rental or leasing of property, motor vehicles and office equipment which are classified as operating leases.

(25) Results of joint ventures and associated companies accounted for using the equity method

The results were as follows:

EUR '000	2006	2005
Profits from joint ventures	2,428	978
Profits from associated companies	-391	2
Results of joint ventures and associated companies accounted for using the equity method	**2,037**	**980**

(26) Other financial results

Other financial results comprise the following:

EUR '000	2006	2005
Interest income from bank deposits	1,526	843
Interest income from receivables	888	771
Other interest income	5	4
Interest income	**2,419**	**1,618**
Interest expenses for liabilities to banks	-538	-618
Interest expenses for pension provisions	-1	-1
Interest expenses for other financing liabilities	-25	-189
Interest expenses for liabilities to other investments	-32	-26
Other interest expenses	-888	-21
Interest and similar expenses	**-1,484**	**-855**
Investment result from funds	4,715	3,725
Gain from the disposal of investments	-104	--
Net foreign exchange results	-1,496	3,386
Miscellaneous financial results	95	188
Other financial results	**3,210**	**7,299**
Financial results	**4,145**	**8,062**

The other financial results in the financial year include foreign exchange losses of EUR 2,129 k (previous year: gains of EUR 4,723 k), which arose in particular from the valuation of claims and liabilities in USD.

The results from participation in the funds also contain fees amounting to EUR 4,019 k (previous year: EUR 3,234 k) which the HCI Group received as guaranteed distributions from the secondary life insurance market funds.

(27) Income taxes

The income taxes paid or owed in the individual countries plus deferred taxes are recorded as income taxes. The income taxes comprises trade tax, corporation tax, solidarity surtax and the corresponding foreign income taxes.

The income taxes are analyzed as follows with respect to origin:

EUR '000	2006	2005
Current taxes in Germany	14,032	17,496
Current taxes in other countries	427	102
Current taxes	**14,459**	**17,598**
Deferred tax expense in Germany	1,189	668
Deferred tax expense outside Germany	79	19
Deferred tax expense	**1,268**	**687**
Income taxes	**15,727**	**18,285**

The notional income tax expense which would have arisen by applying the tax rate of the parent company HCI Capital AG of 40.4 % (previous year: 40.4 %) to the IFRS consolidated earnings before taxes, can be reconciled with the income tax expense presented in the income statement as follows:

EUR '000	2006	2005
IFRS earnings before income taxes	55,203	56,106
Group tax rate in %	40.4 %	40.4 %
Expected tax expenses	**22,297**	**22,661**
Differing tax rates	-611	-146
Changes in tax rates	-1	-31
Permanent differences	-560	2
Corrections for deferred taxes	625	168
Income taxes relating to prior years	-428	-494
Non-deductible operating expenses	630	641
Tax-exempt income	-608	-66
Additions and deductions for trade tax	-5.447	-5,215
Other effects	-170	765
Tax expenses in income statement	**15,727**	**18,285**

For companies resident in Germany with the legal form of a corporation, corporation tax amounts to 25 % (previous year: 25 %) plus a solidarity surtax of 5.5 % on corporation tax owed. Additionally, these companies and subsidiaries in the legal form of partnerships are subject to trade tax, the amount of which is determined depending on the different assessment rates prevailing in the individual municipalities. For limited companies, trade tax reduces the tax base for corporation tax. As from the 2004 financial period, corporation and trade tax losses carried forward are subject to certain restrictions. A positive taxable income of up to EUR 1,000 k can be reduced without limitation, amounts exceeding this can only be reduced up to a maximum of 60 % through an existing tax loss carried forward.

The effects of different tax rates for partnerships and for domestic and foreign taxes from the tax rate of the parent company are explained in the reconciliation under the differences caused by the different tax rates at home and abroad.

Trade tax deductions result from the elimination of gains and losses from issued funds in the legal form of a partnership that are allocable to the HCI Group.

Deferred tax assets and liabilities resulting from temporary differences and tax losses carried forward are as follows:

	December 31, 2006		December 31, 2005	
EUR '000	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Intangible assets	--	203	--	185
Property, plant and equipment	--	244	--	258
Investments	--	1,073	33	719
Work in progress and finished services	106	5	101	--
Accounts receivable and other assets	214	9,069	622	3,153
Pension provisions	--	3	--	2
Trade accounts payable	6,442	10	1,079	44
Other payables	165	--	46	--
Temporary differences	**6,927**	**10,607**	**1,881**	**4,361**
Tax losses carried forward	**1,103**	**--**	**1,170**	**--**
Total	**8,030**	**10,607**	**3,051**	**4,361**
Offsetting	-6,659	-6,649	-1,828	-1,828
Balance sheet amount	**1,381**	**3,958**	**1,223**	**2,533**

Deferred tax assets are recognized for temporary differences and tax losses carried forward as far as the ability to utilize them in the near future is probable. In the financial years 2006 and 2005, no deferred tax assets were recognized for temporary differences and tax losses carried forward which amounted to EUR 319 k and EUR 69 k for corporation tax and EUR 10,776 k and EUR 6,216 k for trade tax, since the generation of sufficient taxable income in the near future is not probable for these amounts.

The ability to carry forward tax losses in Germany is not subject to any restriction according to the current legal situation. Foreign tax losses carried forward for which deferred tax assets were capitalized are also eligible to be carried forward without restriction.

For temporary differences in connection with shares in affiliated companies amounting to EUR 1,690 k (previous year: EUR 1,690 k), no deferred tax was provided for since the reversal of differences is not expected in the foreseeable future.

(28) Earnings per share

The basic and diluted earnings per share are derived as follows:

		2006	2005
Consolidated net income attributable to shareholders in parent company	EUR '000	39,473	37,807
Weighted average of shares outstanding	Units '000	24,000	20,956
Consolidated net income attributable to shareholders in parent company per share	**EUR**	**1.64**	**1.80**

The calculation of the weighted average of the shares outstanding was based on the existing subscribed capital in financial year 2005 up to the transformation, and the subscribed capital existing after the transformation.

Through the increase of capital on October 4, 2005 the number of outstanding shares rose from 20,000,000 to 24,000,000. In this connection see note (13) (a).

During the financial years presented, there were no dilutive instruments outstanding and, thus, the diluted earnings per share are equal to the basic earnings per share.

Notes to the consolidated cash flow statement

(29) Composition of cash and cash equivalents

Cash and cash equivalents are equal to the liquid funds presented in the balance sheet and mainly include bank deposits.

(30) Other disclosures

Income taxes and interest paid or received as well as investment income are included in cash flows from operating activities as follows:

EUR '000	2006	2005
Interest paid	335	730
Interest received	1,224	912
Income taxes paid	23,874	6,363
Income taxes received	103	113
Dividends received	1,737	444

The effects of company acquisitions on the cash flow statement in the financial year 2005 presented are disclosed in note (2) (d) (II).

(31) Other non-cash transacions
In the financial years the following significant non-cash transactions were made:

EUR '000	2006	2005
Purchase of intangible assets in exchange for purchase price deferment or loan waiver	--	1,700

Notes on segment reporting

(32) General information
Segment reporting follows the provisions of IAS 14. In accordance with the internal organization, the primary reporting format is by business segments of the HCI Group. For the secondary reporting format, the geographical regions in which the HCI Group operates, are used.

(a) Business segments
The ship segment covers all the HCI Group activities in the area of conception, design, initiation, sales and trust management of ship investments. The services provided by the Group in the area of operation and management of ships are also included in this segment.

The real estate segment includes the conception, design, planning and placement of closed-end real estate funds. Property management, both during the operating phase and the subsequent sale of the property, supplements the activities of this segment.

The private equity segment sets up private equity funds of funds which invest in capital and private equity target funds and, thus, enable investors to participate in the development of the risk capital market.

Group companies that initiate secondary life insurance market funds investing in portfolios of American, British and German term insurances, belong to the secondary life insurance market segment.

(b) Geographical regions
In addition to Germany, the activities of the HCI Group stretch across the rest of Europe and the USA so secondary segmentation is between the geographical regions Germany and other countries.

(33) Segment information
The segment information is collected on the basis of the accounting policies applied in the consolidated financial statements.

Revenues to external customers represent revenues from the concept design and development, initiation and sale of investments, and the provision of trust and other services.

The internationally used indicator EBIT (earnings before interest and taxes) representing the result for the year before interest and income taxes, is applied to measure segment results.

Segment assets represent the assets necessary for operation of the individual segments. They include the intangible assets and property, plant and equipment as well as short-term current assets with the exception of loan receivables, liquid funds and the claims from current and deferred income taxes. Derived goodwill is allocated to the relevant segment assets. Segment assets of the ship segment as at December 31, 2006 included shares in associated companies and joint ventures accounted for using the equity method amounting to EUR 7,330 k (previous year: EUR 2,224 k). Shares in the associated companies BH & HCI Real Estate Holding B.V. and Aragon AG accounted for using the equity method and amounting to EUR 32,398 k, were recognized in the segment Holding/Other. Investments in funds include shares in non-consolidated subsidiaries as well as other investments and securities.

Segment liabilities include the operative liabilities and provisions of the individual segments. Liabilities to banks, pension provisions and liabilities from current and deferred income taxes, are not included in segment liabilities.

The reconciliation of the segment assets in the total assets and the segment liabilities in the liabilities of the Group is as follows:

EUR '000	December 31, 2006	December 31, 2005
Segment assets	**133,033**	**67,993**
Other investments	12,966	10,342
Receivables and other assets	21,093	25,117
Cash and cash equivalents	58,613	94,563
Deferred taxes	1,381	1,223
Group assets	**227,086**	**199,238**
Segment liabilities	**44,834**	**32,198**
Liabilities to banks	33,614	10,933
Liabilities to related parties	910	3,542
Liabilities from income taxes	20,224	32,118
Miscellaneous liabilities	199	260
Deferred taxes	3,958	2,533
Provisions and liabilities	**103,739**	**81,584**

For geographical segment reporting the revenues were segmented according to the location of the relevant group company.

Other disclosures

(34) Financial instruments

(a) Non-derivative financial instruments

The carrying amounts of the non-derivative financial instruments are equivalent to the fair values.

(b) Interest and currency risks

When placing certain funds or in making transactions in USD or SFR the Group undergoes a currency risk.

Because of the short-term nature of financial liabilities with variable interest rates, there is no significant interest fluctuation risk.

(c) Credit risk

The HCI Group is exposed to the risk that business partners, mainly property and ship funds, may not be able to fulfill their obligations to the Group. These obligations mainly exist in the settlement of receivables from distribution services as well as from trust and other services provided. The maximum default risk corresponds to the nominal values recognized in each category of financial assets.

Recognizable credit risks, which exist in particular for trade receivables, are covered by appropriate allowances

(d) Liquidity risk

In order to hedge the liquidity of the HCI Group the liquidity requirements of the Group are constantly monitored and planned. Liquid assets are available in ample quantity at all times to fulfill Group obligations for a certain period of time if necessary. Credit lines and current accounts may also be accessed for this purpose.

(35) Material subsidaries and joint ventures

The following subsidiaries and joint ventures existed on December 31, 2006:

	Group share	Segment
Subsidiaries		
HCI Hanseatische Capitalberatungsgesellschaft mbH	100 %	Ship/ real estate/ private equity/ secondary market for life insurance/ holding/other
HSC Hanseatische Sachwert Concept GmbH	100 %	Ship/ real estate/ private equity/ secondary market for life insurance
HSC Hanseatische Management GmbH	100 %	Secondary market for life insurance
Grundstücksverwaltungsgesellschaft Koch'sche Scheune mbH	100 %	Holding - Other
HCI Fonds Geschäftsführungsgesellschaft mbH	100 %	Holding – Other
HPI Hanseatic Properties International GmbH	100 %	Property
HCI Hanseatische Schiffstreuhand GmbH	100 %	Ship/ real estate/ private equity/ secondary market for life insurance/ holding – other
HCI Swiss AG	100 %	Ship/ real estate/ private equity/ secondary market for life insurance
MK Management GmbH	100 %	Ship
HCI Hanseatische Schiffsconsult GmbH	100 %	Ship
HCI Hanseatische Capitalberatungsgesellschaft für Immobilien mbH	100 %	Real estate
HCI Hanseatische Capitalberatungsgesellschaft für Beteiligungskapital mbH	100 %	Private equity
HCI Hanseatische Immobilien Treuhand GmbH	100 %	Real estate/holding -other
HCI Immobilien Consult GmbH	100 %	Real estate/holding - other
Hanseatische Immobilien Management GmbH	100 %	Real estate
HCI Hanseatische Beteiligungstreuhand GmbH	100 %	Private equity/ secondary market for life insurance
HCI Hanseatic Properties International GmbH	100 %	Real estate
HCI Vastgoed Management B.V.	100 %	Real estate
HSC Geschäftsführungsgesellschaft mbH	100 %	Secondary market for life insurance
HSC Fonds Verwaltungsgesellschaft mbH	100 %	Secondary market for life insurance
HSC Aufbauplan Management GmbH	100 %	Ship/ real estate / private equity
HCI Hanseatische Capitalberatungs-gesellschaft mbH (Wien)	100 %	Ship/ real estate
Schiffsbeteiligungsgesellschaft NAUTICA mbH & Co. KG	100 %	Ship
NAUTICA Beteiligungs GmbH	100 %	Ship
HCI Asset GmbH	100 %	Ship/ real estate/ private equity/ secondary market for life insurance/ holding – other
Hanseatische Immobilien Management Niederlande GmbH	100 %	Real estate
HCI U.S.A. Management Services Company LLC	100 %	Real estate
HCI Institutional Funds GmbH	100 %	Holding – other
HCI Hanseatische Immobilienbeteiligungs-gesellschaft mbH	100 %	Real estate
Joint ventures		
HAMMONIA Reederei GmbH & Co. KG	50 %	Ship
HAMMONIA Reederei Verwaltungs GmbH	49 %	Ship
Associated companies		
HELLESPONT HAMMONIA GmbH & Co. KG	25 %	Ship
Verwaltung HELLESPONT HAMMONIA GmbH	25 %	Ship
BH & HCI Real Estate Holding B.V.	45 %	Holding – other
Aragon AG	25 %	Holding – other

The exemption regulations pursuant to Article 264, paragraph 3 of the German Commercial Code (HGB) were applied to HCI Hanseatische Capitalberatungsgesellschaft mbH.

The list of interests of HCI Capital AG and of the Group is published in the electronic Federal Gazette (Bundesanzeiger) pursuant to Articles 287 and 313 of the German Commercial Code (HGB).

(36) Related party relationships

In accordance with IAS 24, related parties of the HCI Group are those persons and companies that control the Group or have significant influence over the Group or are controlled by the Group or are subject to significant influence by the Group. Consequently, HCI SICAR A.G., HCI Trust AG and their shareholders, the companies controlled or subject to significant influence by HCI SICAR A.G., HCI Trust AG or their shareholders, the members of the Management Board and the Supervisory Board of HCI Capital AG, as well as subsidiaries, associated companies and joint ventures of the HCI Group are defined as related parties.

In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of consolidation, the following business relationships existed with related parties.

(a) Relationships with HCI SICAR A.G., HCI Trust AG and its shareholders

In the financial years 2006 and 2005, the following business relationships existed with HCI Trust AG and HCI SICAR A.G., their shareholders and close family members of the shareholder as defined in IAS 24, and with companies controlled by them:

EUR '000	December 31, 2006	December 31, 2005
Receivables from HCI SICAR A.G., HCI Trust AG and their shareholders	--	1,305
Payables to HCI SICAR A.G., HCI Trust AG and their shareholders	120	2,813
Income statement (in EUR '000)	**2006**	**2005**
Revenues	--	61
Other operating income	--	1,290
Cost of purchased services	--	2,073
Other operating expenses	283	201
Interest expenses	23	167

Payables to HCI Trust AG, to HCI SICAR A.G. and their shareholders consist of acquisition price deferments or loans in connection with company acquisitions.

Under an agreement dated December 8, 2003 for the assignment of shares and a separate purchase price agreement dated December 9, 2003, HCI Holding (new) acquired the shares in HCI Hanseatische Schiffstreuhand GmbH held by White Elephant GmbH, a company under control of HCI Trust AG, for a purchase price of EUR 9,552 k. In accordance with the purchase price agreement, the purchase price was initially deferred bearing no interest. Under an agreement dated December 22, 2003, an interest rate of 2% p.a. was determined between White Elephant GmbH and HCI Capital AG. Under a payment agreement dated June 9, 2005 HCI Capital AG and White Elephant GmbH agreed on a repayment plan for the still outstanding purchase price of EUR 5,552 k. This agreement lays down a quarterly repayment rate of EUR 1,000 k starting on June 30, 2005, so that for the financial year 2006 the liability including interest rate were redeemed to the full amount (previous year: EUR 2,552 k plus interest amounting to EUR 261 k).

On June 22, 2004, a further amount of EUR 2,780 k was paid by HCI Trust AG to HCI Capital AG. The loan was transferred to the capital reserve of the company by way of a waiver of receivables. Under the novation dated December 3, 2004, the declared waiver was reversed resulting in the recognition of the loan in the balance sheet. Under the agreement, the loan bears interest of 2.5% beginning June 22, 2004. The loan was fully repaid in 2005.

In connection with the IPO of HCI Capital AG in October 2005 the IPO costs attributable to HCI SICAR A.G. amounting to EUR 1,290 k were charged to this company. The basis for calculating these costs was the ratio of shares sold by HCI SICAR A.G. in the IPO to the total number of issued shares.

Receivables from and other liabilities to HCI SICAR A.G., HCI Trust AG and their shareholders result from the provision of goods and services. Allowances for recognizable default risks were not necessary at the respective year ends.

Cost of purchased services relate to sales commissions incurred for the HCI funds by HCI Swiss AG, a company controlled by HCI SICAR A.G. up to August 31, 2005. The sales commissions are based on the normal conditions of the HCI Group. On September 1, 2005 the company was sold to the HCI Group (see note (2) (d) (i).

The law firm of a close family member of the shareholder of HCI SICAR A.G. and HCI Trust AG as defined in IAS 24 provided legal advice to the companies of the HCI Group to the amount of EUR 283 k (previous year: EUR 201 k).

With an individual guarantee, HCI Hanseatische Schiffstreuhand GmbH has made a commitment to a bank to guarantee the repayment of a loan granted on October 15, 2003 to SH fünfundachtzigste Verwaltungsgesellschaft mbH, which in the meanwhile operates under the name of Trademar Shipping GmbH, for the purchase of shares in a real estate fund initiated by the HCI Group. On balance sheet date a part of this loan amounting to EUR 2,200 k (previous year: EUR 2,450 k) was still outstanding. Trademar Shipping GmbH is controlled by the shareholder of HCI SICAR A.G. and HCI Trust AG.

HCI SICAR A.G. and Christ Capital GmbH issued a guarantee of up to EUR 11,500 k to HCI Hanseatische Capitalberatungsgesellschaft mbH securing the claims of HCI Hanseatische Capitalberatungsgesellschaft mbH against the former Group parent company, HCI Holding (old) or its legal successors resulting from an integrated tax relationship. The guarantee of HCI SICAR A.G. amounts to up to EUR 8,740 k, the guarantee of Christ Capital GmbH amounts to up to EUR 2,760 k. Guarantees for payment by a bank were provided amounting to a total of EUR 11,500 k from February 1 until February 5, 2007.

(b) Relationships to non-consolidated affiliated companies

There were no significant service relationships with non-consolidated affiliated companies consisting of the personally liable general partners of the funds.

(c) Relationships to associated companies and joint ventures

The following relationships existed in the financial years 2006 and 2005 with companies in which the HCI Group exercises joint control or considerable influence with other joint venture partners:

Balance sheet (in EUR '000)	**December 31, 2006**	**December 31, 2005**
Receivables from associated companies and joint ventures	1,352	2,515
Payables to associated companies and joint ventures	--	770
Income statement (in EUR '000)	**2006**	**2005**
Result from associated companies and joint ventures	2,037	980
Interest income	64	42

Receivables from associated companies and joint ventures include a loan to HAMMONIA Reederei GmbH & Co. KG amounting to USD 2,000 k for bridge loans for the construction of ships. Repayment will take place during the final financing of the ships. The interest rate applied is 4.0 % and is due on each December 31.

There were no significant trading relationships between the associated companies and joint ventures and the HCI Group.

(d) Relations to related persons

Balance sheet (in EUR '000)	**December 31, 2006**	**December 31, 2005**
Receivables from related persons	--	337
Payables to related parties	3,233	3,276
Provisions for performance-based participations	1,543	1,250
Income statement (in EUR '000)	**2006**	**2005**
Revenues	299	--
Other operating income	--	337
Personnel expenses	4,846	5,027
Other operating expenses	2,078	1,823

In the financial year 2006 the remuneration of the Management Board members was as follows:

EUR '000	**Non-profit-related remuneration**	**Profit-related remuneration**	**Total**
Harald Christ	1,174	1,786	2,960
Dr. Rolando Gennari	388	566	954
Dr. Ralf Friedrichs	366	566	932
Total	**1,928**	**2,918**	**4,846**

In the financial year 2005 the remuneration of the Management Board members of HCI Capital was as follows:

EUR '000	**Non-profit-related remuneration**	**Profit-related remuneration**	**Total**
Harald Christ	830	2,025	2,855
Dr. Rolando Gennari	447	587	1,034
Dr. Ralf Friedrichs	427	711	1,138
Total	**1.704**	**3.323**	**5.027**

The bonuses included in the variable remuneration are determined on the basis of the Group result according to IFRS obtained for the HCI Group.

In connection with the IPO of HCI Capital AG in October 2005 the proportional IPO costs amounting to EUR 337 k arising for the Christ Capital GmbH (formerly Harald Christ Consult GmbH) controlled by Harald Christ were charged to this company. The basis for calculating these costs was the ratio of shares sold by this company in the IPO to the total number of issued shares.

In the financial year 2006, Mr. Harald Christ subscribed for fund shares amounting to EUR 3,920 k, for which the HCI Group collected commission earnings amounting to EUR 299 k.

With regard to the guarantee which was granted by Christ Capital GmbH, controlled by Mr. Harald Christ, to secure the claims of HCI Hanseatische Capitalberatungsgesellschaft mbH against HCI Holding (old) or its legal successors, see note (36) (a).

On November 10, 2004 a consultancy contract effective from January 1, 2005 to December 31, 2006 was concluded with a former general manager of HCI Holding GmbH, which covers services in the area of acquisition and planning in the ship segment. The former general manager received a fixed and profit-related remuneration of EUR 1,904 k (previous year: EUR 1,667 k) for the services in the financial year 2006.

In the financial year 2006 the Supervisory Board received a remuneration of EUR 176 k, EUR 14 k of which were for 2005 (previous year: EUR 121 k). Further, expenses were incurred for the remuneration of attendance fee amounting to EUR 18 k (previous year: EUR 24 k).

(37) Contingencies

Group contingencies consist of the following:

EUR '000	December 31, 2006	December 31, 2005
Guarantees	746,891	486,989
Placement guarantees	283,955	354,639
Other commitments	--	5,738

The HCI Group provided guarantees and similar commitments amounting to EUR 94,102 k and USD 857,764 k respectively, which include loan amounts valued at EUR 82,315 k and USD 555,042 k respectively. Placement guarantees amounting to EUR 186,040 k and USD 128,661 k exist, of which EUR 55,382 k and USD 48,880 k respectively are part of the funds not yet included in the equity raised for the funds.

(38) Other financial commitments
Other Group financial commitments comprise the following:

EUR '000	December 31, 2006	December 31, 2005
Future minimum lease payments under operating leases	5,184	4,883
Purchase commitments	--	18,126
Obligation for capital contributions to joint ventures	--	250

The future minimum lease payments under lease contracts are all for operating leases and can be broken down on December 31, 2006 as follows:

EUR '000	Remaining term up to one year	Remaining term over one year up to five years	Remaining term of over five years
Future minimum lease payments under operating leases	1,895	3,289	--

(39) Declaration on the German Corporate Governance Code
The Management Board and the Supervisory Board of HCI Capital AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" were, with few exceptions, complied with, and will be complied with in future too. This declaration, stipulated by Article 161 of German Stock Corporation Act (AktG) has been made by the Management Board and the Supervisory Board and published on the web site of HCI Capital AG under www.hci.de. Thus, this declaration has been made permanently accessible to the shareholders.

(40) Mandatory disclosure of transactions in securities or participations pursuant to article 15a WpHG and articles 21 f. WpHG (German Securities Trading Act)
Pursuant to Article 15a, paragraph 1, sentence 1 WpHG (German Securities Trading Act), in connection with Article 15a, paragraph 3, sentence 2 and 3 WpHG, HCI Capital AG was notified on February 27, February 28 and August 11, 2006 by Christ Capital GmbH or Harald Christ Consult GmbH respectively of the purchase of the following no-par value shares of the company:

Number of acquired shares	Price per share
3,888	EUR 19.34
500	EUR 19.33
614	EUR 19.32
5,000	EUR 19.49
6,984	EUR 13.10
2,200	EUR 12.90
816	EUR 12.83

Furthermore, pursuant to Article 15a, paragraph 1, sentence 1 WpHG, HCI Capital AG was notified on May 11 and 19, 2006 by Dr. Rolando Gennari of the purchase of the following no-par value shares of the company:

Number of acquired shares	Price per share
300	EUR 19.30
1,000	EUR 15.59

In addition to this, no mandatory notifications on participations were made to HCI Capital AG pursuant to Article 21 WpHG during the financial year 2006.

Further notifications were not made to the company.

(41) Supervisory board and management board
The Supervisory Board of HCI Capital AG, which was confirmed at the Annual General Meeting on May 18, 2006, is made up of the following members:

Supervisory board member	Membership in other legally obligatory supervisory boards	Membership in comparable domestic and foreign control bodies
Udo Bandow Chairman Banker Hamburg	NORDINVEST Norddeutsche Investment-Gesellschaft mbH (Chairman through December 18, 2006) Hamburger Sport-Verein e.V. (Chairman through February 9, 2007) BÖAG Börsen AG (Chair) Conrad Hinrich Donner Bank AG (Vice-Chairman) HANSAINVEST Hanseatische Investment-Gesellschaft mbH (Vice-Chairman) Repower Systems AG (Member of Supervisory Board through May 30, 2006) VHV Vereinigte Hannoversche Versicherung a.G. Holsten Brauerei AG SIGNAL IDUNA – Group, Dortmund and Hamburg Fondsbörse Deutschland Beteiligungsmakler AG (Honorary chairman)	HANSA-NORD-LUX Managementgesellschaft AG, Luxemburg (President, Administrative Board) Deutsche Schiffsbank AG (Vice-Chairman, Administrative Board)
Prof. Dr. Georg Crezelius University Professor, Bamberg	RC Ritzenhoff Cristal AG (Chairman)	--
Rolf Hunck Businessman, Hamburg	Fibula Finanz AG Deutsche Bank AG	Deutsche Clubholding GmbH (Chairman, Advisory Council) Kühne Stiftung, Switzerland

The following have been appointed as members of the Management Board of the company:

- Mr. Harald Christ, Businessman, Hamburg
  - General Manager of Christ Capital GmbH, Hamburg, and Harald Christ Real Estate Management GmbH, Hamburg
  - Member of the Admission Office of the Stock Exchange, Hamburg
  - Supervisory Board of DFHH Deutsche Fondsbörse Hamburg Beteiligungsmakler AG, Hamburg
  - Supervisory Board of Interschalt AG, Hamburg
- Dr. Ralf Friedrichs, Master's degree in Business Administration (Diplom-Kaufmann), Stade
- Dr. Rolando Gennari, Businessman, Hamburg
  - Member of the Administrative Board of HCI SICAR A.G. (from March 11, 2005 to January 12, 2006)
- Mr. Wolfgang Essing, trained as a banker, Rheine (as of January 1, 2007)
  - Managing Director of Wolfgnag Essing Beteiligungs GmbH, Rheine

The remuneration of Management Board members and the remuneration of the Supervisory Board are presented under note (36).

(42) Auditor's fee

The auditor's fee, recognized as expense in the consolidated financial statements of the Group, amounted to EUR 518 k in financial year 2006 and comprised the following:

Service rendered	Fee in EUR '000
Audit services	267
Other confirmation services	44
Tax consultancy	8
Other services	199

The fees for the audit services contain expenses amounting to EUR 61 k which cover audit activities relating to the consolidated financial statements as of December 31, 2005.

(43) Events after the balance sheet date

A number of share transactions took place at executive level in January and February 2007 in the course of which MPC Capital AG acquired 15.1 %, Corsair Capital LLC 10.0 % and Peter Döhle Schiffahrts KG 10.0 % of the outstanding stock in HCI Capital AG. MPC Capital AG is entitled to the voting rights acquired by Corsair Capital LLC. In connection with these transactions, Christ Capital GmbH disposed of a 3.3 % share bundle, retaining 8.8 % of the outstanding stock in HCI Capital AG, and HCI SICAR A.G. withdrew completely as a shareholder.

No other events of any significance have occurred to date during the present financial year 2007.

The consolidated financial statements will be presented to the Supervisory Board at its board meeting on March 6, 2007 for approval.

Hamburg, February 27, 2007

HCI Capital AG

Harald Christ

Wolfgang Essing

Dr. Ralf Friedrichs

Dr. Rolando Gennari

Auditors' Report

We have audited the consolidated financial statements prepared by HCI Capital AG, Hamburg, comprising the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, and its report on the position of the Company and the Group for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a, paragraph 1 of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a, paragraph 1 of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, February 27, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Krall	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüfer

Supervisory Board Report

Dear Ladies and Gentlemen,

HCI Capital AG continued its successful business development course during the 2006 financial year, not only attaining but also exceeding performance objectives for the year under review and generating a net income of EUR 39.5 million. Implementation of a corporate strategy focusing on continued growth of the HCI Group by means of diversification and sustained stabilization of revenue and earnings was consistently pursued during the financial year under review.

In Mr. Peter Becker, president of the Hamburg Chamber of Trade, HCI Capital AG was able to win a competent and reputed alternate member for the company Supervisory Board. Mr. Becker's ballot received a majority vote at the General Meeting on May 18, 2006.

The Supervisory Board held a total of five general meetings in 2006. Essential items on the agenda included:

- Adoption of resolution approving annual financial statements, consolidated financial statements and proposal by the Management Board for the appropriation of net income 2005
- Personnel and social policy report for 2005
- PuMa database system for budget planning
- Investment in financial-services provider Aragon AG
- Quarterly figures and annual report
- Enlargement of Management Board to include a new executive division
- Risk management report
- Corporate planning and strategy

All members of the Supervisory Board were present at all of the meetings.

No committees were set up by the HCI Capital AG Supervisory Board during the 2006 financial year. A resolution for said financial year was passed on the basis of written consent.

The Management Board reported on all essential management matters to the Supervisory Board promptly and regularly and ensured that the chairman of the Supervisory Board was informed regularly on all events of fundamental importance. The high level of transparency between the Management Board and Supervisory Board resulted in a highly effective supervisory and advisory function by the latter body. Further, the Supervisory Board cultivated and developed contact with the principal shareholders.

The Supervisory Board has adopted large sections of the German Corporate Governance Code. The Declaration of Conformity as required by Article 161 of the German Stock Corporation Act (AktG) was submitted jointly by the Supervisory Board and the Management Board on February 27, 2007.

At the General Meeting KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft was appointed auditor for HCI Capital AG for the fiscal year beginning January 1, 2006 and ending December 31, 2006, thus appointing them as group financial auditor pursuant to Article 318, paragraph 2 of the German Commercial Code (HGB).

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), and a status report added to the same. KPMG Deutsche Treuhand-Gesellschaft gave an unqualified report on HCI Capital AG's annual financial statement and status report for the year ended December 31, 2006. The financial auditor gave an unqualified report on both the consolidated financial statements as well as the consolidated status report. The auditor's report on the financial statements also confirmed that the Management Board has taken the necessary action towards early risk detection pursuant to Article 91, paragraph 2 of the German Stock Corporation Act (AktG).

The Supervisory Board discussed and reviewed the financial statements in detail. Further, the chairman of the Supervisory Board met directly with the auditors. At the Supervisory Board meeting on March 6, 2007, the financial statements were discussed thoroughly with the auditors in attendance. Following careful perusal of the financial statements the members of the Supervisory Board expressly agree with the auditor's results. The consolidated financial statements drawn up by the Management Board, the annual financial statements, the consolidated status report and the HCI Capital AG status report were all approved by the Supervisory Board and therefore adopted.

The Management Board's proposal at the shareholders' meeting to use the net profit for dividend payments of EUR 1.40 per no-par share on the principal entitled to dividend in 2006 was reviewed and subsequently approved by the Supervisory Board.

The Supervisory Board would like to thank the Management Board and all employees for their strong personal commitment to the Company and the outstanding results for the eventful financial year 2006.

Hamburg, March 2007

Udo Bandow
(Chairman, Supervisory Board)

Udo Bandow
Chairman, Supervisory Board

Held several positions during his career with Vereinsbank in Hamburg, later Vereins- und Westbank, e.g. as a member of the Management Board, board spokesman and member of the Supervisory Board. Chairman of the Hanseatic Stock Exchange since 1990.

Prof. Dr. Georg Crezelius
Member, Supervisory Board

Career as a professor for tax law at the universities of Mainz and Bamberg. Held the chair for Tax Law at the latter. Member of German Federal Corporate Tax Reform Commission in 1990/91.

Rolf Hunck
Member, Supervisory Board

Held several positions during his banking career with Deutsche Bank in Hamburg where he was a member of the board, a member of the Executive Committee for Private Banking in Germany and the Executive Committee for Private Wealth Management in Germany.

Corporate Governance

Corporate Governance is synonymous with the careful and responsible governance of a corporation by its management, with the aim of creating sustained appreciation in value. Corporate Governance can only be effective if Management Board and Supervisory Board work together to promote the trust of investors by communicating openly and effectively. Precisely this has always been a matter of top priority for the HCI Group. The Management Board and Supervisory Board of HCI Capital AG have studied the statutory regulations as set forth in the German Corporate Governance Code in detail. By formulating uniform principles the code aims at making the German Corporate Governance system transparent and understandable. Its purpose is to promote the trust of both national and international investors, customers, employees and the general public in the management and supervision of listed German companies. Based on this counsel, the Declaration of Conformity below (page 122) was adopted and is also published on our web site at www.hci.de. The HCI Group embraces the German Corporate Governance Code and is committed to following its recommendations with very few deviations.

Management and supervision structure
As a listed corporation HCI Capital AG is subject to the laws pursuant to the German Stock Corporation Act (AktG) and therefore has a dual management and supervision structure, the one being a Management Board composed of four members (as of January 1, 2007), the other being a Supervisory Board composed of three members. The Management Board is responsible for managing the company and is bound to the interests of the company and the sustained increase of the company's value. The members of the Management Board are introduced on page 4 of this Annual Report.

The Supervisory Board advises and supervises the Management Board in the management of the company. The Supervisory Board approves HCI Capital AG's consolidated financial statements and confirms its annual financial statements on the basis of and taking into consideration the auditors' report. The Supervisory Board appoints the members of the Management Board. It must be involved in decisions of fundamental importance to the company. For the names, brief résumés and mandates of the members of the Supervisory Board please refer to pages 115 and 119 of this Report.

Close cooperation between Management and Supervisory Boards
The Management and Supervisory Boards of the HCI Group cooperate closely and maintain regular contact for the benefit of the company. The Management Board reports to the Supervisory Board regularly, without delay and comprehensively on all issues important to the company with regard to planning, business development, risk situation and risk management. The Management Board points out deviations from the actual business development and business objectives, indicating the reasons therefor.

All members of the Management Board shall disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Management Board thereof. No conflicts of interest arose among the members of the Management Board during the financial year under review.

Share transactions by Management and Supervisory Board members
Pursuant to Article 15 a of the Securities Trading Act (WpHG) the members of the Management and Supervisory Boards are bound by law to disclose the purchase or sale of stock in HCI Capital AG or financial instruments related thereto should the amount involved belonging to that member, or person close to that member, total or exceed EUR 5,000.00 within one calendar year.

The following transactions were reported to HCI Capital AG for the year under review:

Name Function	Date	Trading platform	Type of transaction	Price per share	Number of shares	Volume of transaction
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	August 11, 2006	Xetra	Purchase	EUR 12.83	816	EUR 10,469.28
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	August 11, 2006	Xetra	Purchase	EUR 12.90	2,200	EUR 28,380.00
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	August 11, 2006	Xetra	Purchase	EUR 13.10	6,984	EUR 91,490.40
Dr. Rolando Gennari Member of the Board	May 19, 2006	Frankfurt Stock Exchange	Purchase	EUR 15.59	1,000	EUR 15,590.00
Dr. Rolando Gennari Member of the Board	May 11, 2006	Frankfurt Stock Exchange	Purchase	EUR 19.30	300	EUR 5,790.00
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	February 28, 2006	Xetra	Purchase	EUR 19.49	5,000	EUR 97,450.00
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	February 27, 2006	Xetra	Purchase	EUR 19.32	614	EUR 11,862.48
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	February 27, 2006	Xetra	Purchase	EUR 19.33	500	EUR 9,655.00
Harald Christ Consult GmbH (sole shareholder Harald Christ) Chairman of the Management Board	February 27, 2006	Xetra	Purchase	EUR 19.34	3,886	EUR 75,155.24

All transactions were reported on our web site at www.hci.de.

Shareholder relations

HCI Capital AG reports to its shareholders on the business development and financial position of the company four times a year. The General Meeting resolves on the Board's proposal for the appropriation of net income and the discharge of acts of the Management and Supervisory Boards. It elects the auditor. Resolutions regarding amendments to the Act of Association or measures influencing equity capital in the company may only be passed at the General Meeting and consequently implemented by the Management Board. In the interest of promoting investor relations, regular meetings are organized where the CEO and CFO meet with analysts and institutional investors.

Corporate structure

Altogether, the HCI Group comprises approximately 600 companies, the majority of which are investment (fund) companies and their partner companies, which in essence manage the HCI Group's operational business.

Risk management

A fundamental task of good Corporate Governance is appropriate risk management and risk controlling. Systematic risk management ensures that risks to the company are recognized in good time and risk potential is minimized. The HCI Group develops this risk management system on a continuous basis, adapting it to the legal and corporate framework. The risk management system is in conformance with the Corporate Sector Supervision and Transparency Act (KonTraG) and is presented in the Risk Report on page 55.

Reporting

The Supervisory Board arranged for the auditor, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, to report without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit. The Auditor's Report for the HCI Group shall be prepared in accordance with International Financial Reporting Standards (IFRS).

Open communication

Open and transparent communication and disclosure of information is a corporate principle and firmly integrated in the corporate structure of the HCI Group. All target groups shall be treated equally with respect to disclosure of information.

Declaration of Conformity

Declaration of Conformity by the Management Board and Supervisory Board of HCI Capital AG with the Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of HCI Capital AG herewith declare their conformity with the recommendations of the Government Commission German Corporate Governance Code in the version dated June 2, 2005 (referred to hereinafter as “old version of Code”) as published in the electronic Federal Gazette, with exception of the following restrictions since publication of the last Declaration of Conformity effective through July 24, 2006. Furthermore, the Management Board and Supervisory Board of HCI Capital AG declare their conformity now and in the future with the recommendations of the Government Commission German Corporate Governance Code in the version dated July 24, 2006 (referred to hereinafter as “Code”) as published in the electronic Federal Gazette, with exception of the following restrictions since July 25, 2006:

Pursuant to Sec. 3.8, paragraph 2 of the Code a suitable deductible shall be agreed if the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board and Supervisory Board.

A D&O policy has been taken out for the Management Board and Supervisory Board of HCI Capital AG which does not provide for a deductible. HCI Capital AG does not believe that the members of the Management Board and Supervisory Board of said company will perform their tasks and responsibilities with greater care and diligence if a deductible is agreed. HCI Capital AG's decision is common practice and conforms to international standards.

Pursuant to Sec. 4.2.4 of the old version of the Code the compensation of the members of the Management Board shall be accounted for in the Notes to the Consolidated Financial Statements, and identified as fixed salary and variable components linked to business performance as well as long-term incentives.

The individual compensation of all members of the Management Board of HCI Capital AG was and is specified in the Notes to the Consolidated Financial Statements under Personnel Expenses and listed as overall fixed salaries and variable components, thereby complying with Section 4.2.4 of the old version of the Code in its entirety.

Pursuant to Section 5.1.2, paragraph 1, sentence 2 of the Code plans shall be made for the succession of the members of the Management Board. A long-term succession plan for the members of the Supervisory Board and Management Board of HCI Capital AG is not provided for in the future.

Pursuant to Section 5.1.2, paragraph 2, sentence 3 of the Code an age limit shall be set for the members of the Management Board.

A general age limit for the members of the Management Board of HCI Capital AG was not and is not provided for in the future. HCI Capital AG does not consider an age limit suitable, inasmuch as the knowledge, experience and expertise of the members of the Management Board are crucial to the success of the company.

Pursuant to Sec. 5.3.1 of the Code and depending on the specifics of the company and the number of its members, the Supervisory Board shall form committees with sufficient expertise. Pursuant to sec. 5.3.2 of the Code, the Supervisory Board shall set up an Audit Committee.

In compliance with the Articles of Association the Supervisory Board of HCI Capital AG is made up of three members, therefore no committees shall be formed.

Pursuant to Sec. 5.4.1 paragraph 2 of the Code an age limit shall be specified for members of the Supervisory Board and taken into account when nominations for the election of members of the Supervisory Board are made.

A general age limit for the members of the Supervisory Board of HCI Capital AG was not and is not provided for in the future. HCI Capital AG does not consider an age limit suitable, inasmuch as the knowledge, experience and expertise of the members of the Supervisory Board are crucial to the success of the company.

Pursuant to sec. 5.4.7 paragraph 2, sentence 1 of the Code the members of the Supervisory Board shall receive fixed as well as performance-related compensation.

Performance-related compensation for the members of the Supervisory Board is not provided for in the Articles of Association of HCI Capital AG, neither in the past nor in the future. HCI Capital AG does not consider a performance-related compensation adequate or beneficial for promoting the supervisory function of the members of the Supervisory Board.

The individual compensation of and benefits granted to all members of the Supervisory Board of HCI Capital AG shall be specified and subdivided according to components in the Corporate Governance Report (Section 5.4.7, paragraph 3 of the Code).

The overall compensation of the members of the Supervisory Board including possible fringe benefits extended for services provided were listed separately in the Notes to the Consolidated Financial Statements and shall be listed as Overall Fixed Salaries for all members of the Supervisory Board in the Corporate Governance Report in the future.

Pursuant to Sec. 5.6 of the Code the Supervisory Board shall examine the efficiency of its activities on a regular basis.

The Supervisory Board shall examine the efficiency of its activities on a regular basis, however, without employing a standardized method of evaluation.

The Management Board and Supervisory Board
of HCI Capital AG

Hamburg, February 27, 2007

Compensation Report

The compensation report shall cover all principles applicable to the determination of the compensation of the members of the HCI Capital AG Management Board, setting forth amount and structure of each board member's income. In addition, the principles and amount of compensation determined for the members of the Supervisory Board shall be set forth and the stock held by members of the Management Board and Supervisory Board specified. The report shall comply with the recommendations of the German Corporate Governance Code and specifications pursuant to the requirements of the German commercial law extended by the German Act on Disclosure of Executive Compensation (VorstOG) as an integral part of the Notes pursuant to Article 314 of the German Commercial Code (HGB) or the financial report pursuant to Article 315 of the German Commercial Code (HGB).

Compensation of the Management Board

The Supervisory Board shall be responsible for determining compensation of the members of the Management Board, and shall audit the Management Board's compensation system on a regular basis. Criteria for determining the appropriateness of compensation are, in particular, the size of the company, its business and financial situation taking into account the compensation structure in peer companies. Furthermore, the tasks and personal performance of each individual member of the Management Board shall be taken into account. Compensation should be determined such that it is competitive in the market for highly qualified executives and provides sufficient incentive for successful work within a high-performance culture.

Compensation for the members of the Management Board for the 2006 financial year shall comprise a fixed salary as well as variable and performance-related components based on market data. Criteria for determining the appropriateness of compensation are, in particular, the tasks of the respective member of the Management Board, his personal performance, the performance of the Management Board as well as the economic situation, the performance and outlook of the company taking into account its peer companies.

The overall compensation for the Management Board members amounted to EUR 4.8 million for the financial year under review, corresponding to a total compensation reduction of 4.0%.

The following compensation was determined for each of the board members for the 2006 financial year:

EUR '000	Non-performance-related compensation	Performance-related compensation	Total
Harald Christ	1,174	1,786	2,960
Dr. Rolando Gennari	388	566	954
Dr. Ralf Friedrichs	366	566	932
Total	**1,928**	**2,918**	**4,846**

There is no severance agreement for board members in the event of premature termination of their activity with the company. Severance pay may be offered on an individual basis. In addition, a company car will be placed at the disposal of each board member.

Compensation of the Supervisory Board

The compensation regulations currently applicable for the Supervisory Board were proposed jointly by the Management and the Supervisory Boards at the General Meeting on May 18, 2006 and approved accordingly. They are set forth in Article 11 paragraph 4 of the Articles of Association of HCI Capital AG.

Criteria for determining the appropriateness of compensation are, in particular, the size of the company, the tasks and responsibilities of the members of the Supervisory Board taking into account the business situation of the company.

Each member of the Supervisory Board shall receive a fixed annual compensation of EUR 36,000 at the end of a given financial year. The Chair and Deputy Chair of the Supervisory Board shall receive twice and one-and-a-half times that amount respectively. Should a member of the Supervisory Board retire from his position during the course of the financial year, he shall receive a pro rata temporis compensation. For each meeting of the Supervisory Board members shall receive an additional EUR 1,000 remuneration. In addition, any outside expenses will be reimbursed including the applicable German VAT.

The Supervisory Board members received compensation for the 2006 financial year including board meeting remuneration totalling EUR 175,500.00, of which EUR 13,500.00 were for the 2005 financial year.

The individual members of the Supervisory Board were compensated as follows:

EUR '000	Supervisory Board compensation	Board meeting remuneration	Total
Udo Bandow	78	6	84
Rolf Hunck	59	6	65
Prof. Dr. Georg Crezelius	39	6	45
Total	**176**	**18**	**194**

Company loans may not be extended to members of the Supervisory Board.

Miscellaneous

The members of the HCI Capital AG entities shall be exempt from any legal claims by third parties. To this end, HCI Capital AG has a D&O liability insurance group policy covering corporate directors and their assets which is renewed every year. The policy is designed to help protect both the assets of the company and the personal assets of these individuals in the event that claims are alleged during the course of their employment.

Financial Calendar

March 7, 2007	Press Conference on Financial Statements 2006
March 19, 2007	HCI Analysts Conference, Frankfurt
May 8, 2007	Publication HCI First-Quarter Report
May 10, 2007	Annual General Meeting
August 16, 2007	Publication HCI Semi-Annual Report
November 15, 2007	Publication HCI Nine-Month Report

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